

Chief Financial Officer Letter of Transmittal – 2023 Financial Statements

May 13, 2024

Mayor and Council, City of White Rock

Members of Council:

I am pleased to present the Financial Statements of the City of White Rock (the “City”) for the year ended December 31, 2023. This comprehensive report includes the audited financial statements and the Auditor’s Report for the City as required by Sections 98 and 167 of the *Community Charter*.

The preparation of these Financial Statements and accompanying disclosures is the responsibility of the City Council and the management of the City of White Rock. These documents are designed to provide a reliable and accurate depiction of the City’s financial health to residents, businesses, taxpayers, and other interested parties. The Financial Statements and related information have been prepared in accordance with generally accepted accounting principles (“GAAP”) for Canadian local governments, which are established by the Public Sector Accounting Board (“PSAB”) of the Chartered Professional Accountants of Canada and the Provincial Ministry of Municipal Affairs.

KPMG LLP, appointed by Council, conducted the audit. As auditors they are tasked with assessing whether the financial statements, as prepared by management, accurately represent the City’s financial position and the results of its operations for the year 2023. The auditors have concluded that the City’s financial statements present fairly, in all material respects, the financial position of the City as of December 31, 2023, its operating results, changes in net financial assets, and cash flows for the year then ended. KPMG has reported their audit findings to the City Council during the May 13, 2024, regular Council meeting.

The City maintains robust internal accounting controls intended to ensure the safeguarding of assets and the reliability of financial records. The management of the City acknowledges that all systems of internal controls have inherent limitations. However, these are actively managed through periodic reviews and necessary adjustments to maintain the efficacy of the system.

During the 2023 year, the City experienced significant inflationary pressures that impacted various aspects of municipal finance. These economic conditions led to increased costs in public projects and ongoing services, necessitating adjustments to our financial planning and budget management. The City’s management team actively monitored these trends and implemented strategic measures to mitigate their effects, ensuring financial stability and continuity of service delivery.

Recruitment and retention of staff remained a struggle not just for the City but for many sectors in 2023. Quoting from a recent report from Gallagher Benefit Services (Canada) Group, “The labour market space for traditional municipal roles is increasingly difficult within the Province and across all Canadian

Municipalities. The ‘war for talent’ stems in part from the high numbers of baby boomers retiring within the sector, lower number of post-secondary graduates seeking careers in the municipal sector, and an aggressive private sector seeking to attract similar skills and qualifications. Municipalities across Canada are aggressively competing for talent from the same limited pool of candidates. The tight labour market conditions puts candidates in a strong negotiating position for salaries, benefits and working conditions.” The City expects that these challenges have been diminished given the recent changes to the City’s Exempt Compensation Policy and the ratification of the City’s Collective Agreement with CUPE 718 which covers the years of 2022 - 2024.

The following pages provide an overview and analysis of the City’s 2023 Consolidated Financial Statements.

In closing, I would like to extend my gratitude to the City’s dedicated employees, whose steadfast commitment to excellence has played a crucial role in navigating the challenges of the past year. Your hard work and resilience have been instrumental in maintaining the high standards of service that the community relies upon.

The City remains firmly committed to upholding the highest standards of fiscal management and operational efficiency. We are dedicated to continuous improvement in our financial practices to ensure the sustainable growth and prosperity of our community.

Thank you, Members of Council, for your steadfast support and oversight, which have been essential in these accomplishments. We look forward to another year of service to the residents of White Rock, with integrity and accountability.

