

# Report

City of Merritt  
Committee of the Whole  
March 3, 2020

File Number: 1700

**To:** Scott Hildebrand, Chief Administrative Officer  
**From:** Sheila Thiessen, Director of Finance & IT  
**Date:** February 27, 2020  
**Subject:** 2020 – 2024 Draft Financial Plan

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**RECOMMENDATION:**

**THAT the Committee provide staff with direction to prepare the 2020 – 2024 Financial Plan Bylaw to be considered at a regular council meeting in April.**

**Background:**

Staff has prepared the draft financial plan schedules incorporating the following assumptions and estimations:

- Department heads have reviewed the activity for the past three or four years and have adjusted budget lines where appropriate. These adjustments were decreases in most cases.
- Salaries and Wages have been adjusted as per contracts and post 2020 have been increased by 2% per year.
- Revenues have been reviewed and have been adjusted where appropriate.
  - Using contracted increases where applicable
  - Estimate of growth in the City of 1 to 2% for revenues tied to the number of homes, residents and businesses.
- Utilities (phone, hydro and natural gas) have been adjusted by up to 2%
- A Sponsorship budget of \$15,000 has been included
- A line item has been added for funding for the Arts Council in the amount of \$5,000.
- Cost of borrowing has been included for all current and impending debts, including the long-term debt for the Fire Hall over all 5 years of the plan.
- Staff has reviewed the budget line by line and has adjusted in the following areas

- Staff development
- Contracted services
- Other areas as required
- The draft plan includes capital projects that are;
  - Carried forward from 2019
  - Previously approved
  - Ongoing capital projects
- The draft budget does not have any staffing level increases included; Schedule H shows the cost of proposed increases for Council's consideration.
- Property Taxes to be collected have been calculated for 2020 using the following scenario:
  - Total taxes collected for general purposes are 4% more than 2019, as a result of increased assessments, including a portion of the previously exempt Utility class being included.
  - Tax rates (not including the utility class) have been reduced by 5.95% and an average house that was assessed at \$266,000 in 2019 and increased in assessed value by 8-9% to \$289,000 will be paying an additional \$30, equating to a net increase of 2.18% in taxes paid.
  - For 2021 and forward, general property taxes have been increased by 2%, in addition to the recapture of the taxes forgone in the Utility class.
  - Total taxes for transit have been increased by 2%, which would result in an average house paying an additional \$2.48 for 2020.

Staff has used these estimations and assumptions to develop the base budget, Council is requested to provide input and direction on the final budget. That could include providing direction on changing any of the above assumptions and estimates if Council desires.

### **Options / discussion:**

Staff has provided a list of proposed projects (Schedule G) for Council to consider. Capital projects that are a higher priority are highlighted in green. Schedule H provides details on the operating requests listed on the bottom of Schedule G.

The final budget will include the projects that Council indicates to staff that they want to proceed with.

Council may request an additional meeting if further information is required.

The tax rate discussion will be finalized once the revised roll is prepared by BC Assessment.

### **Financial / Risk Implications:**

The financial plan includes the use of surpluses to fund some operating expenses and capital projects.

The table below shows the Estimated Reserve and Surplus Balances as of December 31, 2019. They will be finalized with the completion of the year end audit.

The Gas Tax reserve is listed under the General Fund but is available for all funds if the projects meet the eligibility criteria.

The Reserve for Future Expenditures is a non statutory reserve and can be reallocated to statutory reserves when the Reserve and Surplus policy is updated. Currently, it is only being used for the projects that the funding was set aside for.

Some of the intended projects have been set aside over time or are no longer needed, so these funds can be used to establish our statutory capital replacement reserves.

The General and Transit funds drew down on the unrestricted surplus as budgeted, whereas the 2019 surpluses in the water and sewer funds will be added to the unrestricted surplus.

