

BUDGET MESSAGE

2013 Budget Message

In the proposed 2013 Budget, the City maintains the quality of service levels while meeting the pressures created by small growth in the commercial and residential assessment base, changing community needs and increasing cost to provide services to residents.

The guiding principles in the preparation of this budget can be summarized as follows:

Maintain existing service levels;

- Incorporate a proactive infrastructure renewal plan, specifically the replacement of corrugated metal sewer pipe;
- Identify and incorporate efficiencies wherever possible;
- Implement a progressive development incentive program;
- Align with and support Council's goals and objectives;
- Align with and support Council's adopted financial and budget policies.

Council and staff strive to provide services and programs in a cost efficient and effective manner. The City will continue to evaluate programs and services on an ongoing basis, with any cost reductions being incorporated and reported in future budgets. The performance measures reported in this budget document will continually be refined and modified to assist in the decision making processes of both Council and Administration.

Prior to examining the highlights and challenges in the 2013 Budget, it is beneficial to discuss some of the highlights from 2012.

2012 Highlights

\$31 million increase in taxable assessment in 2012.

- This represents a 1.52% increase in assessed value and would equate to a \$358,000 increase in tax revenue for 2013.
- This is not a sustainable level without tax increases. While assessment growth is on the rise, it is still too low to fully address the expenditure pressures on the City.
- In order to have zero tax increase, an additional \$202,394 in revenue growth would be required. That would require an additional \$17.7 million increase in taxable assessment.

In 2012 City Council adopted the Yellowknife Harbour Plan and the General Plan.

- Incorporated a development phasing strategy into the General Plan to guide growth and infrastructure investment over the next five years.
- Both plans have a series of recommendations which include initiatives that will attract interest from federal funding agencies.
- The potential projects include harbour park improvements, trail and boardwalk system and capital area public parks nodes.
- City has made application to CanNor for \$1 million under the 2013/2014 Community Infrastructure Improvement Fund and should know the result by end of 2012 or beginning of 2013.
- The City has negotiated lease agreement with Department of Fisheries and Oceans for clean up of the DFO wharf.

Downtown revitalization

- The Smart Growth Implementation Committee comprised of residents representing the community, is working on a comprehensive revitalization plan for downtown based on best practices from across Canada.
- The City has implemented the Development Incentive Program and so far two infill downtown multi-family developments have been awarded and completed in 2012 with a total 24 residential units.
- The City has invested in streetscaping and beautification programs as well as façade improvements, artistic murals and litter reduction programs.
- Purchased three standard size lofts on 50th Street to support downtown revitalization.

Comprehensive Land Development

- The City has made available a variety of developable lands into the market:
 - Niven Lake Phase VII (37 lots of single-family units)
 - Waterside residential lots at Grace Lake (30 lots)
 - Industrial lots at Enterprise Drive Extension (31 lots)
 - Niven Lake V (5 lots- multi-family residential)

Community Energy Plan (CEP)

- A follow-up community energy profile was completed. The process builds on the 2004 energy baseline work and will be used to track the progress of the Community Energy Plan. The process is the final step in the City's Partners for Climate Protection five-step process.

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- Facilities managers completed a number of energy efficiency projects including a lighting upgrade at the Multiplex and Yellowknife Community Arena.

The Infrastructure Gap

- The Infrastructure Needs Assessment of 2006 estimated the infrastructure gap at \$67.8 million by 2016.
- 2011 Infrastructure Asset Analysis indicated that without an increase in investment, the infrastructure gap will have grown to \$74.1 million by the end of 2016.
- The Asset Investment Plan was presented to Municipal Services Committee in September 2012.
- \$20 million borrowing by-law to finance the building of new water treatment plant which is required by federal and territorial act and legislation. This borrowing frees up the Gas Tax for other capital projects.

