

REPORT
Office of the Chief Administrative Officer
And
Finance Department

To: Mayor Johnstone and Members of Council, Open Budget Workshop **Date:** January 30, 2023

From: Lisa Spitale
Chief Administrative Officer **File:**

Harji Varn
CFO/Director of Finance

Item #: 2023-59

Subject: Budget 2023: Proposed Service Enhancement Requests and Funding Strategies

RECOMMENDATIONS

THAT Council provide direction on the 2023 Proposed Service Enhancement requests;

THAT Council provide direction on the proposed property tax rate increase for 2023;
and

THAT staff be directed to report back on the Draft Consolidated Financial Plan Bylaw,
2023 – 2027.

PURPOSE

This report provides Council with the proposed service enhancements for the 2023 DRAFT general fund budget. The purpose of this report is threefold: one, to provide a detailed list of proposed 2023 Service Enhancements for the General Fund Budget; two, to provide a proposed funding strategy; and three, to outline two different scenarios – known as Budget Outlooks - and their resulting estimated Property Tax Revenue Impacts: 5.4% and 6.4%.

The expectation is that Council will provide staff with feedback at the January 30th Operating Budget Workshop that will set the direction for staff to prepare the necessary bylaws to amend the City's 2023 Property Tax Revenues & Rates.

EXECUTIVE SUMMARY

Funding the Annual Budget requires careful deliberation, in particular, given the financial, supply chain, and resource challenges introduced by COVID. The need to balance the City's financial sustainability and financial affordability is a key guiding principle considered each year by City Council.

COVID has had profound negative impacts. The impact to the community and to our staff has been our priority. Resources - both financial and staffing - are stretched. We are also facing downloading pressure which continue to impact the City's ability to deliver optimally on core services.

The service enhancements, subject to Council deliberation and final approval, will start the multi-year process towards refinements in City departmental staffing levels, system improvements through automation, and employee retention and recruitment strategies.

Given the current vacancies, the strategy is to implement enhancement requests over multiple years. To be fiscally responsible (and avoid the risk of widening financial gaps) staff seek Council approval on Property Tax Revenue increase for the total annual impact. Staff will then report back to Council on a quarterly basis regarding progress on the filling of positions and their financial impact.

To mitigate against an unaffordable Property Tax Rate Increase, and to maintain fiscal prudence, the funding strategy is to:

1. Utilize some of the existing City surplus (that results throughout the year) for the temporary or one-time enhancement needs; and
2. Utilize the revenue from new developments and new construction for the permanent staff enhancements.

For the City's General Fund Operating Budget, there are 53 line items proposed on the 2023 Service Enhancement List (see *Attachment 1*). This results in a total budget proposal of \$10.60M of which \$7.01M are due to increase in **non-discretionary base costs**, such as salaries, new Collective Agreements, WorkSafeBC premium increases, debt servicing costs for the new Aquatic Centre, tæmæsewtx^w, and E-COMM 911 and Justice Institute of BC (JIBC) costs increases.

The remaining service enhancements are staff recommended enhancements for City priorities such as accelerating the Downtown Livability Strategy, public safety, asset management, Emergency Management and investments in Human Resources (HR) and Information & Technology (IT).

Existing Committed/Fixed Costs Increases \$7.01M:

- Annual salary and benefit increase* \$3.315M
- WorkSafeBC premiums \$1.250M
- TACC – debt servicing increase** \$1.000M
- General Fund – supplies & materials “all” Inflation* \$0.345M
- Contract services “all” – Inflation* \$0.145M
- JIBC training, traffic fine reduction, contracts \$0.735M
- ECOMM increases - Police & Fire \$0.216M

*Staff have estimated 3-4% for Salary, Benefit, Training, Supplies & Materials
 **TACC is estimated to open in early 2024 (Enhancements will be proposed with the 2024 Budget)

Other Service Enhancement Proposals \$3.65M:

- Downtown Livability Resources - Permanent \$0.580M
- Human Resources – Recruiter Permanent \$0.120M
- IT Project Management & Security Resources \$0.255M
- Library Board Approved Enhancements \$0.520M
- Items Proposed as One-Time Enhancements \$0.900M
- Items Proposed for Capital Project Direct Support \$0.350M
- Other Service Enhancements – potential Budget Pressures \$0.922M

If Council were to approve the proposed service enhancement list for the full amount at \$10.6M, staff estimate a total **Property Tax Implication of ~6.4% (Budget Outlook 2)**.

