

The Corporation of the City of Nelson



CITY OF NELSON

2018-2022 Proposed
Draft Financial Plan
March 7, 2018



CITY OF NELSON

Agenda

1. Introduction
2. Quick Facts
3. 2018 – 2022 Financial Plan Process
4. 2018 Budget Overview
5. Taxation & Operating Budget
6. City Assets/Reserves/Debt
7. Comments & Questions

Presenter: Colin McClure, Chief Financial Officer



2015-2018 Strategic Plan

NELSON

Our Vision for the Future

*Nelson is a prosperous and resilient
community with robust ecosystems
and safe, welcoming
neighbourhoods where diversity,
history and culture are celebrated.*



Our Vision

is supported by four Strategic Goals

**Enhance Sustainability of City
Services and Infrastructure**

Strengthen Neighbourhoods

**Expand Local Jobs,
Local Prosperity**

**Achieve Excellence in
City Governance**

Each goal identifies what we hope to achieve, communicates how we plan to achieve it and how we will measure success. To implement the Strategic Plan and link it to departmental work plans, the City develops annual Business Plan priorities and budgets to identify the specific actions and resources required to carry out the identified goals and achievements.

The City's Annual Report identifies progress towards meeting the goals in the Strategic Plan

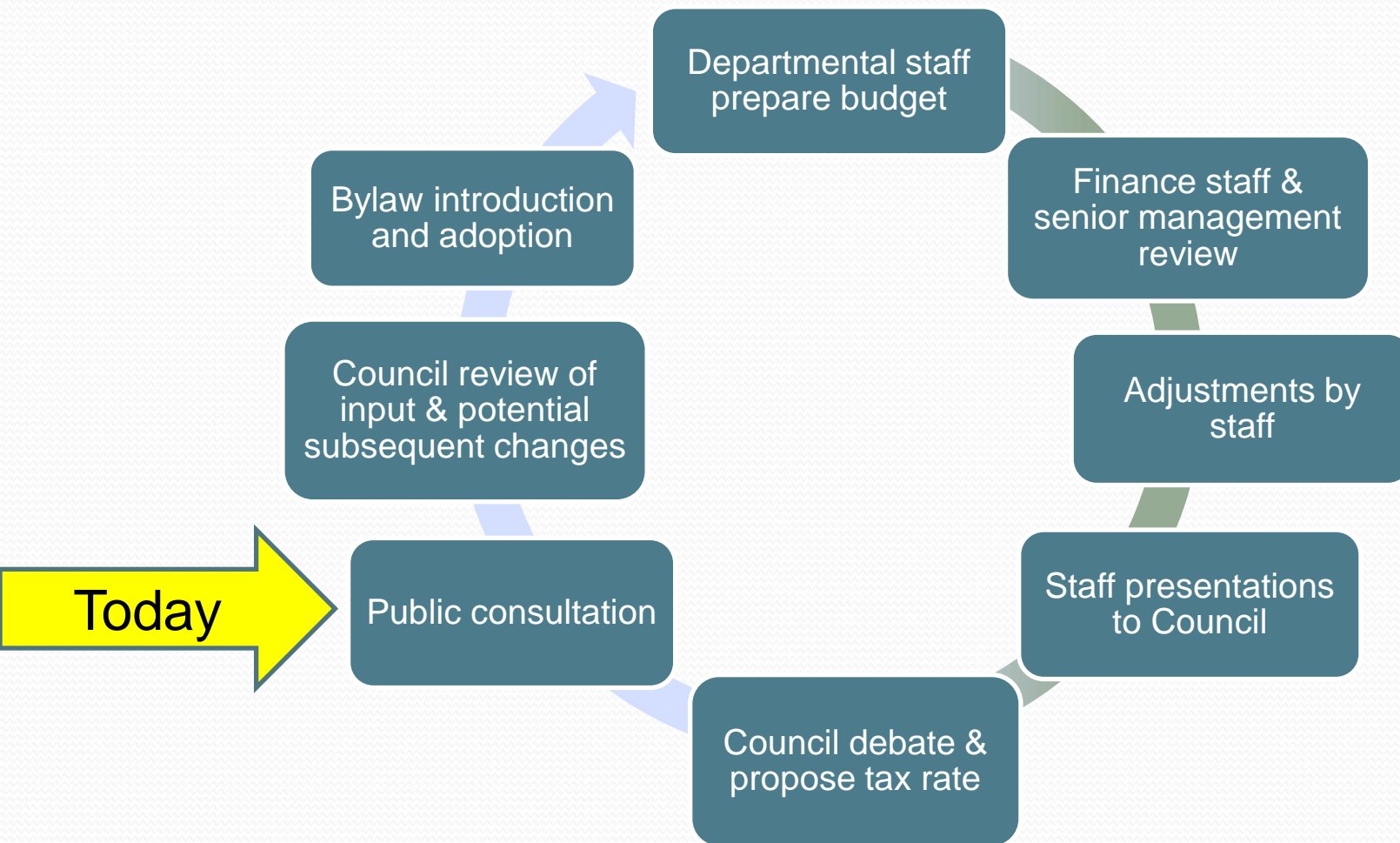
2018-2022 Proposed Financial Plan

- Financial Planning – Process, Environment & Direction
- Five Year Plan Overview and Quick Facts
- Operating Costs
- Funding Sources – User Fees, Debt, Reserves & Taxation
- Utilities, City Assets & the Capital Budget

Financial Planning Process



CITY OF NELSON



Financial Planning Environment

- Economic performance in BC expected to be 2.7% in 2018
- Shifting of responsibilities/downloading
- Public demand for services
- Increasing demands on aging infrastructure and the need to address this issue
- Sustainability & GHG Reduction Plans
- Long term planning
- Current and potential new private development will assist in generating new market construction taxation revenue
- Reduced interest earned on investments

Budget Principles

Council's Direction to Staff

- Support delivery of municipal services
- Maintain services delivered at 2017 levels
- Reduce costs of service delivery, where possible, while minimizing service impact levels
- Generate new revenue
- Minimize tax rate increase
- Long term planning as a focus
- Continue utility infrastructure program
- Address roads & facilities infrastructure deficit
- Implement sustainability principles

All City Departments

Revenue Sources

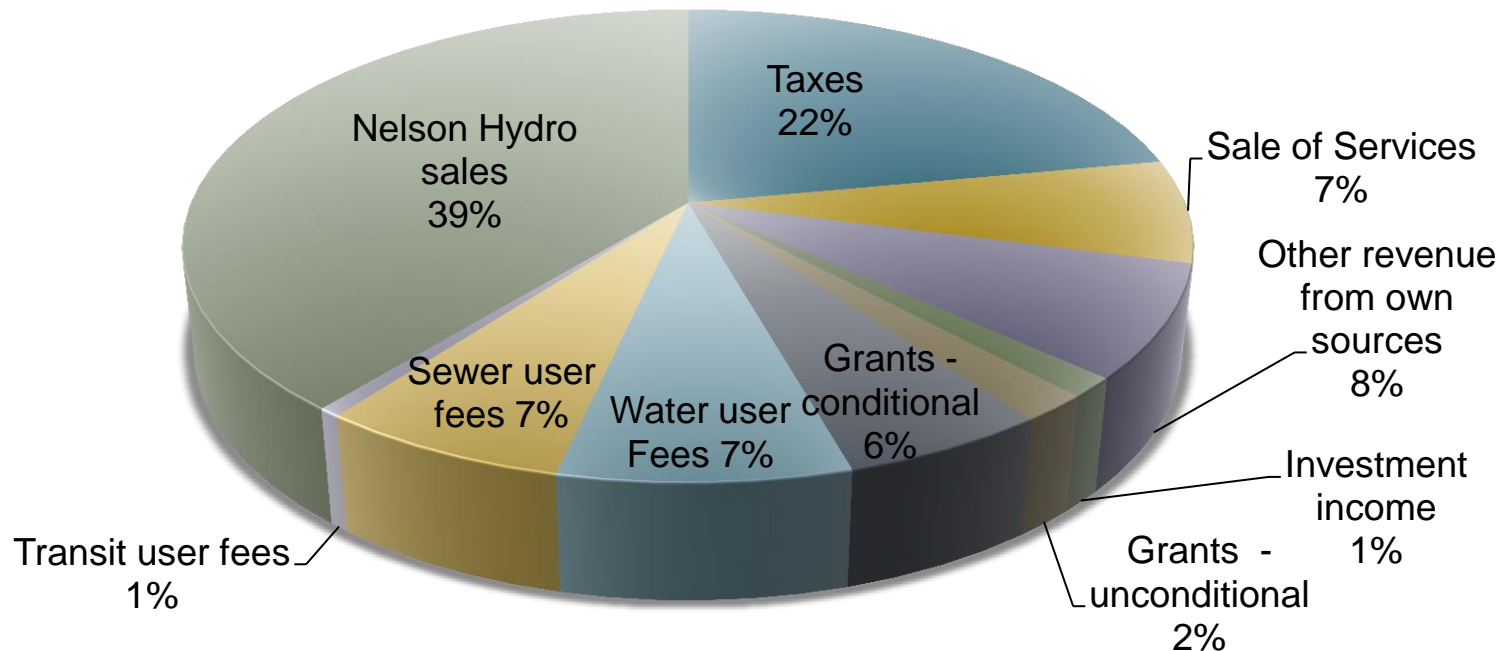
Operating Expenses

Quick Facts

- All City operational revenue \$43 Million
- Total operational expenses \$38 Million
- Revenue over expenses pay down debt & flow into Operational and Capital reserves
- General Fund Operational expense and allocations to reserves is budgeted at \$20.7 M in 2018, funded by \$10.2M in Taxation (approx. 2 to 1 ratio)
- A 1% increase in taxation produces about \$85,000 to cover operational expenditures
- The dividend from Hydro to operations is equal to a 34% tax increase
- Only Municipality in Western Canada that generates and distributes electricity
- 163 Regular Employees

