

2022 City of Fredericton Audited Financial Report

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March 27, 2023



Fredericton

2022 Financial Statement Results

- City received a **clean audit opinion** and is in good financial condition
- Indicates the City is executing on key strategies to mitigate risks and shows **strategies are working**
- City setting **long-term goals** allows for flexibility and adaptability
- Pressing forward with a **vision for the community**
- Shows **prudent financial management**
- Demonstrates the effectiveness of **responsible governance** by Mayor and Council



Consolidated Funds and Entities

- Funds:
 - General Operating and General Capital Fund
 - Water & Sewer Operating and Capital Funds
 - Operating and Capital Reserve Funds
 - Land Sales Fund, Parking Land Bank Fund
- Subsidiary Entities:
 - e-Novations Comnet Inc.
 - Newmarket Properties Inc.
 - Fredericton Convention Centre



Financial Reporting Using Public Sector Accounting Standards

- Provides a complete picture of everything the City is responsible for
- Includes pension and retirement allowance obligations (for future payments)
- Includes capital assets, and shows the cost of use through amortization expense



Pension & Retirement Liabilities

- Actuary calculates the expenses for 2022 related to future obligations anticipated
- Plan assets and benefit payments made in 2022 are subtracted to calculate the net liability
- Lots of volatility resulting from market changes
- Volatility will remain due to current global issues



Capital Assets and Infrastructure


- Record and track all infrastructure:
 - Capital expenditures from budget become new assets
 - Record amortization expenses to show the cost of using the assets over their lifecycle
 - Capital assets reported at the historical cost less accumulated amortization expenses
 - Disposal of assets results in gains/losses based on value at time of disposal



Cash Budgeting Versus PSAB Reporting

Cash Budget	PSAB Financial Report
Expenses include investment in capital assets	Capital expenditures are not expensed
Doesn't include amortization expenses	Reflects the cost of using assets through amortization expense
Includes payments for retirement allowance & pension contributions	Reflects the cost of pension and retirement allowance based on actuarial valuations
Cash expenditures include debt principal payments	Principal debt repayments reduce debt on the balance sheet but are not expenses
Revenue & expenses of subsidiary entities are not included	Includes profit & loss from subsidiary entities

Balanced Budget and 2nd Previous Years Surplus/Deficit

- Municipalities are mandated by PNB to operate with a balanced cash budget (no surplus or deficit)
- Any surplus (or deficit) must be spent in the next available budget cycle, aka 2nd Previous Years Surplus
 - Not permitted to accumulate cash surplus
 - Not permitted to run on-going deficits
 - Permitted to have operating reserves <5% of budget
 - 2nd Previous Years Surplus/Deficit is carried forward (2022 balance  2024 Budget)



