

**Date:** April 28, 2020  
**To:** Nikki Gilmore, Chief Administrative Officer  
**From:** Lena Martin, Manager of Finance and Administration  
**Subject:** Village of Pemberton Five Year Financial Plan – Information Report

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### **PURPOSE**

To present to Council best practices, strategies and additional details on the preparation of the Five Year Financial Plan Bylaw No. 879, 2020.

### **DISCUSSION AND COMMENTS**

As defined by the Government Finance Officers Association ('GFOA'), long-term financial planning combines financial forecasting and strategizing and in doing so, allows municipalities to address future issues by developing and evaluating different financial scenarios. More formally, financial planning involves *'the process of projecting revenues and expenditures over a long-term period, using assumptions about economic conditions, future spending scenarios and other salient variables'* thereby allowing municipalities to *'align financial capacity with long-term service objectives'*.<sup>1</sup>

#### Government Finance Officers Association (GFOA) – Best Practices

Long-term financial planning combines financial forecasting with strategizing. It is a highly collaborative process that considers future scenarios and helps governments navigate challenges and works best as part of an overall strategic plan.

Financial forecasting is the process of projecting revenues and expenditures over a long-term period, using assumptions about economic conditions, future spending scenarios, and other salient variables. Further, long-term financial planning is the process of aligning financial capacity with long-term service objectives.

Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve long-term sustainability in light of the government's service objectives and financial challenges.

A long-term financial plan stimulates discussion and engenders a long-range perspective for decision makers. It can be used as a tool to prevent financial challenges; it stimulates long-term and strategic thinking; it can give consensus on long-term financial direction; and it is useful for communications with internal and external stakeholders.

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<sup>1</sup> Government Finance officers Association, Resources, Best Practices, Long Term Financial Planning, [www.gfoa.org](http://www.gfoa.org)

## Key Assumptions

In projecting the 2020-2024 long-term financial plan, several assumptions were made that reflect the past and future financial environment and trends for the Village. The main assumptions include the following:

- Operating costs will increase at annual rates ranging from a low of 2% to 5%, depending on the nature of the expenditure, with the majority set to a 2% CPI increase.
- Payroll and benefit related costs are projected to increase at a rate of 2% to 5% per year, reflecting anticipated settlements under the Village's collective bargaining agreements, corresponding increases for non – union staff, escalations in benefit costs and other staffing adjustments.
- Transfers to external agencies are forecasted to increase at a rate of 2% per year.
- Water rates will not increase until a water rates review is completed, total sewer user fees will increase annually by \$40,000 in order to build the reserve for future capital expenditures, as part of an Asset Management Plan.
- A 10% Administration Fee will be charged to individual user requests and tasks.
- General Reserve allocation increases will resume in 2021 and be increased by \$54,000 each year for the years 2021 – 2024 as part of an Asset Management Plan.
- General debt collections, frontage and/or parcel taxes, will equal the general debenture interest and principle payments. This tax is paid by all property owners within the Village of Pemberton who have the ability to connect to the Village's Infrastructure.

For many years, municipalities have been faced with major management challenges. With ever-increasing operating costs, they are called upon to provide more services (i.e. transportation, road networks, leisure services, etc.), while revenues struggle to keep up.

As a result, municipalities are often faced with shrinking flexibility, due to the imbalance between the financial needs of a municipality and the inability to pay. While contributions have helped to rebalance the budget to a certain extent through the implementation of municipal infrastructure granting programs from both the provincial and federal governments, municipalities still continue to face major challenges as grants often require payment of at least a third of project funding depending on the funding program.

