

PRESENT: Councillor Fathers, Chairperson
Mayor Walker
Councillor Johanson
Councillor Kristjanson
Councillor Manning
Councillor Trevelyan (arrived at 4:04 p.m.)

ABSENT: Councillor Chesney

STAFF: D. Bottrill, Chief Administrative Officer
T. Arthur, Director of Corporate Administration
S. Kurylo, Director of Financial Services

Press: 0

Public: 3

1. **CALL MEETING TO ORDER**
The meeting was called to order at 4:03 p.m.

2. **ADOPTION OF AGENDA**

2019-G/L-028 **It was MOVED and SECONDED**
THAT the Governance and Legislation Committee adopts the agenda for
February 4, 2019 meeting as circulated.

CARRIED

Councillor Trevelyan arrived at the meeting at 4:04 p.m.

3. **FINANCIAL PLANNING - ORIENTATION**
Director of Financial Services lead the Committee through an orientation in two (2)
parts. A PowerPoint presentation was provided with the following outline as noted in the
agenda a. – 1.:

a. Municipal Finance Legislation

- *Community Charter*
- *Local Government Act*
- Canadian Public Sector Accounting Standards as prescribed by the Public Sector Accounting Board (PSAB)
- Council Policy (307/310/317/322)
- Financial Administrative and Accounting Policies
- Basic Principles and Best Practices

b. Local Government Finance Basic Principles

Municipal Finance Legislation:

- *Community Charter*
- *Local Government Act*
- Canadian Public Sector Accounting Standards (Public Sector Accounting Board)

- *Financial Administration Act*

Further Municipal Finance and Accounting Governance

- Policy / Council and Financial and Accounting
- Basic Principles and Best Practice

Municipalities cannot incur a deficit – this is through legislation, it would be illegal to do so.

Question: What happens if we do run at a deficit?

The City would need to draw on accumulated surplus if it were there.

A further consideration is that it may have an impact on the City being able to receive future grants.

Question: Do we have the ability to issue bonds?

Only the Municipal Finance Authority (MFA) is able to do this (the City can only go through MFA)

Question: During discussion around a possible increase of water rates, it was believed that those were issued by bonds is this correct?

The MFA issued the bond on the City's behalf. When this was done the City is now locked in for 10 years.

Question: At what rate?

For the water utility the City borrowed \$24.8M as follows:

- \$14.2M when water utility acquired at 2.6%;
- \$6.2M to complete the total water quality management project at 2.8%; and
- \$5.3M for water infrastructure upgrades at 3.15%.

Type of Debt clarified

The MFA provides funds throughout the province of BC. Every municipality would utilize MFA for funding (they would issue debenture debt).

c. Where the Money Comes From

- City Property Owners (Property Taxes, Utility User Fees)
- Users of Services & Facilities (Pay Parking, Recreation and Culture Programs, Rentals)
- Developers (Development Cost Charges and Amenity Contributions, Building Permit and Other Development Fees)
- City Businesses (Business and Patio Licences, Business Improvement Association (BIA) Levies (remitted to WR BIA))
- Grants and Contributions

Question: On the revenue chart - Development Cost Charge (DCC) funds where are they shown?

When the DCC funds are received they will go to deferral accounts (they don't show on the chart until the funds are used).

d. Where the Money Goes

- Police & Fire Services
- Infrastructure Maintenance (Roads, Sewers, Buildings, Water System, Parks, etc.)
- Other Services to Residents, Visitors and/or Businesses (Solid Waste Removal, Licencing, Parking, Bylaw Enforcement, Recreation and Culture Programs)
- Asset Improvement Projects (Capital Assets/Upgrades and Major Maintenance Projects)
- Administration (General Government)
- City Reserves and Debt Payments

e. Municipal Fund Accounting

Accounting Funds:

Consolidated Accounts: General Fund

Consolidated Accounts: Sanitary Sewer /Drainage / Water (each have their own reserve - only can use those user fees to pay for their services).

Four (4) separate budgets will be brought forward as part of the financial planning process (General/Sanitary Sewer/Drainage and Water).

Question: To clarify funds collected for water must be used only for water?
Yes.

