

# **REPORT**

## ***Office of the Chief Administrative Officer and Finance***

**To:** Mayor Johnstone and Members of  
Council – Budget Workshop

**Date:** February 13, 2023

**From:** Lisa Spitale  
Chief Administrative Officer

**File:**

Harji Varn  
CFO/Director of Finance

**Item #:** 2023-101

**Subject: Budget 2023: Proposed 2023 Capital Budget & Funding Strategy**

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### **RECOMMENDATION**

***THAT*** Council provide direction on the proposed 2023 Capital Budget and Funding Strategy; and

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

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### **PURPOSE**

The purpose of this report is to provide Council with detailed spreadsheets on the 2023 Proposed Capital Budget, \$166M, and the Proposed 2023-2027 Capital Plan, \$410M, and planned funding strategies, to be used as a supplement to the information for the Capital Budget Workshop.

### **BACKGROUND**

In February 2022, Council approved the 2022-2026 Five Year Capital Plan of ~\$453M across all funds: General, Electrical, Water, Sewer, Solid Waste and Bridgenet. As at December 31, 2022, staff are estimating total spending of ~\$100.5M, or ~22% spent to date (See Table 1-1).

Council can consider the 2022 Year-End Preliminary numbers as projects that have commenced spending or are now complete. Of the remaining balance, ~\$353M, there is approximately another \$74M (as of February 7, 2023) that is committed via a purchase order with contractors for major programs and projects such as: the new Aquatic Centre, QB Substation, Advanced Metering, ongoing Water and Sewer utility works, Street Paving, and various others.

**Table 1-1**  
**2022-2026 Five Year Capital Plan**

Fund	2022 Year-end (Preliminary) \$M	2023 Proposed Budget \$M	2024 Plan \$M	2025 Plan \$M	2026 Plan \$M	5 Year Plan Total \$M
General Fund	65.96	102.49	35.10	24.31	19.04	246.90
Electrical Fund	21.03	27.00	40.77	17.57	3.25	109.63
Water Fund	2.36	12.11	4.92	6.04	6.01	31.45
Sewer Fund	10.54	23.24	8.88	10.39	5.41	58.46
Solid Waste Fund	0.06	0.84	0.83	0.62	0.78	3.12
BridgeNet Fund	0.61	0.76	2.03	0.03	0.03	3.45
TOTAL	100.56	166.44	92.52	58.96	34.52	453.00

The annual budget draws from an existing Five Year Financial Plan and is established in advance of the year of delivery with Council approval specific to annual property taxation and utility rates (the funding sources). Where the funds do not exist within the current approved Bylaw, staff then work to find offsets within the current approved expenditure plan to avoid growing the plan and seeking an amendment. Should an offset not exist, then staff would seek to amend the Bylaw to avoid delays or impacts on City services for major projects in progress.

As indicated in previous Council reports, as part of the City's commitment to flexibility and transparency, the Finance Department reports back to Council on a quarterly basis and seeks Council approval for any adjustments where budgets would need to be reset or varied from the original budget targets throughout the year.

A **quarterly monitoring and reporting process** is recognized as a best practice and acknowledges that change happens over the course of any given fiscal year. Accordingly, this approach allows for:

- reporting out on the quarter results so Council is well informed on accomplishments or project deferrals due to economic or internal factors;
- consultation on needed changes to the Approved Multi-Year Budget which, therefore, incorporates Council's feedback on project adjustments or new projects on a timely basis;

- increased transparency and robust financial oversight which supports a more seamless transition into the next annual budget setting exercise and Five Year Financial Plan update; and
- allows Council time to set and re-set based on changing priorities or community needs and emergencies.

On December 12, 2022, staff presented to Council the Downtown Livability Strategy which included some priority work around the Fourth Street Stairs and Flex Space and the need to increase project budget by \$1.0M due to inflation from original cost estimates and project budget of \$0.5M that was completed in 2018. The design that was developed in 2018 with stakeholders includes permanent concrete stairs, treatment of the hillside (i.e. hard surface treatment to mitigate growth of invasive species and minimize risk associated with activity occurring on and adjacent to the temporary stairs and hillside), feature lighting, drainage improvements and flex space that offers opportunities for a wide range of program/ events, public art and street-style skate features.

For the Fourth Street Stairs Project, staff have found funding offsets via re-prioritization from within the existing General Fund Planned Programs to maintain the Financial Health of the General Fund Reserve(s).

