

AGENDA

INAUGURAL SPECIAL OPEN FINANCE AND AUDIT COMMITTEE MEETING
SERVICE AND RESOURCE CENTRE BOARDROOM, 411 DUNSMUIR STREET, NANAIMO, BC
TUESDAY, 2016-OCT-04, AT 10:00 A.M.

1. **CALL THE INAUGURAL SPECIAL OPEN MEETING OF THE FINANCE AND
AUDIT COMMITTEE TO ORDER:**

2. **INTRODUCTION OF LATE ITEMS:**

3. **ADOPTION OF AGENDA:**

4. **APPOINTMENTMENTS:**

- (a) Chair
- (b) Vice-chair

5. **TERMS OF REFERENCE:**

- (a) New Terms of Reference

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6. **PRESENTATIONS:**

- (a) KPMG LLP will present the 2016 External Audit Plan.
- (b) Ms. Denise Tacon, General Manager, Vancouver Island Conference Centre, regarding the 2017 financial requirements for the Vancouver Island Conference Centre.

7. **ADMINISTRATION:**

(a) **2016 Annual Financial Audit**

Purpose: To inform the Finance and Audit Committee of the important dates pertaining to the 2016 annual financial audit.

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(b) **Harbourfront Parkade Debt Retirement**

Purpose: To obtain a recommendation from the Finance and Audit Committee to Council to retire the Harbourfront Parkade Loan when its term expires on 2016-OCT-31.

Staff Recommendation: That the Finance and Audit Committee recommend to Council to approve the payout of the Harbourfront Parkade Loan for the full amount of \$810,791.

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(c) **Draft 2017 – 2021 Financial Plan Review**

Purpose: To inform the Finance and Audit Committee of key information in the DRAFT 2017 – 2021 Financial Plan. More detailed information is being provided in the accompanying presentation.

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Presentation:

1. Mr. Victor Mema, Chief Financial Officer, and Ms. Deborah Duncan, Deputy Director of Financial Services.

8. **QUESTION PERIOD:**

9. **ADJOURNMENT:**

City of Nanaimo
FINANCE & AUDIT COMMITTEE
(the “Committee”)

PURPOSE:

The Committee’s purpose is to assist Council in fulfilling its oversight responsibilities over the finances of the City of Nanaimo in accordance with provisions of the *Community Charter* by providing advice on the following:

Financial Matters:

- Recommend to Council best practices that ensure integrity of financial statements, financial recording and reporting processes and systems of internal controls through best practices in policies and procedures;
- Oversee and review the preparation of annual and long-term financial plans for recommendation to Council;
- Receive and review periodic budget and other financial reports on behalf of Council;
- Review strategic key performance indicators as they relate to financial performance;
- Review and make recommendations with respect to relevant legislation or changes thereof affecting financial resources and environmental issues relating to the City of Nanaimo.

Enterprise Risk Matters:

- Oversee the process of selecting external financial auditors and recommend appointment of the same to Council;
- Engage, serve as primary contact and report on reviews of external auditors;
- Recommend to Council audit reviews of City of Nanaimo where warranted;
- Receive, review and report on audit outcomes and initiatives, and recommend required action;
- Oversee the City of Nanaimo’s enterprise risk management practices and processes relating to risk mitigation and business continuity.

Community Investment Matters:

- Recommend best practices and policies relating to community investment for Council’s consideration with regard to general financial grants to community organizations and non-statutory tax exemption (Permissive Tax Exemptions under Section 224 and 227 of the *Community Charter*;
- Receive, review funding applications from community organizations and recommend grant fund awards for Council consideration.

Subsidiary Companies and Service Agreements:

- Advise Council on matters of governance and service and other agreements relating to City of Nanaimo subsidiary companies and organizations providing services on behalf of the City of Nanaimo;

- Receive and review performance reports from the City of Nanaimo's subsidiary companies and organizations providing services on behalf of the City of Nanaimo under agreement;
- Recommend strategic investments for Council's consideration.

