



COMMITTEE OF THE WHOLE AGENDA CITY OF MERRITT

Wednesday, October 30, 2019

6:00 P.M.

COUNCIL CHAMBERS, CITY HALL

2185 Voght Street

Merritt, B.C

Mission Statement: *The City of Merritt is a progressive, attractive, economically viable City that is socially responsible and environmentally sustainable.*

Pages

1. CALL TO ORDER

1.1 Call to Order

2. ADOPTION OF MINUTES

3. GENERAL MATTERS - Delegations and Recognitions

4. UNFINISHED BUSINESS

5. NEW BUSINESS

5.1 September 2019 Budget Position Report

2

Recommendation:

THAT Council receive this report for information.

6. INFORMATION ITEMS

6.1 2020 Financial Plan Information

6

7. TERMINATION OF MEETING



Report

City of Merritt
Committee of the Whole
October 30, 2019

File Number: 1870

To: Scott Hildebrand, Chief Administrative Officer
From: Sheila Thiessen, Director of Finance & IT
Date: October 28, 2019
Subject: September 2019 Budget Position Report

RECOMMENDATION:

THAT Council receive this report for information.

Background:

The attached report (Schedule A) covers the period from January 1, 2019 to September 30, 2019 and provides a summary of the actual costs incurred to September 30, 2019 in relation to the budgeted amount. As of the end of September 75% of the year has passed, therefore, it is reasonable to expect that 75% of the expenses will have been incurred.

The report includes the following columns from left to right:

- 2019 Budget – Amounts as per Financial Plan Bylaw 2261, 2019
- 2019 Actuals – Actual Costs incurred up to September 30, 2019
- Percentage of Variance
 - Revenue, a negative % means that all the budgeted revenue has not been received yet.
 - Expenditures, a positive % means that there are funds remaining, at this point in the year it should around 25%
- Details (items to be analyzed further in this report)

Analysis:

- A. **Grant in lieu of taxes**, there is still one payment outstanding. It will be received by year end.
- B. **Provincial Government Grants**, we have received all the annual provincial grants, the outstanding amounts relate to capital projects that will be received once the project is complete.
- C. **Sale of Services**, the second billing for utilities and garbage occurs in October. Therefore, only half of the fees have been collected.
- D. **Other Revenue**, this includes revenues that we receive late in the year, it is anticipated that we will receive all the funds budgeted.
- E. **Protective Services** includes RCMP costs which has only been charged to June 30, 2019 as of September 30.
- F. **Development Services** includes Planning and Economic Development and both departments have operating costs that have not been fully incurred at this point, due to timing with projects etc. It is anticipated that these funds will be mostly used by the end of the year or the projects will be carried forward.
- G. **Water Utility** there are some costs that have not been incurred by September 30, but it is anticipated that most of the funds will be utilized by the end of the year.
- H. **Debt Servicing Costs** are tied to specific payment dates and they are split evenly by Spring and Fall.
- I. **Capital Projects budgeted** include \$3.3 million in capital projects that will be carried over to next year, these include water and sewer main replacements, fire hall expansion, chlorine storage building and the one-ton vehicle that will be delivered early in 2020. All other projects are expected to be complete and within budget by year end.

Other major costs of note are wages, utilities and fuel. The year to date variance for each of these items is as follows:

	Budgeted	YTD Actual	Remaining
Wages	\$5,991,406	\$4,416,854	26%
Fuel	206,000	169,297	18%
Utilities	789,245	513,705	35%

Financial / Risk Implications:

The City's operating costs as of September 30, 2019 have been as anticipated.

Operating costs are where they are expected to be at this time of year.

Overall there is enough funding for the City's annual operations, with no major cost overruns expected.

