

BUDGET MESSAGE

2014 Budget Message

In the proposed 2014 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;
- Continue a proactive infrastructure renewal plan, specifically the replacement of corrugated metal sewer pipe;
- Identify and incorporate efficiencies wherever possible;
- Monitor and update our 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 2014 Budget, it is beneficial to discuss some of the highlights from 2013.

2013 Highlights

\$45 million increase in taxable assessment in 2013.

- This represents a 2.2% increase in assessed value and would equate to a \$440,000 increase in tax revenue for 2014.
- This is slightly below the City's projected Municipal Price Index (MPI) of 2.67%. The MPI reflects the anticipated inflationary pressure on the City's expenses. So the increase in revenue would fall slightly short of meeting the inflationary increases that are anticipated.
- In order to have zero tax increase, an additional \$814,215 in

revenue growth would be required. That would require an additional \$69.5 million increase in taxable assessment.

In 2013 City moved forward with several initiatives from the Yellowknife Harbour Plan and the General Plan.

- Continued with 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.
- City has negotiated lease agreement with Department of Fisheries and Oceans (DFO) for cleanup of the DFO wharf. This clean-up has taken place and initiatives are underway to make the wharf more accessible to the general public while maintaining the location as a working wharf.
- The City has acquired land around Pilot's Monument and has entered into a contract to revitalize the area and create a more accessible park to the area.

Downtown revitalization

- City has implemented the Development Incentive Program and so far two infill downtown multi-family developments have been awarded and completed in 2013 with a total 24 residential units.
- City has invested in streetscaping and beautification programs as well as façade improvements, artistic murals and litter reduction programs.
- Completed demolition of aging buildings on three standard size lots on 50th Street to support downtown revitalization.

Comprehensive Land Development

The City saw progress at a variety of developable lands on the market:

- Niven Lake Phase 7 (25 of 37 lots of single-family units sold and partially or totally developed)
- Waterside residential lots at Grace Lake (28 of 30 lots sold and under development)
- Industrial lots at Enterprise Drive Extension (11 of 31 lots sold and under development)
- Niven Lake Phase 5 (2 of 5 multi-family residential lots sold and under development)

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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.
- Facilities managers completed a number of energy efficiency projects including a lighting upgrade at City facilities.
- The City has worked with Northland Utilities (Yellowknife) to accelerate the LED street light replacement program that will save the City thousands of dollars and reduce emissions.

Infrastructure Investment

- Council approved borrowing of \$23.839 million 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 2013 the City worked on a number of projects:
 - The City entered into a contract to build a new Water Treatment Plant that meets the requirements of the GNWT drinking water regulations.
 - \$6.0 million on water and sewer replacement including associated paving.

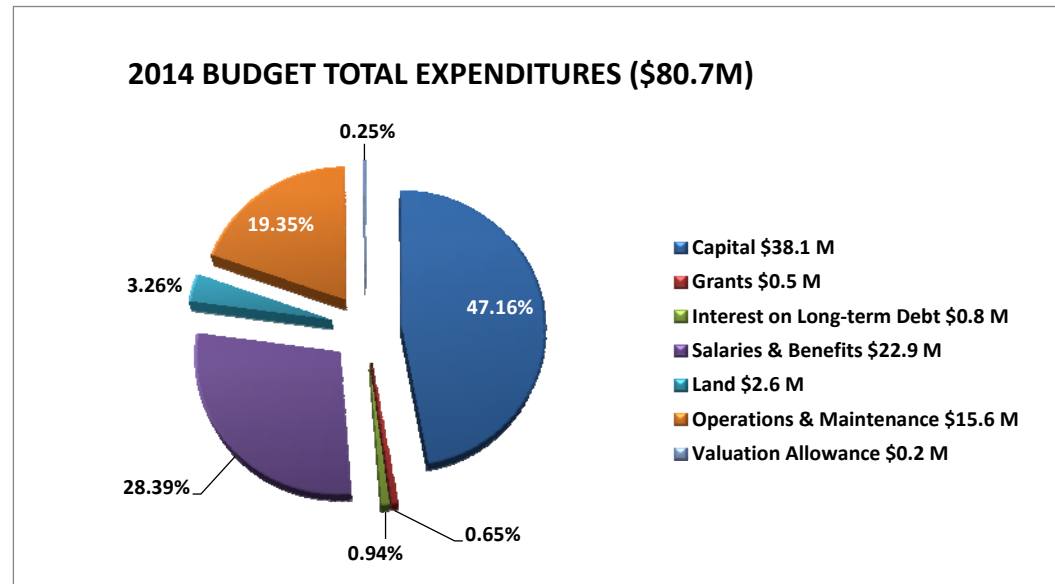
- \$2.3 million on water treatment plant, pumphouse and liftstation upgrades.
- \$1.2 million on other water and sewer projects
- \$3.6 million on roads and sidewalks repair.
- In order to better address the infrastructure gap, the City has developed long-term asset management plan.

