

1. Aging infrastructure: Aging assets pose a growing challenge that necessitates proactive planning and investment.
2. 'Unknowns' related to condition and risk, data gaps and information deficiency: Addressing data gaps is crucial for informed decision-making and effective asset management.
3. Underinvestment, rising costs and climate change: Addressing these compounding factors is essential for effective and sustainable asset management.

As outlined during the 2024 financial planning process, significant funding increases are required to support current service delivery and to enable prudent asset management. The need for additional funding is a result of factors such as:

1. Significant cost escalation due to supply chain challenges, labour shortages, increased interest rates and inflation;
2. Climate events that are deteriorating the City's assets faster than anticipated;
3. Annual funding increases not keeping up and reserve funding being reduced; and
4. Significant utilization of reserves for ongoing life-cycle replacement because of the lack of annual funding increases as well as funding some large capital projects such as Topaz Park and Multi-modal Corridor improvements. Since reserves are not limitless, the usage over the last several years has been too high and is not sustainable going forward.

To address these challenges, a funding strategy was introduced as part of the 2024 financial planning process and included:

1. A 3% tax increase each year from 2025 to 2030 to increase the annual ongoing funding for ongoing capital life-cycle renewal programs.
2. Using the majority of funding available in the main capital reserves over a five-year period until the annual property tax funding is increased to a sufficient level to support the ongoing funding needs.
3. Using debt for four capital programs (fleet replacement, transportation improvements, public washroom accessibility improvements and park redevelopment) to enable earlier delivery and avoid expected cost escalation that is anticipated to exceed the interest cost payable on the loans.

It is recommended that Council continue to approve this funding strategy for the 2025-2029 Financial Plan.

The draft 2025 operating budget totals \$365.6 million and the draft 2025 capital budget totals \$94.6 million. The following summary outlines the proposed funding strategy and resulting tax increases:

	Draft 2025	2026	2027	2028	2029
Capital	3.04%	2.80%	2.80%	2.80%	2.80%
Debt Servicing Costs	0.78%	0.02%	0.67%	0.51%	0.00%
Reinstate Reserve Funding	0.39%	0.00%	0.00%	0.00%	0.00%
Remaining	5.22%	3.93%	2.31%	2.27%	2.24%
City	9.43%	6.75%	5.78%	5.58%	5.04%
VicPD	3.34%	2.17%	2.00%	2.11%	2.10%

Total	12.77%	8.92%	7.78%	7.69%	7.14%
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For 2025, the property tax impact for an average household with an assessed property value of \$1.046 million is \$124 for capital investment, \$154 for operational service delivery, and \$98 for VicPD. The property tax impact for a typical business with an assessed property value of \$733,000 is \$330 for capital investment, \$409 for operational service delivery, and \$262 for VicPD.

However, the draft financial plan only includes \$500,000 of new property tax revenue from new development which is allocated to the Buildings and Infrastructure Reserve as per the Financial Sustainability Policy. An early estimate for this revenue is \$1 million and given the considerable funding gap for the annual capital budget, it is recommended that this new revenue be used as capital budget funding instead of transferred to reserves. Should Council approve this policy change, the draft property tax increase could be reduced by 0.6% for 2025; this means that the capital line in the table above could be reduced to 2.44% for 2025. Future years could also be reduced, but we do not have any data to base future estimates on. The final amount for this new revenue cannot be determined until after the final assessment roll has been received by BC Assessment at the end of March.

Modelled on the engagement approach introduced in 2023, it is recommended that the required engagement for the 2025 Financial Plan includes a scientifically valid, random Ipsos telephone interview survey and focused community conversations with eight equity-seeking groups, both of which have been completed. The main purpose of this two-prong approach is to obtain residents' input on City services, programs and spending priorities to help guide Council's budget decisions for 2025. This engagement took place between June 3 and August 28, 2024 to provide meaningful and timely input for Council's consideration.

Also recommended is to have a dedicated budget engagement project on the City's Have Your Say online platform, inviting the public to read the draft financial plan and summary highlights, and submit input and ask questions of staff via email or mail, or by way of a pre-recorded video. All input collected will be shared with Council before a final decision on the budget is made. This comprehensive engagement approach provides valuable community input to help inform the City's 2025 budget and future-year budget planning, in addition to meeting the statutory requirement for consultation. The report outlining the Ipsos survey and community conversation series results is part of today's agenda.

Budget sessions with Council are scheduled for October and November. Upon conclusion of the discussions, staff will request Council's direction on the overall budget to inform the development of the Financial Plan Bylaw. To enable utility user fees to come into effect on January 1, 2025, staff recommend that the related rate bylaws be considered for introductory readings on December 5, 2024 and adoption on December 12, 2024.

PURPOSE

The purpose of this report is to introduce the Draft 2025-2029 Financial Plan, which includes the resources required to continue to deliver services, programs, initiatives and capital infrastructure renewal.

BACKGROUND

Legislation

The City's annual budget covers the City's fiscal year which is the calendar year. Therefore, the City typically aims to have an approved financial plan early each year so that staff can start delivering on the various programs and projects as approved by Council.

Section 165 of the *Community Charter* requires that a financial plan be approved annually following public consultation as required by section 166. The financial plan must be approved before the tax rate bylaw is approved, and before May 15 as required by section 197. The financial plan can be amended during the year, but property taxes can only be levied once.

Policies

Three policies guide the financial planning process: Financial Sustainability Policy; Reserve Fund Policy; and Revenue and Tax Policy. These are attached as Appendix A.

The Financial Sustainability Policy consists of 14 separate policies that guide financial plan development. Several policies are especially relevant to this year's Draft Financial Plan as outlined below.

The policies for tax increases and new services include the following:

Tax increases

- Policy 2: First cover cost increases for existing services, then other enhancements

New services

- Policy 3: Funding for new services
 - Reduction in cost of existing service (reallocation of funding)
 - Increased revenue other than taxes
 - Tax increase

These two policies support deliberate decision-making to minimize unintended consequences. In other words, choosing to reduce a service by reallocating the funding to another service is encouraged rather than underfunding a service, which would result in a service level reduction due to insufficient funding.

The policies on infrastructure funding, debt and reserves aim to provide sustainable funding levels for ongoing capital programs and larger capital projects. They consider intergenerational equity by funding ongoing programs with ongoing revenues, while smoothing out the impact to taxpayers of larger investment needs in any given year through the use of reserves and debt. They include the following:

Infrastructure funding

- Policy 1: New tax revenue from new development, first \$500,000 to infrastructure reserves
- Policy 6: Consider a tax increase for increasing capital infrastructure investment annually
- Policy 11: Strive to develop appropriate reserves to meet future financial obligations
- Policy 12: Once capital projects are completed, ongoing maintenance costs to be included in the operating budget and future upgrade and/or replacement in the capital budget

Debt

- Policy 8:
 - One-time capital projects (not ongoing programs)
 - Attempt to take on new debt only in years where other debt issues are retired (avoids tax increases related to new debt)

- Internal borrowing through the City's Debt Reduction Reserve (lower interest than external borrowing) with maximum 15-year repayment term

Two policies guide revenue review and generation:

Fees and Charges/Alternative Revenues and External Funding

- Policy 9: Fees and charges to be reviewed regularly considering the cost of providing the service, consider minimum increase equal to inflation (CPI)
- Policy 5: To diversify revenue base, look for new revenue sources and external funding that are consistent with the Five-year Financial Plan, 20-year Capital Plan and Strategic Plan

One policy guides the use of prior year surplus which is generated by expenditure budgets not been fully expended or revenues exceeding the budgets:

Surplus

- Policy 10: Surplus is not ongoing revenue and is to be used for one-time expenditures only or transferred to infrastructure reserves

Guiding Documents

The Financial Plan is the end result of a larger planning process. The Draft Financial Plan is developed based on direction provided through the Strategic Plan, various master plans, frameworks, condition assessments, action plans and strategies. The priorities identified in each of these plans feed into the Draft Financial Plan. Significant consultation with the public is also part of developing many of these plans. The following lists some of the plans and strategies in place:

