

The Corporation of the City of Nelson



CITY OF NELSON

2019-2023 Proposed
Draft Financial Plan
March 18, 2019



CITY OF NELSON

Agenda

1. **Introduction**
2. **Quick Facts**
3. **2019 – 2023 Financial Plan Process**
4. **2019 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

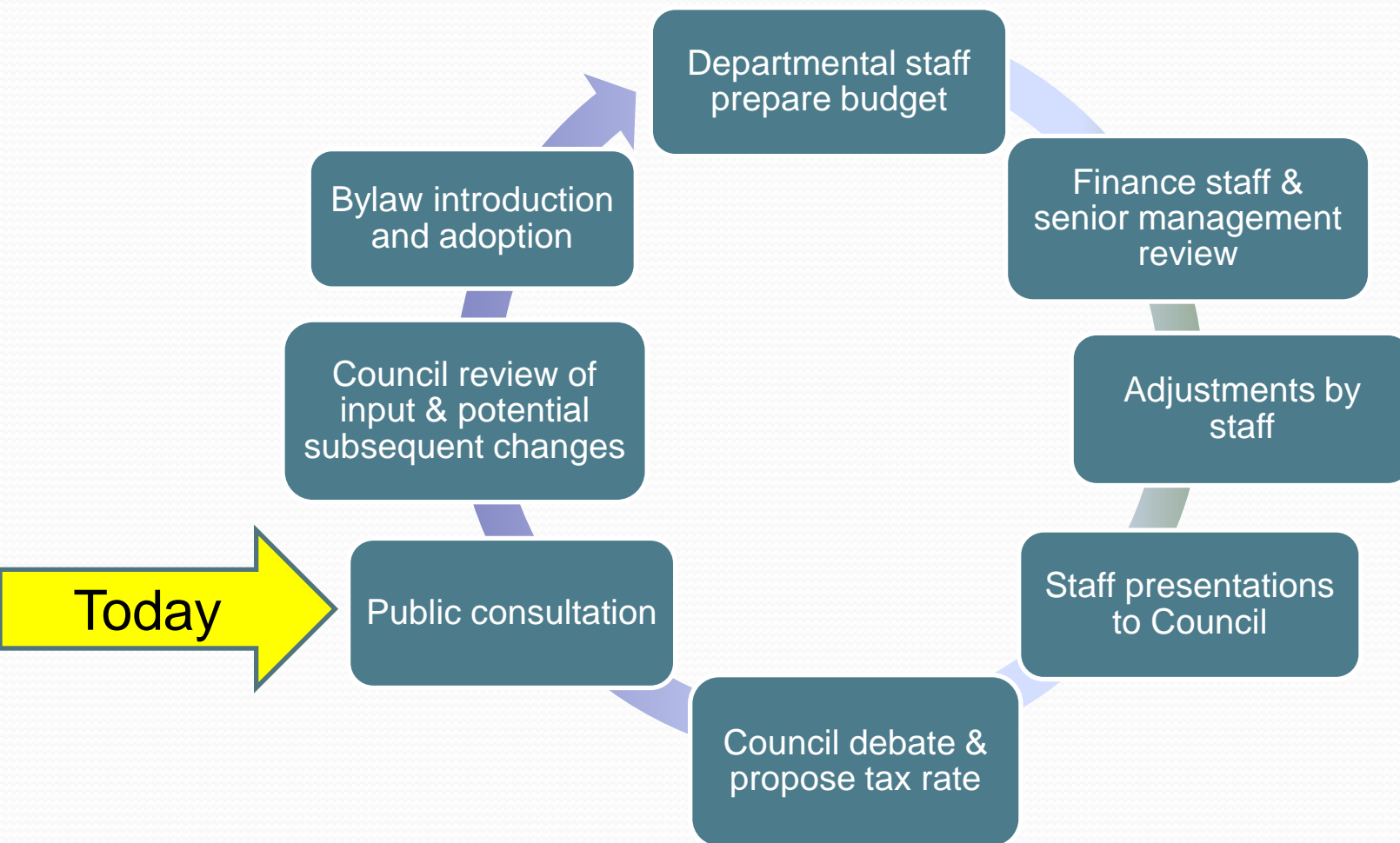
2019-2023 Proposed Financial Plan

- 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 growth in BC expected to be 2.6% in 2019
- 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 2018 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

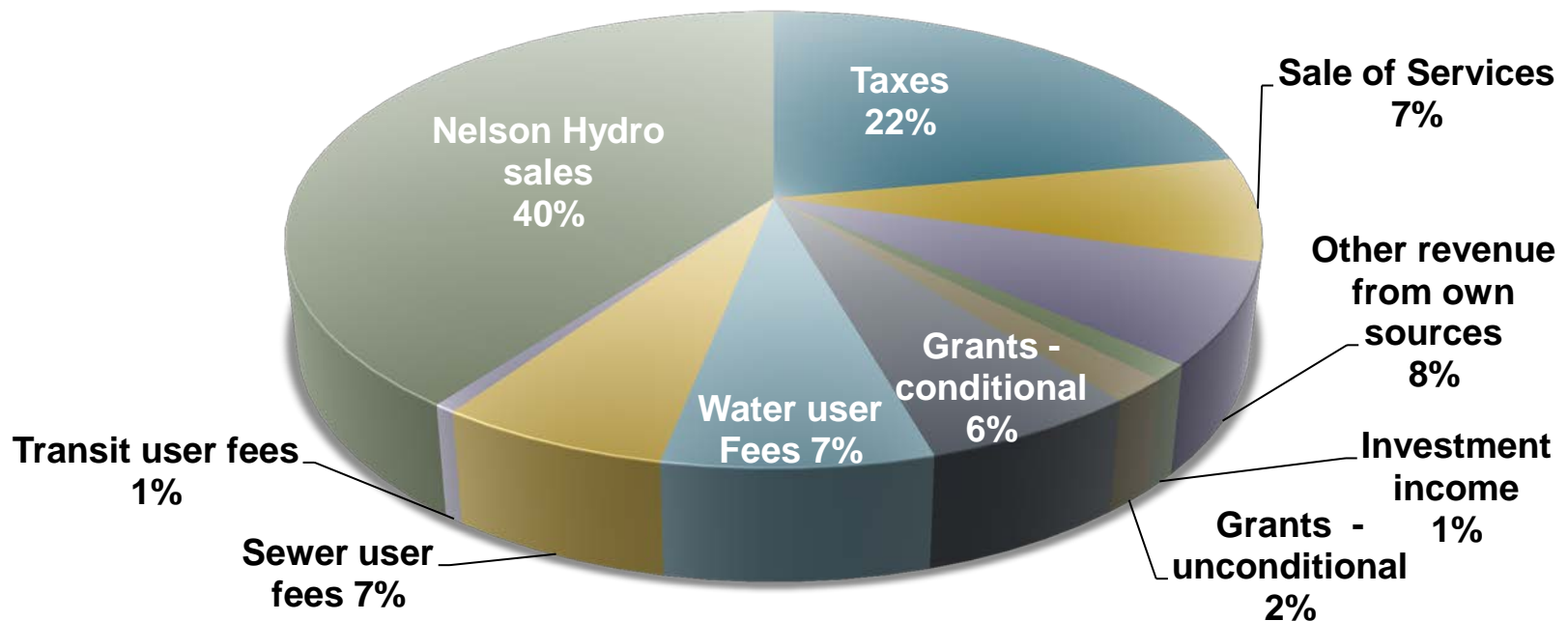
Operating Expenses

Quick Facts

- All City operational revenue \$46 Million
- Total operational expenses \$39 Million
- Revenue over expenses pay down debt & flow into Operational and Capital reserves
- General Fund Operational expense and allocations to reserves is budgeted at \$22.1 M in 2019, funded by \$10.4M in Taxation (approx. 2 to 1 ratio)
- A 1% increase in taxation produces about \$90,000 to cover operational expenditures
- The dividend from Hydro to operations is equal to a 32% tax increase
- Only Municipality in Western Canada that generates and distributes electricity
- 171 Regular Employees

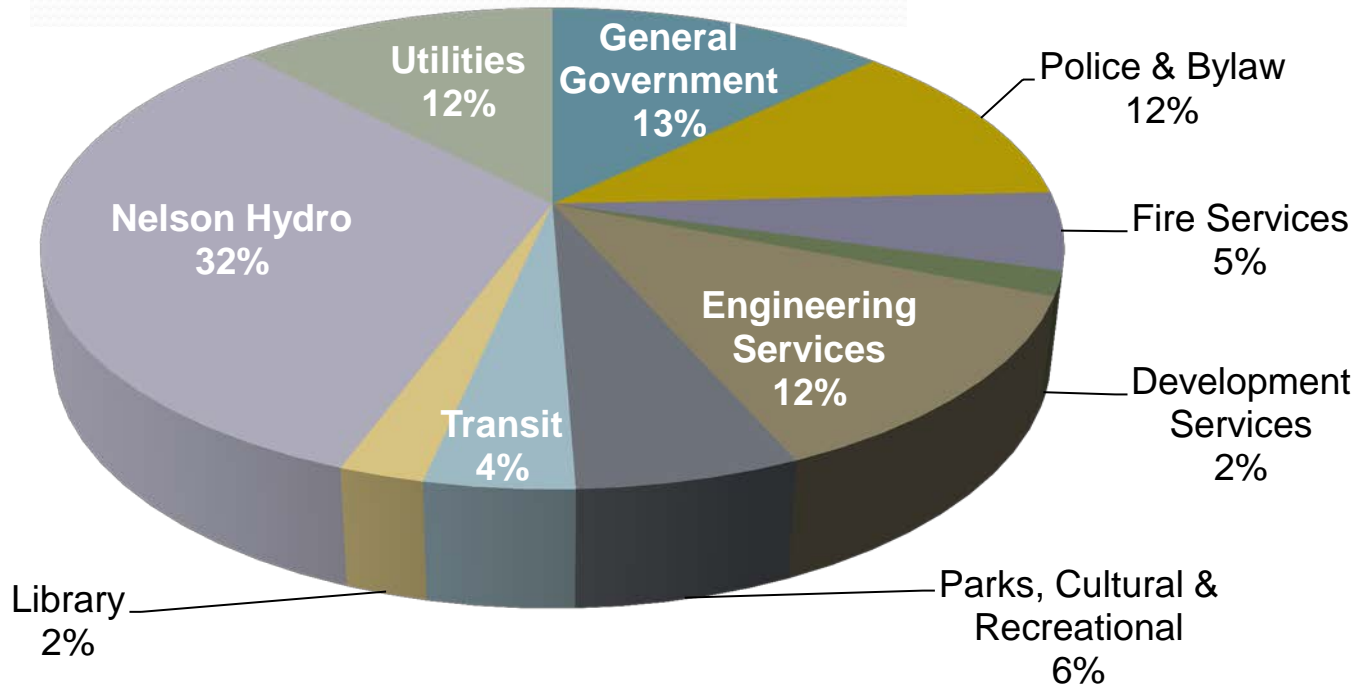
City of Nelson 2017 Operating Revenues

Taxes	\$10,188,590
Sale of Services	3,393,001
Other revenue from own sources	3,298,250
Investment income	523,976
Grants - unconditional	784,993
Grants - conditional	2,829,650
Water user fees	3,490,223
Sewer user fees	3,001,144
Transit user fees	282,828
Nelson Hydro sales	<u>18,353,665</u>
	\$46,146,320



City of Nelson 2017 Operating Expenses

General Government	\$5,040,004
Police & Bylaw	4,486,190
Fire Services	2,058,971
Development Services	644,344
Engineering Services	4,861,685
Parks, Cultural & Recreational	2,349,929
Transit	1,568,395
Library	893,786
Nelson Hydro	12,693,855
Utilities	<u>4,760,405</u>
	\$39,357,564