Sincerely,



Candice Gartry, CPA, CGA
Director, Financial Services and Chief Financial Officer

City of White Rock

Overview and Analysis – 2023 Financial Statements

Summarized Statement of Financial Position

	2023 Actual	2022 Actual	Year over Year Change
Net Financial Assets	\$ 101,599,839	\$ 78,001,518	\$ 23,598,321
Non-Financial Assets	170,292,218	170,351,670	(59,452)
Accumulated Surplus	271,892,057	248,353,188	23,538,869

The City's financial position continued to be healthy throughout 2023 with a consolidated annual surplus (before budgeted transfers to reserves) of \$23.5M (2022 \$18.7M), bringing the Accumulated Surplus to \$271.9M. The accumulated surplus on the Statement of Financial Position is a key measure of the City's financial strength and long-term sustainability. Accumulated surplus consists of Net Financial Assets and Non-Financial Assets and includes all funds, including utilities.

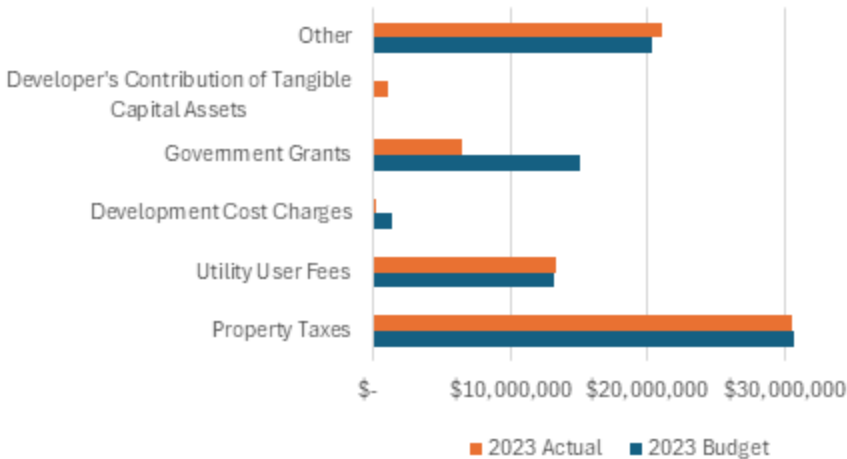
Financial Assets of \$101.6M (2022 \$78.0M) is the amount by which all assets exceed all liabilities and denotes the City's ability to meet its future obligations. The increase in Net Financial Assets of \$23.6M over the prior year is primarily due to an increase in investment activity and in deferred revenue offset by a decrease in Accounts Payable largely related to timing differences. Non-Financial Assets, valued at \$170.3M (2022 \$170.4M), consist of the net book value of the City's capital assets, which include civic buildings, recreation centres, parks, roads, water, drainage and sewer infrastructure and land. Non-Financial Assets also include inventory of supplies and prepaid expenses.

Summarized Statement of Operations – Budget Variance (in thousands)

	2023 Budget	2023 Actual	Variance
Revenues - All Sources	\$ 80,527,100	\$ 72,661,046	\$ 7,866,054
Expenses	56,781,300	49,122,177	7,659,123
Annual Surplus	23,745,800	23,538,869	206,931

The City achieved an Annual Surplus of \$23.5M, slightly below the projected amount of \$23.7M. This figure represents the excess of total revenues over expenditures across all funds before any budgeted allocations to reserves. Despite revenues being \$7.9M below budget, expenses were also lower by \$7.7M, almost offsetting the revenue shortfall. This careful fiscal management helped maintain a surplus close to the anticipated budgeted amount.

