CITY OF FERNIE
BRITISH COLUMBIA

REQUEST FOR DECISION (RFD)

Date: November 26, 2024

To: His Worship Mayor Milligan and Members of Council

From: Bryn Burditt, Director of Finance

Subject: 2025-2029 Financial Plan – Initial Draft Tax Rate Increase

RECOMMENDATION

THAT Council provide input to and recommendations for the initial draft tax rate increase for the 2025-2029 Financial Plan

PURPOSE

The purpose of a continued check-in and review with Council is to provide ongoing guidance for staff as they continue to work through the 2025-2029 Financial Plan process and to seek Council's feedback on the initial draft tax rate increase.

Presented as part of this report is the most current information on the 2025 operating budget, and also the information available on our capital plan & reserve contribution levels.

BACKGROUND

The financial planning process is to determine how the limited resources of the City, both financial and human, are to be allocated and used. Council is entrusted with significant public tax revenues. Establishing how these funds are to be used and reported-on is a way to demonstrate fiscal responsibility, stewardship of public assets, and accountability to the public.

The operating budget is developed for a 5-year period. The capital and reserve fund budgets are developed for a 20-year period, and while typically Council would only see a 5-year outlook, staff will present a 20-year reserve projection as part of this report.

There were 10 financial plan guidelines presented to Council at the October 22, 2024 Regular Meeting of Council. This report discusses, in more detail, the guidelines around Service Levels & Staffing, as well as Reserves.

Reviewed by:			
Chief Administrative Officer	Corporate Officer	Director of Finance	Other:

Initial Draft Tax Increase

The 2025-2029 Financial Plan has thus far been developed based on existing service levels & staffing levels, as well as consistent contributions to reserve amounts from the 2024 Financial Plan.

With current available figures, the initial draft tax increase, before any changes to service levels or additional initiatives, is approximately 7.8%. Some key drivers of this increase include:

- COVID Safe Restart Grant & it's relationship with reserves – This was used in 2024 to offset the increased costs at the pool, but the tax increase was kept the same, and the additional tax revenue of ~ $297k was then put into the General Capital Reserve. This increased contribution amount to the General Capital Reserve is included in the 7.8% tax increase.
    - For additional clarity, this $297k amounts to 3.15% of the 7.8% tax increase
- Contractual agreements – an estimate to wage increases related to the Exempt Compensation Policy & the two collective bargaining agreements accounts for a large portion of the increase so far

Asset Management Investment Plan & 20-year reserve projection

Staff have utilized the available data on our assets and prepared a high-level 20-year reserve projection for Council. This projection forms Attachment 1 to this report. Much of this data is from our 2018 Asset Management Investment Plan (AMIP), further informed by additional plans and condition assessments, and has been adjusted for inflationary estimates.

There are a few points of interest regarding this data from the AMIP, including:

- Values used in the AMIP report for municipal facilities were typically their insurance replacement values, and therefore are proving to be much lower than is reasonable. For example, firehall replacement in the AMIP data was set at $2M, vs. the recent Class E estimate of ~$20.5M
    - Staff, when preparing this report, used most of these AMIP figures, but they have been adjusted for inflation.
    - This means the ending reserve balance projections for facilities are likely much higher than they should be. because the actual replacement costs will likely be much higher than currently accounted for due to inflationary increases over the last few years.
- AMIP mainly provides a high-level re-investment outlook.
    - Actual capital replacement and improvement projects are identified through additional assessment, planning and design work such as the 2020 integrated infrastructure capital plan (IICP) for linear assets.
    - Staff are investing a considerable amount of time in building a more detailed 5-, 10-, and 20-year capital plan that covers more than just end-of-life replacement.
    - Facilities are a noted gap in the AMIP, and the facility assessments that form part of the 2024 financial plan are underway for leased municipal facilities and more are being scoped and costed to accompany and build on exiting assessments.

Council directed staff to use the average annual life cycle (AALCI) re-investment approach with a risk tolerance of 25% increase in asset expected life from the 2018 Asset Management Investment Plan (AMIP) which recommended the following contributions to reserves (Scenario 2).