Attachments:

September 30, 2019 Budget Position Report

Respectfully submitted,

**Sheila Thiessen, CPA, CMA
Director of Finance & IT**

CITY OF MERRITT
2019 Budget To Actuals
As of September 30, 2019

	2019 Annual Budget	2019 Actuals YTD	%
REVENUE			
Taxation, net	7,571,549	7,637,187	0.87%
Parcel taxes	1,231,395	1,233,675	0.19%
1% Utility Tax	154,138	154,138	0.00%
Grants in lieu of taxes	136,500	115,896	-15.09%
Federal government grants	1,500	0	-100.00%
Provincial government grants	1,443,440	796,629	-44.81%
Regional grants	309,866	309,866	0.00%
Sales of services and rentals	4,387,776	2,385,352	-45.64%
Licenses, permits and fines	220,800	170,804	-22.64%
Penalties and interest on taxes	155,000	119,117	-23.15%
Return on investments	225,000	278,423	23.74%
Other revenue	280,500	60,600	-78.40%
Transfer from Utilities	520,000	346,666	-33.33%
Gas Tax Funds	726,149	547,233	-24.64%
	17,363,613	14,155,586	
EXPENDITURE			
Departmental expenditure			
General government	2,175,360	1,639,955	24.61%
Protective services	3,934,794	1,917,812	51.26%
Transportation services	1,830,538	1,389,830	24.08%
Environmental health services	623,465	437,851	29.77%
Development services	699,540	386,903	44.69%
Public health and welfare services	101,435	73,297	27.74%
Recreational and cultural services	2,771,891	2,070,951	25.29%
Water utility	1,204,669	722,602	40.02%
Sewer utility	1,040,320	709,281	31.82%
Debt servicing costs	308,414	273,323	11.38%
Bank charges	15,000	16,153	-7.69%
	14,705,426	9,637,958	
Surplus (Deficit for the year)	2,658,187	4,517,628	
Adjust for Cash Items			
MFA debt principal payments	(360,399)	(288,301)	20.01%
Short term debt principal payments	(76,389)	(83,519)	-9.33%
Capital expenditures	(8,146,502)	(2,172,137)	73.34%
Transfer from (to) reserve for future	675,865	0	100.00%
Transfer (to) from reserve funds	386,732	0	100.00%
Transfer from prior years surplus	2,053,006	0	100.00%
Proceeds from debt	2,809,500	300,000	89.32%
	(2,658,187)	(2,243,957)	
Financial Plan Balance	0	2,273,671	



2020 Financial Plan Information

Introduction

This guide has been developed to assist Council with 2020 – 2024 Financial Plan budget deliberations. The guide will support the budget process by providing background information, municipal finance regulations and the current status of the City of Merritt's financial position, including reserves and surpluses.

Background

Every year, municipalities are required to adopt a Five Year Financial Plan Bylaw that includes:

A schedule that shows:

Proposed expenditures including separate amounts for

- Interest and principal on debt
- Capital purposes

Proposed funding sources including separate amounts for

- Property taxes
- Fees and Charges
- Proceeds from borrowing and
- Revenue from other sources

Proposed transfers between funds, including accumulated surplus and reserve funds.

Each year of the financial plan must be balanced, there can be no deficits or surpluses.

The Financial Plan must also include the municipality's objectives and policies in relation to the following:

- The proportional distribution of the sources of funding
- Distribution of property taxes collected from the various assessment classes
- The use of permissive tax exemptions

The Five Year Financial Plan Bylaw must be adopted before the annual Property Tax Bylaw, which is required to be adopted by May 15. Once adopted the Financial Plan Bylaw provides the expenditure authority for the local municipality. The adopted Financial Plan can be amended by Bylaw if required.

Once the Financial Plan Bylaw is developed the Annual Tax Rate Bylaw is required to establish how the property value taxes are to be collected from the municipality's taxable properties. How the tax burden is distributed across the assessment classes is a result of Council's tax policy which establishes the rates charged.