Revenue Summary – Budget Variance



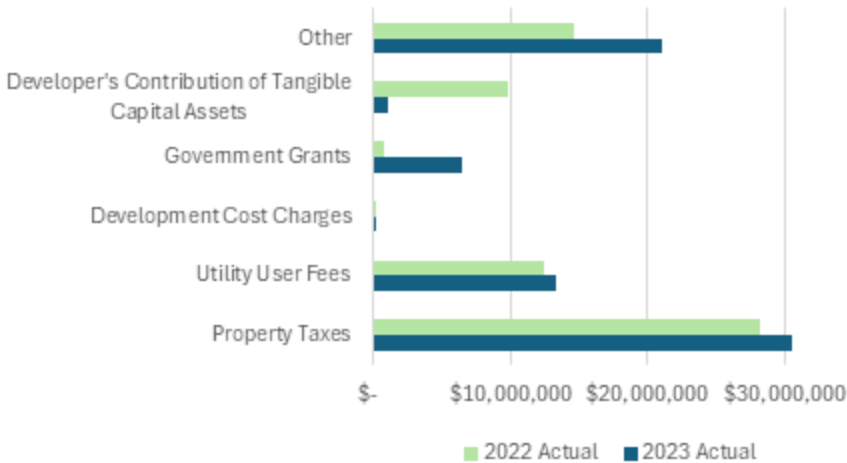
The City's property tax revenue met the budget at \$30.6M, and utility user fees slightly exceeded the budget by 1.87%. However, revenues from Development Cost Charges and Government Grants fell short of expectations, underperforming by 94% and 57% respectively.

Development Cost Charges (DCCs) are fees imposed by the municipal government on new developments to fund necessary infrastructure enhancements, such as sewer, water, and roads. These charges are collected at the time of building permit issuance but are recorded as Deferred Revenue (a liability) at that time because the associated infrastructure projects have not yet been completed. In 2023, although \$1.3M in DCC-related projects were anticipated to be completed, only \$75.9K transitioned from Deferred Revenue to recognized DCC revenue. (Please see note 10.a in the accompanying financial statements for more information.)

Similarly, the Developer's Contribution of Tangible Capital Assets pertains to assets developers agree to construct as part of the conditions of their building permit. Once completed, these assets, valued at \$1.1M in 2023, are transferred to the City and recorded as city assets, the revenue portion being the Developer's Contribution of Tangible Capital Assets. (Please see note 11.b in the accompanying financial statements for more information.)

Regarding Government Grants, these are typically predicated on having specific capital projects budgeted within the City's financial plan. Unfortunately, the City struggled to secure the required government funding for these planned projects, specifically the pier restoration.

Revenue Summary – Year over Year Comparison



The table above compares the Actual Revenues received in 2023 to those received in 2022. Property Taxes and Utility User Fees increases are in-line with the increased rates included in the Financial Plan for 2023. The variance in government grants was due to a one-time Provincial Government Growing Community Fund grant received in 2023 to support local governments in delivering infrastructure projects necessary to enable community growth and address infrastructure demands. Developer’s Contribution of Tangible Capital Assets are recognized at fair value at the date of contribution. The amount completed and recognized in 2022 was significantly higher than that of 2023. (Please see note 11.b. in the accompanying financial statements for more information.) The large increase in Other revenue is primarily related to the increased investment income that the City earned through its investments due to the increased interest rates.

Expenditure Summary – Year over Year Comparison

	2023 Actual	2022 Actual	Variance \$\$	Variance %
Salaries, Wages & Benefits	\$ 19,869,034	\$ 18,768,874	\$ 1,100,160	5.54%
Contracted Services	18,190,719	17,486,846	703,873	3.87%
Supplies & Other	3,503,968	3,548,783	(44,815)	-1.28%
Amortization	6,868,884	6,655,816	213,068	3.10%
Interest on Debt	689,572	698,025	(8,453)	-1.23%
TOTAL	\$ 49,122,177	\$ 47,158,344	\$ 1,963,833	4.00%

Expenses by Function were very comparable between 2023 and the prior year, 2022. The highest variance was seen in the Salaries, Wages & Other Benefits. This is reflective of changes in negotiated wage rates for staff as well as changes within the salary bands and the addition of a net 1.0 FTE position.

Aside from cost-of-living increases, increased use of consultants, especially in the Planning & Development Services department to help address the permit backlog, account for the increase in

Contracted Services. Increased amortization is due to new and/or updated capital infrastructure. Interest on Debt is decreasing as the City continues to pay down its debt.