- Official Community Plan
- Local Area Plans
- Victoria Housing Strategy
- Climate Leadership Plan
- Victoria 3.0 Economic Action Plan
- Parks & Open Spaces Master Plan
- Urban Forest Master Plan
- Create Victoria
- Victoria Music Strategy
- Public Realm Plan
- Harbour Pathway Plan
- GoVictoria Mobility Strategy
- Accessibility Framework
- Equity Framework
- Greenways Plan
- Pavement Asset Management Plan
- Sewer System, Water System, Stormwater System Master Plans
- Surface Infrastructure Asset Management Plan
- Facilities Condition Assessments
- Green Fleet Plan

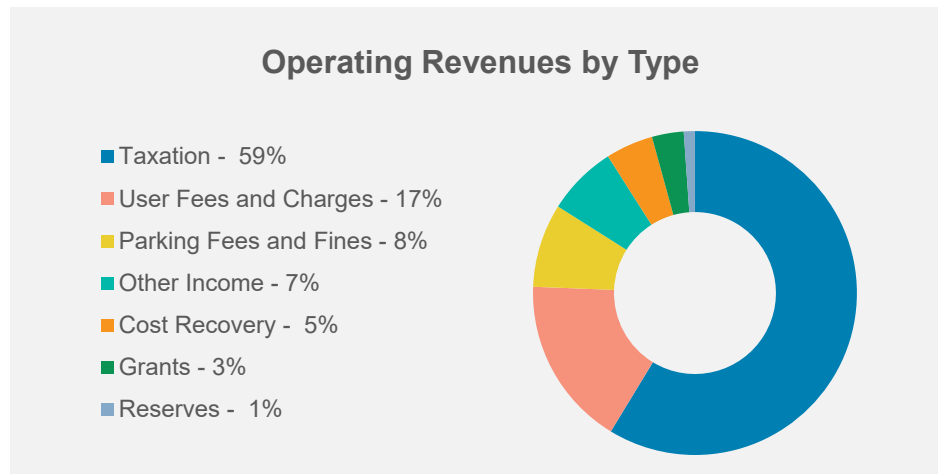
Financial Plan Overview

The Financial Plan includes a five-year operating budget and a twenty-year capital plan. The plan outlines high-level overviews of the various services, programs, projects and initiatives and the associated budgets.

Operating Budget

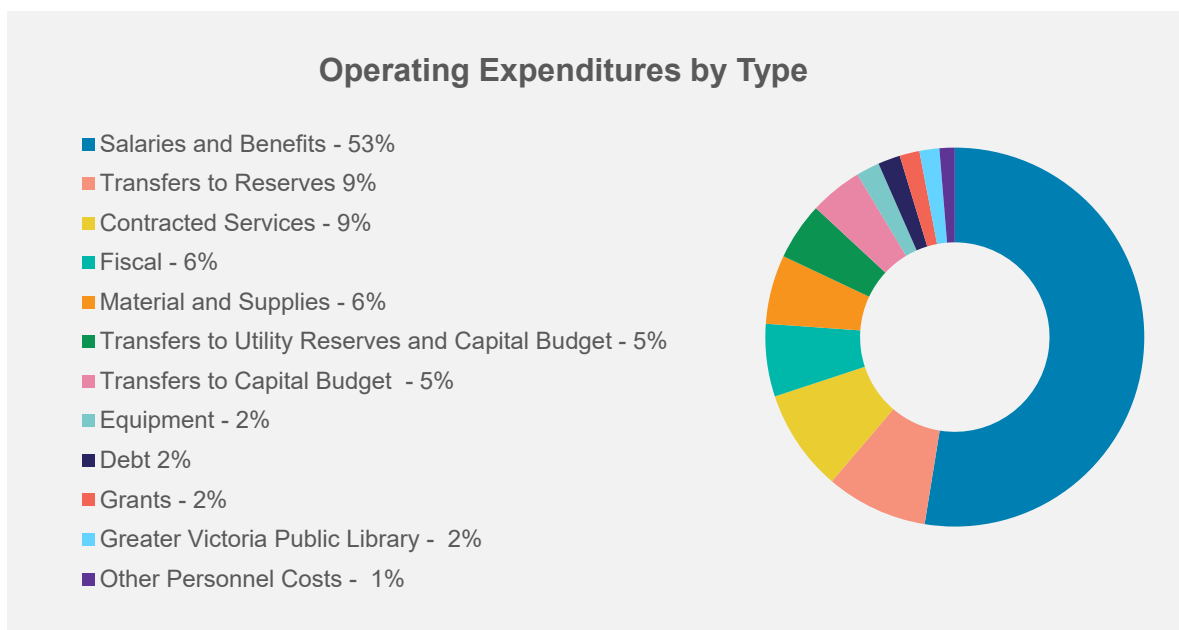
The operating budget includes resources to deliver approximately 200 services including recreation, road maintenance, the provision of clean water, land-use planning, solid waste collection, arts and culture programs, parks and playground maintenance, and public safety.

The majority of the City's funding comes from property taxes and utility user fees from the water, sewer, solid waste and stormwater programs. The City has some additional revenue sources, including parking, construction permit fees, recreation, Victoria Conference Centre, business licences and property leases.



How each service is funded ranges from full funding from user fees (water, sewer and solid waste utilities; development approval and permit processes; and parking services), and partial funding from user fees (stormwater utility and recreation) to fully funded by property taxes (police, fire, bylaw and most corporate support functions.)

The majority of the City's services are delivered by staff and, therefore, the largest cost type is salaries and benefits, followed by capital investment, contracted services, and materials and supplies.



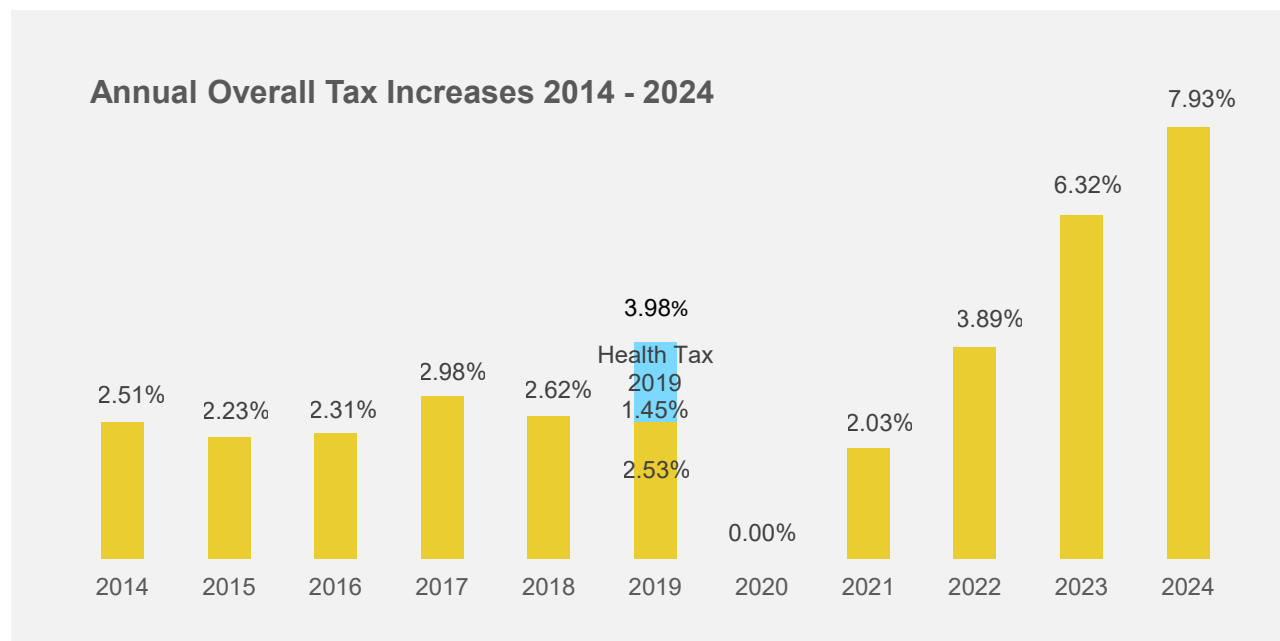
Capital Budget

The capital budget includes the various programs and projects to upgrade and rehabilitate the City's infrastructure. Funding for the capital budget includes user fees (water, sewer and stormwater infrastructure), grants received for specific projects, property taxes, reserves and debt. Reserve funding is primarily generated through allocations from property taxes and user fees, but also from development cost charges and Federal contributions from the Canada Community-Building Fund. Ongoing programs are typically funded by ongoing revenue sources such as property taxes/user fees, but over the last several years have also been augmented by funding from reserves due to insufficient property tax funding to cover the capital costs. Larger projects, such as a bridge replacement or construction of an arena, have primarily been funded through grants and debt, which is consistent with the City's debt policy.

