



## **COMMITTEE OF THE WHOLE**

For the **COMMITTEE OF THE WHOLE MEETING** of Council to be held on Monday, September 9, 2024, at 7:00 pm in the Council Chambers of City Hall, 424 – 3<sup>rd</sup> Avenue West, Prince Rupert, B.C.

### **1. CALL TO ORDER**

### **2. ADOPTION OF THE AGENDA**

**Recommendation:**

THAT the Agenda for the Committee of the Whole Meeting of Monday, September 9, 2024, be adopted as circulated.

### **3. PRESENTATIONS**

### **4. REPORTS**

**a. Report from the Chief Financial Officer Re: GOV-30-2024 Financial Stability & Resiliency Policy.**

**Recommendation:**

THAT Council approves the Financial Stability & Resiliency Policy GOV-30-2024.

### **5. QUESTIONS AND INQUIRIES FROM MEMBERS OF COUNCIL**

### **6. ADJOURNMENT to Regular Council Meeting**



## REPORT TO COUNCIL

Committee of the Whole

**DATE:** September 9, 2024  
**TO:** Robert Buchan, City Manager  
**FROM:** Corinne Bomben, Chief Financial Officer

**SUBJECT: GOV-30-2024 FINANCIAL STABILITY & RESILIENCY POLICY**

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### **RECOMMENDATION:**

**THAT Council approves the Financial Stability & Resiliency Policy GOV-30-2024.**

### **REASON FOR REPORT:**

The attached policy has been developed to provide guidance to the City, and predictability and transparency to the taxpayers.

### **BACKGROUND:**

The City has experienced cyclical periods of boom and bust resulting in one-time investments in community assets not available in other communities our size and similar financially constrained decisions made to maintain the barest services during hard times. The attached finance policy has been prepared in an effort to mitigate the risk of financial shock occurring again and creating a stable financial environment to ensure assets are maintained through good times and bad.

### **ANALYSIS:**

The policy provides guidance for decision making and embeds a consistent and predictable property tax increase to meet the ongoing operational needs of the City on an annual basis. The same principles are used to guide the financial management in the City's utility funds as well.

Included within the principles of applying a minimum tax increase are predictability and future stability, while providing Council the opportunity to determine in any given year whether the increase needed to balance the budget can be limited through service reductions.

Growth related income from non-market change is addressed with a clear direction on the most appropriate use of new taxes received from non-market change associated with the Major Industrial assessment class as described below. Non-market change associated with the remaining assessment classes will be contributed to the minimum 2% general increase with any shortfall presented as a recommended increase. Alternatively, in the event of a budgeted surplus, the allocation of the remaining taxes collected can be placed in capital reserves or into an operating reserve, for example a snow and ice control reserve, or a rate stabilization reserve, that can assist in future years where budget demands are greater. Allocations to rate stabilization reserves have the ability to smooth high periods of inflation (as experienced over the past two budget years) and the same can be said for a snow and ice reserve to smooth the cost of unpredictable winter events.

Guidance related to funds obtained through debt retirement is identified as well as the inclusion of rate stabilization efforts when significant events are known that will impact the City's finances.

The policy establishes a minimum 0.5% increase to be contributed to Capital Reserves as a stepped measure to embed an asset management allocation that will contribute towards future renewal in the community. This minimum is to be cumulatively transferred for a period of 5 years at which point the total transfer will be evaluated for adequacy.

### ***Benefits of allocating Major Industrial Non-Market Change***

Our community is unique in that it is one of a very limited number of local governments that has a major industrial taxpaying group. Signs are that there will continue to be growth in this rate paying class. Establishing a strategy to harness the benefits of increases in industrial taxes in the most impactful way possible is included in the policy by allocating any future taxation from non-market change associated with major industrial growth to capital reserves. These benefits are outlined as follows:

#### **1. Mitigating Industry Life Cycle Risk**

The City entered a local recessionary period when the City's largest employer and single taxpayer, Skeena Cellulose, closed its operations. The loss of this taxpayer had a significant impact on the City's budget due to the loss in major industry revenues. The unintended consequences of these decisions from the past are being felt today. The City should protect itself from the potential of again becoming economically dependent on a single taxpayer such that serious financial curtailment in the reinvestment of City infrastructure is the outcome. Although the City has a more diversified major industrial taxpayer pool, the reality is that all of the current major industrial taxpayers are involved in the trade industry. To mitigate the risk of a significant shift in global trade impacting the City's operating budget any further than it would already, it is recommended that any future taxation as a result of non-market change be allocated to capital reserves which can be used for one-time projects and/or accumulated for the maintenance and renewal of existing assets. This will

minimize over-reliance of the City's operational budgets on industrial sources of funding and mitigate the risks associated with a large single source loss.

