



cutting through complexity

Regional District of East Kootenay

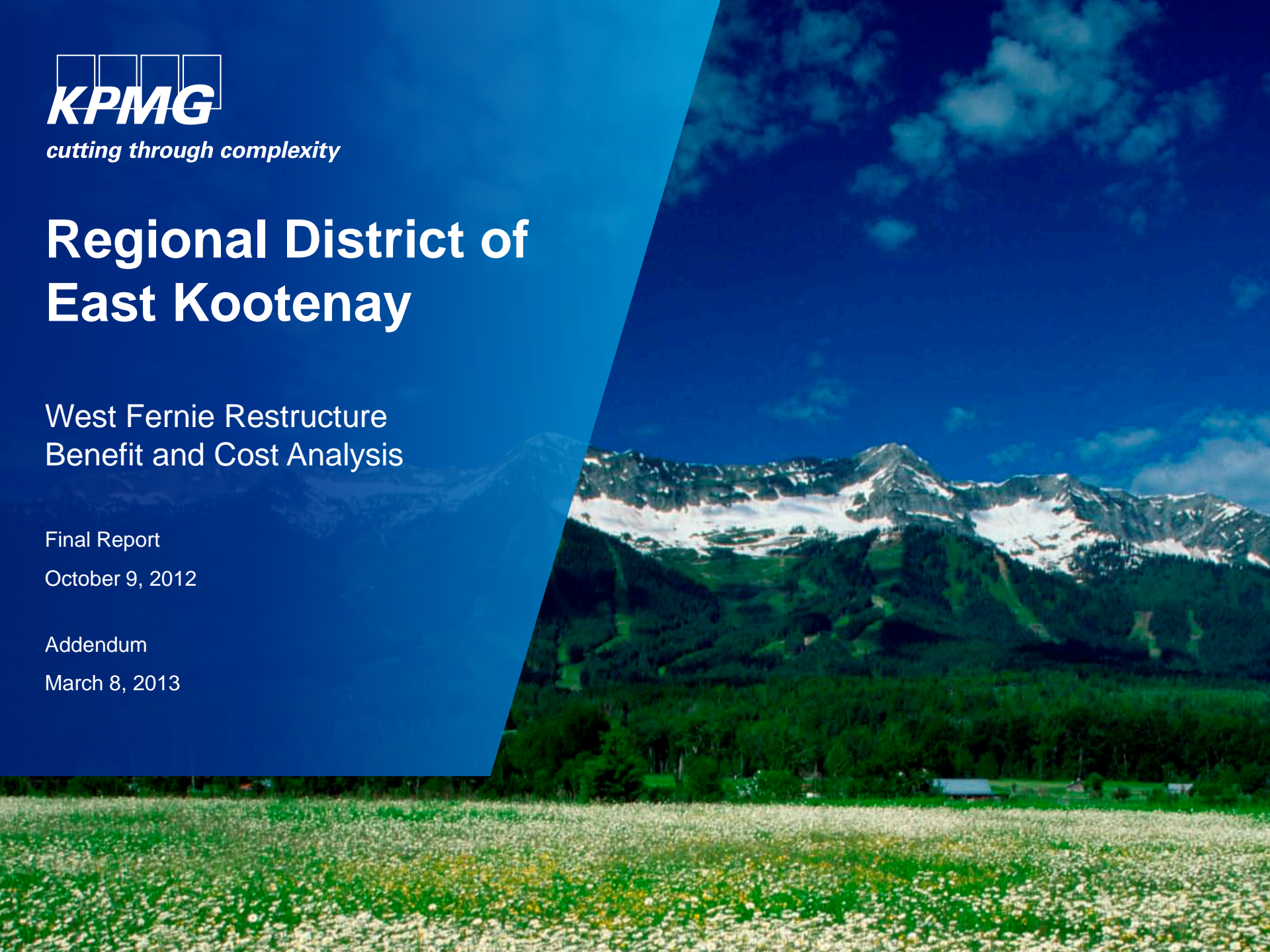
West Fernie Restructure Benefit and Cost Analysis

Final Report

October 9, 2012

Addendum

March 8, 2013



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The information in this document is based on the scope of the review and the limitations set out herein.