2022 Financial Results



Fredericton

2022 Achievements

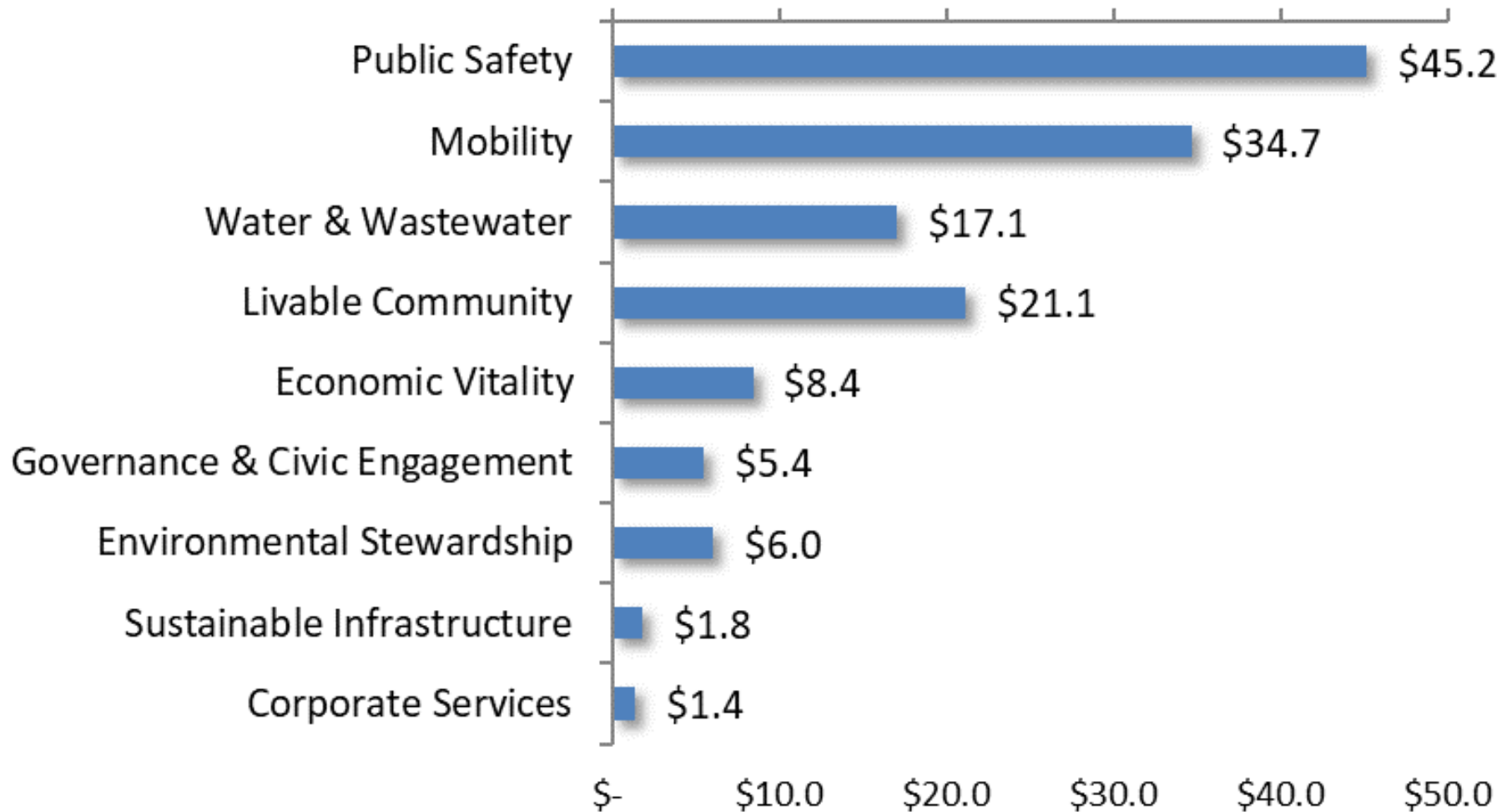
- Reduced long-term debt
 - In a positive net debt position (net surplus)
- Continued investment in infrastructure
- Positive cash flow
 - Leveraging cash to earn interest
- \$26.5 million consolidated surplus
- Fully funded vacation and overtime liability
 - Net cash surplus for both funds of \$2.0M

2022 Revenue and Expenses



Fredericton

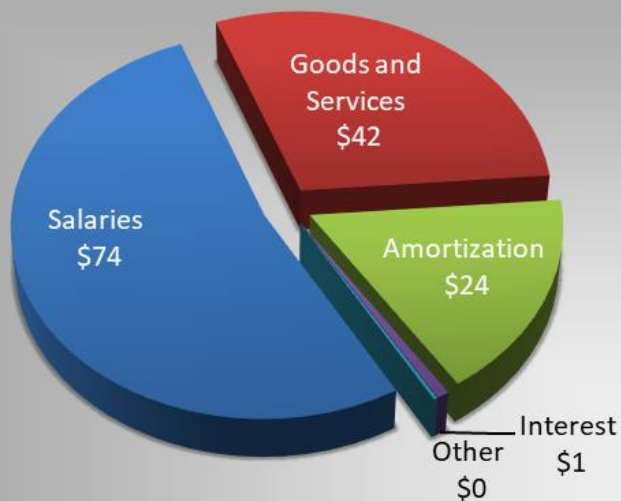
Expenditures by Program Results Area (in \$ millions)



