

REPORT

Finance

To: Mayor Johnstone and Members of Council – Budget Workshop **Date:** December 2, 2024

From: Shehzad Somji **File:**
CFO/Director of Finance

On behalf of the Senior Management Team

Item #: 2024-689

Subject: **Budget 2025: Proposed 2025 General Fund Operating Enhancements Scenarios and Funding Strategy**

RECOMMENDATION

1. **THAT** staff be given direction on the proposed estimated property tax revenue increase for 2025;
 2. **THAT** staff report back with a Consolidated Five-Year Financial Plan (2025 – 2029) bylaw.
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PURPOSE

This report provides Council with proposed service enhancements for the 2025 DRAFT General Fund Operating Budget. The purpose of this report is threefold:

1. To provide a detailed list of proposed 2025 General Fund Operating Budget service enhancements;
2. To provide a corresponding funding strategy; and
3. To provide three General Fund Operating Budget scenarios, each summarizing the estimated property tax impact, enabling Council to deliberate on the different components that would eventually make up “the Recommended Property Tax” scenario.

EXECUTIVE SUMMARY

At the December 2, 2024 Operating Budget Workshop, City staff will present three General Fund Operating Budget scenarios:

- Scenario 1 – 4.5% Property Tax Increase Budget
- Scenario 2 – All Service Enhancements: 7.6% Property Tax Increase
- Scenario 3 – Creating “the Recommended Property Tax” Option (5.3% - 6.6% depending on what categories of enhancements are included)

The purpose of the Operating Budget Workshop is to seek feedback and direction from City Council. All departments will be in attendance at the workshop and prepared to address questions from Council.

From a transparency and good governance perspective, questions from Council that cannot be answered at the Operating Budget Workshop will be recorded and responses back from departments will be consolidated into a written memo. The written memo will be added to the next Council meeting agenda. If some answers require additional time, departments will note that in the written memo with an estimated time for the response.

It is best practice to record and address budget related questions during the budget process. This approach is an accessible way of enabling the community to follow the information and issues of importance to Council, as Council deliberates on budget related matters.

GENERAL FUND OPERATING BUDGET

In February 2024, Council approved the 2024 - 2028 Five-Year Financial Plan, which included the 2024 Capital and Operating Budgets. The 2024 General Fund Operating Expenditure Budget was \$188.7M, with \$111.8M funded through property taxes and the remainder sourced from other revenues such as gaming, permits, parking, and community service fees.

The Operating Budget supports essential City services such as Fire, Police, Electrical, the Library, Parks and Recreation, Planning, Engineering, and General Government functions such as Information Technology, Finance, Human Resources and Legislative Services. It also covers annual debt servicing and contributions to reserves for major city facilities and infrastructure.

Each year, as part of the annual budget process, City departments evaluate their core services and programs, and their department work plans which progress Council’s

Strategic Plan to determine if resources are sufficient to address their mandates for the following year. Where departments have determined that additional resources are required, “service enhancement” requests are submitted to the Finance Department and compiled as part of the Budget deliberation process. In Attachments 1 to 7 of this report, departments have listed the enhancements requested for the 2025 Budget. Enhancements have been rounded to the nearest hundred thousand for presentation; however, exact amounts are provided in the attachments.

The Finance Department uses a number of strategies to fund enhancements. Enhancements can be funded from property tax revenue, grant funding (from senior levels of government), other revenue sources such as interest earned from cash investments, parking revenue, increased user fees from residents and visitors using City services, and by finding efficiencies within existing budgets and reallocating budgets to where there is need.

In this report, three General Fund Operating Budget scenarios are provided to Council for review. Each scenario has different property tax rate implications. Staff are seeking Council direction on the three scenarios at the Budget Workshop.

Scenario 1 – 4.5% Property Tax Increase

At the October 21, 2024 Council meeting, Council directed staff to prepare a budget scenario with a property tax increase of 4.5%. To prepare for this scenario, the Finance Department calculated that the “Baseline” (the 2024 Operating Budget plus 2025 non-discretionary service enhancements) would require a \$1.1M reduction to meet the 4.5% property tax target (details of the “Baseline” are provided on the next page).