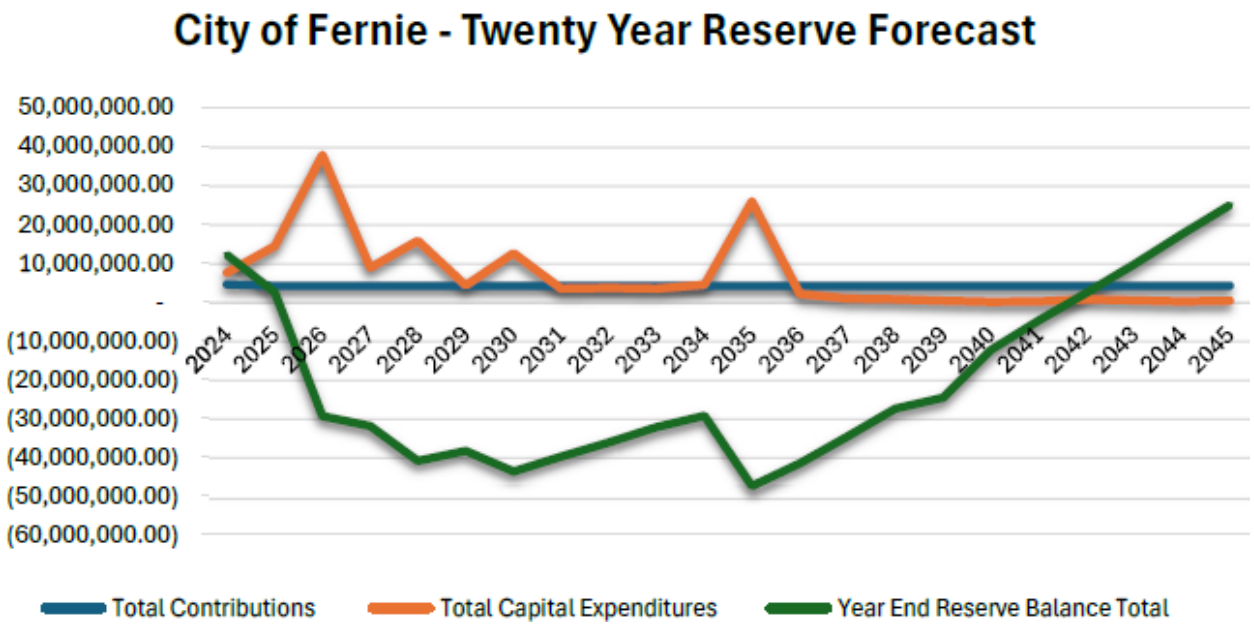
Average Annual Life Cycle Investment			
Asset Category	Scenario 1: Standard Service Life (SL)	Scenario 2: SL Increased by 25%	Scenario 3: SL Increased by 50%
General Fund			
Road	$1,536,000	$1,224,000	$1,023,000
Buildings	$1,171,000	$938,000	$781,000
Fleet	$1,317,000	$1,053,000	$878,000
Equipment	$282,000	$226,000	$188,000
Storm	$356,000	$285,000	$239,000
Total	**$4,662,000**	**$3,726,000**	**$3,109,000**
Water	$780,000	$622,000	$521,000
Wastewater	$575,000	$460,000	$384,000
Total	**$6,017,000**	**$4,808,000**	**$4,014,000**

Since the discovery of the need to address the funding structure for the Operations Facility in 2020 & alongside the 2021 budget cycle, the City has had reduced funding for these reserves due to debt-repayment for the new facility, and the financial restructuring.

For 2024 our contributions were as follows:

2024 Budgeted Contributions to Reserves		
General Fund		Amount
Road	$	700,000
Facilities	$	500,000
Fleet	$	900,000
Equipment		grouped in fleet
Storm	$	150,000
Total	**$**	**2,250,000**
Water	$	683,280
Wastewater	$	658,980
Total	**$**	**3,592,260**

The City of Fernie 20-year reserve forecast is below:



Of note here is that our current AMIP & IICP only provide asset replacement information through 2038, which is why reserves appear to increase at that time. More work will need to be completed in the coming years to gather additional data on our assets.

The intent of this report is purely to provide Council with as much information as possible based on the data that is available to us today, which in many areas (post AMIP & IICP plans, facility assessments, etc.), is incomplete. As a result, staff believes this green line is significantly lower than it appears on this graph.

