REPORT TO COUNCIL

DATE: October 7, 2019

SUBMITTED BY: Flavia Rossi Donovan
Chief Financial Officer

SUBJECT: 2020 Budget Assumptions and Timeline

PURPOSE
To present the 2020 Budget Assumptions and Timeline to be used in the preparation of the 2020 Financial Plan to Council for discussion and approval.

ANTICIPATED OUTCOMES
That the Budget Assumptions Report will provide detailed data to support Council in guiding the preparation of the 2020-2024 Financial Plan.

SUMMARY/BACKGROUND
In 2015, Council directed Finance staff to complete a report that outlined the assumptions used to guide the preparation of the annual Financial Plan. This report was the first step in the annual budget process and it is now embedded in the system.

As the governing body for the community, Council makes decisions and sets the direction for funding and spending through policy and resolution. These decisions are made in the context of ever-changing conditions and the direction can be adjusted by Council at any time throughout the budgeting process. City staff is tasked with preparing the data that aligns with Council direction, as well as ensuring that the plan stays within the Community Charter Section 165 (5) requirement of a “Balanced Budget”.

Wants and needs are often conflicting because the City and its taxpayers have limited resources. The budget framework is set up so that by the end of the process, these limited resources will be prioritized by the Council and the community.
The Budget Process

The process begins by using the 2020 amounts that Council approved in the 2019-2023 Five Year Plan. From July to October, Capital and Operating budget worksheets are distributed to Senior Managers to review and update the 2020 balance, taking into consideration the following:

- Any new information arising over the past year from Council decisions;
- Changed policies;
- New planning documents, contracts and other items that may require increased or decreased funding;
- Changes due to one-time expenditures;
- 2019 capital project carryovers and 2020 capital plan adjustments; and
- 2020 year-end operating accumulated surplus and capital reserve balances.

These budget adjustments are compiled into the main document and further changes are made throughout the process as current information becomes available. These changes will be implemented after the Budget Assumption discussions during the Draft 1, Draft 2 and Financial Plan Meetings.

- Additionally, Section 166 from the Community Charter requires that Council must undertake a process of public consultation regarding the proposed financial plan before it is adopted. Historically, the consultation is undertaken between the Draft 2 and the Final Five-Year Financial Plan discussion. However, for 2020 budget process, there will be two public consultations, with the first one to be held on October 21, 2019, granting an opportunity to the residents to bring their suggestions to be considered during the preparation of the first and second budget drafts. On February 10, 2020, the second public consultation will provide comments in the 2020 proposal figures.
Legislative Background

According to the Community Charter Sections 164 and 165(1) (2), a municipality must have a five-year financial plan that is adopted annually, by bylaw and it can be amended by bylaw at any time.

The Community Charter Section 165 directs that the Financial Plan must set out the objectives and policies, as follows:

   a) The proportion of the total funding sources, such as revenues from property value taxes, parcel taxes, fees, others revenue and proceeds from borrowing;

   b) The distribution of property value taxes among the property classes subjected to taxes;

   c) The use of permissive tax exemptions (approved early by bylaw in October); and

   d) The proposed expenditures by the municipality, separated at least by the amount required to (1) pay interest and principal on Municipal debt (Debt Servicing), (2) required for Capital purposes and (3) other municipal purposes.

Taking into consideration the requirement above, Section 165 (5) sets the main guidance for the presentation of a “Balanced Budget”, which means “the total of the proposed expenditures and transfers to other funds for a year must not exceed the total of proposed funding sources and transfers from other funds of the year.”

The golden rule for an annual budget is that:

   a) There are sufficient current year revenue sources to fund the actual expenditures;

   b) The current year revenue can fund the annual debt servicing;

   c) The portion of the current year’s revenue funds can source the key capital projects in need to keep a high quality of infrastructure and delivered services; and

   d) Remaining funds can be allocated to specific reserves to build up savings for future projects or one-time events.

The following table shows the main sources of funding and City’s expenditures and how much has been budgeted to be allocated to reserves.
Some background information for 2019-2023 from last year’s plan is provided below for context:

- The residential variable tax rate was held at $5.6233 (2019 rate);
- The commercial variable tax rate was held at $17.5230 (2019 rate);
- All classes’ assessments were forecasted to have 2.5% mill rate increases, except for the Major Industry which increased by 18.9% (2019 rate $27.1215). Council approved an additional 19.8% increase in 2020 for the Major Industry Mill rate to $32.50;
- Based on the 2020 original total tax revenues, including flat tax and other taxes, the projected amount is $18.13M compared to 2019 budgeted tax revenues of $17.69M. The tax levy increase projected is averaged as follows:
  - 2019 – 3.0% - $464K
  - 2020 – 2.8% - $328K
  - 2021 – 2.0% - $322K
  - 2022 – 2.0% - $346K

