

STAFF REPORT TO COUNCIL

Date: November 19, 2015
To: Mayor and Council
From: Kris Dalio, Director of Finance
Subject: 2016 – 2020 Provisional Financial Plan

Your Worship and Members of Council:

It is my pleasure to submit the City of Prince George five 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 City's Financial Plan is aligned with its Strategic and Corporate Plans and reflects the revenues from, and costs of, delivering its services.

The Community Charter requires that Council adopt five 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 four 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, a new online tool called Citizen Budget was used to encourage residents' involvement in the budgeting process. Citizen Budget features an interface that provides citizens with opportunities to adjust the budget allocations for various city functions by using a slider. It also provides information on the actual amount each homeowner pays for various city services, if respondents provide their home's assessed value. 900 people visited the Citizen Budget webpage and 160 responses were collected between September 25 and Nov 15.

Thirdly, seven neighbourhood conversations were conducted since the summer, with five occurring during the month of October as part of "Talktober". Together these neighbourhood conversations attracted about 400 residents in various locations around the community.

Lastly, when Council considers the provisional 2016 operating financial plan, members of the public will be provided with an opportunity to address Council during 15 minute sessions that will be scheduled at the beginning of both the afternoon and evening sessions of the November 25th and December 2nd 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 recreation 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.

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.

Financial Planning Principles

The Provisional Financial Plan embraces the following planning principles in the development of the operating and capital five 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 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 year Financial Plan Bylaw. However, while reflected, amortization of tangible capital assets is not funded in the Provisional Financial Plan.

2016 General Operating Fund

The 2016 Provisional Financial Plan provides for general operating expenditures of \$131.8 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 taxation increase of \$3,097,573 is required to maintain core service levels and funding for contractual commitments. In addition, a \$700,000 taxation increase is proposed to the Snow Control Levy; \$965,158 to the General Infrastructure Reinvestment Fund, \$18,258 to the Road Rehabilitation Levy; and a reduction of \$2,081,884 for the elimination of the 2015 Canada Winter Games levy. The combined total taxation increase for 2016 is proposed to be 3.00%, which includes an estimated offset of \$3,356,353 in non-market change tax revenue.

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 2016 gaming revenue budget has been estimated at \$2.6 million, equivalent to the 2015 total. As a result of Sustainable Finance Guideline 9, all \$2.6 million has been allocated to reserves (\$720,000 more than 2015) and the operating fund is no longer funded in part by gaming revenue.

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 \$1,001,000 for 2016, which is \$31,540 less than the amount received in 2015.

User fee revenues in each service category were approved by Council prior to inclusion in the 2016 Provisional Financial Plan.

2016 District Energy Operating Fund

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

2016 Sewer Operating Fund

The sewer utility is operated as a self-financing utility and is funded through user fees. During 2015, 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 that the sewer utility's user fee rates would be maintained at the 2015 level for the next three years (from 2016 to 2018).

2015 Water Operating Fund

The water utility is operated as a self-financing utility and is funded through user fees. During 2015, 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 that the water utility's user fee rates would be maintained at the 2015 level for the next three years (from 2016 to 2018).

Significant Expenditure Summary

External Debt (13) - The total general external debt repayment amount in 2016 is projected to be \$15.471 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 (12) - Funding from the endowment and local improvement reserves is used for internal loans. In 2016, the repayment amount to the endowment and local improvement reserves is \$3.356 million.

Protective Services - The RCMP provide police services to the City through contract with the federal government. The contract allows for 135 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 135 members. The RCMP has submitted a Service Enhancement Request for increased members (to 143 over the three year period of 2016 to 2018) for Council's consideration during budget deliberations.

The IAFF Collective Agreement with the City expires at the end of December 2015. A settlement contingency has been included in the base budget.

Snow Control - The Snow Levy is one of the specific levies that make up the overall City of Prince George property tax levy. Bearing in mind the principle of preparing operating budget guidelines that reflect the costs of maintaining existing services and service levels, Administration has prepared some historical information concerning annual snow control expenses and estimates concerning required annual snow levy.