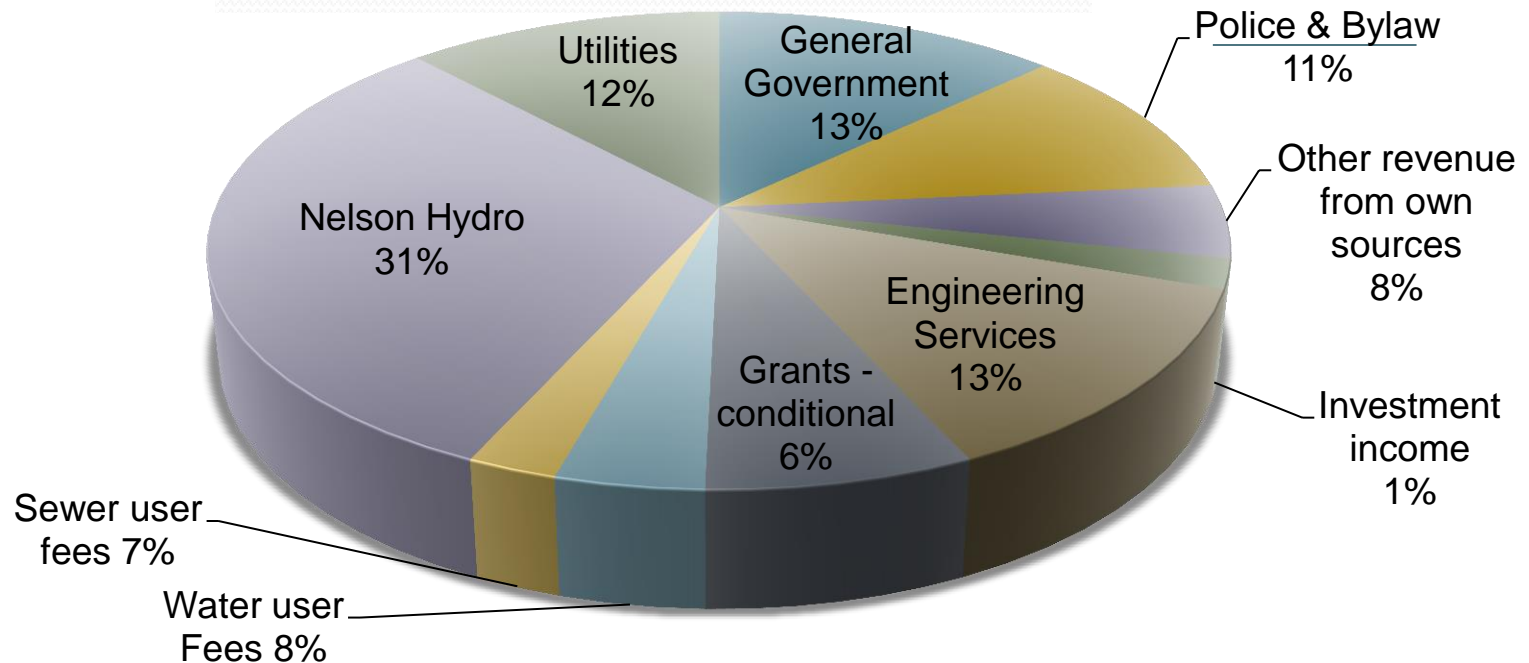
City of Nelson 2016 Operating Revenues

Taxes	\$9,444,570
Sale of Services	3,036,613
Other revenue from own sources	3,307,550
Investment income	577,629
Grants - unconditional	796,884
Grants - conditional	2,416,094
Water user fees	3,390,784
Sewer user fees	2,922,830
Transit user fees	257,259
Nelson Hydro sales	<u>16,778,032</u>
	\$42,928,245



City of Nelson 2016 Operating Expenses

General Government	\$4,852,954
Police & Bylaw	3,968,810
Fire Services	1,867,760
Development Services	750,615
Engineering Services	4,803,232
Parks, Cultural & Recreational	2,697,478
Transit	1,495,013
Library	908,059
Nelson Hydro	11,777,929
Utilities	<u>4,479,302</u>
	\$37,601,152



Five Year Financial Plan

- Areas:
 - General
 - Water
 - Sewer
 - Hydro
 - Resource Recovery
- Costs include:
 - Capital
 - Operating

	Funding Sources		
	Debt & Grants	Taxation	User Fees
General	✓	✓	✓
Water	✓		✓
Sewer	✓		✓
Hydro	✓		✓
Waste	✓		✓

Budget Overview - 2018

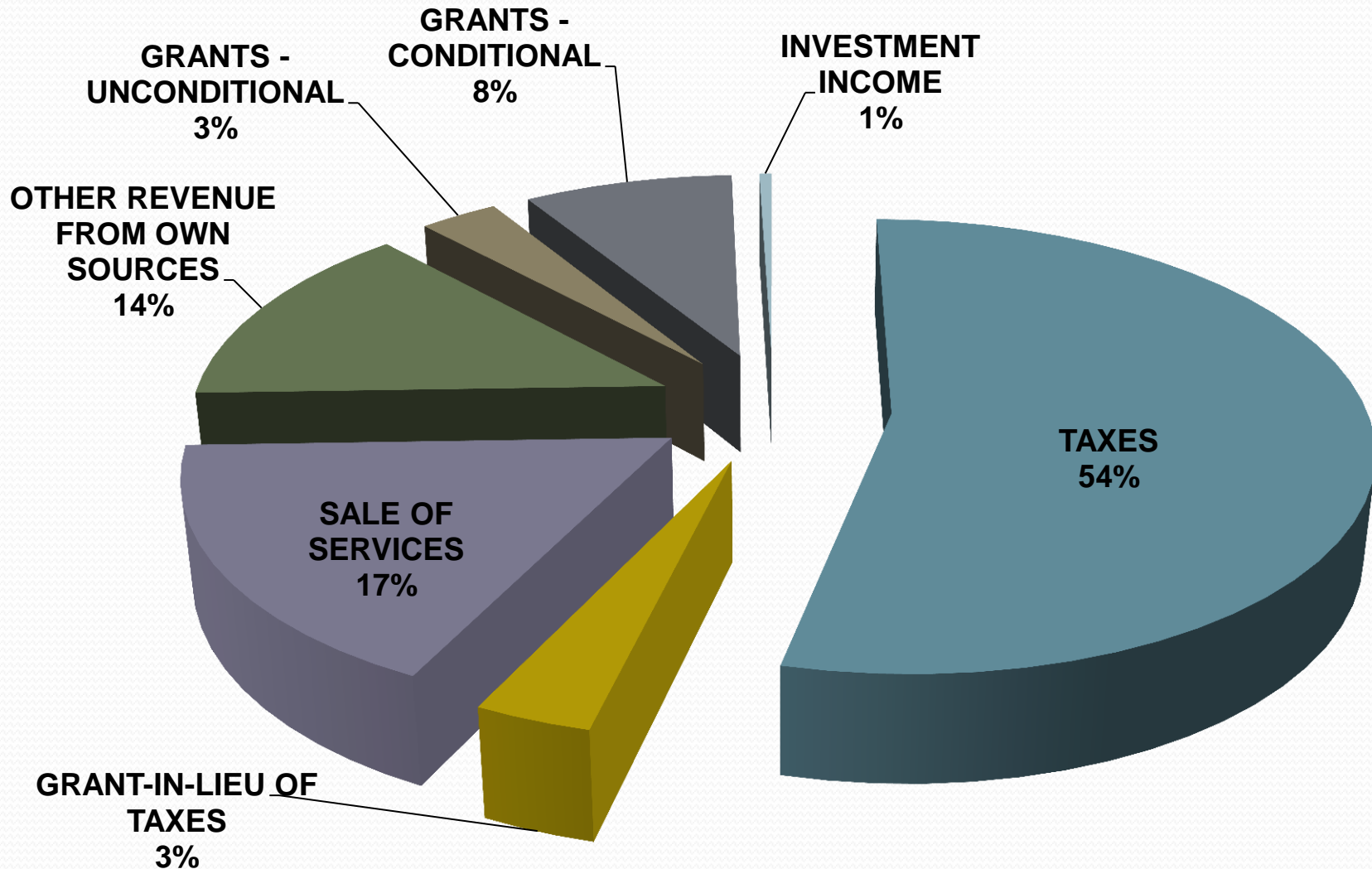
Highlights:

- New market construction taxation revenue generation for 2018 is expected to be \$77,000
- Recommending a 3.0% average overall property tax increase
- 1.25% of tax increase to go directly into Building Reserve (ongoing)
- Worked with RDCK Rec Commission to lower tax requisition for the NDCC again in 2018
- 2% or \$11 annual increase in water rates for a home
- 1.5% or \$7 annual increase in sewer rates for a home
- 2.25% Hydro rate increase effective April 1, 2018
- No change in garbage and recycling fees

2018 Capital Budget:

- \$18.4M including General, Water, Sewer & Hydro

2018 Operating Budget Revenues



Operating Fund - How did we get there?

Starting Operating Budget Shortfall?		\$(131,000)
Revenues		
New Development – Taxation		77,000
Increase in Campground revenue		45,000
New Area E Fire Service agreement		30,000
Decrease in Small Community grant funding		(13,000)
Total Change in Revenues		<u>\$139,000</u>

Operating Fund - How did we get there?

Expenditure Additions/Reductions	
Decrease in Finance staff salary budget	\$20,000
Increase in allocation to Equipment reserve	(70,000)
Addition of 2018 Election expenses	(20,000)
Addition of proposed City EOC staffing and supplies	(100,000)
Increase annual allocation to Building reserve	(120,000)
Shortfall after adjustments	<u>(270,000)</u>
Proposed 3% Taxation revenue	<u>\$270,000</u>

Operating Fund

Revenue Sources

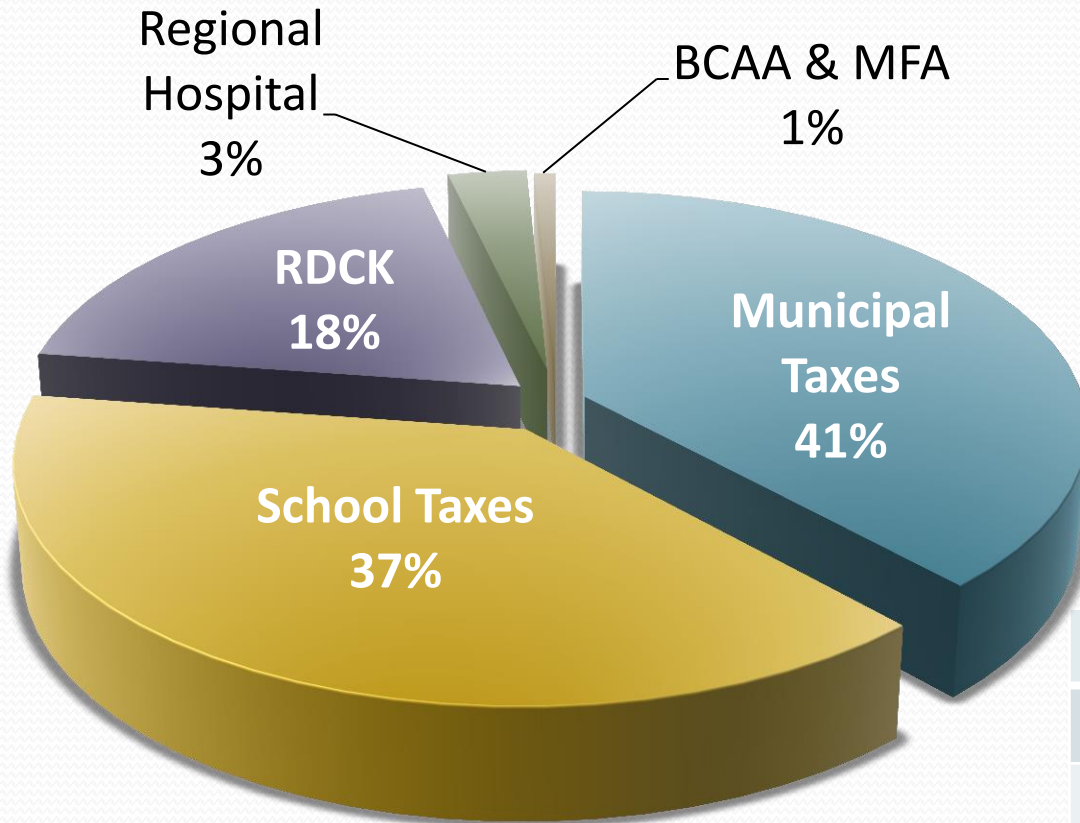
Operating Expenses

Capital Plan

Taxation

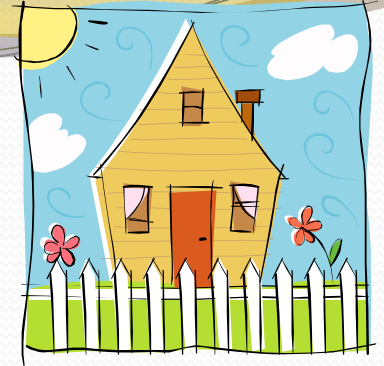
- Who does the City collect taxes for?
- $\text{Assessment} * \text{Tax Rate} = \text{Property Taxes}$
- What is the proposed change for 2018?