		<b>General Fund</b>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Transit Fund</b>	<b>Total</b>
Unrestricted Surplus		3,281,257	1,026,721	3,661,082	173,213	<b>8,142,273</b>
2019 Estimated Activity		(746,967)	454,714	130,449	(34,024)	<b>(195,828)</b>
		2,534,290	1,481,435	3,791,531	139,189	7,946,445
<b>Statutory Reserves</b>						
Capital Works and Machinery		685,129	8,651	9,371		<b>703,151</b>
Sale of City Owned Lands		12,879				<b>12,879</b>
Parking		74,360				<b>74,360</b>
<b>Non Statutory Reserves</b>						
Reserve for Future Expenditures		1,725,424	439,070	1,273,522		<b>3,438,015</b>
<b>Gas Tax Reserve</b>		2,536,302				<b>2,536,302</b>
<b>Total</b>		<b>7,568,383</b>	<b>1,929,156</b>	<b>5,074,424</b>	<b>139,189</b>	<b>14,711,152</b>

At the bottom of each Schedule A-E you will see a table showing the impact of the budget on the unrestricted surplus balances from 2020 to 2024.

On Schedule G there is a table that is labeled Funding Impacts and it shows the impact of the proposed funding model on the Unrestricted Surplus balances by fund. The committed expenditures refer to the funding of the Capital Projects listed on Schedule F.

The 2020 Revenue (uses) shows the 2020 gas tax revenue and the impact of the operating budget on the surplus balances.

- Revenue doesn't cover the operating expenses in the general and transit fund, therefore, there is a (Use) or draw down of the surplus funds.

- Water and sewer both have enough revenue to cover the budgeted operating expenses in 2020 and therefore will add to the surplus, that will in turn be used to cover capital costs.

The next two lines show the proposed funding for the capital items on the top of Schedule G. Once Council has provided direction to staff, they can be incorporated into the financial plan.

Some points to consider:

1. Depending on surpluses for operating costs is not recommended, as at some point the surpluses will be depleted.
  - a. As the use of surplus for operations is currently due to revitalization tax exemption which has an end date, this is acceptable.
2. If revenues do not cover the cost of operations and capital replacement plans, then revenues need to be reviewed.
3. For ongoing costs, the funding should come from property taxes and user fees.
4. Grants and debt financing should be used primarily for capital or one-off items.
  - a. The exception would be grant funding that comes from the province that is guaranteed on an annual basis, like the small community fund and traffic fine sharing revenue.

### **Attachments:**

- A. A consolidated 2020-2024 Draft Financial Plan including 2019 Actuals and Amended Budget for all funds.
- B. 2020-2024 Draft Financial Plan including 2019 Actuals and Amended Budget for General Fund
- C. 2020-2024 Draft Financial Plan including 2019 Actuals and Amended Budget for Water Fund
- D. 2020-2024 Draft Financial Plan including 2019 Actuals and Amended Budget for Sewer Fund
- E. 2020-2024 Draft Financial Plan including 2019 Actuals and Amended Budget for Transit Fund
- F. **Committed Projects** – a listing of all the carry forward projects from 2019, annual recurring projects, water and sewer projects showing recommended funding
  - a. This listing includes the Voght Street Flood Infrastructure Mitigation Project, as it is using recurring funding and will be proceeded with in 2020
  - b. **These items have been included in the Schedules A-F.**
- G. **Proposed Projects** – listing of capital projects and operating items requested by staff, with recommended funding highlighted.
  - a. Items on the capital list highlighted in green are ones that have been determined to be higher priority.
  - b. At the bottom of the sheet is a summary that shows the opening balances of the unrestricted surplus and reserves, broken down by fund.

- i. This summary provides the calculation of the impact of the funding allocations
  - 1. The dark grey rows in the Funding Impact table are funding amounts that would have to added to the Schedules A-E upon Councils direction.

**H. Operating Budget Requests** – provides more detail on the operating requests from staff and the recommendation brought forward for Council’s consideration.

**Respectfully submitted,**

**Sheila Thiessen**  
**Director of Finance & IT**