

CITY OF REVELSTOKE

Financial Plan 2012-2016

November 22, 2012

DRAFT



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EXECUTIVE SUMMARY

INTRODUCTION

This document provides an executive summary of the draft financial plan for 2012-2016 and presents a number of important highlights. Readers should refer to the attached appendices for a more in depth picture of the financial plan.

As before, the financial plan model has been developed with three different scenarios. The original scenario is based on zero percent tax increases for all five years with no restrictions on costs. This scenario resulted in substantial deficits for all five years. A Management scenario was developed that assumed a 2% property tax increase across all classes for each of the five years and certain restrictions on costs, while attempting to maintain service levels. This scenario is the one shown in this document. A third scenario was developed (Management 2) that was based on a 0% tax increase across all classes for 2012 and 2% a year thereafter with some further restrictions on costs, but still endeavoring to maintain service levels within those parameters.

The Management scenario proposes modest property tax increases over the term of the plan that would provide a growing general operating surplus that could be used to fund capital projects and reduce the need for borrowing.

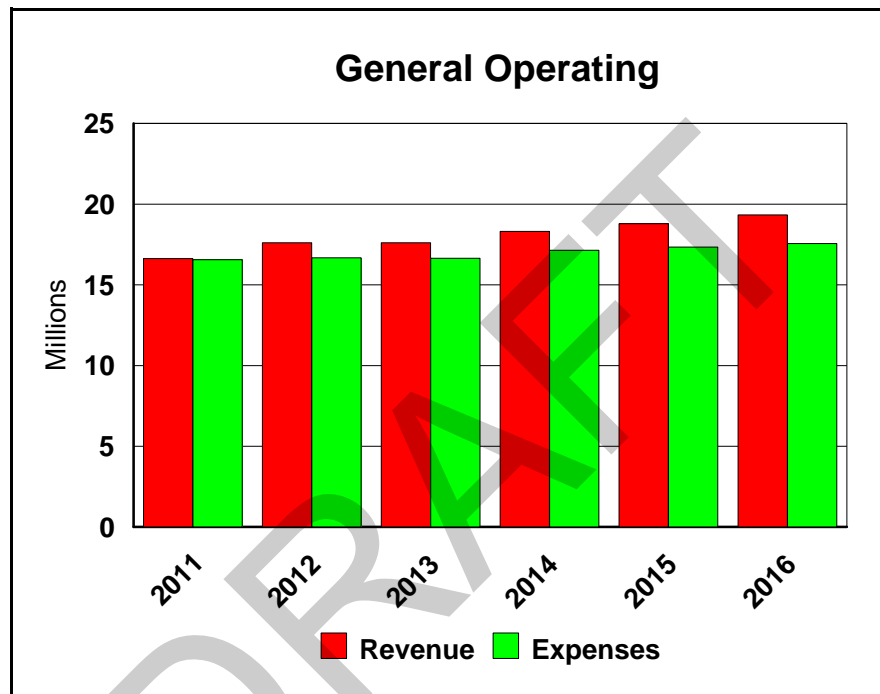
The financial plan is summarized in the following table:

	2011	2012 Inc/(Dec.)	%	2013	2014	2015	2016	
Overall budget	31,157,721	28,291,243	(2,866,478)	-9.20%	24,304,315	27,982,260	25,541,909	33,311,230
General operating revenues	16,628,414	17,611,574	983,160	5.91%	17,612,184	18,317,095	18,787,484	19,338,800
General operating expenses	16,556,425	16,681,184	124,759	0.75%	16,650,302	17,140,807	17,347,272	17,562,128
General operating surplus/ (deficit)	(410,109)	164,473			158,838	187,223	663,884	831,024
Property tax increase		2.23%			2.00%	2.00%	2.00%	2.00%
Water revenue	1,466,080	1,538,300	72,220	4.93%	1,463,520	1,482,708	1,625,776	1,680,247
Water operating	1,265,448	1,608,548	343,100	27.11%	1,520,898	1,533,898	1,553,448	1,554,948
Water operating surplus/ (deficit)	(37,045)	(172,333)			40,537	(9,991)	(41,473)	16,498
Residential water rates	321	328	7	2.18%	335	341	375	390
Sewer revenue	1,121,902	1,012,933	(108,969)	-9.71%	1,070,827	1,185,410	1,271,966	1,332,686
Sewer operating	980,923	892,886	(88,036)	-8.97%	996,549	1,017,111	1,038,524	1,129,774
Sewer operating surplus/ (deficit)	27,713	88,772			(85,980)	(51,958)	17,775	(77,756)
Residential sewer rates	188	195	7	3.72%	200	235	250	265

