



The Corporation of the City of Courtenay

Staff Report

To: Council

File No.: 1705-20/1715-20

From: Director of Finance

Date: February 26, 2025

Subject: 2025-2029 Financial Plan Follow Up

PURPOSE:

To provide Council with information per direction received for the 2025-2029 Financial Plan. To provide Council with options for the Sewer Frontage Fee change from 1-3-year implementation. To seek first, second, and third readings of Sewer Service Frontage Tax Amendment Bylaw No. 3170. To seek first, second, and third readings of 2025-2029 Financial Plan Bylaw No. 3165.

BACKGROUND:

At the February 5th Council meeting reconvened from January 29th Council provided the following direction regarding changes to the 2025-2029 Financial Plan:

- THAT Council direct that the Bridge Building demolition be funded through the Gaming Reserve fund to a maximum of \$500,000.
- THAT Council direct staff to remove the proposed "Engagement Specialist" staff position from the 2025-2029 Financial Plan.
- THAT Council direct staff to report back on the implications of setting the 2025 tax rate at 6%, 6.5%, and 7%, and its impact on the 2025-2029 Financial Plan.
- THAT Council direct staff to report back on proposed sewer tax rate options, distributing the proposed 2025 increase over the duration of the 2025-2029 Financial Plan.

DISCUSSION:

2025-2029 Financial Plan Changes and Implications

In addition to Council directed changes staff continued to focus and review individual department budgets from January 29th to time of drafting this report to find revenue sources/adjustments and cost saving opportunities to reduce taxation required for 2025-2029. The table below summarizes these changes and the corresponding impacts to taxation for 2025.

Item	Revenue	Expense	Taxation Impact
RCCS - Adaptive Program Regional Funding*	\$ 42,000		-0.13%
RCCS - CRA - Evergreen Seniors Annual Grant moved to Gaming from taxation*		\$ (48,000)	-0.15%
Strategic advisor position funded half-year		\$ (65,000)	-0.20%
Short term debt interest rate reduction 5% to 3.8%		\$ (185,900)	-0.56%
Grants in lieu of Taxation - BC Hydro - updated grant amount*	\$ 205,000		-0.62%
Business Licensing Revenue*	\$ 71,300		-0.22%
Volunteer firefighter recruitment deferral		\$ (115,000)	-0.35%
Removal of proposed engagement specialist position*		\$ (72,800)	-0.22%
Bridge Building Demolition - Gaming funded and budget reduction		\$ (695,000)	-2.11%
Total	\$ 318,300	\$ (1,181,700)	
Net total impact to taxation		\$ (1,500,000)	-4.55%

**Denotes items that will impact 2025 through 2029, while others will only provide a onetime impact in 2025.*

Through this work a total net impact of \$1,500,000 was realized which will directly reduce the current year revenue requirement to balance the budget. If taxation was to be reduced, it would represent a reduction of 4.55% of the original 10% change, landing on a discretionary tax increase of 5.45% assuming no change to surplus utilization at \$2.07M.

Taxation Scenarios

Council requested taxation scenarios for the discretionary tax change for 2025 at 6%, 6.5% and 7%. The basis for these scenarios includes, net taxation reduction from items through the focusing of the Financial Plan and the use of surplus being the balancing factor when changing taxation. If a taxation scenario increases total revenue then the corresponding impact would be a reduction in the use of surplus. A discretionary tax change of 0.5% represents a \$ change of \$9.02.

The table below outlines the taxation impact on an average residential dwelling.

Impact on Average Residential Dwelling				
	2024	2025 - 6%	2025 - 6.5%	2025 - 7%
Property Tax	\$ 1,803.73	\$ 1,911.95	\$ 1,920.97	\$ 1,929.99
\$ Change from Prior year	\$ 133.19	\$ 108.22	\$ 117.24	\$ 126.26
% Change	7.47%	6.0%	6.5%	7.0%

The table below outlines the total tax revenue change from 2024, change from the 6% scenario, required surplus utilization, estimated ending surplus balance and impact on the surplus target.

	Total Taxation		
	2025 - 6%	2025 - 6.5%	2025 - 7%
Total Taxation 2025	\$ 36,722,000	\$ 36,895,000	\$ 37,067,000
\$ Change from 2024	\$ 2,766,000	\$ 2,939,000	\$ 3,111,000
\$ Change from 6%		\$ 173,000	\$ 345,000
Required Surplus Utilization	\$ 1,953,950	\$ 1,780,950	\$ 1,608,950
Estimated Surplus Ending			
Balance 2025	\$ 11,402,050	\$ 11,575,050	\$ 11,747,050
Surplus Target	\$ 11,155,000	\$ 11,155,000	\$ 11,155,000
% Over Target	2.2%	3.8%	5.3%

All scenarios still require surplus to balance; however, all scenarios exceed the target surplus balance. The surplus balance is based on 20% of annual General Fund operating spending (excludes capital), this represents about 10.4 weeks of cash on hand.

