

NO: **F049**

COUNCIL DATE: **DECEMBER 15, 2014**

FINANCE COMMITTEE

TO: **Mayor & Council**

DATE: **December 10, 2014**

FROM: **City Manager and
General Manager, Finance & Technology**

FILE: **1705-05**

SUBJECT: **2015 Five-Year (2015-2019) Financial Plan – General Operating**

1.0 RECOMMENDATION

It is recommended that the Finance Committee recommend that Council:

- a) Approve the recommendations outlined in Section 4.0-New Funding Requirements of this report; and
- b) Direct staff to prepare the 2015 Five-Year (2015–2019) Financial Plan incorporating these recommendations.

2.0 BACKGROUND

Five-Year (2015–2019) Financial Plan

Council approved the 2014 Five-Year (2014–2018) Financial Plan in November 2013, which included direction for 2015 to 2018. The proposed 2015 Five-Year (2015-2019) has incorporated that direction, along with additional priorities Council has identified during 2014. Full details of the assumptions, directions and priorities are discussed in the following sections of this report.

3.0 DISCUSSION OF GENERAL OPERATING

The proposed 2015 Five-Year (2015-2019) Financial Plan has been developed based on direction provided by Council over the course of time and in particular during this year's Financial Planning process and builds on the adopted 2014 Five-Year (2014-2018) Financial Plan. Council has identified several key priority areas for the City as discussed in the following sections, new funding requirements needed to meet these priority areas are discussed later in this report.

3.1 **Public Safety and Crime Prevention**

Public Safety and Crime Prevention, comprised of Policing Services, Fire Services and By-Law Enforcement Services continue to be a critical priority for the City and is reflected accordingly in the 2015 proposed Financial Plan. Each Public Safety Service is discussed in further detail below:

1. Police Services

The 2014 adopted Financial Plan incorporated an increase of 12 RCMP members to the Surrey detachment and a related increase in civilian support staff, bringing the total current authorized RCMP complement to 685 members (inclusive of Surrey's prorated share of members on the Integrated Services Team), and 247 civilian support staff. In April 2014, at the recommendation of the Police Committee, a further 18 RCMP members and 10 community safety patrol officers were added, bringing the member compliment to 703.

As recommended by the Police Committee, the 2015 proposed Financial Plan includes an additional 100 RCMP members to be added in 2015-bringing the total to 803 members, and a further 16 RCMP members to be added per year for the years 2016, 2017, 2018 and 2019. The addition of RCMP members in each year is accompanied by a relative increase in civilian support staff such that an approximate ratio of 1 civilian support staff will be added for every 4 RCMP members. The proposed 2015 Financial Plan includes funding for the new RCMP and civilian positions to be effective October 1st of each year. The financial impact of the additional 100 RCMP members and 25 supporting civilian staff for 2015 (effective October 1st) is \$3.179M and \$.714M respectively for a total of \$3.893M, the 2015 proposed Financial Plan has incorporated these funding requirements. The annual impact of the addition officers and their corresponding support staff is \$14.5 million per year which has been included in the 2016 to 2019 portions of the financial plan in. Additional details on the financial requirements related to the RCMP for the proposed 2015-2019 Financial Plan are provided in Section 4 of this report.

2. Fire Services

The current complement of Firefighters and supporting staff is satisfactory to meet the City's requirements for 2015 and accordingly the funding to maintain this level of resources is included in the proposed 2015 Financial Plan. However, it is important to note that although the level of resources at current levels is satisfactory for 2015 requirements, the cost of providing these resources has notably increased-predominately due to the new Fire Services contract in the fall of 2014; this increase translates into a net additional cost of \$3.697M for 2015. Furthermore, the negotiated contract was for 7 years, including retro payments for years 2012, 2013 and partial 2014, the financial impact of this retro payment will be offset by prior years savings and operational efficiencies.

3. By-Law Enforcement

The proposed 2015 Financial Plan includes funding for the current level of By-law staff and additional funding for three new By-law officer positions. The level of By-law staff for 2015 will be satisfactory for the City's requirements.

4. Surrey Crime Prevention Society (SCPS)

The SCPS has been providing Crime Prevention services to the City since 1982; these services include Community Safety Tours, Citizens Community Safety Watch, Traffic Safety Program and participation in various public events. The City has been a strong supporter of SCPS, including financial support in the way of an annual financial contribution of \$84,500 dollars from the Community Grant program and an additional \$55,300 dollars from Library and Recreation budgets for a total contribution of \$139,800 annually.