Capital plan funding levels are determined through policy decisions, taking into account the City's risk tolerance. Each year, funding is allocated to all asset groups and, as asset management information is updated, proposed budget increases are typically implemented incrementally over time recognizing taxpayers' ability to pay balanced with the responsibility to appropriately steward the City's assets.

Historical Tax Increases

For context, the City's historical tax increases have been relatively low, especially compared to the construction cost increases over the last several years which have ranged from 5-10% and are expected to continue to increase.



ISSUES & ANALYSIS

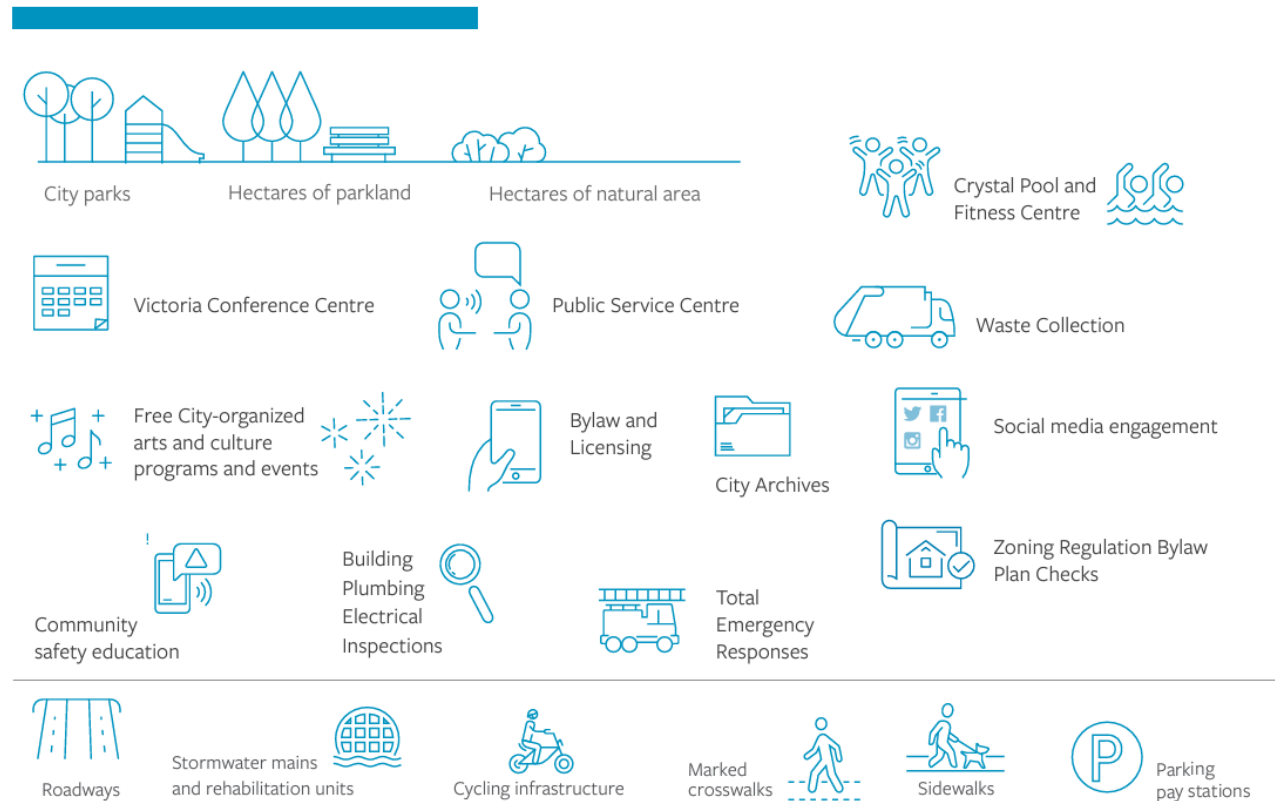
Each year, informed by the City's various master plans, strategies and previous Council direction, the Draft Financial Plan includes the required funding to support service delivery, and staff explore and implement efficiencies on an ongoing basis.

OPERATING BUDGET

Overview

The City delivers approximately 200 programs and services which are included in the Draft Financial Plan.

Highlights of City Services



The Draft Financial Plan assumes that services will generally continue to be delivered at existing levels. Consistent with the last number of years, the cost impact of several challenges common to many organizations are reflected in the Draft Financial Plan, including market cost pressures relating to compensation, insurance, software licencing, construction, and the supply of materials, services and equipment. In addition, extreme weather events (heat, cold, wind, flooding) continue to impact the City’s asset planning and management activities.

A continued focus for the operating budget is proposed staffing increases for the Fire Department to meet the increasing service demands and complex needs of a growing city. A community’s risk profile is influenced by several factors including population growth, increased densification, building design and complexity, call volume, and residents with specialized needs and requiring specialized support. Increased staffing is required to meet the immediate and future needs of Victoria, to reduce our community risk, to increase our resilience, to empower and prepare our residents, and to meet our legislated responsibilities.

As directed by Council, grant programs have been increased by inflation, and Parking Reserve funding that was reduced in 2024 has been reinstated. The draft budget also incorporates some key positions to bridge identified gaps and support overall operations of the City.

Revenues

The City's main sources of revenue through fees and charges are updated regularly and, in most cases, annually. Examples include:

- Victoria Conference Centre – updated annually based on bookings
- Water, sewer, storm drain, and solid waste user fees – updated annually
- Real estate leases – budgets updated to market as new leases or renewals are negotiated
- Recreation fees – typically updated annually
- Development and construction permit fees – many charged as a percentage of construction value and revenues increase as construction costs increase
- Parking revenues – reviewed annually

Parking fines and some rates and street occupancy fees were increased in May 2024 and the 2025 budget reflects the full-year revenues of those increases. The Victoria Conference Centre revenue budgets have been increased as has the revenue from property leases and payments in lieu of taxes.

Utilities

The major cost drivers for the City's utilities are salaries, materials and equipment, CRD tipping fee and bulk water rate increases, and increased funding for the capital budget. For the average household there would be an annual increase of \$22 for water, \$7 for sewer, \$26 for stormwater, and \$13 for solid waste.

Water Cost Drivers	Dollars \$	Percentage %
Salaries & Benefits	\$ 155,950	0.59%
CRD Water Purchase	\$ 937,360	3.56%
Materials & Equipment	\$ 127,900	0.49%
Transfer to Capital	\$ 86,000	0.33%
Total	\$1,307,210	4.96%

Sewer Cost Drivers	Dollars \$	Percentage %
Salaries & Benefits	\$ 223,270	2.25%
Materials & Equipment	\$ 96,800	0.98%
Transfer to Capital	\$ 100,000	1.01%
Total	\$ 420,070	4.24%

Solid Waste & Recycling Cost Drivers	Dollars \$	Percentage %
Salaries & Benefits	\$ 105,620	2.72%
Materials & Equipment	\$ 73,920	1.91%
Transfer Station	\$ 37,910	0.98%
Total	\$ 217,450	5.61%

Stormwater Cost Drivers	Dollars \$	Percentage %
Salaries and Benefits	\$ 538,940	6.31%
Transfer to Capital	\$ 481,000	5.63%
Material and equipment	\$ 91,110	1.07%
Total	\$ 1,111,050	13.00%

Staff propose bringing forward bylaws for utility rate increases to the December 5 daytime Council meeting for consideration of introductory readings followed by adoption at the December 12 daytime Council meeting. Bringing the bylaws forward in this manner will authorize the increases to come into effect on January 1, 2025.