Surpluses (Deficits) by Fund*

	2023 Surplus (Deficit)	2022 Surplus (Deficit)	Variance \$\$	Variance %
General Fund	\$ 16,945,909	\$ 13,911,013	\$ 3,034,896	17.91%
Water Utility Fund	2,781,080	1,981,664	799,416	28.74%
Sanitary Sewer Utility Fund	1,609,987	742,006	867,981	53.91%
Drainage Utility Fund	2,225,075	2,082,755	142,320	6.40%
Solid Waste Utility Fund	(23,182)	(27,224)	4,042	-17.44%
TOTAL	\$ 23,538,869	\$ 18,690,214	\$ 4,848,655	20.60%

*Prior to budgeted allocations to reserve funds

Budgeted Transfers to Reserves

As noted in the table above, the surpluses and deficits reported on the Statement of Operations do not include the budgeted allocations to reserve funds. These allocations are budgeted for and built into the property tax rates and user fees assessed to property owners in order to provide for capital asset improvements.

As part of a municipality’s budget process, transfers to reserves are budgeted for to help proactively manage infrastructure needs and for:

1. Asset (infrastructure and capital) maintenance and replacement: Assets such as roads, buildings and equipment have a limited lifespan and require maintenance and eventual replacement.
2. Long-term financial planning: Budgeting for capital asset reserves enables municipalities to engage in long-term financial planning by regularly setting aside funds to anticipate future infrastructure needs.
3. Mitigation of financial risk: Creating and contributing to reserves for capital assets helps municipalities mitigate financial risk and reduce the reliance on debt financing for infrastructure projects.
4. Maintaining creditworthiness: Sound financial management, including budgeting for capital asset reserves, is important for maintaining a municipality’s creditworthiness.

These transfers are done ‘below the line,’ meaning after revenues and expenses have been taken into account.

Key Highlights of Operating Results for each Fund

General Fund – the 2023 surplus in the General Fund, before the budgeted transfers to reserves, is \$16.9M. Budgeted transfers to reserves account for \$8.4M of this surplus, resulting in a revised operating surplus of \$8.4M which is summarized below:

General Fund Operating Surplus Summary

	2023 Actual
Increased Investment Income	\$ 4.9M
Wages & Benefit Savings	2.0M
RCMP Contract Savings	0.4M
Un-utilized Operating Contingency	0.3M
Increased Recreation & Culture Revenue	0.2M
Increased Penalties & Interest on Taxes	0.2M
Increased Parking Revenue	0.1M
Other Miscellaneous Savings	0.3M
TOTAL	\$ 8.4M

As mentioned previously, the City saw a large lift in its investment income due to increased interest rates and increased investment activity. It is important to note that this level of increased investment income is not anticipated to continue as investment income will decrease as interest rates decrease.

The wages and benefits savings include numerous staff vacancies largely due to the previously mentioned difficulties in recruiting and retaining staff faced by many municipalities. The vacant positions included a Purchasing Officer, a Property Insurance and Risk Manager, a Human Resources Advisor and Building Officials as well as various other movements.

Allocation of Accumulated Surplus Funds

City revenues and surpluses are strategically set aside by Council in reserves to help protect the City against unanticipated events that can trigger budget deficits, to balance programs and activities that tend to fluctuate each year, to finance long-term asset improvement and capital needs, and/or to fund contingent liabilities.

In prior meetings, Council provided directions to staff on the distribution of a portion of the 2023 General Fund Operating Surplus.

Previous Council Direction on 2023 Estimated General Fund Surplus Allocation

	Amount
Revised General Fund Operating Surplus	\$ 8.4M
Less: Labour Adjustments (CUPE, Exempt*, Planning Services consulting/casuals)**	(1.2M)
Less: One-time 2024 Budget Items	(0.9M)
Less: Carryforward of Unspent 2023 Budget Items to the 2024 Financial Year	(0.1M)
TOTAL	\$6.2M

* In accordance with Council’s Exempt Compensation Policy No. 403

** Updated from April 15, 2024, Council meeting

After deducting these items, the 2023 unallocated General Fund Operating Surplus amount for 2023 decreases to \$6.2M as shown above.