General Funds can be spent on any of the items (note: not generally done but it can be done) the City usually only pays directly from the corresponding fund for the service ex: water fees to pay for the water service)

Question: In regard to water, we cannot make a profit but if we have surplus can we mark those funds for water system upgrades?
Surplus from the water fund? It must go toward the water budget as it was collected for that purpose.

Each of the budgets have an operating budget and an asset improvement budget:

- Operating: day to day services
- Asset Improvement: major upgrades, maintenance and replacement

f. Municipal Property Taxes

Tax Rate Bylaw must be adopted by May 15 annually

Calculation for the tax rate (divide the amount of property taxes to fund expenditures in the approved budget by the total assessed value of properties in the City, for each class).

All properties are taxed, unless they are exempted by legislation or Council.

Question: Are we allowed to have a surplus? Is there a limit in regard to that under the legislation?

The closer the City is to its budget the better it is. It can be difficult to predict so municipalities error on the side of caution to ensure a deficit does not occur. There are circumstances that there is a “carry over” for projects. Example: for various reasons the City did not spend the funds, the funds are still allotted for the project and they are put in a reserve so when the project is underway the funds can then be used.

Question: Does the City receive any taxes from Burlington Northern Santa Fe (BNSF)? Yes, except on portions that are leased by the City.

Property Assessments & Taxes

- Residential (Class 1) = 96%
- Utilities (Class 2) = 0.03%
- Business and Other (Class 6) = 3.85%
- Recreation and Non Profit (Class8) = 0.04%

\$ 9,264.2 = 2018 Net Taxable Value Property Assessments (millions)
\$21,401.1 = Municipal Tax Levy (thousands)

Business / Residential Tax Rates: Businesses pay 2.66 of what residential pay for the same value of property (the City is the second lowest in Lower Mainland where they range from 2.40 up to 4.38).

Question: How would we go about changing that to be able to increase revenue and deliver other services to the community?
Class rate multiples are set through a decision of Council. Council must be aware to not shift the burden from one (1) property class to another.

Question: As our business rate / residential rate is one of the lowest is it possible to receive a graph of the other municipalities over the last few years to see if they have moved up or down?

Note: The property owner does pay the taxes, however they may also make arrangements for the tenant to pay the cost, this is not unusual to see.

Note: As the business taxes are approximately 4% of the tax base an increase in this area is not likely to have a high impact for the City

Question: Are triple net leases prevalent in White Rock?
Yes, we assume they are - most property owners are using triple net leases (property tax, insurance and basic building maintenance).

Note: It was reported that the following are Actual 2018 Property Tax Rates as follows:

- residential properties pay \$2.18 for every \$1,000 of assessed value of their property (tax rate for 2018)
- businesses pay \$5.76 for every \$1,000 of assessed value
\$5.76 divided by \$2.18 and this is the 2.66% (tax rate for 2018)
- Utilities (example BNSF) pay \$15 for every \$1,000 of assessed value

Question/Clarification: An additional chart to be added that shows the relative residential and business charges per \$1,000 of assessed value in comparison to other municipalities to see how White Rock fit in.

g. Investment of Municipal Funds

- Governed by the *Community Charter and Council Policy*
- Emphasis on safety or preservation of capital
- In accordance with policy the City must get quotes before they invest

Question: As its primary financial institution the City uses the TD Bank, have we explored going with a credit union?

Not at this point, municipalities do not change financial institutions often as there is a lot involved in order to do this, there are many links to consider including property taxes.

Question: In 2017/18 how much did the City earn in revenue in our funds that are invested?

2017: gross investment income \$1.1M (some was allocated to reserve funds – created by bylaw following that it left \$870,000 net and that would go into general revenue that can be used for other purposes).

Question: What was the funds invested that brought in the \$1.1M income?

Investment varies through the year

Funds from reserves, the reserves are used throughout the year, we receive tax funds in July, it also depends on timing when we need to pay out large invoices (large construction projects)

End of 2017: there was \$71M in the bank / \$14M invested in term deposits / \$4M invested in the MFA money market fund / \$7.5M Canadian Western Bank
In total \$97M balance on December 31, 2017 – it varies.

Question: And the return on investment? What is the average return on investment?

It is dependent on each investment (it is constantly changing).

