

DATE: January 20, 2017

TO: MAYOR AND COUNCIL

NAME AND TITLE: Kris Dalio, Director of Finance

SUBJECT: 2017 – 2021 Financial Plan

PURPOSE:

To provide readers with a clear understanding of the City's proposed 2017 – 2021 Financial 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 include public consultation in order to assure that community priorities and needs are understood and incorporated as much as possible within the financial plan.

The process of gathering public input for the 2017- 2021 financial plan largely involved two initiatives: Talktober and Citizen Budget. Talktober involved five “open houses” where Council and Administration went to various venues throughout the community to provide information and answer questions about City activities and operations. In total, just over 220 people attended these neighbourhood conversations. Also during October, and again in January, the City presented an online budget simulator called Citizen Budget that provided residents with an opportunity to alter budget allocations to various City operations and see the effect on their individual tax payment. This provided the City with information about the services and infrastructure initiatives that are the greatest priority for respondents.

The results from these public consultation efforts have informed Administration’s financial plan proposal to Council. For example, as a consequence of feedback received on infrastructure priorities, a reallocation of Community Works funding from road rehabilitation to sidewalk and parks capital projects is proposed. Summarized consultation results will be presented to Council at the beginning of the January 30th budget meeting.

Lastly, when Council considers the proposed 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 January 30th and February 1st 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 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. 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, AMORTIZATION AND AMORTIZATION:

The 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 Financial Plan.

2017 GENERAL OPERATING FUND:

The 2017 Financial Plan provides for general operating expenditures of \$128.8 million. This amount excludes taxes collected for and remitted to other levels of government and/or taxing authorities in the amount of \$44.2 million.

A taxation increase of \$2,615,729 is required to maintain core service levels and funding for contractual commitments. There are no recommended changes for the other City tax levies. The combined total taxation increase for 2017 is proposed to be 2.72%, which includes an estimated offset of \$1,354,359 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 2017 gaming revenue budget has been estimated at \$2.6 million, equivalent to the 2016 total. \$2.4 million of the gaming revenues are used to fund general capital expenditures and the other \$200,000 is transferred to the Major Events Reserve. 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 \$1,080,000 for 2017, which is \$79,000 more than the amount received in 2016.

User fee revenues in each service category were approved by Council prior to inclusion in the 2017 Financial Plan.

2017 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 one other government facility, and has the potential to connect six more private/government buildings in downtown Prince George. The system is supported by user fees.

2017 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).

2017 WATER ENERGY 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 2017 is projected to be \$14.192 million. This amount includes \$6.893 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 2017, the repayment amount to the endowment and local improvement reserves is \$3.023 million.

Protective Services - The RCMP provide police services to the City through contract with the federal government. The contract allows for 138 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 124 members rather than the cost of 138 members. The RCMP has submitted a Service Enhancement Request for increased members (to 143 over the two year period of 2017 to 2018) for Council's consideration during budget deliberations. The RCMP also has a pending pay raise under consideration for which a settlement contingency has been included in the base budget.

Road Rehabilitation - The 2016 Road Rehabilitation Levy was \$5,000,000. 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 to augment the levy and increase the base spending on road rehabilitation to \$7,000,000 per year. To focus on other City priorities that were identified during public consultation, Administration recommends that the 2017 budget be prepared using a road rehabilitation levy of \$5,000,000 while the Community Works funding of \$2,000,000 be reallocated to deliver new and rehabilitation of sidewalk projects as well as parks capital projects. The consequence of reducing road rehabilitation to \$5,000,000 is that local roads will not be included in the 2017 work plan.

Snow Control - The Snow Control 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.

	2012	2013	2014	2015	2016
Budget	\$5,041,636	\$5,041,636	\$5,800,000	\$6,300,000	\$7,000,000
Net Expenses	\$5,298,725	\$5,846,313	\$6,449,516	\$6,768,445	\$4,317,546

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. Based on the changes to the service level of snow removal implemented following the Mercury report, Council set the 2016 Snow Levy at \$7,000,000 to adequately fund the City's net snow control expenses.

Due to the volatility of the Prince George snowfall, the levy should also be high enough to create a reserve that is equal to 25% (\$1.75 million) of the annual net snow control expenses. As 2016 was a light snowfall year, the City reached the reserve level target, so it is recommended that the snow levy remain at \$7,000,000 for 2017.

Investing in the City's Infrastructure

Like most Canadian cities, Prince George faces a considerable financial challenge to maintain and replace new and aging infrastructure. The asset management program has identified the difference between the annual investment required to invest in the City's infrastructure and the available annual budget (the "gap"). Council created the General Infrastructure Reinvestment Fund Levy in 2013 in order to address that gap.

The 2016 General Infrastructure Reinvestment Fund Levy was \$2,500,000. It is recommended that the General Infrastructure Reinvestment Levy be increased every year to address the gap but in order to recommend a lower overall tax increase, it is recommended that this levy remain at \$2,500,000 in 2017.

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 \$50,000 in 2017 and to contribute \$853,908 to the solid waste capital reserve.

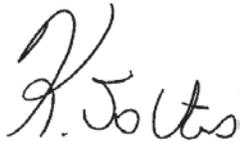
Off Street Parking – The off street parking function is operated as a self-financing utility with surplus or shortfalls allocated to or from the accumulated operating surplus and/or capital reserve. The 2017 budget is balanced with a projected contribution of \$549,151 to the off street parking capital reserve.

RESPECTFULLY SUBMITTED:



Kris Dalio, Director of Finance

APPROVED:



Kathleen Soltis, City Manager
Meeting date: January 30, 2017