GENERAL OPERATING (Appendix 1 Page 1)

General operating revenues are estimated to be \$17,611,574 in 2012 compared to \$16,628,414 in 2011 which represents a 5.91% increase. This is mostly due to an increase in the BC hydro dam grant, additional property tax revenues from new construction and revenue from the new residential recycling programme slated to commence in January 2012.

General operating expenses are estimated to be \$16,681,184 in 2012 compared to \$16,556,425 in 2011 which represents a 0.75% increase.

**General Government Expenses (Appendix 2 Page 3)**

General government expenses includes the Administration, Finance and IT departments as well as shared Administration/Finance cost centres. In 2012, the total expenditures for this function are forecast to be \$1,741,860 which is a 1.07% increase from 2011. The new indemnity rates for Mayor and Council become effective December 1, 2011 and the IT function includes additional funding for fibre optic Internet access to effectively accommodate the city's growing need for bandwidth.

Fire Protection (Appendix 3 Page 6)

In 2012, the expenditures for this department are forecast to reduce to \$1,261,200 compared to \$1,313,150 in 2011 which represents a -3.96% reduction. On a net basis (after accounting for revenues) the reduction in 2012 is -4.18%.

These reductions have been accomplished by cutting employment costs in the fire department to more accurately reflect actual including the elimination of the retro pay budget no longer required in 2012. Some regular and reoccurring capital costs which could reasonably be considered operating costs have been transferred from capital to operating. An example of such costs is turnout clothing. Additional funding has also been committed to the fire station function to accommodate increases in utility costs and maintenance.

Planning, Building and Bylaw Enforcement (Appendix 4 Page 8)

The operating expenditures for 2012 for this department are forecast to be \$807,700 compared to \$728,640 in 2011. This represents a 10.85% increase.

Most of the increase can be attributed to Non-TCA's which relate to a variety of different planning studies emanating from the OCP. Excluding non-TCA's, operating costs are forecast to fall by -0.44% over 2011 and -7.46% over 2010.

RCMP and Court House Services (Appendix 5 Page 10)

In 2012, this budget is estimated to be \$1,730,500 compared to \$1,693,300 in 2011. This is equivalent to an increase of 2.20%. This budget includes the contract cost for 11 municipal members. A twelfth member is budgeted for in 2013.

As the city is contracted to receive its policing services under the 1992 Municipal Policing Agreement, it is obligated to pay for certain costs as well as provide a public safety building. This contract is scheduled to be renewed in March 2012 but negotiations between the province and the federal government are still in progress and it is unlikely that a resolution will be achieved by that date. Regardless, it is not anticipated that there will be any significant change to the city's costs.

The Court House budget has not been cut. This is an aging (historic) building and requires a high level of upkeep. The rent received from the building tenants equates approximately to the expenses, excluding capital.

Public Works and Engineering (Appendix 6 Page 12)

This department's budget for 2012 is \$3,999,176 compared to \$4,243,144 in 2011 which represents a -5.75% decrease. A substantial portion of the reduction can be attributed to the snow removal and sanding budget which has been reduced from \$1,258,100 in 2011 to \$1 million in 2012. However, it is felt that this level of funding should be sufficient to meet the requirements of a normal snowfall year. The intention is to try and build up the Snow Removal Reserve Fund to a level that would be sufficient to equalize costs in a year of heavy precipitation.