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	✓		✓

2019 Budget Overview

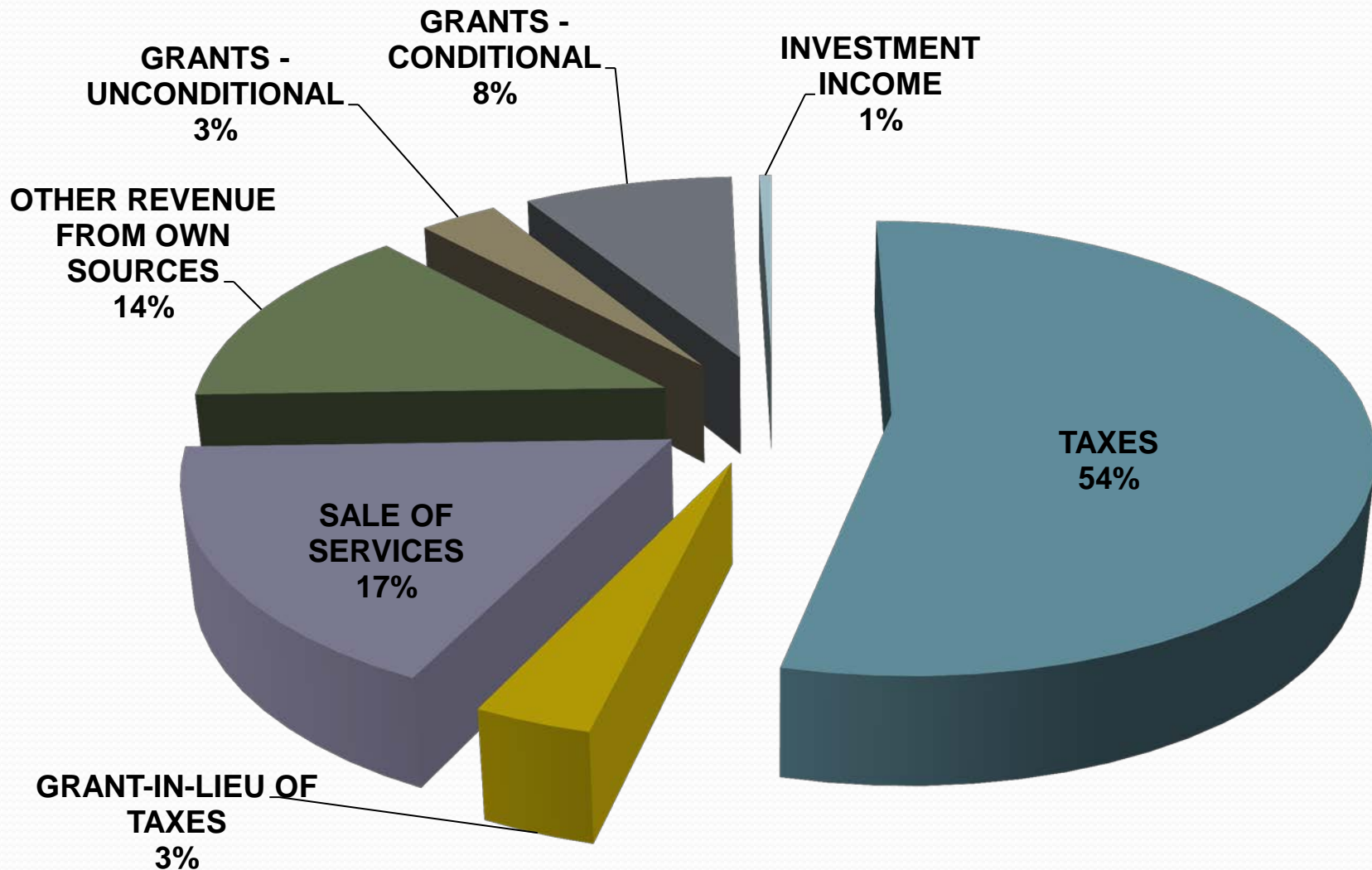
Highlights:

- New market construction taxation revenue generation for 2019 is expected to be \$79,000
- A 2% property tax increase was recommended, however, in working with our partners in the RDCK and some proposed funding changes for regional parks and emergency management this may change
- Council has not had a chance yet to discuss and decide how they would like to handle the proposed new funding
- Water & Sewer overall rate increase of 1.75% or \$19 for a home; rate reallocation dropped water rates by \$192 and increased sewer rates by \$211 (with discounts)
- Hydro rate increase effective April 1, 2019 of 1.5% urban and 2.94% rural
- No change in garbage and recycling fees

2019 Capital Budget:

- \$15.8M including General, Water, Sewer & Hydro

2019 Operating Budget Revenues



Operating Fund - How did we get there?

Starting Operating Budget Shortfall?		\$(202,000)
Revenues		
New Development – Taxation		79,000
Increase in Grants in Lieu of taxes		30,000
Increase in Parkade revenue		90,000
Increase in expected building/dev permit rev		125,000
Loss of Youth employment grant		(120,000)
Net proposed funding from regional parks		158,000
Increase parking meter revenue		<u>60,000</u>
Total Change in Revenues		<u>\$422,000</u>

Operating Fund - How did we get there?

Expenditure Additions/Reductions	
Temporary Summer Beat Officer	\$(31,000)
Increase in Public Works staff for graveyard shift	(131,000)
No Election expenses in 2019	20,000
Increase in funding to Capital reserve from parking	(60,000)
Increase to Building Inspection staffing	<u>(50,000)</u>
Balance after revenue & expense adjustments	-32,000
Proposed 2% Taxation increase revenue	<u>180,000</u>
Surplus after adjustments	<u>\$148,000</u>

Operating Fund

Revenue Sources

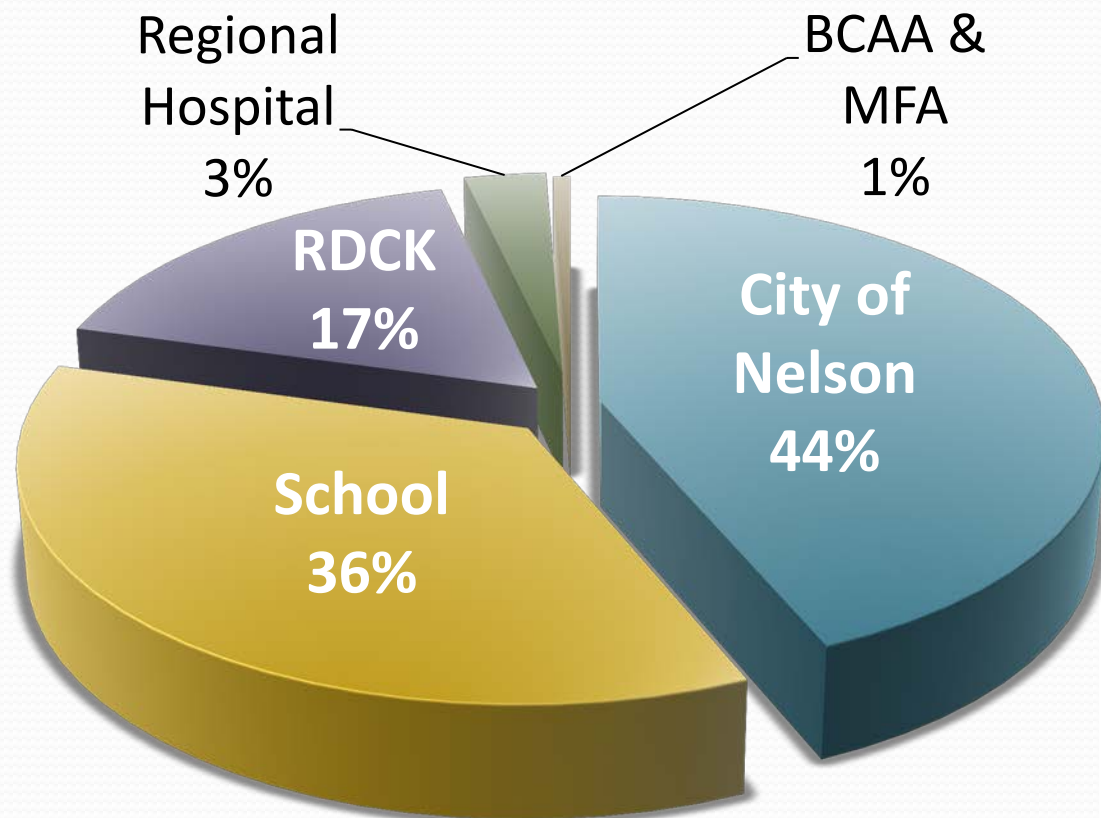
Operating Expenses

Capital Plan

Taxation

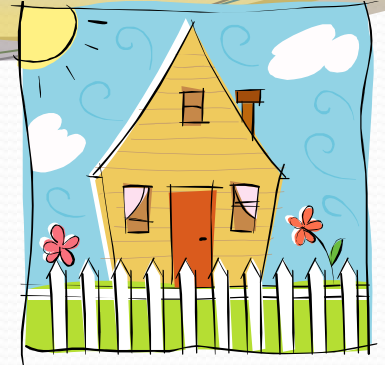
- Who does the City collect taxes for?
- $\text{Assessment} * \text{Tax Rate} = \text{Property Taxes}$
- What is the proposed change for 2019?

2018 Tax Collection Over All Gov't Sectors



City of Nelson	\$10,419,352
School	8,568,817
RDCK	4,080,902
Regional Hospital	721,113
BCAA & MFA	153,720
Total	\$23,943,904

Taxation - Assessment

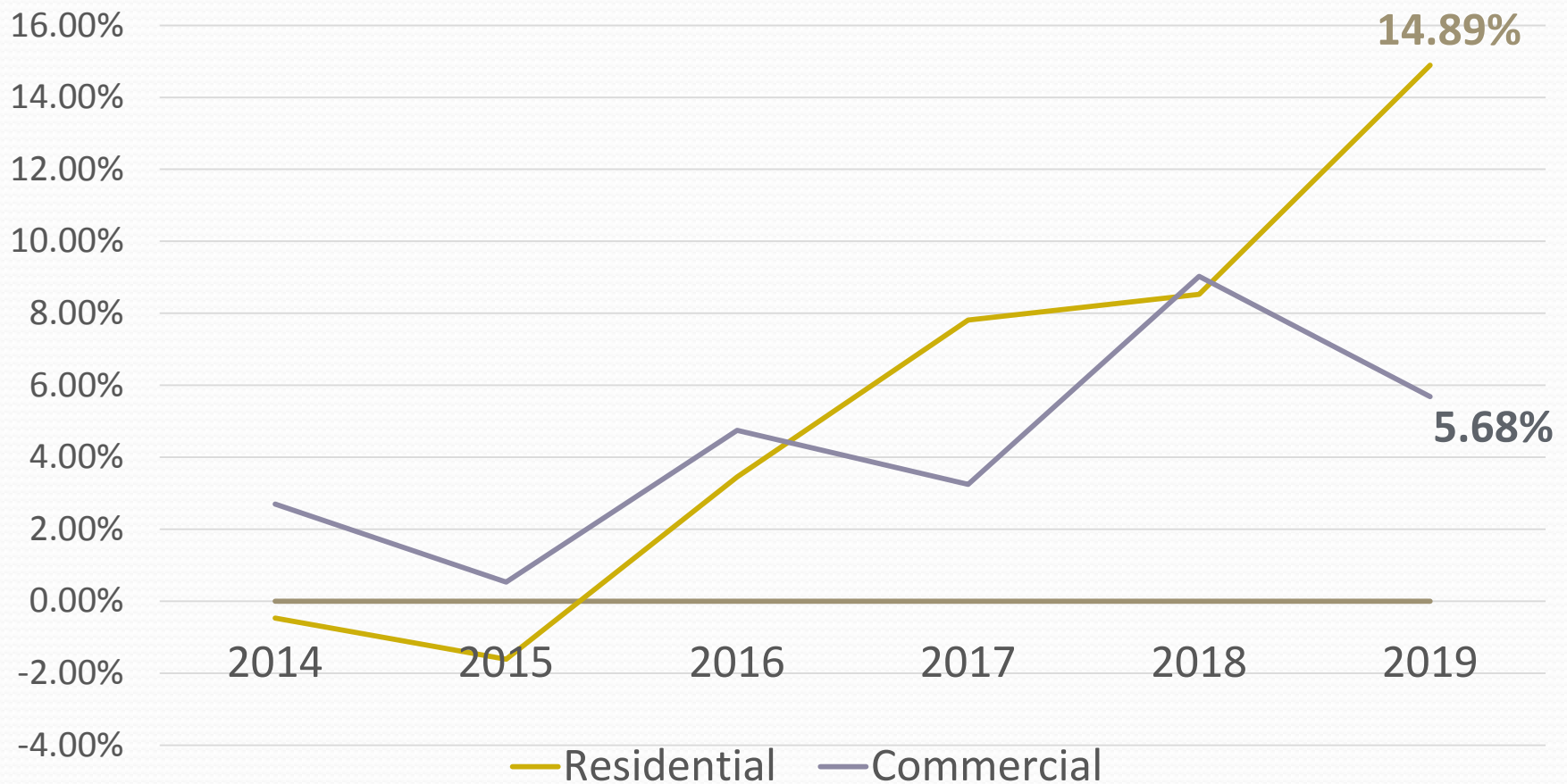


- ▶ BC Assessment is a provincial Crown corporation that determines the market value of all real properties in BC.
- ▶ After determining correct classification, actual value and exemption status of every property, BC Assessment provides taxing authorities with an Assessment Roll which lists all properties,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

Tax Revenues: Growth – Where does it come from?