Greater Victoria Public Library (GVPL)

The City's share of the GVPL's operating and facility maintenance budget request, and the City's lease and building costs for its branches is estimated at \$6.06 million, which is an increase of approximately \$313,000 and equates to a tax increase of 0.17%. The Library Board and staff are tentatively scheduled to present their budget request to the City on November 21.

Victoria and Esquimalt Police Board

The Police Board approved VicPD's provisional budget on October 1, 2024, and it was presented at the joint Police Board, Esquimalt Council and Victoria Council budget meeting on October 16 2024. Their net budget request totals approximately \$79.14 million which is an increase of \$7.07 million or 9.71% compared to 2024. Victoria's share (86.33%) of \$6.049 million would result in a tax increase of 3.34%. This has been factored into the Draft Financial Plan.

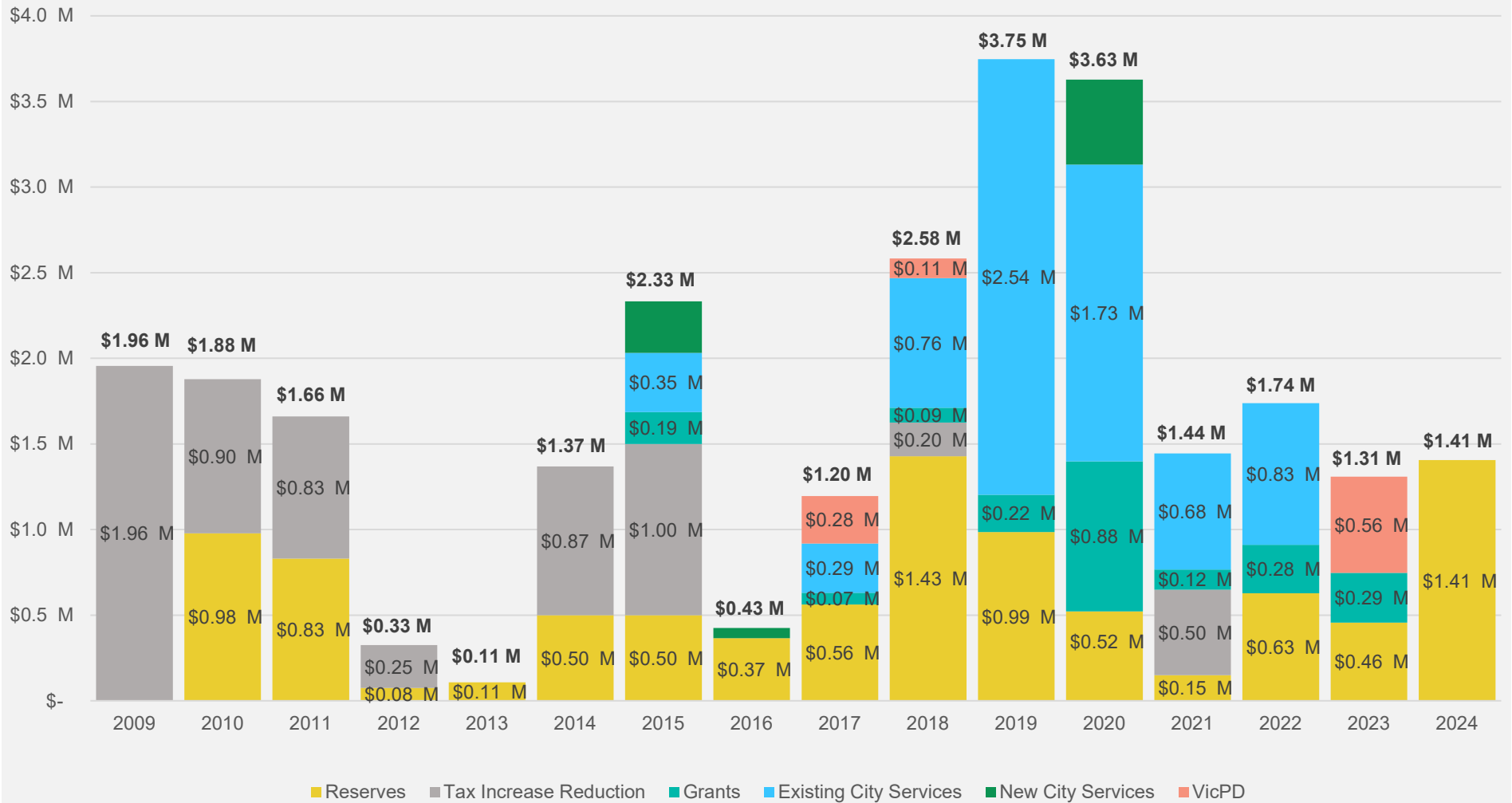
In addition, the section 27 appeal under the *Police Act* to the Director of Police Services from 2023 is still pending and, if approved, would be an additional \$1.99 million resulting in an additional tax increase of 0.95% for Victoria's share.

New Property Tax Revenue from New Development (Non-Market Change/NMC)

As per the Financial Sustainability Policy, the first \$500,000 of new property tax revenue resulting from new construction is transferred to reserve and this has been incorporated into the draft.

Over the last decade, Council has allocated the majority of the new tax revenue for capital investment (savings in reserves) and reducing the annual tax increase (essentially offsetting inflationary increases for existing services) and, more recently, to fund new services as illustrated in the graph below:

Assessment Growth (Non Market Change) Allocation 2009 to 2024



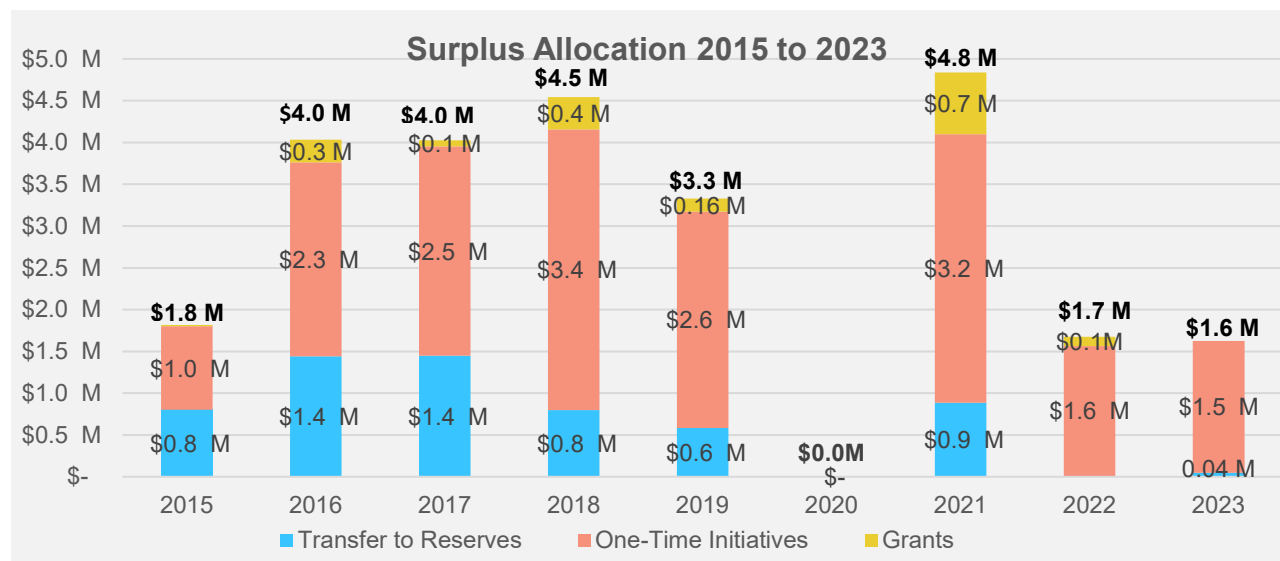
However, because significant additional funding is required for the annual capital budget, it is recommended that Council approve a change to the Financial Sustainability Policy and allocate all of this new revenue to the capital budget. This would reduce the proposed 3.04% tax increase for the capital budget. The current estimate for this new revenue, based on information provided by BC Assessment, is approximately \$1 million. Should Council approve the policy change, this would reduce the tax increase by 0.6%. For awareness, the estimate is based on incomplete information and the final amount will not be known until the end of March when BC Assessment has finalized the assessment roll for the year.