The SCPS has now requested an increase of \$145,500 dollars in their annual on-going grant; bring the on-going grant total to \$230,000 per year. The additional funding request has been put forward in order to address increased demands throughout the City. Staff will be taking a Corporate Report to the Finance Committee to discuss this matter in further detail. For the purposes of drafting the proposed 2015-2019 Financial Plan, staff have included this funding requirement.

3.2 Staffing Capacity

In addition to previously discussed staffing level increases related to Public Safety, the 2015 Financial Plan also incorporates funding for staffing costs directly related to the operations of new City facilities opening in 2015. These staffing costs are in part offset by revenues generated by the respective new facility.

Furthermore, additional staffing adjustments may be required in 2015 in response to increased service delivery demands. Typically, these staffing adjustments are correlated to increased unanticipated revenues which directly offset the increased staffing costs (i.e. development activity/inspection services, recreational program offerings, etc.)

Staffing costs related to the salary increases stipulated in the current CUPE labor settlement (expiring in 2015) have also been accounted for in the 2015 proposed Financial Plan in the operating costs for each respective Department.

The City of Surrey like many other organizations, face significant potential workforce challenges driven by the baby boomer retirements expected to occur over the next several years. The City, led by the Human Resources Department is proactively mitigating this risk by implementing several initiatives to ensure succession planning is appropriately applied, an excellent example of this is the Emerging Leadership Program (ELP) designed to facilitate career growth for employees identified as exhibiting the desire, skills and aptitude to take on senior positions within the organization.

3.3 Sustainability

In accordance with the "Climate Action Charter" agreement that was executed with the Province of BC in 2009, the City allocates funds each year for carbon offsets. The estimated value for these carbon offsets for 2015 is \$400,000 dollars, similar to actual levels for 2013 and 2014. The funding for the carbon offsets will be provided by the annual carbon tax rebates that the City receives from the Provincial Government.

The Sustainability Manager continues to manage the ongoing work of the Sustainability Office and will continue to ensure the City's goals and objectives are in alignment with the Sustainability Charter that was adopted in 2008. The Sustainability Office has recently added a Community Energy Planner term position effective September 2014-August 2016 that will be responsible for the implementation of the City's Community Energy & Emissions Plan, with a particular focus on reducing energy use and Green House Gas emissions in new and existing buildings. The term Community Energy Planner position is funded 50% by BC Hydro and 50% by the Climate Action Revenue Incentive Program (CARIP), a Provincial Grant program that provides funding to members in an amount equivalent to 100% of the carbon taxes they directly pay.

The 2015 proposed Financial Plan includes funding for the Sustainability Office in the amount of \$250,000 similar to previous years.

3.4 New Civic Facilities

In 2010 Council provided direction and support to move forward with a series of large scale Capital projects, collectively known as the “Build Surrey Program”. These Capital projects were designed for two primary reasons, to accommodate residential growth that is expected to occur within the City and secondly to support and facilitate business growth within the City, with a special focus on the City Centre. The Build Surrey Program has been predominantly funded by revenues generated by the Secondary Suite Fee, Contributions from Surrey City Development Corporation (SCDC), and Corporate lease revenue. In 2015, a new Cultural & Recreational Parcel Tax is being proposed. This tax will provide a funding source for future major capital initiatives in the culture and recreation areas.

The 2014-2018 adopted Financial Capital Plan included several active Build Surrey projects, including: Art and Fitness Expansion at South Surrey Recreation Centre, City Hall and Community Plaza, Cloverdale Youth Park, Grandview and Guildford Pools and replacement of the Main City Works Yard. As these Capital Projects are completed, the ongoing costs to operate these facilities have been incorporated into the proposed 2015-2019 General Operating Financial Plan. The following section will detail the financial impact of these operating costs for facilities that are expected to be operational in the 2015-2019 timeframe.

4.0 NEW FUNDING REQUIREMENTS

This section of the report summarizes new funding requirements needed based on Council direction in relation to City priorities. The section is segregated into Public Safety Requirements and other corporate requirements.