MEMBERSHIP:

The membership of the Committee will be as follows:

- all of the members of Council; and
- non-voting advisory members, as required.

ELIGIBILITY:

An individual with the following skills and expertise may be given preference for membership on this Committee as non-voting members:

1. broad business experience [eg. Member from Chamber of Commerce];
2. familiarity with risk identification, evaluation and management;
3. understand internal control systems; and
4. familiar with fundamental concepts and standards of accounting and auditing.

TERM:

A non-voting member of the Committee may be appointed for a term of up to two years. Membership may be staggered to support continuity and effective operations. Members may serve a maximum of two cumulative terms on this Committee.

ACCOUNTABILITY:

On a regular basis Council will provide direction on Council's priorities to Committee. The Committee will submit a quarterly summary report on their activities to Council. The Committee will submit a report with its minutes in a timely manner to Council. The Committee will comply with the ***City of Nanaimo Committee Operating Guidelines*** [Note: to be drafted by Staff by August 31, 2016].

MEETING FREQUENCY:

The Committee will meet upon call of the Chair or the request of two Committee Members.

STAFF SUPPORT:

The following City Departments may provide support to the Committee in accordance with the ***City of Nanaimo Committee Operating Guidelines***:

- Office of Chief Financial Officer
- Office of the Chief Administrative Officer
- City Clerk

DATE OF MEETING October 4, 2016

AUTHORED BY LAURA L. MERCER, MANAGER, ACCOUNTING SERVICES

SUBJECT 2016 ANNUAL FINANCIAL AUDIT

OVERVIEW

Purpose of Report

To inform the Finance and Audit Committee of the important dates pertaining to the 2016 annual financial audit.

DISCUSSION

The consolidated financial statements as required by the *Community Charter* must be prepared and meet the reporting standards for local governments. Section 167(4) of the *Community Charter* states, by May 15 in each year, a municipality must submit to the Inspector of Municipalities its audited financial statements for the preceding year.

Section 169 of the *Community Charter* requires council to appoint an auditor for the municipality. At the 2016-SEP-19 Council Meeting, KPMG was appointed the external auditors for the fiscal years 2016 – 2018 plus the option of two (2) one (1) extensions.

Each year the City's auditors perform two (2) on-site visits. These visits are defined as follows:

- | | |
|-----------------|--|
| Interim audit: | done in the fall of each year to do risk assessment of key controls and processes, review financial statements for impact of new pronouncements, perform testing of controls, etc. |
| Year-end audit: | done in the spring of the following year to review financial statements and perform year-end procedures, issue a management letter, issue report on financial statements to Council prior to the May 15 th deadline, etc. |

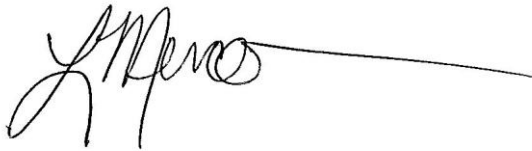
For the 2016 fiscal year, KPMG will be onsite on the following dates:

- | | |
|-----------------|-----------------------|
| Interim audit: | November 8 – 10, 2016 |
| Year-end audit: | March 6 – 17, 2017 |

SUMMARY POINTS

- Audited financial statements of the City must be submitted to the Province by May 15th.
- The dates of the interim audit by KPMG are scheduled for November 8 – 10, 2016.
- The dates of the year-end audit by KPMG are scheduled for March 6 – 17, 2017.

Submitted by:



Laura L. Mercer
Manager, Accounting Services

Concurrence by:



Victor Mema
Chief Financial Officer

DATE OF MEETING October 4, 2016

AUTHORED BY LAURA L. MERCER, MANAGER OF ACCOUNTING SERVICES

SUBJECT HARBOURFRONT PARKADE DEBT RETIREMENT

OVERVIEW

Purpose of Report

To obtain a recommendation from the Finance and Audit Committee to Council to retire the Harbourfront Parkade Loan when its term expires on 2016-OCT-31.