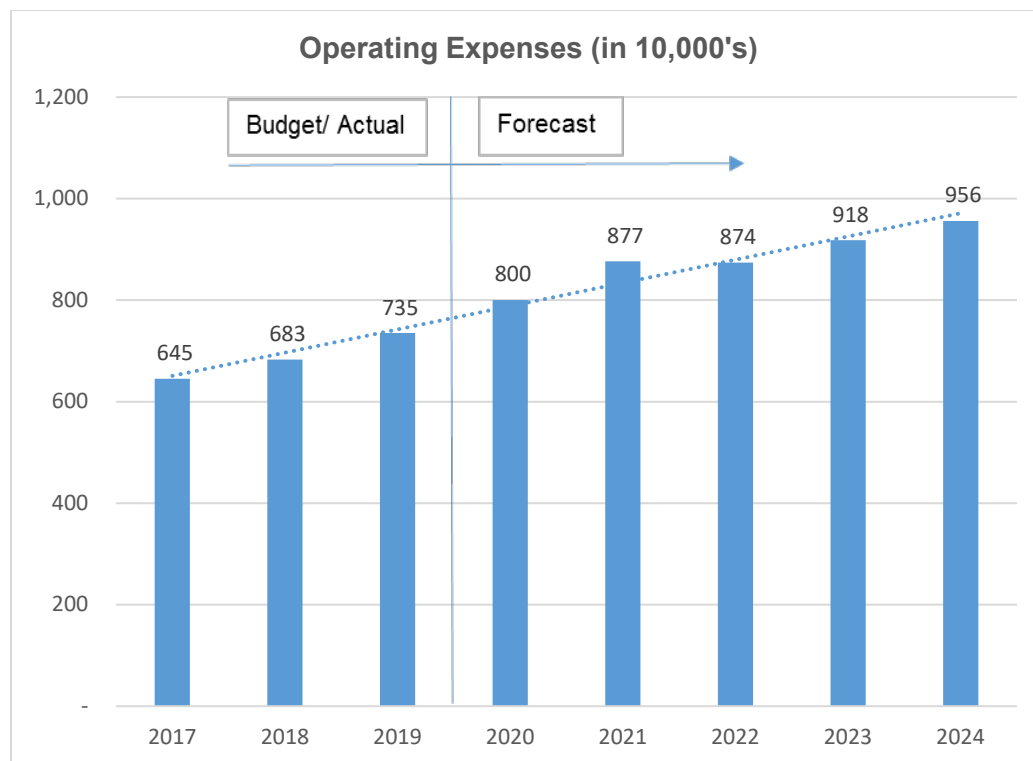
The goal is to provide sufficient services, taking into account taxpayers' ability to pay, while implementing the best financial strategies and financing the most advantageous projects and yet maintaining a reasonable debt level.

The long-term financial plan represents a forecast of the Village's financial performance and position under a series of assumptions that are documented within the plan. *It is important to recognize that there is a difference between the long-term financial plan and the City's annual financial budgets, with the annual budget being the vehicle for approval of the City's spending and associated funding.*

## Projected Financial Performance and Position

### Operating expenditures

Total operating expenses for the Village are projected to increase from \$8 million in 2020 to \$9.56 million in 2024, representing an average increase of 4.6% per year. Salaries and benefits including EI, CPP, WCB, Employee Health Tax (EHT) for Exempt Staff, Union Staff, Non-Union Staff, Council and Volunteer Firefighters increases from \$3.32 million in 2020 to \$4.52 million in 2024 with the potential addition of new Staff in 2021, 2022 and 2024.



\*excludes transfers to Other Governments and non-cash items (amortization)

\*2020 New Service - Recreation

### Property Tax Strategies

In establishing tax rates, the Village is required to develop tax ratios, which indicate the proportionate weighting of the various property tax classes as a percentage of the residential tax class (which has a ratio of 1.00000). The determination of tax ratios considers parameters established by the Province of British Columbia. In addition, the Ministry of Municipal Affairs and Housing also sets a ceiling for the maximum allowable rate for Class 2 (Utilities). Rural properties that were included in the 2011 Boundary Extension (Order in Council No. 165) under Class 2 (\*Utility) is set each year as per Sections 5 and 6 of the *Taxation (Rural Area) Act Regulation, BC Reg. 387/82*:

The following table outlines the distribution of taxes between the property tax classes.