Furthermore, staff intend to bring a potential additional policy change to next year’s financial planning process, specifically using ‘incremental tax financing’ as a funding option for the City’s land reserve. This reserve is essentially depleted at this point and may be needed to support property purchases for City needs such as Fire Station No. 3 and the Public Works Yard. One method for creating a sustainable, self-funding source for the land reserve can be to introduce a financial policy to redirect all, or a portion, of the incremental property tax lift arising from the private redevelopment of land sold by the City. By implementing such a policy, the City could create a self-funding reserve that is available to pursue its goals over the long term, without needing to divert existing capital or revenue from other reserves, projects or priorities. The first applicable site would be 749-767 Douglas Street which is now being developed through private investment as commercial office. It is anticipated that the incremental tax revenue will exceed \$1 million and would come on-stream in 2026.

2024 Surplus

A surplus is created when revenues exceed budget expectations and/or actual expenditures are lower than expected. Per the Financial Sustainability Policy, since surplus is not ongoing, it should only be used for one-time items or be transferred to infrastructure reserves. The actual amount of surplus will not be known until year-end activities have concluded and the City’s financial statements produced. At this point, it is estimated that the surplus will be approximately \$1.5 million. This amount has been built into the draft plan and is proposed to fund the program that is focused on mitigating the impacts of overnight sheltering in public space (\$1.485 million.) It is recommended that any remaining amount in addition to what has already been allocated be transferred to the Buildings and Infrastructure Reserve.

For historical reference, the following graph outlines the surplus allocation for the past several years:



Five-Year Operating Budget

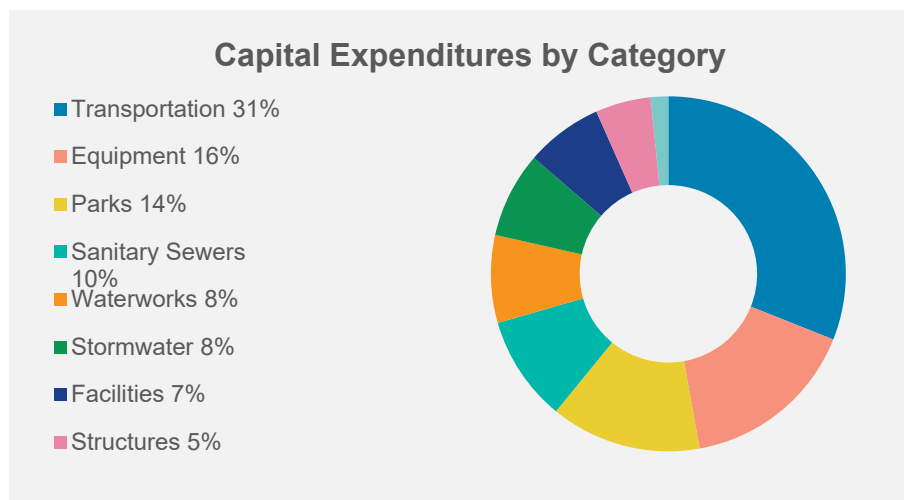
To develop the future years of the five-year operating budget several assumptions have been incorporated including: no changes to services or service levels; collective agreement increases (if in place); known cost increases, such as hydro, at already announced rates; and unknown cost increases (the majority) at an inflationary factor of 2%. It is likely that new information will emerge, and any cost implications would be factored into future financial plans.

CAPITAL BUDGET

Overview

The capital budget was developed based on the principle that all asset groups are allocated some funding. In addition, the annual capital investment needs are determined through asset master plans, condition assessments and Council direction. Asset master plans outline the level of funding that is considered sustainable to maintain or improve service levels, and the priorities for infrastructure investment.

The following chart outlines the proposed capital investment:



Asset Management

The City owns \$3.6 billion of infrastructure assets that are essential for delivering reliable services to residents, businesses, and visitors. Every day, City staff monitor, maintain, renew, and replace 36 unique types of infrastructure across eight asset categories: structures, facilities, parks and open spaces, transportation, stormwater, wastewater, waterworks, and fleet. Asset management is a continuous process of understanding the current physical condition of these assets and the financial requirements needed to sustain the services they provide to the community.

The majority of the City's infrastructure investment is guided by asset master plans and condition assessments, which use a range of criteria to determine priorities. These criteria include risk assessment and service delivery, condition assessment and remaining design life, capacity requirements including future population growth, enhancing resiliency to meet climate change, tsunami, and seismic hazards, reducing rain inflow and infiltration to sewers, and optimizing energy use.

For underground utilities (sewer, storm drains, and water), 20-year asset master plans are in place. Additional factors taken into account are coordination with transportation or other right-of-way improvements (bundling of projects) and consideration of social impacts (network traffic flows) in a

neighborhood due to the number and location of other scheduled projects. Bridges and structures are periodically assessed for condition and risk, forming the basis for master planning including strategic asset renewal and replacement. Master plans also incorporate future climate projections, identifying and advancing necessary adaptation measures.

For transportation projects, there are many and varied programs and services provided, including crosswalks, sidewalks, road paving, and traffic calming. Each program considers a number of criteria, but the overall principles for all transportation projects are road safety, use of standards, established criteria and best practice, consistency of implementation to maintain system integrity, promoting projects fairly and equitably with the most impact and greatest benefits, fiscal responsibility and prudence, and coordination opportunities.

The Parks and Open Spaces Master Plan was developed through city-wide consultation with residents and other stakeholders to assess community needs and examine investment priorities. The goals of the Plan include a focus on serving the needs of all community members (Foster Engaging Experiences for Everyone). The ongoing maintenance work relating to “grey” and “green” assets in parks and open spaces is primarily driven by condition assessment data, which provides an objective measure of the state of assets in these public spaces.

The City’s investments in facilities are typically based on a few key factors, including data relating to the physical condition of these assets and systems, as well as the service priorities of occupants of these buildings. In recent years, increased focus has been directed to quantifying and addressing physical accessibility needs, as well as energy performance, in line with the City’s overall strategic plans.

In 2021, staff conducted a comprehensive review of corporate asset management practices with the objective of standardizing how asset information is captured and communicated for all 36 types of infrastructure owned and managed by the City. Outcomes from the review were incorporated into the City’s corporate asset management program and led to the development of the Corporate Asset Management Summary presented in Appendix B. The summary includes an overview of the assets owned by the City and a description of the primary services they provide, the remaining design life of City infrastructure, and the physical condition of these assets. The summary also provides an assessment of current service sustainability as measured by established maintenance practices, asset condition, and formalized and dedicated funding plans.

The Corporate Asset Management Summary provides a snapshot of the current state of City-owned infrastructure and is intended as a resource for Council during the financial planning process. Key findings from the summary are noted as follows:

- 16% of assets are in poor or very poor condition with a combined replacement cost of \$570 million.
- Most of the City’s assets are performing strongly in terms of their current service sustainability, but only one-quarter of assets can maintain service sustainability into the future under existing conditions and planned funding.
- Condition has not yet been assessed for \$130 million (5%) of assets.

Asset management is a process of continuous improvement, and staff are regularly updating information on asset condition, service levels, and the financial requirements to provide reliable services to the community now and into the future. By 2026, the City will have completed condition assessments for all assets. Staff are also working on a similar timeframe towards a standardized representation of the risks faced with the current state of infrastructure. This information is intended to further support Council’s financial deliberations by prioritizing and scheduling asset funding levels

over time. Notwithstanding these details, Council should anticipate an increasing share of assets deteriorating into poor and very poor condition and growing costs for infrastructure replacement.

