



Chief Financial Officer Letter of Transmittal

May 7, 2024
Mayor, City Council, and Citizens
City of Pitt Meadows

Members of Council and Citizens:

I am pleased to present the Financial Statements of the City of Pitt Meadows for the year ended December 31, 2023, which includes the Consolidated Financial Statements and Auditors' Report for the City of Pitt Meadows pursuant to Sections 98 and 167 of the Community Charter.

The preparation of the Financial Statements and related information is the responsibility of City Council and the management of the City of Pitt Meadows; and is intended to provide reliable and accurate financial information on the state and health of the City's finances to residents, businesses, taxpayers and other statement readers. The reporting results include the City's service delivery partners: Ridge Meadows RCMP, Fraser Valley Regional Library and Nustadia Recreation Inc.

The financial statements and related information are prepared in accordance with generally accepted accounting principles (GAAP) for Canadian local governments as established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada and the Provincial Ministry of Municipal Affairs.

The audit firm of KPMG LLP was appointed by Council and is responsible for expressing an opinion as to whether the Consolidated Financial Statements, prepared by management, fairly present the financial position of the City and the results of its 2023 operations. The auditors have expressed an opinion that the City's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City of Pitt Meadows as at December 31, 2023, and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended. KPMG LLP reports their audit results to City Council through a Regular Council meeting.

The City maintains a system of internal accounting controls designed to provide reasonable assurance for safeguarding assets and the reliability of financial records and documents. City of Pitt Meadows management recognizes that all systems of internal accounting controls have inherent weaknesses, which management mitigates by periodic reviews and revisions. Council oversaw all City financial matters for 2023 including the budget process, review of auditor reports and recommendations, and review of operational and capital information.

Financial Overview

Consolidated Statement of Financial Position

Financial Position (\$ millions)

	2023 Actual (\$)	2022 Actual (\$)	Year Over Year Change (\$)
Net Financial Assets	34.2	26.6	7.6
Non-Financial Assets	212.0	208.6	3.4
Accumulated Surplus	246.2	235.2	11.0

The City's financial position continued to be healthy throughout 2023 with an annual surplus of \$11.0 million (2022 \$6.1 million), bringing Accumulated Surplus to \$246.2 million. The accumulated surplus on the Consolidated Statement of Financial Position is a key measure of the City of Pitt Meadows' financial strength and long-term sustainability. Accumulated surplus consists of Net Financial Assets and Non-Financial Assets.

Net Financial Assets of \$34.2 million (2022 \$26.6 million) 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 \$7.6 million over the prior year is primarily due to a higher cash balance as a result of higher investment income earnings and additional government transfers.

Non-Financial Assets of \$212.0 million (2022 \$208.5 million), are comprised of the net book value of the City's capital assets, which include civic buildings, recreation centres, parks, roads, water and sewer infrastructure and land. Non-Financial Assets also include inventory of supplies and prepaid expenses. Non-Financial Assets increased by \$3.4 million over the prior year primarily due to additions of capital assets.

Consolidated Statement of Operations

Operations (\$ millions)

	2023 Budget (\$)	2023 Actual (\$)	2022 Actual (\$)	Budget Variance (\$)	Year Over Year Change
Revenues	55.9	57.7	47.9	(1.8)	9.8
Expenses	45.2	46.7	41.8	(1.5)	4.9
Annual Surplus	10.7	11.0	6.1	(0.3)	4.9

Budget Variance

The Annual Surplus of \$11.0 million, which is the excess of revenues less expenditures, is higher than the \$10.7 million budgeted surplus.

Consolidated revenue of \$57.7 million is higher than the \$55.9 million budgeted revenue, which is attributed to higher investment income, capital funding from government transfers and development cost charges of capital projects carried forward to 2024.

Consolidated expenses of \$46.7 million across all City functions and services was higher than the budget by \$1.5 million. This is primarily due to higher water consumption created by the record extended summer/fall drought

period, increased Parks, Recreation & Culture activities (offset by corresponding revenue increases), and the increase in asset amortization associated with the cost of new and replaced infrastructure.