2017 Tax Collection Over All Gov't Sectors



Municipal Taxes	\$9,375,785
School Taxes	8,446,697
RDCK	4,096,703
Regional Hospital	697,673
BCAA & MFA	151,160
Total	\$22,768,018

Taxation - Assessment



- ▶ BC Assessment is a provincial Crown corporation that determines the market value of all real properties in BC.
- ▶ After determining correct classification, actual value and exemption status of every property, BC Assessment provides taxing authorities with an Assessment Roll which lists all properties, names of owners and taxable values of the land and any improvements (buildings).

Tax Revenues: Growth – Where does it come from?

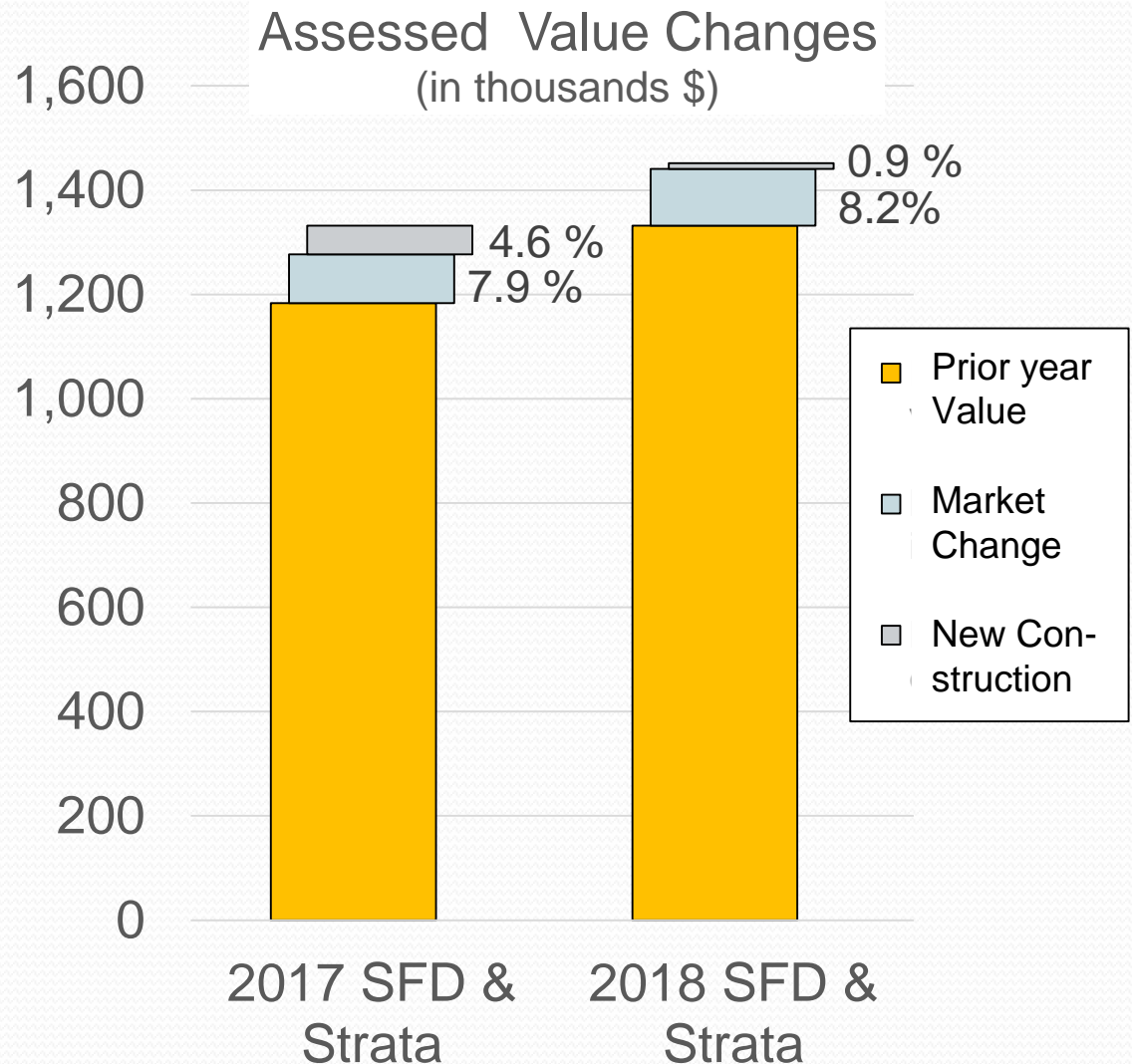
- New revenue only exists when there is new assessment
- Increase in “inventory” i.e. through subdivision or new construction
- General increases in market value do not generate more tax dollars
- Past couple of years has resulted in minimum new revenues from growth

Effect of Assessments in 2018

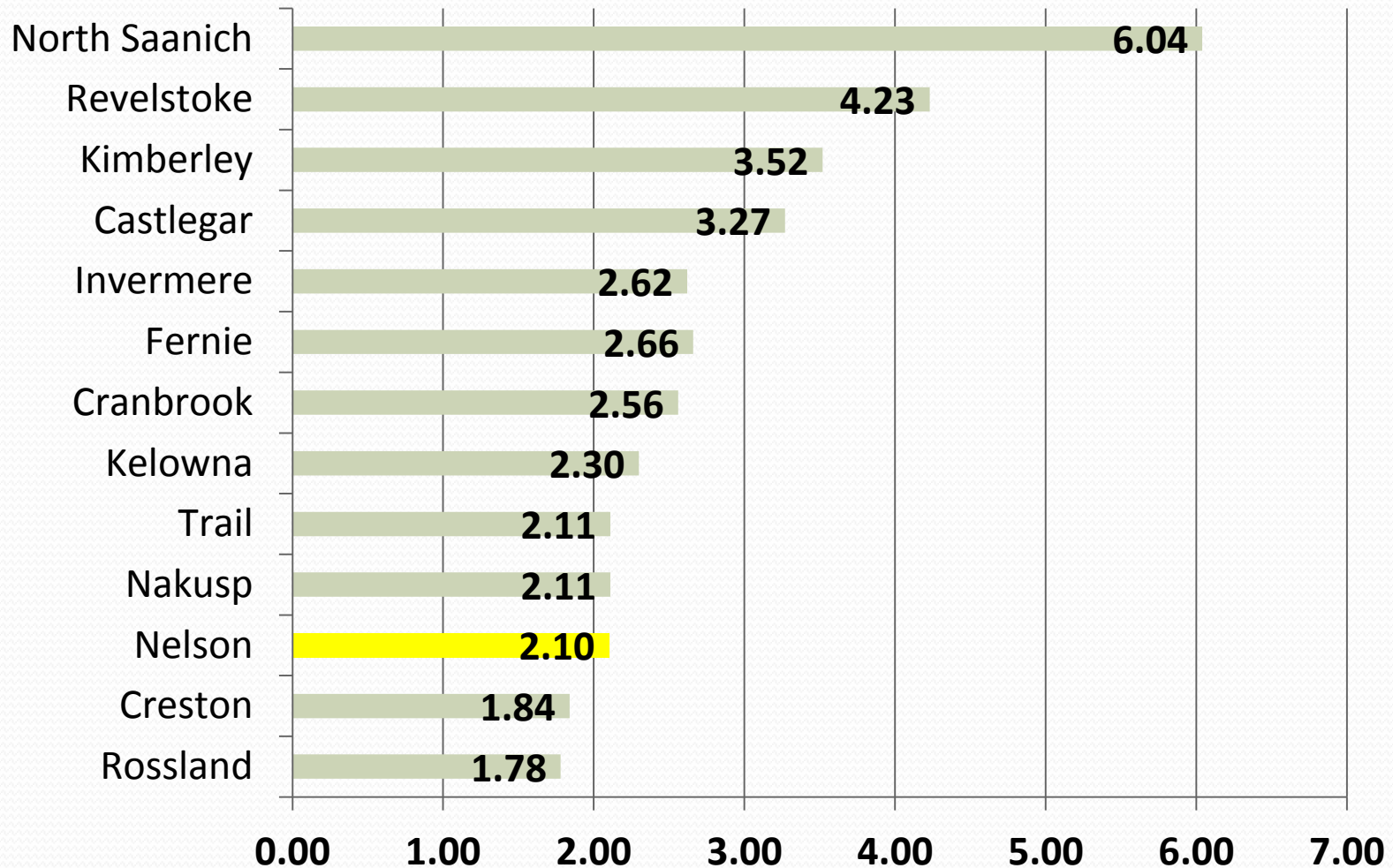
Property Class	2017 Assessed Values	2018 Assessed Values	Overall % Change	% Change Due to Market
Residential	\$1,436,001,400	\$1,570,459,400	9.36%	8.53%
Utility	105,342,385	107,762,095	2.30%	1.88%
Light Industry	1,279,800	1,684,300	31.61%	7.84%
Business	232,336,900	255,886,550	10.14%	9.03%
Non-Profit	1,958,900	2,262,200	15.48%	15.48%
Total	\$1,776,919,385	\$1,938,054,545	9.07%	8.20%

Effect of Assessments in 2018

- SFD and Strata up 9% in 2018 vs 12.5% in 2017
- Market change is on par at 8% in both years.
- New construction increased less than 1% vs 4.6% in 2017.