Additional Funding Requirements

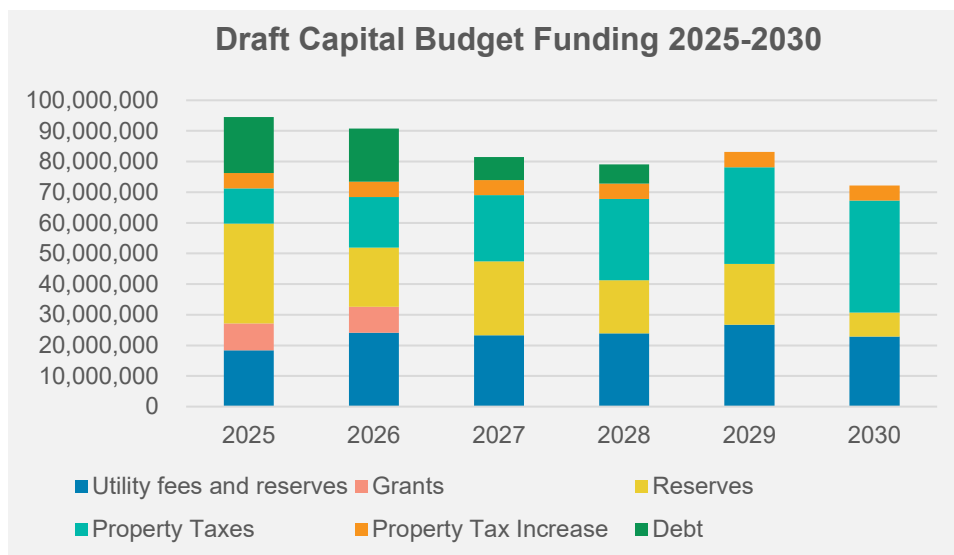
As identified during the 2024 financial planning process, to support prudent asset management, significant funding increases are required. Several factors have contributed to the need for additional funding including:

1. Significant cost escalation due to supply chain challenges, labour shortages, increased interest rates and inflation;
2. Climate events causing the City’s assets to deteriorate faster than anticipated;
3. Annual funding increases not keeping up and reserve funding being reduced; and
4. Significant utilization of reserves for ongoing life-cycle upgrades because of the lack of annual funding increases
5. Significant drawdowns from reserves to fund some large capital projects such as Multi-modal Corridor implementation, Topaz Park improvements, Point Ellice Bridge life extension and Dallas Road Seawall Ballustrade

Proposed during the 2024 financial planning process to bridge the capital budget funding gap, staff recommended:

1. A 3% tax increase each year from 2025 to 2030 to increase the annual ongoing funding for ongoing capital life-cycle renewal programs
2. Using the majority of funding available in the main capital reserves over a five-year period until the annual property tax funding is increased to a sufficient level to support the ongoing funding needs
3. Using debt for four capital programs (fleet replacement, transportation improvements, public washroom accessibility improvements and park redevelopment) to enable earlier delivery and avoid expected cost escalation that is anticipated to exceed the interest cost payable on the loans

The following graph shows how the current gap in funding could be closed with the use of increased property tax funding (turquoise and orange) as well as external borrowing (green) and would reduce the reliance on reserves (yellow) which are being depleted. It is estimated, based on current information, that this funding strategy would result in sufficient annual funding for the City’s ongoing life-cycle replacement/upgrade capital programs for existing assets in approximately six years.



Additional funding would be needed for larger stand-alone projects such as the Crystal Pool replacement, central library replacement and Ship Point. In addition, as noted in the Corporate Asset Management Summary attached to this report, we have information gaps related to our assets and additional funding will be needed. In addition, funding strategies for some potential large facility upgrades/replacements including Fire Station No. 3 and the Public Works Yard need to be developed. Debt funding would likely be required since reserve funding is insufficient. As previously reported, the *Community Charter* contains provisions for external borrowing, including limits, voter assent requirements and approval by the Inspector of Municipalities. The City's authorized borrowing levels are currently just below the assent free limit (the limit that does not require voter assent); however, any additional borrowing would require voter assent through an alternative approval process or referendum and the resulting debt servicing costs would likely require tax increases.

20-Year Capital Plan

For many capital investments, such as underground infrastructure and complete streets projects, longer-term asset master plans identify the priority order of renewals for coming years and decades. Those plans also indicate the estimated funding for those renewals. For these investments, ongoing budgets have been included in the 20-year capital plan.

Where future year budgets are yet to be determined due to scoping work underway, the capital plan indicates "TBD" (to be determined).

It can be difficult to determine the exact funding needs far into the future, therefore all future year amounts are best estimates only.

RESERVES

Reserves are set up to save up funding for future investment with the intent of smoothing out the impact on taxpayers, especially in years where larger than typical investments are needed. The Reserve Fund Bylaw outlines the purposes and authorized uses for each reserve and the Reserve Fund Policy further details each reserve.

Minimum balances have been established for each reserve and the methodology for determining overall target balances vary depending on the type of reserve, and those balances are in some cases based on supporting asset master plans or acquisition strategies, if available. However, the minimum balances are only one part of the equation and recommended capital budget spend levels also need to be taken into account.

Some reserves, such as the Canada Community-Building Reserve and the Local Amenities Reserve, receive funding from external sources. Other reserves, such as the Financial Stability reserves, have target balances aligned with operating costs and are generally funded each year to ensure adherence to those targets. Several reserves, such as the Victoria Housing Reserve, the Climate Action Reserve and the Art in Public Places Reserve have guiding strategies/plans in place that set relevant targets and in turn guide investment levels. The methodology for determining the target balances for the City's two land acquisition reserves - Tax Sale Lands Reserve and Parks and Greenways Acquisition Reserve – is to base funding levels on acquisition strategies. Both these strategies are under development and will include funding options. Currently these two reserves receive funding through land sales.

While minimum target balances are established based on asset replacement costs, desired reserve levels also take into account:

1. Asset renewal needs identified through asset master plans and condition assessments.
2. Other funding sources that might be available such as taxes, user fees and grants.
3. Policy choices. Examples include:
 - a. 'Pay as you go' results in heavy reliance on reserves and ongoing revenue sources such as utility user fees and taxation. This is essentially the City's policy for utilities.
 - b. 'Save up before you spend' results in significant reserve levels. This is rare in a municipal context because demands are typically high and it is difficult to delay projects long enough to save enough in reserves. When possible, the City aims to save enough in reserves to smooth out the impact of higher needs in some years.
 - c. Borrowing levels. If the borrowing policy is broad and is the main funding source for much of the capital budget, less is needed in reserves. The opposite is the case if the borrowing policy is limited. The City's Policy aims to limit borrowing to larger stand-alone projects only to minimize the impact on taxation.

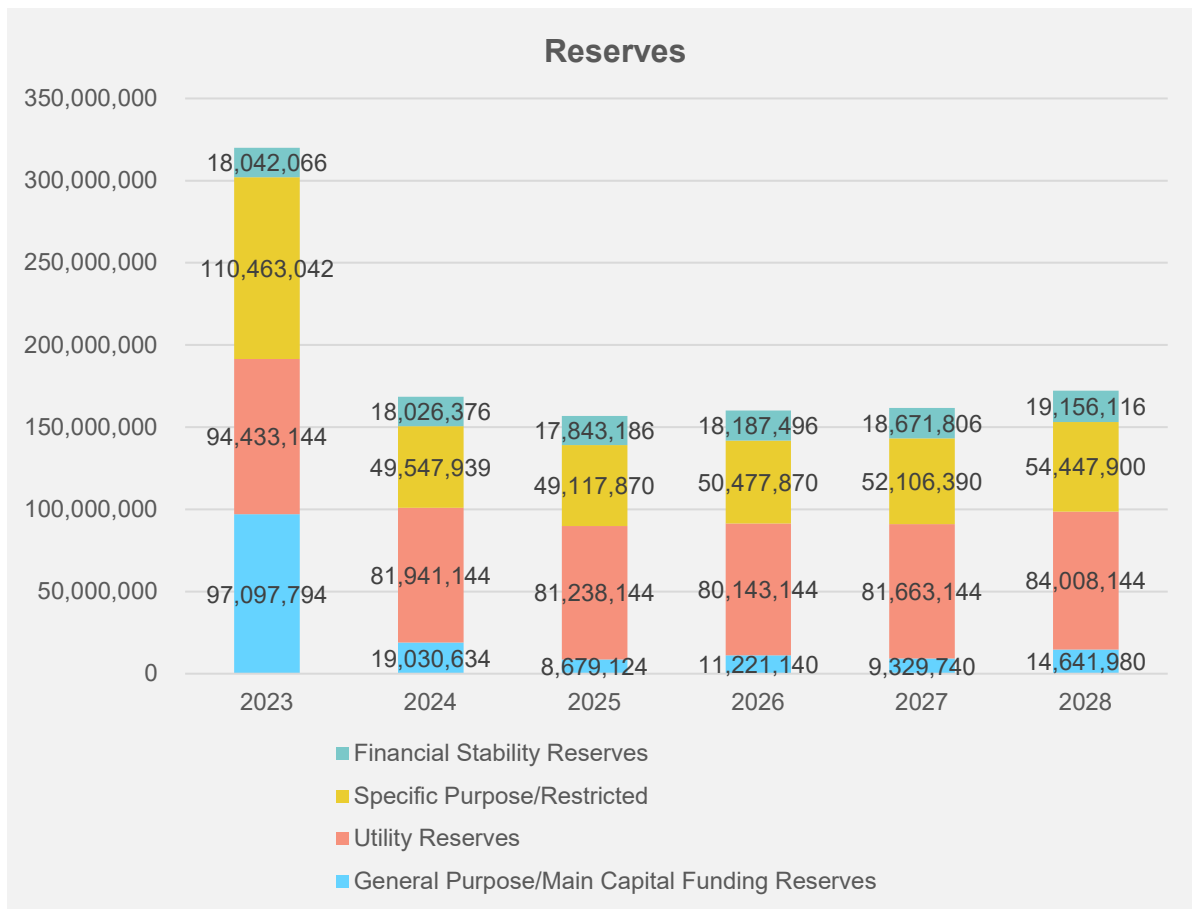
Some reserves are restricted under the *Community Charter* (for example capital reserves, Tax Sale Lands reserve and Development Cost Charges reserves), others under agreement (for example all Police reserves and the Arena reserve), and others due to the funding source (for example utility reserves, Artificial Turf Field reserve and Recreation Facilities Reserve.)

