

Considered at April 27, 2021 Council Meeting

285



City of Port Moody Report/Recommendation to Council

Date: April 9, 2021
Submitted by: Finance and Technology Department – Financial Services Division
Subject: 2021-2025 Five Year Financial Plan

Purpose

To present the proposed 2021-2025 Five-Year Financial Plan Bylaw for consideration as directed by the Finance Committee.

Recommended Resolution(s)

THAT City of Port Moody Financial Plan Bylaw, 2021, No 3309 be read a first, second, and third time as recommended in the report dated April 9, 2021 from the Finance and Technology Department – Financial Services Division regarding the 2021-2025 Five Year Financial Plan.

Background

Section 165 of the *Community Charter* requires municipalities to annually prepare and adopt a Financial Plan that encompasses the City's operating and capital requirements for a period of five years, beginning with the current year.

The Finance Committee has deliberated over the 2021 Financial Plan covering the years 2021 to 2025, and has directed staff to bring forward the related Bylaw for Council's consideration.

Included for Council's consideration as **Attachment 1** is draft City of Port Moody Financial Plan Bylaw, 2021, No. 3248, which sets out expenditures, funding sources, and fund and reserve transfers as required under section 165 of the *Community Charter*, as directed by the following Finance Committee resolution passed on March 16, 2021, and subsequently ratified by Council on the same date (RC21/132).

FC21/027

AND THAT staff be directed to prepare the 2021-2025 Financial Plan Bylaw and 2021 Tax Rates Bylaw for Council consideration based on the 3.55% tax rate increase as discussed in the memo dated March 5, 2021 from the Finance and Technology Department – Financial Services Division regarding 2021 Budget Deliberations.

Considered at April 27, 2021 Council Meeting

286

As approved by the Finance Committee on March 16, 2021, the draft Financial Plan Bylaw includes a net budgetary increase of \$1,575,000, which is estimated to represent a 3.55% tax rate increase. This is composed of:

- salary, wage, and benefit increases of \$1,392,000 (3.14%);
- operating expense increase of \$215,000 (0.48%);
- budget revenue (including growth) increase of \$243,000 (-0.55%);
- net reserve transfer increase of -\$66,000 (-0.15%);
- net increase for Port Moody Police of \$346,000 (0.78%), including a \$56,000 allocation of growth revenue; and
- a total operating impact for City and Police services of \$1,644,000 (3.70%).

To continue to fund the replacement of critical municipal infrastructure, the City is increasing the Asset Renewal Levy (the Levy) by \$444,000 (1%), which is in line with the City's historic practice of increasing the asset levy by the equivalent of a 1% tax increase annually. In 2020, the asset levy was increase by \$173,000 (0.40%) in an effort to reduce the overall tax increase in response to the COVID-19 pandemic.

A number of new funding requirements have been included in the 2021-2025 Five-Year Financial Plan (\$278,000), which have been offset with new revenues from the digital billboards (\$790,000), resulting in a net new revenues of \$512,000.

The total Capital budget, approved by the Finance Committee on January 5, 2021 (FC21/009a), is \$26.5 million for 2021 (\$71.4 million over the Five-Year Financial Plan).

Discussion

2021-2025 Financial Plan

The 2021-2025 Financial Plan is a fiscally responsible budget that balances the continuation of 2020 levels of service and addresses the financial realities of the ongoing COVID-19 pandemic. Port Moody, like other municipalities, continues to face budget challenges with cost increases for wages and benefits, which make up the single highest cost driver in the budget. The City realized and included minimal new tax revenue from construction growth, as well as other small increases to fees and fines that offset the revenues needed from the proposed increase to taxation. New revenues from digital billboards help to significantly reduce the tax increase for 2021.

With the 2020 closure of the Flavelle sawmill (Mill and Timber), the City saw significant changes to assessed values and property classifications to the City's 2021 tax roll. This would result in a re-distribution of taxes throughout the City. To offset the impact of this redistribution, \$900,000 was transferred from City reserves to maintain an overall tax increase of approximately 3.55%.