Average return on investment today is 2.4% on the City's bank account and the last term deposit is 2.4%. The range for 2018 was .97%.

h. Five-Year Financial Plans

Must be adopted annually, and once done the property tax, and utility rates are set, with the exception of water rates which are set at the start of the year.

Provides the legal authority to spend money, all expenditures must be included in the Financial Plan .

Community Charter does not define what public consultation process is required; it is to be set by Council.

i. Financing Capital Projects

The City Pays for Capital (Asset Improvement) Projects:

- Current Year Taxes (General Revenue)
- Utility User Fees (Sanitary Sewer, Drainage and Water)
- Reserves
- Development Cost Charge (LGA sets out parameters to calculate DCC)
- Grants and Contributions
- Short Term Capital Debt
- Long Term Debt

Question: Do DCC's pay what they are expected to pay? Are the amounts collected correct?

Yes, the intent of DCC is development as paying for itself, it is complex and typically it can take nine (9) months to a year from start to finish

Note: If a capital project is not in the DCC plan it cannot be paid for by DCC funds, time must be spent figuring out and working ahead to ensure all capital works projects are listed in the bylaw so the DCC funds collected can be utilized for the project.

Meeting Recessed and Reconvened

At 6:00 p.m. the Chairperson called a recess and stated the meeting will reconvene back in the Council Chambers at 6:30 p.m.

At 6:30 p.m. the Chairperson reconvened the meeting with all noted members of Council and staff in attendance.

j. Reserves

Legislation provides the authority for some reserves to be created by bylaw. Some reserves are not created by bylaw, but are accounts created in the City's books to save money for certain purposes / projects.

There are both operating and capital (asset improvement) reserves. Recent emphasis by capital asset best practices and the Federal/Provincial governments for municipalities to ensure funds are put into reserves for the long term future upgrading and replacement of the capital assets.

Question: Can the City borrow funds and put them in a land reserve?
When you borrow funds for capital purposes you would need to have an asset. There may be other possibilities such as use of Community Amenity Contributions (CAC). The Bylaw will be reviewed as well as there may be provision for additional funds to be placed in the account, but this will need to be confirmed.

Question: It was noted that the land sale reserve had gone down by \$2.29M but the lot at 1510 Russell Avenue was purchased at \$5M is that correct?
The 1510 Russell Avenue lands were purchased just below \$4.9, the breakdown for that was as follows land sale reserve \$2.9M and \$2.1M from parkland DCC and approximately \$200,000 from CAC's.

Question: How much funding from CAC's were used for the Memorial Park project?

This information will be provided during the financial plan process.

Clarification as part of the Financial Plan Process: Would like a better understanding as to how reserve funds can be utilized.

Clarification: The land sale reserve included when BOSA developed the two (2) Miramar Towers. It would be interesting to know how much was collected from them and placed into the land sale reserve.

Yes the BOSA funds are included in this account but in addition there have been the sale of a couple of road ends etc.

Community Amenity Contributions (CAC's) though bylaw and City policy may be spent on the following items:

- Any civic use building or space within a building
- New, or improvements to, publicly accessible open space (incl. land, public square & pedestrian routes)
- On or above ground public accessible parking
- Underground public accessible parking
- Outdoor public art
- Transit station, bus loop or transit shelters
- People movement infrastructure
- Special needs or non-market affordable housing
- Greenhouse gas reduction measure, community energy facility
- Similar things that benefit the city and the well-being of its community

The items above were all vetted through the City's lawyer with a notation that you can only use the CAC's for items that are within the City's bylaw at the time the funds were collected. There is approximately \$300,000 in the fund that were collected prior to this bylaw coming into effect so using those funds will be more restricted.

Question: Who sets the rules for using CAC's and how they depend on when they are collected?

They are negotiated amounts, in exchange for more density. This practice is permitted through legislation and City bylaw.

Question: How do you go about lobbying to change the legislation in regard to what you can use the CAC funds for?

Legislation gives permission and sets out in principle that CAC's are used to pay for amenities that are needed in conjunction when additional development occurs.

Question: When was the last time the bylaw and policy for CAC's was updated? Bylaw was done in 2017 as well as the Policy in 2017.

Clarification: Difference between policy and bylaw?

A policy is a guideline, intended to document Council expectation in regard to a circumstance. They guide staff and assist Council as to what courses of action they wish to have done in circumstanced guideline. It also may add clarity or additional detail to a bylaw.