The garbage collection and disposal function now includes the residential recycling contract costs which commences in 2012.

Community Economic Development (Appendix 7 Page 16)

A significant proportion of this function's budget relates to projects which are funded by grants or other third party funding (e.g. Hotel Tax). So these expenditures have been excluded from the percentage reduction calculations.

This department's budget for 2012 is \$1,296,850 compared to \$1,399,900 in 2011 - a -7.36% decrease. However, after excluding third party funded projects, the increase in expenditures for 2012 becomes 0.26%.

Funding of \$25,000 has been included in this budget for the Tourism Development Coordinator position in 2012 only.

The Social Development Coordinator will continue to be funded at \$50,000 with 50% of this cost being provided by Gas Tax Funds, unless an alternative source of funding can be established. The financial plan anticipates that this position will continue for the foreseeable future.

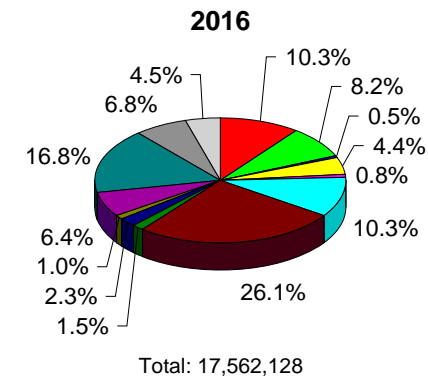
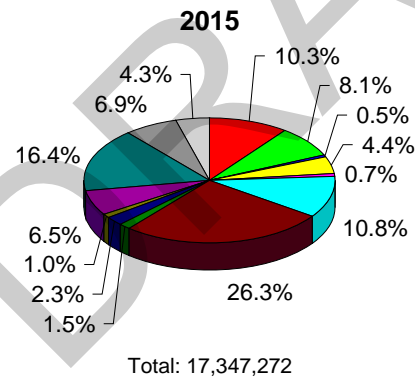
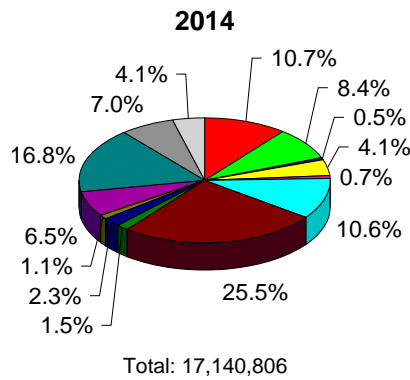
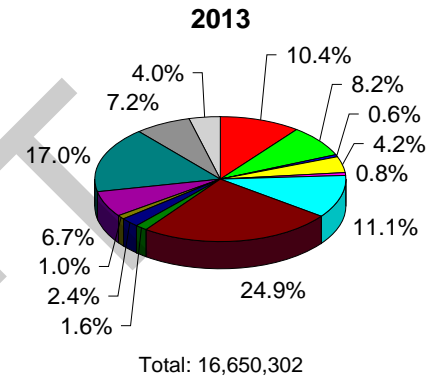
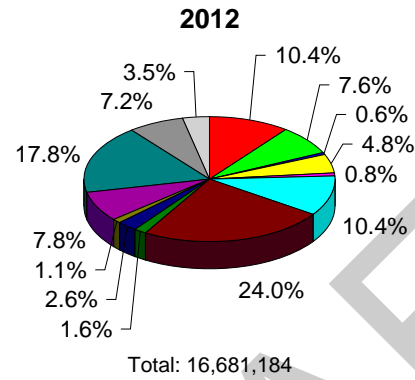
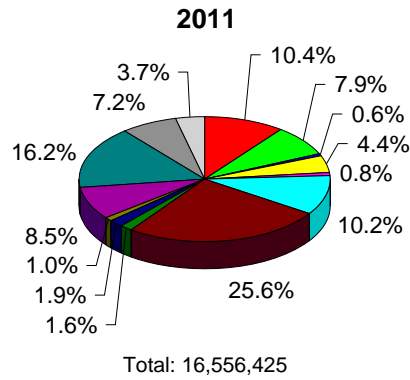
Parks, Recreation and Culture (Appendix 8 Page 18)