This green line is significant, and will have to be managed carefully over the years through many different efforts, including, but not limited to:

1) Grant applications
2) Increased contributions to reserves
3) Careful selection of capital projects
4) Service reviews and service level changes
5) Political advocacy for new, stable funding and revenue streams outside of property taxation

Draft Financial Plan Timeline

2025-2029 Financial Plan Tentative Timeline		
Date	**Meeting**	**Budget Component**
October 22, 2024	Regular Council Meeting	Policies and Development Guidelines
November 26, 2024	Regular Council Meeting	Mid-budget-process check-in 20-year reserve projection - draft tax rate
Late-January / Early Feb 2025	Special Meetings of Council	Department Overview and Operating Budget
Late-January / Early Feb 2025	Special Meetings of Council	5-Year Capital Plan
Mid-February 2025	Public Open House (Senior's Centre)	Public input 6:00 pm to 8:00 pm
February 25, 2025	Regular Council Meeting	Draft 1 Financial Plan
March 11, 2025	Regular Council Meeting	1st & 2nd readings
March 18, 2025	Special Meeting of Council	3rd reading
March 25, 2025	Regular Council Meeting	Adoption

INTERNAL CIRCULATION

This report has been circulated to the Director of Asset Management for review..

LEGAL/STATUTORY AUTHORITY

Section 165 of the *Community Charter* outlines the parameters for the creation of a Five-year Financial Plan.

The financial plan must be adopted by council before the Annual Tax Rate bylaw. The deadline to adopt the Annual Tax Rate bylaw is May 15 each year.

LEGAL/STATUTORY PROCEDURAL REQUIREMENTS

Section 165 of the *Community Charter*, specifies that a municipality must have a financial plan that is adopted annually, by bylaw, before the annual property tax bylaw is adopted, which can be no later than May 15 each year. All proposed expenditures, funding sources and transfers to or between funds must be included in the plan. Legislation requires Council to also make explicit statements about each of the following:

- The proportions of revenue proposed to come from various funding sources
- The distribution of property taxes among property classes; and
- The use of permissive tax exemptions.

COMPLIANCE WITH CORPORATE STRATEGIES & POLICIES

To create long term financial sustainability, preparing a twenty-year reserve forecast helps support Council in confirming a reserve contribution option that reflects an ongoing commitment to long-term financial sustainability across all areas of the organization while investing in assets and delivering services aligned with community needs.

By providing budget policy and development guidelines, the City will align its service programs, strategies, and projects with Council Strategic Plan and be required to identify how each program supports the stated priorities. This supports Council in its decision with significant public tax

revenues. Establishing how these funds are to be used and reported on is a way to demonstrate fiscal responsibility, stewardship of public assets, and accountability to the public.

Bringing back a policy lens to the budget cycle allows us to establish a consistent approach to the budget. The recommended guidelines will create focus and transparency on how we prepare the budget for your consideration.

FINANCIAL/BUDGETARY CONSIDERATIONS

The financial plan bylaw will summarize the City's Five-year Financial Plan and will include the estimated revenues and planned expenditures for all functions of the City.

EXTERNAL AGENCY/PUBLIC COMMENTS

A draft timeline is included as part of this report. Between this report and January, staff will work internally to compile the 2025-2029 Financial Plan. The next scheduled Council meeting specific to the budget is in mid-January 2025, and will cover the operational and capital plans for Council's consideration.

COMMUNICATION CONSIDERATIONS

Staff will prepare a budget-at-a-glance that will be published before the public open house, which is tentatively scheduled for January 29, 2025. All materials developed will include a focus on the Council Strategic Plan and how it is being actioned within the budget.

Promotion of the budget consultation will be initiated in print in the paper as well as online on our website and social media.

OPTIONS

1. THAT Council provide input to and recommendations for the initial draft tax rate increase for the 2025-2029 Financial Plan.
2. Refer the matter back to staff for further review and report.

CONCLUSION

The purpose of continuous review for the 2025-2029 Financial Plan is to formalize Council expectations, to provide a framework in which the financial plan can be developed and receiving Council feedback on the initial draft tax increase.

Respectfully submitted,



Attachments

1. Twenty Year Reserve Forecast
2. AMIP

3. IICP