

STAFF REPORT TO COUNCIL

Date: October 10, 2014
To: Mayor and Council
From: Kathleen Soltis, Director of Corporate Services
Subject: 2015 – 2019 Provisional Financial Plan

Your Worship and Members of Council:

It is my pleasure to submit the City of Prince George five (5) year Provisional Financial Plan to Council for consideration. The objective of this document is to provide readers with a clear understanding of the City's proposed plan and the Sustainable Finance Guidelines which underlie the development of the plan.

Balanced Financial Plan

The Community Charter requires that Council adopt five (5) year financial operating and capital plans by bylaw before the annual property tax bylaw is adopted (before May 15th of each year). The financial plan must include the following, for each year of the plan:

Proposed expenditures including separate amounts for:

- Interest and principal on debt;
- Capital purposes;
- A deficiency from a previous year, if applicable; and
- Other purposes

Proposed funding sources including separate amounts for:

- Revenue from property and parcel taxes;
- Fees and charges;
- Proceeds from borrowing; and
- Revenue from other sources

Proposed transfers between funds, including separate amounts for each statutory reserve fund and accumulated surplus.

As per the Community Charter Section 165, for each year of the financial plan, the proposed expenditures and transfers to other funds cannot exceed the proposed revenue, transfers from other funds and proceeds from debt – i.e., there cannot be a deficit. If a deficit does occur, it must be reflected in the financial plan as an expenditure in the next year. A financial plan may be amended by bylaw at any time.

Public Consultation

The Community Charter requires that the financial planning process includes public consultation in order to assure that community priorities and needs are understood and incorporated as much as possible within the financial plan.

This year, the City's budget consultation consisted of two parts. The City engaged the Mustel Group to conduct a statistically valid telephone survey with a random sample of Prince George residents. 401 interviews were conducted with individuals who were 18 years of age and over. Questions focused on: important issues facing the City; residents' priorities for activities/services; and preferred options for tax increases/service decreases.

Secondly, when Council considers the provisional 2015 operating financial plan, members of the public will be provided with an opportunity to address Council during one of two fifteen minute sessions that will be scheduled at the beginning of both the October 22nd and October 29th evening budget meetings.

Fund Structure

The City has four funds: General, Sewer, Water and District Energy. Each fund has a balanced budget for both operating and capital expenditures and each has specific operating and capital sources of funds available to finance its programs.

General Fund – this is the largest fund and provides for services such as general government, police and fire protection, bylaw enforcement, real estate services, corporate and fiscal services, fleet services, city management, service agreements and grants, transportation, transit and snow control, cemetery and parks, development planning and permits, as well as leisure programs, services and facilities. Also included are off-street parking and solid waste services which are operated to achieve self financing positions within the general fund. Capital projects related to these operational areas are funded from reserves, grants and debt.

Sewer and Water Funds – these funds provide for the sanitary sewer and water operations and capital programs. They are largely supported by user fees and reserves as per Sustainable Finance Guideline 3.0.

District Energy Fund – The District Energy System supplies centralized heating to downtown buildings through a system of hot water distribution pipes. The system will be supported by user fees as per Sustainable Finance Guideline 3.0.

Financial Planning Principles

The Provisional Financial Plan embraces the following planning principles in the development of the operating and capital five (5) year plans. Sustainable Finance Guidelines are quoted in parentheses where applicable.

- Realistic Plan (14) – revenues and expenditures within the plan must be realistic and achievable. Quarterly variance reviews are completed and reviewed by Administration.
- Taxation (2) – the revenue required to provide City services that cannot be recovered through any other sources is raised through the property tax levy. Council and Administration regularly review the levels of taxation and tax burden in relation to historical levels and in comparison with other municipalities.
- User Fees (3,4) – the user pay principle means that fees should be applied to services that are easily identifiable to users such that those who use the service are the ones who substantially pay for it. In determining user fees the City also considers demand and ability to pay. User fees are reviewed on an annual basis.

- External Debt (13) – the City uses debt to fund major capital works and expansion projects. The repayment of debt is a cost borne by the general, sewer, water and district energy operating funds. The Ministry of Community, Sport and Cultural Development sets a limit on the amount of debt a city may have; it is equivalent to payment costs of no greater than 25% of the previous year's certain revenue.
- Reserves (10) – general, sewer and water reserves are used to fund various components of the operating and capital five (5) year plans. Administration continues to review reserve fund levels and develop sustainable approaches to reserve fund balances.

Base Budget, Asset Maintenance and Amortization

The Provisional Financial Plan as presented is balanced at a level that maintains core service levels, meets Council commitments and funds contractual expenditures.

Asset Maintenance is defined as expenses incurred in maintaining the predetermined service potential of an asset for a given useful life or to keep the asset in its usual condition and operating standard.

The amortization of tangible capital assets is a Public Sector Accounting Board (PSAB) 3150 requirement and will be reflected in the City's Financial Statements and five (5) year Financial Plan Bylaw. However, while reflected, amortization of tangible capital assets is not funded in the Provisional Financial Plan.

2015 General Operating Fund

The 2015 Provisional Financial Plan provides for general operating expenditures of \$128.2 million. This amount excludes taxes collected for and remitted to other levels of government and/or taxing authorities in the amount of \$42.8 million.