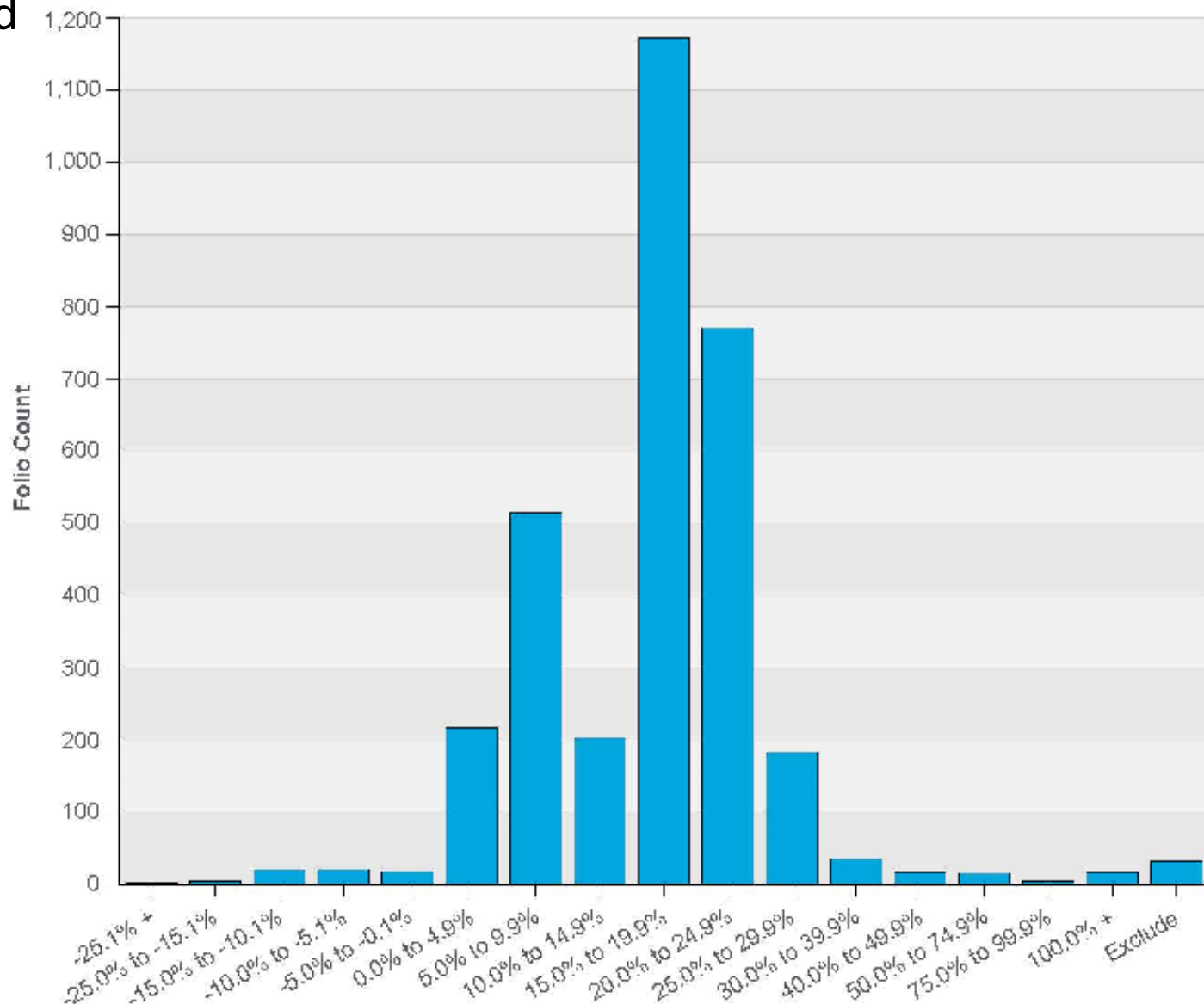
- New revenue only exists when there is new assessment
- Increase in “inventory” i.e. through subdivision or new construction
- General increases in market value do not generate more tax dollars
- Past couple of years has resulted in moderate new revenues from growth

BC Assessment: Year over Year Market Changes 2014 - 2019



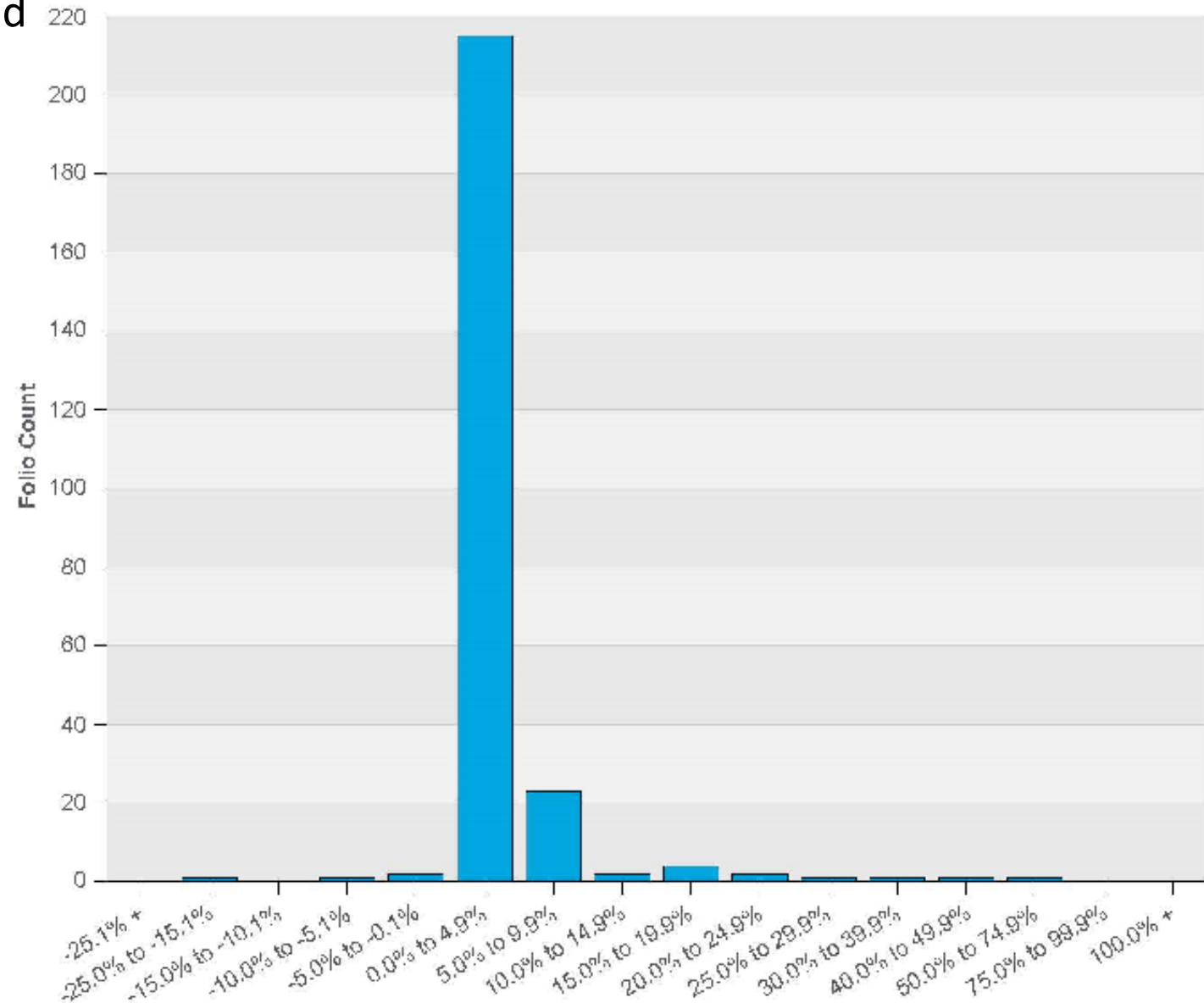
Residential Improved Properties

Total % Chg Category	Folio Count
-25.1% +	2
-25.0% to -15.1%	4
-15.0% to -10.1%	21
-10.0% to -5.1%	20
-5.0% to -0.1%	18
0.0% to 4.9%	217
5.0% to 9.9%	514
10.0% to 14.9%	203
15.0% to 19.9%	1,172
20.0% to 24.9%	771
25.0% to 29.9%	183
30.0% to 39.9%	35
40.0% to 49.9%	17
50.0% to 74.9%	16
75.0% to 99.9%	4
100.0% +	17
Exclude	32
Included Folio Count	3,214



Commercial Improved Properties

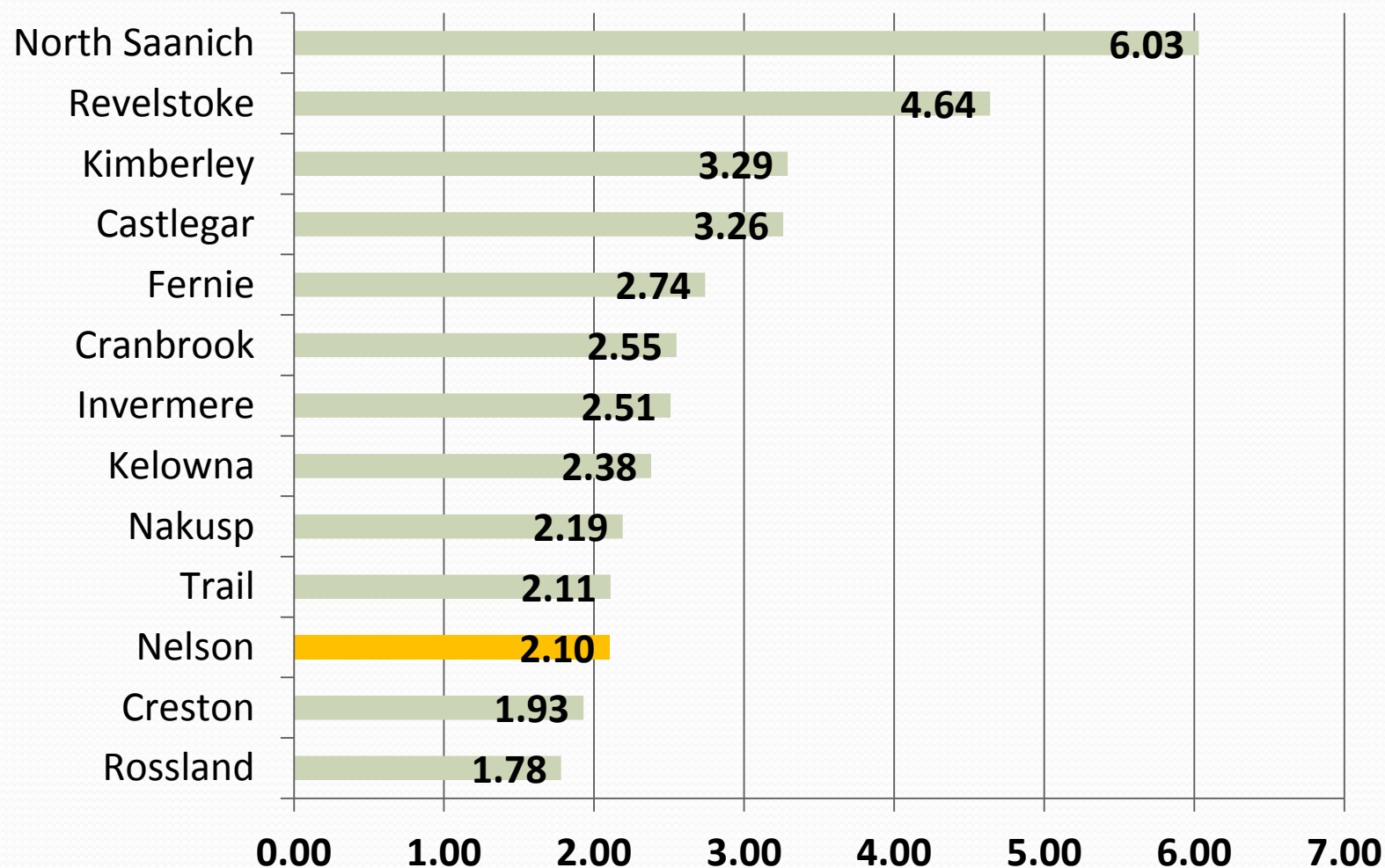
Total % Chg Category	Folio Count
-25.1% +	0
-25.0% to -15.1%	1
-15.0% to -10.1%	0
-10.0% to -5.1%	1
-5.0% to -0.1%	2
0.0% to 4.9%	215
5.0% to 9.9%	23
10.0% to 14.9%	2
15.0% to 19.9%	4
20.0% to 24.9%	2
25.0% to 29.9%	1
30.0% to 39.9%	1
40.0% to 49.9%	1
50.0% to 74.9%	1
75.0% to 99.9%	0
100.0% +	0
Included Folio Count	254