Increased costs as the City continues to respond to the effects of COVID-19 are offset with the Provincial government's COVID-19 Safe Restart Grants for Local Governments.

Considered at April 27, 2021 Council Meeting

287

2021-2025 Capital Financial Plan

Port Moody, like other cities across Canada, also continues to be challenged with the capital funding required for the maintenance, repair, and replacement of its critical assets and infrastructure. The national capital infrastructure funding deficit continues to consume tax room that has been traditionally directed towards operations as cities try to close the identified infrastructure funding gap. Cities are having to substitute taxation as a capital funding source as traditional capital funding sources, such as federal and provincial grants and land sales, continue to be uncertain.

Port Moody City Council has been very proactive and progressive in addressing this problem by implementing the Capital Asset Levy as a reliable and sustainable capital funding source, and has historically increased the Asset Levy annually in an attempt to address the capital funding gap. The asset levy will increase in 2021, and is proposed to increase annually throughout the Five-Year Financial Plan to provide a stable funding source for ongoing renewal and replacement of critical municipal infrastructure.

Total Property Charges

The 2021 Financial Plan presented for Council's approval results in a total residential property tax charge increase of 3.55% for the average household assessed at \$970,000 for 2021, or \$85 for the year (\$1.63 per week). The total blended property charge, which includes property tax and utility levies, is estimated at approximately \$3,845 for the average household, an increase of 3.50% from 2020.

Tax Policies

Since 2008, municipalities have been required by the Province to include in their five-year financial plan municipal taxation objectives and revenue policies in order to enhance the City's accountability and transparency in reporting to the public regarding the following:

- the proportion of total revenue that comes from each of the funding sources described in section 165(7) of the *Community Charter*;
- the distribution of property taxes among the property classes; and
- the use of permissive tax exemptions including revitalization tax exemptions.

The provincial requirement to develop explicit objectives and policies has been satisfied in previous financial plans presented to Council since 2008. The Province expects ongoing review and development of these objectives and policies. The policies were reviewed with the Finance Committee at its March 16, 2021 meeting. Schedule B of the attached Bylaw states the City's current Revenue Policy Disclosure – Policies and Objectives.

Asset Management

In 2014, Council formulated a set of financial principles into the development of the City's Long Term Strategic Financial Framework (LTSFF) that was intended to move the City towards financial sustainability. The financial principles approved as part of the LTSFF are referenced during budget deliberations to ensure consistency year-over-year in the formulation of the City's annual capital and operating plans.

Considered at April 27, 2021 Council Meeting

288

In addition, City Council also adopted the first phases of its Asset Management Investment Plan (AMIP) that identified the annual funding requirement for the maintenance and replacement of the City's critical assets. As a result of this analysis, the City was able to quantify its annual infrastructure funding gap, and develop a strategy to close the gap over the long term. The AMIP is used by Council as the guiding document to prioritize capital projects for development of the City's five-year capital plans for existing assets.

Other Option(s)

1. THAT the 2021 Financial Plan be referred back to staff and/or the Finance Committee for further deliberations, acknowledging that the Tax Rates Bylaw must be adopted before May 15, 2021 in accordance with the *Community Charter*.
2. THAT the 2021 Financial Plan be amended, recognizing that the mill rates in the Tax Rates Bylaw will need to be recalculated by Finance staff prior to presentation for first three readings.

Financial Implications

Financial implications are as detailed and set out above.

Communications and Civic Engagement Initiatives

General advertisements regarding Council's consideration of the 2021-2025 Financial Plan bylaw were included in the local newspaper. Budget deliberations have been open to the public and information posted and updated on the website.