In 2011 the budget for this function was \$2,674,385 and in 2012 it is estimated to be \$2,964,235. This represents an increase of 10.84%. Excluding SILGA and non-TCA's the increase becomes 5.17% over 2011 and 4.23% over 2010.

This function's budget has been set based on the assumption that services will continue at the same level as before.

In December 2010 the CSRD gave the city notice of termination of the recreation cost sharing agreement. The city and the CSRD are in the process of negotiating a new agreement which will likely see a reduction in the contribution coming from Area B. This financial plan incorporates the expected new funding formula and the reduced revenue. Nevertheless, revenues are anticipated to rise by 3.86% in 2012, excluding SILGA.

General Operating Expenses



- General Government
- Fire Protection
- Provincial Emergency Program
- Planning, Building and Bylaw Enforcement
- Animal and Pest Control
- Police and Court House services
- Public Works
- Transit
- Environmental Health (Garbage collection and Recycling)
- Public Health and Welfare (Cemetery)
- Community Economic Development
- Recreation and Culture
- Amortization of capital assets
- Debt interest payments

UTILITIES

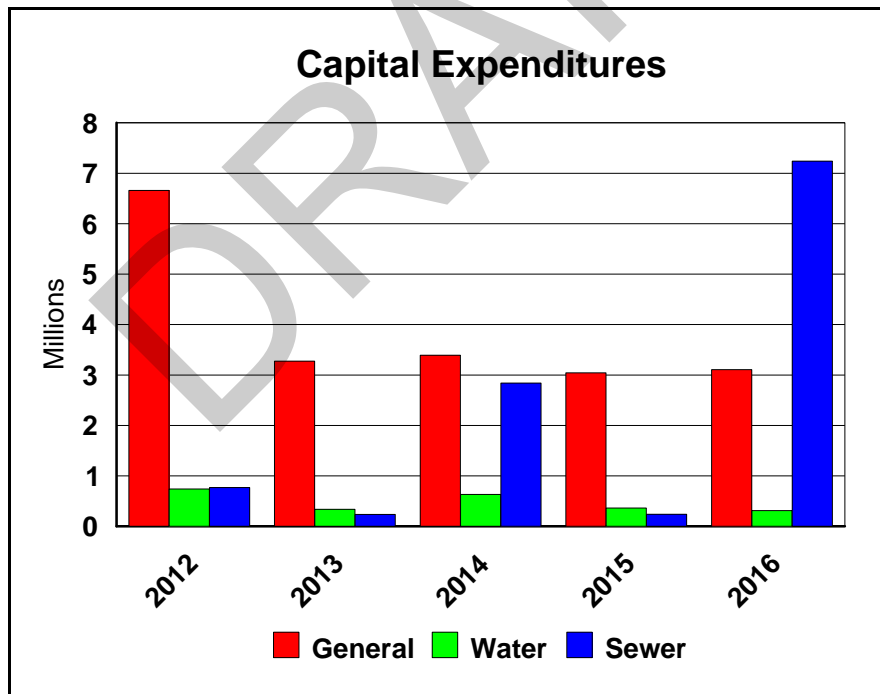
Water Operating (Appendix 28 Page 53)

Water rates are anticipated to rise by about 2% a year over the first 3 years of the financial plan with a more substantial increase of 9.97% in 2015 and 4.00% in 2016. This will help to ensure that sufficient funds are generated to help pay for future infrastructure maintenance and upgrades but they do little to ensure that the water capital reserve fund is maintained at a high enough balance. It may be necessary to consider even higher rate increases to ensure that there is sufficient funding to meet future capital expenditures.

