

Date: Tuesday, January 21, 2025

To: Elizabeth Tracy, Chief Administrative Officer

From: Thomas Sikora, Manager of Finance

Subject: Preliminary Draft Budget Report including Capital

PURPOSE

The purpose of this report is to present to the Committee of the Whole the updated 2025 budget including capital projects for review, comment, and direction. Feedback received at today's budget session will guide staff in drafting tax implications for review in February. Focus of this session is around four areas:

1. Operating budget service levels and priorities
2. Reserve objectives
3. Reserve objectives: RCMP
4. Capital objectives

BACKGROUND

This session focuses on reviewing drafts of the 2025 operating budget and capital plan. Year end and audit are still in progress. Therefore, all figures are preliminary, unaudited and subject to change. The five year financial plan, utility and water rate changes, tax rate options, and reserve recommendations will be presented at the February 25th budget session.

DISCUSSION & COMMENTS

This is the third opportunity for review of the draft 2025 budget, developed with department managers in alignment with Council's strategic plan.

As discussed in previous budget sessions, factors influencing the 2025 budget include:

- Pressure to maintain existing service levels as articulated by the *operate with excellence* strategic priority
- An overall inability to sustain low tax rates while maintaining aging infrastructure
- An overall inability to keep up with rapid community and infrastructure growth at current funding levels
 - This gap is widening, particularly as subsidies from grant funding applied to core operations have only postponed inevitable tax increases.
- Growth and cost increases (inflationary and contractual) that have been creating significant pressure which has been reflected to some degree in tax increases
- Underfunding of reserves over time in an effort to maintain affordability to taxpayers in the short to medium term

Upcoming Pressures/ Increases

The following pressures are anticipated to impact the five-year financial plan and will lead to increases in the Village of Pemberton's portion of the tax bill:

- **Inflationary and provincial pressures:** Inflationary increases, coupled with provincial downloading of housing objectives, environmental responsibilities, and accessibility requirements, are adding significant pressure to the operating budget. These new obligations are not fully offset by corresponding funding, leaving gaps that must be absorbed through municipal resources and taxation.
- **Asset additions:** The addition of major capital projects into the Village's infrastructure requires additional budget resources, including increased requirements for labour, maintenance, long term operational expenditures, and future capital budgets to ensure their sustainability and functionality.
- **Development revenue volatility/fee waivers:** Timing of applications resulted in lower than anticipated revenue in 2024. Looking forward, potential for future fee waivers on affordable housing projects may in some years place financial pressure on general taxation.
 - In 2024, despite dropping year over year budget by \$60,000 (2024 (\$370,000) vs 2023 (\$430,000)), the Village is anticipated to experience a \$176,164 shortfall in this category.
- **Policing:** Under the Police Act, municipalities with populations of 5,000 and over must provide their own law enforcement by forming a police department, contracting with an existing department, or engaging the provincial government for RCMP services. Municipalities with a population between 5,000 and 15,000 residents must pay 70% of policing costs. With the Village's 2023 population estimated at 3,678 and growing, preparations must begin to address these increased costs in future years. Council has been proactive in requesting consideration of future policing costs in the 2025 budget.
- **Recreation:** In 2019, the Village entered into an agreement with the Squamish-Lillooet Regional District (SLRD) to manage the recreation service, with full transition to the Village effective January 1, 2026. The associated tax requisition formula will shift, resulting in higher Village of Pemberton property taxes, offset by a corresponding and proportional decrease in SLRD tax collections.
- **COVID-19 grant funding fully expended:** The COVID-19 grant funds received in 2021 have been fully expended as of the end of 2024 in accordance with approved plans. These funds previously subsidized operational expenses such as IT upgrades, remote software, hardware, and labour costs, which would have otherwise required tax increases. With this benefit now ended, the full cost of these operational expenditures will be passed through to municipal taxes starting in 2025.
- **Labour:** Adjustments to the labour plan will ensure the Village can maintain service levels as new infrastructure is developed, existing infrastructure ages, and population

growth continues. The 2025 budget proposes the addition of a Public Works labourer to maintain core service levels and keep up with growth in service areas and assets and a fire inspector to permit Pemberton Fire Rescue to manage increasing incident volume and added pressure from regulatory and FUS requirements.

- **Transit:** Transit expansion, including an additional 1,500 service hours through BC Transit in 2025, along with roll out of a renegotiated operating contract is now in effect (BC Transit re-tendered and negotiated with PWT upon expiry of prior contract). These costs are partially offset by grant funding and a generous contribution of \$50,000 from the Resort Municipality of Whistler in 2025. This initiative supports the Community Climate Action Plan's goals to reduce car dependency and expand sustainable transportation options.
- **Reduced non-market change (NMC) (Appendix C):** Significant decrease in year over year non-market change, with \$28,188 new NMC based on completed roll in 2025 vs \$137,421 NMC in 2024, \$163,629 NMC in 2023, and \$42,526 NMC in 2022.
- **Limited alternate revenue streams**

Recommended Council Focus

Staff recommend that Council prioritize contributions to largely underfunded reserves and calibrate tax increases to address operating pressures that support core services. Staff have endeavored to capture Council's requests through the year in the draft budget. The operating budget, as presented, is designed to maintain existing core service levels, including maintenance of aging infrastructure, while accounting for the increased service demands (hours and expenses) associated with the recent rapid growth in development and infrastructure. Elements of the plan address Council's strategic priorities.

Simplified recommendations are as follows:

1) Validate operating budget service levels and priorities

Council has previously reviewed the preliminary operating budget (**Appendix A**). Between budget sessions, staff have continued to adjust the plan based on input received.

Staff ask that Council review the updated departmental operating plans and provide any further direction with respect to changes to services levels or key priorities. Staff will update the plan with these changes and aggregated tax implications in February.

