



AGENDA FINANCE AND AUDIT COMMITTEE MEETING

April 11, 2018, 9:00 AM - 12:00 PM
SHAW AUDITORIUM, VANCOUVER ISLAND CONFERENCE CENTRE
80 COMMERCIAL STREET, NANAIMO, BC

Pages

1. CALL THE MEETING OF THE FINANCE AND AUDIT COMMITTEE TO ORDER:
2. INTRODUCTION OF LATE ITEMS:
3. ADOPTION OF AGENDA:
4. ADOPTION OF MINUTES:
5. PRESENTATIONS:
6. REPORTS:

a. Smart Cities Challenge

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To be introduced by Michelle Miller, Financial Analyst.

Purpose: To receive Council endorsement for one of two projects presented to apply for under the Smart Cities Challenge program.

Recommendation: That the Finance and Audit Committee recommend that Council endorse the application for the project proposal addressing Nanaimo's housing crisis for the Smart Cities Challenge.

b. Tender #2095 - Beban Park Boiler Plant Upgrade & Replacement of HV-1 Heat Recovery Coils

8 - 9

To be introduced by Richard Harding, Director of Parks and Recreation.

Purpose: To advise the Finance and Audit Committee with results of Request for Tender #2095 – Beban Park Boiler Plant Upgrade & Replacement of HV-1 Heat Recovery Coils, and request additional funding.

Recommendation: That the Finance and Audit Committee recommend that Council increase the budget for the Beban Park Boiler Plant Upgrade and Replacement of Heat Recovery Coils projects by \$68,080, to be funded by a FortisBC incentive grant of \$35,373 and an allocation of \$32,707 from the Facility Development Reserve Fund.

c. 2018-2022 Financial Plan Amendment

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To be introduced by Wendy Fulla, Manager, Business, Asset and Financial Planning.

Purpose: To provide the Finance and Audit Committee with the revised 2018 – 2022 projected property tax increases based on the motions passed at the 2018-APR-04 Finance and Audit Committee meeting.

Recommendation: That the 2018 - 2022 Financial Plan Amendment report dated 2018-APR-11 be received for information.

To be introduced by Laura Mercer, Manager, Accounting Services.

Purpose: To provide the Finance and Audit Committee information regarding the allocation of the 2017 operating surplus.

Recommendation: That the Finance and Audit Committee recommend that Council approve the allocation of the 2017 operating surplus as follows:

1. General Fund

a. Property Purchase Reserve	\$1,100,000
b. General Capital Reserve	752,919
c. General Financial Stability Reserve	500,000
d. RCMP Contract Adjustment Reserve	247,081
e. Unallocated Water Surplus	112,000

	\$2,712,000
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2. Sewer Fund

a. Sewer Reserve	\$400,000
b. Unallocated Sewer Surplus	69,000

	\$469,000
	=====

3. Water Fund

a. Water Supply Reserve	\$180,000
b. Water Distribution Reserve	720,000
c. Unallocated Water Surplus	112,000

	\$1,012,000
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7. OTHER BUSINESS:

- a. Delegation from Lauren Semple regarding Nanaimo Pride 2018 and requesting support by providing blockades and City workers for the parade.

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8. QUESTION PERIOD:

9. ADJOURNMENT:

DATE OF MEETING APRIL 11, 2018

AUTHORED BY MICHELLE LOREE, FINANCIAL ANALYST
 PRISCILLA FENG, FINANCIAL ANALYST
 JAMIE ROSE, MANAGER OF TRANSPORTATION
 JOHN HORN, SOCIAL PLANNER

SUBJECT SMART CITIES CHALLENGE

OVERVIEW

Purpose of Report

To receive Council endorsement for one of two projects presented to apply for under the Smart Cities Challenge program. |

Recommendation

That the Finance and Audit Committee recommend that Council endorse the application for the project proposal addressing Nanaimo's housing crisis for the Smart Cities Challenge.

BACKGROUND

The Smart Cities Challenge is a competition open to Canadian municipalities, local or regional governments, and Indigenous communities, which is aimed to inspire communities to define their future through the use of data and connected technology.

Infrastructure Canada will be awarding the following prizes:

- One prize of \$50 million open to all communities;
- Two prizes of up to \$10 million each for communities under 500,000; and,
- One prize of up to \$5 million for communities under 30,000.