Effect of Assessments in 2019

Property Class	2018 Assessed Values	2019 Assessed Values	% Change Due to Market	% Change Overall
Residential	\$1,564,572,200	\$1,820,405,900	14.89%	16.35%
Utility	107,638,295	109,669,495	2.39%	1.89%
Light Industry	1,644,200	1,704,500	3.67%	3.67%
Business	255,563,950	270,087,100	5.26%	5.68%
Non-Profit	2,211,700	2,324,700	5.11%	5.11%
Total	\$1,931,630,345	\$2,204,191,695	12.9%	14.1%

2018 Business Tax Class Multiples

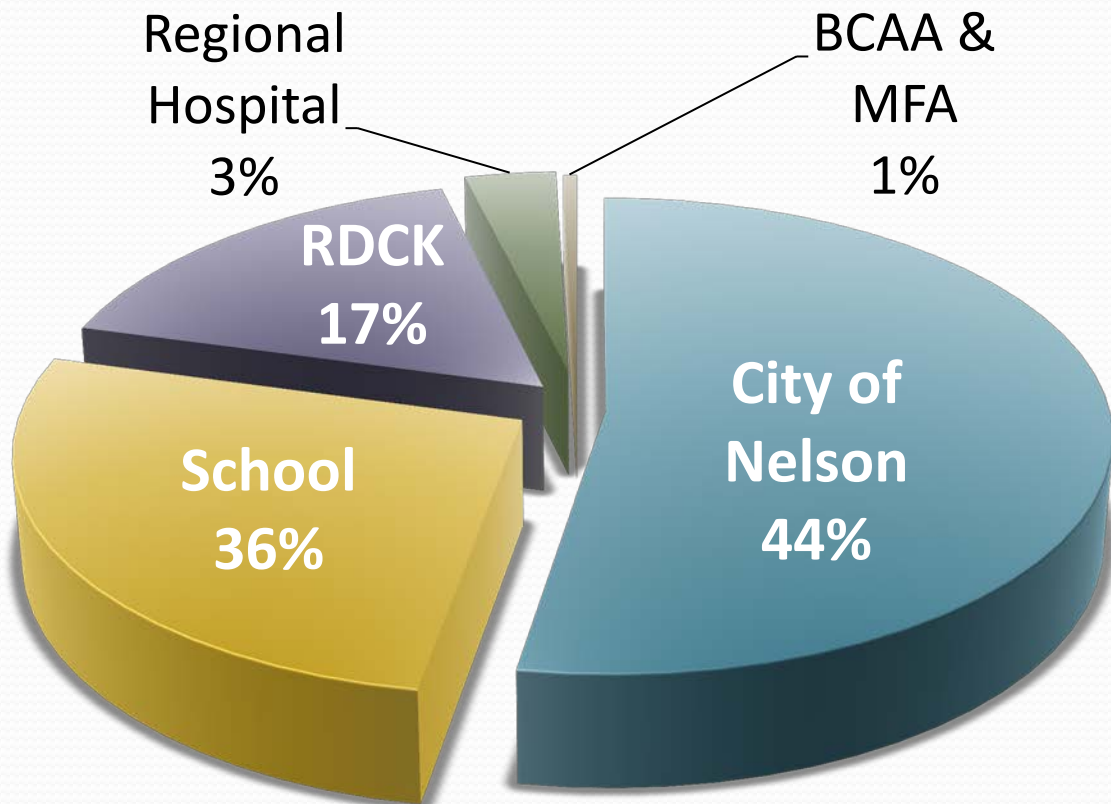


Note: Provincial business class multiple is 2.45 for RDCK , Hospital and School tax

Property Taxes & Assessments

Property Class	2019 Assessed Values	Assessed Value Percentages	% of Property Taxes Levied
Residential	\$1,820,405,900	82.5%	73.4%
Utility	109,669,495	5.0%	1.3%
Light Industry	1,704,500	0.1%	0.1%
Business	270,087,100	12.3%	25.1%
Non-Profit	2,324,700	0.1%	0.1%
Total	\$2,204,191,695	100%	100%

2018 Tax Distribution of Average Single Family Dwelling (SFD)



City of Nelson	\$1,689
School	855
RDCK	541
Regional Hospital	109
BCAA & MFA	16
Total	\$3,210

2019 Proposed Budget

Effect on an
Average SFD

Average Single Family Dwelling
\$455,000

2018

2019

Net
Change

Net
Monthly
Change

Property Tax (municipal only)

\$1,689

\$1,689

\$0

\$0

Water Rates (after discount)

549

357

-192

-16.00

Sewer Rates (after discount)

469

680

211

17.58

Resource Recovery (fee + bag tag)

118

118

0

0

Overall

\$2,825

\$2,844

\$19

\$1.58

2019 TAX EFFECT ON AVERAGE SFD

	2018	2019	Net Change	Net Monthly Change
Assessed Value	\$393,000	\$455,000	\$62,000	n/a
Municipal Property Tax	1,689	1,689	0	0.00
RDCK tax requisition	541	618	77	6.17
West Kootenay Hospital requisition	109	118	9	0.75
BC Asses/MFA tax requisition	16	16	0	0
School Tax requisition	855	855	0	0
Overall	\$3,210	\$3,296	\$86	\$7.17

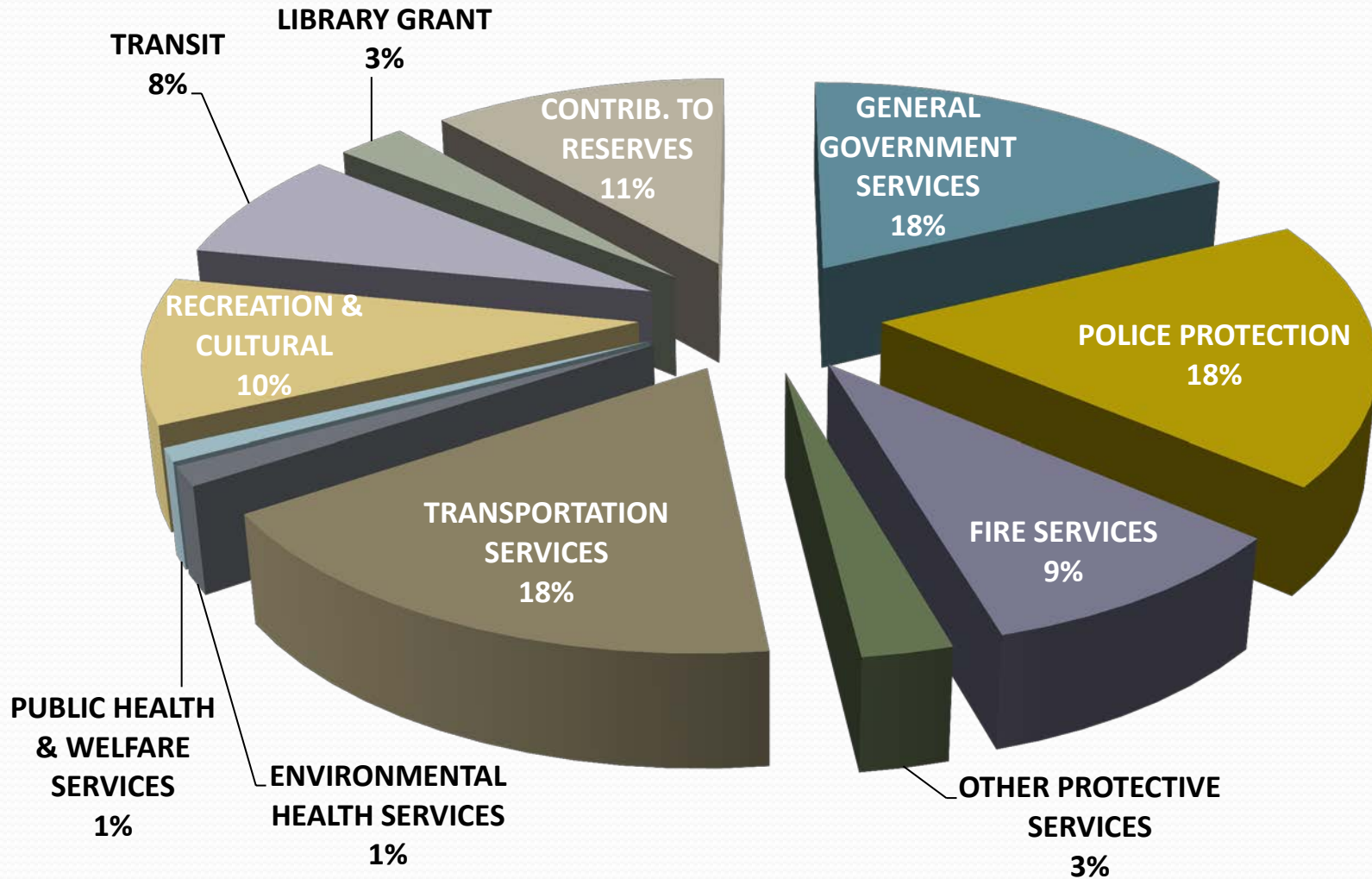
2019 TAX EFFECT ON AVERAGE SFD

	2018	2019	Net Change	% Change
Assessed Value	\$393K	\$455K	\$62K	15.8%
Municipal Property Tax	1,689	1,689	0	0.0%
RDCK tax requisition	541	618	77	14.2%
West Kootenay Hospital requisition	109	118	9	8.3%
BC Asses/MFA tax requisition	16	16	0	0
School Tax requisition	855	855	0	0
Less: Basic Home Owner Grant (HOG)	(770)	(770)	0.00	0.0%
Total Tax	\$2,440	\$2,526	\$86	3.5%

2019 Proposed Budget

Effect on \$1,000,000 Commercial Restaurant (50 seats)	2018	2019	Net Change	Net Monthly Change
Assessed Value	\$950,000	\$1,000,000	\$50,000	n/a
Property Tax (municipal only)	\$8,576	\$8,576	\$0	\$0
Water Rates (after discount)	1,644	1,070	-574	47.83
Sewer Rates (after discount)	1,400	2,028	628	52.33
Overall	\$11,620	\$11,674	\$54	\$4.50

2019 General Budget Expenditures



Transit

	2018 Budget	2019 Budget
Transit operating costs	\$1,410,000	\$1,506,000
Debt service costs	<u>206,000</u>	<u>223,000</u>
Total costs	<u>\$1,616,000</u>	<u>\$1,729,000</u>
Fares	\$261,000	\$281,000
BC Transit/RDCK	1,037,000	1,126,000
City Contribution	<u>318,000</u>	<u>322,000</u>
Total Funding	<u>\$1,616,000</u>	<u>\$1,729,000</u>