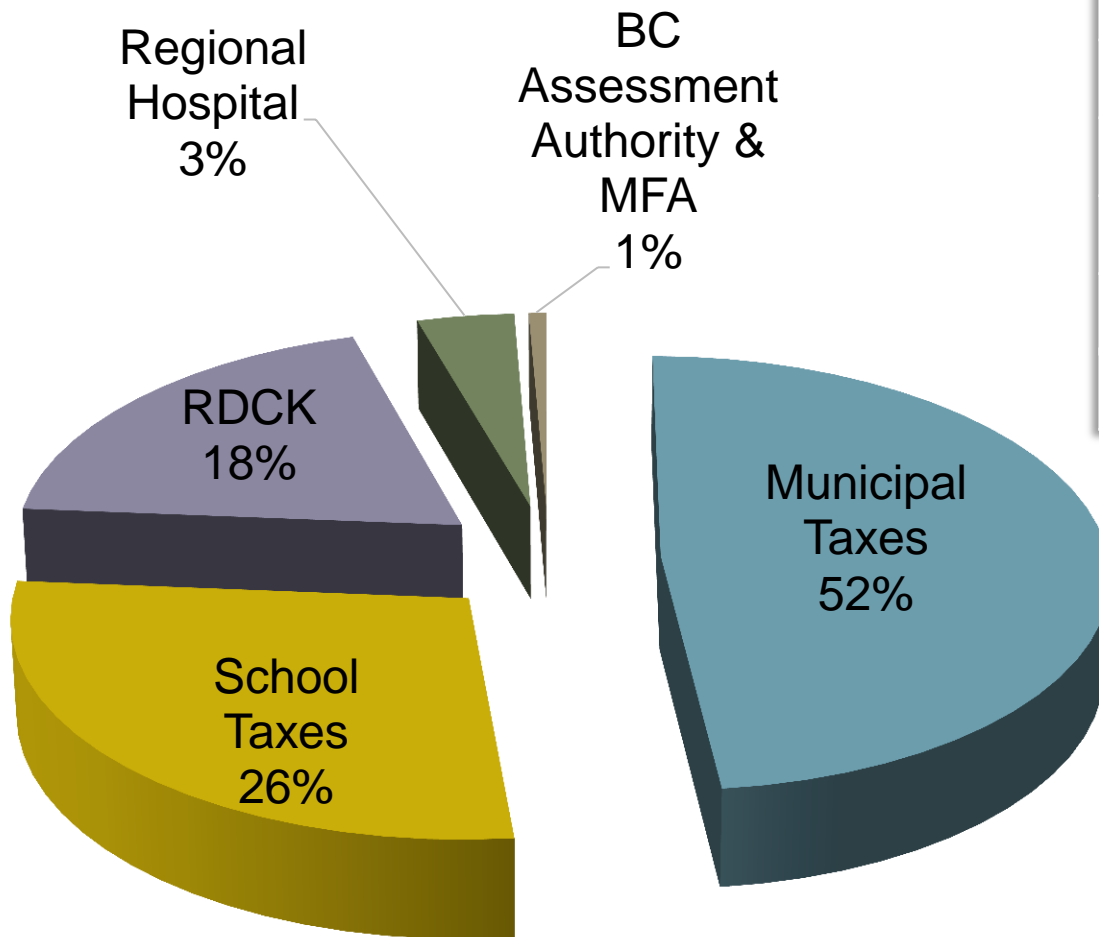
2017 Business Tax Class Multiples



Property Taxes & Assessments

Property Class	2018 Assessed Values	Assessed Value Percentages	% of Property Taxes Levied
Residential	\$1,570,459,400	81.0%	73.3%
Utility	107,762,095	5.6%	1.4%
Light Industry	1,684,300	0.1%	0.1%
Business	255,886,550	13.2%	25.1%
Non-Profit	2,262,200	0.1%	0.1%
Total	\$1,938,054,545	100%	100%

Allocation of 2017 Taxes on an Average SFD



Municipal Taxes	\$1,650
School Taxes	834
RDCK	555
Regional Hospital	105
BCAA & MFA	16
Total	3,160

Avg. SFD assessed at
\$363,256 in 2017

2018 Proposed Budget

Effect on an Average SFD

	2017	2018	Net Change	Net Monthly Change
Assessed Value	\$363,256	\$392,861	\$29,605	n/a
Property Tax (municipal only)	\$1,650	\$1,699	\$49	\$4.12
Water Rates (after discount)	538	549	11	0.92
Sewer Rates (after discount)	462	469	7	0.58
Resource Recovery	118	118	0	0
Overall	\$2,768	\$2,835	\$67	\$5.62

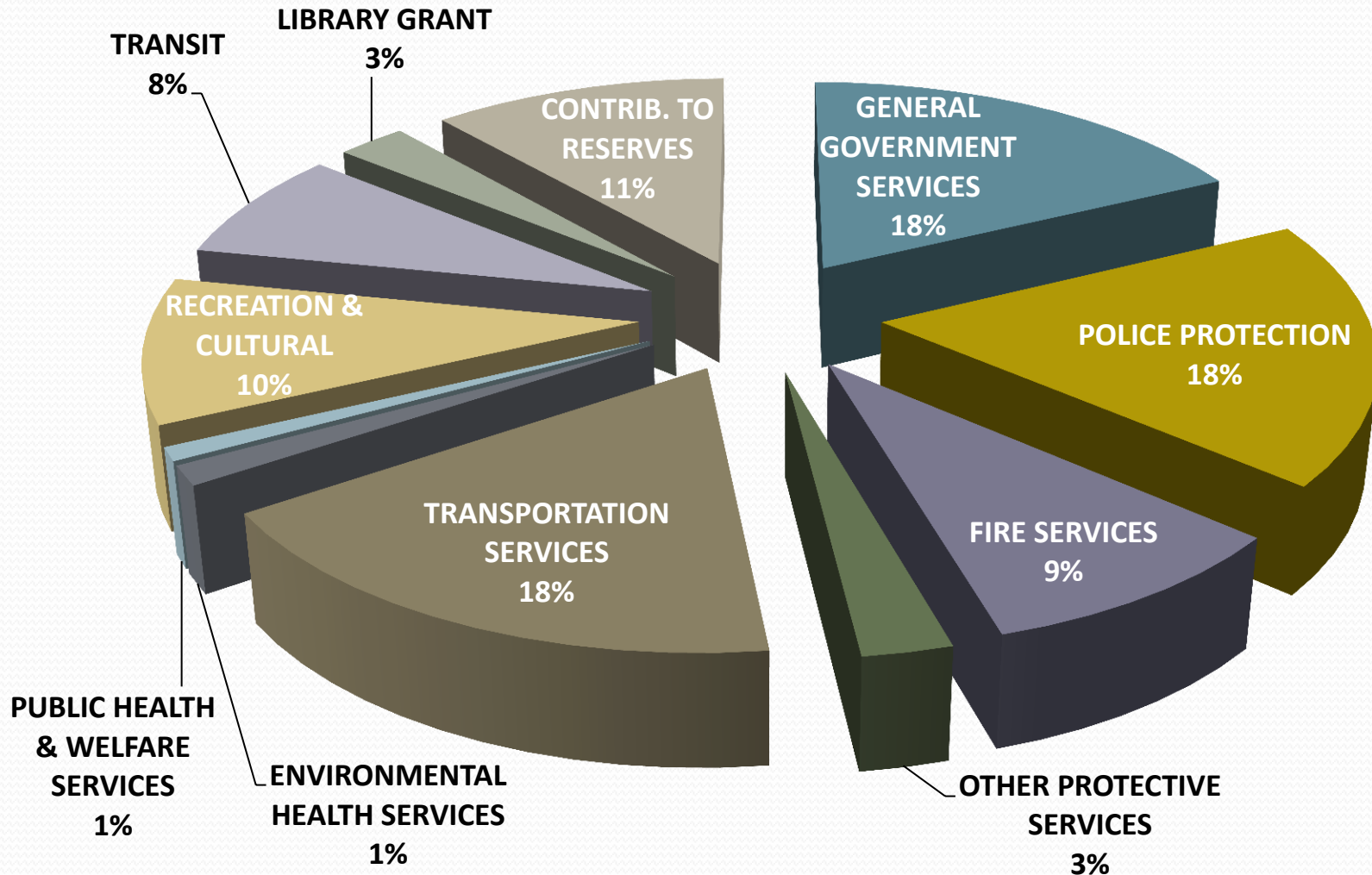
2018 Proposed Budget

Effect on \$1,000,000 Commercial Restaurant

(50 seats - Nelson 2018 average)

	2017	2018	Net Annual Change	Net Monthly Change
Assessed Value	\$917,179	\$1,000,000	\$82,821	n/a
Property Tax (municipal only)	\$8,746	\$9,009	\$262	\$21.87
Water Rates (after discount)	1,613	1,644	31	2.58
Sewer Rates (after discount)	1,380	1,400	20	1.67
Overall	\$11,739	\$12,053	\$313	\$26.12

2018 General Budget Expenditures



Transit

	2017 Budget	2018 Budget
Transit operating costs	\$1,361,000	\$1,410,000
Debt service costs	<u>209,000</u>	<u>206,000</u>
Total costs	<u>\$1,570,000</u>	<u>\$1,616,000</u>
Fares	\$245,000	\$261,000
BC Transit/RDCK	1,019,000	1,037,000
City Contribution	<u>306,000</u>	<u>318,000</u>
Total Funding	<u>\$1,570,000</u>	<u>\$1,616,000</u>

Overall Capital Plan – 2018 Highlights

Total Capital - \$18.4M

\$8.3M Water, Sewer & Hydro

- Continuation of watermain replacement, secondary source
- Continuation of CIPP relining, sewer main upgrades
- Hydro Transmission System upgrades, pole replacements

\$10.1M General Capital

- Hall Street Phase 2
- Radio communications upgrade
- Park improvements
- Building improvements (i.e. exteriors, mechanical systems)
- IT – Network cabling, fiber lines, virtual desktops
- Vehicle & equipment replacements

Facilities Analysis

In 2017, the City conducted a detailed facility analysis that identified the need to invest \$1.5M to 2M per year to maintain its buildings.

In order to enhance sustainability of City services and infrastructure, one of the four Strategic Plan goals, Council is committing an additional \$120k to make an ongoing \$300k annual contribution to the Building Reserve. This additional amount is to be funded by 1.25% of the tax increase.

2017 Facilities Highlights

Civic Centre (719 Vernon St) - Electrical and Life Safety Improvements

- Need to improve aged infrastructure
- General upgrades completed in last two years; partially funded by \$225k Canada 150 grant and \$82.5k RDCK Community Works funding
- Upgrade electrical system
- Upgrade fire alarm system

Proposed Facilities Program

	2018	2019
Required annual budget	\$1,701,000	\$1,579,000
Budgeted contribution	300,000	300,000
Shortfall	<u>\$1,401,000</u>	<u>\$1,279,000</u>
Proposed Funding		
Profit 310 Ward Street	\$180,000	\$180,000
Water Lic. Reserve	400,000	450,000
Community Works Fund	300,000	350,000
Grants	265,000	200,000
ARES Lessee Contribution	100,000	61,000
New Funding	<u>\$1,245,000</u>	<u>\$1,241,000</u>
Reserve (usage)	<u>\$156,000</u>	<u>\$38,000</u>

2018 Facilities Highlights

Coke & Gas Works (610 Railway St.) - Exterior Revitalization Project

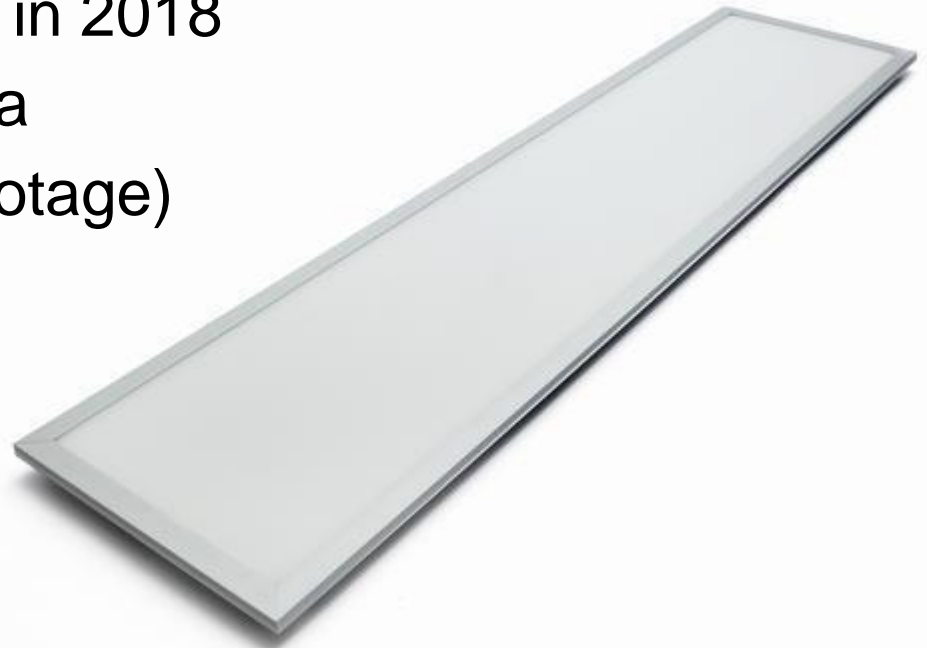
- Built in 1900 – historical value
- Key component of Railtown District
- Restoration of original windows & gas lamp posts, etc.
- Repointing of brick & stone
- Roof replacement
- Structural repairs
- \$100k CBT Heritage grant