4.1 Public Safety Funding Requirements:

RCMP Policing Services (millions)

Annualization of 12 RCMP member positions added in Oct/14	\$ 1.226
Addition of 100 RCMP member positions effective Oct/15	3.179
Other RCMP contract increases (incl. member salary increases)	3.580
Addition of civilian staff	0.714
Labour (benefit and step) increases – (civilian staff)	0.388
Other Operating increases	0.558
Total	\$ 9.645M

The total expenditures for Policing Services for 2015 will amount to \$132.5M, which represents 45% of the City’s expected net Taxation of \$294.514M for 2015.

Fire Services (millions)

Labor increases	\$ 3.934
Third Party Contract increases	0.062
Total	\$ 3.996M

The total expenditures for Fire Services for 2015 will amount to \$57.558M, which represents 19.5% of the City’s expected net Taxation of \$294.514M for 2015.

By-Law Services (millions)

Salary and other related increases	\$ 0.256
3 New By-law positions	<u>0.117</u>
Total	\$ 0.373M

The total expenditures for By-law Services for 2015 will amount to \$6.341M, which represents 2.1% of the City’s expected net Taxation of \$294.514M for 2015.

Surrey Crime Prevention Society (SCPS)

Increase in on-going annual grant contribution	\$ 0.145M
--	-----------

Sub Total: Additional funding required for Public Safety: \$ 14.159M

Public Safety (millions)

Net Taxation 2015	\$ 294.514
Total Expenditures on Public Safety for 2015	<u>\$ 196.629</u>
Total as a % Net Taxation	66.7%

4.2 Corporate Funding Requirements:

Other New Corporate Funding Requirements (millions)

Labour increases excluding Public Safety	\$ 4.269
New Positions	1.735
3rd Party contract increases	0.791
Operating Costs for new Civic Facilities	6.603
Hydro/Natural Gas	0.294
Minor Expense increases	0.600
Provision for City inventory increases (parks, street beautification etc.)	0.600
Service Level increases	2.600
Internal Borrowing	3.150
Contribution to Capital	3.000
Investment Income (lower portfolio interest revenue)	1.353
Provincial Gaming Revenue decrease	<u>0.600</u>

Sub total \$ 25.595M

Total Funding: \$ 39.754M

Add: 2014 Budgeted Transfer from Surplus: 4.999M

Total Required Funding for 2015: \$ 44.753M

5.0 NEW FUNDING

The following are projected revenue increases that are expected to be available to offset the anticipated new funding required in 2015:

New Funding Sources (millions)

Estimated new property tax revenue resulting from new growth	\$ 5.800
Property Tax Revenue increase of 2.9%	8.152
Revenue Growth/New Revenue	\$6.231
Cultural & Recreational Parcel Tax	16.119
Secondary Suite Fee increase	<u>4.581</u>
Total	\$ 40.883M

Cultural & Recreational Parcel Tax:

The proposed Cultural & Recreational (C&R) Parcel Tax would be charged to each parcel in a Tax Class based on the relative Tax Rate Ratio, i.e. Business & Industrial properties are charged 2 times the residential rate. The C&R Parcel Tax will provide the City a funding source for Council supportive initiatives in the Cultural and Recreational area, including possible future Recreational and Cultural Capital Projects. The proposed 2015-2019 Financial Plan incorporates a flat \$100 C&R Parcel Levy that will be applied based on the respective ratios for each Tax Class.

Secondary Suite Fee:

The proposed 2015-2019 Financial Plan aligns the Secondary Suite Fee with what a comparable one-bedroom condominium would pay in relation to property taxes within the City, for 2015 this amounts to \$526.42 per unit.

6.0 SUMMARY OF PROPOSED 2015 GENERAL OPERATING FINANCIAL PLAN

SUMMARY OF 2015 PROPOSED FINANCIAL PLAN

New Funding Available (millions)	\$ 40.883
Additional Funding Required	<u>\$ 44.753</u>
2015 Budget Transfer from Surplus	\$ 3.870M

7.0 ASSUMPTIONS APPLIED FOR THE 2015 GENERAL OPERATING FINANCIAL PLAN

The proposed 2015-2019 Financial Plan has been drafted by applying assumptions that were utilized in the adopted 2014-2018 Financial Plan as follows:

1. A general 2.9% property tax rate increase each year that will predominately be used to offset expected inflationary increases.
2. A 1% increase per year in the Road and Traffic Levy.
3. Fee increases of 3.9% across the board (or equivalent).

New Assumptions for 2015

4. Proposed new Cultural & Recreational Parcel Tax implemented.
5. Alignment of the Secondary Suite Fee to be equivalent to taxes of a one-bedroom condominium.