Expenditures by Type

Expense (in \$ millions)	2022	2021
Salaries and benefits	\$ 74.2	\$ 73.8
Goods and services	41.6	38.9
Amortization	23.9	23.5
Interest and other	1.4	4.1
Total	\$ 141.1	\$ 140.3

Expense by Type (in \$ millions)



2022 Revenue

Revenue (in \$ Millions)	2022	2021	Change
Property Taxes	\$118.9	\$111.1	\$7.8
Sales, Fines and Other Fees	30.4	29.1	1.3
Services to Other Governments	3.9	3.8	0.1
Community Funding Grant	2.0	2.0	0.0
Return on Investments	1.8	1.1	0.7
Third Party Contributions:			
Infrastructure from Developers & other contributions	4.8	2.2	2.6
Infrastructure funding & Safe Restart funding from Feds/PNB	5.9	11.6	(5.7)
Total Revenue	\$167.7	\$160.8	\$6.9



Third Party Contributions – \$10.7 Million

- **Infrastructure Development \$4.4 M**
 - Local improvement sidewalk, developer asset contributions, etc.
- **IBA Funding \$3.6 M**
 - Water & sewer infrastructure projects
- **Transit/Housing Funding - \$0.7 M**
 - Transit technology, accessible stop and sidewalk development
- **Designated Highway \$0.6 M**
 - Paving Cost Sharing
- **Gas Tax Funding \$0.2 M**
 - Water & sewer infrastructure projects
- **Other Funding \$1.2 M**
 - Johnston/Tingley field, Brookside drive, climate resiliency, pickleball courts, etc.



Consolidated Statement of Operations

Revenue \$167.7 million

- Compared to \$160.8 million in 2021
- An increase of 4.8%
 - Attributable to increased property tax revenue due to robust residential housing market and reassessment of commercial properties that were adjusted because of COVID

Expenses \$141.1 million

- Compared to expenses of \$140.3 million in 2021
- An increase of 0.6%
 - Primarily in salary costs and fuel
- Includes \$24 million amortization (use of assets)
- Doesn't include \$40.9 million in asset purchases or debt repayment

Annual Surplus \$26.5 million



Consolidated Statement of Operations

Annual Surplus of \$26.6 million

- \$17.9 million difference between investment in capital and amortization of existing infrastructure
- \$9.9 million in reserved projects to be completed in future years
- \$4.3 million difference between debt principal repayment and debt issuance
- \$1.2 million General Operating Fund surplus to be included in 2024 budget
 - Additional revenues from strong building permits
 - Gain on investments/interest on cash balance
 - \$392 K related to net unrealized gains (investments/subcos)
- \$815 K Water & Sewer fund surplus included in 2024 budget to invest in needed infrastructure

Not all cash surplus, represents investment in assets to sustain service delivery and small surpluses to manage future budgets

Consolidated Statement of Financial Position

Shows a snapshot at December 31, 2022 of where the City stands financially in terms of the resources it holds and the debt it owes

- Financial assets
- Liabilities and Future obligations
- Investment and value of infrastructure

2nd Previous Years Surplus

- With the net 2022 operating surplus being \$1.2 million, this means that it is carried into the 2024 budget
 - 2023 budget includes \$2.9 million from 2021 2nd Previous Years Surplus to balance budget
 - Net impact of change will be delta of \$1.7 for 2024 budget



Statement of Financial Position

Financial Assets / Liabilities

Financial Assets	\$ 101.4 M
Liabilities	<u>\$(68.0)M</u>
Net Surplus	\$ 33.4 M

Net Surplus:

- Reflects future revenue required to pay for debt financed infrastructure over 20 years
- Expected based on the long-term financial plan
- Managing to the plan

Statement of Financial Position

Non-Financial Assets

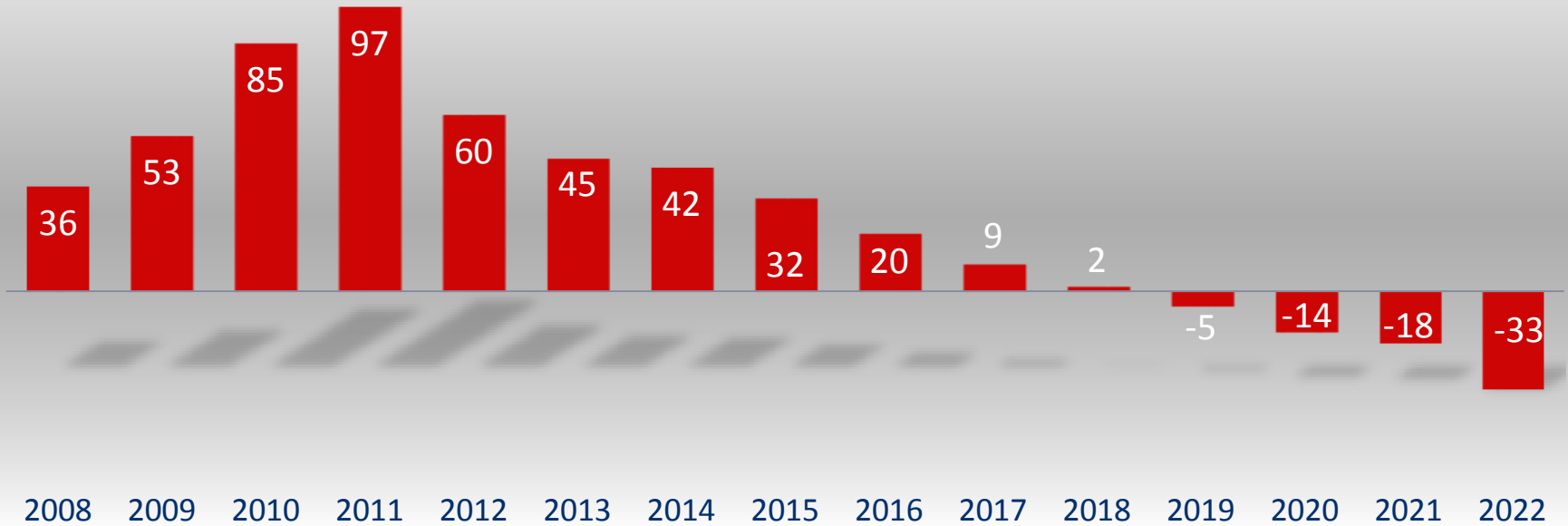
Tangible Capital Assets \$626 M

- Investment in infrastructure
- Used to sustain quality services
- Includes all infrastructure
 - Buildings
 - Roads
 - Parks
 - Machinery and Equipment