2018 Facilities Highlights

Government Place (310 Ward St.) – LED Lighting Upgrade

- Reduce energy usage and operating costs
- Improve quality of lighting for occupants
- Beginning on the 1st Floor in 2018
- Province (Lessee) will be a contributing partner (sq footage)



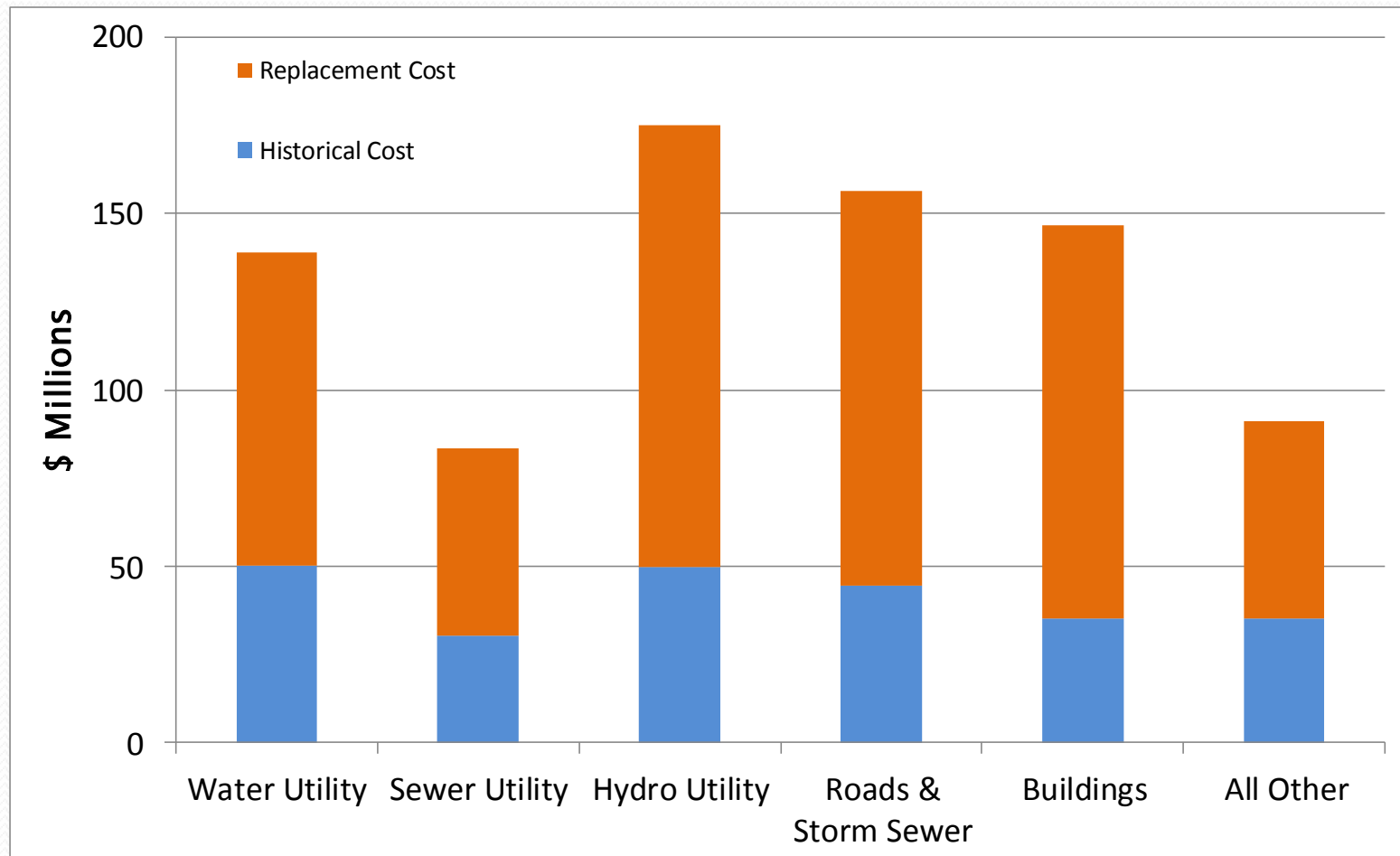
2018 Facilities Highlights

Police & Library (602/606 Stanley St.) – Roof and Mechanical System Replacement

- Aging infrastructure at end of life
 - Replacement needed to minimize future operational costs (repairs and maintenance) and increase efficiency
-
- ✓ Install new roofing system
 - ✓ Replace mechanical rooftop units (3)



Overview – Total City Assets



Capital Funding Sources

Surplus and Reserves

Debt



Funding - What is a Surplus?

- A surplus is the amount by which revenue exceeds expenditures in a year. We do not budget for a surplus.
- **May be caused by:**
 - Unexpected revenue
 - Revenue exceeding budget (i.e. investments, fees - difficult to budget)
 - Budgeting may be conservative because we cannot have a deficit
 - Vacant positions



How Should We Spend General Surplus or Reserves?

- ▶ Good tool for non-recurring items (e.g. capital or one-time projects).
- ▶ Recurring items (e.g. policing costs or parks maintenance) should generally not be funded through reserves, as the benefits can be short lived.



Statutory Reserves

- Statutory Reserves are set up by bylaw. The bylaw describes the specific purpose of the reserve, how it is funded and what expenditures the funds can be used for.
- Examples are:
 - Equipment replacement reserve
 - Capital projects reserve
 - Water licence reserve
 - Land sales reserve
 - Parks acquisition reserve
- Non-Utility statutory Reserves at the end of 2016 was \$7.3 Million

Other Appropriated Surplus

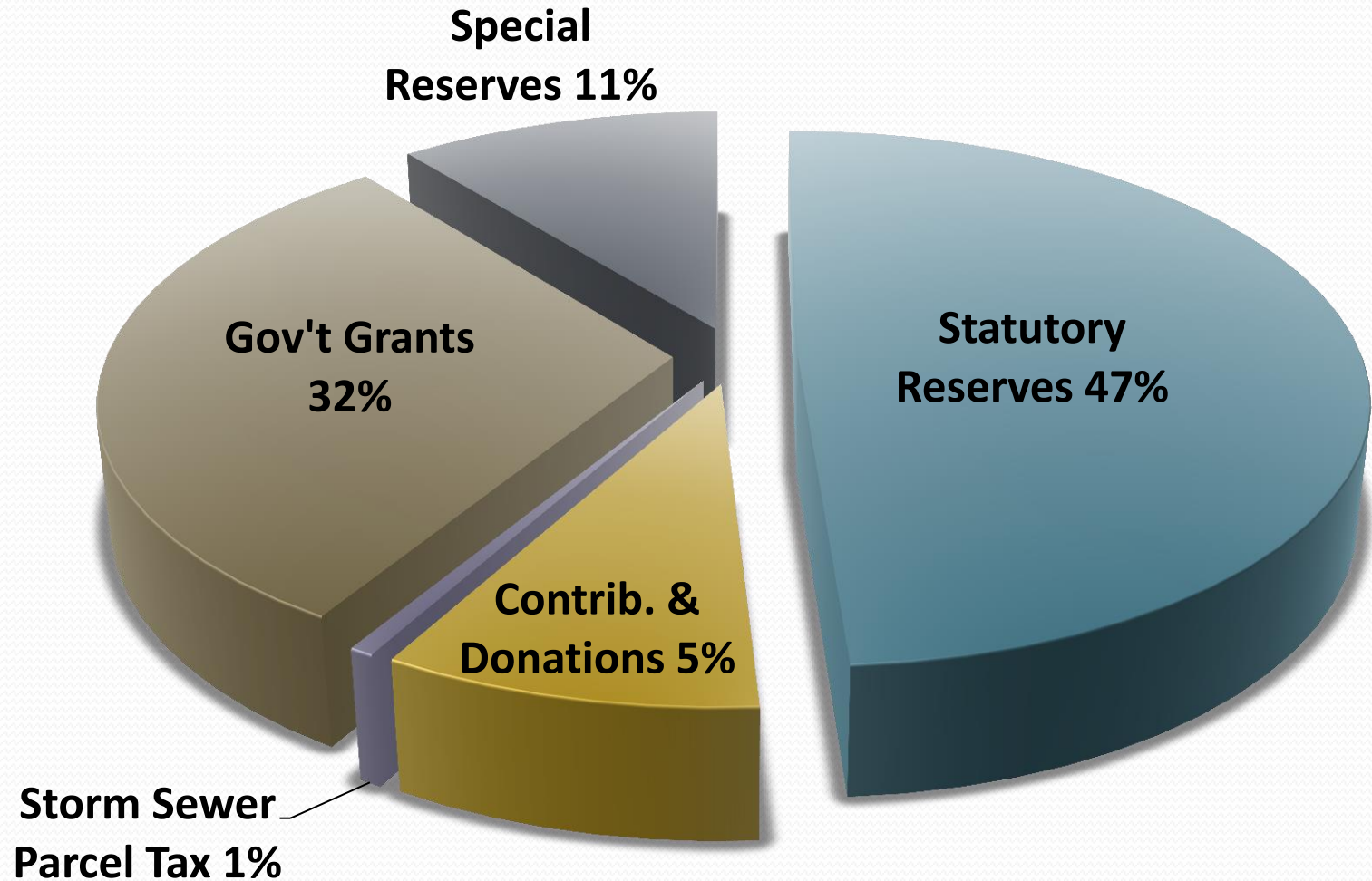
- Past Councils have directed allocation of surpluses to be reserved from a variety of one-time and ongoing activities including:
 - Selkirk College Campus
 - Services – Recycling, Economic Development
 - Administrative Costs – Insurance, Legal
 - Development and Infrastructure– Land Sale, Bridges, Airport, Buildings
 - Fortis Pay Down
- Appropriated Surplus at the end of 2016 was \$2.2 Million

Debt and Debt Servicing

- Major capital projects typically funded by using combination of existing reserves and by borrowing funds.
- Strategic decision when to borrow vs using reserves or taxation.
- \$15.7M in General & Utility Debt
- Of \$8.4M in General Debt (Dec 31, 2017), only \$1.1M is supported through general taxation.