The 2021 Budget Consultation was facilitated through engage.portmoody.ca, an online platform where participants register to learn about plans and projects, share ideas, and provide feedback. Between February 8 and February 28, 2021, participants could take a survey, answer a featured question (i.e. "If the City were to look at service level reductions to lower the tax rate increase, which specific services do you think we should consider reducing?"), and pose questions to staff experts.

Out of the 178 engaged participants, 176 filled out a survey, 23 answered the featured question, and two posed a question to staff. 99% of respondents are residents, and 10% own or operate a business in Port Moody.

Engaged participants heard about the Budget Consultation through a variety of channels, including email (83), direct correspondence from Engage Port Moody (71), and social media (17). Citizen Advisory Group members were sent an invitation to participate in the Budget Consultation.

Council Strategic Plan Objectives

The City has a three-step planning process that starts with the development of Council's Strategic Plan goals and objectives, followed by the development of a staff Work Plan that identifies the tasks needed to achieve the goals and objectives. The Financial Plan supports these plans by aligning financial resources to the strategic priorities of Exceptional Service, Environmental Leadership, Healthy City, Economic Prosperity, and Community Evolution.

Considered at April 27, 2021 Council Meeting

289

Attachment(s)

1. Draft City of Port Moody Financial Plan Bylaw, 2021, No. 3309.

Report Author

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Manager of Financial Planning

Considered at April 27, 2021 Council Meeting

290

Report Approval Details

Document Title:	2021-2025 Five Year Financial Plan Bylaw.docx
Attachments:	- Attachment 1 - Draft City of Port Moody Financial Plan Bylaw, 2021, No. 3309.pdf
Final Approval Date:	Apr 20, 2021

This report and all of its attachments were approved and signed as outlined below:

Paul Rockwood, General Manager of Finance and Technology - Apr 17, 2021 - 3:15 PM

Dorothy Shermer, Corporate Officer - Apr 19, 2021 - 11:46 AM

Rosemary Lodge, Manager of Communications and Engagement - Apr 20, 2021 - 12:29 PM

Tim Savoie, City Manager - Apr 20, 2021 - 1:35 PM

Considered at April 27, 2021 Council Meeting

291



City of Port Moody

Bylaw No. 3309

A Bylaw to establish the budget for the 2021-2025 Five-Year Financial Plan.

The Council of the City of Port Moody enacts as follows:

1. Citation

- 1.1 This Bylaw may be cited as “City of Port Moody Financial Plan Bylaw, 2021, No. 3309”.

2. Repeal

- 2.1 City of Port Moody Financial Plan Bylaw, 2020, No. 3248 and all amendments thereto are hereby repealed.

3. Attachments and Schedules

- 3.1 The following schedules are attached to and form part of this Bylaw:
 - Schedule A – Financial Plan, 2021; and
 - Schedule B – 2021 Revenue Policy Disclosure – Policies and Objectives.

4. Severability

- 4.1 If a portion of this Bylaw is found invalid by a court, it will be severed and the remainder of the Bylaw will remain in effect.

Read a first time this ___ day of ____, 2021.

Read a second time this ___ day of ____, 2021.

Read a third time this ___ day of ____, 2021.

Adopted this ___ day of ____, 2021.

R. Vagramov
Mayor

D. Shermer
Corporate Officer

Considered at April 27, 2021 Council Meeting

292

I hereby certify that the above is a true copy of Bylaw No. 3309 of the City of Port Moody.