8.0 SUMMARY

Based on the discussion and information provided in this report, it is recommended that the Finance Committee recommend that Council:

1. Approve the recommendations made in Section 4.0 of this report;
2. Direct staff to prepare the 2015-2019 Financial Plan incorporating the recommendations;

Vincent Lalonde,
City Manager

Vivienne Wilke, CGA
General Manager,
Finance & Technology

2015 - 2019 FINANCIAL PLAN
GENERAL OPERATING - FINANCIAL SUMMARY
(in thousands)

REVENUE SUMMARY	2015 BUDGET	2016 PLAN	2017 PLAN	2018 PLAN	2019 PLAN
Taxation	\$294,514	\$ 309,486	\$ 325,520	\$ 342,410	\$ 360,199
Departmental Revenues	74,370	75,170	77,548	79,782	84,408
Investment Income	14,112	14,148	13,871	13,542	13,238
Secondary Suite Infrastructure Fees	16,311	17,439	18,699	20,011	21,415
Corporate Lease Revenue	4,895	6,826	6,934	7,046	7,161
Contribution from SCDC	4,500	4,500	4,500	4,500	4,500
Penalties & Interest	3,800	3,900	4,000	4,100	4,200
Provincial Revenue Sharing re: Gaming	3,100	3,200	3,300	3,400	3,500
Other Revenue	1,900	1,900	1,900	1,900	1,900
	\$417,502	\$436,569	\$456,272	\$476,691	\$500,521
EXPENDITURE SUMMARY					
Departmental Expenditures	\$359,582	\$ 383,088	\$ 398,969	\$ 415,321	\$ 434,117
Council Priorities	250	250	250	250	250
Fiscal Services	16,874	17,125	19,391	22,835	25,261
Contribution to Capital	12,400	12,700	14,100	15,550	17,150
Contributions to Road & Transp. Fund	18,432	18,432	18,432	18,432	18,432
Net Tsf.To/(From) Surplus & Other Funds	13,834	8,868	9,002	8,222	9,243
	\$421,372	\$440,463	\$460,144	\$480,610	\$504,453
Surplus/(Deficit)	\$ (3,870)	\$ (3,894)	\$ (3,872)	\$ (3,919)	\$ (3,932)
Transfers (To)/From Surplus	3,870	3,894	3,872	3,919	3,932
	\$ -	\$ -	\$ -	\$ -	\$ -

2015 - 2019 FINANCIAL PLAN
GENERAL OPERATING - REVENUE SUMMARY
(in thousands)

REVENUE SUMMARY	2015 BUDGET	2016 PLAN	2017 PLAN	2018 PLAN	2019 PLAN
Taxation					
Base Levy	\$248,299	\$ 262,201	\$ 276,229	\$ 291,295	\$ 307,186
Assessment Growth (City's Portion)	5,800	6,293	6,906	7,282	7,680
Property Tax Rate Increase	8,152	7,786	8,210	8,658	9,131
Provision for Adjustments	(50)	(50)	(50)	(50)	(50)
	<u>262,201</u>	<u>276,230</u>	<u>291,295</u>	<u>307,185</u>	<u>323,947</u>
Cultural & Recreational Parcel Tax	16,119	16,592	17,078	17,580	18,096
Grants in Lieu	16,194	16,664	17,147	17,645	18,156
Net Taxation	294,514	309,486	325,520	342,410	360,199
General Government					
City Manager's Department	8,343	8,593	8,850	9,115	9,388
Finance & Technology	1,247	1,279	1,312	1,346	1,381
Human Resources	-	-	-	-	-
	<u>9,590</u>	<u>9,872</u>	<u>10,162</u>	<u>10,461</u>	<u>10,769</u>
Protection Services					
Fire	1,629	1,678	1,728	1,779	1,832
RCMP	7,893	6,681	6,881	7,087	7,300
	<u>9,522</u>	<u>8,359</u>	<u>8,609</u>	<u>8,866</u>	<u>9,132</u>
Other					
Engineering Services	6,140	6,323	6,512	6,707	6,908
Parks, Recreation & Culture	28,116	29,031	30,079	30,943	34,157
Surrey Public Library	1,561	1,561	1,561	1,561	1,561
Planning & Development	19,441	20,024	20,625	21,244	21,881
	<u>55,258</u>	<u>56,939</u>	<u>58,777</u>	<u>60,455</u>	<u>64,507</u>
Departmental Revenues	74,370	75,170	77,548	79,782	84,408
Investment Income	14,112	14,148	13,871	13,542	13,238
Secondary Suite Infrastructure Fee	16,311	17,439	18,699	20,011	21,415
Contribution from SCDC	4,500	4,500	4,500	4,500	4,500
Provincial Casino Revenue Sharing	3,100	3,200	3,300	3,400	3,500
Corporate Lease Revenue	4,895	6,826	6,934	7,046	7,161
Penalties & Interest	3,800	3,900	4,000	4,100	4,200
Carbon Tax Rebates	400	400	400	400	400
Other	1,500	1,500	1,500	1,500	1,500
	<u>10,595</u>	<u>12,626</u>	<u>12,834</u>	<u>13,046</u>	<u>13,261</u>
	<u>\$417,502</u>	<u>\$436,569</u>	<u>\$456,272</u>	<u>\$476,691</u>	<u>\$500,521</u>