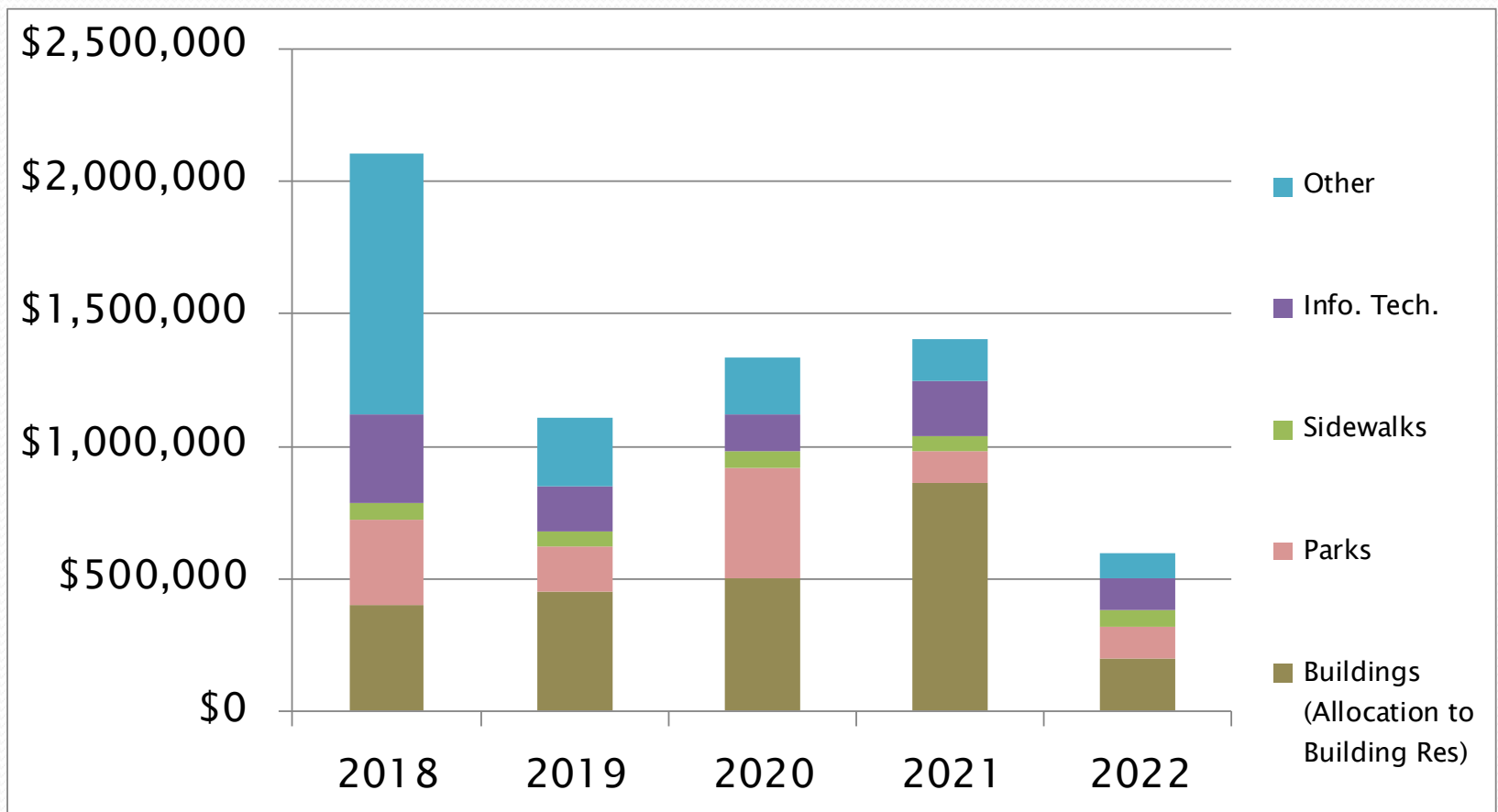
General Capital Funding 2018 = \$10.1M



Water Licence Reserve

	2018	2019	2020	2021	2022
Opening bal.	\$2,029,216	\$967,555	\$912,415	\$635,972	\$300,900
Water licence rev.	846,431	859,860	873,557	887,528	901,779
Borrowing	0	0	0	0	0
Grants/Donations	0	0	0	0	0
Debt Servicing	175,000	175,000	175,000	175,000	175,000
Capital program	(2,102,092)	(1,107,900)	(1,337,500)	(1,403,500)	(596,000)
Interest	19,000	17,900	12,500	5,900	15,600
Closing Balance	\$967,555	\$912,415	\$635,972	\$300,900	\$797,279

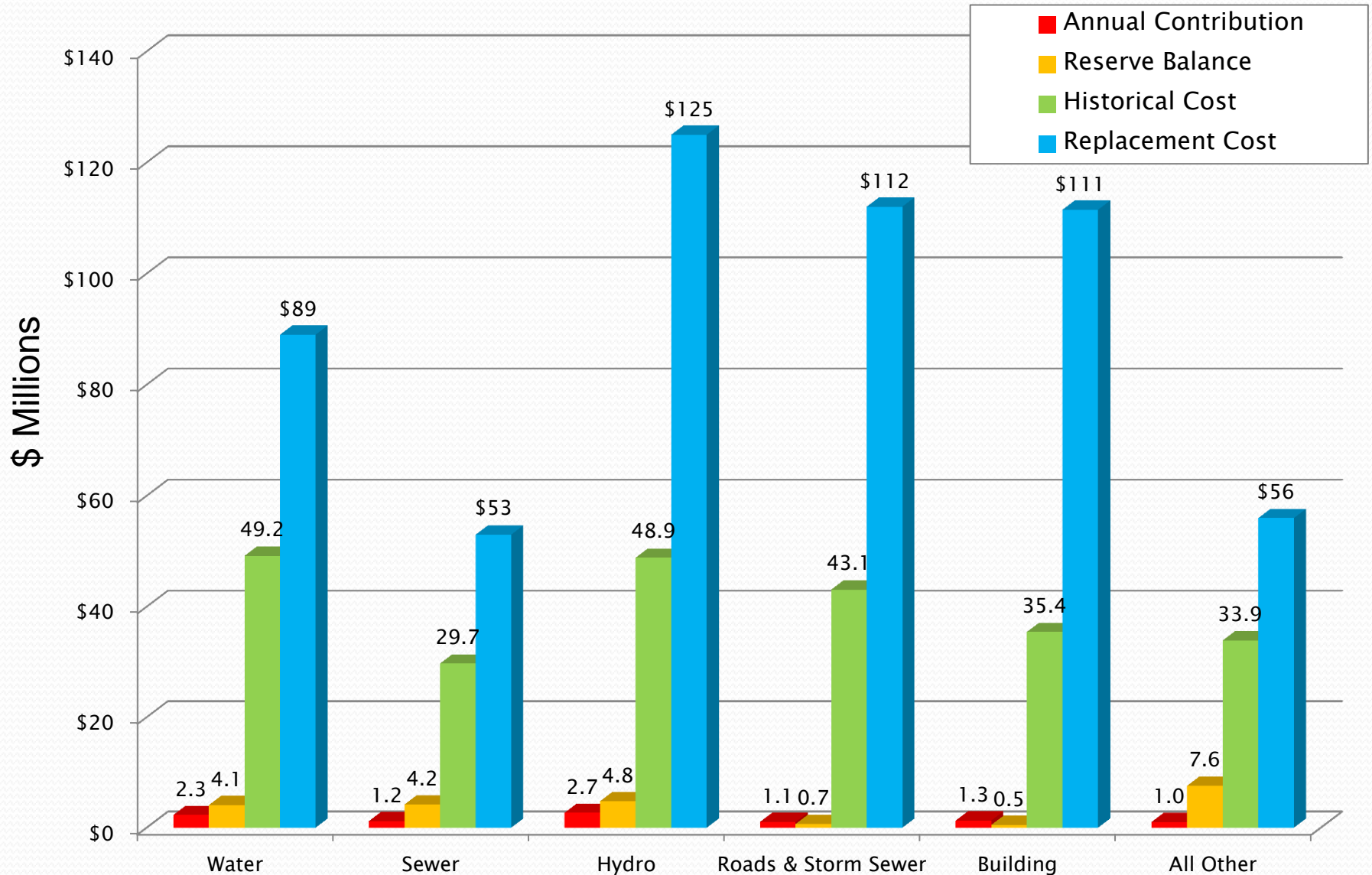
Water License Reserve – Planned Five Year Expenditures



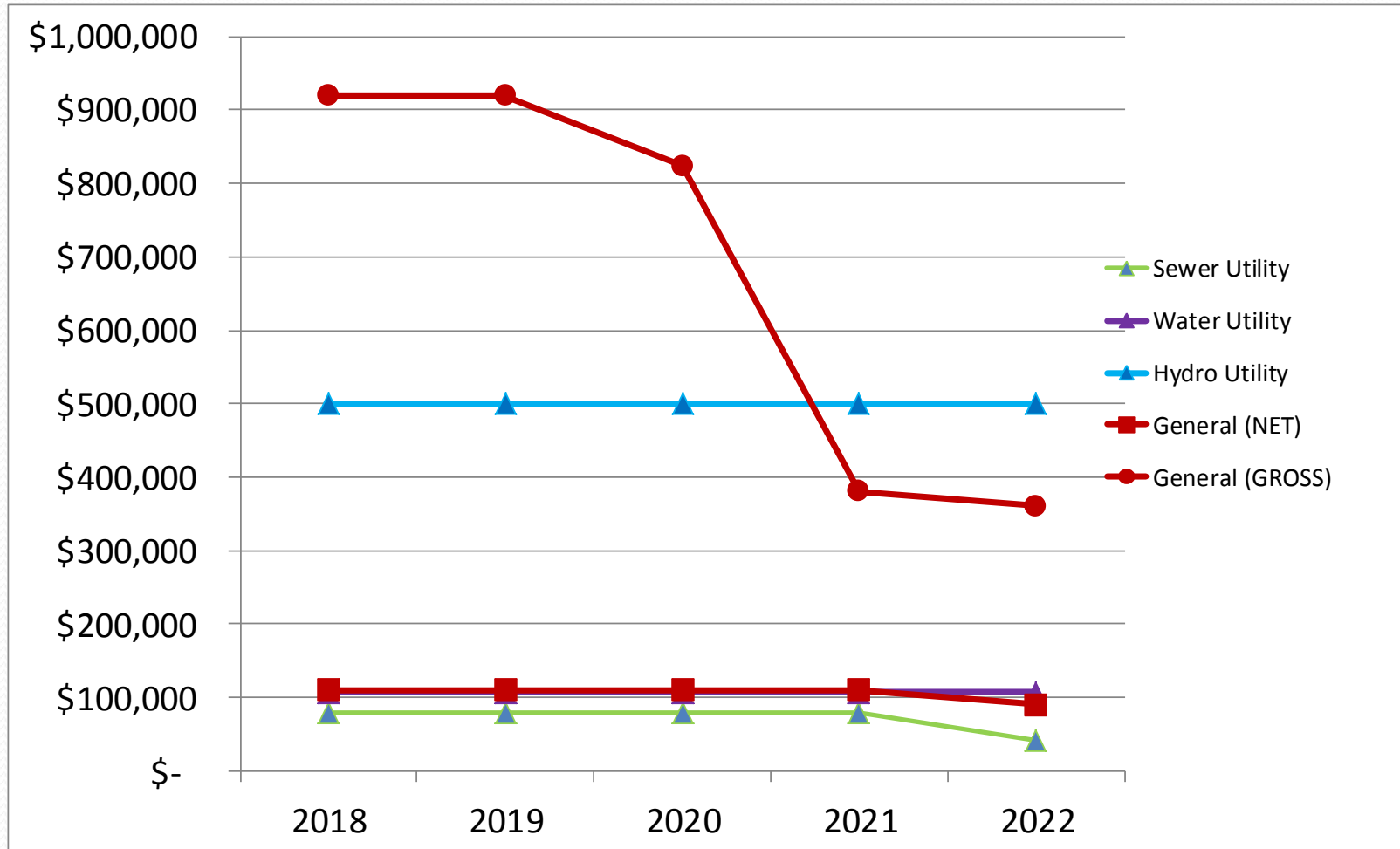
Capital Reserve (Transportation System)