In 2011 the City worked on a number of projects:

- New water treatment plant design - total cost for this project will be about \$28.5 million.
- \$7.3 million on water and sewer projects, including:

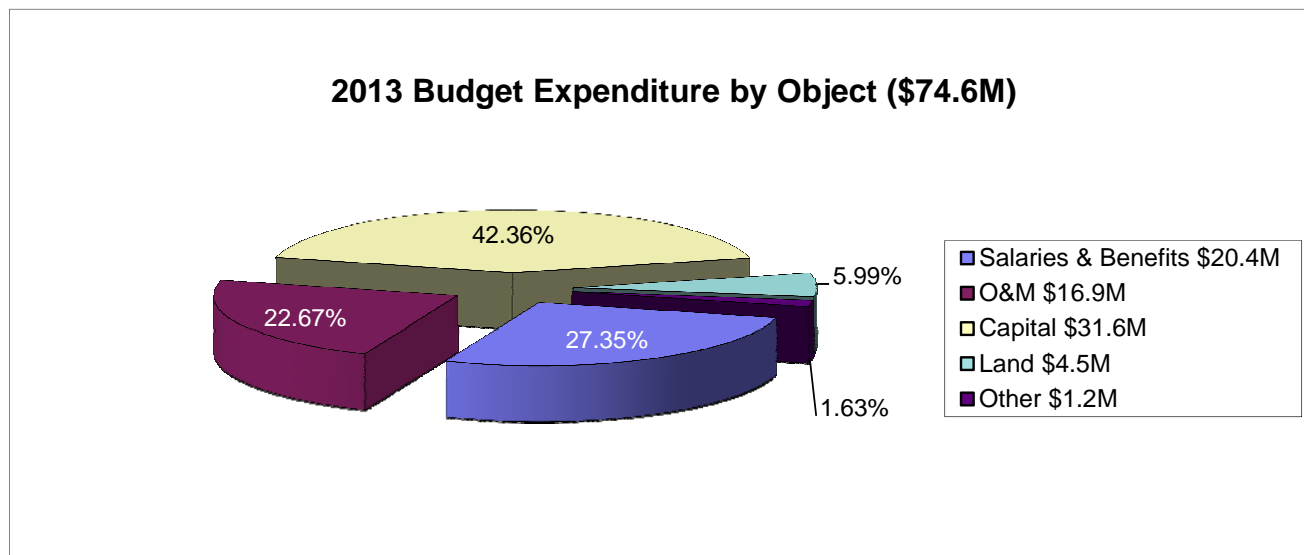
- \$3.2 million on water and sewer replacement
- \$4.1 million on water treatment plant, pumphouse and liftstation upgrades.
- \$0.9 million on roads and sidewalks repair.
- In order to better address the infrastructure gap, the City has developed long-term asset management plan.

The City of Yellowknife has developed a Long-Term Strategic Plan which will guide decision-making over the next 10 – 20 years. The plan is community-based, and the City has committed to fulfill the community vision through four overriding goals over the years to come.

Budget Summary

For 2013, The City of Yellowknife is budgeting for total revenues for all funds of \$64,979,000 from all sources. \$20.8 million (31.97%) will be from user charges, \$23.7 million (36.49%) from taxation, \$17 million (26.16%) from government transfers, \$3.3 million (5.15%) from land sales and \$150,000 (0.23%) from investment income,

Total expenditures, net of amortization expense, will be \$74.6 million. The allocation of those expenditures is as per the following:



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General Fund

The General Fund is in fair condition, after taking into consideration the inflationary and growth oriented cost concerns and the slower than anticipated growth in the residential and commercial assessment base.

Since 2012 budget, the City of Yellowknife has developed a Municipal Pricing Index (MPI) to demonstrate what the inflationary pressures are on the City's expenditures. Using that MPI and accounting for revenue growth, the City can demonstrate what would be the tax increase necessary to meet those inflationary pressures on operations. The MPI will be reviewed each year and adjustments made as necessary. The 2013 MPI is 4%, after netting the assessment growth of 1.52%, the required tax increase should be 2.01% as taxes account for 70% of total revenue. This would be the sustainable tax rate without considering expenditure growth not related to inflation.