Sewer Operating (Appendix 29 Page 54)

Sewer rates are anticipated to rise by 3.72% in 2012, 2.56% in 2013, 17.50% in 2014, 6.38% in 2015 and 6.00% in 2016. This will help to ensure that funds are generated to help pay for anticipated infrastructure maintenance and upgrades. However, the Sewer Replacement Reserve Fund is not being adequately funded when considered in association with capital spending and, therefore, it may be necessary to increase rates significantly more in future years.

CAPITAL



General capital (Appendix 10 - page 21)

Total general capital expenditures in 2012 are anticipated to be \$6,661,198 compared to \$5,539,407 in 2011. Each of these numbers includes both TCA and Non-TCA projects.

In order to fund capital projects, the transfer to reserve funds from general operating in 2012 amounts to \$1,561,000 compared to \$1,297,000 in 2011. Even with this increased transfer, reserve fund balances continue to remain at low levels.

Water capital (Appendix 10 - page 32)

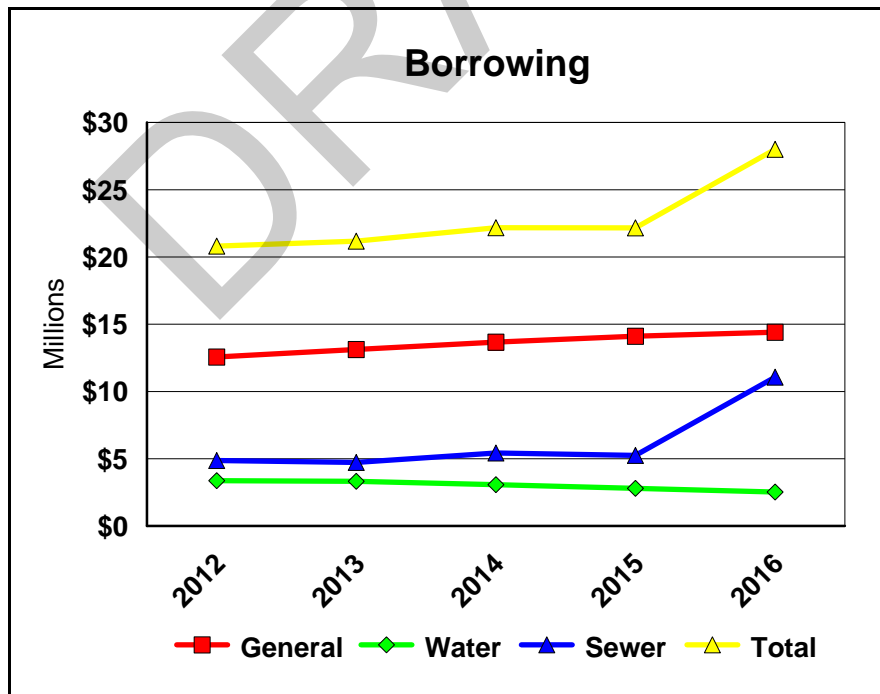
Total water capital expenditures are estimated to be \$739,400 in 2012. This includes \$348,000 re-budgeted from 2011 for the construction of a road to the Arrow Heights reservoir and realignment of a water line across private land which is still in the process of negotiation at the time of writing this report.

Sewer capital (Appendix 10 - page 33)

Total sewer capital expenditures are estimated to be \$770,000 in 2012. In 2016, the estimated capital expenditures are \$7,240,000 which includes an estimate of \$4.5 million for the sewer treatment plant discharge relocation. It is not certain at this stage whether or not grants will be available from senior governments to help defray the cost of this project. If it does have to be fully borrowed then it will have a significant impact on our borrowing levels.