	2018	2019	2020	2021	2022
Opening bal.	\$1,553,454	\$1,096,709	\$850,909	\$804,209	\$807,509
Parking meter revenue	925,000	925,000	925,000	925,000	925,000
Other funding	3,126,112	1,087,500	187,500	137,500	100,000
Road/sidewalk maintenance program	<u>(4,529,357)</u>	<u>(2,275,000)</u>	<u>(1,175,000)</u>	<u>(1,075,000)</u>	<u>(1,000,000)</u>
Interest Income	21,500	16,700	15,800	15,800	16,700
Closing Balance	<u>\$1,096,709</u>	<u>\$850,909</u>	<u>\$804,209</u>	<u>\$807,509</u>	<u>\$849,209</u>

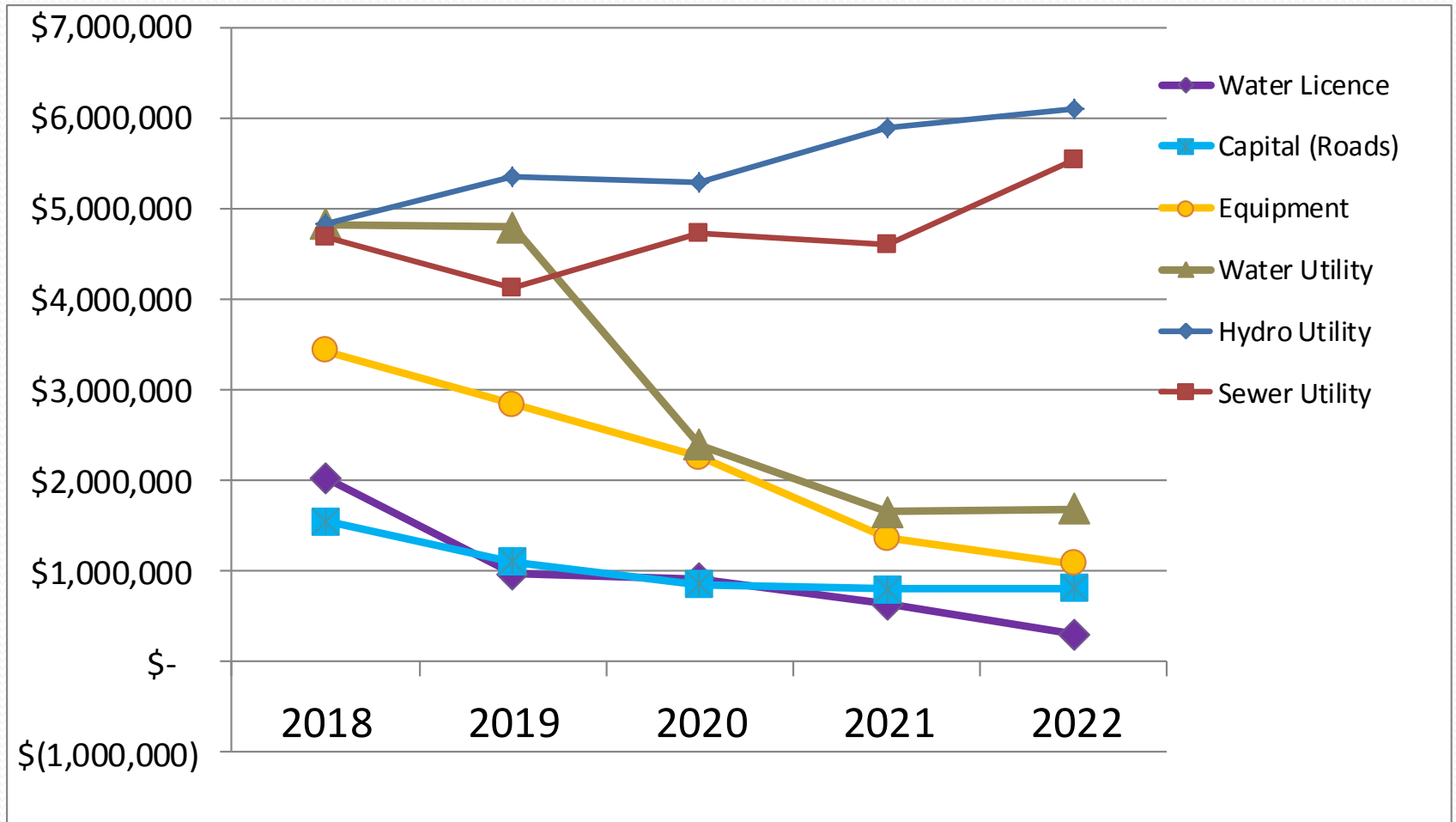
Assets Versus Reserves



Debt Payments– Trend Line – 5 years



Statutory Reserves – Trend Line



Utilities

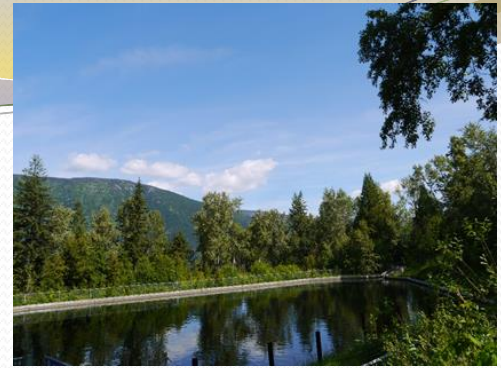
Water

Sewer

Resource Recovery

Nelson Hydro

Overview – Water Utility



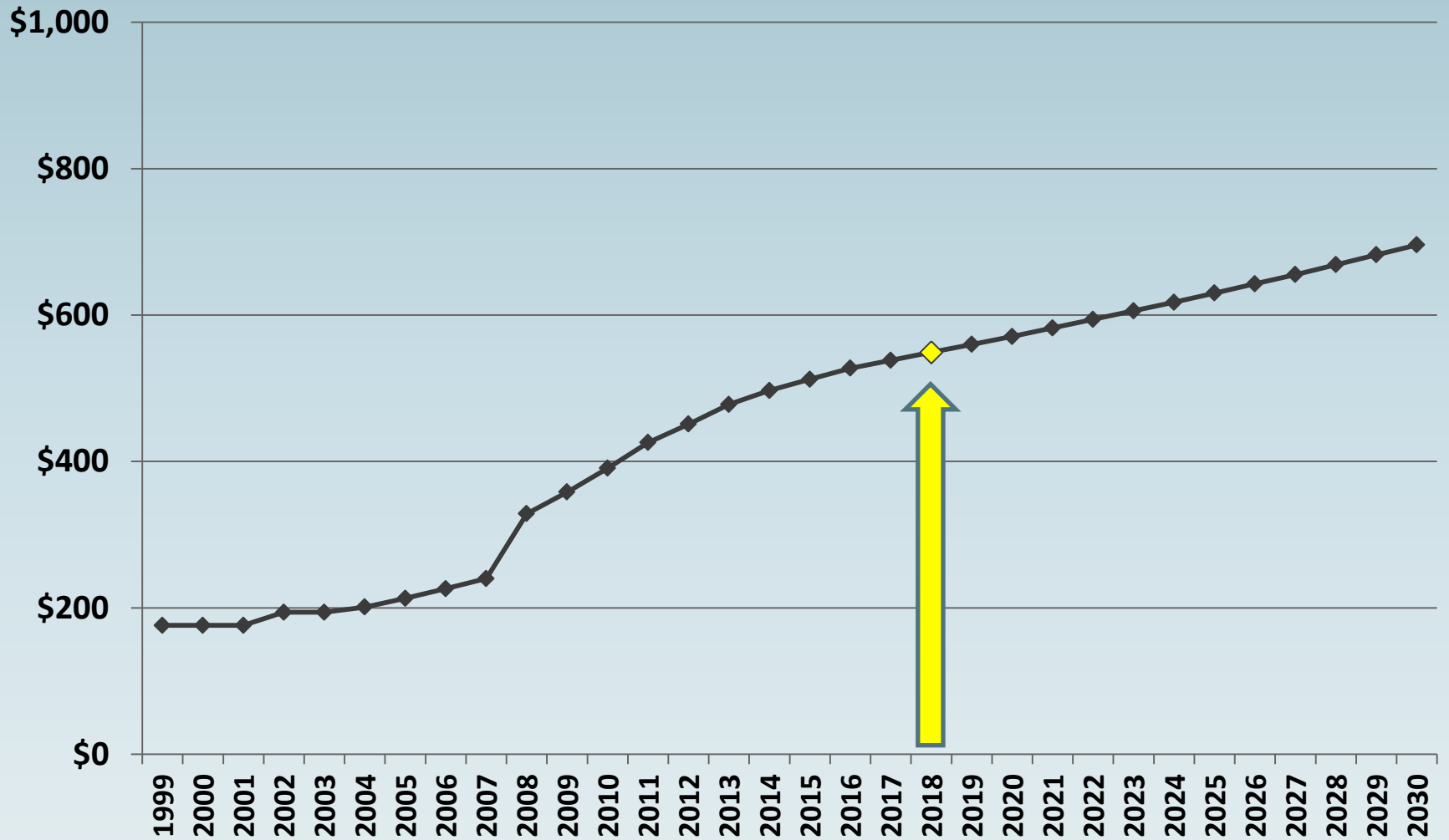
- **Strategic Direction:**

- Water Master Plan - long term planning critical to maintain safe and accessible water and fire flow protection
- Water conservation, secondary water sources, emergency supply intake, Park St reservoir
- Continuation of watermain replacement and data gathering for water metering plan

- **Rates:**

- Council approved 2% or \$11 annual increase in rates for 2018 (after discount).
- Rates proposed to increase 2% per year for the next 10 years

Projected Water Rates - SFD



Overview – Water Utility 2018

Operating Highlights

- Revenue:
 - User fees \$3.73M
- Operating costs:
 - Approx. \$1.34M
- Debt Service:
 - \$106,000 per year
 - No new debt planned

Capital Highlights

- 2018 Budget \$2.81M
 - Infrastructure upgrades and replacement:
 - ❖ Watermain \$2.3M (incl. Hall St Phase 2)
 - Other infrastructure:
 - ❖ Secondary Source - \$100,000
 - ❖ Emerg. Intake - \$100,000
 - ❖ Five Mile Supply - \$140,000
 - ❖ Park St Reservoir - \$150,000
- 2018-2022 Capital
 - funded through User Fees & Gov't grants