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 a community-based, and the City has committed to fulfill the community vision through four overriding goals over the years to come.

Budget Summary

For 2014, The City of Yellowknife is budgeting for total revenues for all funds of \$63,914,000 from all sources. \$21.4 million (33.52%) will be from user charges, \$24.8 million (38.8%) from taxation, \$14.5 million (22.75%) from government transfers, \$3.0 million (4.69%) from land sales and \$150,000 (0.23%) from investment income.

Total expenditures, net of amortization expense, will be \$80,758,000. The allocation of those expenditures is as per the following:



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General Fund

The General Fund is in good 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.

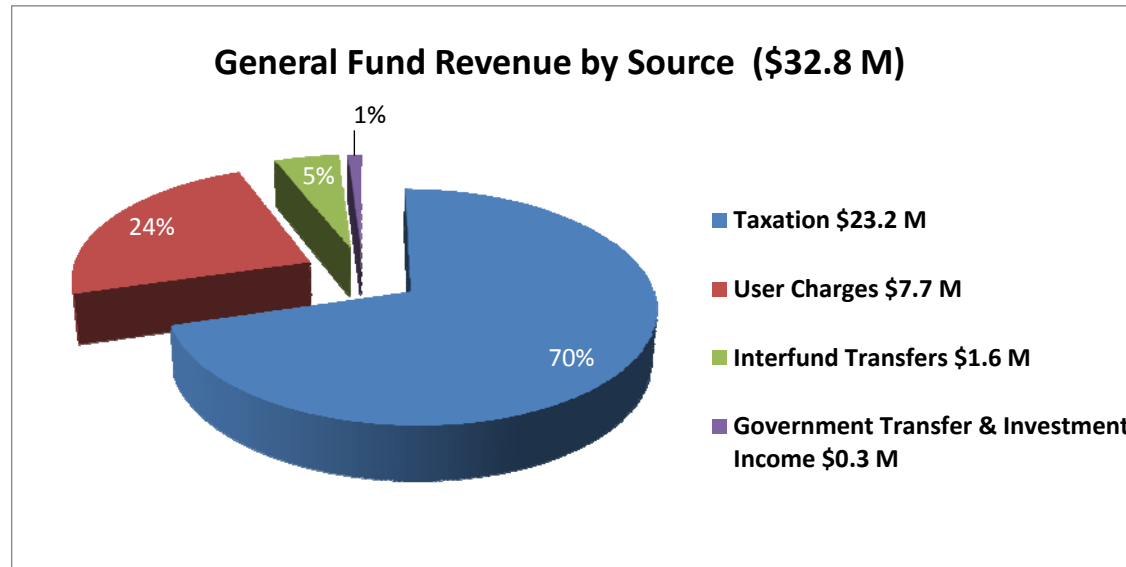
Since 2012 budget, the City of Yellowknife has developed a Municipal Pricing Index (MPI) to demonstrate what the inflationary pressures are on the City's expenditures. Using that MPI and accounting for revenue growth, the City can demonstrate what would be the tax increase necessary to meet those inflationary pressures on operations. The MPI is reviewed each year and adjustments made as necessary. The 2014 MPI is 2.67%. This equates to an additional \$846,000 in added expenditures. The assessment growth of 2.2% will result in \$440,000 of new tax revenue. Thus, the additional revenue required would be \$406,000 which would require a tax increase of 1.68%. This would be the sustainable tax rate without considering user fee increases, expenditure growth not related to inflation, or an increase to the transfer to capital to meet our long-term infrastructure needs.