A 1.92% taxation increase of \$1,669,000, which includes an estimated offset of \$1,000,000 in new construction revenue, is required to maintain core service levels and funding for contractual commitments. In addition, a 0.58% taxation increase is proposed to the Snow Control Levy. The combined total taxation increase for 2015 is proposed to be 2.50%.

On a quarterly basis, the Ministry of Public Safety and Solicitor General transfers 10% of net casino revenues from the Treasure Cove Casino to the City; annual reporting on the use of these funds is required. The 2015 gaming revenue budget has been estimated at \$2.6 million, equivalent to the 2014 total. As a result of Sustainable Finance Guideline 9, \$720,000 has been allocated to the general operating fund (equal to 2014) and the balance of \$1.88 million has been allocated to reserves.

The Province of BC provides a share of the traffic fine revenue that is earned within the municipal boundary; these funds are allocated to the general operating fund to offset policing costs. The grant is estimated at \$822,540 for 2015, which is equivalent to the amount received in 2014.

User fee revenues in each service category were approved by Council prior to inclusion in the 2015 Provisional Financial Plan.

2015 District Energy Operating Fund

The Downtown District Energy System is supplying hot water for space heating and domestic hot water to seven (7) civic facilities, and has the potential to connect seven (7) more private/government buildings in downtown Prince George. It will be funded through user fees.

2015 Sewer Operating Fund

The sewer utility is operated as a self financing utility and is funded through user fees. During 2012, the Standing Committee on Finance and Audit reviewed the revenues and expenditures of the sewer utility and made recommendations to Council concerning the user rates that would be required to meet the utility's operating and capital cost requirements. Council approved a bylaw that established the sewer utility's user fee rates for five (5) years (from 2013 to 2017).

2015 Water Operating Fund

The water utility is operated as a self financing utility and is funded through user fees. During 2012, the Standing Committee on Finance and Audit reviewed the revenues and expenditures of the water utility and made recommendations to Council concerning the user rates that would be required to meet the utility's operating and capital cost requirements. Council approved a bylaw that established the water utility's user fee rates for five (5) years (from 2013 to 2017).

Significant Expenditure Summary

External Debt (Sustainable Finance Guideline 13) - The total general external debt repayment amount in 2015 is projected to be \$15.311 million. This amount includes \$5.484 million for the FortisBC Lease-In-Lease-Out Agreement (Sustainable Finance Guideline 11) which is funded from operating lease payments from FortisBC.

Internal Debt (Sustainable Finance Guideline 12) - Funding from the endowment and local improvement reserves is used for internal loans. In 2015, the repayment amount to the endowment and local improvement reserves is \$3.306 million.

Protective Services - The RCMP provide police services to the City through contract with the federal government. The contract allows for 128 authorized members. As has been the case in previous years, the proposed Police Protection budget is risk managed. Therefore, it is based on the cost of 121 members rather than the cost of 128 members.

The IAFF Collective Agreement with the City expired in March 2010. A settlement contingency has been included in the base budget.

Snow Control - The snow control operations are funded through the snow control reserve which is created by an annual snow control tax levy. Over the past five (5) years, the snow control budget has had a structural deficit as the annual net expenses have been substantially greater than the annual snow tax levy. Also, the snow reserve has been empty for some years and the shortfall between snow expenses and revenues has been covered by the City's general operating surplus. Such a situation is not financially sustainable.

As a result, the 2015 snow control budget has been raised to \$6.30 million (in 2014, the snow tax levy was \$5.80 million). Preliminary results for 2014 estimate snow control costs to be over budget by \$463,000. As the snow reserve was exhausted in 2011, the over expenditure will be funded by a contribution from general operating surplus. The increase to the snow tax levy has been designed to more adequately fund the City's net snow control expenses as well as to begin to create a reserve, equal to 25% of the annual net snow control expenses, in order to cover the cost of heavy snowfall years.

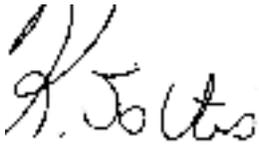
Road Rehabilitation - Council has approved the use of Gas Tax funds to increase the road rehabilitation program budget. The 2014 Road Rehabilitation Levy of \$4,981,746 was augmented by \$2,018,254 of Gas Tax funds to reach the RIVA (Real-time Infrastructure Valuation Analysis) target of \$7,000,000. As the RIVA target has not changed, the level of 2015 funding remains unchanged from the 2014 level of funding.

Mobile Equipment – The cost of the City’s mobile equipment is distributed through rental rates which are allocated to general, water and sewer operations. The City attempts to recover all operating, maintenance and lease costs through the rental rate program.

Solid Waste Utility – The solid waste utility is operated as a self financing utility and is funded through user fees. As with each of our utilities the City attempts to set user rates that achieve a surplus of between 5% and 10% of operating expenses. The solid waste utility is projected to achieve an operating surplus of \$31,495 in 2015 and to contribute \$650,000 to the solid waste capital reserve.

Off Street Parking – The off street parking function is operated as a self financing utility with surplus or shortfalls allocated to or from the accumulated operating surplus and/or capital reserve. The 2015 budget is balanced with a projected contribution of \$585,628 to the off street parking capital reserve.

Respectfully submitted,



Kathleen Soltis
Director of Corporate Services