On February 6, 2023, staff presented to Council the Advanced Metering Project and the need to grow the project budget by \$6M due to project scope items largely around the IT infrastructure build investment, the online customer portal and the internal overhead required to support the project through to final implementation. The team is estimating approximately \$1.5M of the \$6M as contingency which will be held at the capital plan level and brought to Council for authority to spend should the project require the funds.

For the Advanced Metering Project, staff are proposing \$5M from the Electrical Reserve and the balance from the Climate Levy/Reserve.

On January 23, 2023, during Council onboarding, staff presented to Council the new Climate Credits and Climate Reserve Bylaw. As per Council's direction, staff have built in the request to advance the work to develop a Decision Making Framework which is intended to include both the financial and non-financial cost/benefits associated with advancing the City's 7 Bold Steps/Climate Action.

As of February 13, 2023, there are some known risks from: asset conditions, estimated values, inflationary pressures, climate risks (such as flood and other Emergency Management needs), unfunded items such as the District Energy project and enhancements for the Massey Theatre Building.

At this time, staff have work to do to refine the project estimates, scope and risk. Therefore, staff propose bringing forward specific programs or project analysis and

prepare to incorporate changes either at the 2023 Quarterly Review or during the 2024 Budget-setting in the Fall of 2023.

## **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.

Staff are continuing works on existing approved 2022 Multi-Year Budget for projects/programs that have already commenced work or been contracted. For projects/programs that have not yet been committed via a purchase order, staff are not moving forward until Council approves the 2023 Multi-Year Capital Budget.

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)
Complete	2023 General Fund Budget Workshop & Proposed Service Enhancements
Feb 13 2023	2023 Proposed Capital Budget Workshop & Presentation
Feb 27 2023	2023 DRAFT Budget & 5 Year Bylaw post on City Website/Paper
March 6 2023	2023 DRAFT Budget & 5 Year Financial Plan Bylaw (3 Readings))
March 13 2023	2023 DRAFT Budget & 5 Year Financial Plan Bylaw (Adoption)

The 2023 Council Budget Workshops are being 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 CAPITAL BUDGET WORKSHOP**

On February 13, 2023, a Capital Budget Council Workshop will be held and City staff will provide a presentation. At this workshop, staff will walk Council through the 2022 Accomplishments/Highlights and the 2023 Proposed Multi-Year Projects and 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**

### **2023 PROPOSED CAPITAL BUDGET & FUNDING STRATEGY**

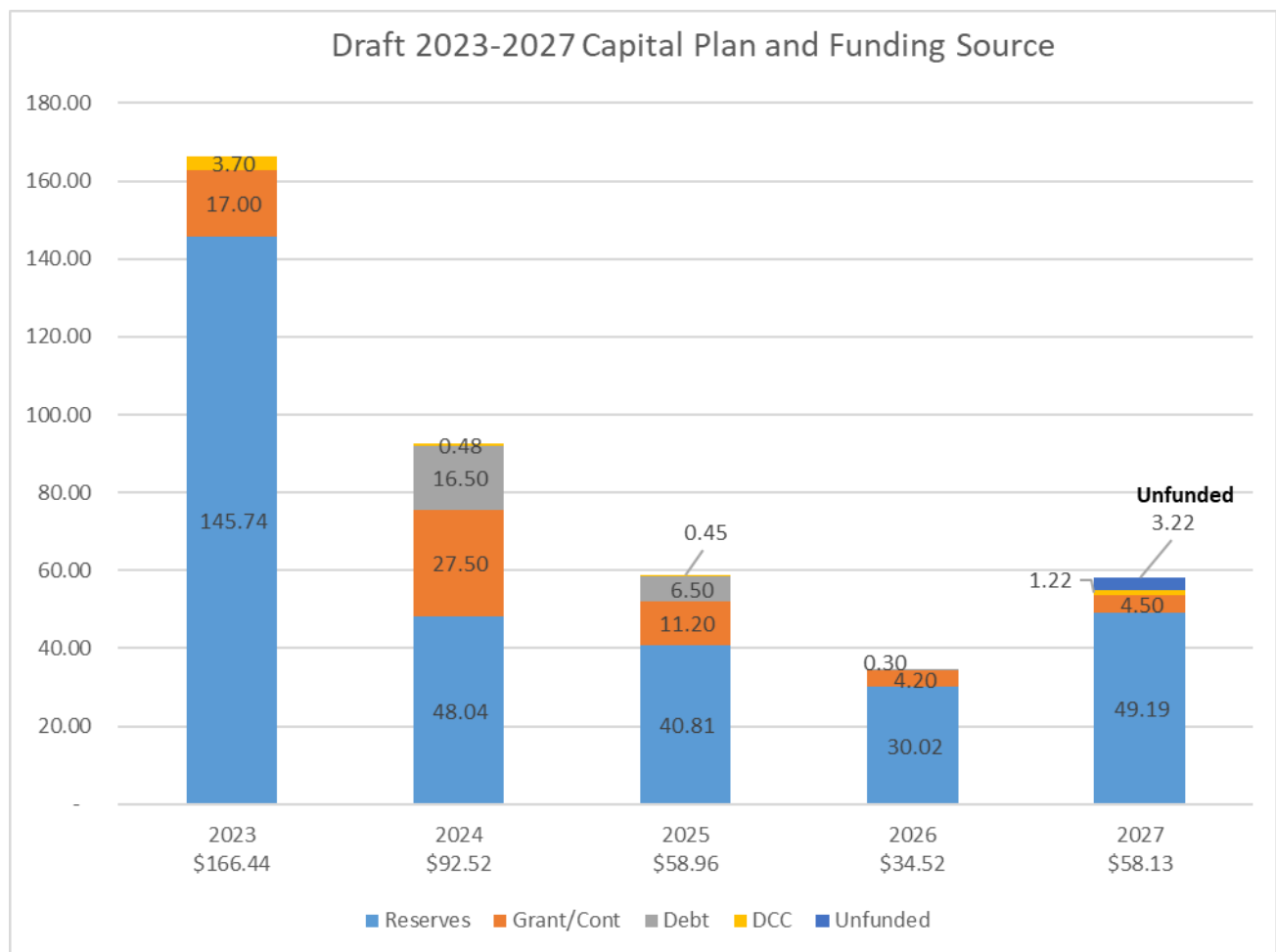
The 2023 proposed Capital Budget totals \$166.4M.