Overall Capital Plan – 2019 Highlights

Total Capital - \$15.8M

\$7.8M Water, Sewer & Hydro

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

\$8.0M General Capital

- Paving program, sidewalk & retaining wall improvements
- Building improvements (i.e. exteriors, mechanical systems)
- Vehicle & equipment replacements
- Park improvements

Proposed Facilities Program

	2018	2019
Required annual budget	\$1,701,000	\$1,982,000
Budgeted contribution	300,000	300,000
Shortfall	<u>\$1,401,000</u>	<u>\$1,682,000</u>
Proposed Funding		
Profit 310 Ward Street	\$180,000	\$180,000
Water Lic. Reserve	500,000	350,000
Community Works Fund	300,000	377,000
Grants	265,000	125,000
ARES Lessee Contribution	100,000	0
New Funding	<u>\$1,345,000</u>	<u>\$1,032,000</u>
Reserve (usage)	<u>\$56,000</u>	<u>\$650,000</u>

2018 Facilities Highlights

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

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

2019 Facilities Highlights

Heritage Restoration

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
- \$100k CBT Heritage grant

2019 Facilities Highlights

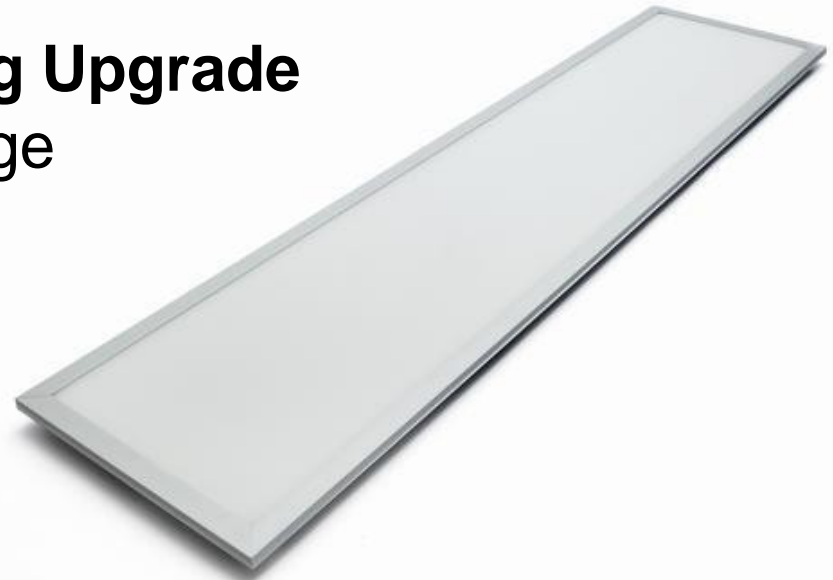
Energy Efficiency Initiatives

Government Place – LED Lighting Upgrade

- Successful pilot project of 1st & 2nd Floor completed in 2018; work with Province to complete remaining floors

Police & Library – LED Lighting Upgrade

- Drastically reduce energy usage and operating costs
- Improve quality of lighting for occupants



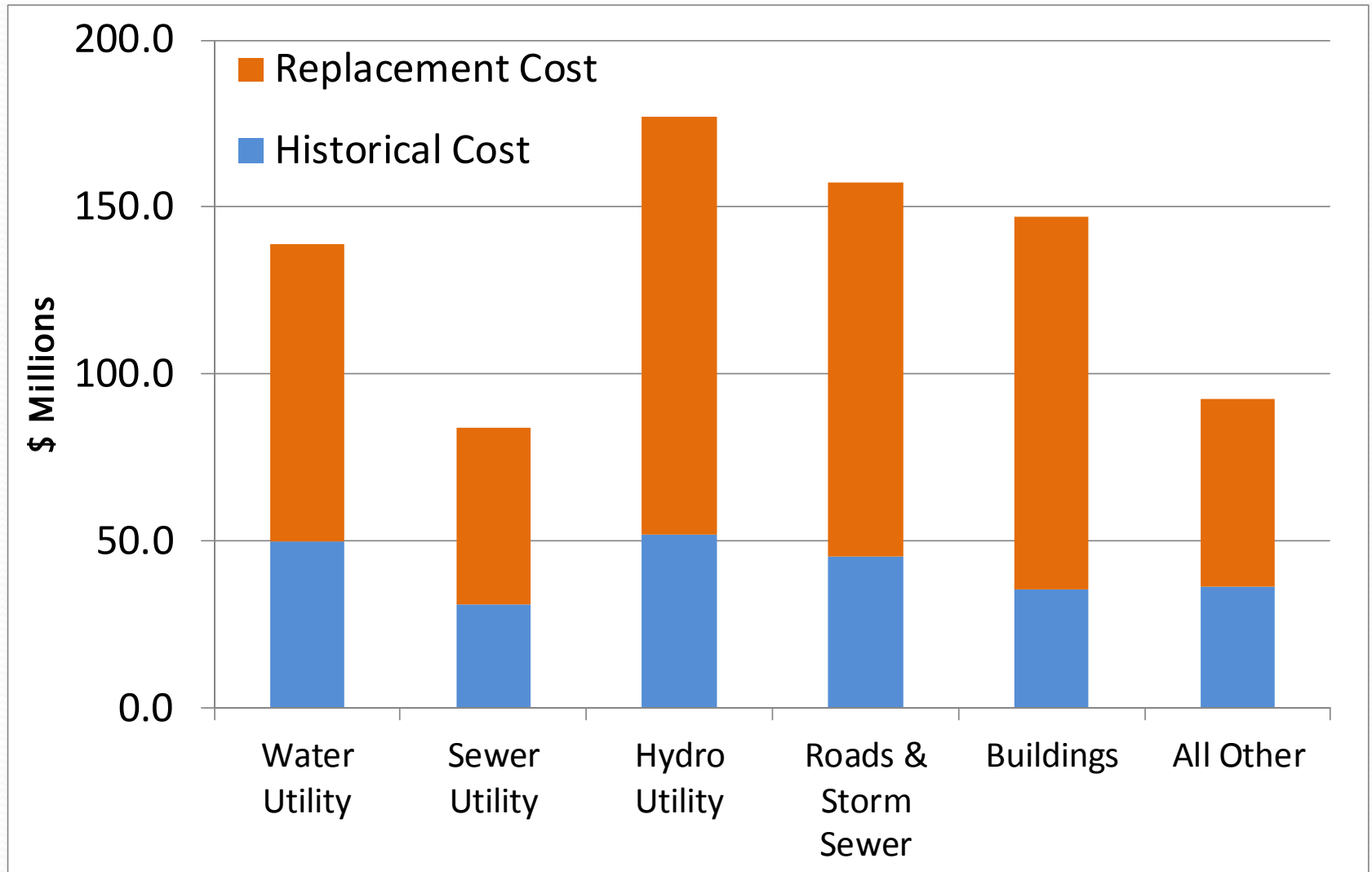
2019 Facilities Highlights

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 (4)



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, which describes the purpose of the reserve, how it is funded and what expenditures the funds can be used for.
- Examples:
 - Equipment replacement
 - Capital projects
 - Water licence
 - Land sales
 - Parks acquisition
- Non-utility statutory reserves at the end of 2017 was \$8.8M

Other Appropriated Surplus

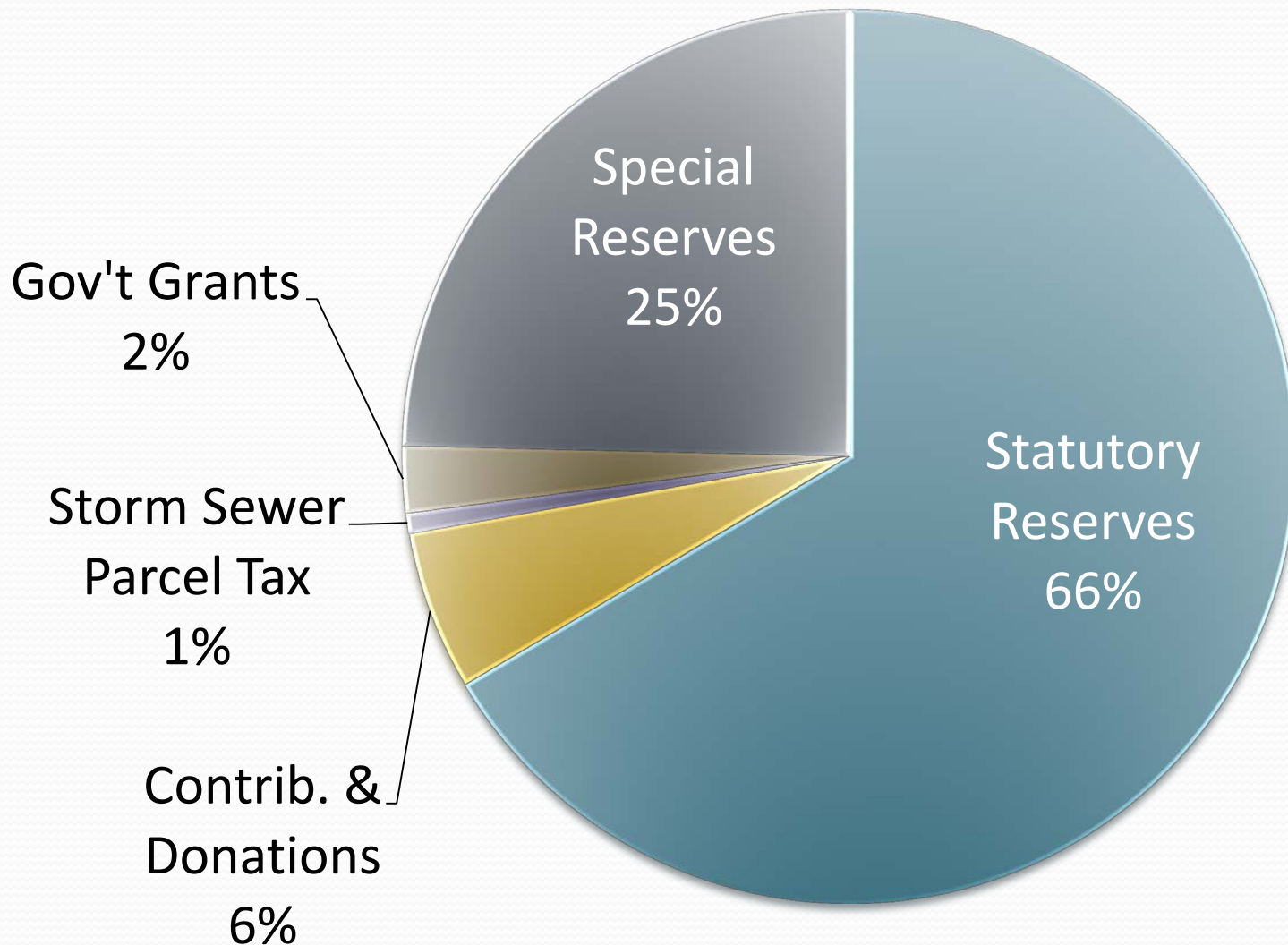
- Past Councils have directed allocation of surpluses to be reserved from a variety of one-time and ongoing activities including:
 - Selkirk College Campus
 - Services – Recycling, Economic Development
 - Administrative Costs – Insurance, Legal
 - Development and Infrastructure– Land Sale, Bridges, Airport, Buildings
 - Fortis Pay Down
- Appropriated Surplus at the end of 2017 was \$2.6M

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.
- \$14.4M in General & Utility Debt
- Of \$7.6M in General Debt (Dec 31, 2018), only \$1.1M is supported through general taxation.