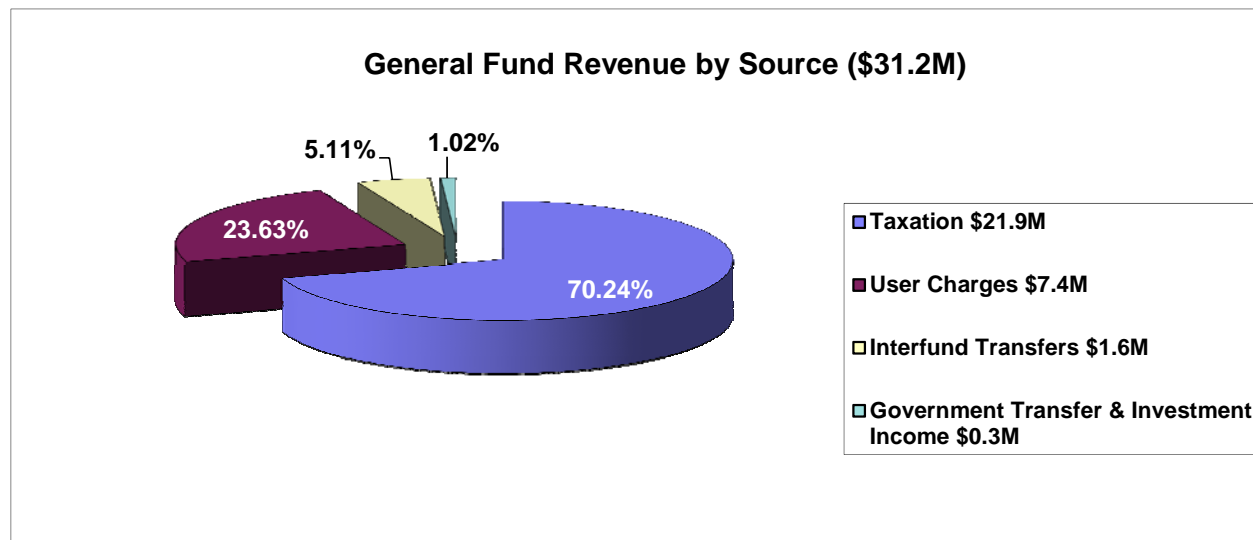
The City is experiencing some growth in the commercial and industrial sector. The growth in the residential sector shows signs of improving after the economic downturn of 2009. To date, 24 and 21 lots have sold in stage 1 and stage 2 of the Niven Lake Phase VII subdivision respectively. 19 lots at Grace Lake Waterside and 7 lots at Enterprise

Drive Extension have also been sold. This bodes well for a positive increase in the assessment base for 2014.

Every department reviewed its expenditures in detail and in many cases, expenditure increases were reduced or eliminated by implementing efficiencies and reducing duplication of effort. Efficiency measures resulting in the elimination of seven permanent positions (details of the eliminated positions are shown in Staffing Summary section) which resulted in savings of approximately \$477,000. This budget proposes that \$360,000 of those savings be used to increase the transfer to Capital Fund in order to help reduce the infrastructure gap. The balance helps to minimize the impact of tax increase.

The General Fund expenditures are funded 70.24% by property taxes, 23.63% by user fees, 5.1% by inter-fund transfers and 1.02% by other revenue sources.

The City is experiencing inflationary and growth oriented cost increases to provide existing services to the residents and these increases exceed the revenue growth. The most significant changes in revenues and expenditures are shown on the chart on the following page.



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Adjustments in Proposed 2013 Budget

	Existing Standard				Service Level Changes				2013 Impact
	FTE's	Inflation	Growth	Sub-total	FTE's	Service Level Changes	New Service/Program	Sub-total	
GENERAL FUND									
Operating Expenditures									
Salaries and wages		322,100		322,100					322,100
Citizen Survey						34,000		34,000	34,000
Grants & Tax Relief			19,000	19,000					19,000
Credit Card Fees			30,400	30,400					30,400
Grants to Exempt Properties			26,000	26,000					26,000
Long Service Bonus			14,000	14,000					14,000
Human Resources Contracted Costs		19,600		19,600					19,600
Radio Licencing						15,500		15,500	15,500
Insurance Premium		22,300		22,300					22,300
Assessment Contracted Costs		19,018		19,018					19,018
IT Software Maintenance			59,915	59,915		30,000		30,000	89,915
Public Safety Radios and Backhaul							142,000	142,000	142,000
Library O&M Costs		15,150		15,150					15,150
Streetlight Power Costs		218,300		218,300					218,300
Other Power Costs		171,400		171,400					171,400
Vehicle O&M & Fuel		42,241		42,241					42,241
New Recreation Programs						18,500		18,500	18,500
Pool contracted and maintenance costs		16,900		16,900					16,900
Emergency Services Protective Gear		10,000		10,000					10,000
Public Transit Contracted Costs		195,909		195,909		16,091		16,091	212,000
Other		15,000		15,000					15,000
	0	1,067,918	149,315	1,217,233	0	114,091	142,000	256,091	1,473,324
Cuts to Operating Expenditures									
Reduction in PYs	-7		(477,000)	(477,000)					(477,000)
Reduction in Corporate Services O&M			(23,000)	(23,000)					(23,000)
Reduction in Legal Fees			(14,000)	(14,000)					(14,000)
Reduction in Election/ Plebiscite			(37,500)	(37,500)					(37,500)
Reduction in Employer Advertising			(15,000)	(15,000)					(15,000)
Reduction in Heating Fuel & Pellet Heating			(27,900)	(27,900)					(27,900)
Reduction in Public Works O&M Costs			(100,780)	(100,780)					(100,780)
Reduction in City Hall O&M Costs			(11,500)	(11,500)					(11,500)
Reduction in Fieldhouse Building Maintenance Costs			(14,300)	(14,300)					(14,300)
	-7	-	(720,980)	(720,980)	0	0	0	0	(720,980)
Net Change in Operating Expenditures	-7	1,067,918	-571,665	496,253	0	114,091	142,000	256,091	752,344
Change in Operating Revenues									
Assessment Growth (excluding Mill Rate Increase)									(358,000)
Increase in Public Safety User Fees									(73,000)
Increase in Community Services User Fees									(92,750)
Increase in Loss Prevention Credit									(89,100)
Increase in Business Licence Revenue									(91,000)
Increase in Transfer to Capital Fund									360,000
Increase in Interest Income									(30,000)
Increase in Power Distribution Franchise									(49,000)
Reduction in transfer to Downtown Development Reserve									(42,000)
Increase in Transfer from SWM & W&S Fund									(85,100)
									202,394