Budget Foundation

The 2020 – 2024 Financial Plan is being prepared based on the 2019 – 2023 Financial Plan and will incorporate the following:

- Contracted increases for wages, rentals and contractors
 - 2% CUPE per collective agreement
- Increases when indicated for utilities, currently there are no identified increases expected for Hydro or Natural Gas at this point in time

The budget will be presented with the changes to services levels and increases and decreases from the 2019 – 2023 Plan highlighted. In addition, all capital projects not already committed or begun will be reviewed with staff and Council.

Assessment Information

BC Assessment maintains assessments throughout the Province for property taxation purposes. The completed roll is released in January of each year, after which property owners have an opportunity to appeal their assessments. Once the appeal process is completed, BC Assessment releases the revised roll, which provides the values that the municipality uses to collect their property value taxes.

The City of Merritt will use the revised roll for discussion purposes, but will not be able to finalize the tax policy and Bylaw until the completed roll is released early in April.

Increases related to new construction, changes in assessment class and other changes picked up through BC Assessment's review process are called non market change (NMC) and will be separated for discussion purposes.

Tax Rates

During budget deliberations, often the term tax increase is used. Generally, Council is looking at the overall amount of taxes collected. The media and the public often compare the actual tax rate. It is important to identify what is intended.

It is possible to increase the overall amount of taxes without increasing the tax rate if there has been an increase in assessments, usually with growth and development.

The formula for calculating property tax rates is:

$$\text{Tax rate} = \text{Tax Revenue} / \text{Assessed Value}$$

Tax rates are expressed as rate per \$1,000 of assessed value.

Generating \$200,000 in taxes from \$10,000,000 in assessed residential properties would result with a:

$$\$20 \text{ tax rate} = \$200,000 / \$10,000,000$$

A house worth \$100,000 would pay \$2,000 in taxes

Reducing the tax rate to \$10 with the same assessment would result in generating \$100,000.

A house worth \$100,000 would pay \$1,000 in taxes

Property Classes and Multiples

There are seven different property classes in Merritt. In order to allocate the taxes collected across the different classes of property, different rates are calculated using multiples.

The base for the multiples is the residential tax rate. The chart below depicts the multiples used in 2019 in Merritt and the provincial multiples that are fixed for all taxes other than municipal taxes. The multiples haven't changed in several years, other than the one for utilities, as the rate is capped at 40.00.

Assessment Class	2019 Multiples (Merritt)	Provincial Multiples
Residential	1.000	1.00
Utilities	7.71	3.50
Heavy Industry	12.704	3.40
Light Industry	5.899	3.40
Business	3.028	2.45
Recreation	1.208	1.00
Farm	4.655	1.00

The following chart shows the history of the tax rates for the City of Merritt for the last 7 years. Provincial legislation limits the rate for the Utility class to 40.00 per thousand. A 1% increase in property taxes would raise around \$80,000.

	Residential	Utilities	Heavy Industry	Light Industry	Business	Recreation	Farm
2013	4.7752	39.1887	60.1402	30.3912	15.7407	6.7541	23.0669
2014	4.9595	40.1323	64.6173	29.9752	16.0539	6.8888	23.5279
2015	5.1555	39.0273	65.4955	30.4123	15.6109	6.2278	23.9989
2016	5.2457	40	66.6416	30.9445	15.884	6.3368	24.4188
2017	5.3244	40	67.6412	31.4086	16.1223	6.4319	24.7851
2018	5.3244	40	67.6412	31.4086	16.1223	6.4319	24.7851
2019	5.179	39.9301	65.7941	30.5509	15.682	6.2562	24.1083

Tax Distribution (burden)

The tax burden is distributed amongst the different property classes through the setting of tax rates.

The table below depicts the distribution over the past 5 years.