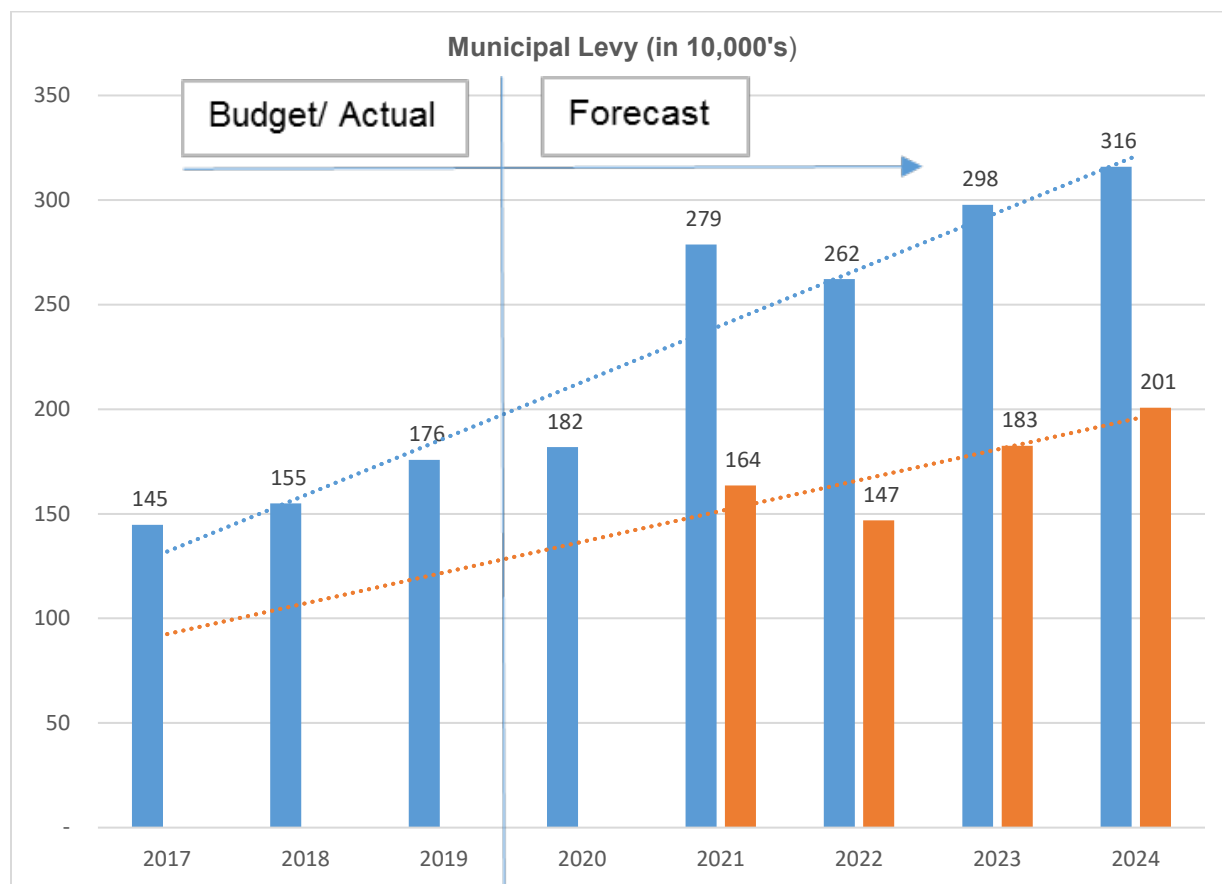
Property Class	Municipal Tax Rates	% of Total Property Assessment Value (\$943,301,365)	% of Total Property Tax
Residential (Class 01)	1.5707	83.22%	67.8%
Utilities (Class 02)	8.8354	0.17%	0.8%
Utilities (Class 02) Rural	3.9400	1.51%	3.1%
Light Industry (Class 05)	5.3405	1.15%	3.2%
Business/Commercial (Class 06)	3.5341	13.51%	24.8%
Rec/Non-Profit (Class 08)	1.5707	0.40%	0.3%
Farm (Class 09)	1.5707	0.04%	0.0%
<b>Total</b>		<b>100%</b>	<b>100%</b>

\* The 2020 Class 2 (Utility) Rural Tax Rate is 3.94 per each \$1,000 of actual value of property. This rate is set each year as per Sections 5 and 6 of the *Taxation (Rural Area) Act Regulation, BC Reg. 387/82* as per Order in Council No. 165 (2011) Village Boundary Extension.

**Range of fairness** – The Province has established limits for tax ratios for non-residential property classes that are intended to ensure that municipalities do not unfairly shift tax burden from residential to non-residential properties through a change in tax ratios.

**Threshold ratios** – In addition to the restrictions imposed by the range of fairness, the Province has also established threshold ratios for non-residential property taxes which preclude municipalities from increasing municipal taxes on property classes where the ratios exceed the threshold ratios. *BC Regulation 329/96* defines a rate ceiling for Class 02 property for 2000 and subsequent years, the regulation states:

- “2. In setting the tax or levy rate for Class 2 property for general municipal purposes, a municipality must not exceed the greater of
- a) \$40 for each \$1,000 of assessed value, and
  - b) 2.5 times the rate applicable to Class 6 property for general municipal purposes in the municipality for the same taxation year.”