D. Shermer
Corporate Officer

Considered at April 27, 2021 Council Meeting

293

Schedule A to Bylaw No. 3309 Financial Plan, 2021

	2021	2022	2023	2024	2025
REVENUES					
Taxation	\$ 46,585,160	\$ 49,617,044	\$ 51,184,176	\$ 52,941,776	\$ 54,904,831
Sales, Fees and User Charges	\$ 20,594,185	\$ 23,030,704	\$ 24,100,619	\$ 25,341,770	\$ 26,973,944
Other Revenue	\$ 18,111,245	\$ 7,280,016	\$ 7,273,935	\$ 7,291,553	\$ 7,303,802
Development Levies	\$ 233,520				
	\$ 85,524,110	\$ 79,927,763	\$ 82,558,729	\$ 85,575,099	\$ 89,182,577
EXPENSES					
Operating Expenses	(75,213,557)	(78,673,636)	(81,626,112)	(85,126,704)	(89,224,893)
SURPLUS/(DEFICIT)	\$ 10,310,553	\$ 1,254,128	\$ 932,618	\$ 448,395	(42,317)
NON-CASH ITEMS					
Amortization	\$ 10,332,258	\$ 11,365,486	\$ 12,502,036	\$ 13,752,239	\$ 15,127,463
	\$ 10,332,258	\$ 11,365,486	\$ 12,502,036	\$ 13,752,239	\$ 15,127,463
Cash Items					
Capital Expenditures	(56,397,343)	(11,093,200)	(11,537,200)	(11,019,100)	(11,269,900)
Debt principal repayment	(1,252,735)	(1,364,930)	(1,368,186)	(1,371,301)	(1,371,301)
	(57,650,078)	(12,458,130)	(12,905,386)	(12,390,401)	(12,641,201)
TRANSFERS FROM					
Accumulated Surplus	\$ 64,087	\$ 0	\$ 0	\$ 0	\$ 0
Equip. Replace. Reserve Fund	\$ 1,919,722	\$ 759,873	\$ 328,483	\$ 2,225,456	\$ 1,477,118
Land Sales Reserve Fund	\$ 141,597				
Reserves/Funds	\$ 50,811,562	\$ 14,780,881	\$ 15,540,269	\$ 13,093,807	\$ 13,995,352
	\$ 52,936,968	\$ 15,540,754	\$ 15,868,752	\$ 15,319,263	\$ 15,472,470
TRANSFERS TO					
Equip. Replace. Reserve Fund	(1,429,948)	(1,496,146)	(1,542,405)	(1,578,063)	(1,607,100)
Reserves/Funds	(14,499,752)	(14,206,092)	(14,855,614)	(15,551,433)	(16,309,315)
	(15,929,700)	(15,702,238)	(16,398,019)	(17,129,496)	(17,916,415)
TOTAL	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Considered at April 27, 2021 Council Meeting

294

Schedule B to Bylaw No. 3309 2021 Revenue Policy Disclosure – Policies and Objectives

Requirement: The proportion of total revenue proposed to come from each funding source

The City receives revenue from various funding sources. The greatest proportion of revenue generated by the City is from property taxes. Property taxes are a stable and consistent revenue source for many services, including protective, community, and transportation services that would be complicated to fund on a user-pay basis. For this reason, property taxation will continue to be the City's major source of revenue.

The second largest revenue source is user fees and charges. User fees are applied to City services such as water, sewer, garbage, and recycling as a means of fairly apportioning the value of that service to those who use the service.

Council has been committed to developing a sustainable infrastructure replacement plan by moving towards a pay-as-you-go strategy for infrastructure replacement. This is put into practice through the process of transferring a portion of tax revenues to the Asset Reserve. These funds are then set aside for use as capital funding in recognition that other more historical capital revenue sources, such as land sales, are finite capital funding sources and are not as available in the future.

Policy:

Council is committed to reducing taxation in favour of the following practices:

- fees and charges are reviewed annually to maximize the revenues from services and also to ensure that they are in line with the market rates for similar services or programs;
- costs for services can be recovered from general taxation or charged specifically to the users of the services. Council recognizes that costs of some services could be more fairly recovered from user fees than property taxes. Council has considered, where feasible, to shift the cost burden of municipal services from property taxes to user fees. However, with respect to user fees, Council has concerns that the overall interests of the community are not always best served. Savings transferred from taxpayers by shifting costs to users also shift a financial burden to some service users that cannot absorb the shifts reducing equal access to services;
- senior government and other agency grant opportunities are applied for and leveraged wherever possible as an external source of revenue to supplement scarce capital and operating property taxation revenues. However, Council will pursue federal and provincial funds and other grant opportunities only after assessing their full-cost implications. The City's Long-Term Strategic Financial Framework, a document designed to steer the City towards financial sustainability, states that the City will not rely on grant funding and will only pursue grants that align with established community priorities;