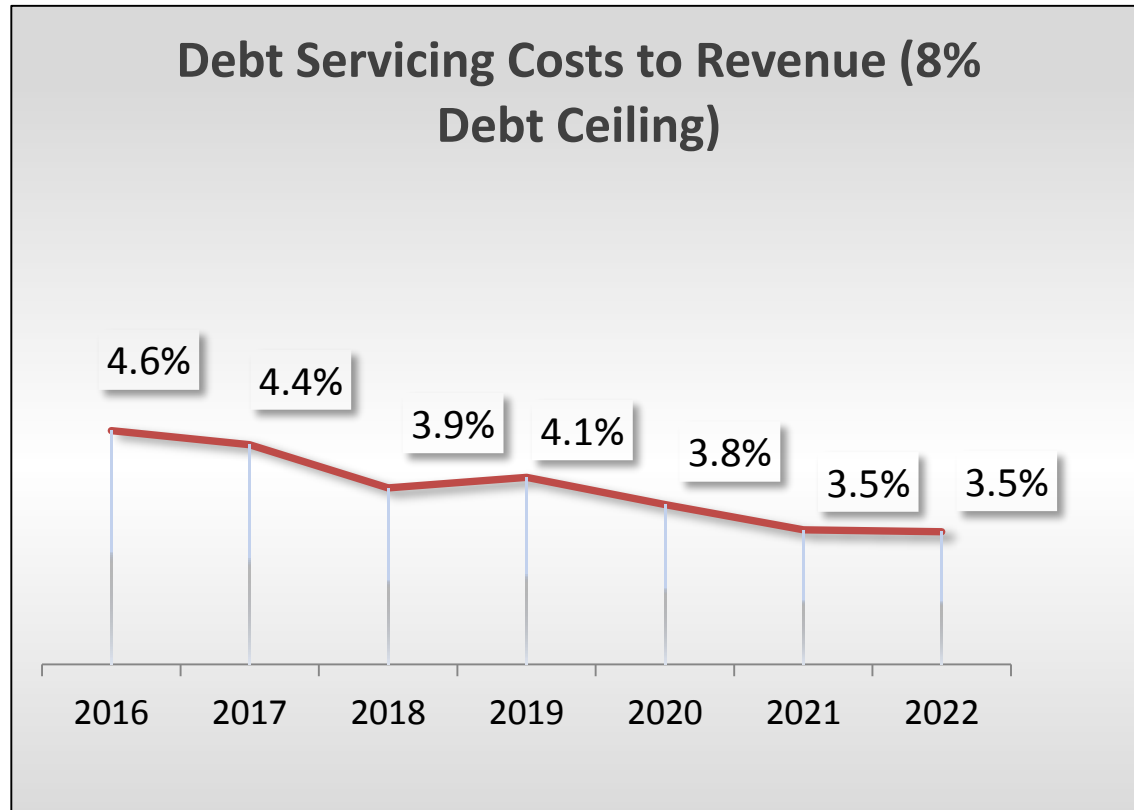


Change in Net Debt (Surplus)

The City of Fredericton Net Debt
(In \$Millions)



Debt Servicing



Statement of Financial Position

Accumulated Surplus:

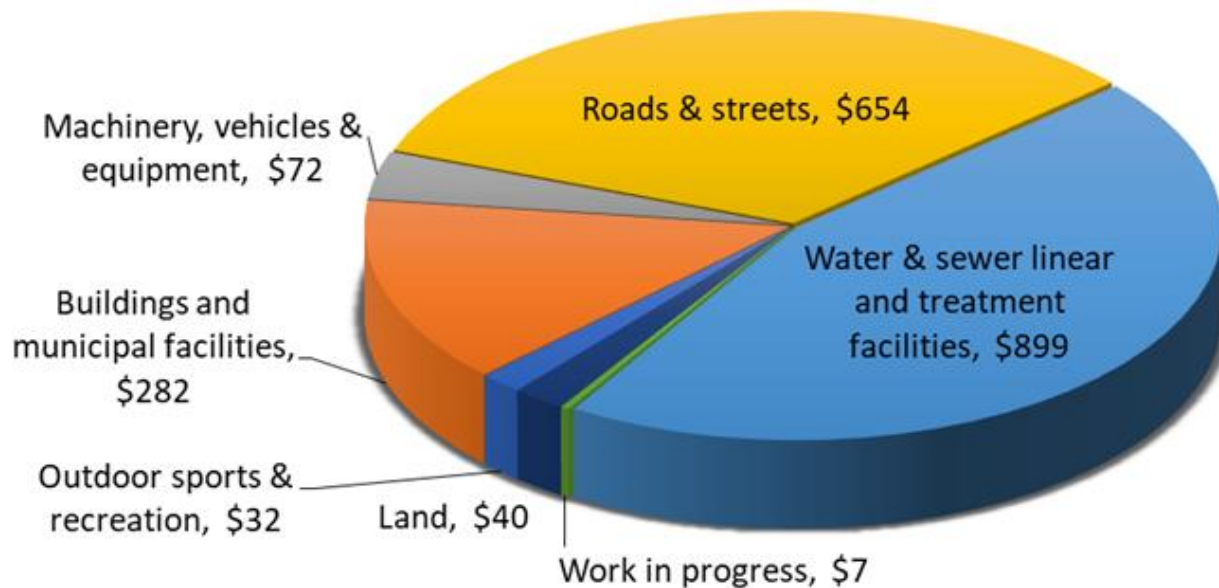
Tangible Capital Assets	\$629.5 M
Supplies Inventory	\$ 3.3 M
Net Surplus	<u>\$ 33.4 M</u>
Accumulated Surplus	\$662.9 M