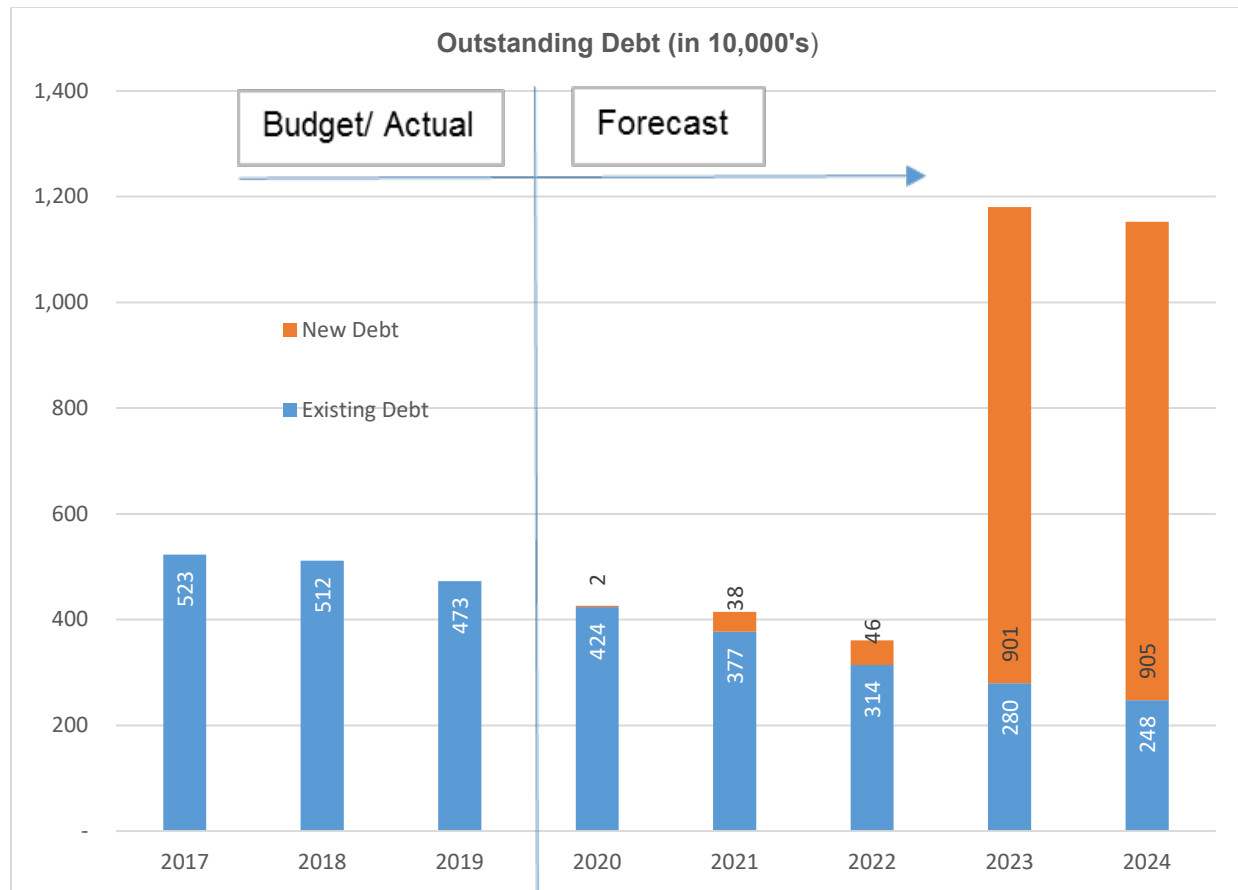


\*Municipal portion of Tax Notice  
 \*Comparable trend with 2020 Surplus applied to forecast (\$1,152,267)  
 \*Downward trend in Tax Levy with a gradual return to Financial Stability

Projected Short and Long Term Debt Funding

The Village is projected to have a total of \$4.24 million in outstanding debt at the beginning of the 2020 fiscal year, with an additional \$9.8 million in new debt issued and \$1.39 million in payments over the next five years:

Bylaw Truck	\$40,000
Municipal Hall	\$2,000,000
Fire Hall	\$6,250,000
Fire Truck 50%	\$450,000
Downtown Enhancement Remaining	\$300,000
Public Works Equipment	\$100,000
Public Works Equipment	\$150,000
Recreation Truck	\$20,516
Generator for Well	\$500,000
<b>Grand Total</b>	<b>\$9,810,516</b>