The future outcome to be achieved through data and connected technology must be defined, measureable, ambitious, and achievable. These parameters are used to create what the program defines as a "Challenge Statement".

Applications defining the "Challenge Statement" and preliminary project information are due April 24, 2018. Communities will be notified during the Summer 2018 whether they have been chosen as a finalist. Finalists will receive \$250,000 to develop their final proposal. Final proposals are due during the Winter 2019 with selection of winners in Spring 2020. Implementation is expected to span 2 – 5 years. |

The City put out a request for ideas to the public to gather community input on what they visualize as an improvement to our City in the future and proposed solutions. Two dominant themes emerged and City staff narrowed them down to two options: addressing Nanaimo's housing crisis and supporting Nanaimo's active transportation evolution.

PROJECT PROPOSALS

1. Nanaimo's Housing Crisis:

This project is aimed at addressing the lack of affordable housing and social issues in the Nanaimo region.

Challenge Statement:

Increases citizen safety and security by combining innovative collaborative solutions and supporting partnerships with new service delivery models.

Project Summary:

Affordable housing, mental illness, and other social issues are evident struggles the City of Nanaimo is facing. There are many organizations whose mandate is to address these issues; however, their resources are limited and there is a growing demand for their services.

We are proposing that we submit an application for funding to provide the technical infrastructure to remove barriers to information for both organizations and those that depend on them. This would involve an application where organizations can share information with other, and with vulnerable individuals in real time. This would also involve installing kiosks in strategic locations where those without resources can also have access to this information.

This project is line with the City's Strategic Priority of Community Building Projects which aims to build action partnerships around complex issues that demand a cooperative and coordinated response. This priority nurtures a caring, inclusive, safe environment providing the basics required for life with dignity and empowers all of its citizens to realize their aspiration.

2. Active Transportation:

This project is aimed at supporting an active lifestyle by encouraging active transportation and healthy living in the City of Nanaimo.

Challenge Statement:

Double active transportation trips (bike, walk and transit) by 2041.

The Nanaimo Transportation Master Plan was developed through a public consultation process and established the goal of doubling annual active transportation trips by 2041. This goal promotes a healthy and sustainable community, but highlights the challenge of documenting where people are walking and cycling. To support this goal, the Smarter Cities Challenge will be to use smart technology to develop a data collection system to track active transportation movements throughout the City. This will be a system, not a one off count, and will provide staff with the tools to make better decisions when planning infrastructure upgrades.

This project is in line the City's Strategic Priority of Transportation and Mobility which aims to reduce dependency on vehicle, to integrate land use, and for mobility planning. This priority also accepts the visionary challenge of positioning Nanaimo as the

transportation and services hub for Vancouver Island, and is willing to work with partners to enhance multi-modal transportation.

OPTIONS

1. That the Finance and Audit Committee recommend that Council endorse the application for the project proposal addressing Nanaimo's housing crisis for the Smart Cities Challenge.
2. That the Finance and Audit Committee recommend that Council endorse the application for the project proposal addressing Active Transportation for the Smart Cities Challenge.
3. That the Finance and Audit Committee recommend that Council does not endorse an application for the Smart Cities Challenge.

SUMMARY POINTS

- The City of Nanaimo wishes to submit an application to Smart Cities to qualify for \$10 million in funding towards affordable housing or active transportation.
- Staff require Council to endorse a project they would like the City to pursue.
- Staff recommend Council endorse the project addressing affordable housing.

Submitted by:

Michelle Miller
Financial Analyst

Concurrence by:

Wendy Fulla
Manager, Business, Asset and Financial
Planning

DATE OF MEETING | APRIL 11, 2018 |

AUTHORED BY | SCOTT PAMMINGER, MANAGER,
INFRASTRUCTURE PLANNING AND ENERGY |

**SUBJECT TENDER #2095 – BEBAN PARK BOILER PLANT UPGRADE &
REPLACEMENT OF HV-1 HEAT RECOVERY COILS**

OVERVIEW

Purpose of Report

To advise the Finance and Audit Committee with results of Request for Tender #2095 – Beban Park Boiler Plant Upgrade & Replacement of HV-1 Heat Recovery Coils, and request additional funding. |

Recommendation

That the Finance and Audit Committee recommend that Council increase the budget for the Beban Park Boiler Plant Upgrade and Replacement of Heat Recovery Coils projects by \$68,080, to be funded by a FortisBC incentive grant of \$35,373 and an allocation of \$32,707 from the Facility Development Reserve Fund.