- **Operating Transfers to Capital** in 2019 was composed of 37.8% of the 2019 Peace River Agreement (PRA) funding, totalling $5.78M. However, in 2020 the percentage of allocation dropped to $5.65M (37.5%) due to the inflation projection for the period.
- **2020 operating revenues**, other than taxes and PRA funding, were estimated at $18M, the same as 2018;
• **2020 operating expenditures**, including debt servicing, are estimated at $40.7M; compared to $40.9M in 2019 – a decrease of $198K from the 2019 budget, taking into consideration an average of 2% increase (approx. $818K) and the decrease as a result of Council’s initiative fully realized in 2020 ($1M);

• **2020 capital funding** is estimated at $24.2M (2019 - $12M). The increase is mainly related to the EEC Parking Upgrade grant funding amounting $5.1M and the 96th Ave Paving and Sanitary Upgrades grant funding of $9M, pending approval from the granter ICIP – Investing in Canada Infrastructure Program from the Government of Canada and BC;

• **2020 capital spending**, before including any carry forward projects from 2019 or new projects approved in 2020 by Council estimated at $24.2M (2019 – 12M). The increase of $12.2 million is mainly related to the EEC Parking Upgrade ($7M) and the 96th Ave Paving and Sanitary Upgrades ($10M) and remaining projects totalling $7.2M.

### 2020 ASSUMPTIONS

The 2020 Budget Assumptions that will be used to guide the preparation of the 2020 Draft 1 Financial Plan are proposed as follows:

**Process**

• The 2020 process starts by using historical assumptions and information included in previous plans. Management staff then reviews all the accounts and provides the revised figures in the First Draft Budget for Council revision and approval;

• The budget process used will be the same as in previous years, guided by the budget timeline *(Attachment A)*;

• Roles and responsibilities for preparing the Plan will remain the same as in previous years. The senior management team will prepare the document and present the information to Council for discussion, changes and approval;

• Prior years’ simplified approach to public consultation and input through social media platforms and the City’s website will be used.

**Planning**

• The 2020 Financial Plan will be prepared using the principles outlined in the City’s Vision, Mission and Guiding Principles *(Attachment B)*;

• The Plan will take into consideration Council’s 2019 Strategic Priorities *(Attachment C)*

• The Plan will incorporate changes and adjustments arising from bylaw and policy changes made by Council since the last budget cycle.
Assessments

- Assessment changes are an integral driver in setting the annual tax rates. Variables such as whether the base is increasing or decreasing, how the classes are changing within the total, as well as how much of the increase is from market vs. non-market all have an effect on setting the annual and long term tax rates;

- Assessment information used for setting the City’s tax rates included in the Financial Plan comes from the BC Assessment Authority at different times throughout the budgeting process. Various analytics are provided after each roll is received as follows:

  - **Preview Roll** – Received in early November. This information gives staff an indication as to the reasonableness of the forecasts used.
  
  - **Completed Roll** – Received in early January. The completed roll includes detailed folio information and is therefore used to prepare the in-depth analytical metrics for recommending the annual tax rates.

    Metrics reported to Council include:

    - Have 2020 assessments increased or decreased?
    - Have 2020 folio counts increased or decreased?
    - Has the mix of assessments changed significantly from previous years?
    - What is the change in the average assessment for residential and commercial properties?
    - How does this compare to other communities used for benchmarking purposes?
    - How many folios are above or below the average?
    - How is the market value and non-market value historically trending?

  - **Revised Roll** - Received in late March or early April. The revised roll is used for calculating the tax levy. No change is made to the Plan unless the variance in tax revenue is material. (A material variance is one that would affect other components in the Plan).

The initial assessment forecast used in the 2020 budget assumed an average of 2.8% increase ($328K) in property taxes. Since Council is starting the budget early this year, staff will be working on the first draft based on the ‘preview roll’ and the second draft will incorporate the “completed roll” attuned to the average of BC Assessment adjustments considering previous years’ appeals.

**Revenue Disclosure Requirements Policy**

The Revenue Disclosure Requirements Policy attached to the Financial Plan is the primary document that sets out the main sources for funding the budget (Attachment D). The Policy outlines the sources of revenue, speaks to the integration of funding sources and recognizes that Council’s decision making authority is limited in some areas.
The City’s main sources of funding, include:

- **Integration** – Annual estimates for one revenue category are affected by changes in all other sources and therefore an integrated approach to setting property taxes and user fees is used.

- **Control** – Council recognizes that some revenue items are set by third-party authorities and are beyond their decision making authority. Examples of these types of revenue sources include the Peace River Agreement allocation, other provincial and/or federal government transfers, grants in lieu, 1% utility taxes, franchise revenues and gaming revenues.

### Municipal Taxes

Municipal taxes are composed of municipal property taxes ($17.7M) and grants in lieu ($1M).