Finance calculated the distribution of the reduction target across departments, and departments were then asked to identify where cuts would take place within their operating budgets. Attachment 8 provides Council with the 11 Department Memos. Each memo identifies where the reductions would take place and the corresponding impacts.

A summary of the budget reduction by department is as follows:

DEPARTMENT	BUDGET REDUCTION
Corporate Services	\$ 43,872
Community Services	\$ 64,841
Engineering	\$ 318,287
Finance	\$ 30,798
Fire & Rescue Services	\$ 62,406
Human Resources	\$ 91,173
Information Technology	\$ 20,560
Library	\$ 44,749
Parks & Recreation	\$ 116,503
Planning & Development	\$ 36,275
Police Services	\$ 306,830
Total	\$ 1,136,295

Scenario 2 – All Service Enhancements: 7.6% Property Tax Increase

Each year, as part of the annual budget process, departments evaluate their core services and programs, and their department work plans which progress Council’s Strategic Plan, to determine if resources are sufficient to address their mandates for the following year.

Where departments have determined that additional resources are required, enhancement requests are submitted to the Finance Department and compiled as part of the budget deliberation process. In Attachments 1 to 7 of this report, departments have listed the enhancements requested for the 2025 Budget.

Moreover, service enhancement requests are funded by different revenue sources. The enhancements that are part of Scenario 2 are those that are funded through property taxes.

The total enhancement requests from Departments is \$11.4M, with an additional \$3.0M of new revenue that would be realized as a result of the enhancements. There are 12.0 Full Time Equivalent (FTE) positions requested that will be funded through property tax as part of this scenario.

Scenario 3 – Creating “the Recommended Property Tax” Option

For Scenario 3, the Finance Department has organized the service enhancement requests into five categories:

- a) **Baseline Budget** – the Baseline Budget is the 2024 approved budget of salaries, benefits, materials, supplies, inflation, contracted services plus the non-discretionary 2025 service enhancements: regulatory and legislative items and known increases for service contracts such as the E-Comm 911 service. The Baseline Budget property tax increase is 5.5%.
- b) **Senior Management Team (SMT) Recommended Requests** – This category contains the baseline budget, plus enhancement requests that are recommended by SMT for inclusion to the “recommended property tax” scenario. The enhancements recommended by the SMT add 4.0 FTE which bring in additional revenue and offset the cost. A significant amount of effort was taken to review all the enhancement requests and determine which ones to recommend to Council. Some enhancement requests were deferred to 2026 (see the “Deferred to 2026” category). As compared to the Baseline budget, the SMT Recommended enhancement requests reduce the incremental property tax impact by 0.2% as the revenue generated exceeds the cost of the enhancements (SMT Recommended Budget property tax increase is 5.3%).
- c) **Police Board Approved** – The Police Board is required by legislation to have their budget approved by the end of November each year. The Board met on November 19, 2024 and approved the Police Budget. The Police Budget was also discussed with City Council at a joint Council and Police Board meeting held on October 7, 2024. The Police’s non-discretionary increases are included in the “Baseline Budget”. The additional Police enhancement items are included in this Police Board Approved category. From a governance perspective, changes to the Police Board budget would require a formal request from Council to the Police Board. The Police Board Approved budget items have an incremental 0.9% property tax impact over the Scenario (b) requests (i.e. total 6.2% property tax increase).
- d) **Council Supported** – this category includes the enhancement requests that Council has referred over the course of the year to the budget process. The items noted here are funded from property taxes. There are other Council-supported requests that are funded from the Capital budget (and are not included here). There are three items in the Council Supported requests. These three items have an incremental 0.4% property tax impact over and above the Scenario (c) requests (total 6.6% property tax increase together with SMT Recommended and Police Board Approved items).

e) **Deferred to 2026** – SMT has reviewed the entire list of enhancement requests and has made the difficult decision to defer some requests to the 2026 Budget, with the goal of mitigating the tax increase in 2025. The deferred enhancement items would have added an additional 0.6% tax increase. Similar to the previous year’s budget process, SMT has also staggered the hiring of the requested new positions to start between Q2 and Q4 as the hiring process takes some time. The staggering of the start dates has deferred 0.4% of a property tax increase to the 2026 budget. These items are provided for Council and the community’s information, but they have not been included in the Recommended Property Tax option. These items will form part of the SMT process for the 2026 Budget, however if Council wishes to include these enhancements in the 2025 budget, a 1.00% incremental property tax impact would be realized, bringing the total to the Scenario 2 tax increase of 7.6%.