Considered at April 27, 2021 Council Meeting

295

- when certain and applicable City land parcels have been identified for development, leasing opportunities rather than straight land sales are a consideration as ownership of City land inventories can be retained while still generating ongoing and sustainable lease, tax, and utility revenue streams, thereby reducing property taxation. Alternatively, the City could maintain those City land inventories through land swaps or land sales and repurchase of other strategic land parcels, when contemplating land development opportunities of City lands; and
- wherever possible, the City maximizes development opportunities to provide community amenities. Also, new developments generally should fund new increased infrastructure requirements.

Objective:

The 2021 Financial Plan includes the following distribution of revenue:

Table 1: Proportions of Total Revenue

Revenue Source	% Total Revenue
Municipal Taxation	53.3%
Fees and Charges	24.2%
Government Contributions	2.5%
Investment Revenue	0.8%
Payment in Lieu of Taxes	1.3%
Other	17.9%
TOTAL	100.0%

Requirement: The distribution of property taxes among the property classes

The City has delineated six property tax classes within the City, with separate rates levying taxes to six different types of property. Class 4 Major Industry has three rates, two of which are set by the Province to cap certain port properties to encourage new investments in those properties. The City's tax rate ratios are relatively consistent over the years except for classes where external forces, such as provincial capping and assessment calculation practices, are mandated by the Province.

Table 2 provides the distribution of property tax revenue among the property classes. Table 3 provides the comparison of the mill rates among the property taxes.

Table 2: Distribution of property tax revenue among the property classes (2021)

Property Class	% Property Tax
Residential (1)	67.22%
Utilities (2)	0.34%
Major Industry – Other (4)	11.54%
Major Industry – Ports (4)	2.68%
Major Industry – Ports (New Investments) (4)	1.46%
Light Industry (5)	1.72%
Business (6)	14.95%
Recreation (8)	0.09%
TOTAL	100.0%

Considered at April 27, 2021 Council Meeting

296

Table 3: Distribution of property tax mill rates (2021)

Property Class	Ratio
Residential (1)	1.00:1
Utilities (2)	14.74:1
Major Industry – Other (4)	15.49:1
Major Industry – Ports (4)	10.25:1
Major Industry – Ports (New Investments) (4)	8.39:1
Light Industry (5)	4.15:1
Business (6)	2.05:1
Recreation (8)	0.78:1

Policy:

Taxation versus Services Consumed

Property taxation is an *ad valorem* tax system, which means that taxes are based on the assessed value of real property (land and improvements). Therefore, the City does not relate the amount of the tax levied on each individual property with the amount of service the City provides each property. Similarly, the City does not levy its taxes based on the number of occupants in a household using services as taxes are not user fees. Further to this, Council commits to ongoing reviews with the objective of establishing a tax policy that best distributes property taxes among the property classes.

Tax Class Capping

Council is concerned with the distribution of property taxes for classes where provincial capping has been legislated. Provincial tax rate capping can affect the equity of the allocation due to the capping being only applied to certain properties within the class:

- the *Ports Property Tax Act* – 2004 restricts the municipal tax rates to \$27.50 per \$1,000 of assessment value. Eligible new construction relating to port properties is taxed at \$22.50 per \$1,000 of assessment value. The Province provides an annual grant to the City to assist in offsetting the cap, but since the grant is indexed to inflation and the tax increase may be higher, other taxpayers within the class are allocated the variance;
- Class 2 Utilities with respect to the *Local Government Act 329/96* is capped at the greater of \$40 or 3.28 times Class 6 Business/Other; and
- Bill 42 (Bill 42 – *2018 Assessment Amendment Act*, 2018) has a significant impact on the City's autonomy over property taxation. The introduction of Bill 42 held a certain property valuation to current use rather than the highest and best use as is the case for all other properties. The restriction on this property resulted in all other properties paying more tax to compensate for this reduction in property value.