Tax revenue increase required resulting from recommended adjustments

0.86%



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The chart shows that an additional \$1,067,900 is required simply due to inflationary pressures in order to maintain existing service levels. This includes \$390,000 increase in power costs and \$196,000 in public transit contracted costs. Cost increases related to growth \$149,300 includes IT software maintenance \$60,000, tax relief and grant to exempt properties \$45,000 and credit card fees \$30,400.

Costs increase related to service level increases and new programs is \$256,000. The primary increase is related to the new communication infrastructure which will be commissioned in early 2013. The related O&M cost is \$142,000. An additional \$16,000 increase is public transit is related to enhanced the new low-floor buses. This budget proposes that the City conduct a citizen survey for \$34,000 to find out what the citizens want and the ways to improve communications between City and its residents

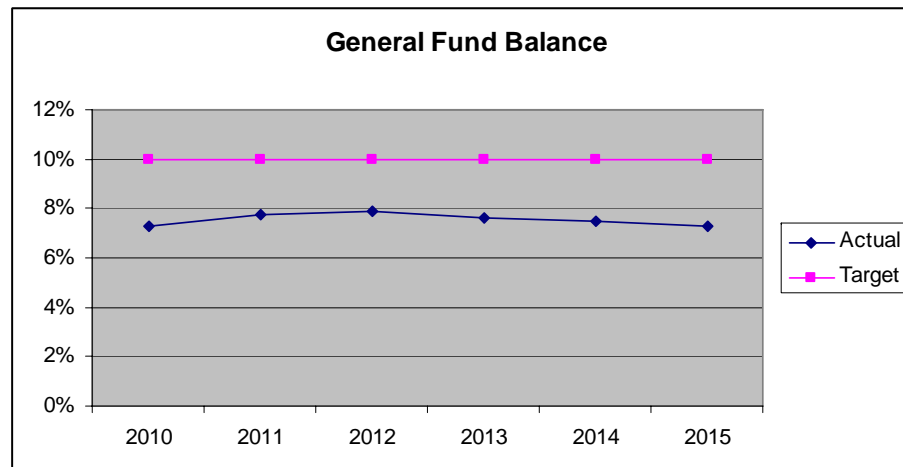
This budget also proposes a total of \$720,980 in expenditure reductions. The largest portion of these cuts is in salaries and wages in the amount of \$477,000. Other reductions have been made as a result of streamlining operations and reducing waste.

The proposed 2013 Budget contemplates a small increase in casual positions.

General Fund Summary

Overall, the City would experience a net increase in revenues of \$782,850 before any tax increase. There would also be a net increase in inter-fund transfers in the amount of \$127,100. Therefore the total increase in revenues for the General Fund for 2013 prior to any tax increase would be \$909,950. There will also be a net increase in expenditures of \$752,344. This budget also calls for an increase in the allocation to the Capital Fund, in the amount of \$360,000. This is an allocation of a portion of the savings in salaries and wages. This results in a revenue shortfall of \$202,394. This budget proposes a 0.86% mill rate increase to balance the General Fund in 2013. This will result in an increase in municipal taxes of \$7.30 for each \$100,000 of assessed value for a single family residential home. The average homeowner will incur an increase of \$15 in municipal taxes per year. It is expected that in 2014 and 2015 property tax increases of 0.25% and 1.32% will be required to balance the General Fund.