Given the financial implications, Council could elect to defer some proposed enhancements. Staff has prioritized various items that are critical and cannot be addressed without enhancements. This has created a **Budget Outlook at ~5.4% (Budget Outlook 1)**.

Financial and organizational resiliency can be achieved by right-sizing the fixed costs and managing through emergencies with one-time and variable measures/costs. This will allow the City to be nimble and have the ability to maintain core services while ramping other services up and down as needed.

BACKGROUND

In December 2021, Council approved the 2022 General Fund Operating Expenditure Budget of \$145M of which \$97.8M is from Property Taxes and the balance is from other sources of funding such as Gaming, Permits, Parking, and Community Services Fees etc.

The General Fund Operating Budget supports City-wide Library, Parks & Recreation, Police, Fire, Engineering and ongoing General Government support services. It also includes funding to support the annual debt servicing and reserve contributions for many of the City’s major facilities and infrastructure, and assets including t̄m̄əsew̄tx^w Aquatic

and Community Centre, Affordable Housing, Massey Theatre and Sustainable Transportation.

In February 2022, Council approved the 2022-2026 5 Year Financial Plan which included the 2022 Capital and Operating Budgets.

Over the years, the budget process has improved by implementing budget surveys, public engagement workshops, Budget 101 Webinars and Special Council workshops.

The Budget 101 Webinar, online survey, multiple Advisory Committee and Council Budget workshops have allowed for continued alignment between the community's input and the City's Senior Management Team's (SMT) recommendations, with budget adoption by the end of the year. This has provided City Departments with budget clarity early the following year.

As part of our commitment to flexibility and transparency, staff continue to report to Council on a quarterly basis, and seek Council approval for any adjustments where budgets need to be reset or varied from the original budget targets throughout the year.

At the meeting on May 30, 2022, Council approved the 2023 Budget Framework and timelines which follows a best practice approach to work collaboratively with Council and incorporate the feedback from the community.

The intent for this year's Budget process, similar to the last year's process, is for Council to consider all of the proposals made by City Departments and provide important Council feedback. This feedback will be incorporated in the final Annual Budget and 5 Year Financial Plan, which includes the municipal portion of the annual property tax rate increase.

2023 APPROVED BUDGET FRAMEWORK

As a result of engagement work from the last two Budget processes, plus staff being in the midst of delivering on the 5 year Capital Plan, Council directed that the 2023 Budget be brought forward late 2022/ early 2023 with a focus to continue with the delivery of the existing Approved 2022-2026 5 Year Financial Plan.

For the final Utility Rates and 2023-2027 5 Year Financial Plan, Council approved the Utility Rates to come to Council in November and to defer the General Funded Operating Budget to January 2023, with a target to have a final approved 5 Year Financial Plan in February of 2023, which would include the 2023 proposed Property Tax Rate Increase.

2023 APPROVED BUDGET TIMELINES

The Table below outlines the key dates around the 2023 Budget.

Date	Description
31-Oct-22	Council Onboarding Package - Budget Introduction and Overview
7-Nov-22	New Council Inaugural Meeting
14-Nov-22	Council Onboarding Session - Budget 101
16-Nov-22	Quarter 3 Capital & Operating Performance Report Distributed
16-Nov-22	2023 Proposed Utility Rates Report Distributed
28-Nov-22	2023 Utility Budget Workshop & Presentation
28-Nov-22	Quarter 3 Capital & Operating Performance
12-Dec-22	Utility Rates (Three Readings)
Complete	Utility Rates (Adoption)
Jan 2023	2023 General Fund Budget Workshop & Proposed Service Enhancements
Feb 2023	2023 DRAFT Budget & 5 Year Financial Plan Bylaw (Presentation)
Feb 2023	2023 DRAFT Budget & 5 Year Bylaw post on City Website/Paper
Feb 2023	2023 DRAFT Budget & 5 Year Financial Plan Bylaw (3 Readings))
Mar 2023	2023 DRAFT Budget & 5 Year Financial Plan Bylaw (Adoption)

The 2023 Council Budget Workshops will be promoted widely through various channels, including email notification to various City email databases, social media posts and advertising, City Page notices in the newspaper and by email, advertisements in the Record, and through the City’s website.