Borrowing (Appendix 11 - page 35)

At the beginning of 2012 it is estimated that the city’s long term debt will stand at about \$16 million. At the end of 2016, it is forecast to be \$28,004,097.



PROPERTY TAXES (Appendices 30 - 31 Pages 55-56)

The current scenario is based on an average 2.23% tax increase for 2012 across all classes, a 2.00% increase for 2013, a 2.00% increase for 2014, a 2.00% increase for 2015 and a 2.00% increase for 2016.

These increases assume a property tax growth rate (additional revenue generated from new construction) of 2.50% a year. The actual numbers will be determined by the amount of construction taking place, bearing in mind that there is a delay between the completion of a building and the taxation revenue generated therefrom.

The actual proposed increase for each of the property classes is as follows:

Class 1 Residential	2.00%
Class 2 Utility ¹	7.01%
Class 4 Major Industry	2.00%
Class 5 Light Industry	2.00%
Class 6 Business & Other	2.00%
Class 8 Seasonal	2.00%

What this means for a typical home or business owner can be seen in the following table:

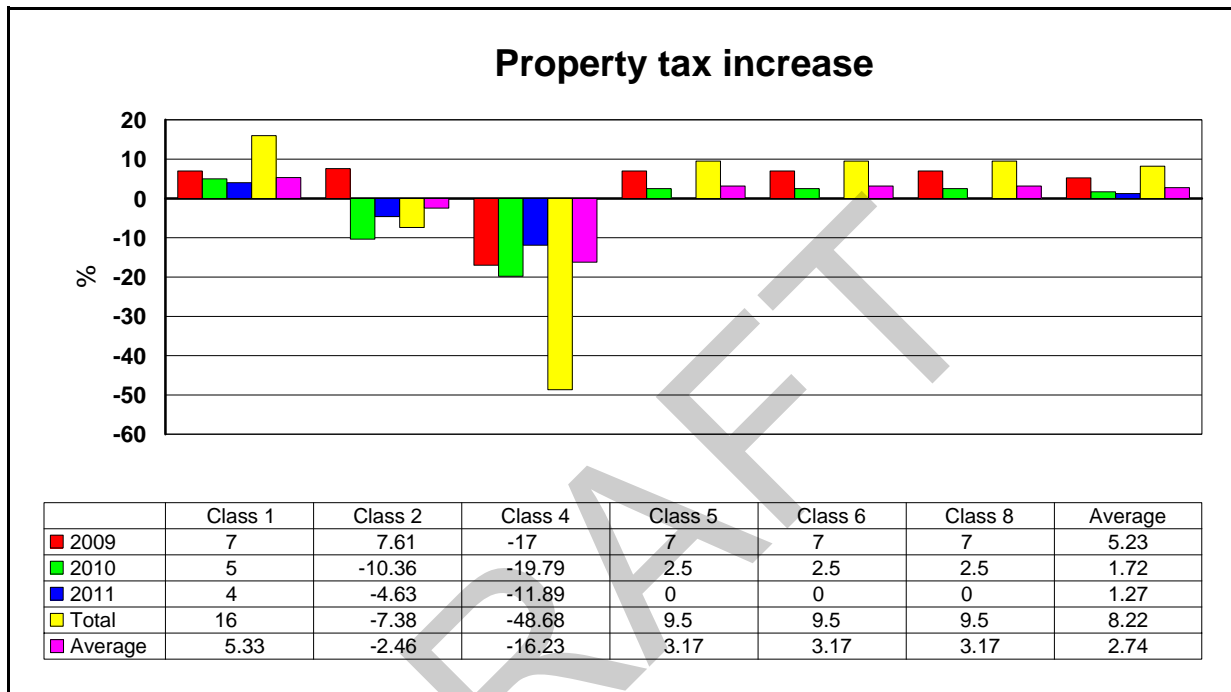
Residential	Class 1		Increase	House A	House B	House C	House D
Assessed value		2011		\$100,000	\$200,000	\$350,000	\$500,000
Assessed value		2012	-1.90%	\$98,103	\$196,206	\$343,361	\$490,516
			Rate				
Taxes		2011	3.5414	\$354	\$708	\$1,239	\$1,771
Taxes		2012	3.6821	\$361	\$722	\$1,264	\$1,806
Increase		\$		\$7	\$14	\$25	\$35
Increase		%		2.00%	2.00%	2.00%	2.00%
Business	Class 6		Increase	Business A	Business B	Business C	Business D
Assessed value		2011		\$100,000	\$250,000	\$500,000	\$1,000,000
Assessed value		2012	-4.68%	\$95,319	\$238,298	\$476,596	\$953,191
			Rate				
Taxes		2011	18.6329	\$1,863	\$4,658	\$9,316	\$18,633
Taxes		2012	19.9389	\$1,901	\$4,751	\$9,503	\$19,006