<b>Fund</b>	<b>2023 Proposed Budget \$M</b>	<b>2024 Plan \$M</b>	<b>2025 Plan \$M</b>	<b>2026 Plan \$M</b>	<b>2027 Plan \$M</b>	<b>5 Year Plan Total \$M</b>
General Fund	102.49	35.10	24.31	19.04	41.60	222.54
Electrical Fund	27.00	40.77	17.57	3.25	3.25	91.84
Water Fund	12.11	4.92	6.04	6.01	6.72	35.81
Sewer Fund	23.24	8.88	10.39	5.41	5.78	53.69
Solid Waste Fund	0.84	0.83	0.62	0.78	0.78	3.84
BridgeNet Fund	0.76	2.03	0.03	0.03	-	2.85
<b>TOTAL</b>	<b>166.44</b>	<b>92.52</b>	<b>58.96</b>	<b>34.52</b>	<b>58.13</b>	<b>410.56</b>

Details of the projects and funding source can be found in the Draft 2023 – 2027 Capital Plan provided in Attachment 1 to this report.

With respect to the **2023 proposed Capital Budget of \$166M**, the Finance Department has reviewed all capital submissions and has met with all major operational areas to confirm the priority projects and viable funding strategies; \$102M is for the General Fund and \$64M is for the Utility Funds. For the General Fund projects, \$91M will be funded by existing reserves which are serviced annually from property taxes. For the Utility Fund projects, \$55M will be funded from the existing utility reserves which are serviced annually from Utility Rates. The balance, \$20M, will be funded with secured Partnership/Grant Funding and Developer Contributions.

For the **2023-2027 Five Year Capital Plan** there are unfunded and unsecured grant funds which staff will need to further define or secure prior to bringing to Council as request to draw from the plan and set up the budget which gives staff the authority to start the procurement/spending on the projects.



**INTERDEPARTMENTAL LIAISON**

All departments participate in the annual budget process. The Senior Management Team (SMT) provides overall direction. The Finance Department provides overall financial oversight.

**OPTIONS**

There are three options for Council's consideration; they are:

Option 1 - Council provide direction on the proposed 2023 Capital Budget and Funding Strategy.

Option 2 - Staff be directed to report back on the Draft Consolidated Financial Plan Bylaw, 2023 – 2027.

Option 3 – Council provides alternate direction.

*Staff recommend Options 1 and 2*

**CONCLUSION**

Council's feedback from both the February 13<sup>th</sup> Capital Budget Workshop and the January 30<sup>th</sup> Operating Budget Workshop will help form financial options for the February 27<sup>th</sup> Workshop.

**ATTACHMENTS**

Attachment 1 – Draft 2023 – 2027 Capital Plan and Funding Strategy

**APPROVALS**

This report was prepared by SMT

This report was approved by:

Harji Varn  
CFO/Director of Finance

Lisa Spitale  
Chief Administrative Officer