The three scenarios are summarized in the table below and includes the proposed property tax impact.

(in \$ Millions)

Budget Scenario	# of FTE Addition	Budget Enhancement Request	4.5% Council Motion	Non-Discretionary Baseline	SMT Recommended	Police Board Approved	Council Supported	Proration and Deferred Requests to 2026	1		2				
									3a	3b	3c	3d	3e		
Operating Service Enhancement Requests - Proposed Funding From Property Tax	12.0	\$ 11.4	\$ 8.4	\$ 8.4	\$ 0.5	\$ 1.0	\$ 0.4	\$ 1.1							
Incremental Revenue		\$ 3.0	\$ 2.3	\$ 2.3	\$ 0.7	\$ -	\$ -	\$ -							
Budget Reduction from Existing Services		\$ -	\$ 1.1	\$ -	\$ -	\$ -	\$ -	\$ -							
Incremental Property Tax Impact \$		\$ 8.4	\$ 5.0	\$ 6.2	\$ (0.2)	\$ 1.0	\$ 0.4	\$ 1.1							
Total Property Tax Impact \$		\$ 8.4	\$ 5.0	\$ 6.2	\$ 6.0	\$ 7.0	\$ 7.3	\$ 8.4							
Total Property Tax Impact %		7.6%	4.5%	5.5%	5.3%	6.2%	6.6%	7.6%							

FUNDING STRATEGIES OTHER THAN PROPERTY TAXES

Prudent financial management requires a review all funding sources to offset enhancement requests. This is part of the Finance Department’s regular strategy during budget development to lower the property tax impact for residents while addressing the needs of the City. The strategies are outlined below.

1. Enhancements Funded by Other Revenue Sources

These enhancements are funded by non-property tax revenue, such as parking revenue or interest revenue. The additional positions requested will generate the

revenue to offset the cost of the position and any additional revenue over and above the cost will be used to reduce the property tax increase.

2. Enhancements Funded by Capital Funds

The requests funded through the Capital Fund are specific to capital projects. All departments reviewed their projects and identified positions whose main responsibility was the capital project. These positions are then funded from the capital project budget with no impact to property tax rates.

3. Enhancements Funded by Grants

These enhancement requests are required as a result of the City receiving grant funding and are funded from the grant. There is no impact to property tax rates for these enhancements.

4. Enhancements Funded by Finding Efficiencies in Existing Budgets (Budget Reallocation)

These enhancements are funded through departments reviewing their budgets line by line and determining the most prudent way to utilize their funds. This is a process that the Senior Management Team does annually during the budget development process to ensure that budgets are being spent responsibly and in the necessary areas.

BACKGROUND

In February 2024, Council approved the 2024 - 2028 Five-Year Financial Plan, which included the 2024 Capital and Operating Budgets. The 2024 General Fund Operating Expenditure Budget was \$188.7M, with \$111.8M funded through property taxes and the remainder sourced from other revenues such as gaming, permits, parking, and community service fees.

The Operating Budget supports essential city services such as Fire, Police, Electrical, the Library, Parks and Recreation, Planning, Engineering, and General Government functions such as Information Technology, Finance, Human Resources and Legislative Services. It also covers annual debt servicing and contributions to reserves for major city facilities and infrastructure.