The City is experiencing some growth in the residential sector. This growth shows signs of continuing in 2014. There was a boost to the assessment

base used to calculate our tax requirements. Additional lots have been sold in stage 1 (4) and stage 2 (7) of the Niven Lake Phase VII subdivision. The City reacquired and sold 2 of 5 lots in Niven Lake Phase V which are under development. As well, a total of 28 of 30 lots at Grace Lake Waterside and 11 lots at Enterprise Drive Extension have been sold and are under development. Finally, a new subdivision at Block 501 next to the YK Correctional Facility is in the process of being developed. This bodes well for a positive increase in the assessment base for 2014.

The General Fund expenditures are funded 70.48% by property taxes, 23.49% by user fees, 5.02% by interfund transfers and 1.01% by other revenue sources.

The City is experiencing inflationary and growth-oriented cost increases to provide existing services to the residents. The City is also forecasting cost increases to increase service levels and to support new programs. The total net change in operating expenses is \$1,107,615. The net increase in operating revenues is forecasted to be \$786,000. In addition, an increase in the transfer to capital of \$396,000 is recommended in this budget. The most significant changes in revenues and expenditures are shown by the chart on the following page.



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Adjustments in Proposed 2014 Budget

	Existing Standard			Service Level Changes			Sub-total	2014 Impact
	FTEs	Inflation	Grow th	FTEs	Changes	New Service/Program		
GENERAL FUND								
Operating Expenditures								
Salaries and wages		502,635		502,635	7.08	375,165	72,100	949,900
CPP & EI Rates Increase		16,000		16,000				16,000
Tax Relief			5,300	5,300				5,300
Grant to Exempt Properties			30,000	30,000				30,000
Financial Charges		8,600		8,600				8,600
IT Communication Infrastructure						60,000		60,000
Other IT O&M		32,900	117,985	150,885				150,885
Corporate Servies O&M		56,182		56,182				56,182
Insurance Premium		14,600		14,600				14,600
Parks contracted Costs & Materials						44,000		44,000
Community Servivces Other O&M		23,045		23,045				23,045
Public Safety O&M		11,100		11,100				11,100
Pulic Works O&M		34,020		34,020				34,020
Heating Fuel & Pellet Heating		103,000		103,000				103,000
		802,082	153,285	955,367	7.08	479,165	72,100	1,506,632
Cuts to Operating Expenditures								
Reduction in Overtime and Casual to Offset PY Increase						(60,000)		(60,000)
Reduction in Vehicle O&M & Fuel		(18,741)		(18,741)				(18,741)
Reduction in Pow er Costs							(140,800)	(140,800)
Reduction in Homeless Day Shelter						(50,000)		(50,000)
Reduction in Major & Council O&M		(10,100)		(10,100)				(10,100)
Reduction in Administration O&M		(23,320)		(23,320)				(23,320)
Reduction in Building Inspections Consultant Fees						(30,700)		(30,700)
Other Reductions		(65,356)		(65,356)				(65,356)
		(117,517)	-	(117,517)		(140,700)	(140,800)	(399,017)
Net Change in Operating Expenditures		684,565	153,285	837,850	7.08	338,465	-68,700	1,107,615
Change in Operating Revenues								
Assessment Grow th (excluding Mill Rate Increase)								(440,000)
Increase in Parking Meter Revenue to offset PY increase								(100,000)
Increase in Community Services User Fees								(65,800)
Increase in Planning & Development User Fees								(81,000)
Increase in Corporate Services User Fees								(7,000)
Increase in Transfer to Capital Fund for Asset Management								396,000
Increase in Tax Penalties								(4,000)
Increase in Pow er Distribution Franchise								(41,600)
Reduction in Public Transit Revenue								21,600
Reduction in Economic Development Grants								10,000
Reduction in Transfer from Land Development Fund								75,000
Increase in Transfer from SWM & W&S Fund								(56,600)
								814,215
Tax revenue increase required resulting from recommended adjustments								3.38%