Recommendation

That the Finance and Audit Committee recommend to Council to approve the payout of the Harbourfront Parkade Loan for the full amount of \$810,791.

BACKGROUND

The City of Nanaimo currently has a loan outstanding to Royal Bank of Canada that was initiated in 1996 for the construction of the Harbourfront Parkade. The loan renewal term expires on 2016-OCT-31, and at that date the loan balance is projected to be \$810,791.

The current loan has an interest rate of 5.48% and is secured by a collateral mortgage in the amount of \$4,000,000 covering the Harbourfront Parkade and lot located on the Gordon Street site.

At the term expiry on 2016-OCT-31, the City of Nanaimo can choose to:

1. Pay off the outstanding loan;
2. Renew the existing loan; or,
3. Use borrowed funds from the Municipal Finance Authority (MFA) to pay off the loan.

OPTIONS

1. Approve the payout of the Harbourfront Parkade Loan for the full amount of \$810,791. (Recommended)

- **Financial Implications:**

- i. The anticipated loan balance of \$810,791 would be paid using available reserve funding.
- ii. The City would not otherwise earn interest income on these funds. The current interest rate applied to the City's general account is 1.05% (prime less 1.65%).
- iii. The \$4,000,000 collateral mortgage would be removed with the payout of the debt.

- iv. The total of the principal payment and unearned interest income would be approximately \$830,500.
- 2. **Renew the existing loan** – the loan with Royal Bank of Canada would be renewed for an additional five years at an interest rate of 2.71%.
 - **Financial Implications:**
 - i. The total interest and principal payments over the loan term would be approximately \$898,000, which is \$67,500 higher than option one.
- 3. **Use borrowed funds from the MFA to pay off the loan** – the existing loan would be paid out in full using new loan proceeds from the MFA at an interest rate of 1.70%.
 - **Financial Implications:**
 - i. The total interest and principal payments over the loan term would be approximately \$841,700, which is \$11,200 higher than option one.

CONCLUSION

The interest paid on a loan or debt agreement exceeds the interest income that would otherwise be generated on the funds. Appendix A outlines that the City could avoid principal and interest payments of between \$11,200 and \$67,500 over the five year term by retiring the debt.

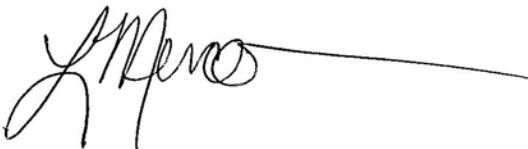
SUMMARY POINTS

- The Harbourfront Parkade loan term expires on 2016-OCT-31.
- The interest rate paid on potential debt agreement exceeds the interest income that would otherwise be generated on the funds.
- If the loan is paid in full at the end of the loan term, the City would be able to avoid principal and interest payments of between \$11,200 and \$67,500.

ATTACHMENTS

- Appendix A: Harbourfront Parkade Loan – Retirement Options Analysis

Submitted by:



Laura L. Mercer
Manager of Accounting Services

Concurrence by:



Victor Mema
Chief Financial Officer

APPENDIX A
City of Nanaimo
Harbourfront Parkade Loan - Retirement Options Analysis
Maturity date: October 31, 2016