Appendix C outlines the methodology for reserve target balances and any restrictions in place.

While the City has many reserves, most are for a specific purpose. There are five general capital reserves that can be used for most infrastructure improvements or equipment purchases: Buildings and Infrastructure, Canada Community-Building, Debt Reduction, Equipment and Vehicles and Heavy Equipment. The proposed funding strategy uses the majority of funding in these reserves over the next five years.

General Purpose/ Main Capital Budget Funding	Projected Unallocated Balance				
	2024	2025	2026	2027	2028
Buildings & Infrastructure	10,470,865	3,435,735	4,954,505	723,625	2,989,385
Canada Community Building	3,258,434	740,904	0	172,330	438,660
Debt Reduction (repayment of Fire Hall)	535,782	3,061,932	5,588,082	8,114,232	10,640,382
Equipment	2,635,381	810,381	48,381	26,381	233,381
Vehicles & Heavy Equipment	2,130,172	630,172	630,172	293,172	340,172
	19,030,634	8,679,124	11,221,140	9,329,740	14,641,980

In addition, Council approved significant usage of reserves in 2024; the following summarizes the estimated unallocated balances going forward:



The table below outlines the estimated uncommitted year-end reserve fund balances if all planned work for 2024 is completed. These estimates assume that Council will approve a 3% annual tax increase starting in 2025 for the capital budget and budgeted contributions to the reserves. Without the annual contributions and tax increases, the capital budget would require reductions because the general-purpose reserve balances (Buildings and Infrastructure, Debt Reduction, Equipment, Vehicles and Heavy Equipment and Canada Community-Building) would be insufficient.

Description	Unallocated Balance Dec 31, 2024	2025 Budget Transfers In	2025 Budget Transfers Out & Committed	Projected Balance Dec 31, 2025
General Purpose/Main Capital Budget Funding				
Buildings & Infrastructure	10,470,865	7,347,870	14,383,000	3,435,735
Canada Community Building	3,258,434	4,246,470	6,764,000	740,904
Debt Reduction	535,782	2,526,150	0	3,061,932
Equipment	2,635,381	1,000,000	2,825,000	810,381
Vehicles & Heavy Equipment	2,130,172	2,000,000	3,500,000	630,172
	19,030,634	17,120,490	27,472,000	8,679,124
Utilities				
Sewer Utility Equipment and Infrastructure	31,211,097	400,000	2,467,000	29,144,097
Stormwater Utility Equipment and Infrastructure	6,801,248	100,000	39,000	6,862,248
Water Utility Equipment and Infrastructure	43,928,799	1,770,000	467,000	45,231,799
	81,941,144	2,270,000	2,973,000	81,238,144
Special Purpose/Restricted				
Archives Equipment	36,303			36,303
Art in Public Places	881,227	50,000	300,000	631,227
Artificial Turf Field	488,824	157,500		646,324
Climate Action Reserve	4,022,458	378,780	693,310	3,707,928
Development Cost Charges	8,258,624		447,000	7,811,624
Development Stabilization Reserve	18,453,734		1,225,000	17,228,734
Downtown Core Area Public Realm Improvements	315,639			315,639
Local Amenities Reserve	525,864	200,000		725,864
Multipurpose Equipment and Infrastructure	553,369	201,340	754,709	0
Parking Services Equipment and Infrastructure	6,830,350	3,550,000	1,480,000	8,900,350
Parks and Greenways Acquisition Fund	145,923			145,923
Parks Furnishing Dedication Program	119,260	195,000	156,000	158,260
Police Emergency Response Team	873,792	11,000	5,700	879,092
Police Vehicles, Equipment & Infrastructure	1,004,308	1,320,000	1,500,000	824,308
Recreation Facilities Equipment and Infrastructure	1,529,787	42,300	0	1,572,087
Tax Sale Lands Fund	98,109	50,000		148,109
Tree Conservation	1,732,934		339,990	1,392,944
Victoria Housing Reserve	3,677,434	315,720		3,993,154
	49,547,939	6,471,640	6,901,709	49,117,870
Financial Stability Reserves				
City	9,671,957	484,310	667,500	9,488,767
Insurance Claims	4,535,756			4,535,756
Police	872,530			872,530
Sewer Utility	922,552			922,552
Stormwater Utility	1,010,535			1,010,535
Water Utility	1,013,047			1,013,047
	18,026,376	484,310	667,500	17,843,186
Total Reserves	168,546,093	26,346,440	38,014,209	156,878,324

DEBT

The Financial Sustainability Policy aims to keep debt servicing charges at a maximum of 7% of the prior year's property tax levy to minimize property tax increases. In addition, the *Community Charter* limits debt servicing to 25% of prior year total revenue and if debt servicing is below 5% of prior year total revenue, no elector assent is required.

The City currently has approximately \$48.96 million in outstanding debt and the current authorized debt servicing is approximately 7.5% of the prior year tax levy. If the Crystal Pool replacement is approved, the related debt would increase the total servicing to 15.5% of the prior year tax levy.

The following table outlines the current external debt issues, year of retirement and the annual debt servicing costs:

Final Year	Issue	MFA Issue - Purpose	Principal & Interest
2031	115	Johnson Street Bridge Replacement (CMHC)	743,242
2033	79	Multipurpose Arena	540,514
2033	80	Multipurpose Arena	649,303
2034	81	Multipurpose Arena	649,303
2034	130	Johnson Street Bridge Replacement	1,767,118
2036	139	Johnson Street Bridge Replacement	320,186
2037	142	Johnson Street Bridge Replacement	659,671
Total			\$ 5,329,336
<u>Self Financing Areas</u>			
2025	110	Parkades	312,424
Total			\$ 312,424

In addition to the external debt is internal borrowing from the City's Debt Reduction Reserve which funded the replacement of Fire Department Headquarters and the \$35.9 million loan is required to be repaid to that reserve over time; the repayment amount for 2025 is \$2.5 million.

GRANTS

As directed by Council, grants have been grouped into several categories: direct-award grants, Festival Investment Grants, Growing in the City Grants, My Great Neighbourhood grants, Cultural Infrastructure Grants, Victoria Music Strategy Grants, IDPAD Youth Grants, and Major Community Initiatives and Events Grants. Over the last number of years, Council has directed a few grants to be allocated outside of the established programs and these have been grouped under "other grants". Per Council direction, the majority of grants have been increased by inflation.