**Municipal property taxes** are the main source of revenue and normally are used to balance the budget. There are two main factors that affect the decision of the tax levy increase: (a) BC Assessment annual update in market and non-market value and (b) the necessary tax levy increase to fund the current year budget. The following factors are also considered:

- Dollar increase/decrease by class;
- Dollar increase/decrease in total;
- Affordability of increase;
- Historical trends and changes;
- Use of averages;
- Responsiveness to economic conditions;
- Equity among classes.

<table>
<thead>
<tr>
<th>Sources of Revenue (Operating &amp; Capital)</th>
<th>in CAD</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019FP</td>
<td>2020FP</td>
</tr>
<tr>
<td>Municipal Taxes</td>
<td>18,707,551</td>
<td>19,171,164</td>
</tr>
<tr>
<td>PRA Agreement</td>
<td>15,279,041</td>
<td>15,045,000</td>
</tr>
<tr>
<td>Fees &amp; Charges</td>
<td>13,670,456</td>
<td>13,924,141</td>
</tr>
<tr>
<td>Capital Revenue (Grants, Carryforward &amp; Others)</td>
<td>5,084,769</td>
<td>15,203,073</td>
</tr>
<tr>
<td>Other Government Transfers</td>
<td>1,951,757</td>
<td>1,623,766</td>
</tr>
<tr>
<td>Other Revenues (in ROI)</td>
<td>1,379,419</td>
<td>1,336,921</td>
</tr>
<tr>
<td>Collection to Other Gov't. (PRRO, School, Hospital) (*)</td>
<td>8,970,649</td>
<td>9,150,062</td>
</tr>
<tr>
<td><strong>Total sources of revenue before transfers from (to) Reserves</strong></td>
<td>65,043,642</td>
<td>75,454,127</td>
</tr>
<tr>
<td>Transfers from (to) Reserves</td>
<td>(3,193,376)</td>
<td>(1,446,406)</td>
</tr>
<tr>
<td><strong>61,850,266</strong></td>
<td>74,007,721</td>
<td>100%</td>
</tr>
</tbody>
</table>
PEACE RIVER AGREEMENT (PRA)

The PRA funding is the largest government transfer the City receives and any change in use is determined by Council. The 2020 preliminary estimate is $15.05M.

The total amount forecast to be received by the region for 2020 is set at $51M, considering a 2% increase scheduled for 2020. The actual amount Dawson Creek will receive in 2020 is dependent on population increases in each municipality as well as “in-boundary” assessment increases for classes 2, 4 and 5.

Staff will be considering $15.05M for the first draft. Staff will consider any increase/decrease in the second draft after the release of the revised amount by Mid-January 2020.

PRA Allocation between Operating and Capital

Council’s 2019 Strategic Priorities states the following:

“It is the intent of the City of Dawson Creek Council to move the PRA revenue currently used for the Operations of the city back into the Capital Program. As Council moves forward, it is the aspiration that a minimum of 85% of the PRA revenue received to be used for the Capital Investment with the remaining portion used for Operations towards debt servicing. The goal is to achieve this over the next seven years.”

Council approved a series of initiatives in 2019 that helped increase the % of allocation to capital from the original 2019 budget of 25.5% to 37.8%, equivalent to $5.78M of the PRA funds to Capital.

The City Staff is required to report to the Province every January the Long Term Development Plan (LTDP) for the period of 2017-2020 and Development Plan (ADP) reporting information prior to approval of the City’s five-year plan, which contains the allocated distribution between the Operating and Capital Expenditures. Based on the approved financial plan in May 2019, the current percentage split between operating and capital changes, as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>PRA Agreement Original</th>
<th>Allocation Operating</th>
<th>Allocation Capital (excluding O&amp;M Debt Servicing)</th>
<th>% to Operating</th>
<th>% to Capital (excluding O&amp;M Debt Servicing)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>14,992,701</td>
<td>6,000,000</td>
<td>8,992,701</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2019</td>
<td>15,279,041</td>
<td>7,278,826</td>
<td>8,000,215</td>
<td>52%</td>
<td>48%</td>
</tr>
<tr>
<td>2020</td>
<td>15,045,000</td>
<td>6,003,785</td>
<td>8,241,215</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>2021</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>2022</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>2023</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
</tr>
</tbody>
</table>

Before issuing the next January 2020 report to the Province, Council will need to establish the expected % of the allocation to capital, taking into consideration the current Councils’ aspiration to reach 85% within seven years; considering that the original 2020 budget projection assumed an average increase of 38%, therefore approximately 47% remains to be moved from the operating allocation, which is equivalent to $7M. If splitting equally in seven-years, there is a need for reducing the operating expenditures by at least $1M, without considering inflation in the following years.
FEES AND CHARGES

Fees and charges are composed of two categories; Utilities ($10.4M) and Users ($3.6M). Revenues from fees and charges are established within the guidelines of the Revenue Disclosure Requirements Policy. Those fees and charges are established by bylaw and are imposed for some services and not for others. Subsidy levels vary depending on the service area. For example:

a) Service areas that are covered 100% by user fees include the water and sewer utility funds, and waste services; and building inspection and bylaw enforcement that are covered by business license and building inspection fees.

b) Recreational fees and charges, or subsidy levels related to those services will be set in accordance with the User Fees and Charges Policy for Publicly Provided Parks and Recreation Services.