## **2. Alleviates burden on Homeowners and Small business**

The cost of replacing infrastructure is escalating rapidly. The City is supporting a community infrastructure capable of accommodating a population double the existing size and this infrastructure is near failing. Council is well versed on the infrastructure gap and the City has been advocating for significant grants to help minimize the financial burden otherwise paid by users for capital renewal. Much of the infrastructure gap is for utilities infrastructure which not all property owners are connected to, particularly major industrial terminals. This, combined with the depreciating impacts on revenues associated with the Port Property Tax Act, results in much of the capital renewal burden falling on homeowners and small business. Allocating the future non-market change from new major industrial growth to capital reserves will enable Council to direct funds across all the infrastructure replacement needs thereby lessening the overwhelming burden otherwise shouldered by the residential and small business ratepayer.

To illustrate the impact of this policy on major industrial growth, in 2019 and 2020 Council agreed to the allocation of non-market change from the LPG development on Ridley Island to service the debt for the new RCMP detachment. Depending on interest rates at the time the 30 year debt is taken, it is expected that the non-market change allocation will pay all of the debt servicing costs resulting in no increase in taxes paid by homeowners and small businesses as a result of this project.

Also included in the allocation at that time was a doubling of the City's paving budget. Again, there was no increase to taxpayers for the continued funding of paving to this level.

To summarize, allocating future non-market change from major industrial growth to Capital Reserves will:

- mitigate over reliance on major industrial taxes in the general fund;
- ensure stable funding for the period the taxes from the growth exist;
- enable the taxes associated from industrial growth to be allocated to projects across the City's general and utilities funds;
- provide asset management contributions for future renewal; and,
- remove, in part, the capital cost of renewal helping to control cost of services increases which can't be shared amongst all the property taxpayers given the trade incentive program regime in effect.

**LINK TO STRATEGIC PLAN:**

Approving the Financial Stability & Resiliency Policy helps to achieve Council's priorities of improving the City's fiscal health, replacing and renewing infrastructure and undertaking community renewal.

**CONCLUSION:**

Approving the Financial Stability & Resiliency policy will provide the guidance and equitable financial stability to support maintaining service delivery in a transparent way.

**Report Prepared By:**

**Report Reviewed By:**

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Corinne Bomben  
Chief Financial Officer

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Robert Buchan,  
City Manager

Originally signed available on request

Attachment: GOV-3-2024 Financial Stability & Resiliency Policy



## CITY OF PRINCE RUPERT CORPORATE POLICIES

POLICY NAME	Financial Stability and Resiliency	POLICY NO.	GOV-30-2024	
EFFECTIVE DATE	9-Sep-24	REVISION DATE		
DEPARTMENT	Finance	NOTIFY UNION		
<b>APPLIES TO</b>				
<input type="checkbox"/> STAFF	<input checked="" type="checkbox"/> MANAGEMENT	<input type="checkbox"/> VISITORS	<input type="checkbox"/> CONTRACTORS	<input checked="" type="checkbox"/> COUNCIL

### PURPOSE:

The purpose of the Financial Stability & Resiliency Policy is to guide the City's financial planning to meet financial obligations while providing high quality services.

### OBJECTIVES:

To develop principles that guide the City so that taxpayers can expect to rely on predictable, stable, equitable and accountable property taxation.

To support and guide decision-making, providing continuity and assurance to the City's financial management.

### POLICIES:

#### 1.0 FINANCIAL PLAN BYLAW ADOPTION

- a. The City's Financial Plan Bylaw for the fiscal year will be approved prior to the legislated deadline.
- b. For City administration and operational guidance and taxpayer information and predictability, the Financial Plan Bylaw will be introduced and given two readings at minimum by the end of the previous fiscal year with direction to proceed with expenditures as outlined in the bylaw for the period January 1 until the Financial Plan Bylaw is adopted.

## 2.0 LONG-TERM BUDGETING

At a minimum, the City will produce a Five-year financial plan.