2015 - 2019 FINANCIAL PLAN
GENERAL OPERATING - EXPENDITURE SUMMARY
(in thousands)

EXPENDITURE SUMMARY	2015 BUDGET	2016 PLAN	2017 PLAN	2018 PLAN	2019 PLAN
General Government					
Mayor, Council & Grants	\$ 2,880	\$ 2,222	\$ 2,129	\$ 2,062	\$ 2,009
City Manager's Department	13,950	14,277	14,652	15,928	15,820
Finance & Technology	25,754	27,260	28,567	29,845	31,182
Human Resources	3,589	3,723	3,854	4,035	4,226
	<u>46,173</u>	<u>47,482</u>	<u>49,202</u>	<u>51,870</u>	<u>53,237</u>
Protection Services					
Fire	57,558	59,176	60,836	62,541	64,289
RCMP	132,490	147,041	152,809	158,430	164,241
	<u>190,048</u>	<u>206,217</u>	<u>213,645</u>	<u>220,971</u>	<u>228,530</u>
Other					
Engineering Services	5,599	5,960	6,327	6,665	7,020
Parks, Recreation & Culture	81,881	86,818	92,132	96,414	104,025
Surrey Public Library	16,267	16,567	17,008	17,742	18,508
Planning & Development	27,589	27,960	28,561	29,634	30,758
Utilities Administrative Recovery	(10,017)	(10,066)	(10,171)	(10,290)	(10,396)
Operating Contingency	2,042	2,150	2,265	2,315	2,435
	<u>123,361</u>	<u>129,389</u>	<u>136,122</u>	<u>142,480</u>	<u>152,350</u>
Total Departmental Expenditures	359,582	383,088	398,969	415,321	434,117
Council Priorities					
Council Initiative Fund	250	250	250	250	250
	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>	<u>250</u>
Fiscal Services					
Fiscal Charges	420	432	445	457	471
Interest Paid on Prepaid Taxes	346	354	363	372	381
External Borrowing	10,667	10,667	10,667	10,667	10,667
Internal Borrowing	5,441	5,672	7,916	11,339	13,742
	<u>16,874</u>	<u>17,125</u>	<u>19,391</u>	<u>22,835</u>	<u>25,261</u>
Carbon Emission Offsets	400	400	400	400	400
Contributions to Capital					
General Contribution	4,800	5,000	6,300	7,650	9,150
SCDC Dividend Contribution	4,500	4,500	4,500	4,500	4,500
Gaming Contribution	3,100	3,200	3,300	3,400	3,500
	<u>12,400</u>	<u>12,700</u>	<u>14,100</u>	<u>15,550</u>	<u>17,150</u>
Contributions to Road & Transportation Fund					
Roads & Transportation Fund	18,432	18,432	18,432	18,432	18,432
	<u>18,432</u>	<u>18,432</u>	<u>18,432</u>	<u>18,432</u>	<u>18,432</u>
Net Tsf. To/(From) Surplus & Other					
Tree Replacement Fee	1,500	1,500	1,500	1,500	1,500
Transfers to Other Sources	11,934	6,968	7,102	6,322	7,343
	<u>13,434</u>	<u>8,468</u>	<u>8,602</u>	<u>7,822</u>	<u>8,843</u>
	<u>\$ 421,372</u>	<u>\$ 440,463</u>	<u>\$ 460,144</u>	<u>\$ 480,610</u>	<u>\$ 504,453</u>