Allocating the Tax Burden

After the provincial restrictions or capping of tax rates are met, the tax rates for the remaining classes are established by adding the Council approved tax increase to distribute the tax burden as equitably as possible across all tax classes, using a fixed share approach. Port Moody reviews its tax rates and the revenue derived from the different property tax classes periodically, and strives to keep the tax rates comparable to neighbouring jurisdictions. As mentioned, Council's policy is to allocate the tax increase equitably to each of the different tax classes recognizing that all tax classes have their own financial challenges.

Considered at April 27, 2021 Council Meeting

297

The impact to tax rates can appear inequitable in some classes even though the tax dollars paid rise more equitably. The reason some tax rates rise more while other tax rates remain more constant is due to the fact that the assessed values, on which the tax rates are based to generate the required revenues, can move in different directions by class as well. When assessed values move in opposite directions for certain classes, the tax rates also need to move in step to keep the tax dollars paid equitable. Over time, tax rates moving in opposite directions to adjust for assessed values moving in opposite directions create significant variances in the tax rates between the classes. The only equity Council can achieve, without purposely directing tax shifts, is to try to keep the percentage increases to the tax dollars paid as equitable as possible.

Objective:

The 2021 Financial Plan includes minor changes in the distribution of property taxes among the property classes. Council's informal policy is to spread the tax burden equitably to each taxpayer in each class.

Requirement: The use of permissive and revitalization tax exemptions

Section 224 of the *Community Charter* provides Council with the authority to grant permissive property tax exemptions on land or improvements.

In 2020, Council approved the list of permissive tax exemptions granted for the 2021 taxation year and the estimated amount of tax revenue foregone. The list demonstrates the policy of Council that permissive exemptions are granted to not-for-profit institutions, including religious, historical, and cultural institutions that form a valuable part of our community.

The City provided 2021 permissive tax exemptions to:

- Mennonite Church;
- Catholic Church;
- Anglican Church;
- United Church;
- Port Moody Ecological Society;
- Port Moody Heritage Society;
- Port Moody Arts Centre Society;
- Port Moody Senior Housing Society;
- Community Ventures Society;
- Association of Neighbourhood Houses of BC DBA Sasamat Outdoor Centre;
- Port Moody (Pacific #119) Branch of the Royal Canadian Legion;
- Catalyst Community Developments Society and St. Andrews Port Moody Housing Society; and
- City of Port Moody.

In accordance with the *Community Charter*, notice to adopt the bylaws must be published, and the bylaws adopted by October 31st of each year.

Considered at April 27, 2021 Council Meeting

298

Civic tax revenue foregone as a result of the permissive tax exemptions for charitable organizations is estimated to be \$140,630 for 2021. Per section 227 of the *Community Charter*, notice of this exemption was given to the public. Per section 98(2) of the *Community Charter*, this amount of foregone revenue will be disclosed in the City of Port Moody 2021 Annual Report.

Policy:

Permissive Tax Exemptions

Council is committed to the continued support of local organizations for permissive tax exemptions since the organizations provide value to the community that, in Council's view, should be supported by taxpayers.

Revitalization Tax Exemptions

Section 226 of the *Community Charter* provides Council with the authority to grant revitalization property tax exemptions on land or improvements to encourage revitalizations within the municipality. The City has currently entered into one Heritage Revitalization agreement for the taxation years 2016-2021.

Objective:

Each year, Council will examine its permissive tax exemption policy to determine if it should be expanded.