Based on projected revenues and expenditures, the City will not meet the objectives of the Budget Stabilization Fund Policy, as the fund balance will be 7.7% of budgeted expenditures rather than the recommended 10%. As well the fund will not be transferring the amount of tax revenue to the Capital Fund as required by policy. However, the proposed Long-Term Asset Management Plan indicates that this level of transfer is sustainable over the term of the 10-Year Financial Plan.



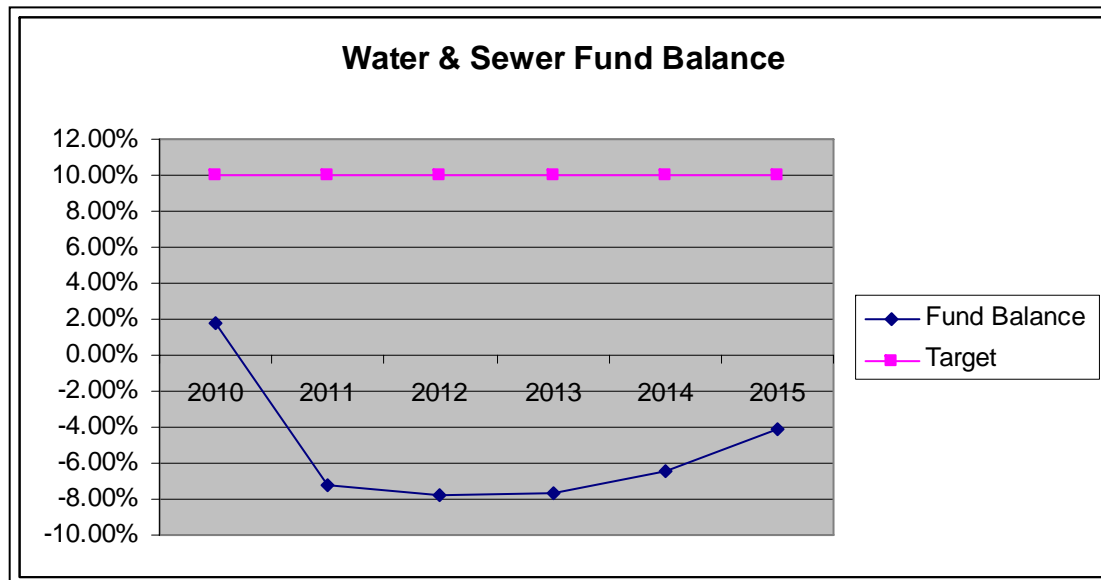
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Water and Sewer Fund

Due to operating deficit \$382,000 brought forward from 2011, the Water and Sewer Fund needs to be closely monitored and in order to balance this fund in 2017, the following actions are proposed to ensure the sustainability of the Water and Sewer Fund:

- Rate increases of 4% on January 1 of each year for 2013 through 2017; and
- The 30% transfer to the Capital Fund as required by budget policies will be reduced by \$200,000, plus the amount earned from the previous increase to the infrastructure replacement levy.

The City will continue to review the water and sewer rate structure and water consumption to ensure continued improvement of the financial position of the fund.