Chapter 1

Executive summary

Background

West Fernie is a rural community adjacent to the City of Fernie (City) in BC's Regional District of East Kootenay (RDEK). The current water supply system in West Fernie is aging considerably and is in need of replacement. While the water infrastructure in West Fernie is owned by the West Fernie Waterworks District (WFWD), the City operates the service which is an exception to their policy of not providing infrastructure services outside their boundary. At the same time as upgrading the water supply system, it has been proposed that sanitary and stormwater sewer systems be installed. As a result, if the residents of West Fernie wish to connect to the City's sanitary sewer system, they would have to join the City.

Terms of our Engagement

On June 11, 2012, KPMG LLP (KPMG) was contracted to "determine the benefits and costs to the City of Fernie if their boundaries were extended to include West Fernie, and provide a report".

Understanding this Report

This report is based on information and documentation that was made available to KPMG at the date of this report. KPMG has not audited nor otherwise attempted to independently verify the information provided unless otherwise indicated. Should additional information be provided to KPMG after the issuance of this report, KPMG reserves the right (but would be under no obligation) to review this information and adjust its comments accordingly. Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and recommendations as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, the RDEK and City. This report includes or makes reference to future oriented financial information. Readers are cautioned that since these financial projections are based on assumptions regarding future events, actual results would vary from the information presented even if the hypotheses occur, and the variations may be material. Comments in this report are not intended, nor should they be interpreted, to be legal advice or opinion. KPMG has no present or contemplated interest in the RDEK and/or City nor are we an insider or associate of the RDEK and/or City or its management team. Our fees for this engagement are not contingent upon our findings or any other event. Accordingly, we believe we are independent of the RDEK and City and are acting objectively.

Addendum

Subsequent to the final report, the RDEK requested that an additional scenario be analyzed by KPMG to assess the cost/benefits to the City if the boundary extension did not occur until the City's population reached 5,000 at the 2016 census. The analysis of this alternate scenario is provided following the conclusions of the final report in this document.

Acknowledgements

In developing this report, KPMG appreciates the level of cooperation received from the RDEK, the City, BC's Ministry of Justice, Police Services Division and BC's Ministry of Finance, through providing background materials, participating in the data collection process, and providing input to discussions.



Executive summary

Key Findings and Conclusions

The following table illustrates the estimated total net impact to the City of Fernie in a Low and High Scenario, showing only the items that would change:

	Low Scenario					High Scenario				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
New Revenues										
Property Taxes	\$ 256,806	\$ 268,619	\$ 280,975	\$ 293,900	\$ 307,420	\$ 256,806	\$ 268,619	\$ 280,975	\$ 293,900	\$ 307,420
Sewer Fee & Frontage Tax	\$ -	\$ 53,341	\$ 60,125	\$ 66,909	\$ 73,693	\$ -	\$ 39,773	\$ 46,557	\$ 53,341	\$ 66,909
Lost revenue on fire contract with Region	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)
Building Permits	\$ 3,630	\$ 3,630	\$ 3,410	\$ 3,410	\$ 3,410	\$ 10,889	\$ 10,889	\$ 3,410	\$ 3,410	\$ 3,410
Transportation Transitional Funding (Temporary)	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400
Police Property Tax Rate Lumped into General Rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 375,783	\$ 393,069
Total New Revenues	\$ 231,635	\$ 296,789	\$ 315,710	\$ 335,419	\$ 355,722	\$ 238,895	\$ 290,480	\$ 302,142	\$ 697,634	\$ 742,007
New Expenses										
Sewer	\$ -	\$ 25,346	\$ 26,107	\$ 26,890	\$ 27,697	\$ -	\$ 63,502	\$ 65,407	\$ 67,369	\$ 69,390
Fire, Roads & Operating	\$ 290,006	\$ 98,533	\$ 90,020	\$ 92,557	\$ 95,171	\$ 369,920	\$ 180,496	\$ 149,047	\$ 153,355	\$ 157,792
Policing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,210,254	\$ 1,246,562
Contribution to Replacement Reserves	\$ -	\$ 90,500	\$ 90,500	\$ 90,500	\$ 90,500	\$ -	\$ 181,000	\$ 181,000	\$ 181,000	\$ 181,000
Total New Expenses	\$ 290,006	\$ 214,379	\$ 206,627	\$ 209,947	\$ 213,367	\$ 369,920	\$ 424,998	\$ 395,453	\$ 1,611,978	\$ 1,654,744
Net Impact of Operations	\$ (58,371)	\$ 82,410	\$ 109,083	\$ 125,472	\$ 142,355	\$ (131,025)	\$ (134,518)	\$ (93,312)	\$ (914,344)	\$ (912,737)