A bylaw impacts the community, it is not flexible, it dictates what shall occur. It is a legal means to effect Council's will.

Council, the Community and staff must follow the bylaw. A bylaw also gives the authority for Bylaw Enforcement to enforce it.

Question: Which authority did the City use to construct the Parkade through CAC's?

This was done through the bylaw.

A bylaw will always have an overarching authority over a policy.

Change of Chairperson

Chairperson Fathers departed the meeting at 6:53 p.m.

It was noted that Mayor Walker would be chairing the meeting from this point on.

Other General Fund Asset Improvement Reserves, each fund has its own reserves. The sources of the funds also used by the City to pay for capital projects and other major improvements to infrastructure. Not created by bylaw, accounts in the City's books. A breakdown was shown in regard to funds in reserve in relation to:

- General Infrastructure Reserve
- Capital Roadworks Reserve
- Works in Progress Reserve
- Secondary Suite Service Fee Reserve
- Community Works Fund Reserve (Gas Tax)
- Pier Preservation Reserve
- Other

Question: Can staff provide a report / graph similar to the "Other General Fund Asset Improvement Reserves" graph stating the details as to where the reserve funds went to? This was done verbally at the meeting but having the detailed information to refer to would be helpful.

Staff noted this can be done at the time of when the year end report would be done.

Utility Fund Reserves were notes as follow:

- Sanitary Sewer Fund
- Drainage Fund
- Water Fun

Question: Does the City provide Semiahmoo First Nation (SFN) sewer and/or storm drain?

The City does not provide storm drainage formally although the Habgood Pump Station is on the SFN property and it does drain the SFN land. The concern with this is that the City does not have an agreement for it.

Sanitary Sewer and Water Services, the City currently provides bulk service. It is understood now that SFN have an agreement with the City of Surrey and that those services will be transferred sometime this year. There are approximately half a dozen properties on SFN land that the City's provides sanitary service to such as the WAG restaurant.

Question: It is understood that the City of Surrey will be servicing approximately $\frac{3}{4}$ of the SFN lands but there is a small area on the west end that they will not be getting water service, is this something the City can look into providing?

This is something the City has to discuss with SFN, the City of Surrey will provide water services to SFN for their property east of Stayte Road.

Development Cost Charge (DCC) types collected for:

- Parkland
- Drainage
- Highways
- Water
- Sanitary Sewer

Projects must be listed in the DCC bylaw in order for the funds to be spent from these accounts. The bylaw review is something staff are aware of that is required to be done.

Accumulated Surplus:

These amounts are not "profit" the City made, it includes investment in tangible capital assets (ex: funds spent on roads, buildings and sewers over time that is not financed by debt - in 2017 that portion was \$87M).

As the City cannot run at a deficit, it is important the City has a cushion for unexpected costs and we have to draw from the unappropriated surplus. The City is required through policy to have between 10% to 15% of the general fund operating budget.

Question: How much could the City have in the surplus beyond Council's policy of 15% and then what can that accumulated surplus be used for?

There is no limit to the % however it not recommended to go higher than 15%. If this is the case we are either overtaxing the property owners or we may not be putting enough money into other reserves that should need the funds.

Question: Pay as you go financing, you put money aside so you will not have to borrow. Is this something the City can do or are we doing that already?

The City is doing this in principle, the only debt the City had prior to acquiring the water utility was a Local Improvement for Sanitary Sewer, very small amount the City fronted for a service to be paid back by the residents over time.

General Fund Operating Type of Reserves:

- Previously Approved One-Time Items
- Designated Future Year Expenditures
- Provision for Contingencies
- Council Initiatives
- To be Reallocated in 2019

k. Debt and Borrowing

Capital borrowing authority limits, set out by the *Community Charter*.

Short Term Capital Debt: must be paid back in five (5) years, maximum amount is \$50 per capital or \$997,600, authorized by Bylaw, borrowed from the MFA (City does not have any outstanding).

Long Term Capital Debt: maximum amount of annual debt servicing costs (principal and interest payments), maximum debt servicing costs are 25% of previous year's calculated revenues (\$11M, borrowing \$85M for 10 years or \$180M for 30 years, requires bylaw and inspector's approval, equates to borrowing approximately another \$5.9M for 10 years, or \$12.7M for 30 years.