## 3.0 BUDGET PARAMETERS

Budget parameters will endeavor to maintain service levels, provide an opportunity to enhance services, and invest in critical infrastructure. The establishment of a minimum increase ensures predictability for all taxpayers. The parameters for each budget component, expressed in terms of a general tax increase, are:

- Operating costs of existing capital and services will be included as part of the baseline budget parameter unless funding pressure requires a larger tax levy increase. Should the minimum increase not be required, the surplus will be allocated to Capital and/or Operating reserves in existence or created from time to time.
- Capital investment budget parameter will be included unless funding pressure requires a tax levy increase. Capital reserves and grants where available will be utilized to fund current renewal efforts, with the annual budget parameter being contributed towards Capital reserves to build an annual asset management component into the budget.
- One-time operating projects (special projects) will be funded in order and by availability by grants, reserves, municipal enterprise dividends, and/or accumulated surplus, prior to proposing a tax levy increase.

<b>Budget Component</b>	<b>Minimum Increase</b>	<b>Maximum Increase</b>
Baseline Budget	2%	Balanced budget
Capital Budget	0.5%	0.5%
General Operations Total	2.5%	2.5% + as determined by Council

## 4.0 BASELINE BUDGET INCREASES

The baseline operating budget provides annual funding to ongoing City services. Any increases to baseline general operating budgets outside of contractual obligations or energy increases will be considered a new ongoing service level increase and will be evaluated during financial planning proceedings against other priorities.

## **5.0 NON-MARKET CHANGE**

Revenues from non-market change will be adjusted from the general taxation levy calculations. To alleviate pressure to increase taxes, non-market change, other than non-market change from the Major Industrial class (MI), will first be applied to maintain the baseline budget to arrive at the minimum baseline parameter of 2%. Any residual above the minimum from the allocation of non-market change will be placed in Reserves which can be used for the purposes the Reserves were established across the General Operations and Utilities Funds.

## **6.0 ASSET MANAGEMENT**

The City will invest in asset management to keep infrastructure in a proper state of repair to avoid costly failures. Asset management ensures assets are maintained in a state of good repair while optimizing capital investment to maintain service levels and ensure best value for taxpayer's dollars.

### **6.1 Investment in Infrastructure**

Continued investment in infrastructure is critical for community well-being and economic growth. To address asset management targets and minimize reliance on long-term debt:

- a. A minimum 0.5% increase across the tax base will be applied to the annual budget and cumulatively transferred to Capital Reserves;
  - i. The cumulative transfer of this minimum increase will be reviewed at a minimum of 5 years from the adoption of this policy to evaluate if the transfer is sufficient in funding the City's asset management plan.
- b. As a measure to alleviate spikes during periods of renewal, non-market change taxation resulting from the Major Industrial class (MI) will be contributed to capital reserves. The taxation from these funds will be invested in the City's capital program to support ongoing investment in infrastructure.
- c. Debt servicing from newly retired debt will be allocated towards capital reserves.

## **7.0 BUSINESS CASE DECISION MAKING AND CAPITAL PROJECT PLANNING**

All requests for staffing and significant operating projects or new services require a business case for Administration review. New capital projects require a project plan and are to include evaluation through a Climate and Equity lens.



## 8.0 PROPERTY TAX INCREASE

Each budget cycle, Council will consider the property tax increase required by:

- a. covering the projected cost increase for existing services at current service levels and; then
- b. consider other enhancements.

**8.1** The City's tax increase will be calculated based on additional revenue required to balance the budget as required by the *Community Charter* and communicated as a percent increase over the prior year's adjusted mill rates.

**8.2** The City will phase in tax increases when upcoming changes influencing City finances are known to promote stability for taxpayers.

## 9.0 SELF-FINANCED (FUNDED) PROGRAMS

The City's self-financed programs include the Water Utility, Wastewater (Sewer) Utility, and Solid Waste Utility.

**9.1** The operating costs for self-financed programs are to be fully funded by user fees

**9.2** The capital component of these programs are to be funded in combination through user fees, capital reserves, grants, debt, municipal enterprise dividends, accumulated surplus and asset management reserves established for each program.

The operating funding parameter to meet the minimum increase will be based on the City's contractual obligations, increases to the cost of energy, and debt-servicing requirements, the calculation of which will be updated yearly and evaluated and compared to the user fees adopted by bylaw.

The asset management component of user fees is set at 2% and will increase in proportion to the baseline component.

Budget Component	Minimum Increase	Maximum Increase
Baseline Budget	2%	Balanced budget
Asset Management Reserve	2% of above	2% of above