Overview – Sewer Utility

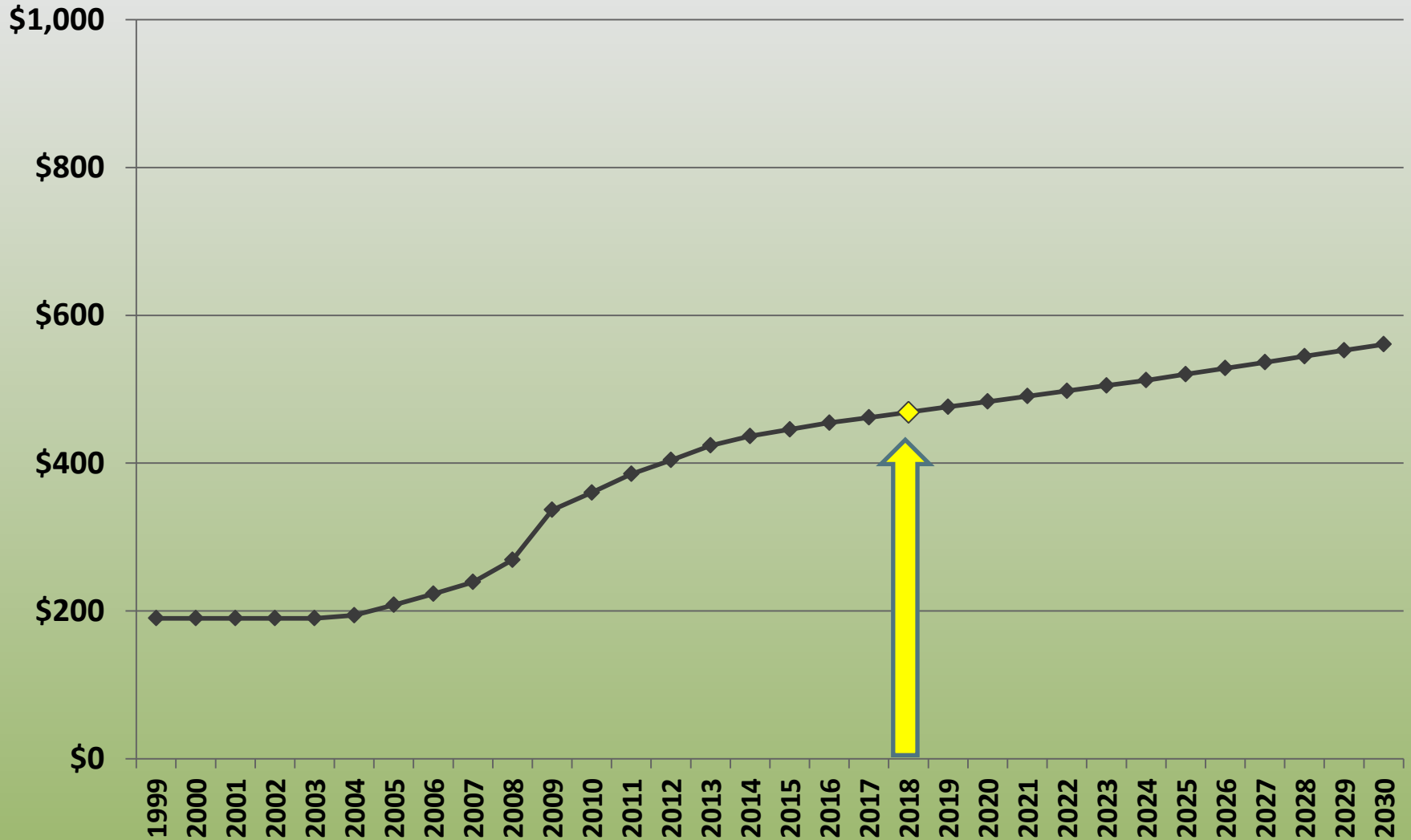
- **Strategic Direction:**

- Sewer Masterplan – asset repair & maintenance
- Develop replacement program in conjunction with water utility and road network upgrades
- Improved technology “CIPP (cured-in place pipe)” has cut cost of relining sewer pipes

- **Rates:**

- Council approved 1.5% or \$7 increase in 2018 sewer rates
- Rates proposed to increase 1.5% per year for the next 10 years

Projected Sewer Rates - SFD



Overview – Sewer Utility



Operating

- Revenue:
 - User fees \$3.1 M
- Operating costs:
 - Approx. \$1.8M
- Debt Service:
 - \$93,000 in 2017

Capital

- 2018 Budget \$2.1M
 - Infrastructure expansion and replacement:
 - CIPP Relining \$600,000
 - Sewer Main \$1.25M (incl. Hall St. Phase 2)
 - Lift Stations, Grit Chamber & Surge Tank \$246,000
- 2018-2022 Capital
 - funded through User Fees & grants

Overview – Resource Recovery Utility

- Waste function is based on a fee for service model
- Yearly charge per household pays for the collection
- 2018:
 - No increase in fees proposed
 - The City is receiving \$134K annually from MMBC to collect recycling – this revenue is currently being used to fund operations
 - Changes to MMBC recycling requirements with an 18 month phase out of the use of blue bags in the collection of recycling starting in January 2019
 - City garbage truck to be replaced in the near future

Overview – Hydro Utility

► **Strategic Objective:**

- Provide safe and efficient generation, distribution and sale of electrical energy

► **Strategic Business Priorities:**

- District Energy Business Plan
- Investigating new small hydro generation



Overview – Hydro Utility

2017 Capital Achievements:

- **Distribution System**
 - City Voltage Conversion completed
 - Community Solar Garden put in service
- **Power Plant**
 - Rock Slope stabilized
 - Forebay Concrete repairs
 - Forebay Headgate re-furbished
 - G5 Protection and Controls upgraded
- **Substations**
 - City Sub retired and dismantled
 - Bonnington Sub Protection and Controls upgraded



Overview – Hydro Utility

2018 Capital Budget \$3.4M

(funded by energy sales)

- **Distribution System**
 - North Shore Line Re-Conductor
 - Pole Replacements
 - Submarine cable crossing design
- **Power Plant**
 - Concrete refurbishment
 - Wood Decking replacement
 - PRV station - Install small hydro generation
- **Substations**
 - Replace Circuit Breaker at Bonnington Sub
 - New Voltage Regulators at 6 Mile Sub
 - Volt-VAR optimize on North Shore feeder



Overview – Hydro Utility

► 2018 Operating Budget:

- Revenue of \$18.1M
- Expenses:
 - \$4.7M Operating
 - \$6.7M Power Purchase
 - \$499k Debt Payments
 - \$6.2M Transfers

► Nelson Hydro 2018 Contributions:

- \$2,754,000 to City of Nelson operations
- \$671,431 Water License Reserve
- \$90,000 to the Nelson District Community Complex



Overview – Hydro Utility

2018 General Rate Changes (prelim. data)

Nelson Hydro *	Apr 01	2.25 %
FortisBC	Jan 01	Unknown %
Municipal Utilities	various	0 – 3.0 %
BC Hydro	Apr 01	3.0 %

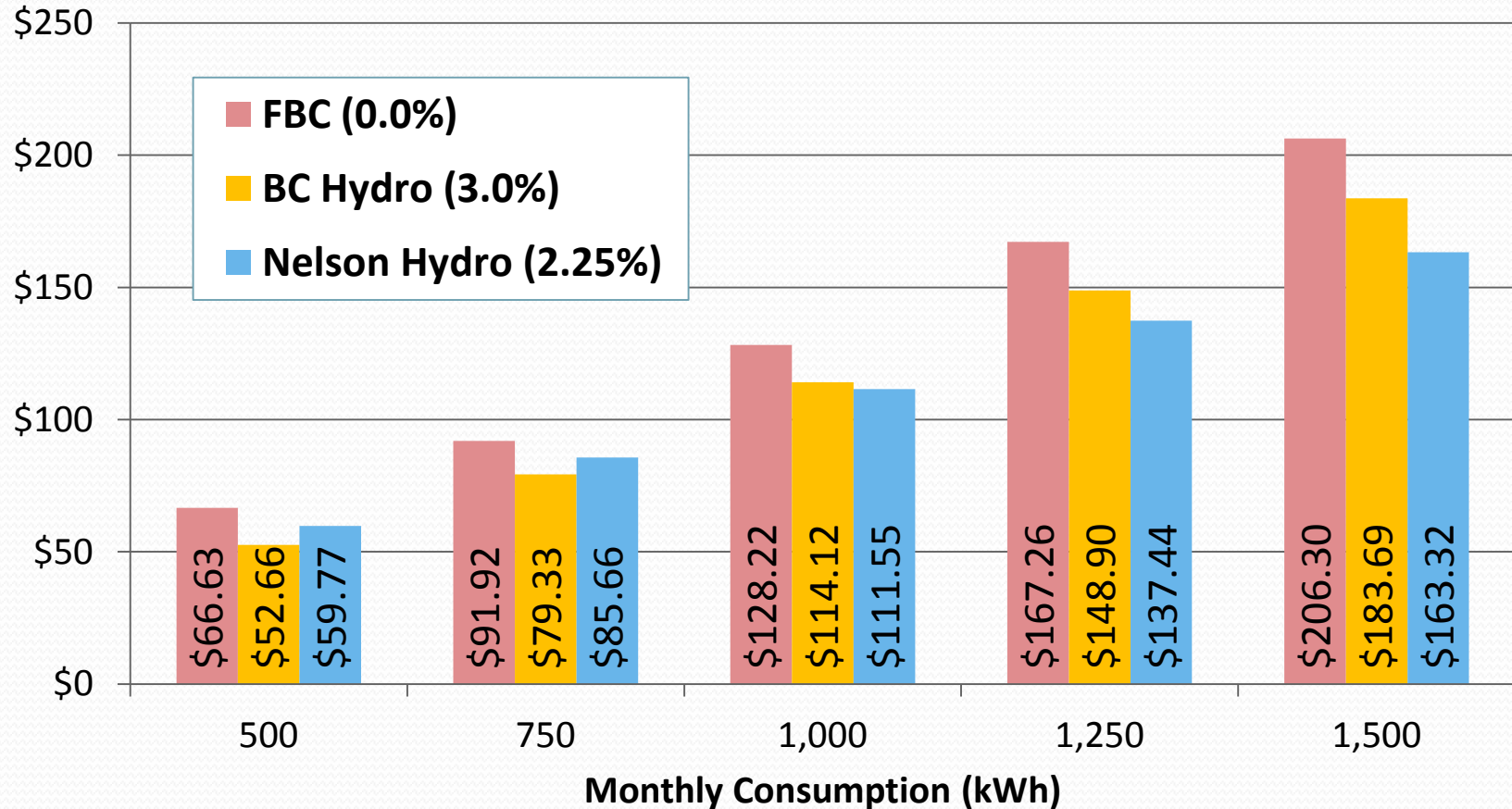
2018 Nelson Hydro Residential bill:

- approximately \$104.30 / month
- an increase of \$2.30 / month from 2017

Overview – Hydro Utility

2018 Estimated Monthly Residential Electric Bill

Monthly Bill
(\$ pre tax)



Overview – Hydro Utility

Debt Position

	Deferral	Debt	Total / Customer
BC Hydro	\$897,000,000	\$19,796,000,000	\$10,409
Nelson Hydro	\$0	\$5,944,518	\$567

If Nelson Hydro had a Debt of \$10,409 / customer...

- We would need a 40% rate hike for 15 years to pay it off (before interest charges)
- Nelson Hydro is having a rate increase – because it is keeping up with its costs now rather than in the future

Comments and Questions?

Email: budget@nelson.ca