To ensure flexibility and transparency, the Finance Department provides quarterly reports to Council and seeks approval for any necessary budget adjustments. This best practice acknowledges that circumstances may change throughout the fiscal year and allows for:

- Regular updates to keep Council informed on achievements or project deferrals due to economic or internal factors;

- Enhanced transparency and robust financial oversight, supporting a smooth transition into the annual budget process and Five-Year Financial Plan update; and,
- Flexibility for Council to adjust priorities based on emerging needs, community demands, and unforeseen circumstances.

Similar to last year, the budget process requests Council to review the budget proposal, and provide feedback which will be incorporated into the final Annual Budget and Five-Year Financial Plan, including adjustments to the municipal portion of the property tax rate.

Staff have made a coordinated effort to develop the budget and seek approval earlier for Budget 2025. This proactive approach allows for more time to align funding with priority projects, ensures greater financial planning flexibility, and provides opportunity for Council review and adjustments before the fiscal year begins.

At the October 21, 2024 Council meeting, Council directed staff to prepare a budget scenario with a property tax increase of 4.5%.

On October 28, 2024, the [2025 Budget Public Survey results](#) were presented to Council by Ipsos at a Council Workshop. Input from the community has been considered in the development of the General Fund operating service enhancements presented in this report.

Budget 2025 Target Timeline

The following table outlines the key dates for the 2025 Budgeting process. Staff aim to present the Draft 2025 – 2029 Five Year Financial Plan to Council in January 2025. The Financial Plan includes the City’s annual Operating and Capital Budgets and associated Utility and Property Tax Rates increases.

COUNCIL MEETING	BUDGET TOPIC
November 25	Budget 2025 Council Workshop <ul style="list-style-type: none"> • 2023 - 2026 Strategic Priorities Plan Implementation Strategy • Draft 2025 - 2029 Operating and Capital Utility Budgets and Utility Rates setting
December 2 (we are here)	Budget 2025 Council Workshop <ul style="list-style-type: none"> • Draft 2025 - 2029 General Fund Five Year Capital Plan and Funding Strategy; • Draft 2025 General Fund Service Enhancements, Funding Strategy and Property Tax Rates setting
December 2	Open Council Meeting <ul style="list-style-type: none"> • 2025 Utility Rate Bylaw Readings
December 9	Budget 2025 Council Workshop <ul style="list-style-type: none"> • Proposed 2025 General Fund Operating and Multi-Year Capital Budgets and 2025 – 2029 Five Year Capital Plan
December 16	Open Council Meeting <ul style="list-style-type: none"> • 2025 Utility Rate Bylaw Adoption
January 2025	Budget 2025 <ul style="list-style-type: none"> • Draft 2025 - 2029 Five Year Financial Plan for Adoption

ANALYSIS

Budget Assumptions and Risk

As with every budget, there are assumptions and risk factors that may impact the General Fund Operating Budget. These can include economic uncertainty, inflationary and non-discretionary cost increases, legislative requirements and uncertainties associated with grant funding. Fourteen items are identified and outlined below.

1. Economic Uncertainty

With the recent 2024 B.C. Provincial election, the 2024 U.S. presidential election, and the upcoming 2025 Canadian federal election, the City is susceptible to policy shifts that could affect anticipated grant funding and third-party contributions.

Economic slowdown is also signaled by economic data and the Bank of Canada interest rate cuts, where the Canadian Big 5 banks are now anticipating further sizable Bank of Canada interest rate cuts in 2025, to support economic growth and keep inflation close to the middle of the 1%-3% range. Several areas of the City’s revenue will be susceptible to such market volatility, primarily permit revenue from development and investment interest revenue, which can pose a material impact to the City’s financial position.

2. Aggressive Revenue Projections

Since Budget 2024, the City has been taking a more aggressive approach in forecasting revenue. This is to reflect on the City’s growth in the past years, and to provide an elevated forward-looking projection in key revenue streams, which alleviates additional operational cost without relying solely on property tax increases. Budget risk is mitigated by forecasting revenue at levels that have a high likelihood of sustainability.

Certain revenue streams are cyclical in nature and are more prone to revenue sensitivity risk from changes in economic conditions, including market volatility and cyclical trends. Should actual revenue fail to meet the projected forecast due to timing and market fluctuations, then the utilization of reserves can be considered to stabilize tax increases and mitigate the impact on the budget. However, should revenue take a permanent downward turn in the future, this could necessitate higher property tax increases to ensure continued operation of City services.