Utility fees and charges $10.4M – Utility rates are set by bylaw to ensure funding is sufficient to cover the service delivery cost, debt servicing and to provide for reserves to fund capital investment through infrastructure charges. Starting in 2019, the City has included the indirect administration charges of 4% in setting the rates. Additionally, Council approved the annual increase of the rates to adjust the inflation of the period.

➢ Water: Water rates increased in 2019 both to reflect inflation from the last ten-year period that the rate had not been updated. Infrastructure charges are currently funding a portion of the water debt servicing and capital projects.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Operating Revenue</th>
<th>Total Infrastructure allocated to Capital</th>
<th>Net Revenue</th>
<th>Operating Expenditure</th>
<th>Debt Servicing Water Only</th>
<th>Total Expenditures</th>
<th>Annual Surplus before Trfs to Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018A</td>
<td>5,598,023</td>
<td>1,400,000</td>
<td>4,198,023</td>
<td>2,926,800</td>
<td>1,031,000</td>
<td>4,022,027</td>
<td>175,926</td>
</tr>
<tr>
<td>2019</td>
<td>6,042,100</td>
<td>1,100,000</td>
<td>4,942,100</td>
<td>3,766,980</td>
<td>1,037,843</td>
<td>4,804,823</td>
<td>197,277</td>
</tr>
<tr>
<td>2020</td>
<td>6,214,893</td>
<td>1,575,000</td>
<td>4,639,893</td>
<td>3,645,995</td>
<td>886,195</td>
<td>4,534,190</td>
<td>105,703</td>
</tr>
<tr>
<td>2021</td>
<td>6,338,391</td>
<td>1,600,000</td>
<td>4,738,391</td>
<td>3,669,695</td>
<td>877,636</td>
<td>4,547,331</td>
<td>191,060</td>
</tr>
<tr>
<td>2022</td>
<td>6,424,359</td>
<td>1,600,000</td>
<td>4,824,359</td>
<td>3,244,914</td>
<td>871,073</td>
<td>4,615,987</td>
<td>208,372</td>
</tr>
<tr>
<td>2023</td>
<td>6,532,846</td>
<td>1,500,000</td>
<td>5,052,846</td>
<td>4,071,070</td>
<td>841,829</td>
<td>4,912,899</td>
<td>139,947</td>
</tr>
</tbody>
</table>

➢ Sewer: Sewer rates are set at 60% of the Water rates and also increased in 2019, except for the infrastructure charges that decreased by 20% to offset the impact of the 35% increase of the water infrastructure charges.
User Fees and Charges ($3.6M) – The majority of the user fees and charges are subsidized by property taxes, the allocated PRA portion to operating and other contributions (i.e. RD Fire Dept.). The list below provides the actual 2018 subsidy level for the key services provided by the City.

- **Waste Services ($1.1M)** - The contract with Canadian Waste Corporation (CWC) was renewed in April 2015 for five years with the new cart service delivery model. User fees will be reviewed during the budget process to ensure they are sufficient to cover the related waste expenditures. The last fees updated for Waste Services was in 2009 and does not include the indirect administration cost.
  
  Additionally, in 2018 the City started to provide the Curbside Recycling Services through CWC. The fees charged for the recycling covers only the cost incurred with the contractor’s service without taking into consideration any administration charges.
In addition, there is an operating restricted reserve of $255K available to cover short term deficits. Council has chosen to offset any deficit generated by the lack of fees update versus current incurred waste expenditure, to be funded by this reserve.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Expenses</th>
<th>Net</th>
<th>Revenue</th>
<th>Expenses</th>
<th>Net</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018A</td>
<td>702,369</td>
<td>690,655</td>
<td>11,714</td>
<td>128,071</td>
<td>124,117</td>
<td>3,954</td>
<td>89,608</td>
</tr>
<tr>
<td>2019</td>
<td>672,950</td>
<td>733,798</td>
<td>(60,848)</td>
<td>386,904</td>
<td>395,953</td>
<td>(9,049)</td>
<td>76,904</td>
</tr>
<tr>
<td>2020</td>
<td>672,950</td>
<td>748,474</td>
<td>(75,524)</td>
<td>386,904</td>
<td>403,872</td>
<td>(16,968)</td>
<td>78,442</td>
</tr>
<tr>
<td>2021</td>
<td>686,409</td>
<td>763,444</td>
<td>(77,035)</td>
<td>394,642</td>
<td>411,949</td>
<td>(17,307)</td>
<td>80,010</td>
</tr>
<tr>
<td>2022</td>
<td>700,137</td>
<td>778,712</td>
<td>(78,575)</td>
<td>402,535</td>
<td>420,188</td>
<td>(17,653)</td>
<td>81,611</td>
</tr>
<tr>
<td>2023</td>
<td>714,140</td>
<td>794,287</td>
<td>(80,147)</td>
<td>410,586</td>
<td>428,592</td>
<td>(18,006)</td>
<td>83,243</td>
</tr>
</tbody>
</table>

(*** Funded by user fees
(**) Funded by general municipal taxes

- **BC Transit ($103K)** - BC Transit carried out a service review in 2019 which identified a 7% increase in transit costs that are not offset by increases in revenue. The original 2020 projected deficit for public transportation amounts to ($674K) to the City. BC Transit is currently under review to identify an alternative model of scheduled or on-call transit services to reach an aspiration reduction of at least 50% (approx. $350K) of the deficit for the 2020 Budget.