This analysis shows that the boundary extension could be a net-benefit to the City of Fernie. Any deficits shown could also be reduced or eliminated with transitional funding from the province. However, the financial viability to the City of Fernie of this extension is largely dependent on three key items:

- 1. The size of the population and its impact on policing.** If the City's population rises above 5,000, it would be responsible for approximately \$1.2-million in new costs for policing. This would outweigh the current police tax revenues that could be retained (estimated at \$376,000 in 2017) if the current police portion of the property tax rate was added to the general municipal rate. There is also the potential that the current police detachment building in the City would need to be replaced – adding even greater costs to the City. While there is always the potential that the current City could achieve the 5,000 population mark without the boundary extension due to economic growth, it is not anticipated to occur before 2016.
- 2. Policy choices on capital reserves.** While the City has a goal of setting aside enough funds to cover the full cost of each asset over its useful life, it currently sets aside approximately 60% of the full cost. If it were to set aside 80% of the cost for the \$14.6 million in new infrastructure being built in West Fernie, it would cost the City approximately \$181,000 in annual contributions to the reserves. It would, however, be setting aside money that would generally not be needed for 80 years (the expected life of water and sewer pipes). However, there are components of the assets that would not last that long and would need significant repairs to ensure the systems reach their designed life. The asphalt overlay is one example, the need to reline some pipes is another. A more modest reserve contribution could be established to cover these shorter life components so that they can be repaired or replaced as required. The contributions based on 40% of cost shown in the low scenario, are more consistent with this approach. Setting aside the \$181,000 per year would require tax increases now to meet needs in 80 years.
- 3. The City's ability to manage increases in operating costs.** The increased revenue in sewer fees and property taxes is sufficient to cover the increased operating costs that would result even if all the related costs increase proportionate to the increase in system size. It should be possible to add the new assets with a somewhat lower increase in costs reflecting the fact the assets are new and that existing resources may be sufficient to meet the relatively small increase in requirements. To the extent these economies can be achieved, there can be scope for reserve contributions that can meet needs in the foreseeable future.

Chapter 2

Introduction

Introduction

Background on this Project

West Fernie is a rural community covering approximately 0.55 square kilometers of land with an estimated population of 425. Fernie is an incorporated City with 16 square kilometers of land and population of 4,448. They are adjacent to each other, located approximately 30km west of the BC/Alberta boundary within the Regional District of East Kootenay (RDEK).

In 1955, a water supply system was installed in West Fernie and the West Fernie Waterworks District (WFWD) was set up as the owner of the infrastructure. The WFWD entered into an agreement with the City of Fernie (City) to operate this service. Fifty-seven years on, this infrastructure has aged considerably and is in constant need of repair. A moratorium on new connections has also been enacted.

While connected to the City's water system, there is no sewer infrastructure in West Fernie and residents rely on septic systems. In addition, West Fernie sits on a flood plain and hence is susceptible to flooding from the adjacent river.