¹ The Class 2 rate is restricted to 2.77 times the Class 6 rate in accordance with Bill 55. The disparity in assessment values between the two classes often results in a different property tax increase or decrease for Class 2.

The city’s policy is that the target level for residential taxes be 50% of the overall taxation burden. In 2012, this percentage is 50.14% after accounting for revenue from new construction.

The ratio of the Class 6 to Class 1 rate becomes 5.42 in 2012 compared to 5.26 in 2011. This ratio will likely change once the actual assessment numbers are known for 2012.

Over the last three years property tax increases have been as follows:



CONCLUSION

Overall, general operating expenditures for 2012 have been contained well within COLA in spite of employment and energy cost pressures. Capital projects continue to increase both in terms of number and anticipated costs as our infrastructure continues to age and deteriorate. At the same time little is being done to increase our reserve funds to meet future needs. This is particularly evident in the utility funds.

Progressive and modest property tax increases over the term of the plan, coupled with moderate growth, should provide additional funds sufficient to augment our reserves and obviate the need to borrow for some projects, for example road reconstruction. Clearly, the forecast increase in debt over the term of the plan is a concern. Additional borrowing can only be avoided if projects are not undertaken or if they are funded from alternative sources.

Our available resources at the end of each fiscal year in the plan can be seen from the following table:

	2012	2013	2014	2015	2016
Reserve Funds:					
Building	1,763	313	6,991	5,803	10,194
Cemetery	4,258	370	3,976	8,788	7,177
Fire Capital Replacement	10,275	9,764	9,227	6,101	7,431
Recreation Capital Replacement	1,244	2,802	4,233	4,146	7,131
Equipment Replacement	8,038	2,782	4,233	1,145	5,077
Park land Cash in lieu	232,725	238,594	244,609	250,775	257,094
Land Sale	399,673	455,571	515,662	580,260	649,703
Community Centre Operating	200,000	200,000	200,000	200,000	200,000
Water Replacement	132,815	150,526	12,092	3,472	42,595
Sewer Replacement	165,400	84,495	57,970	4,493	14,968
Snow Removal	0	0	0	0	0
Liability Self-insurance	39,975	40,974	41,999	43,049	44,125
Police Station Capital	4,788	927	973	1,022	1,073
	\$1,200,952	\$1,187,118	\$1,101,966	\$1,109,053	\$1,246,567
Development Cost Charges					
Future Services Upgrading	\$1,502,935	\$2,605,178	\$3,451,608	\$4,603,730	\$5,805,414
	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Electric Utility Reserve Fund					
Operating Surpluses:					
General	314,473	473,311	660,533	1,324,417	2,155,440
Water	13,667	54,204	44,213	2,740	19,238
Sewer	222,772	136,792	84,834	102,609	24,852
	\$550,912	\$664,307	\$789,580	\$1,429,765	\$2,199,530
TOTAL	\$4,254,799	\$5,456,603	\$6,343,154	\$8,142,549	\$10,251,512

Development cost charges can only be used to fund projects specifically identified in the Development Cost Charges bylaw.