- **Air Transportation ($419K)** - The main source of revenue for the airport services is from the sale of fuel ($265K). The comparison between the current source of revenues generated by the airport versus the expenditures shows a significant portion of Deficit, which is currently subsidized by property taxes:
OTHER REVENUES

**Other Government Transfers** - Other government transfers are estimated at $2.7M and include provincial transfers, federal transfers and regional transfers related to the shared service agreements. Government transfers can be considered unconditional and normally fund Operating Expenditures. Conditional funding can be used to funded specific projects. Government transfers with specific service allocations are as follows:

- Small Communities Grant ($355K) – presently allocated to general government services.
- Traffic Fine Revenue Grant ($203K) – presently allocated to offset policing costs, including the victim services program.
- Community Works Gas Tax Grant ($568K) – conditional grant required to be used to fund only infrastructure-related capital projects and presently allocated to the capital sidewalk and/or roadwork/bridge projects.
- Other funding arrangements between the PRRD and the City which includes $268K for the RD Fire Service and $602K for Regional Recreation Requisitions, which currently is one of Council’s strategic priorities to improve the contribution amount.

**Capital government transfers** are conditional grants for specific capital projects. The 2020 projected capital grants (not approved yet) equal $14.36M and include:

(a) the Airport Capital Assistance Program (ACAP) to fund $235K in Drainage;

(b) $5.1M in EEC – Parking & Access Upgrades from Investing in Canada Infrastructure Program (ICIP) funds. Council agreed last year that those capital projects would not happen if the grants are not approved and available to be spent.

(c) $9M for the 96th Ave Paving and Sanitary Upgrades from ICIP Funds.

**Other Revenues**

- Gaming revenues ($678K) - are presently allocated to community grants and other not for profit contracts.

### Table 9 - Airport Services

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Expenses</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018A</td>
<td>308,059</td>
<td>1,283,213</td>
<td>(975,154)</td>
</tr>
<tr>
<td>2019</td>
<td>416,182</td>
<td>1,218,124</td>
<td>(801,942)</td>
</tr>
<tr>
<td>2020</td>
<td>419,205</td>
<td>1,242,486</td>
<td>(823,281)</td>
</tr>
<tr>
<td>2021</td>
<td>422,289</td>
<td>1,267,336</td>
<td>(845,046)</td>
</tr>
<tr>
<td>2022</td>
<td>425,435</td>
<td>1,292,682</td>
<td>(867,247)</td>
</tr>
<tr>
<td>2023</td>
<td>428,644</td>
<td>1,318,536</td>
<td>(889,892)</td>
</tr>
</tbody>
</table>
- Pacific Northern Gas (PNG) Ltd. Franchise Fees ($205K) - There is no specific allocation attached to this revenue source.

- Interest ($103K operating and $277K in Capital) – Council approved an investment Policy in 2019 to help the City obtain better rates in the market. The interest rate has not been changed since October 2018 and GIC (Guaranteed Investment Certificate) rates have been affected at the lowest since March 2019.

CARRY FORWARD SURPLUS AND CAPITAL RESERVE

Carry forward or previous year surplus and capital reserves have been used as a source of funding in calculating the amount required to cover the forecasted spending and to reduce the impact of tax rate changes.