Impact on 2026 Taxation

To quantify the impact of 2025 taxation decision on 2026 taxation we must start from the original 2026 year of the 2025 Financial Plan as presented on January 29th and adjust the total revenue requirement per changes that have occurred.

2026 Revenue Requirement	
2026 Revenue required	\$ 44,604,200
Less	
Adjustments from 2025 impacting 2026	\$ 1,333,700
Estimated NMC for 2026	457,224
Proposed surplus use (Note 1)	1,230,000
Total adjustments and supplements	\$ 3,020,924
Adjusted Revenue Required 2026	\$ 41,583,276

Note 1 – Proposed surplus use is based on historical staff vacancies through normal turnover resulting in unspent wages. A rate of 5% of total General Fund wages has been used.

The adjusted revenue required for 2026 has fallen from the original estimation of \$44.6M down to \$41.6M. Given this information and assumptions we can estimate the required 2026 tax change based on the three taxation scenarios (6%, 6.5%, 7%). As taxation is changed in 2025 it will impact the need for a larger or smaller increase to meet 2026 revenue requirement.

The table below outlines the impact on 2025 taxation scenarios on the 2026 taxation change.

	2026 Taxation Change		
	2025 - 6%	2025 - 6.5%	2025 - 7%
\$ Taxation Change Needed for 2026	\$ 4,861,276	\$ 4,688,276	\$ 4,516,276
% Taxation Change Needed for 2026	13.2%	12.7%	12.2%

Items pushing revenue requirements for 2026 include:

- Taxation funded portion of capital \$2.5M
- Interest and debt payments increasing by \$1.5M
- Fleet reserve transfers increasing by \$375K
- SIIP reserve transfer increasing by \$551K
- Inflation on \$55M operating spending

Revenue requirements stabilize in 2027 as recent new debt taken on normalizes through consistent repayment schedules. Furthermore, tax funded capital sees a reduction as the benefits of the SIIP are being realized and used to fund capital.

Taxation Scenario Recommendation

Staff recommend the discretionary tax change scenario at 7% or greater as it will provide relief for the 2026 tax change. This being said Council has given direction to staff to look for cost saving measures for 2026 which if approved by Council would reduce the forecasted 2026 revenue requirement and accompanying taxation change.

Impact on Gaming Fund

The Gaming fund has seen significant change through the funding of the Bridge building demolition of \$500K (onetime) and the ongoing funding for the CRA – Evergreen Seniors program for \$48,000. The Gaming Fund has adequate funds on hand to absorb these changes and the expected December 31 2025 ending balance is \$1,768,500, down by \$548,000. The Gaming fund still exceeds the 1 year of revenue on hand target of \$1.2M.

Sewer Frontage Fee Options

The 2025-2029 Financial Plan as presented at the January 29th Council meeting included an increase to the Sewer Frontage fee of \$1.80 from \$10.70 per meter to \$12.50 per meter. Council requested options to bring this increase in over a period of years. Staff have created two scenarios that bring the increase in over 2 years and 3 years. For comparison purposes the original approach is shown.

The table below outlines the frontage rates per meter.

Scenario	Frontage Rate per Meter			
	2024	2025	2026	2027
1 Year	\$ 10.70	\$ 12.50	\$ 12.50	\$ 12.50
2 Year	\$ 10.70	\$ 11.57	\$ 12.50	\$ 12.50
3 Year	\$ 10.70	\$ 11.27	\$ 11.87	\$ 12.50

The table below outlines the average frontage levied on a residential dwelling.

Average Frontage on Residential Dwelling					
Scenario	2024	2025	2026	2027	
1 Year	\$ 179.23	\$ 209.38	\$ 209.38	\$ 209.38	
2 Year	\$ 179.23	\$ 193.80	\$ 209.38	\$ 209.38	
3 Year	\$ 179.23	\$ 188.77	\$ 198.82	\$ 209.38	

The table below outlines the \$ change in the average frontage levied on a residential dwelling.