Question: Can we pay down the water debt?

Typically you run the water utility by fees, you can use general revenue fund taxes.

Question: What are options for realistic repayment?

Have not run any numbers on this yet. We do not expect a municipality our size to pay down a debt of \$17M quickly. Water infrastructure should be replaced and maintained. Sufficient revenue is so we don't have any more debt.

Clarification: It would be helpful for Council to have the numbers supplied and see if there can be any potential savings.

l. Annual Financial Reporting

After the end of each year, the City's Annual Financial Statements are prepared and audited. KPMG are the City's Auditors and before the audit is finalized they provide a report on their findings. The Finance and Audit Committee accept the information on behalf of Council. The Annual Financial Statements form part of the City's annual report (available in June). Council consider the Annual Report and submissions and questions from the public at a Council meeting each year.

In addition the following reports must be also reported on by June 30th:

- Financial Information Statement
- Council Remuneration, Expenses and Contracts
- Development Cost Charges Report

Question: Is there an overall policy that explains what the reserves should be, or something to summarize this for a good understanding?

There are no guidelines for all of the City's reserves, there does not appear to be anything generic published by the province in this regard.

Clarification: Council would appreciate at the end of all this, notes about what guidelines we are using, and policy may be formed in future.

Question: In regard to solid waste reserves \$555,000 what is the breakdown for those funds?

Staff noted:

- \$113,000 Economic Development
- \$17,000 Council PC (computer equipment, phones etc)
- \$17,000 traffic fine revenue that can only be spent on safety related items
- \$40,000 City to complete a Capital Asset Management Plan (to determine what the next steps are for a more structured approach)
- \$15,000 as we do not have a Purchasing Officer so when we major contracts and requests for proposals etc funds are available for help with these items
- \$40,000 internal audit purposes
- \$130,000 related to the Headquarters for RCMP in Green Timbers, when constructed RCMP started to charge for each member for every year for cost for the building. This was done without permission by the City so funds are being held at this time until this is resolved

It was clarified the funds can also be used to purchase more garbage trucks as well.

Sanitary Sewer Fund:

Question: Looking for some cost savings: \$12M for the sewers seems high why is it at that amount?

This was accumulated over a number of years (we pay funds to Metro Vancouver at approximately \$1M to process our liquid waste and a number of years ago there was discussion that they were doing major upgrades to the system and municipalities needed to be ready to pay their fair share so funds were set aside). It took longer to get the project started and it still under construction.

As well a number of years ago the Engineering Department stated they would need to do a lot of work to improve the City's sanitary sewer infrastructure so funds were being collected for that.

New staff in the Engineering Department are now in place and when the Master Plan was updated it was found there was more need for storm sewer infrastructure upgrades instead of sanitary sewers.

Further 2017/18 projects were deferred.

Question: It was noted that the sanitary sewer fund and water fund are both utilities if this is the case can the sanitary sewer fund go toward paying for the water debt? No, this cannot be done but you may be able to do this through General Taxes but you cannot take sanitary sewer taxes/fees and pay for drainage or water debt.

It was noted that the sanitary sewer fund does not require a rate increase. The storm drainage funds needs help at this point (Habgood Pump Station is on hold as there are not enough funds to move this from its current location) and the water fund requires additional funds to pay off debt.

Question: Garbage collection for multi-family dwellings – do we have information on what were cost savings or extra costs in relation to the change in service?

It was noted a major change that prior to this the fee charged to residential customers. Prior to the change the City collected through the tax system (customers were charged based on the assessed value of the property so those with higher valued homes were paying much higher for the same service another homeowner with a lower value home).


When the City made the change property taxes were reduced (total tax savings 9% - 4.5% each year for 2 years as it was implemented).


Clarification: It was noted that as we move forward that to have that data in front of Council as this topic is further reviewed would be helpful.

This information is due to come forward as part of a corporate report later this year as it requires getting some consulting help.

4. **CONCLUSION OF THE FEBRUARY 4, 2019 GOVERNANCE AND LEGISLATION COMMITTEE MEETING**

The Chairperson declared the meeting concluded at 8:08 p.m.


Councillor Fathers
Chairperson


Tracey Arthur, Director of
Corporate Administration