<table>
<thead>
<tr>
<th>Table 12</th>
<th>2017 Actual</th>
<th>2018 Actual</th>
<th>2018 FP</th>
<th>Variance Actual 2018 vs 2017</th>
<th>Variance Budget vs Actual 2018</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Accumulated Surplus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Funds</td>
<td>1,446,043</td>
<td>948,681</td>
<td>400,807</td>
<td>(498,264)</td>
<td>(457,874)</td>
<td>Deficit as a result of lower revenue compared to 2017 actual.</td>
</tr>
<tr>
<td>Water Funds</td>
<td>1,080,239</td>
<td>1,200,378</td>
<td>476,858</td>
<td>120,139</td>
<td>(773,529)</td>
<td>Portion of actual infrastructure allocated to capital was reduced.</td>
</tr>
<tr>
<td>Sewer Funds</td>
<td>1,692,302</td>
<td>2,170,030</td>
<td>299,310</td>
<td>477,728</td>
<td>(1,870,724)</td>
<td></td>
</tr>
<tr>
<td>General Appropriated Funds</td>
<td>1,887,795</td>
<td>1,878,625</td>
<td>1,805,253</td>
<td>(9,160)</td>
<td>15,628</td>
<td></td>
</tr>
<tr>
<td>Sub Total</td>
<td>6,107,281</td>
<td>6,197,724</td>
<td>3,162,228</td>
<td>90,444</td>
<td>(3,055,466)</td>
<td></td>
</tr>
<tr>
<td>Capital Reserves</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Capital Reserve</td>
<td>6,570,463</td>
<td>7,545,404</td>
<td>2,547,314</td>
<td>975,032</td>
<td>(4,090,180)</td>
<td>Actual increase on reserve due to 2018 capital projects carried forward for 2019.</td>
</tr>
<tr>
<td>Flood Mitigation Reserve</td>
<td>-</td>
<td>500,000</td>
<td>500,000</td>
<td>500,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Capital Reserve</td>
<td>3,207,230</td>
<td>2,354,903</td>
<td>837,846</td>
<td>-</td>
<td>(1,052,257)</td>
<td></td>
</tr>
<tr>
<td>Sewer Capital Reserve</td>
<td>3,311,204</td>
<td>3,266,335</td>
<td>846,246</td>
<td>34,131</td>
<td>390,009</td>
<td></td>
</tr>
<tr>
<td>Sub Total</td>
<td>13,098,886</td>
<td>13,465,792</td>
<td>7,542,406</td>
<td>456,406</td>
<td>(5,924,384)</td>
<td></td>
</tr>
<tr>
<td>Statutory Reserve Fund Surplus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment Pool Reserve Fund</td>
<td>445,655</td>
<td>441,282</td>
<td>504,097</td>
<td>(24,377)</td>
<td>152,815</td>
<td></td>
</tr>
<tr>
<td>Other Statutory Reserve Funds</td>
<td>275,383</td>
<td>298,061</td>
<td>293,646</td>
<td>18,676</td>
<td>(14,433)</td>
<td></td>
</tr>
<tr>
<td>Sub Total</td>
<td>720,038</td>
<td>739,343</td>
<td>797,743</td>
<td>(5,695)</td>
<td>18,348</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>19,861,205</td>
<td>20,402,895</td>
<td>11,581,975</td>
<td>541,654</td>
<td>(8,821,484)</td>
<td></td>
</tr>
</tbody>
</table>

Staff is currently working on a Surplus and Reserve Policy to set forth the plan to fund Reserves. The policy would consider limits for using the funds available and the replenishment method of allocation to fund those reserves for future spending. Also, staff identified that approximately $2.5M that are currently in operating funds or capital reserve should be moved to TCA Reserves. At this stage, staff are not able to determine which specific fund (operating or capital funds) have been overstated over the last 18 years and is currently working with the auditors to identify the reason for the overstated funds/reserves and to identify the best course of action to solve this issue.

OPERATING & CAPITAL EXPENDITURE - Spending and Service Provision

Service provision and capital investment spending are determined by Council’s past decisions and commitments then by assumptions. The 2020 original FP used an inflationary forecast of 2%, and the full realization of Council’s initiative in 2019 contributed to a reduction of $198K in total operating
expenditures, totalling $40.65M. Some known 2020 operating expenditures that will increase the need for additional funding are:

✓ Review the Collective Bargaining Agreement in 2020 – Staff is in the beginning of the process the review the collective agreement in 2020.

✓ Renew the Long Term Disability (LTD) - Staff is currently working with the brokers Canwest to renew the current LTD agreement. There is a potential $60K savings by combining medical & dental health with the same provider. Currently, we work with Pacific Blue Cross for medical & dental insurance coverage and with Great West Life for LTD.

✓ Property insurances are expected to increase approximately 17% ($105K) due to a hard market and increase of $20M in additional properties added in 2019.

Historically, City staff manages services costs based on an “envelope basis”. This means that while actual results within line items may be over or under from year to year, managers are accountable to ensure the envelope stays within the budget. For the preparation of the 2020 Financial Plan, staff is currently reviewed each line item and doing the necessary reclassifications and adjustments to reflect the expected expenditure individually and per function.

The operating expenditures are normally analyzed by services provided. During the review of the 2020 Financial Plan, the staff is also closely monitoring and reviewing the different functions per department. The key functions breakdown shows which are the main driven operating expenditures:

<table>
<thead>
<tr>
<th>Expenditures per Functions</th>
<th>2018A</th>
<th>2019</th>
<th>2020</th>
<th>2018A</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, Wages &amp; Employee Benefits</td>
<td>15,597,088</td>
<td>15,667,494</td>
<td>15,919,928</td>
<td>39.7%</td>
<td>38.3%</td>
<td>39.2%</td>
</tr>
<tr>
<td>Contracts &amp; General Services</td>
<td>10,370,098</td>
<td>11,744,381</td>
<td>12,030,374</td>
<td>26.4%</td>
<td>28.7%</td>
<td>29.6%</td>
</tr>
<tr>
<td>Debt Servicing</td>
<td>3,995,814</td>
<td>3,878,058</td>
<td>3,708,682</td>
<td>10.2%</td>
<td>9.5%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Material, Good &amp; Services</td>
<td>2,235,335</td>
<td>2,596,854</td>
<td>2,387,942</td>
<td>5.7%</td>
<td>6.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Utilities</td>
<td>1,773,792</td>
<td>1,778,489</td>
<td>1,750,355</td>
<td>4.5%</td>
<td>4.4%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Equipment Pool Expenditures</td>
<td>1,372,845</td>
<td>1,243,848</td>
<td>1,263,556</td>
<td>3.5%</td>
<td>3.0%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Others</td>
<td>1,302,930</td>
<td>1,296,644</td>
<td>1,312,442</td>
<td>3.3%</td>
<td>3.2%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Repair &amp; Maintenance</td>
<td>1,366,025</td>
<td>1,237,685</td>
<td>1,257,333</td>
<td>3.5%</td>
<td>3.0%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Consulting</td>
<td>577,276</td>
<td>864,200</td>
<td>499,244</td>
<td>1.5%</td>
<td>2.1%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Travel &amp; Training</td>
<td>395,928</td>
<td>390,266</td>
<td>391,931</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Grant and Sponsorship</td>
<td>318,326</td>
<td>158,452</td>
<td>136,362</td>
<td>0.8%</td>
<td>0.4%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Total Operating Expenditures</td>
<td>39,305,357</td>
<td>40,856,371</td>
<td>40,658,149</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

As mentioned above, the preliminary resource allocations and spending amounts will change as the decisions made are considered within the 2020 Plan. Council can reprioritize both funding and spending throughout the process. Additional factors affecting the updated 2020 Plan are described below:
EXTERNAL DRIVERS

Some of the external drivers affecting the Plan for 2020 are as follows:

**CPI** - The consumer price index measures inflationary effects. The BC CPI from August 2018 to August 2019 is 2% compared to the Canadian CPI of 1.9% for the same time period.

**Economy and Market Forces** - Dawson Creek’s economy condition is unknown in relation to the current LNG Kitimat agreement. Monitoring the external environment will be necessary to ensure a flexible and resilient plan going forward.

**Job Market** - Recruitment and retention in the past three years has experienced higher than average pressure. This pressure has dissipated somewhat depending on the position required. The City has implemented a succession plan to reduce risk in this area and is restructuring to allocate resources to areas of higher risk.

**Development Trends and Growth** - In 2019 (up to August), 119 new business licences were issued with 9 new ones in the oilfield industry. In 2018, 147 new business licences were issued with 5 in the oilfield industry. Building permits are down with $8.6M in 2019, compared to $34.5M in 2018. Additionally, 8 new dwellings were added in 2019, compared to 37 in 2018 for the same period. In summary, these statistics suggest that although activity has slowed it has not stopped.

INTERNAL DRIVERS

Some of the internal drivers affecting 2020 spending are as follows:

**Staff Resourcing** has been a challenge in the past year as new employees are coming on board and long term employees are retiring. Changing staff resource structures is often difficult for any organization; however, resource alignment to Council’s strategic plan is critical in moving the organization forward effectively.

**CUPE contract** – The CUPE contract will be renegotiated in 2020.

**IAFF (International Association of Firefighters) Union Contract** – The IAFF contract will be renegotiated in 2020. This adoption of Local 18 wage rates is common practice across the province. The increase can reach from 3.5% to 5%.

**Management and Exempt salaries** – the salary increase for management and exempt salaries are based on the higher of CUPE increased rate or BC CPI inflation, plus 1%.

**Councillor Remuneration** - Mayor and Council remuneration is set by policy. The policy was last amended December 17th with set increases to 2019 and 2020. Beginning in 2021, the amounts will increase by the BC CPI each September automatically. The direct impact of the 1/3 tax-free benefit changes affected the Council’s remuneration and it was reflected in the revised policy. The 2020 rate will be adjusted by 7%, increasing the Mayor’s salary from $70,397 to $75,325 and the Councillors’ remuneration from $23,935 to $25,611.
Community Grants and other Not-for-Profit Group Payments

The 2020 draft plan holds the community grants and sponsorship budget at $12.5K. Up to September 30, 2019, the total community grants not yet used was $12K. Not-for-profit groups receiving a subsidy through cash or in-kind grants include the following:

- South Peace Community Resource Society - Victim Services Program - $36K;
- Step Up and Ride - Transportation Subsidy for Mobility Impaired Persons - $26K;
- South Peace Arts Council - Promotion of the Arts - $1.5K;
- South Peace Historical Society - Rent Subsidy - $6K;
- Public Library - Cash Grant and Payroll payment - $461K;
- Art Gallery - Cash Grant - $21.4K.