BACKGROUND

In October 2016, Prism Engineering completed a Beban Park Thermal Energy Study analyzing the boiler plant and heating systems for the pool, arena, and social centre.

This study was part of the FortisBC Commercial Custom Design Retrofit Program and the City of Nanaimo received 50% funding for the study upon its completion (\$11,975). If the City implements 51% or more of the recommended projects in the study by August 2018, the City is entitled to receive the remaining 50% of the study cost.

The study recommended several energy saving measures including replacement of the two existing low-efficiency atmospheric boilers from 1975 with high-efficiency condensing boilers, and at the same time, improvements to the heat recovery systems. A condition assessment of the boilers confirmed Boiler #2 is near the end of useful life and Boiler #1 has an estimated 5 to 10 years remaining.

Based on this information, the mechanical engineer for this project recommended that Boiler #2 be replaced with two new high-efficiency boilers, and Boiler #1 be kept as a back-up unit. Additional work will include modifying the hot water return piping and adding variable frequency speed drives for heating water pumps, installing intake and exhaust heat recovery coils to HV-1 and upgrading building automation controls.

The 2018 – 2022 Financial Plan includes \$419,870 for the Boiler Plant Upgrade and \$46,050 for the replacement of heat recovery coils for a total budget of \$465,920. The current budget includes FortisBC incentives of \$55,577.

Request for Tender #2095 closed on 2018-MAR-09 and received two bids with the lowest being \$519,000. The tender cost, plus \$5,000 for asbestos abatement, and with a project contingency of \$10,000, brings the total projected project cost to \$534,000. |

OPTIONS

1. | That the Finance and Audit Committee recommend that Council increase the budget for the Beban Park Boiler Plant Upgrade and Replacement of Heat Recovery Coils projects by \$68,080, to be funded by a FortisBC incentive grant of \$35,373 and an allocation of \$32,707 from the Facility Development Reserve Fund.
 - **Budget Implication:** Additional funding will be allocated from the Facility Development Reserve Fund. The budget change will be included in a future 2018 – 2022 Financial Plan budget bylaw amendment.
2. That the Finance and Audit Committee recommend that Council cancel the project for 2018 and re-budget for a future year.
 - **Budget Implication:** The City would lose \$102,925 in approved funding from the FortisBC incentive grant by missing the August 2018 deadline. |

SUMMARY POINTS

By implementing the recommended bundle of Energy Conservation Measures, the following savings are expected to be achieved:

- Natural gas savings of 6,700 GJ or 42% of 2015 gas use;
- Electrical savings of 40,500 kWh per year or 2% of 2015 electrical use;
- An improvement in the building's energy intensity from 63.9 ekWh/ft²/year to 46.4 kWh/ft²/year;
- These savings will reduce annual costs by approximately \$68,250 for natural gas, \$2,750 for electricity and \$5,750 for maintenance fees;
- This project will have a payback period of about 6.8 years;
- The City will receive a total of \$114,900 in FortisBC incentives towards this project and the previous energy study

Submitted by:

Scott Pamminger
Manager, Infrastructure Planning & Energy |

Concurrence by:

Richard Harding
Director, Parks and Recreation |

DATE OF MEETING April 11, 2018

AUTHORED BY WENDY FULLA, MANAGER, BUSINESS, ASSET & FINANCIAL PLANNING

SUBJECT **2018 – 2022 Financial Plan Amendment**

OVERVIEW

Purpose of Report

To provide the Finance and Audit Committee with the revised 2018 – 2022 projected property tax increases based on the motions passed at the 2018-APR-04 Finance and Audit Committee meeting.

Recommendation

That the 2018 - 2022 Financial Plan Amendment report dated 2018-APR-11 be received for information.

DISCUSSION

At the 2018-APR-04 Finance and Audit Committee meeting, the committee passed two motions for changes to the Final 2018 – 2022 Financial Plan. Staff have revised the 2018 – 2022 Financial Plan as requested. The impacted of these changes are detailed below.