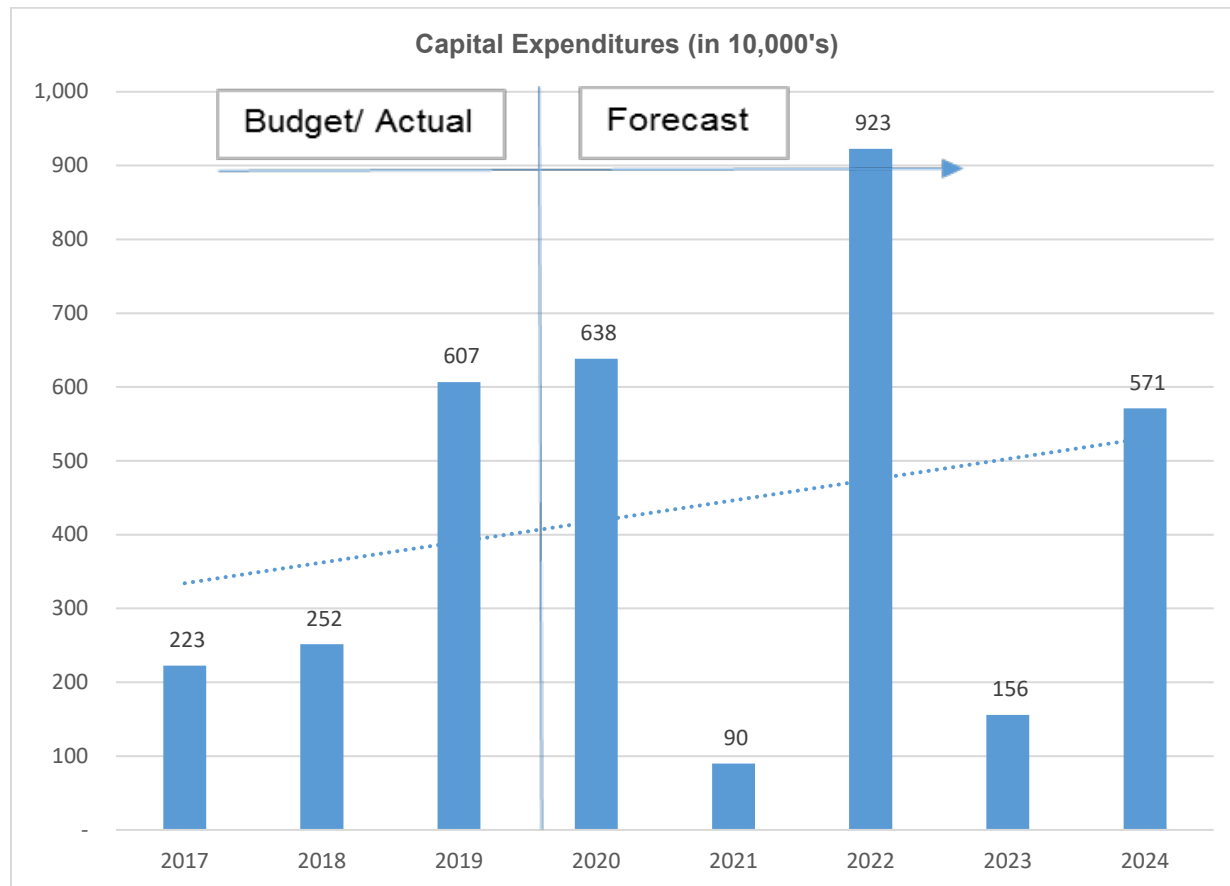


\*2020 Transfer of Recreation Equipment Debt  
 \*2021 New Bylaw Truck, Remaining Downtown Enhancement, Public Works Equipment  
 \*2022 Renew Expired Equipment Leases Final term  
 \*2023 New Municipal Hall and Fire Hall, Public Works Equipment, Water Service Equipment  
 \*2024 New Fire Truck

## Capital Expenditures

The Village is projected to have a total of \$23.78 million in capital, infrastructure and improvements, from 2020 through 2024. Revenues for these expenditures are made up of \$9.8 million in new debt issued, \$5.17 million in grants and contributions, \$5 million in future debt funding (2025), \$0.409 million from other governments (recreation) and \$3.4 million in reserves/taxes:

Capital Expenditures	2020	2021	2022	2023	2024
<b>Admin Department</b>					
Bylaw Truck		40,000			
White Building Paint and Roof Repair		55,000			
E Charging Station			20,000		
Municipal Hall			2,000,000		
<b>Total Admin Department</b>	-	<b>95,000</b>	<b>2,020,000</b>	-	-
<b>Fire Department</b>					
SCBA Replacements	7,500				
Portable Radios, New Recruits	8,232				
IPAD for Engine 1	2,800				
Rope Rescue Training Materials	3,000				
Fire hall Design	20,000				
SCBA Replacements		7,500	7,500	7,500	7,500
Equipment		10,000	10,000	10,000	10,000
Capital Building			6,250,000		
New Fire Truck				900,000	
Used Fire Truck					150,000
<b>Total Fire Department</b>	<b>41,532</b>	<b>17,500</b>	<b>6,267,500</b>	<b>917,500</b>	<b>167,500</b>
<b>Public Works &amp; Parks</b>					
PW Washroom Phase I	25,000				
Farm Road E Trail (Funded)	306,000				
Tiyata Area Sidewalk (Funded)	76,000				
Downtown Enhancements Final (MFA Funded)	300,000				
Soccer Field II (only if funded)	4,224,405				
Farm Road East Paving (DCC)	217,000				
One Mile Lake Swingset (only if funded)	50,000				
PW Equipment		100,000		150,000	
PW Washroom Phase II		45,000			
Boardwalk		150,000			
Frontier Drainage			100,000		
PW Building				100,000	
<b>Total PW/Parks Department</b>	<b>5,198,405</b>	<b>295,000</b>	<b>100,000</b>	<b>250,000</b>	-
<b>Water (Reserves)</b>					
Well 4 Construct	360,000				
Fencing for Reservoir (Benchlands)	45,000				
Chlorine Booster Pump	60,000				
Water Truck w/crane	60,000				
Water Feasibility		100,000			
Fernwood Watermain		150,000			
Water Well Design			500,000		
AC Line Trailer Park				150,000	
Gen Set					500,000
New Well					5,000,000
<b>Total Water Department</b>	<b>525,000</b>	<b>250,000</b>	<b>500,000</b>	<b>150,000</b>	<b>5,500,000</b>
<b>Sewer (Reserves)</b>					
Air Valves (2019 Project)	50,000				
Scada/ 9 Lift Stations/ Software + Radio	50,000				
Confined Space Winch (2019 Project)	11,500				
Outfall NHC initial report/Outfall Cascade	92,133				
Outfall NHC permanent fix - Emergency Fund 20%	200,000				
Liftstation Pump Replace and Rebuild Industrial Park	22,000				
Inflow/Infiltration Study		50,000			
Walnut Lift Station		100,000			
Frontier Drainage			100,000		
Liftstation #1 Move			200,000		
Inflow/Infiltration Repair				200,000	
<b>Total Sewer Department</b>	<b>425,633</b>	<b>150,000</b>	<b>300,000</b>	<b>200,000</b>	-
<b>Total Capital Expenditures</b>	<b>6,190,570</b>	<b>807,500</b>	<b>9,187,500</b>	<b>1,517,500</b>	<b>5,667,500</b>



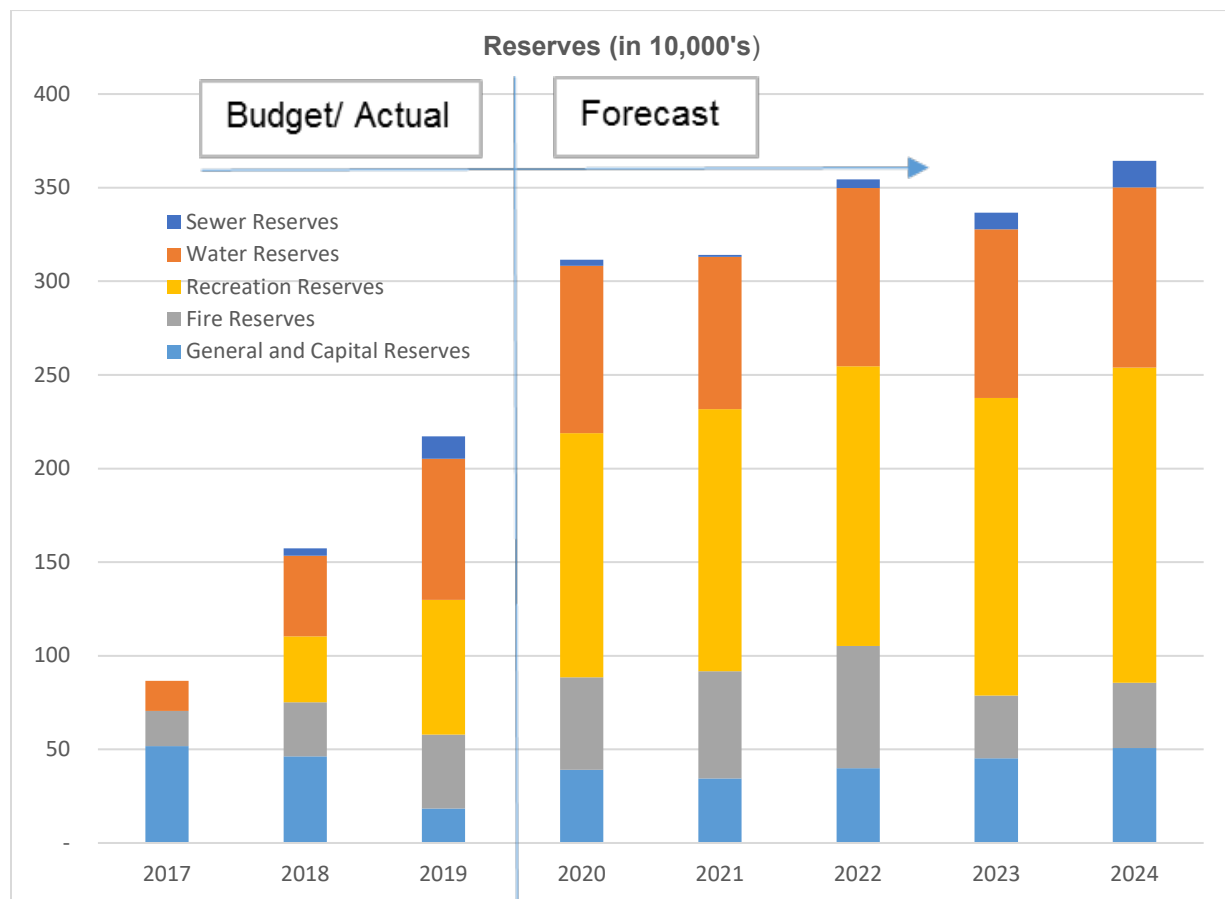
\*2020 Soccer Field II (only if funded by Grant)  
 \*2022 New Fire hall and Municipal Hall (Debt payments start following year)  
 \*2024 New Water Well (Debt payments start following year)