Year Over Year Change

Annual Surplus of \$11.0 million (2022 - \$6.1 million) is higher in 2023 compared to 2022 by \$4.9 million.

Consolidated revenue of \$57.7 million (2022- \$47.9 million) increased from the prior year by \$9.8 million mainly due to one-time funding from the Provincial Growing Communities Fund (\$5.37M), property taxes (\$2.4M) and investment income (\$1.5M).

Consolidated expenses of \$46.7 million (2022- \$41.8 million) increased in 2023 from the prior year by \$4.9 million primarily due to: Fire and Rescue Services transition from a Paid-on-Call model to a 24/7 career model, Recreation & Culture Services continuing to transition to pre-COVID services, Debt servicing of the new RCMP detachment, increases in the collective agreement, RCMP contract costs, Greater Vancouver Water District consumption volumes primarily driven by an extended period of drought and general contract and inflationary escalations.

Reserve and Development Levy Fund Balances

City revenues are strategically set aside by Council in reserves to protect the City against unanticipated events that can trigger budget deficits, to balance programs and activities that tend to fluctuate each year, and to finance long-term capital needs or contingent liabilities. The City has a healthy \$76.8 million in reserve and development levy funds to support the planned capital projects and the City's operating commitments. This is an increase of \$7.2 million over the 2022 total of \$69.6 million.

Significant offsetting transactions include: \$1.4 million road use levies; \$5.37 million growing communities grant; \$946,000 other third party contributions; \$85,000 in levies collected from developers; \$2.3 million in interest earnings; \$4.0 million to fund roads, vehicles and equipment, lifecycle and other capital reserves; \$3.2 million facilities replacement reserve; and \$3.3 million utility capital reserves. The reserve and development levy increases were offset by \$11.5 million used to fund capital and operating projects.

While the reserve fund balances would appear to be significant, it should be noted that the majority of these funds have been designated for specific future projects and activities by City Council.

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 Council approval.

Current Borrowings

Financing capital improvements through debt is an important consideration and a standard funding practice utilized by all 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 debt-per-capita ratio decreased from \$1,161 in 2022 to \$1,093 in 2023, based on the Province of BC Statistics population estimate of 21,071 for 2023. The \$1,093 debt per capita ratio is well within the City's financial capacity.

The 2023 Financial Plan included repayments to the four outstanding debt issues the City carries with the Municipal Finance Authority for the expansion and renovation of the Civic Centre parkade, the Arena acquisition and construction, and construction of the South Bonson Community Centre as well as the construction of the new police building.

Investment Portfolio

The City of Pitt Meadows invests its excess operating and capital funds in accordance with its Investment Policy and the statutory requirements of the Community Charter. The investment decisions and strategies strive to maximize the return on investments while minimizing portfolio risk, and ensuring that daily and future cash flow requirements are aligned and met. The City's investment portfolio generated a higher rate of return than in 2022 from higher than usual interest rates earned in the City's chequing account. In 2023, the City's investment portfolio of \$45.2 million decreased by \$24.9 million from 2022, which consisted of mainly depositing redeemed investments into the City's chequing account to benefit from the higher interest rates offered. Average annual yield to the portfolio in 2023 was 3.57% versus 1.70% in 2022 and the investment portfolio generated \$2.8 million interest revenue in 2023, versus \$911,000 in 2022. The increase of 1.87% average annual yield resulted in a \$1.9 million increase in interest revenue attributed to a combination of the reinvestment of maturities at higher yields as well as the investment of the \$20 million Police debt proceeds in securities maturing over the estimated life of the construction project from 2023 to 2024 at rates ranging from 3.70% to 4.50%.

Tangible Capital Assets

The City of Pitt Meadows owns and maintains a significant amount of physical assets comprised of roads, bridges, 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 \$210 million, calculated at historical cost as required by accounting guidelines (PSAB).

Although the historical cost is significant, the replacement cost of the assets would be substantially more. The City utilizes these assets to deliver the services and programs the community relies on, preparing 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 used for some time, and some has been recently upgraded or replaced through capital budget programs.