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The chart shows that an additional \$802,082 is required simply due to inflationary pressures in order to maintain existing service levels. This includes \$518,635 in negotiated salary increases, \$103,000 heating fuel and pellet fuel cost increases and \$180,447 in increased other O&M costs across all departments. Cost increases related to growth of \$153,285 to maintain existing service levels includes IT software maintenance \$117,985 and tax relief and grant to exempt properties of \$35,300.

Budgeted costs increase related to service level increases and new programs is \$551,265. The primary increase is related to new FTEs which are being proposed to address new services/programs and enhance service delivery. These are broken down as follows:

- Additional parks casuals - \$84,300
- New Communications and Economic Development Officer - \$72,100
- Additional Community Services casuals for program delivery and facilities maintenance - \$72,900
- New MED 1 constable - \$74,700
- New HD Mechanic - \$72,700
- New Administrative Assistant - \$70,600

There is also an increase of \$60,000 budgeted for the Communication Infrastructure maintenance costs related to the contracted services the City will receive over the next three years bringing the total annual cost to \$202,000 as per the contract. As well an additional \$44,000 will be required for parks contracted costs and materials related to the new parks and streetscaping that has been completed over the past several years.

This budget also proposes a total of \$399,017 in expenditure reductions. This includes:

- Overtime and Casual expenses – \$60,000 as an offset to the new PYs mentioned previously
- Power costs - \$140,800 (upgraded lighting in facilities and LED streetlight replacement program)
- Homeless day shelter - \$50,000 (this was only one year funding in 2013)

- Building inspections consultant fees - \$30,700 (evaluation of energy efficiency for new homes will be performed by Arctic Energy Alliance directly)
- Mayor & Council/Administration O&M
- Other O&M

General Fund Summary

Overall, the City would experience a net increase in revenues of \$707,800 before any tax increase. There would also be a net decrease in interfund transfers in the amount of \$18,400. Therefore the total increase in revenues for the General Fund for 2014 prior to any tax increase would be \$689,400. There will also be a net increase in expenditures of \$1,107,600. This budget also calls for an increase in the allocation to the Capital Fund, in the amount of \$396,000. This results in a revenue shortfall of \$814,215. This budget proposes a 3.38% mill rate increase to balance the General Fund in 2014. The increase can be attributed as follows:

- 1.80% due to inflationary pressures
- 0.34% due to growth related to existing service delivery
- 1.24% due to service level changes
- -0.90% due to expenditure reductions
- 0.89% due to increased transfer to capital

This will result in an increase in municipal taxes of approximately \$28.66 for each \$100,000 of assessed value for a single family residential home. The average homeowner will incur an increase of \$59 in municipal taxes per year. It is expected that in 2015 and 2016 property tax increases of 3.72% and 3.58% respectively will be required to balance the General Fund in those years.

Based on projected revenues and expenditures, the City will meet the objectives of the Budget Stabilization Fund Policy, as the fund balance will be 10.26% of budgeted expenditures.