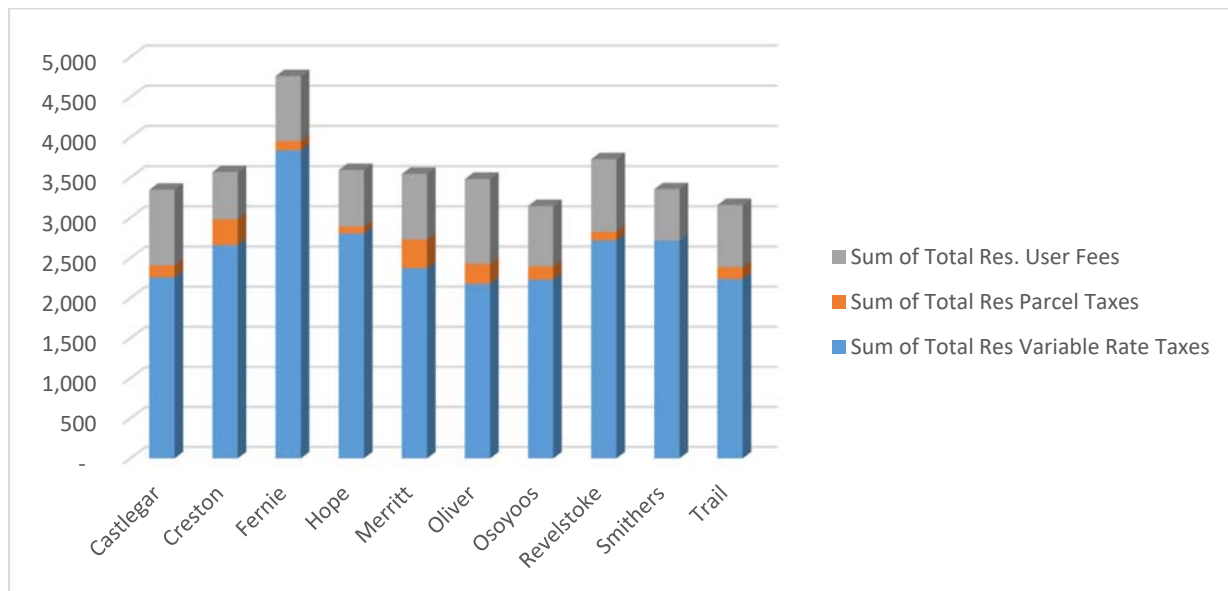
Class	2019	2018	2017	2016	2015
Residential	54%	45%	43%	44%	47%
Utilities	2%	11%	10%	7%	1%
Heavy Industrial	10%	12%	15%	17%	19%
Light Industrial	2%	2%	3%	3%	3%
Business	32%	30%	29%	29%	30%
Recreation	0%	0%	0%	0%	0%
Farm	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%

In the past 5 years, the Residential class saw a decrease in its tax burden as the Utility class increased as Merritt Green Energy (MGE) was built. The increase in Utility class offset the decreasing Heavy Industrial with the closure of Tolko until 2019, when the permissive tax exemption for MGE took effect, and the burden shifted largely to the Residential class, with a smaller increase to the Business class.

Tax Rate Comparisons

Each municipality has a different distribution of assessment value over the property classes and different infrastructure. That is important to take into account when comparing property tax rates.

The following chart shows tax rates along with the total taxes paid for an average house within different communities in 2019.



Regional Funding

The City has agreements with the Thompson Nicola Regional District (TNRD) to provide funding for services which their taxpayers utilize. The 2020 amount for each service is:

Fire	\$ 76,333
Recreation	\$ 66,623
NVAC	\$156,175

The annual funding amounts are set out in agreements, which will expire at the end of 2023, except for Fire which is currently under review.

Grant Funding

There are two primary types of grant funding:

Conditional:

The funding is provided for a specific purpose and is required to be spent within a defined time frame. Conditional grants generally have stringent reporting requirements.

- The Canada 150 (Western Diversification Grant) for the replacement of the Aquatic Centre roof is an example.

Non-Conditional:

The funding provided may have guidelines and reporting requirements, but Council may exercise discretion in how the funds are spent.

- The Small Community Grant Funding and Traffic Fine Sharing funding are good examples of non-conditional funding.