3. Permit Revenue from Development

The Planning & Development Department has conducted a comprehensive review of current and projected permit revenue from development and is forecasting a \$2.3M shortfall in Budget 2025 compared to the 2024 budget. The City adopted an aggressive revenue projection approach during Budget 2024, but recent market slowdowns and the sustained Bank of Canada policy rate for most of 2024 have resulted in unfavourable market conditions in the short term. City staff anticipate that this decline will be cyclical and temporary, and the reduction will be managed through City reserves to mitigate the property tax impact in Budget 2025. However, provincial legislation changes have impacted the development industry which will require some time to adjust; should this adjustment be slow and/or if market conditions remain stagnant, higher property tax increases in future years could be required to address any long-term financial shortfall.

4. Investment Revenue

The Finance Department has conducted a detailed analysis of current and projected interest rates, along with cash flow forecasts. Based on this analysis, staff estimate that an additional \$1.2M in investment revenue can be allocated to fund operations and reduce property tax increases for residents and businesses, providing financial relief in Budget 2025. This additional revenue will help offset the costs of additional staffing in the Finance Department, allowing for a reallocation of resources to enhance the City’s investment strategy through more active treasury management.

However, it is important to acknowledge the inherent budget risk associated with this approach. The revenue forecast relies on the current market outlook for the Bank of Canada’s policy rate in 2025, and any rate reductions beyond current expectations could negatively impact the City’s return on investments.

5. Parking Revenue

The Engineering Department has completed a thorough analysis of current and projected parking revenue. Based on this analysis, staff estimate that an additional \$1.1M in parking-related revenue can be directed towards funding operations and reducing property tax increases for residents and businesses, providing financial relief to the community. This additional revenue is expected to come from increased parking lot and meter income and violation and fines revenue, driven by enhanced monitoring and improved enforcement practices to be supported by the additional resources requested in Budget 2025.

6. Inflationary and Non-discretionary Cost Increases

The City’s operations are impacted by essential, non-discretionary cost increases imposed by third-party providers. Key service costs, such as those for E-Comm 911 and various IT services, are seeing cost increases or economic adjustments that exceed the Bank of Canada’s target inflation rate of 1-3%. In response, the City has been proactively reallocating resources where possible to minimize the financial impact on the community. The non-discretionary cost increases reflected in the 2025 Budget are being requested as a necessary adjustment to maintain critical services.

7. Collective Agreements

In November 2023, the City and the Canadian Union of Public Employees, Local 387 (CUPE 387) reached a three-year collective agreement covering the period of January 2022 to December 2024. Budget 2025 will entail a new collective agreement. The City has taken the approach to estimate rate adjustments to be in line with inflation, and the rate adjustments can pose a financial impact at a later date if the settlement is beyond the City’s estimate.

8. Provincial Housing Legislation

In July 2024, the Province of British Columbia issued a Housing Target Order for New Westminster. The order is in addition to the numerous housing-related legislative changes brought in by the Province with the goal of addressing the housing crisis. The City is required to approve 4,432 net new units over five years from August 1, 2024 to July 31,

2029. The City’s interim update of the Housing Needs Report, as required using the Province’s prescribed methodology, identifies the need for 8,137 new units in the next five years. The implementation of the new housing legislation and target requires both immediate/time sensitive actions, and long-term ongoing updates to housing regulations, policies, and approval processes.

The City incorporated service enhancements in the 2024 Budget to allocate resources towards the creation of a new Housing Division and related interdepartmental costs, and identified future needed resources, with grants anticipated to fund their initial years. The City was successful in receive a total of \$11.5M from the Housing Accelerator Fund (HAF) program through the Canada Mortgage and Housing Corporation (CMHC); over \$500K in provincial capacity funding, and \$150K from the UBCM approvals grant program, which will provide the funding to the existing commitment the City has made towards homes and housing options, as well as the additional immediate resources requested in the 2025 Budget to meet the legislative requirements.