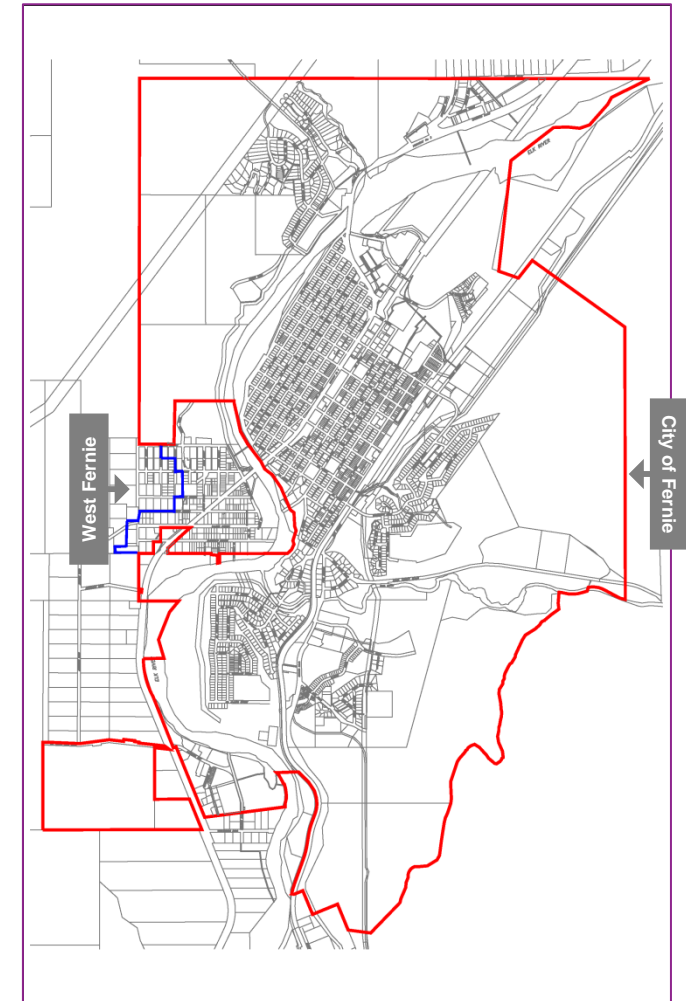
In proposing to upgrade the water supply system, it has been suggested that sewer and stormwater sewer infrastructure also be built in West Fernie. While the City's infrastructure has the capacity to handle this increased volume, the City has a policy that it would only provide municipal infrastructure services within its boundaries (the water arrangement in West Fernie being the one exception).

As a result, if the residents of West Fernie wish to connect to the City's sewer system, they would have to join the City.

To date, staff from the Regional District of East Kootenay has completed work to evaluate the costs, implications and approaches to upgrading the infrastructure in West Fernie. They have also hosted a number of community meetings in West Fernie to gauge community support for joining the City.

The RDEK now want to know the benefits and costs to the City of Fernie if the boundary were to be extended to include West Fernie.

Proposed Area of Restructuring



Source: City of Fernie

Background on the Proposed Infrastructure Project

According to an Information Package published by the RDEK in September 2011, the infrastructure project would include:

- “Upgrading the deteriorating water distribution system with continued service from the City of Fernie;
- Installing water meters on each of the active water connections in West Fernie;
- Installing a new sanitary sewer collection system connected to the existing City of Fernie system and treatment plant;
- Installing a stormwater sewer system with services to properties on the south side of the highway and improving drainage for the north side of the highway; and
- Road reconstruction to City of Fernie rural standard for all roads affected by construction.”

The cost of these upgrades were identified in a January 2011 consulting report by Urban Systems Ltd. Those costs were as follows:

Water Distribution	\$3.1m
Sanitary Sewer	\$4.3m
Stormwater Sewer	\$3.7m
Road Reconstruction	\$3.5m
Total Estimated Project Costs	\$14.6m

The RDEK has outlined the following plan to fund the project:

- **80% [\$11.6m] would be funded through grants.** \$2-million of this funding has already been secured: \$1m through the RDEK’s Community Works component of the Gas Tax Fund and another \$1m from the Elk Valley Tax Sharing (Mine Tax) funds. The remaining \$9.6m still needs to be secured.
- **20% [\$3m] would be funded through taxation.** A Parcel Tax would be levied on the 234 properties in the West Fernie area to cover the annual payments on the \$3-million balance to be funded through debt.

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Workplan

Our approach to completing this work involved four steps:

1. **Project Kick-Off.** This involved two one-hour teleconference calls with representatives of the RDEK and the City to:
 - Confirm our understanding of the project requirements;
 - Arrange for the collection of available data;
 - Identify other data sources we can pursue; and,
 - Establish a progress reporting protocol.

2. **Data Collection.** We worked with representatives from the RDEK and the City to first identify what revenues and expenses would be impacted by the boundary extension. This involved:
 - Discussing how property taxes would likely be assessed to residents in West Fernie;
 - Reviewing the City’s 2012 Operating Budget and agreeing what areas would be impacted;
 - Working with the RDEK to determine how their budget allocation calculations would change; and,
 - Consulting with the Police Services Division (BC Ministry of Justice) to discuss the impact on policing.Once these areas were confirmed, relevant data was collected.