The proposed direct-award grants and one-time grants are as follows:

Organization	2024 Final Budget	2025 Draft Budget	Change
Victoria Civic Heritage Trust			
Building Incentive	1,450,000	950,000	-500,000
Operating	128,600	133,750	5,150
Victoria Heritage Foundation			
Operating	271,970	280,400	8,430
Victoria Youth Council			
Operating	26,000	26,000	-
Quadra Village Community Centre			
Operating	85,180	86,880	1,700
Youth Programming	10,070	10,270	200
Lease Grant	44,060	44,060	-
Fernwood Community Centre			
Operating	85,180	86,880	1,700
Youth Programming	10,070	10,270	200
Vic West Community Association			
Operating	85,180	86,880	1,700
Youth Programming	10,070	10,270	200
Facility (janitorial)	40,790	41,610	820
Fairfield Community Place			
Operating	85,180	86,880	1,700
Youth Programming	10,070	10,270	200
Facility (janitorial, recycling)	54,180	54,180	-
Youth Outreach	15,000	15,000	-
Cook Street Village Activity Centre			
Operating	85,180	86,880	1,700
Facility (strata fees)	34,490	58,480	23,990
Victoria Silver Threads			
Operating	85,180	86,880	1,700
Facility (lease)	122,390	122,390	-
Burnside Gorge Community Centre			
Operating	85,180	86,880	1,700
Youth Programming	10,070	10,270	200
Youth Outreach	10,000	10,000	-
James Bay Community School Centre			
Operating	85,180	86,880	1,700
Youth Programming	10,070	10,270	200
Facility (janitorial, recycling)	57,730	58,880	1,150
James Bay New Horizons			
Operating	85,180	86,880	1,700
Facility (janitorial)	32,070	32,710	640

Oaklands Community Centre			
Operating	85,180	86,880	1,700
Youth Programming	10,070	10,270	200
Facility (janitorial)	19,800	20,200	400
Cool Aid Downtown Community Centre			
Operating	85,180	86,880	1,700
Seniors Outreach			
Operating	30,000	30,000	-
Victoria Community Association Network			
Operating	1,040	1,060	20
Neighbourhood Associations			
Liability Insurance	6,000	6,000	-
Volunteer Insurance	7,500	7,500	-
Blanshard (Hillside Quadra)			
Per capita base (1.20 times population)	10,940	11,160	220
Burnside/Gorge			
Per capita base (1.20 times population)	9,330	9,510	180
Downtown (incl Harris Green)			
Operating	80,000	80,000	-
Per capita base (1.60 times population)	10,960	11,180	220
Fairfield Gonzales			
Per capita base (1.20 times population)	23,960	24,440	480
Fernwood			
Per capita base (1.20 times population)	14,180	14,460	280
James Bay			
Per capita base (1.20 times population)	17,400	17,750	350
Neighbourhood Association Coordinator Grant	20,000	20,000	-
North Jubilee			
Per capita base (1.60 times population)	6,150	6,270	120
Neighbourhood Association Coordinator Grant	10,000	10,000	-
North Park			
Operating	80,000	80,000	-
Per capita base (1.60 times population)	6,880	7,020	140
Oaklands			
Per capita base (1.20 times population)	10,290	10,500	210
Rockland			
Per capita base (1.60 times population)	7,060	7,200	140
South Jubilee			
Per capita base (1.60 times population)	4,400	4,490	90
Neighbourhood Association Coordinator Grant	10,000	10,000	-
Vic West			
Per capita base (1.20 times population)	11,090	11,310	220
Total	3,691,730	3,255,080	-436,650

Organization	2024 Budget	2025 Draft Budget	Change
Aboriginal Coalition to End Homelessness	100,000	100,000	-
Alliance to End Homelessness in the Capital Region	100,000	100,000	-
Capital Bike	10,500	10,500	-
Community Social Planning Council (rent bank)	110,000	110,000	-
Pro Art Alliance of Greater Victoria	10,000	10,000	-
Restorative Justice Victoria	34,540	34,540	-
Songhees and Esquimalt Nations	200,000	200,000	-
South Island Prosperity Partnership	235,800	241,690	5,890
Theatre SKAM	20,000	20,000	-
Vancouver Island South Film & Media Commission	45,000	45,000	-
Victoria Urban Food Table	6,000	6,000	-
Victoria School District #61 (crossing guards)	107,000	109,140	2,140
Total	978,840	986,870	8,030

PUBLIC CONSULTATION

The City's 2025 Budget engagement followed last year's approach, combining a survey of 700 Victoria residents with a series of focused, budget conversations co-hosted with eight equity-seeking organizations and 86 members of the community they serve.

The main purpose of this two-prong approach was to obtain residents' input on City services, programs and spending priorities to help guide Council's budget decisions for 2025. This engagement took place between June 3 and August 28, 2024 to provide meaningful and timely input for Council's consideration.

The organizations were selected to provide diverse and varied perspectives from across the city and included Silver Threads Service, Victoria Native Friendship Centre, City of Victoria Youth Council, Victoria Disability Resource Centre, Victoria Pride Society, Aboriginal Coalition to End Homelessness, Peers Victoria Resources Society and Our Place Society.

Engaging with equity-seeking groups in person supplemented the results of the survey and ensured that the approach aligned with the City's Engagement Framework. Marginalized individuals do not often participate in surveys. This engagement strategy was also a way to help build reciprocal relationships with the participating organizations and their community members.

The next step proposed is to provide a dedicated budget engagement project on the City's Have Your Say online platform, inviting the public to read the draft financial plan and summary highlights, and submit input and ask questions of staff via email or mail, or by way of a pre-recorded video by

November 17, 2024. All input collected will be shared with Council before a final decision on the budget is made.

This comprehensive engagement approach provides valuable community input to help inform the City’s 2025 budget and future-year budget planning, in addition to meeting the statutory requirement for consultation. The report outlining the survey and community conversation series results is part of today’s agenda.

TIMELINE

The following table outlines the estimated timeline for this year’s process.

Dates	Purpose
October 24, 2024 Committee of the Whole	Draft Financial Plan introduced
October 25, 2024	Public input opportunity begins
November 4 and 19, 2024 Special COTW	Budget discussions and direction
November 17, 2024 at 11:59 p.m.	Public input opportunity closes
November 19, 2024 Special COTW	Direction to bring forward utility rate bylaws
December 5, 2024 Daytime Council	Introductory readings of utility rate bylaws
December 12, 2024 COTW - tentative	If deliberations have concluded, final budget approval and direction to bring forward Financial Plan Bylaw in April 2025
December 12, 2024 Daytime Council	Adoption of utility rate bylaws
April 2025 Committee of the Whole	Report on tax rates options
April 2025 Council	Final report on Financial Plan including incorporated changes and BCA non-market change data. Introductory readings of Financial Plan Bylaw; Introductory readings of Tax Bylaw
April 2025 Council	Adoption of Financial Plan Bylaw and Tax Bylaw

IMPACTS AND ALIGNMENT

Accessibility Impact Statement

Initiatives and projects within the Financial Plan support accessibility improvements.

Strategic Plan

The Financial Plan includes resources to advance the Strategic Plan.

Impacts to Financial Plan

The 2025-2029 Financial Plan will replace last year's plan.

Official Community Plan Consistency Statement

Initiatives included within the financial plan are consistent with many policies within the Official Community Plan including support for infrastructure asset management objectives, in particular, policy 11.4 to maintain and enhance the allocation of resources for civic infrastructure repairs, upgrades and replacement.

CONCLUSIONS

The 2025-2029 Draft Financial Plan supports the continued delivery of the City's numerous services that the community relies on. Furthermore, it proposes additional funding to enable prudent stewardship of municipal assets and related infrastructure investment.

Respectfully submitted,

Susanne Thompson
Deputy City Manager and Chief Financial Officer

Report accepted and recommended by the City Manager

List of Attachments

Appendix A - Financial Sustainability Policy; Reserve Fund Policy; and Revenue and Tax Policy
Appendix B – Corporate Asset Summary
Appendix C – Summary of Reserve Fund Restrictions