The 2015 Snow Levy is \$6,300,000. Table 1 contains a history of snow control expenses upon which the required annual Snow Levy from 2016 on has been estimated. The average of the 2011 – 2013 net snow control expenses is \$5,961,990. Over the past four years, the snow control budget has had a structural deficit as the annual net expenses have been greater than the annual Snow Levy. Also, the snow reserve has had no available funds and the shortfall between snow expenses and revenues has been taken from the City's general operating surplus. This is not financially sustainable.

	2011	2012	2013	2014	2015 (to date)	2015 (projected to Dec 31st)
Budget	\$5,041,636	\$5,041,636	\$5,041,636	\$5,800,000	\$6,300,000	\$6,300,000
Net Expenses	\$6,740,932	\$5,298,725	\$5,846,313	\$6,449,516	\$4,608,255	\$6,900,000

Based on the changes to the service level of Snow Removal implemented following the Mercury report, it is estimated that the Snow Levy should be \$7.00 million per year to adequately fund the City's net snow control expenses. Furthermore, due to the volatility of the Prince George snowfall, the levy should be high enough to create a reserve that is equal to 25% (\$1.75 million) of the annual net snow control expenses. Therefore, it is estimated that the Snow Levy should be \$7.30 million/year. To achieve this goal over a three year horizon, Administration recommends that the Snow Levy be increased by \$700,000 in 2016, \$150,000 in 2017 and \$150,000 in 2018.

Road Rehabilitation – The 2015 Road Rehabilitation Levy is \$4,981,742. Analysis of the City's road inventory was conducted by the Asset Management division in 2011 and it was estimated that \$7,000,000 per year should be reinvested in the City's roads. During the 2014 budget discussions, Council approved the use of Community Works grant funding of \$2,018,258 per year to augment the levy and increase the base spending on road rehabilitation to \$7,000,000 per year. Administration recommends that the 2016 budget be prepared using a road rehabilitation levy of \$5,000,000 supplemented by Community Works funding of \$2,000,000 for a total of \$7,000,000.

Investing in the City's Infrastructure

Like most Canadian cities, Prince George faces a considerable financial challenge to ensure optimal performance and efficiency from its infrastructure assets. The Standing Committee on Finance and Audit and successive City Councils have received various staff reports concerning the City's asset management program as information has been developed and refined. The asset management program has identified the difference between the annual investment required to maintain and replace new and aging municipal infrastructure and the available annual budget.

To address the difference between the investment required and the budget available (the "gap"), Council created the General Infrastructure Reinvestment Levy in 2013 with a 1.00% increase of the overall levy; a 0.88% increase in 2014 grew the reinvestment levy. No increase over these amounts was proposed for 2015 in order to assist with managing the City's budget constraints.

One of the potential areas of infrastructure that the General Infrastructure Reinvestment Levy was designed to address was the City's mobile infrastructure. The 2013 annual average reinvestment figure for the City's fleet was calculated at \$3,740,000/year by the City's Asset Management Division. The City currently enters into liability agreements for its mobile equipment needs every year. The City's road rehabilitation program was in a similar situation in 2006 and the approach that was taken was to establish the Road Rehabilitation Levy to avoid incurring debt every year for the annual recurring expense of road rehab. It is recommended that the General Infrastructure Reinvestment Levy be increased by \$965,158 in 2016, \$1,000,000 in 2017 and the balance in

2018 to achieve a figure that would allow the City to purchase its fleet outright and curb the City's dependence on debt for this recurring expense.

2015 Canada Winter Games Levy

This levy was introduced in 2011 to raise funds for the capital investments required to host the 2015 Canada Winter Games. Since 2011, any increases to this levy were factored in when attempting to reach the overall City tax increase target set by Council. The City collected the last of the scheduled CWG levy in 2015. The elimination of this levy in 2016 will result in the overall tax levy being \$2,081,884 less than it otherwise would have been.

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 \$49,778 in 2016 and to contribute \$750,000 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 2016 budget is balanced with a projected contribution of \$489,646 to the off street parking capital reserve.

Respectfully submitted,



Kris Dalio
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TO: MAYOR AND COUNCIL