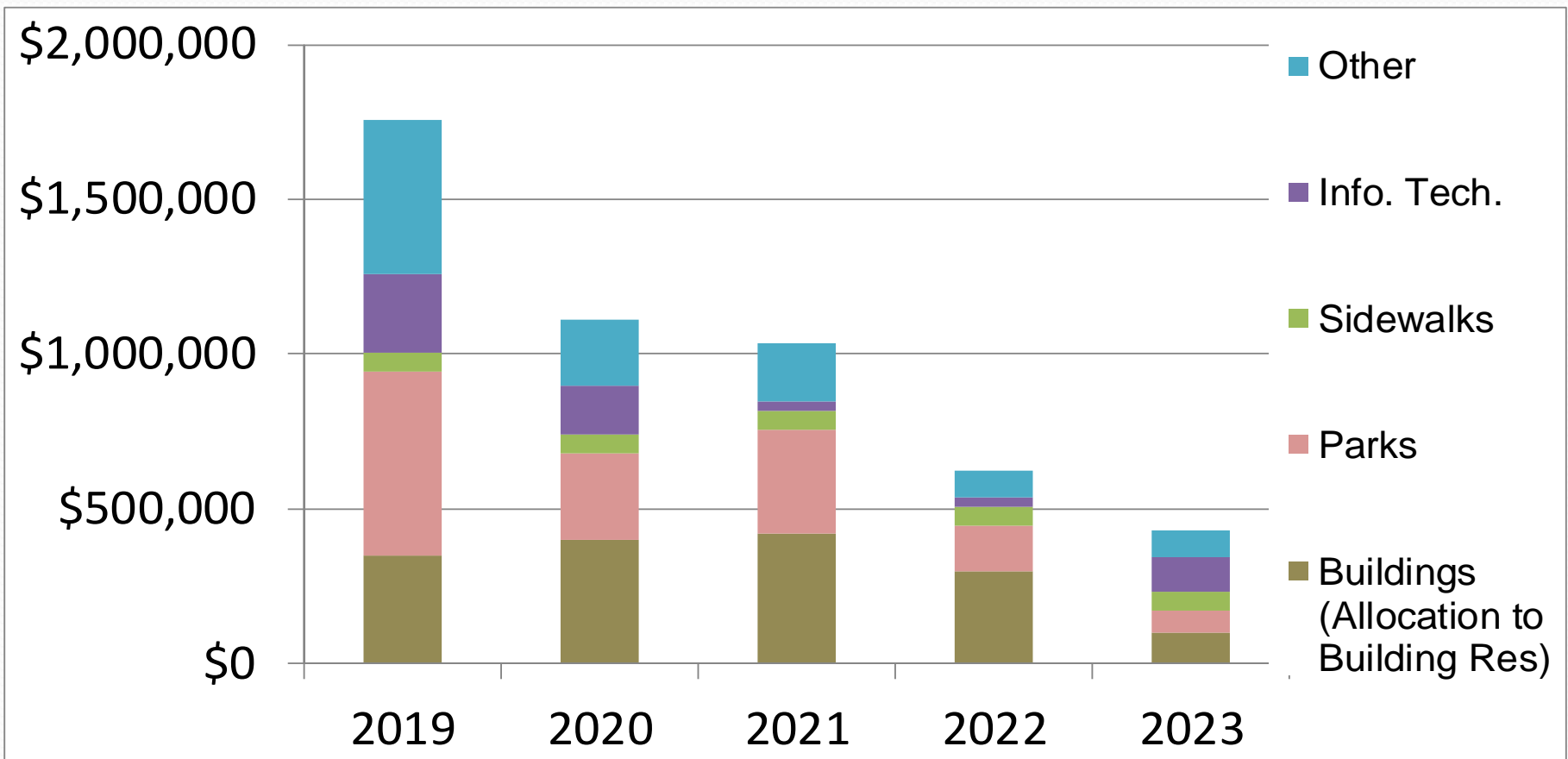
General Capital Funding 2019 = \$7.96M



Water Licence Reserve

	2019	2020	2021	2022	2023
Opening bal.	\$1,426,710	\$722,341	\$685,755	\$746,709	\$1,241,537
Water licence rev.	864,500	884,514	904,854	919,028	933,279
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	(1,758,069)	(1,109,500)	(1,033,500)	(623,500)	(429,800)
Interest	14,200	13,400	14,600	24,300	38,400
Closing Balance	\$722,341	\$685,755	\$746,709	\$1,241,537	\$797,279

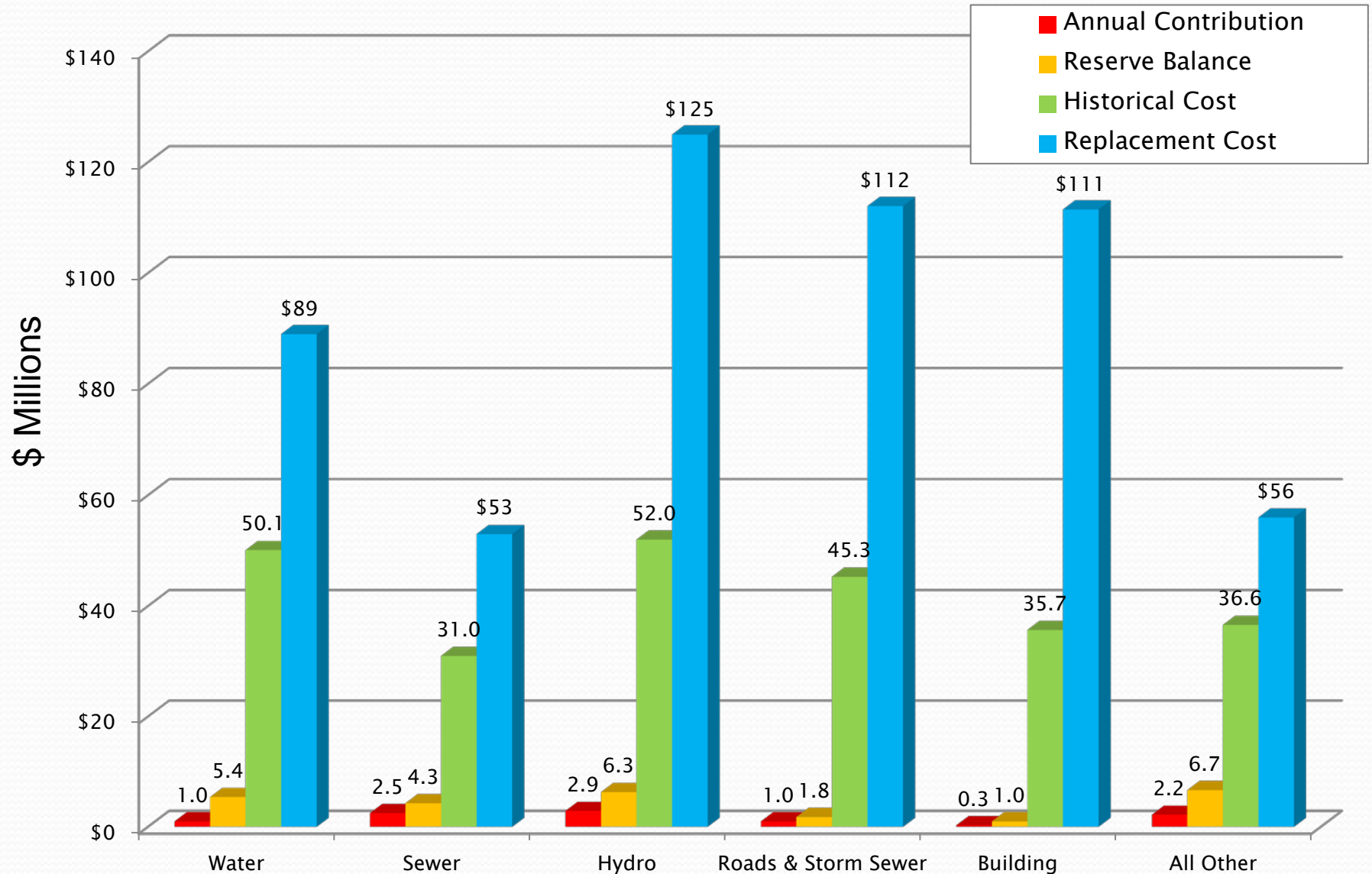
Water License Reserve – Planned Five Year Expenditures



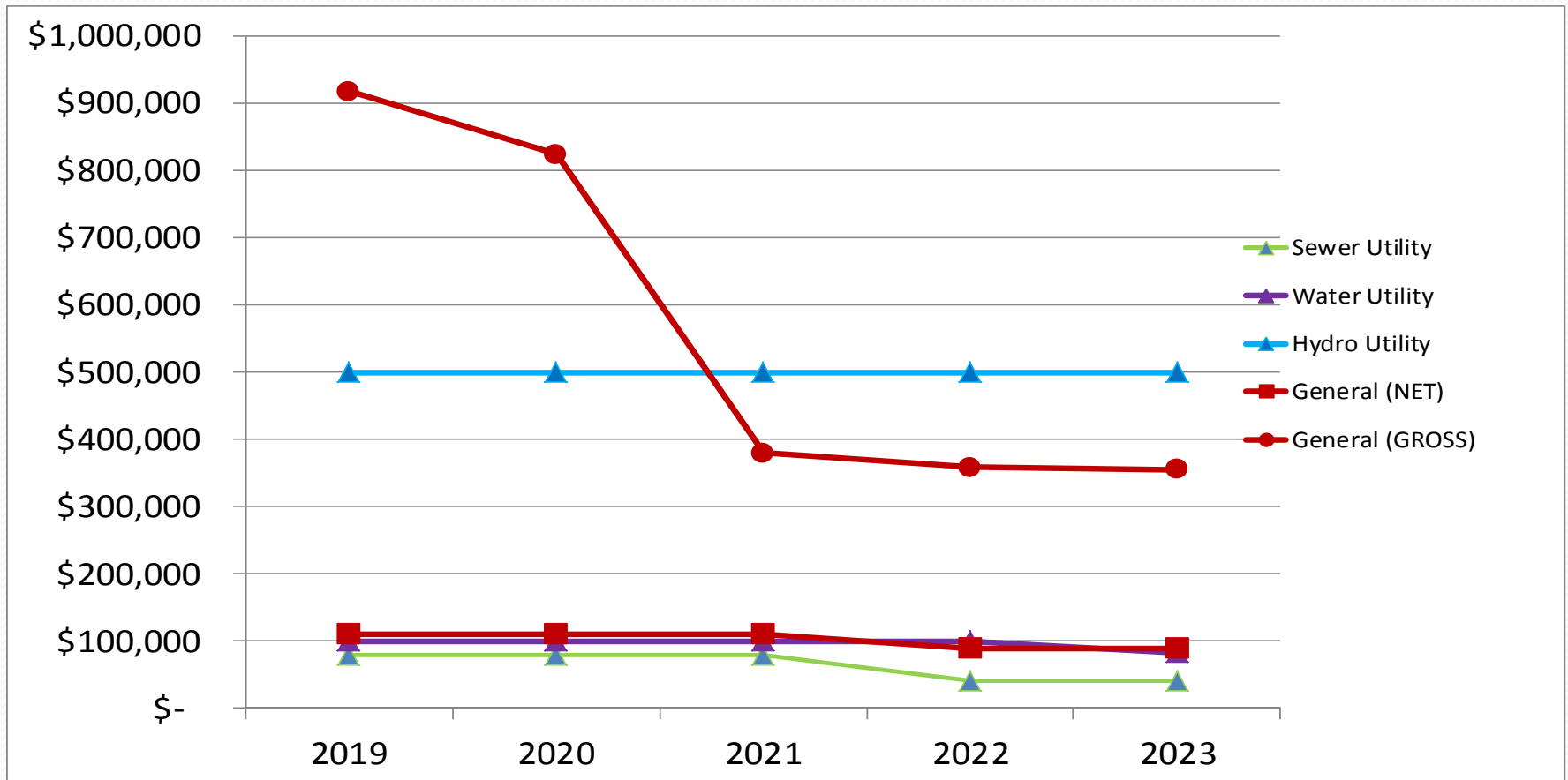
Capital Reserve (Transportation System)

	2019	2020	2021	2022	2023
Opening bal.	\$1,843,572	\$1,248,072	\$538,072	\$508,672	\$697,372
Parking meter revenue	975,000	975,000	975,000	975,000	975,000
Other funding	200,000	275,000	275,000	200,000	1,000,000
Road/sidewalk maintenance program	<u>(1,795,000)</u>	<u>(1,970,000)</u>	<u>(1,290,000)</u>	<u>(1,000,000)</u>	<u>(2,000,000)</u>
Interest Income	24,500	10,600	10,000	13,700	13,400
Closing Balance	<u>\$1,248,072</u>	<u>\$538,672</u>	<u>\$508,672</u>	<u>\$697,372</u>	<u>\$685,772</u>