Debt Servicing

Assumptions related to debt borrowing and debt servicing follow the guidelines of the Debt Management Policy (Reaffirmed June 15, 2015). Debt servicing costs for 2020 are primarily fixed and composed by interest and principal. Past decisions related to loan authorizations have already been made. The estimate for 2020 debt servicing is $3,633K (a decrease of $169K from 2019). An updated forecast will be provided during the budget process. The total outstanding balance for the Long Term Debt amounted to $27.3M as of December 2018.

Equipment Pool Charges

The 2020 Plan includes $1.8M in equipment pool charges and this amount is expected to increase as new equipment replaces old units. Some cost savings will be realized through lower maintenance charges; however, this will be replaced with a higher replacement charge as pricing for new units continue to rise.

2020-2024 Capital Plan

Preparing the 2020-2024 Proposed Capital Plan begins by using the amounts in the 2019 five year capital plan.

Assumptions related to the capital plan include:

- Allocating resources to 2019 unfinished projects if necessary;
- Allocating resources to new projects prioritized by Council;
- Reprioritizing the original 2020 projects so that resources are allocated to maintaining infrastructure in areas of greatest need (public safety, meeting regulatory requirements, technological advances, and replacement due to rising maintenance costs) and/or commitments to which governments grants have already been approved for; and
- Allocating resources to reserves in the utility funds for future capital upgrades.

The 2019-2023 Capital budget and funding that are the basis for 2020 capital project is as follows:
**Strategic Meeting – Identifying short and long terms opportunities**

The amount that the City Council decides to spend annually on service provision and capital investment is limited by the funding resources that are available. The City staff has organized strategic meetings during the year, to identify opportunities to close or reduce any funding gap created in the current operations budget and future plan. Council has identified four key priorities as part of the 2020 budget:

- Sub-Regional Recreation and Cultural Services Funding:
- Tourism
- Transit
- Fire Department

Staff would like to address that these priorities will set the stage of the budget drafts discussion and Council also should be aware that some of these initiatives may not be fully realizable by 2020.

**CONCLUSION**

In summary, there are many financial assumptions and decisions that affect the Financial Plan. The first stage of the process is for Council to confirm the methodology used to prepare the 2020 Plan and approve the budget timeline.

The main underlying principles and policies do not change unless directed by Council. Council, as the governing body, decides how much and where to spend and allocate City resources for the community; funding resources available must cover those decisions. Staff’s responsibility is to prepare a balanced plan that supports that direction.
None of the assumptions are “fixed” determinations. Council makes the final decision when they adopt the 2020 budget prior to May 15, 2020, after considering the implications of the various assumptions put forward after making many changes to these preliminary directives.

ALTERNATIVES

1. Council can direct staff to change any of the assumptions and/or other information throughout the budget process.

IMPLICATIONS

(1) Social
The five-year plan uses the principles of trust and integrity, inclusivity, creativity, health and lifestyle in addressing the social needs of the community with the overall goal of promoting quality of life.

(2) Environmental
The five-year plan includes principles for demonstrating respect for the future of the earth by promoting recycling and using renewable energy strategies as well as committing resources to the preservation of clean air, water and healthy land.

(3) Personnel
The five-year plan includes resourcing for the people and partner organizations that carry out City services.

(4) Financial
The five-year plan is prepared to ensure that there are sufficient resources to cover spending in the short term as well as the long term.

(5) Risk Assessment
Compliance: Community Charter, Bylaws, City Policy, best practices.
Risk Impact: Low.

Internal Control Process: Providing Council with the Budget Assumptions and Timeline approval early in the process improves planning and clarifies direction. The final budget document provides authority for City spending within the legislated requirements of the Community Charter Section 173.

GUIDING PRINCIPLES
The City’s Vision, Mission and Guiding Principles provide the underlying values used in preparing the City’s 2020 Financial Plan.

STRATEGIC PRIORITIES
Council’s 2019 Strategic Priority.

IMPLEMENTATION/COMMUNICATION
The 2020 Plan is a rolling document; staff will continue to make revisions as directed by Council.

RECOMMENDATION
That Report No. 19-151 from the Chief Financial Officer re: 2020 Budget Assumptions and Timeline Report be received; further, that discussions on the following recommendations be approved as presented below:

1. That the 2020 Budget Timeline be approved as presented.
2. That the 2020 Financial Plan be based on the principles and values included in the City’s Vision, Mission and Guiding Principle documents and other bylaw and policy documents.
3. That the methodology used in preparing the 2020 Financial Plan be based on an integrated and long term approach to setting tax rates, fees and charges and service provision.

Respectfully submitted,

ORIGINAL SIGNED BY

Flavia Rossi Donovan, CPA, CGA, CIA , CFE
Chief Financial Officer

FRD/ev
Attachments:
A - 2020 Budget Timeline
B - Vision Mission Guiding Principles
C – 2019 Council’s Strategic Priorities
D - Revenue Disclosure Policy