It is important to note that the senior government grant funding received is limited in duration. While this may not have an immediate impact on the budget, it underscores the need for a long-term funding strategy to sustain permanent full-time staff once the grant funding ends. The legislated requirements are both immediate and ongoing, necessitating permanent resourcing. One potential strategy is for Council to approve an annual tax increase of 0.25% to 0.50% over the next 3-5 years, helping to mitigate the impact on property taxes once the grant funding is depleted.

9. t̄m̄əsew̄tx̄w Aquatic and Community Centre

The t̄m̄əsew̄tx̄w Aquatic and Community Centre has been operating through a phased opening since April 2024. Both operating revenue and expenses have so far aligned with initial projections. As the facility continues to ramp up and fully integrate into the community, the City remains committed to adapting and reallocating resources as needed to address emerging needs and ensure the facility effectively serves the community. This flexible approach will allow the City to respond to any operational challenges or adjustments that may arise as the facility enters its full operational phase, which may require a reallocation of budgetary resources.

10. Q to Q Ferry

An increase in contracted services costs is expected for the continuation of the Q to Q Ferry service in 2025 and beyond. To accommodate these additional expenses, a request for an additional \$0.6M in funding is included in the Council Supported budget category outlined above. This amount reflects the increased resources needed to maintain and

operate the ferry service, ensuring its continued availability to the community. The requested funding will cover the rising costs associated with contracted services, helping to ensure the service remains operational without disruption.

11. Grant Funding

Several City operating initiatives are intended to rely upon securing grant funding during the operating year. If the grant applications are unsuccessful, it could result in a financial strain on the City's reserves. To mitigate this risk, City staff have been proactively exploring and applying for grant funding opportunities. This proactive approach aims to secure the necessary resources to support these critical initiatives while minimizing the potential impact on the City's budget and reserves.

12. Timing Considerations - Hiring and Funding Strategy

For Budget 2025, a fiscally prudent approach is being taken to ensure reserve levels are preserved and kept in alignment with the City's Reserve Policy. Staff have diligently explored options to fund the necessary service enhancement requests to maintain the existing service levels to the public. The City will strategically fund one-time service enhancements that do not have an alternate funding source through the City's reserve. Staff have estimated operational savings from the timing of the Budget 2025 prioritized hiring, and any additional savings will be used to offset one-time service enhancement expenditures to alleviate the impact on the City's reserve.

13. Estimated Property Tax Revenue Impact

In the General Fund Operating Budget Report, staff present scenario-based estimates regarding the potential impact on property tax revenue. It is important to note that, although comprehensive modeling and forecasting have been applied, the associated figures remain estimations at this time and may not precisely represent the final property tax impact on residents and businesses.

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 – **THAT** staff be given direction on the proposed estimated 2025 property tax rate;

Option 2 – **THAT** staff report back with a Consolidated Five-Year Financial Plan (2025 – 2029) Bylaw; or

Option 3 – Council provide alternate direction.

Staff recommend Options 1, 2

CONCLUSION

Council’s feedback from the November 25 Utility Capital and Operating Budgets and Rates Setting Workshop, and the December 2 General Fund Capital Plan Workshop and Service Enhancement Workshop, will help form the financial options for the 2025 –2029 Five Year Financial Plan Bylaw.

ATTACHMENTS

Attachment 1 – Consolidated 2025 Proposed Service Enhancement Requests

Attachment 2 – 2025 Proposed Service Enhancements – Funding from Property Tax

Attachment 3 – 2025 Proposed Service Enhancements – Funding from New and Incremental Revenue

Attachment 4 – 2025 Proposed Service Enhancements – Funding from Budget Reallocation

Attachment 5 – 2025 Proposed Service Enhancements – Funding from Capital

Attachment 6 – 2025 Proposed Service Enhancements – Funding from Grants

Attachment 7 – 2025 Proposed Service Enhancements – Funding from Reserves

Attachment 8 – 2025 Department Service Enhancement Memos

APPROVALS

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