**General/Capital Reserve**

The Village is currently compiling an Asset Management Plan to identify tangible capital assets that are at, or will reach, the end of their useful lives within the planning horizon of the long-term financial plan. The financial model forecasts \$23.78 million in capital expenditures over the next five years. At current reserve levels the Village will be unable to generate the necessary level of incremental funding for capital expenditures due to constraints of affordability and will rely on \$9.8 million in debt financing. However, in order to ensure sufficient financing for future capital expenditures, the Village may wish to consider increasing the level of available capital funding through the implementation of a multi-year capital levy.

The Village currently has an average level of long-term debt, however, the Village’s continued focus on infrastructure investment, both reinvestment in existing infrastructure as well as new projects, may increase the borrowing to a level that exceeds the allowable borrowing capacity.

To the extent that the Village chooses to expand the use of debt financing for capital purposes, it may wish to consider doing so in conjunction with the suggested capital levy, with the proceeds of the capital levy used to fund debt servicing costs.



### Summary

The Five Year Financial Plan represents a forecast of the Village’s financial performance and position under a series of assumptions. It is important to recognize that there is a difference between the long-term financial plan and the annual financial budgets, with the annual budget being the vehicle for approval of the spending and associated funding.

On an annual basis, the long-term financial plan is updated to reflect its actual performance based on the indicators noted above. The updated long-term financial plan will also be used to assist in identifying and evaluating strategies that are intended to enhance financial sustainability and affordability. While contingent upon approval by Council, these strategies could include alternative revenue sources (e.g. user fees for services), debt financing, reserve transfers or expenditure reduction strategies through the rationalization of services and infrastructure through an Asset Management Plan. In addition, as major projects such as the new Municipal/Fire Halls proceed from planning to execution, the long-term financial plan will be updated to reflect the actual costs and associated financing.

The intent of the financial plan is to demonstrate the need for, and impact of, the above. While the long-term financial plan does not address service level changes, it is important to recognize that services and service levels ultimately drive costs. As the Village expands services or enhances service levels, its costs will increase accordingly. Similarly, the ability of the Village to significantly reduce costs will need to be accompanied by a corresponding decrease in services and/or service levels.