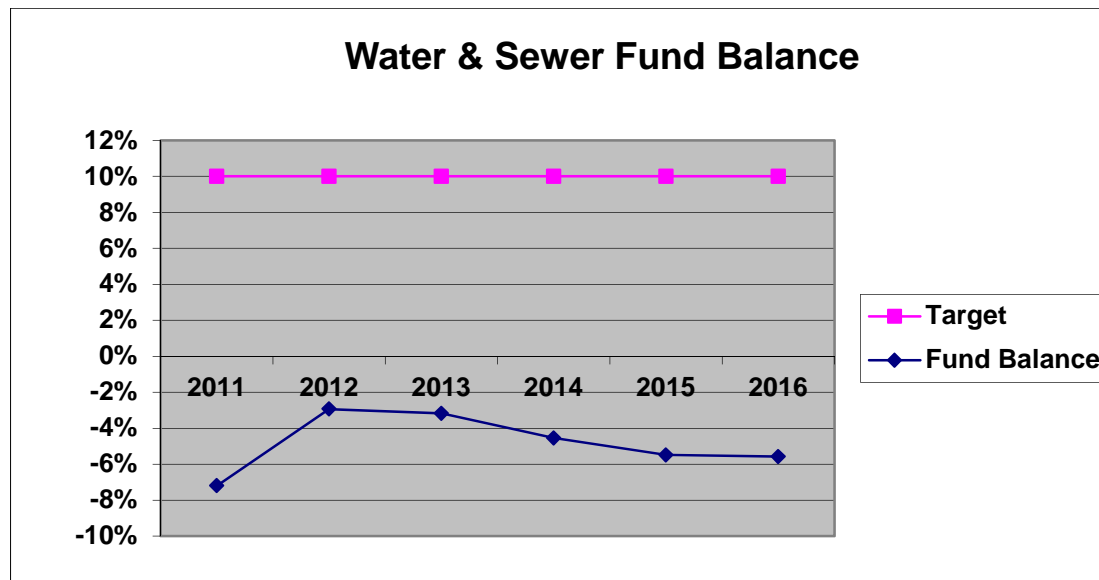
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Water and Sewer Fund

Due to operating deficit \$162,000 brought forward from 2013, the Water and Sewer Fund needs to be closely monitored and in order to balance this fund in 2018, 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 2014 through 2018; 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 deficit position of \$0.587 million by December 31, 2013. This is mainly due to deficit of \$1.2 million brought forward from 2012.

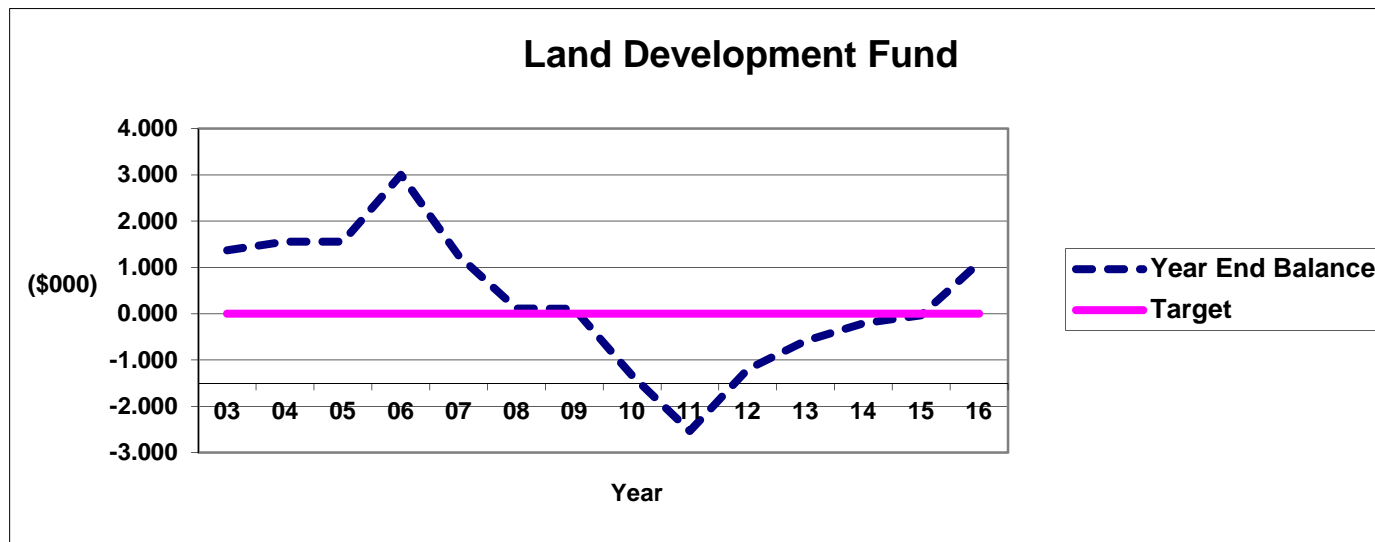
The steady pace of sales in Niven Lake Phase VII which started in 2010 continued for 2013. To date, 26 of 30 lots have sold in Stage 1 of that subdivision. For Stage 2 of Phase VII, 25 of 37 single-family lots have been sold in the first two year of availability. In 2013, sales continued at the City's two newest subdivisions (one residential and one commercial). 28 of 30 lots at Grace Lake Waterside and 11 of 30 lots at Enterprise Drive Extension have been sold.