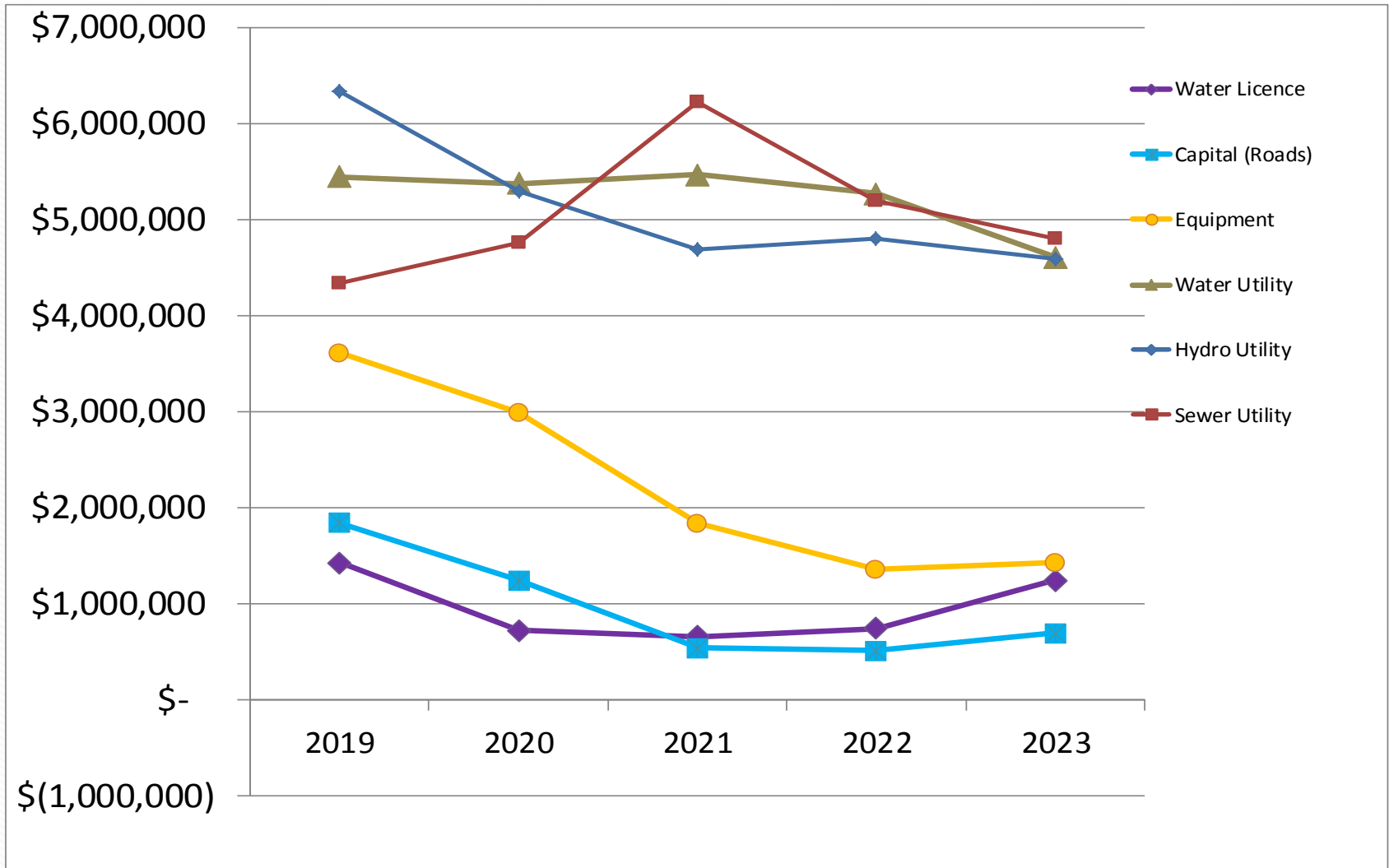
Assets Versus Reserves



Debt Payments– Trend Line – 5 years



Statutory Reserves – Trend Line



Utilities

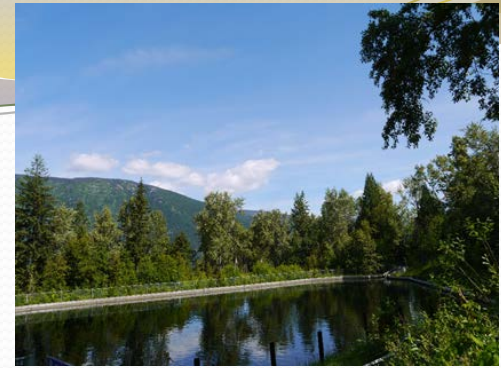
Water

Sewer

Resource Recovery

Nelson Hydro

Overview – Water Utility



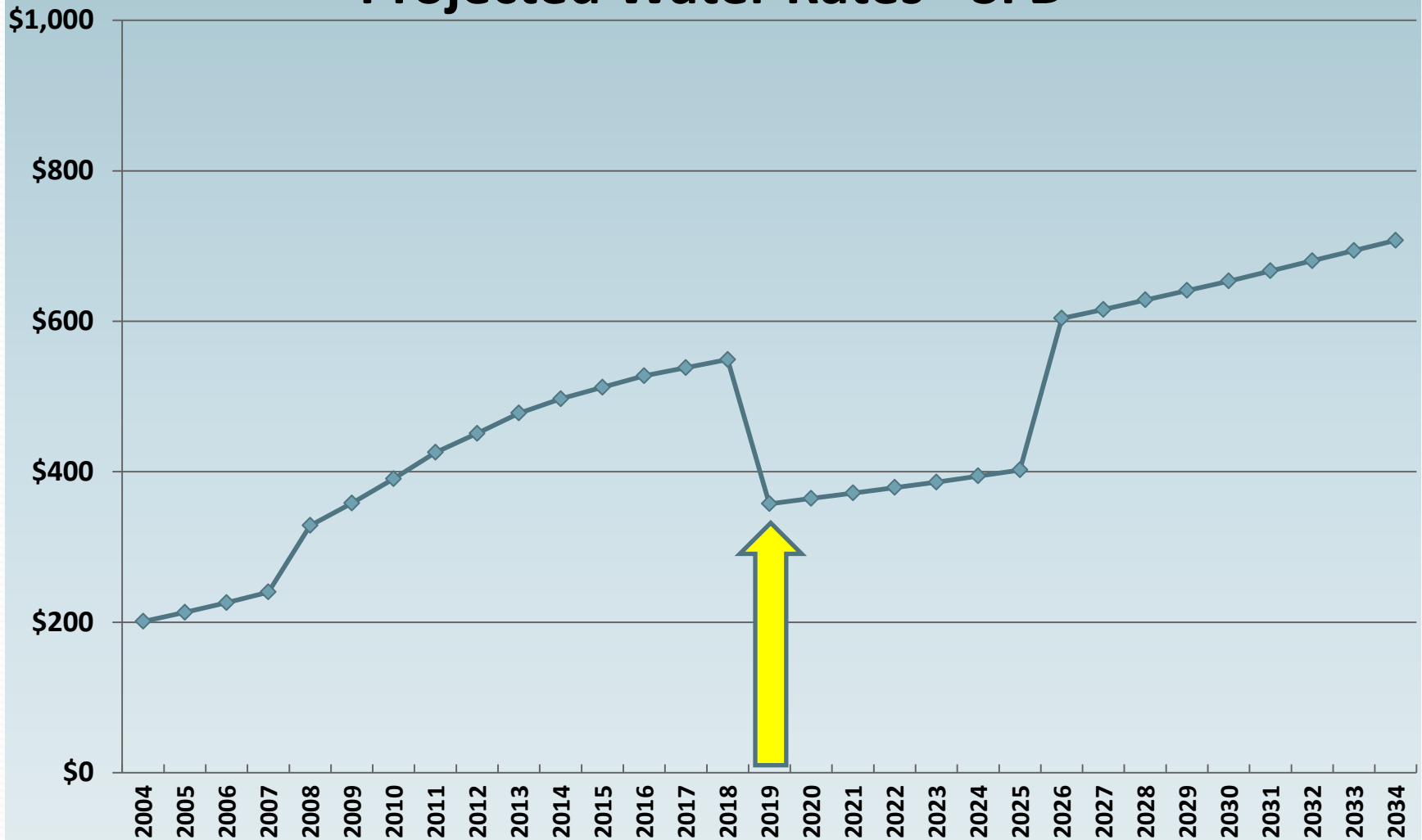
- **Strategic Direction:**

- Water Master Plan - long term planning critical to maintain safe and accessible water and fire flow protection
- Water conservation, secondary water sources, continuation of watermain replacement and data gathering for water metering plan

- **Rates:**

- Council approved 2% rate increase for 2019
- Rate reallocation dropped rates by \$192 (with discount)
- Proposed 2% increase per year for next 10 years

Projected Water Rates - SFD



Overview – Water Utility 2019

Operating Highlights

- Revenue:
 - User fees \$2.5M
- Operating costs:
 - Approx. \$1.4M
- Debt Service:
 - \$100k per year
 - No new debt planned until 2024

Capital Highlights

- Budget of \$1.8M for infrastructure upgrades
 - ❖ Watermain - \$1M
 - ❖ Secondary Source - 610k
 - ❖ Emerg. Intake - \$50k
 - ❖ ICI metering - \$150k
- 2019-2023 Capital
 - funded through User Fees & Gov't grants

Overview – Sewer Utility

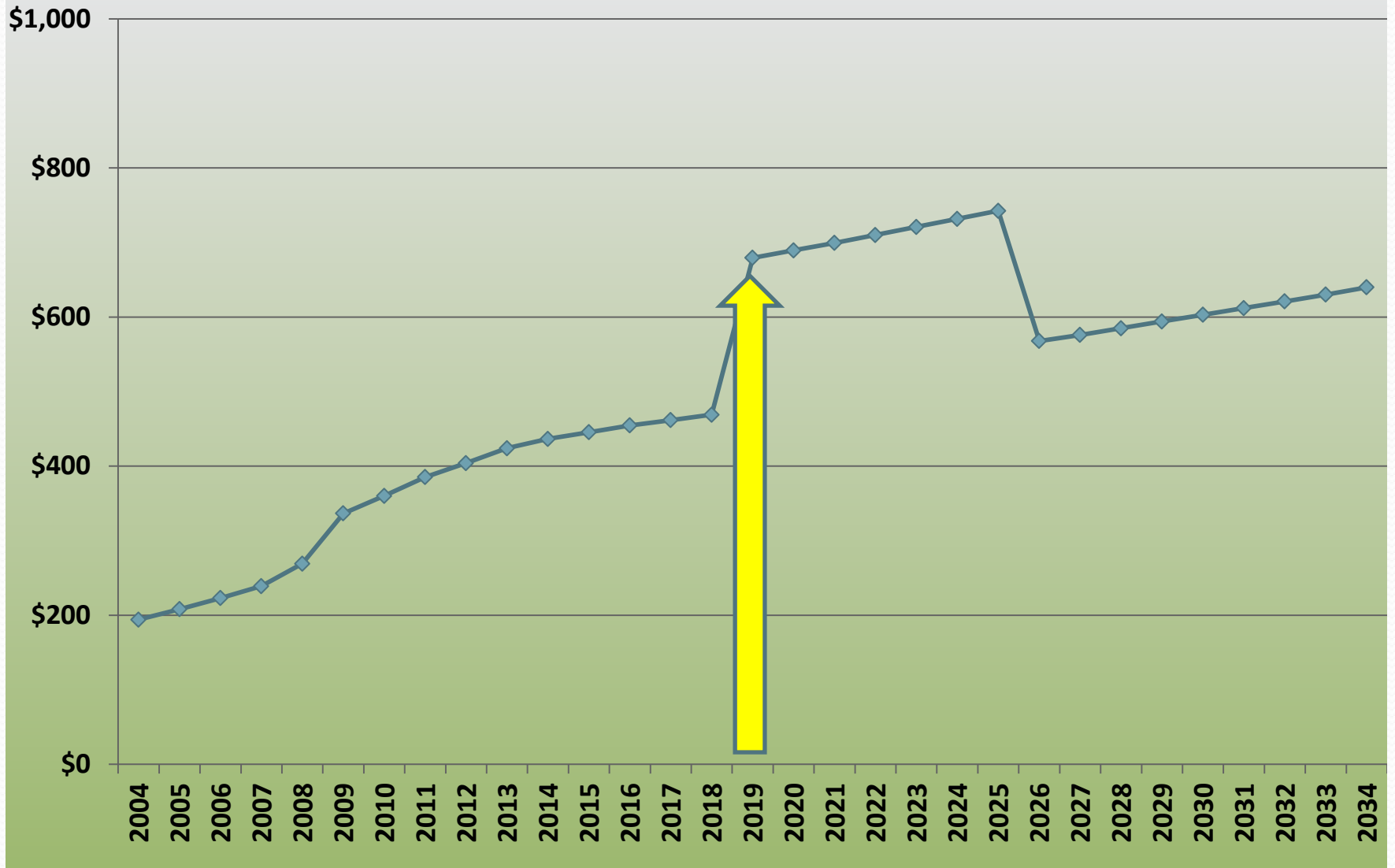
- **Strategic Direction:**

- 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% rate increase for 2019
- Rate reallocation increase rates by \$211 (with discount)
- Proposed 1.5% increase per year for next 10 years