2) Recommended plan for reserve objectives

Council has been presented guidance over years around asset and reserve replacement funding gaps, with recommendations to target increasing reserve contributions. These have been presented in many ways over prior years, with recent recommendations to increase reserve contributions by an additional \$200,000 in the 2024 budget. As increases have not been fully adopted by Council, the forecast shortfall is widening over time.

In 2022, YourCity presented an Asset Replacement Financial Strategy Asset Sustainability Framework. They identified long-term reserve focus areas for the Village with the objective of keeping assets healthy. The study promoted long term investment in reserves, grounded

in understanding of the risk of failure of past life assets, defining level of service, and assessing the Village of Pemberton's aging infrastructure and funding gaps. Analysis identified funding gaps in sewer (\$76,000) and general capital (\$678,000). This was before asset additions, which have taken place in subsequent years.

Targeted increases of at least an average of \$54/yr per property on average to general capital reserves, for 15 years, are recommended to maintain service levels based on 2022 evaluation of end-of-life assets (before accounting for additions).

Targeted increases of at least an average of \$24/yr per property on average to sewer reserves, for 15 years, are recommended to maintain service levels based on 2022 evaluation of end-of-life assets (before accounting for additions).

3) Recommended plan for RCMP reserve funding

Option 1- Reserve funding plan: To prepare for the transition to a 70% cost-sharing obligation for law enforcement, Council may consider the following reserve funding plan based on best practices from other BC municipalities approaching populations of 5,000:

1. **Establish annual contributions:** Allocate 20% of the estimated annual RCMP costs to the reserve each year for the next five years, building the necessary funds incrementally. The total cost for 8 officers is estimated at \$1,840,000 annually, plus inflation (\$230,000 per officer). At 70%, the Village's annual share is \$1,288,000. Over five years, the annual reserve contribution would amount to \$257,600.
2. **Adopt gradual tax increases:** Implement annual tax increases to ensure the reserve fund grows without significantly burdening taxpayers in any single year.
3. **Monitor population growth and adjust contributions:** Conduct annual reviews of population projections and adjust reserve contributions as needed. Other municipalities, such as Comox, have integrated population metrics into financial planning to ensure reserves align with service demands.
4. **Secure grants and partnerships:** Actively seek provincial or federal grants to subsidize initial reserve funding. Collaborating with neighboring municipalities may also reduce training and onboarding costs for new officers.

Option 2- Absorb transition without reserve smoothing: To prepare for the transition to a 70% cost-sharing obligation for law enforcement, Council may prefer to accept the abrupt transition to cover approximately \$1,288,000 (plus inflation). This would result in an estimated impact of over 40%+ tax increase in the year of adoption.

4) Recommended plan for capital objectives

The capital plan is attached as **Appendix B** for the Committee's review. Staff are seeking the Committee's direction regarding projects and priorities. The Committee may choose to elevate or deprioritize projects and priorities and provide source funding instruction. Staff will incorporate this direction in a revised capital plan to be presented in February.

As a theme, water source priorities and updated condition assessments, including the Wastewater Treatment Plant Assessment Report, have driven the urgency and prioritization of many capital projects in the 5 year capital plan. Additionally, urgency driven by accelerated housing priorities delivered from the provincial and federal governments have added pressure to the capital plan. This will be the first year, as a result of success in securing grant funding, that the Housing Accelerator Funding is incorporated into the capital plan funding assumptions (**Appendix B**).

Aging infrastructure and an aging fleet continue to add pressure to the capital plan, though through continued routine and preventative maintenance programs, staff are endeavoring to extend the useful life of existing assets to prioritize affordability, with a note that end of life asset failure is an added risk to the budget as presented.

COMMUNICATIONS

Residents have been invited to participate in the budget process through attendance at the Public Budget Information Session on March 4th and by submitting their questions to the Village at budget@pemberton.ca. No direct feedback or questions have been received from the public to date.

Information has been included in the Village's eNEWS, on the Village Website and Facebook page, and updates have been features in the Pique Newsmagazine.

LEGAL CONSIDERATIONS

The development and review of the annual budget meets with the requirements as set out in legislation.

BUDGET & STAFFING

The development of the annual budget is a component of the day-to-day operations of the Finance Department and has been incorporated into the annual work plan.

INTERDEPARTMENTAL IMPACT

The budget was created in collaboration with department managers.

COMMUNITY CLIMATE ACTION PLAN

Initiatives of the Community Climate Action are incorporated in departmental budgets and work plans.

STRATEGIC PRIORITIES

The budget has been designed to align with the strategic priorities:

Plan and manage growth,

*Be prepared,
Protect our environment,
Cultivate trust, and
Operate with excellence.*

IMPACT ON THE REGION

Development of the 2025 draft budget has no immediate impact on the region or neighboring jurisdictions. Of note, both Recreation and Fire and Rescue draft budgets will be presented to and reviewed with the Squamish-Lillooet Regional District at the Pemberton Valley Utilities and Services Committee and Fire Committee Meetings.

ALTERNATIVE OPTIONS

There are no alternative options for consideration.

RECOMMENDATIONS

THAT the Committee of the Whole provides feedback to staff with respect to changes to the 2025 draft operating budget and provides direction regarding the proposed tax increase.

THAT the Committee of the Whole provides direction regarding reserve objectives.

THAT the Committee of the Whole provides direction regarding RCMP reserve objectives.

THAT the Committee of the Whole provides direction to staff regarding the capital plan, specifically on prioritizing or deprioritizing capital projects and clarifying the funding source assumptions for these projects

ATTACHMENTS:

Appendix A: Operating budgets

Appendix B: Capital budget

Appendix C: BC Assessment 2025 Non Market Change

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