**Five Year Financial Plan 2020 – 2024 (with 2019 for comparison purposes)**

Village of Pemberton						
Consolidated 2020 - 2024	2019	2020	2021	2022	2023	2024
	Budget	Budget	Budget	Budget	Budget	Budget
<b>Revenues:</b>						
Taxation	2,220,877	2,280,892	3,253,295	3,090,764	3,449,770	3,635,305
Water and sewer user rates	1,776,090	1,866,090	1,906,090	1,946,090	1,986,090	2,027,538
User charges	1,965,890	2,552,125	2,637,494	2,739,501	2,844,561	2,952,808
Penalties and interest income	24,354	30,000	30,300	30,606	30,918	31,236
Government transfers:						
Provincial	5,481,658	3,748,836	534,661	417,794	426,090	434,552
Federal	-	2,000	2,000	2,000	2,000	2,000
Other local governments	1,077,516	1,788,214	1,522,247	1,445,527	1,602,990	1,691,603
Investment income	23,055	23,860	24,327	24,804	25,290	25,786
Other revenues	322,528	742,548	219,945	920,503	321,073	5,621,654
Collections on behalf of other governments	2,481,520	2,971,629	3,031,062	3,091,683	3,153,516	3,216,587
	15,373,488	16,006,195	13,161,420	13,709,272	13,842,297	19,639,069
<b>Expenditures:</b>						
General government	2,442,688	2,320,838	2,754,575	2,722,339	2,830,304	2,930,599
<b>General Amortization</b>	633,241	763,369	736,215	880,872	904,436	891,895
Fire protection services	680,366	694,397	789,833	805,255	951,627	1,066,400
Development and planning services	604,913	667,633	689,310	713,277	672,644	699,251
Public works and parks	1,140,171	1,163,646	1,254,552	1,130,177	1,258,531	1,298,265
Recreation	782,121	1,305,213	1,319,831	1,346,016	1,372,727	1,399,976
Water utility	845,473	913,902	932,658	965,220	997,746	1,032,839
<b>Water Amortization</b>	144,789	160,089	165,089	172,935	175,935	285,935
Sewer utility	795,504	873,291	946,665	977,847	1,010,343	1,044,211
<b>Sewer Amortization</b>	266,827	275,339	278,339	284,339	288,339	288,339
Airport services	58,802	65,637	77,606	81,120	84,802	88,661
<b>Airport Amortization</b>	54,423	54,423	54,423	54,423	54,423	54,423
Transfers to other governments	2,481,520	2,971,629	3,031,062	3,091,683	3,153,516	3,216,587
	10,930,838	12,229,404	13,030,157	13,225,502	13,755,374	14,297,381
<b>Annual (Surplus) / Deficit</b>	<b>(4,442,650)</b>	<b>(3,776,791)</b>	<b>(131,264)</b>	<b>(483,769)</b>	<b>(86,923)</b>	<b>(5,341,688)</b>
<b>ADJUSTMENTS REQUIRED TO BALANCE FINANCIAL PLAN TO CONFORM WITH LEGISLATIVE REQUIREMENTS</b>						
<b>Non-cash items included in Annual (Surplus)/Deficit</b>						
Amortization on tangible capital assets	(1,099,280)	(1,253,220)	(1,234,067)	(1,392,569)	(1,423,133)	(1,520,592)
<b>Cash items NOT included in Annual (Surplus)/Deficit</b>						
Capital expenditures	6,068,175	6,382,320	900,125	9,228,300	1,559,116	5,709,948
Loan proceeds	(54,900)	(320,516)	(140,000)	(8,250,000)	(600,000)	-
Long term debt payments	217,263	217,923	218,216	218,430	364,193	374,693
Capital Equipment payments	130,807	167,410	155,018	115,200	149,076	132,225
Transfers to/from Statutory Reserves	(50,000)	(532,540)	-	(100,000)	-	-
Transfers from Non-Statutory Reserves	(745,880)	(577,526)	(686,928)	(349,856)	(1,122,814)	(639,478)
Transfers to Non-Statutory Reserves	757,590	845,207	918,900	1,014,264	1,160,485	1,284,891
Transfers to/(from) Unappropriated Surplus	(781,125)	(1,152,267)	-	-	-	-
<b>Financial Plan Balance</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>
General Fund (Surplus) / Deficit	0	(0.00)	(0.00)	0.00	(0.00)	(0.00)
Water Fund (Surplus) / Deficit	-	-	-	(0.00)	(0.00)	(0.00)
Sewer Fund (Surplus) / Deficit	-	(0.00)	-	-	-	-
Airport Fund (Surplus) / Deficit	-	(0.00)	-	(0.00)	-	0.00

### **LEGAL CONSIDERATIONS**

The Five Year Financial Plan Bylaw must be adopted by May 15<sup>th</sup> of each year as per sections 165 and 197 of the *Community Charter*.

### **INTERDEPARTMENTAL IMPACT & APPROVAL**

The development of these bylaws is a component of the annual work plan and all departments participate in the budget process.

### **IMPACT ON THE REGION OR NEIGHBOURING JURISDICTIONS**

The adoption of the above noted bylaws has no impact on other jurisdictions.

### **ALTERNATIVE OPTIONS**

There are not alternative options for consideration at this time.

### **POTENTIAL GOVERNANCE CONSIDERATIONS**

The Five Year Financial Plan meets with Strategic Theme Two: Good Governance being an open and accountable government and to fiscal responsibility. As well, it meets with Strategic Theme Three: Excellence in Service by continuing to deliver quality municipal services.

### **RECOMMENDATIONS**

**THAT** Council receives the information report.

Prepared by:	Lena Martin, Manager of Finance & Administration
CAO Approval by:	Nikki Gilmore, Chief Administrative Officer