Staff were directed to reinstate the Director of Communications & Community Engagement position that was removed in the provisional 2018 – 2022 Financial Plan. The position and related expenses have been reinstated effective 2018-JUL-01. This has resulted in:

- 2018 increase to expenditures of \$82,115 or a 0.08% property tax increase
- 2019 increase to expenditures of \$164,863 (full year)

Staff were directed to reduce the budget estimate for RCMP contract from 93% to 92% for 2018 only. An amount equivalent to the decrease in budget will be allocated from 2017 surplus to the RCMP Contract Adjustment Reserve. In the event 2018 actuals exceed budget, funding from the RCMP Contract Adjustment Reserve will be used to offset the variance.

The change in budget estimate resulted in:

- 2018 decrease to expenditures of \$247,081 or a .25% property tax decrease

Summarized below are the projected property tax rate changes for 2018 to 2022.

	2018	2019	2020	2021	2022
General Asset Management Reserve	1.00%	1.00%	1.00%	1.00%	1.00%
General Property Tax Increase	2.01%	2.07%	0.89%	0.77%	0.77%
Total Projected Property Tax Increase	3.01%	3.07%	1.89%	1.77%	1.77%

The impact on a typical home will be:

	2017	2018	\$ Change	% Change
Assessment - Average Home	\$400,630	\$462,247	\$61,617	15.38%
Property Taxes	\$1,949	\$2,008	\$59	3.01%
Municipal User Fees				
Water Fees	478	514	36	7.50%
Sewer Fees	124	130	6	5.00%
Sanitation Fees	118	165	47	39.78%
Total Municipal Taxes & User Fees	\$2,669	\$2,817	\$148	5.55%

SUMMARY POINTS

- The 2018 property tax increase is projected to be 3.01%
- Staff will be presenting the Financial Plan Amendment Bylaw 2017 No 7253.01 to Council for first, second and third readings on 2018-APR-23
- The Financial Plan Amendment Bylaw must be adopted before 2018-MAY-15

Submitted by:

Wendy Fulla
Manager, Business, Asset & Financial
Planning

Concurrence by:

Laura Mercer
Deputy Financial Officer

Staff Report for Decision

DATE OF MEETING | April 11, 2018 |

AUTHORED BY | LAURA L. MERCER, MANAGER, ACCOUNTING SERVICES |

SUBJECT | 2017 SURPLUS ALLOCATION

OVERVIEW

Purpose of Report

To provide the Finance and Audit Committee information regarding the allocation of the 2017 operating surplus. |

Recommendation

That the Finance and Audit Committee recommend that Council approve the allocation of the 2017 operating surplus as follows:

1.

General Fund

a. Property Purchase Reserve	\$ 1,100,000
b. General Capital Reserve	752,919
c. General Financial Stability Reserve	500,000
d. RCMP Contract Adjustment Reserve	247,081
e. Unallocated Water Surplus	112,000

\$ 2,712,000
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2.

Sewer Fund

a. Sewer Reserve	\$ 400,000
b. Unallocated Sewer Surplus	69,000

\$ 469,000
=====

3.

Water Fund

a. Water Supply Reserve	\$ 180,000
b. Water Distribution Reserve	720,000
c. Unallocated Water Surplus	112,000

\$ 1,012,000
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BACKGROUND

The compilation of the 2017 draft financial statements is in progress and the audit by KPMG LLP started on 2018-MAR-26. In preparing the financial statements, staff needs to allocate the surplus prior to finalization of the audit.

Any remaining operating surplus funds are considered unallocated surplus and can be used to fund unexpected future liabilities.

The City of Nanaimo accounts for its budgets within three funds; general fund, sewer fund and water fund.

The unaudited financial results for the year ended 2017-DEC-31 are as follows for each of the funds:

General Fund

In the general fund the surplus was \$2,712,000 at 2017-DEC-31. This represents 2% of the budget.

Staff propose the 2017 general fund surplus be allocated to reserves as follows:

Property Acquisition Reserve	\$1,100,000
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The property purchase reserve has allowed Council in the past to make strategic land purchases including the Linley Valley property, the Port Drive waterfront site, and the School District land purchases. This reserve allocation will allow flexibility for any future land purchase that Council wishes to make, which may include land for affordable housing projects.

General Capital Reserve	\$ 752,919
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This will increase the General Capital Reserve and provide Council with the maximum flexibility in the future. These funds could be used, in whole or part, for any future capital project that is a Council priority.

General Financial Stability Reserve	\$ 500,000
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In 2017 the Provincial Government announced that it was phasing out the MSP program and then in 2018 announced they were replacing it with an Employer Health Tax. This new employer health tax would become effective for the 2019 fiscal year. The MSP premiums will be completely phased out in 2020. This results in an estimated additional \$1.1 million of costs in 2019 to cover both the MSP premiums and the new employer health tax. This surplus allocation will help smooth the tax impact of the transition from MSP premiums to the new employer health tax in 2019.