3. **Analysis.** The information collected was used in a high-level financial model to calculate the ranges of additional revenues and expenses that the City could realize.

4. **Reporting.** The key findings and conclusions from our analysis are included in this report.

Understanding this Report

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Chapter 1 provides a summary of key findings and conclusions.

Chapter 2 (this chapter) provides background information and context for the report.

Chapter 3 provides an overview of the communities involved and how services are delivered. This provides important context for the composition of the extended boundary as well as how the provision of services would change.

Chapter 4 outlines our analysis and key findings on the benefits and costs to the City of extending its boundary to include West Fernie. The financial details presented highlight an estimated range of new revenues and expenses that could be realized by the City over a five year period between 2014-2018. The major categories discussed are:

- Sewer
- Waterworks
- Policing
- Fire
- Roads
- City's Operating Budget (All Other Areas)

Chapter 5 illustrates the estimated impact on taxpayers in the City and West Fernie.

Finally, Chapter 6 outlines conclusions for the City and RDEK to consider as it moves forward.

Timeframe

1. While the boundary extension is likely to occur later, it was agreed with the RDEK that this analysis would assume that it would occur on January 1, 2014.
2. The water, sewer and stormwater project would be completed within a year, and hence any new revenue, expenses and debt charges would be realized starting in 2015.

Baseline

3. The City and RDEK's 2012 Operating Budgets were used as our baseline for calculating revenues and expenses. A rate of 3% was used for calculating year-over-year increases in expenses.

New Debt

4. It is assumed that the capital costs would be \$14.6M as outlined in the Urban Systems Ltd. report and that 80% of the capital costs would be covered by grants and the remaining 20% would be borrowed. The \$3-million would be borrowed from the Municipal Financing Authority (MFA) based on their terms, conditions and interest rate.
5. A Parcel Tax would be charged to residents in West Fernie to cover the cost of new debt for the water, sewer and stormsewer project. This Parcel Tax was calculated as follows: $(\text{Principal} + \text{Interest Payment}) \div 25 \text{ years} \div 234 \text{ properties}$.
6. Aside from the new debt to complete the infrastructure upgrades, the City would not take on any additional debt from the RDEK.
7. Given that the principal and interest charges would be covered by the Parcel Tax in West Fernie, they have not been itemized in the analysis in this report.

Amortization

8. Since amortization is a non-cash expense, it is not included in the analysis.

Reserves

9. The analysis remained consistent with the City's current practice of setting aside cash reserves related to major capital assets. The high scenario assumes that 80% of the full cost of the asset would be set aside over the life of the assets. The low scenario assumed that 40% of the cost would be set aside. The remaining costs of replacing the assets at the end of their useful life would be funded from other sources (e.g. grants, user fees, property taxes) at that time.
10. Based upon information provided by the City, the following 'useful life' periods were used in calculating reserve allocations: Sewer (80 years), Water (80 years), Roads (40 years).

Transitional Funding

11. Aside from five-year transitional assistance for road maintenance from the Ministry of Transportation and Infrastructure, we did not account for any transitional funding that the City and/or RDEK could receive to defray the costs of the restructuring.