At Council’s regular meeting of April 15, 2024, the Council resolved to distribute the estimated unallocated General Fund operating surplus of \$8.4M as follows:

- \$2M to the Community Hub project
- \$1.5M to the new ERP/Financial System project
- \$1M to the Pier Restoration reserve fund
- \$800K to the General Operating Fund Accumulated Surplus reserve fund
- \$200K to remain in unallocated surplus

The balance remaining to be allocated out of the General Fund Operating Surplus was thus reduced to \$700K. (This figure is higher than the estimated surplus reported at Council’s April 15, 2024, regular meeting due to various adjustments and updated assumptions on amounts to be carried forward into 2024 identified through the final year-end process review). In order to finalize the 2023 financial statements this \$700K was left in the accumulated surplus fund. However, Council may reallocate this balance to another fund if it so chooses.

Water Utility Surplus - the 2023 surplus in the Water Utility Fund is \$2.8M (\$1.2M budget) resulting in a positive variance of \$1.6M. Revenues came in over budget by \$500K due primarily to the unbudgeted Developers’ Contribution of Tangible Capital Assets received. The balance of the variance is largely due to less systems maintenance performed during the year than was budgeted for including the water treatment plant media not being replaced (\$501K) as well as unspent contingency funds of \$284K.

Sanitary Sewer Utility Surplus - the 2023 surplus in the Sanitary Sewer Utility Fund is \$1.6M (\$244K budget) resulting in a positive variance of \$1.4M. Revenues came in on budget, however the systems

maintenance for the Sanitary Sewer Utility came in under budget by \$1.4M as not all of the planned maintenance budgeted for was completed in 2023. This includes less CCTV inspections being completed than budgeted, as well as not all of the components of the sanitary rehabilitation project being completed in 2023.

Drainage Utility Surplus - the 2023 surplus in the Drainage Utility Fund is \$2.2M (\$2.8M budget) resulting in a negative variance of \$0.6M. Revenues came in under budget by \$1.2M largely due to less than budgeted Contributions & Development Levies (\$687K) and Government Grants (\$454K). This was offset by Maintenance & Connections (expense) also being under budget by \$586K due to not all of the CCTV inspections, storm water monitoring and intersection improvement projects being completed in 2023.

Solid Waste Utility Deficit - the 2023 deficit in the Solid Waste Utility Fund is \$23K (\$19K surplus budgeted). Revenues came in on budget however the tipping and tonnage fees came in over budget by \$46K.

Reserve Fund Balances

The City has \$112M (\$91M in 2022) in reserve funds to help support the planned asset improvement projects and the City's operating commitments. (Please see note 14 in the accompanying financial statements for more information.) It should be noted that this amount is not estimated by management to be sufficient to cover the cost of updating and/or replacing all of the City's infrastructure. For example, the Water Fund total reserve balance of \$9.2M is not estimated to be sufficient to update and/or replace all of the water infrastructure owned and supported by the City.

While the total reserve fund balances would appear to be significant, it should be noted that all but \$30.0M has been designated for specific future projects and activities by City Council.

New Accounting Regulations

On January 1, 2023, the City adopted Canadian Public Sector Accounting Standard PS 3280 - Asset Retirement Obligations ("PS 3280"). This new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in buildings, by public sector entities. The standard was adopted on the prospective basis effective January 1, 2023. The ARO recognized on the 2023 Financial Statements is valued at \$474K. (Please see notes 2 and 7 in the accompanying financial statements for more information.)

Debt - Borrowing Capacity

The Community Charter restricts the City to the amount of long-term liabilities it can commit to, as well as the process it must undertake to incur debt (including capital lease commitments). The legislation limits the borrowings to a percentage of annual sustainable revenues that can be allocated to the servicing of debt. The City is restricted to allocating 25% of its annual sustainable revenues to the servicing of debt and capital leases with the approval of the electorate, and 5% with only Council approval.