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 2014-2016, the fund will continue with marketing of Niven Lake Phase V and VII, Grace Lake, Enterprise Drive Extension and Engle Business District. Additional schemes are being developed for land once occupied by Con Mine and at the Taylor Drive Extension. Investment in this land and associated infrastructure could start in 2014. Continued investment in land and infrastructure will be developed at a pace which aligns with the principles outlined in the City's General Plan. Additional investment in land in the downtown core will help the City encourage downtown revitalization projects which would be eligible for tax incentives under the Development Incentive Program.

Year-end fund balances will continue to improve. If sales occur at a faster pace than anticipated, then the fund balance will increase at a faster pace.

On the inventory side of the ledger, the city is holding 78 lots with at a cost of \$5.3 million and an estimated resale value of \$18.8 million.



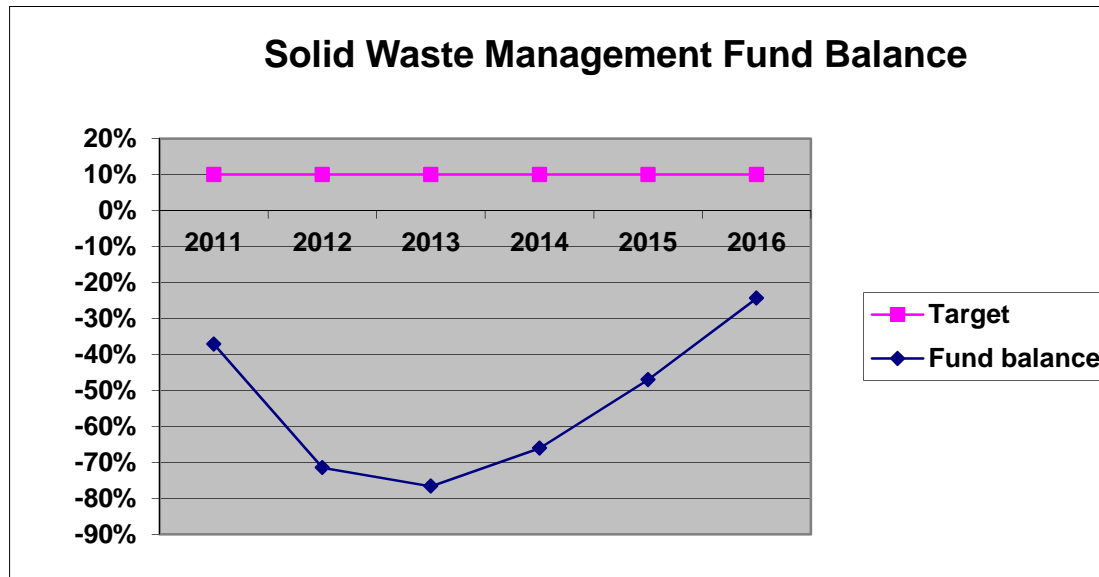
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Solid Waste Management Fund