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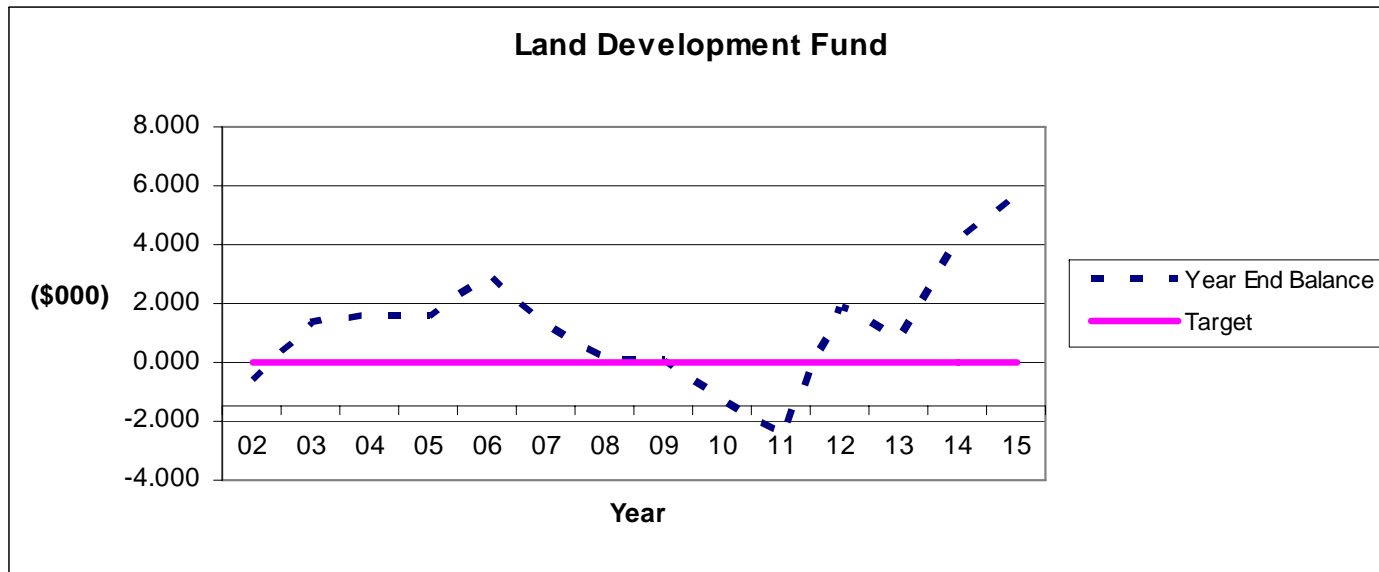
Land Development Fund

It is projected that the Land Development Fund will be in a surplus position of \$1.96 million by December 31, 2012. This is mainly due to land sales in Niven Lake Phase VII and part of Phase V, Grace Lake Waterside and Enterprise Drive Extension.

The steady pace of sales in Niven Lake Phase VII which started in 2010 continued for 2012. To date, 24 of 30 lots have sold in Stage 1 of that subdivision. For Stage 2 of Phase VII, 21 of 37 single-family lots have been sold in the first two year of availability. In 2012, two new subdivisions (one residential and one commercial) were added by the City. 19 lots at Grace Lake Waterside and 7 lots at Enterprise Drive Extension have already been sold. This bodes well for a positive increase in the assessment base for 2014 and Land Fund balance through 2015.

In 2012 the City agreed to re-purchase the Niven Lake Phase V Subdivision. This subdivision was subsequently sub-divided into five lots and two of five parcels have been sold. Zoning changes have also been completed for the Lot 501 subdivision on Kam Lake Blvd. The City continues to work with the developer to come up with a scheme that would provide a mixed density subdivision for that part of the City.

During 2013-2015, the fund will continue with marketing of Niven Lake Phase V and VII, Grace Lake, Enterprise Drive Extension and Engle Business District. City will complete the development scheme and zoning amendment for Engle Business District Phase II and III. Also, with the investment in land in the downtown core, the City will attempt to encourage downtown revitalization projects which would be eligible for tax incentives under the Development Incentive Program.



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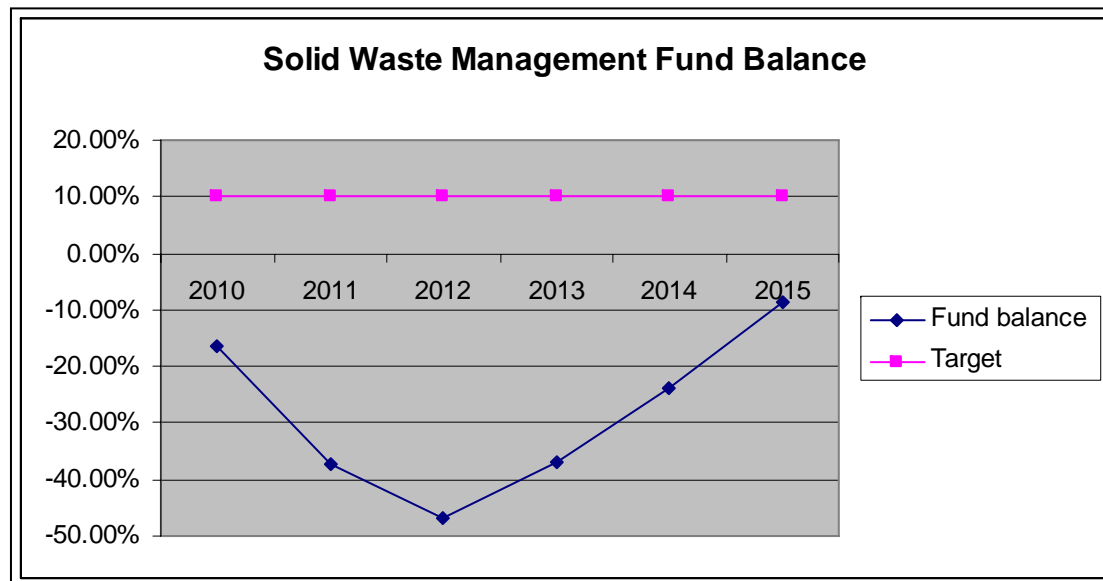
Solid Waste Management Fund