Average Frontage Change on Residential Dwelling					
Scenario	2024	2025	2026	2027	
1 Year	\$ 30.15	\$ -	\$ -	\$ -	
2 Year	\$ 14.57	\$ 15.58	\$ -	\$ -	
3 Year	\$ 9.55	\$ 10.05	\$ 10.55	\$ -	

The table below shows the total expected change in revenue from frontage fees.

Expected Annual Change in Total Frontage Revenue					
Scenario	2024	2025	2026	2027	Total
1 Year	\$ 113,131	\$ 399,045	\$ 26,171	\$ 26,433	\$ 564,780
2 Year	\$ 113,131	\$ 204,332	\$ 220,884	\$ 26,433	\$ 564,780
3 Year	\$ 113,131	\$ 141,521	\$ 150,473	\$ 159,654	\$ 564,780

The table below outlines the total expected use of surplus from the change in frontage fees.

Surplus Usage			
Scenario	2025	2026	2027
1 Year	\$ 961,200	\$ 500	\$ -
2 Year	1,155,913	500	-
3 Year	1,218,724	133,721	-

Surplus Usage \$ Change			
Scenario	2025	2026	2027
1 Year	\$ -	\$ -	\$ -
2 Year	194,713	-	-
3 Year	257,524	133,221	-

The 2025 Sewer Fund is required to use \$961,200 of prior years' surplus to balance as current year revenue does not meet current year expenditures. The Sewer Fund in 2024 had to rely on prior years surplus of \$570,900 to balance. The Sewer Fund has adequate surplus on hand to bridge 2025's funding gap given the projected timing for increases to sewer user fees and frontage fees. Frontage fees represent a smaller portion of overall revenue (21%) when compared to user fees (66%), however any reduction or deferral in frontage fees must be supplemented by surplus as user fee changes have been established.

The sewer fund is anticipated to produce a surplus of \$50,000 for 2024, the table below outlines the expected unencumbered surplus available for use in 2025 which is \$2,709,014.

Estimated Available Sewer Surplus for 2025

Sewer Surplus Dec 31 2023	\$	3,461,914
2024 Estimated operating surplus		50,000
2024 Reserve for Future Expenditure		(802,900)
Estimated Available Sewer Surplus for 2025	\$	2,709,014

Given a surplus target equal to 20% of prior years budgeted expenditures (\$10,920,200) the target surplus for 2025 is \$2,184,040. The table below outlines the budgeted surplus use given the three frontage change scenarios.

	Scenario 1		Scenario 2		Scenario 3	
Available Surplus	\$	2,709,014	\$	2,709,014	\$	2,709,014
Surplus used		(961,200)		(1,155,913)		(1,218,724)
Surplus Ending Balance 2025	\$	1,747,814	\$	1,553,101	\$	1,490,290
 \$ Under Target	\$	(436,226)	\$	(630,939)	\$	(693,750)
% Under Target		-20%		-29%		-32%

As shown all scenario options produce an ending surplus balance that is below the 20% target. Although the expected ending surplus balance is lower than the target and the 2025 Capital plan is relatively light at \$2.2M, however; the 2026 Capital plan sees a substantial increase to \$17.4M. The City does hold sewer capital reserves but these are mostly allocated to capital projects leaving little available to absorb cost overruns in the Capital plan.

Sewer Frontage Summary

The increases to sewer frontage fees could be spread over 2 or 3 years and the sewer fund could be completely fine, however available surplus and reserve balances would be lower than ideal leaving the City in a vulnerable financial position. The majority of sewer expenses (53%) are attributed to the CVRD which the City has lower direct control over. Furthermore, the CVRD is undertaking a major sewer conveyance project which runs the risk of exceeding cost estimations thus requiring additional funding from service participants. Given these considerations staff continue to recommend sewer frontage fees increase to \$12.50 per meter for 2025.

Summary

Balancing property taxation changes, utility rate changes and alternative funding strategies is challenging as each time a new option is added it provides for a multitude of outcomes and impacts. If we consider surplus targets and current years decisions impacts on future years along with recognition of work to come, staff feel the recommendation blends these items well.