Elk Valley Property Tax Sharing Agreement

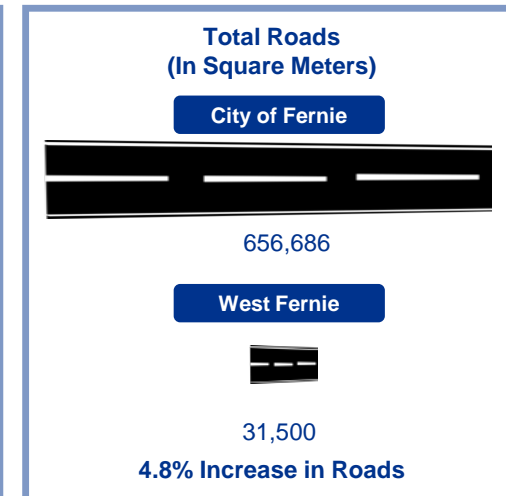
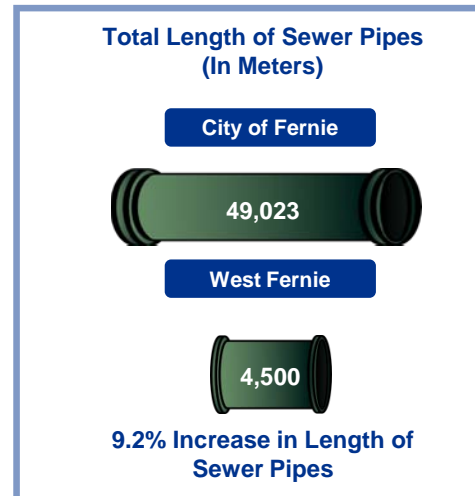
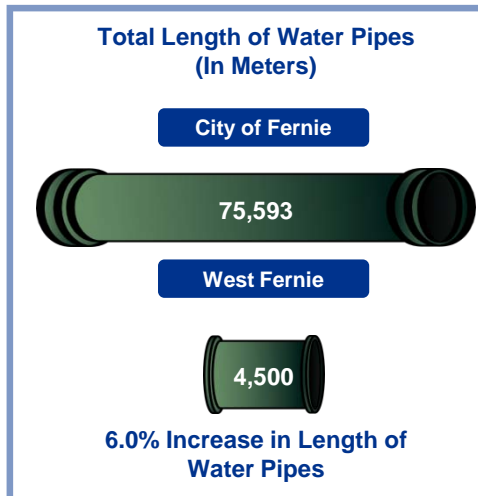
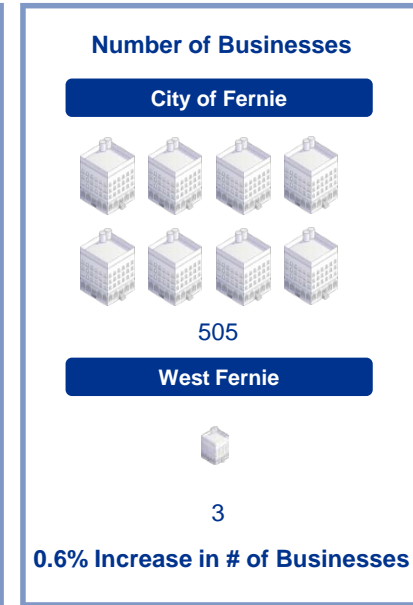
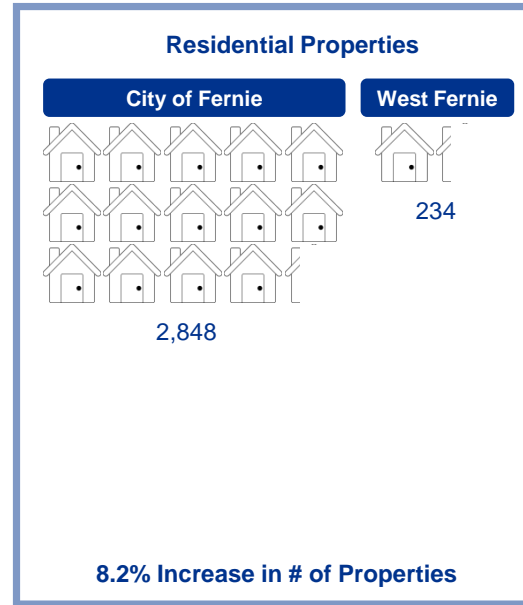
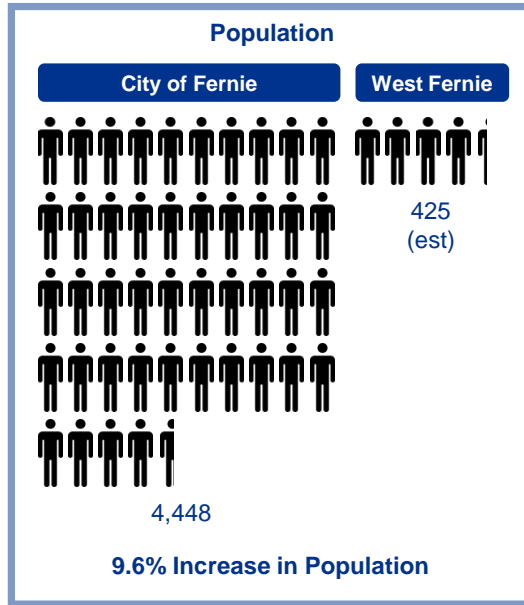
12. No reallocation of the shared tax revenue was included in the analysis for this report.