The Solid Waste Management Fund generates revenues by charging a \$14.5 solid waste levy for single family residences, and relies on tipping fees collected at the landfill for multi-family (five units or more) and commercial/industrial operations, as these groups are charged for waste hauling and disposal by the waste collection operator. This system is designed on the user pay principle of the more waste you produce the more you should pay for disposal, and it encourages residents and businesses to reduce, recycle and reuse.

O&M expenditures at the Solid Waste Management Facility have resulted in a forecast negative fund balance of \$998,000 for 2012. In order to mitigate this and ensure a balanced fund in future years, expenditures have been reviewed and will be maintained at the 2012 levels. Fee increases are being proposed that over time will ensure that the Solid Waste Facility returns to a stable position over time. The proposed fee increases for 2013 are:

- An increase to the single-family unit solid waste monthly levy from \$14.5 to \$16.50 (13.8%)
- Tipping fees for multi-family and commercial/industrial operations are to be increased by 10%
- MPI increase for both revenues and expenses from 2014 onwards

As a result of these fee increases, it is anticipated that the Solid Waste Management Fund balance will be \$181,000 by the end of 2016. This will not meet the budget policy requirements as the fund balance will be negative until 2016.



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Capital Fund

Since 2007 City staff has been successful in accessing over \$8 million in funding from various federal and territorial sources for important projects related to Smart Growth development, recreational facilities improvements, Community Energy Plan projects and economic development activities. Some significant examples include:

- Smart Growth funding from the federal government under the SINED and the Federation of Canadian Municipalities (FCM) Green Municipal Funding (GMF) envelopes
- Eco-Housing Project with funding support from CanNor
- Partnership with CanNor for streetscaping of Old Airport Road
- Geothermal Energy Potential at Con Mine from the federal government under both the SINED and GMF envelopes as well as from the GNWT – Environment and Natural Resources (ENR).
- Build Canada Program funding from Infrastructure Canada.

Capital Fund's sources of revenue, totaling \$21.8 million are as follows:

- GNWT Formula Funding \$7.332 million;
- Other government grants \$9.5 million (including Gas Tax Rebate Program of \$7.2 million which includes a \$2.7M carryover, MACA Capital Grant of \$2.2 million);
- Property taxes \$1.812 million; and
- User Fees \$3.1 million

The above revenue will be used to finance capital projects and reserve funds. The reserve funds, such as the major Community Facility Reserve and the Mobile Equipment Reserve, are used to set aside funds for major capital expenditures and reduce the City's need to borrow. In addition to these revenues, the 2013 – 2015 budget includes a \$20 million borrowing requirement to finance a new water treatment plant. Work has already started and will get underway in earnest in 2013 with a planned commission date of 2014. By borrowing \$20 million at extremely low interest rates in 2013 the City is able to free up Gas Tax Funding for other capital projects that will help address the Infrastructure Deficit more quickly.

In 2013 the proposed budget is planning for new capital projects worth \$33.8 million (2012 - \$18 million). Low interest, long-term borrowing, the Gas Tax Rebate Program, Formula Funding and Capital Grants from MACA will enable the City to establish these high levels of much needed capital spending on major infrastructure projects.