2023 GENERAL FUND - SERVICE ENHANCEMENT BUDGET WORKSHOP

On January 30th, the 2023 General Fund Service Enhancement Budget Open Council Workshop will be held and City staff will provide a presentation. At this workshop, staff will walk Council through the 2023 Proposed Service Enhancements and potential funding strategies.

FINANCIAL SUSTAINABILITY PRINCIPLES

The 2023 Proposed Operating & Capital Budget(s) are guided by Financial Sustainability Principles that align with the City’s core values when building a vibrant compassionate City that includes everyone and ensures the City’s budget is:

- ❖ **Sustainable** - Maintain assets in a state of good repair through reasonable tax /rate hikes, and without disruptions to services; living within our means;
- ❖ **Adaptable** - The ability to change debt levels or leverage reserves; ability to ramp up or down on spending;
- ❖ **Stable** - Predictability of City’s Sustainable Revenue Sources, & less reliance on external funding or 3rd party funding; and

❖ **Accountable** - Fiscally prudent & responsible; the ability to ensure that the City’s financial decisions are in the best interest of all.

ANALYSIS

I. Service Enhancements – General Fund

The **2023 Proposed Service Enhancements** are estimated at **\$10.60M** (*Attachment 1*)

Existing Committed/Fixed Costs Increases \$7.01M:

- Annual salary and benefit increase* \$3.315M
- WorkSafeBC Premiums \$1.250M
- TACC – Debt Servicing Increase** \$1.000M
- General Fund – Supplies & Materials “all” Inflation* \$0.345M
- Contract Services “all” – Inflation* \$0.145M
- JIBC training, traffic fine reduction, contracts \$0.735M
- ECOMM Increases Police & Fire \$0.216M

**Staff have estimated 3-4% for Salary, Benefit, Training, and Supplies & Materials
**TACC is estimated to open in early 2024 (Enhancements will be proposed with the 2024 Budget)*

Other Service Enhancement Proposals (Budget Outlook #1) \$2.725M:

- Downtown Livability Resources - Permanent \$0.580M
 - CAPD: Senior Development Planner
 - CAPD: Livability Coordinator
 - ENG: Public Toilet Operating Costs
 - ENG: Street Cleaning Services
- Human Resources – Recruiter Permanent \$0.120M
- IT Resources: \$0.255M
 - IT Project Manager
 - IT Security Administrator
- Library Board Approved Enhancements \$0.520M
 - Digital Branch Manager
 - Community Development Coordinator
 - Public Service Support
 - New Library Vehicle for Home Service Library - grant
 - Reduction in Existing Operating Expenditures
- Items Proposed as One-Time Enhancements \$0.900M
 - HR: Assistant, Training Carryover
 - CAPD: Plumbing Inspector, Livability Co-ordinator
 - FIRE: DEIAR Framework, Emergency Management
 - Comms, B License, Record Mgmt, Indigenous Liaison

- Items Proposed for Capital Project Direct Support \$0.350M
 - Downtown Livability – Affordable Housing Plan & Build
 - Advanced Meter - IT Project Analyst Support

Other Service Enhancement Proposals (Budget Outlook #2) \$0.922M:

- ENG: Q to Q Ferry Revenue Budget Adjustment \$150K
- ENG: Supplies & Materials \$400K
- CAPD: Perm TFT Funds for Building Clerk 3 Position \$40K
- IT: Support Clerk conversion from RPT to RFT \$16K
- IT: Computer Systems Maintenance \$100K
- Parks: Arboriculture – Supplies & Contractors \$87K
- Parks: Clerk 3 Admin Support \$35K
- Mayor/Clerks: Consultant Studies \$55K
- Anvil: Sales Coordinator from Temp to Perm \$29K
- Anvil: Digital Signs Maintenance Update \$10K