Chapter 3

Community Overview & How Services are Delivered

Key Highlights

- Upon extending the boundary of Fernie to include West Fernie:
 - Population would increase by 9.6%
 - Number of properties serviced would increase by 8.2%
 - Number of businesses within the City would increase by 0.6%
- The total length of water pipes in the City would increase by 6.0%
- The total length of sewer pipes in the City would increase by 9.2%
- The total area of roads in the City would increase by 4.8%



Key Highlights

- The rate for residential properties in the City is currently 39.4% higher than in West Fernie
- The rate for business properties in the City is currently 24.5% higher than in West Fernie
- The rate for farm properties in the City is currently 22.8% higher than in West Fernie
- The City's total assessed value would increase by approximately 5.8%

The following table provides an overview of 2012 property tax rates that are assessed within each area (rounded to three decimal places).

Property Class ¹	Area	Assessed Value	Rates (per \$1,000 of taxable value)					Total ³
			General Municipal	RDEK	Police	Rural Fire	Other ²	
Residential	City of Fernie	\$959,535,400	3.542	1.225	0.226	n/a	2.714	7.705
	West Fernie	\$62,974,800	n/a	0.988	0.116	0.995	3.43	5.529
Business	City of Fernie	\$121,241,601	8.694	3.005	0.553	n/a	6.972	19.224
	West Fernie	\$464,200	n/a	2.421	0.284	2.438	10.29	15.44
Utilities	City of Fernie	\$1,465,895	40	13.828	0.79	n/a	15.265	69.883
	West Fernie	\$189,600	n/a	3.4587	0.4050	3.483	19.91	27.26
Farm	City of Fernie	\$6,912	3.542	1.225	0.226	n/a	7.118	12.110
	West Fernie	\$5,241	n/a	0.988	0.116	0.995	7.76	9.86

Notes

- 1 The City of Fernie has three other Property Tax classes (supportive housing, light industry and recreation), however there are no such buildings in the West Fernie area.
- 2 The "Other" rate category includes: Regional Hospital District, BC Assessment, MFA, School, Street Lights (West Fernie only) and Provincial Rural (West Fernie only)
- 3 The "Total" column may not add due to rounding

Upon extending the boundary of the City to include West Fernie
the City's total assessed value would increase by approximately 5.8%

Key Highlights

- The City already provides water supply, fire protection and waste collection services in West Fernie
- The key areas where the City would have to take over service provision include sewer collection and treatment, bylaw enforcement, building inspection, planning & development and street operations and maintenance

The following table provides an overview of how services are delivered in each community.

	City of Fernie	West Fernie
Political Representation	Mayor and City Council. The Mayor is a member of the RDEK Board	RDEK, Electoral Area A Director
Property Taxes	All are paid directly to the City	All are paid directly to the Ministry of Finance with those relating to RDEK services being forwarded to the RDEK
Water Supply	Provided by the City. Residents pay a water fee.	Owned by the WFWD but operated by the City of Fernie. Residents pay a water fee to the City.
Sewer	Provided by the City	None, all rely on individual septic systems
Stormwater Sewer	Provided by the City	None
Policing	Provided by the RCMP Provincial Force	Provided by the RCMP Provincial Force
Fire	Provided by the City	Provided by the City of Fernie's Fire Department. The RDEK provides funding to the City for servicing this area.
Garbage & Recycling Collection	Collection provided by the City. Residents pay a waste collection fee. The RDEK owns and operates the Transfer Stations, and the City contributes funding through its RDEK requisition.	Provided by the City of Fernie. West Fernie residents pay a waste collection fee. The RDEK owns and operates the Transfer Stations.
Services provided by RDEK to West Fernie which the City would have to provide	n/a	Administration, bylaw enforcement, building inspection, planning & development, parks and trails
Services provided by the Ministry of Transportation to West Fernie which the City would have to provide	n/a	Street maintenance, snow removal, traffic services
Services provided by RDEK to all areas	911, Regional Airport, Solid Waste Management, Elk Valley Transit, Invasive Plant Control, Elk Valley Emergency Program, Elk Valley Victim Assistance, Regional Parks, Library Grants	
Services within the City that West Fernie residents already use	Arena, community centre, aquatic centre, recreation programs, drop-in centre, curling club, Heritage library, arts station, courthouse	