The Solid Waste Management Fund generates revenues by charging a \$16.50 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 \$1,677,000 for 2013. A large portion of this deficit is due to a higher than anticipated charge required to account for the future cost to close the existing land fill cell. In order to mitigate this and ensure a balanced fund in future years, expenditures have been reviewed and will be maintained at the 2013 levels. Fee

increases are being proposed that over time will ensure that the Solid Waste Facility returns to a stable position over time. Fees would increase on average by 6% per year over the next 3 years. As a result of these fee increases, it is anticipated that the Solid Waste Management Fund balance will be negative \$550,000 by the end of 2016 and will be balanced by 2018.



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Capital Fund

Capital Fund's sources of revenue, totaling \$19.188 million are as follows:

- GNWT Formula Funding \$7.422 million;
- Other government grants \$6.934 million (including Gas Tax Rebate Program of \$4.519 million and MACA Capital Grants of \$2.415 million);
- Property taxes \$1.645 million; and
- User Fees \$3.187 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 2014 the proposed budget is planning for new capital projects worth \$25,277 million (2013 - \$31.088 million) plus \$12.809 million on projects carried over from prior years. Low interest, long-term borrowing, the Gas Tax Rebate Program, Formula Funding and Capital Grants from MACA has enabled 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 was 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 2014 - 2015 budget will ask council for a commitment for the next five years of the Capital Investment Plan. Major areas that will be addressed in the first five years are:

- Complete the Corrugated Metal Pipe Replacement project by 2017 (\$18.89 million)
- Invest in roads and sidewalks replacement and overlay \$18.26 million through 2017
- Construct a replacement water treatment plant including the building of an access road by 2015 (\$33.17 million)
- Invest in other water and sewer infrastructure through 2018 (\$15.81 million); and
- Replace the existing submarine intake line from the Yellowknife River by 2020 (\$15 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 2023:

- Water & sewer system \$61.67 million
- Other pumping and lift stations \$22.65 million
- Road and sidewalks \$35.76 million
- Submarine intake line \$15 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 2023.

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

This capital plan also assumes that an additional \$396,000 per year be transferred from the General Fund to the Capital Fund increasing that transfer to \$1.645 million for 2014 and beyond. This is \$835,000 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 – 2014 will see the completion of the streetscaping and beautification projects on Old Airport Road. Others impacting the City's core areas, primary commercial districts will also continue in 2014 including 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. Improvements in two areas began in 2013 – Government Dock revitalization and Pilots' Monument Park – will continue in 2014. Additional node parks will be designed during the year.

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 2014 Budget sets aside \$500,000 each year to implement the Community Energy Plan. A major project for 2014 will be the CEP Renewal Strategy which will be completed and presented to Council by the middle of 2014.

Water Treatment Plant – This total cost of this project is about \$33.17 million which includes the access road construction that was completed in 2011 along with all piping upgrades. This design was completed in 2013. Tender documents were issued in May of 2013 and a contract was awarded in September of 2013. Preliminary site work has started and the project is expected to be completed by late 2015.

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 \$13.1 million for the replacement of CMP water and sewer mains. In 2014, work will be completed in the following areas:

- Franklin Avenue (CMP and resurfacing)
- Lanky Court (CMP and resurfacing)

- Reservoir Road (resurfacing)
- Knutsen Court (resurfacing)
- Bromley Drive (resurfacing)
- Liftstation# 5/ Public Works Garage/Fire Hall (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 2014 Budget is recommending spending \$9,760,000 on road rehabilitation over the next three years. In 2014, the following areas are scheduled to be completed:

- Raccine Road, Ingraham Drive and Doornbos Lane
- 52 Avenue (49 St. to 56 St.)
- Cameron Road (between Nahanni Drive and Taltheilei Drive)
- de Weerd Drive, Driscoll Rd. and Haener Drive

Centralized Composting Project- Including carryovers, the City is planning on spending \$2.7 million on this project over the next four 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.