- Shows investment in infrastructure and physical assets to sustain services



Investments in Infrastructure

Total Replacement Value of Infrastructure \$1,986 Million



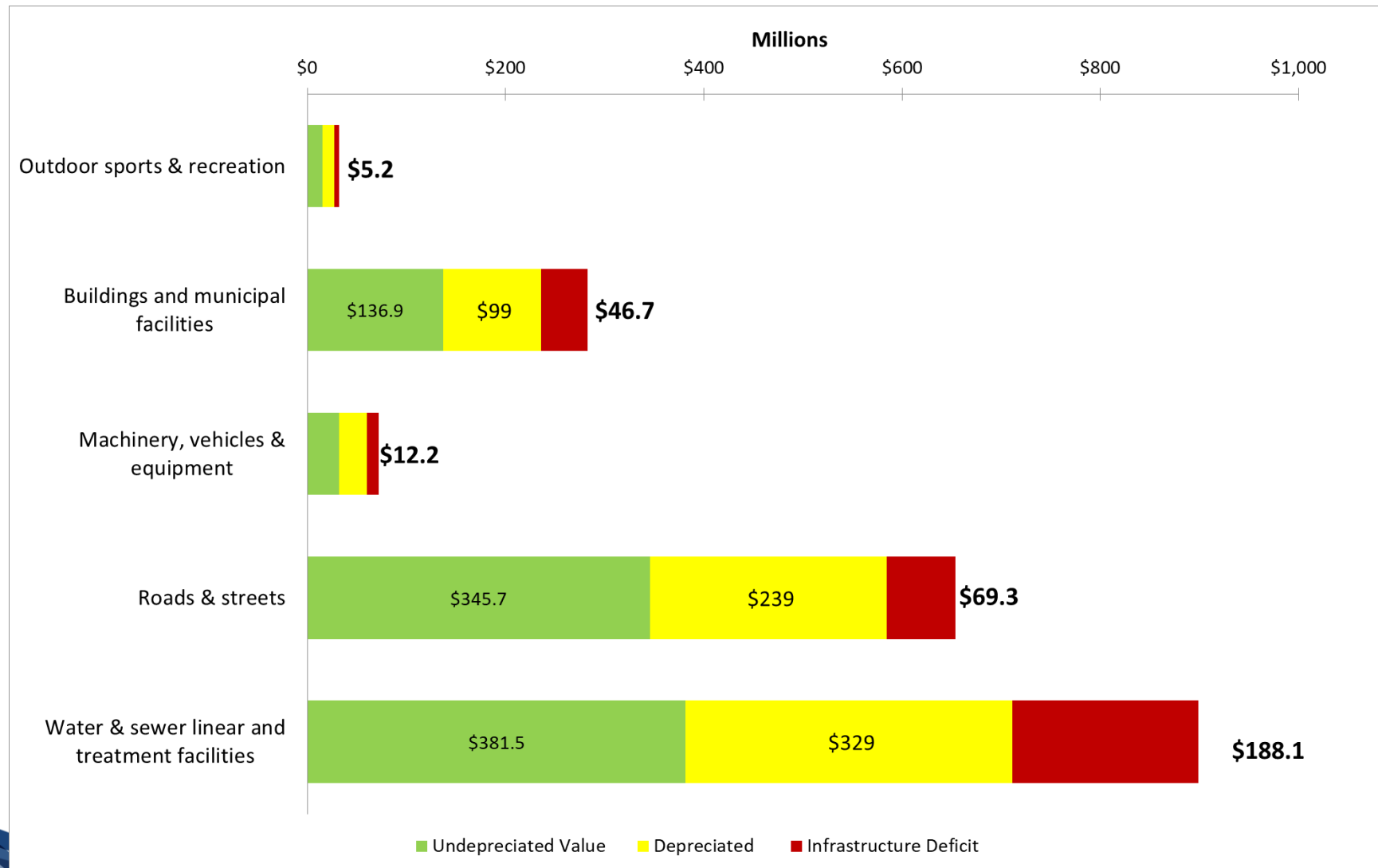
Infrastructure Deficit

Estimated Infrastructure Deficit (in \$ millions)

Infrastructure Assets	2022	2021
Outdoor sports & recreation	\$ 5.2	\$ 2.0
Buildings and municipal facilities	46.7	40.7
Machinery, vehicles & equipment	12.2	7.0
Roads & streets	69.3	60.5
Water & sewer linear and treatment facilities	188.1	174.4
	\$321.4	\$284.6



Infrastructure Condition Index



Targets for Sustainable Service Delivery

- **Sustainable Infrastructure**

- Are we investing in infrastructure at the same rate as it is being used?


\$24.4 M invested in renewal of infrastructure

\$50.5M current replacement cost of infrastructure used

$\$24.4 \text{ replaced} / \$50.5 \text{ used} = 0.48$

Sustainability Ratio

- 2022 – 0.48
- 2021 – 0.73
- 2020 – 0.73
- 2019 – 0.79
- 2018 – 0.99
- 2017 – 1.02



Caution: investment
uses substantial
funding from Third
Parties

Sustainability KPIs

➤ Debt Affordability and Management

- ✓ Stay within 8% debt limit
- ✓ 2022 actual results 3.5%

➤ Infrastructure Reinvestment Strategy

- ✓ Invest additional 5% of PAYG budget to replace old infrastructure.
- ✓ PAYG spending Minimum 75% on replacement
 - ✓ 78% renewal in General Fund