II. Budget Outlook – Funding Strategy – Property Tax Rate

The following is a list of strategies that staff have used to help mitigate against rate increases and still allow the City to invest in priority areas while maintaining core services:

- Efficiency: vacancy management & IT led transformational strategies
- Move one time revenues to permanent levels if the trends are indicative
- Treasury management – move funds into higher interest rate GIC’s
- Multi-Year Strategy – prioritize and phase the service enhancements
- Propose one-time/temporary enhancements & seek Provincial funding for longer-term service enhancements
- Property Tax revenue growth based on current development pipeline

In preparation for the January 30th workshop, staff have organized the priorities into two different scenarios or Budget Outlooks for 2023 Property Tax Revenue Increases:

Budget Outlook #1 – Property Tax Revenue Increase by 5.4%

Existing Committed/Fixed Costs Increases \$7.01M:

- Annual salary and benefit increase \$3.315M
- Work Safe BC Premiums \$1.250M
- TACC – Debt Servicing Increase \$1.000M
- General Fund – Supplies & Materials “all” Inflation \$0.345M
- Contract Services “all” – Inflation* \$0.145M
- JIBC training, traffic fine reduction, contracts \$0.735M
- Police & Fire – ECOMM Increases \$0.216M

Total Fixed Costs/Non-Discretionary Increases \$7.01M

Other Service Enhancement Proposals (Budget Outlook #1)

- Downtown Livability Resources - Permanent **\$0.58M**
- Human Resources – Recruiter Permanent **\$0.12M**
- IT Project Manager **\$0.12M**
- IT Security Administrator **\$0.13M**

Total Estimated Property Tax Growth Needs \$7.96M

Proposed Funding Sources:

To generate \$7.96M in new revenue, that would equate to 8.1% Tax

Proposed is a strategy that can support an annual tax rate increase of 5.4%

- 2023 Property Tax Revenue Increase 5.4%
- Interest Revenue – GIC Investment Improvements 1.7%
- Growth – Property Tax Folio Increases – New Construction 1.0%

Proposed with Manage within Existing Budgets strategies

- Library Board Approved Enhancements \$0.520M

Propose to fund One-Time via General Fund Reserve

- Items Proposed as One-Time Enhancements \$0.900M

Proposed to fund from Capital

- Items Proposed for Capital Project Direct Support \$0.350M
 - Downtown Livability – Affordable Housing Plan & Build
 - Advanced Meter - IT Project Analyst Support

Budget Outlook #2* – Property Tax Revenue Increase by 6.4%

- Budget Outlook #1 5.4%
- **Plus: Other Service Enhancements (\$0.922M)** **1.0%**

Looking ahead towards the 2024 Budget, staff are forecasting the need for additional funding to support the opening of the new aquatic centre and to continue to resolve the gap in rising cost in services due to a combination of inflation, downloading and population growth overall. Moreover, staff will be working to address the high increase in other non-discretionary costs such as WorkSafeBC premium increases and E-COMM 911.

INTERDEPARTMENTAL LIAISON

All City departments have collaborated in this report.

OPTIONS

There are four options for Council’s consideration. They are:

Option 1 - Council provide direction on the 2023 Proposed Service Enhancement requests;

Option 2 - Council provide direction on the proposed property tax rate increase for 2023;

Option 3 - Staff be directed to report back on the Draft Consolidated Financial Plan Bylaw, 2023 – 2027; or

Option 4 – Provide alternate direction.

Staff recommend Options 1, 2 and 3

ATTACHMENTS

Attachment 1 – 2023 Proposed Service Enhancements

Attachment 2 – 2023 Department Service Enhancement Memos

APPROVALS

This report was prepared by:

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This report was reviewed by:
Senior Management Team

This report was approved by:
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Lisa Spitale
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