RCMP Contract Adjustment Reserve

\$ 247,081

At the 04-Apr-2018 Finance and Audit Committee Meeting, the Committee directed staff to reduce the budget estimate for the RCMP contract from 93% to 92%. This reduction of \$247,081 was to be taken out of the 2017 surplus and allocated to the RCMP Contract Adjustment Reserve. This surplus will be a funding source for any contract variance.

Unallocated Surplus

\$ 112,000

The remaining balance will be used to increase the unallocated surplus balance. The current balance of the general unallocated surplus account is \$5,499,909.

Sewer Fund

The sewer fund recorded a surplus of \$469,000 at 2017-DEC-31. This represents 10% of the budget.

User fees relating to sewer use were higher than anticipated by \$318,000. An unspent sewer contingency of \$60,000 made up the majority of the remaining variance. The combination has allowed up to \$400,000 to be transferred to the sewer reserves for future projects. The remaining increase will be allocated to the unallocated surplus.

The current balance of the sewer unallocated surplus account is \$6,834,001.

Water Fund

The water fund recorded a surplus of \$1,012,000 at 2017-DEC-31. This represents 8% of the budget.

User fees relating to water use were higher than anticipated by \$884,000. An unspent water contingency of \$100,000 made up the majority of the remaining variance. The combination has allowed up to \$900,000 to be transferred to the water reserves for future projects. The remaining increase will be allocated to the unallocated surplus.

The current balance of the water accumulated surplus account is \$5,545,157.

Summary

While having a small surplus means that tax rates were appropriately set to meet current year operations, it does not provide any excess monies to be transferred to reserves for the funding of future projects or cover any unexpected operating costs that may occur.

By transferring excess surplus funds to reserves each year it means that the need for future year tax increases are mitigated as these monies can be used to cover any unexpected operating costs, drops in revenue sources or fund future projects.

If low surplus values are sustained year after year, tax rates can potentially become more volatile as a larger percentage of funding for unexpected events and/or projects will need to come from current year taxes rather than reserves.

In order to help stabilize future funding sources and minimize the impact on tax rates, Staff are working to establish a Reserves and Reserve Fund Policy. This policy would provide guidance with respect to the development, maintenance and use of City Reserve Funds. The policy would also institute minimum and maximum values, where appropriate, to ensure levels of reserves are on hand at any given time.

The primary objectives of the reserve policy would be to support financial resiliency by:

- Providing funds for operating emergencies
- Ensuring sustainable funding for infrastructure
- Ensuring stable and predictable property tax levies

OPTIONS

1. That the Finance and Audit Committee recommend that Council approve the report allocation of surplus as presented.
 - **Budget Implication:**
 - i. \$3,900,000 was reserved to fund general, sewer and water projects and operations in the future
 - ii. \$293,000 of general, sewer and water surplus amounts were used to increase unallocated surplus balances
 - **Strategic Priorities Implication:**
 - Asset Management: Reserving current year surplus will aid in the funding of future major maintenance and planned lifecycle replacement costs.
 - Taking responsibility: Reporting to the public the status of the current year operating results with the goal of building trust.
2. That the Finance and Audit Committee recommend that Council direct specific surplus funds to other priorities.

SUMMARY POINTS

- The general fund recorded an operating surplus of \$2,712,000 or 2% of approved budget in 2017.
- The Sewer Fund recorded an operating surplus of \$469,000 or 10% of approved budget in 2017.
- The Water Fund recorded an operating surplus of \$1,012,000 or 8% of approved budget in 2017.
- Staff is working on establishing a Reserve and Reserve Fund Policy in 2018 to provide guidance with respect to the development, maintenance and use of City Reserve Funds to ensure appropriate funding levels are available at all times

Submitted by:

Laura L. Mercer
Manager, Accounting Services

Delegation Request

Lauren Semple has requested an appearance before Council.

The requested date is April 11, 2018.

The requested meeting is:

Finance and Audit Committee

Presenter's Information:

City: Nanaimo

Province: BC

Bringing a presentation: No

Details of Presentation:

Nanaimo Pride 2018 requests Council support by providing blockade and City workers for parade.