Financing capital asset improvements through debt is an important consideration and a standard funding practice utilized by municipalities, especially as cities become built out and the more traditional methods

of financing through land sales and developer contributions are not as prevalent. The City of White Rock continued to carry a moderate debt-per-capita ratio in 2023. The debt-per-capita ratio decreased from \$964 in 2022 to \$929 in 2023, based on a population estimate of 21,939 per the 2021 Canadian Census. (Please see note 9 in the accompanying financial statements for more information.)

The 2024 Financial Plan includes repayment of the outstanding debt issues that the City carries with the Municipal Finance Authority for the water infrastructure acquisition and infrastructure construction.

Tangible Capital Assets

The City of White Rock owns and maintains a significant amount of physical assets including roads, traffic signal controls, sewer and water systems (reservoirs, pipes, pumps, etc.), equipment, vehicles, parks, facilities, and other amenities. Tangible capital assets represent a significant portion of municipal government assets and are crucial to the delivery of programs and services, operations, and life safety. The collective worth of the City's assets at the end of 2023 is estimated to be approximately \$169M, calculated at historical cost as required by accounting guidelines (PSAB). (Please see note 11 in the accompanying financial statements for more information).

Although the historical cost is significant, the replacement cost of the assets is substantially more. The City utilizes these assets to deliver the services and programs the community relies on. The City prepares annual five-year capital plans that are mostly comprised of the cost of maintaining, replacing or upgrading this large and diverse inventory to keep them in a state of good repair. Some of the infrastructure has been in use for some time, and some has been recently upgraded or replaced through asset improvement programs.

The City's actual net tangible capital expenditures were \$ 6.2M in 2023, funded from taxation, reserves, development levies, developer contributions and grants. Significant community asset improvement projects continuing, completed or started in 2023 include road overlays, sidewalks, water mains and storm sewers, facility upgrades, and playground upgrades.

One of the most critical aspects of financial sustainability is the stewardship over the City's assets. Without the ongoing replacement and proper maintenance of these assets the City would not be able to continue to deliver the services to the same level the community enjoys and expects.

The City of White Rock follows and supports the recommendations of accounting oversight bodies and government agencies to implement sound accounting, management and reporting practices over tangible capital assets. The City understands the long-term financial benefits of deploying a formal asset management plan, as well as the positive impact they have on overall sustainability, and is working to build sustainable asset improvement funding into its base budget. The City continues to develop asset management plans for its assets to better quantify the infrastructure funding gap and re-consider the initial assumptions that were made regarding asset valuations.

Financial Sustainability

The City recognizes that it must strive to be financially sustainable, and along with regional and two senior levels of government, develop long term sustainable funding and service models that address service and infrastructure models.

Strategic and Financial Planning and Reporting

The City of White Rock undertook a strategic planning process that set out the goals and objectives of Council for its four-year term, 2022 to 2026, in a Strategic Priorities document. This high-level Strategic Priorities document is linked with the departmental plans which have been assigned to the departments to meet Council's goals and objectives.

Fiscal Capacity

City Council and City staff recognize that a sustainable community must balance the services, and level of services, it delivers with the ability of its residents and businesses to sustain the funding of the services. Some services need to be sustained and financed by the community at large through taxation. This provides equal access by all citizens to ensure the health, safety and well-being of the Community. Other services need to be delivered on a user fee basis to ensure the demand is matched to the willingness to pay, and that a certain portion of the cost is recovered from the users demanding the service.

City Council recognizes that a sustainable community must include certain religious, philanthropic, cultural and historical institutions, and therefore, uses its legislative powers to grant tax exemptions to applicants of this nature to assist these important community stakeholders with their financing.

Questions? Please email cgartry@whiterockcity.ca.