Staff are recommending a 7% discretionary tax change for 2025 along with a single year increase to the Sewer frontage fees. The table below outlines the impact on an average residential dwelling:

Change from Prior Year on Average Residential Dwelling						
	2024	2025 - 7%	2026	2027	2028	2029
Property Tax	\$ 1,803.73	\$ 1,929.99	\$ 2,165.24	\$ 2,307.70	\$ 2,452.24	\$ 2,586.80
\$ Change	\$ 133.19	\$ 126.26	\$ 235.25	\$ 142.46	\$ 144.53	\$ 134.56
% Change	7.47%	7.0%	12.2%	6.6%	6.3%	5.5%
Sewer User	\$ 438.64	\$ 478.00	\$ 520.00	\$ 566.00	\$ 616.00	\$ 670.00
Sewer Frontage	179.23	209.38	209.38	209.38	209.38	209.38
Water User	560.98	624.00	682.00	746.00	797.00	851.00
Water Frontage	102.18	120.10	141.36	166.38	195.83	230.49
Solid Waste	357.50	357.50	357.50	357.50	357.50	357.50
Utilities	\$ 1,638.53	\$ 1,788.98	\$ 1,910.24	\$ 2,045.26	\$ 2,175.71	\$ 2,318.37
\$ Change	\$ 199.76	\$ 150.45	\$ 121.26	\$ 135.02	\$ 130.45	\$ 142.66
% Change	13.1%	9.2%	6.8%	7.1%	6.4%	6.6%
Total	\$ 3,442.26	\$ 3,718.97	\$ 4,075.47	\$ 4,352.96	\$ 4,627.94	\$ 4,905.16
\$ Change	\$ 332.95	\$ 276.71	\$ 356.50	\$ 277.49	\$ 274.98	\$ 277.22
% Change	10.4%	8.0%	9.6%	6.8%	6.3%	6.0%

The total change in taxation and utilities on an average residential dwelling is \$276.71, this is a reduction of \$54.48 from January 29th and a reduction from 2024's average change of \$332.95. The total change (tax and utilities) as a percentage falls to 8.0% from the prior year's 10.4%, note that 2026 currently sees a 9.6% combined increase. The 2026 change is influenced by the stabilization of utility fee changes, down from 2024's \$199.76, to 2025's \$150.45 landing at \$121.26 for 2026.

POLICY ANALYSIS:

Section 165 of the Community Charter requires a municipality to have a five-year financial plan adopted annually prior to May 15 each year.

ADMINISTRATIVE IMPLICATIONS:

Upon adoption of a Financial Plan spending identified within the plan becomes authorized. During the time between the adoption of a Financial Plan and the adoption of the annual tax rate bylaw, amendments will be made to align Council taxation direction with the revised roll received in April from BC Assessment along with information regarding other taxing authorities. The amended Financial Plan and Tax Rate bylaw will be brought before Council for Consideration in late April, to meet the May 15th statutory adoption deadline.

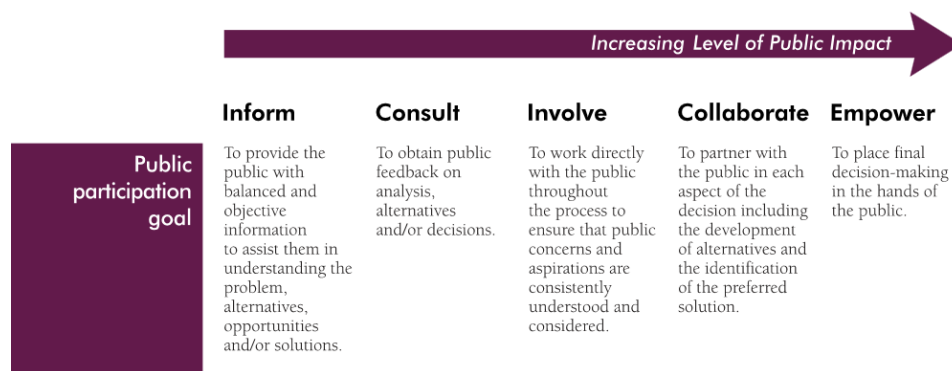
STRATEGIC PRIORITIES REFERENCE:

This initiative addresses the following cardinal directions:

COURTENAY WILL BE RESPONSIBLE FOR THE FUTURE by being more thoughtful, strategic, and efficient in all resources that we use whether it be land, energy, or public infrastructure, to ensure that actions deliver on multiple goals of fiscal responsibility, economic resilience, social equity, and ecological health.

PUBLIC ENGAGEMENT:

Staff would inform the public based on the IAP2 Spectrum of Public Participation:



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OPTIONS:

1. THAT Council approve the **2025-2029 Financial Plan** and proceed to first, second and third readings of the following bylaws:
 - *2025-2029 Financial Plan Bylaw No. 3165, 2025*; and
 - *Sewer Service Frontage Tax - Amendment Bylaw No. 3170, 2025*
2. THAT Council provide alternative direction to staff.

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