➤ Sustainable Infrastructure

- ✕ Sustainability Ratio: 0.48 (0.73 – 2021)



Financial Risks and Strategies for Managing Risk



Fredericton

Financial Risks

- Inflation
- Benefit premiums continuing to rise
 - Due to experience, did see positive WSNB rate reduction for 2022/2023
- Extreme/different weather events (frequency and magnitude)
- Volatility in fuel costs, interest rates, and the global market
- Increasing cost and demand of infrastructure renewal
- Long-term impact of Local Governance Reform
- Uncertainty surrounding Police/Fire DB Pension Plan
- Service reviews

Strategies to Mitigate Risks

- Long-term plans
 - Municipal Plan to facilitate infill development and encourage mixed use intensive development
 - Financial plans for General Fund and Water & Sewer Fund
 - Capital Policies, Debt Policies, Sustainable Funding Plans
- Operational Strategies
 - Corporate Management Systems
 - Engineering for efficiency and climate change
 - Investments in infrastructure
- Results based management
 - Focuses on areas that achieve results that matter to the community
 - Creates alignment between the community, Council and staff
 - Flexibility to address challenges within sustainable levels of funding



City of Fredericton

Questions?



Fredericton

Recommendation

- BE IT RESOLVED THAT the Council of the City of Fredericton adopts the 2022 Audited Financial Statements as presented