DCC's

Development Cost Charges (DCC's) are collected at the time of a new development to help cover the costs of new and improved infrastructure that will be required as a result of the demands of the new development. Development Cost Charge Bylaw, No. 1964, 2007, provides details of the amounts to be collected and what projects the funding is dedicated to. The funds collected are held and can only be expended on those projects identified in the bylaw.

User Fees

In addition to taxes and grant funding, the City charges user fees for City services and utilities. The Fees and Charges Bylaw lists most of these charges.

Surpluses and Reserves

Municipalities are not allowed to budget deficits, resulting in financial plans that generally are based on conservative revenue estimates and expenses estimates that are intended to cover uncontrolled increases. This often results in modest surpluses year after year.

General, Water, Sewer and Transit fund surpluses are retained to:

- Reduce the need to borrow temporarily before annual property taxes are collected
- Provide funds that may be used in the event of emergencies
- Provide stability in tax levels

Many municipalities have policies that provide desired levels for surpluses and reserves based on best practices or local requirements.

The City of Merritt also has statutory reserves and non-statutory reserves. A more detailed report on the Reserves and Surpluses will be presented during the budgeting process.

Investments

Municipalities have restrictions on how they can invest their funds, in order to limit the risk to the principal.

Part of the financial planning process is to consider the cash flow and make sure that funds will be available as needed, while earning the best rate of return possible.

The City invests its surplus funds with the Municipal Finance Authority and has in the past done term deposits with some banks.

Debt Servicing

A municipality's ability to use debt is subject to liability servicing limits. The use of debt also requires elector approval if it is:

- A loan guarantee or of a capital nature; and
- The agreement is for more than five years; or
- Would be for more than five years if extensions were exercised.

The liability servicing limit is determined by a calculation that takes into account the controllable revenues and size of the industrial tax base. As of the end of 2018, the City's debt servicing limit was \$4,155,571 with \$1,053,201 being used, leaving \$3,102,370 in available capacity.

The annual cost of borrowing \$100,000 through the MFA at current rates is:

Term	Principal & Interest	Interest Rate
5 years	\$21,295	2.27%
10 years	\$11,446	2.52%

Tax Exemptions

The City has two different tax exemption programs.

1. Permissive Tax Exemptions:

- The City recognizes the importance of places of worship and other non-profit organizations to the community and provides permissive exemptions which eliminate or reduce property taxes payable by those groups. Council approves the permissive tax exemptions annually.
- Churches already receive a statutory exemption for the church building and the land beneath the church. The permissive exemptions are for the parking lots and other buildings (halls).
- Exempts all taxes including TNRD, School and Hospital. Parcel taxes and utility charges are not exempted.

2. Revitalization Tax Exemptions:

- Are available for projects that meet the criteria laid out in the Bylaws, Council retains the approval rights for these exemptions that provide an exemption for Municipal taxes only and are on improvements only. Currently, the revitalization tax exemptions are limited to 4 years.
- Exempts only the municipal portion of the property tax bill.

Segmented Expenditure Reporting

The expenditure portion of both the Financial Plan Bylaw and Financial Statements is divided by functional areas. How the functions are grouped for reporting follows a municipal model, which allows for comparability between municipalities. The segments are as follows:

General Government

Legislative, administration, finance, human resources and information technology.

Protective Services

Policing, fire protection, emergency services, building inspection and bylaw enforcement.

Transportation

Public works, roads, airport and transit.

Environmental Health Services

Solid waste management.

Development Services

Planning and economic development.

Public Health and Welfare Services

Cemetery, air quality and mosquito control.

Recreation and Cultural Services

Nicola Valley Memorial Arena, Nicola Valley Aquatic Centre, Civic Centre, recreation programming, parks and playgrounds and facilities.

Water Utility

Sewer Utility

Staffing

Management is currently reviewing all staffing requirements and requests as part of the budget preparation process.