As discussed in the 10-Year Financial Plan section of the budget document, the City has completed a long-term Asset Management Plan which will be presented to Council during the 2013 – 2015 budget deliberation. The Assets Management Plan identifies the City's targeted investments over the next 10 years. The 2013 – 2015 budget will ask council for a commitment for the first five years of the Capital Investment Plan. Major areas that will be addressed in those first five years are:

- Complete the Corrugated Metal Pipe Replacement project by 2017 (\$28.9 million)
- Invest in roads and sidewalks replacement and overlay \$17 million through 2017
- Construct a replacement water treatment plant including the building of an access road by 2014 (\$25.1 million)
- Invest in other water and sewer infrastructure through 2017 (\$12.1 million); and
- Replace the existing submarine intake line from the Yellowknife River by 2020 (\$11.3 million)

If the Asset Management Plan is sustained over a 10 year period, this would allow the City to maintain a sustainable investment in infrastructure through 2022:

- Water & sewer system \$40.7 million
- Other pumping and liftstations \$26 million
- Road and sidewalks \$47.5 million

By following this plan, the City of Yellowknife will catch up on major backlogs by 2017 and will establish a sustainable investment in the maintenance and replacement of municipal assets through 2022.

The City's future Capital plans rely heavily on funding sources outside of the City's control. Grants from the federal and territorial governments are expected to continue. The long-term future of these funding arrangements has become more certain as the current federal government has entrenched the Gas Tax Rebate program in budget legislation. However, either level of government could decide to reduce or eliminate these grant programs as a way to save money in their respective budgets. While stimulus type funding such as the Build Canada Program was a one-time only funding program, other orders of government are currently negotiating new stimulus funding programs. As well, although the current Gas Tax Agreement expires in 2014, The

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Canada and the provinces/territories are busy negotiating the follow-on program.

This capital plan also assumes that an additional \$360,000 per year be transferred from the General Fund to the Capital Fund increasing that transfer to \$1.812 million for 2013 and beyond. This is \$733,000 short of what would be required under the City's current budget policies however the Long Term Capital plan is sustainable at this level of transfer.

Summary of Major Capital Projects

Yellowknife Smart Growth Development and Harbour Plan – Several streetscaping and beautification projects impacting the City's core areas, primary commercial districts. Additional landscaping and amenity features and trail connections to Range Lake and Kam Lake Road. In 2012, City Council adopted the Yellowknife Harbour Plan and the General Plan. Both plans have a series of recommendations which include Harbour Plan improvements, trail and boardwalk systems and capital area public parks nodes.

Community Energy Plan – In 2006, Council adopted the Community Energy Plan (CEP). In 2007, Council has endorsed the implementation strategy recommended by the Community Energy Plan Committee. The 2013 Budget sets aside \$500,000 each year to implement the Community Energy Plan.

Water Treatment Plant – This total cost of this project is about \$28.5M which includes the access road construction that was completed in 2012 along with all piping upgrades. This project is currently at the 75% design stage. Tender documents are expected in December 2012 with tender shortly thereafter with award scheduled in early 2013 with completion targeted for 2014.

Water and Sewer Infrastructure Replacement - The City started its corrugated metal pipes (CMP) replacement program in 1984 and, based on planned expenditure levels, the program will be complete by 2017.

Over the next three years, the City is planning on spending \$19.8 million for the replacement of CMP water and sewer mains. In 2013, work will be completed in the following areas:

- Lanky Court (CMP and resurfacing)
- Matonabee Street (resurfacing)
- Forrest Drive (CMP)
- Knutsen Avenue (CMP and resurfacing)
- Byrne Road (resurfacing)
- Bromley Drive (CMP)

Equally as important as the underground systems are the buildings and equipment that are necessary to supply safe clean water to our residents. Important projects include the ongoing replacement of pumps in the City's pumphouses and liftstations and the replacement and maintenance of fire hydrants.

Road Rehabilitation - The 2013 Budget is recommending spending \$8,600,000 on road rehabilitation over the next three years.

Centralized Composting Project - The City is budgeting \$1.25 million on this project over the next three years. A successful pilot project was completed in 2012 and the Solid Waste Management Committee has recommended that a full Centralized Composting project be undertaken. Composting will divert waste from the Solid Waste Facility and will reduce greenhouse gas emissions associated with the production of methane in the landfill. It is anticipated that the finished compost will be marketable in Yellowknife and usable for many City projects including cover material for the landfill closure.

Fleet Management and Other Projects - Fleet management provides an ongoing preventive maintenance and readiness system. Other capital projects protect the City's investment in core assets which include but are not limited to the swimming pool, arenas, library, trail networks, pumphouses and liftstations. Equipment upgrades provide the City's workforce with the necessary tools to safely deliver high quality and efficient programs and services.