Projected Sewer Rates - SFD



Overview – Sewer Utility



Operating

- Revenue:
 - User fees \$4.4M
- Operating costs:
 - Approx. \$1.9M
- Debt Service:
 - \$78k per year
 - No new debt planned until 2023

Capital

- 2019 Budget \$2.6M
 - Infrastructure expansion and replacement:
 - CIPP Relining \$600k
 - STP Upgrades \$700k
 - Airport Lift Station Grit Chamber \$970k
- 2019-2023 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
- 2019:
 - No increase in fees
 - The City is receiving \$142K annually from MMBC to collect recycling – this revenue is currently being used to fund operations
 - In 2019, the City signed a new 5 year contract with Recycle BC, which requires the elimination of single use blue bags for curbside pick up by July of 2020
 - A new garbage truck to be procured this year
 - Looking for a made in Nelson solution to composting

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

2018 Capital Achievements:

- **Distribution System**

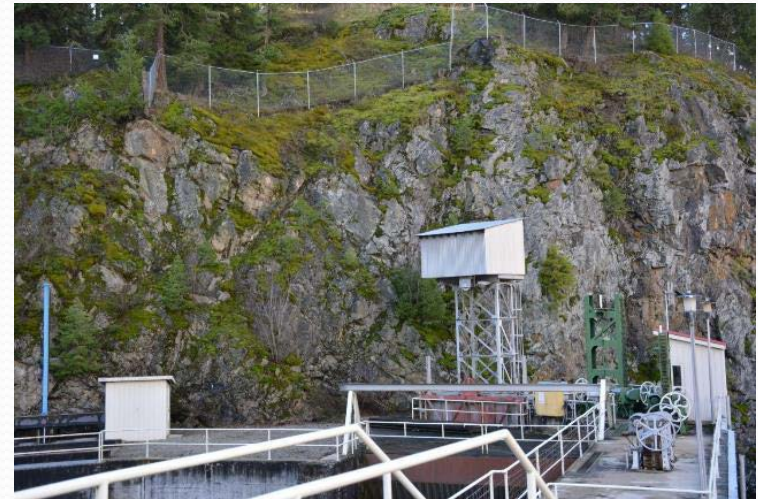
- Rebuild of 60L2 & 60L3 sections
- North Shore re-conductor
- Pole replacements
- Submarine cable design & cable purchase

- **Power Plant**

- G5 auxiliary systems upgrade

- **Substations**

- Bonnington Sub circuit breaker replacement



Overview – Hydro Utility

2019 Capital Budget \$3.5M

(funded by energy sales)

- **Distribution System**
 - Pole replacements
 - Submarine cable crossing
- **Power Plant**
 - Wood deck replacement
 - Bridge deck replacement
- **Substations**
 - Lakeside Terminal switchgear
 - New voltage regulator at Six Mile Sub



Overview – Hydro Utility

► 2019 Operating Budget:

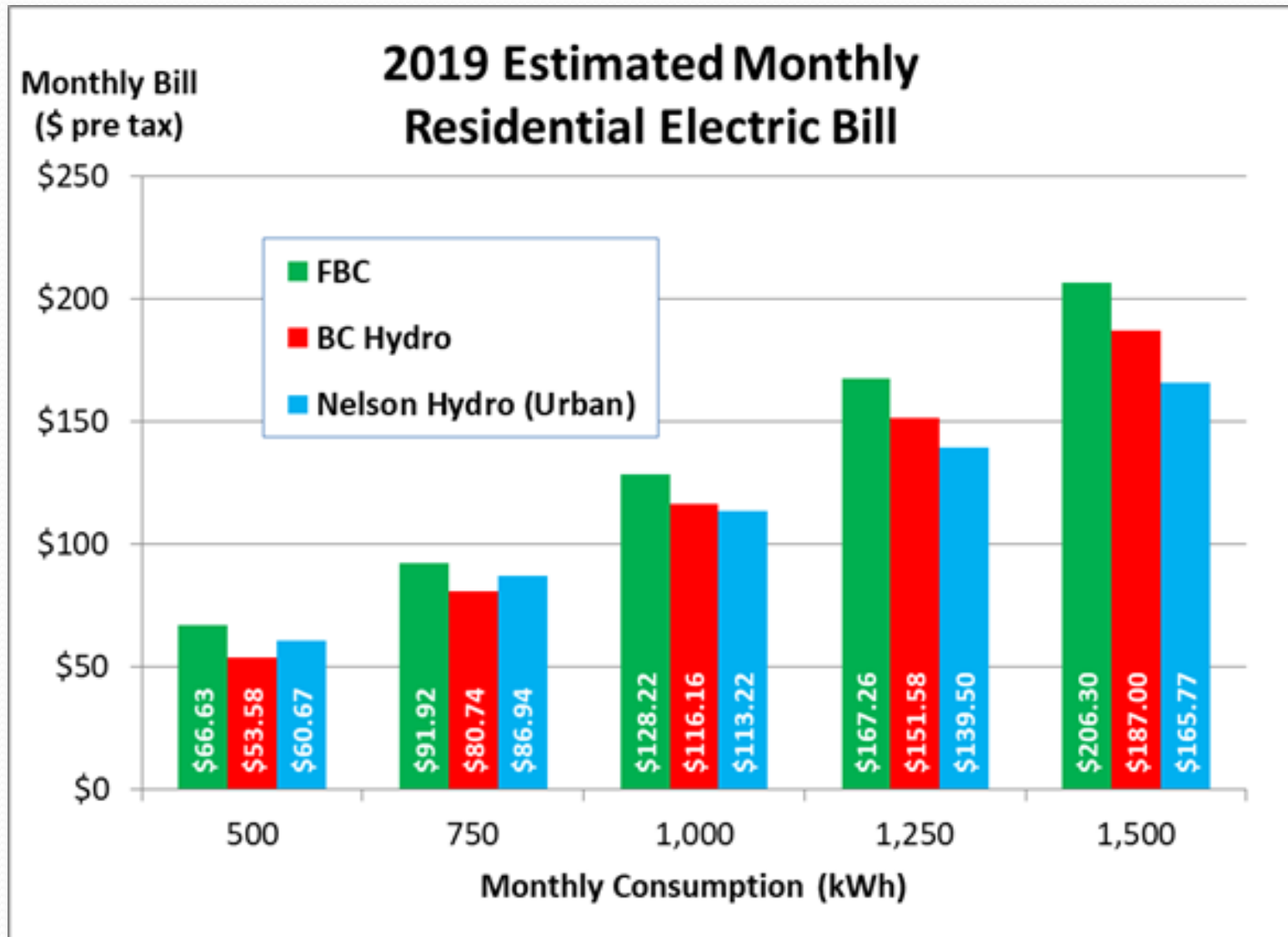
- Revenue of \$18.7M
- Expenses:
 - \$5.1M Operating
 - \$6.7M Power Purchase
 - \$499k Debt Payments
 - \$6.5M Transfers

► 2019 Contributions:

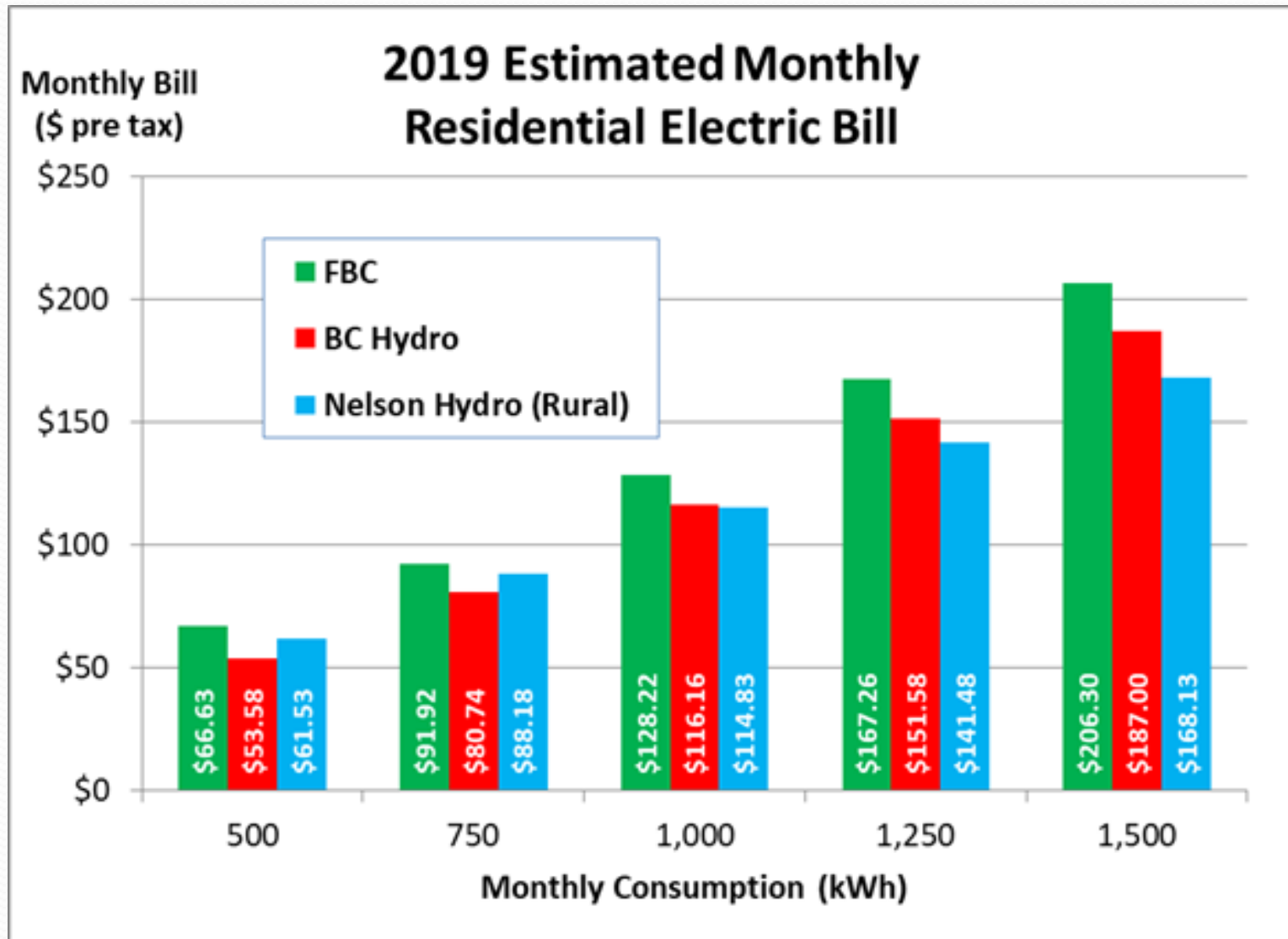
- \$2.8M to City of Nelson operations
- \$658k to Water License Reserve
- \$90k to the Nelson & District Community Complex



Hydro Rates – Urban



Hydro Rates – Rural



Comments and Questions?

Email: budget@nelson.ca