The City's actual tangible capital expenditures were approximately \$10 million in 2023, funded from taxation, reserves, development levies and grants. Significant community capital projects continuing, completed or started in 2023 include replacement of Fire Hall, Fire Rescue Apparatus; Recreation Centre roof replacement; Police Building; Grabenhorst garden; various road network paving, Parks infrastructure and a number of sewer and water main rehabilitations and replacements.

In order to maintain services, it is important that the City, at a minimum, replace its assets at a rate equal to the rate assets are being amortized (used up) keeping in mind that amortization is based on historical costs rather than replacement costs, which can be significantly different. On this basis, the City's 2023 amortization of \$6.4 million should be measured against the City's 2023 actual capital expenditures of \$10 million, recognizing that the differences from year to year should be analyzed over a 50 to 100 year infrastructure plan to determine trends, potential gaps and funding shortfalls.

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.

Asset Management

In 2023, the City managed over 22,000 City asset components, encompassing land, buildings, infrastructure, equipment and vehicles, collectively valued at \$210 million. One of the most crucial aspects of financial sustainability is the stewardship over the City's assets. Without the ongoing replacement and proper maintenance of these assets the City could not continue to deliver the services to the same level the community enjoys today.

The City of Pitt Meadows 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 fully appreciates the long term financial benefits of deploying financial stewardship policies, as well as the positive impact they have on overall sustainability.

In 2023, the City reaffirmed its strategy to build sustainable asset funding into its base budget by setting aside \$9.8 million in reserve funding. The City continues to deploy reporting asset management systems, including an Operations Management Software System to systematically track and analyze assets and related expenditures so sound repair or replacement decisions are made. The City also operates a Geographic Information System to track physical asset locations.

The City continues to develop and update asset management plans and condition assessments for its assets to better quantify the infrastructure funding gap and re-consider the initial assumptions that were made regarding asset valuations.

Strategic and Financial Planning and Reporting

The City of Pitt Meadows developed a comprehensive and consultative strategic planning process that set out the goals and objectives of Council for its four year term, 2023 to 2026, in a Strategic Plan document. This high-level Strategic Plan is linked with the Corporate Business Plans which assigned projects to departments to meet Council's goals and objectives. Departments developed more detailed work plans that dovetailed with the City's budget process and the City's 5 Year Operating and Capital plans to ensure adequate funding and resources were provided for the 2023 budget.

The linking of shorter term plans and budgets gives residents, businesses and other agencies confidence that decisions are well thought out, providing the City with long term planning continuity and sustainability. To ensure results of the long term planning are both tracked and monitored, the City deploys a suite of computerized accounting, planning and resource management systems. Council communicates with the community through interactive budget meetings to allow public input and to gauge public response to financial and business plans. The City also engages the community through a variety of forums, exchanges and surveys utilizing a variety of social media tools including the City's website, Facebook and Twitter.

Fiscal Capacity

City Council recognizes 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. The City has a number of taxation policies that have been well established over time that establish tax allocations to property classes, acceptable proportions of taxation versus user fees and permissive exemptions.

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. The City is committed to increasing the overall proportion of revenue from non-residential classes through growth and development while working to ensure that the amount of property taxes paid by business and industry does not harm the ability for existing businesses to operate effectively in the community and is not a deterrent for business considering locating in the community. The City will regularly review and compare the tax ratio between residential property owners and business owners relative to other municipalities in Metro Vancouver.

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.

In closing, I would like to thank City Council for providing their direction and leadership, the Chief Administrative Officer, Directors and their respective departments for their cooperation and input throughout the year, as well as staff in Financial Services for their dedicated service. The commitment and professionalism demonstrated by all has resulted in the City of Pitt Meadows continuing to disclose useful and understandable financial results to our stakeholders, earning for the eighth straight year, the Canadian Award for Financial Reporting presented by the Government Financial Officers Association of the United States and Canada.

Laura Barroetavena
Director of Financial Services
Chief Financial Officer