	2016	2017	2018	2019	2020	2021	Total
1. Pay off the loan: Balloon payment will be \$810,791							
Current Interest rate through Scotia account (Prime less 1.65)	1.05%						
Principal Payment	810,791						810,791
Interest Lost	1,387	7,279	5,503	3,680	1,806	108	19,762
Total Principal and Interest Payments	812,178	7,279	5,503	3,680	1,806	108	830,553
2. Renew loan with Royal Bank of Canada for 5 additional years							
Estimated RBC interest rate	2.71%						
Balance as at October 31, 2016	810,791						
Principal Payments	27,319	166,596	171,167	175,864	180,689	123,469	845,104
Interest Expense	3,641	19,162	14,591	9,894	5,069	556	52,912
Total Principal and Interest Payments	30,960	185,758	185,758	185,758	185,758	124,025	898,016
3. Borrow from the Municipal Finance Authority							
Current MFA interest rate	1.70%						
Balance as at October 31, 2016	810,791						
Refundable security deposit (10%)	8,198						
Issue Expense (0.1%)	820						
Balance reduced by actuarial adjustments	(47,735)						
Total Principal Payments	772,074						
Principal Payments	-	154,415	154,415	154,415	154,415	154,415	772,074
Interest Expense	-	13,937	13,937	13,937	13,937	13,937	69,684
Total Principal and Interest Payments	-	168,352	168,352	168,352	168,352	168,352	841,758
Principal and Interest Payments Avoided by Not Renewing Loan with Royal Bank of Canada						(B-A)	67,500
Principal and Interest Payments Avoided by Not Borrowing Funds from the Municipal Finance Authority						(C-A)	11,200

DATE OF MEETING October 4, 2016

AUTHORED BY DEBORAH DUNCAN, DEPUTY DIRECTOR, FINANCIAL SERVICES

SUBJECT DRAFT 2017 – 2021 FINANCIAL PLAN REVIEW

OVERVIEW

Purpose of Report

To inform the Finance and Audit Committee of key information in the DRAFT 2017 – 2021 Financial Plan. More detailed information is being provided in the accompanying presentation.

DISCUSSION

The financial plan process is informed by policies and plans endorsed by Council, including the Official Community Plan (OCP) and the Strategic Plan. In compliance with the *Community Charter*, the Financial Plan is developed through public consultation and Council direction. Prior to May 15th each year, Council must adopt both a Five Year Financial Plan bylaw and a Property tax Rates bylaw.

In 2013, Council approved an annual 1% increase in property taxes for five years ending 2017, and annual increases to sanitary sewer and water fees for contributions to asset management reserve funds. These reserves fund many asset renewal projects.

A summary of the projected property tax increases with a comparison to projected increases in the 2016 – 2020 Financial Plan:

	2017	2018	2019	2020	2021
2016 - 2020 Financial Plan	2.8%	1.8%	0.7%	1.0%	
Draft 2017 - 2021 Financial Plan	2.4%	1.0%	0.9%	1.0%	0.5%

The key budget drivers for the 2017 property tax increase are summarized in Appendix A.

Additional review of the Draft 2017 – 2021 Financial Plan will take place during the next Finance and Audit Committee meetings.

SUMMARY POINTS

- Provide summary information on the Draft 2017 – 2021 Financial Plan for Council's review and direction.
- The projected property tax increase for 2017 is 2.4% which includes a 1% increase for contribution to the General Asset Management Reserve.
- Additional review of the Draft 2017 – 2021 Financial Plan will take place during the next Finance and Audit Committee meetings.

ATTACHMENTS:

- Appendix A: Key Budget Drivers

Submitted by:



Deborah Duncan
Deputy Director, Financial Services

Concurrence by:



Victor Mema
Chief Financial Officer

Appendix A – Key Budget Drivers

The 2017 expenditure budget increased by \$3.3 million which was offset by \$1.2 million increased revenues. Significant budget changes for 2017 are provided below.

		\$
Sustaining Services		
Increased contribution to the General Asset Management Reserve		964,125
Labour:		
Communication Specialist	77,145	
Committee Clerk	69,934	
IAFF	287,244	
Provision for Mgmt/CUPE	965,000	1,399,323
RCMP		854,749
Snow and Ice Control		(200,000)
Debt:		
New debt re Wellcox Access		372,150
		3,390,347
Increased Property Tax Revenues due to Growth		1,200,000
Net Expenditures Increase (Decrease)		2,190,347