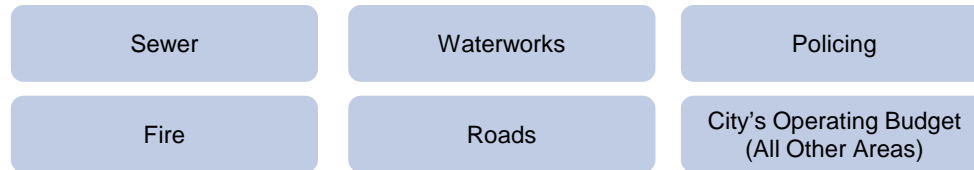
Chapter 4

Benefits and Costs to the City of Fernie

Key Highlights

- The benefits and costs were grouped into six categories: sewer, water, policing, fire, roads and the City's Operating Budget (All Other Areas)
- The slides that follow discuss and provide cost estimates for each of the six areas
- Much of the increase in expenses is expected to be offset by new property taxes collected from West Fernie residents

During the Data Collection step of this project additional revenues and expenses that could be realized by the City in extending the boundary to include West Fernie were identified. These impacts were grouped into six categories:



The slides that follow discuss how each area is impacted, including a low and high range scenario of the potential cost to the City of Fernie. These scenarios include estimates for new revenues, new expenses as well as the total net impact.

Much of the increase in expenses are expected to be offset by new property taxes collected from West Fernie residents. The following table shows the expected new property tax revenue that would be collected from West Fernie. This was calculated by applying the City's 2012 property tax rates to the assessed value of properties in West Fernie. Year-over-year increases of 4.6% were used based on the City's current financial plan.

	2014	2015	2016	2017	2018
Property Taxes	\$ 256,806	\$ 268,619	\$ 280,975	\$ 293,900	\$ 307,420

Key Highlights

- The rate of connection to the system would influence revenues – as residents who do not connect would not pay a sewer fee
- Revenue from sewer fees and the tax would cover increases in operating costs in the Low Scenario once most properties are connected, but not under the High Scenario

Overview

The City currently charges a sewer fee (planned to be \$289.92 in 2014 at which point it is planned to be fixed for the near term) to each property that is connected to the sewer system. A \$54 sewer tax is also charged to each property that is, or has the potential to be, connected to the sewer system. Given that residents from the West Fernie area would have the choice of whether or not to connect to the system, our estimates have assumed a gradual connection to the system (and by extension a gradual increase in revenues collected). The calculations assume 80% (high) to 90% (low) of properties would be connected by 2018 so that we can understand the growth in revenue over the period.

The sewer maintenance and plant operating costs are expected to increase proportional with the increase in pipe length (9.2%). In the High Scenario the increase is applied to all costs, while in the Low Scenario it is only applied to variable costs, expecting some benefits of scale.

The contribution to reserves is calculated in the High Scenario based on 80% of the cost of the storm and sanitary sewer works (\$8.0 million) divided by the 80 year expected lifetime of these assets. The Low Scenario shows an alternative approach based on a contribution to reserves based on 40% of the full cost, intended to provide the funds required to conduct any major repairs.

Under the Low Scenario, the estimated sewer fee and tax would cover the increased costs by 2017. However, under the High Scenario, this new revenue would not be sufficient to cover either operating expenses or contribution to reserves.

	Low Scenario					High Scenario				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
New Revenue						New Revenue				
Sewer Fee	\$ -	\$ 40,705	\$ 47,489	\$ 54,273	\$ 61,057	\$ -	\$ 27,137	\$ 33,921	\$ 40,705	\$ 54,273
Sewer Frontage Tax	\$ -	\$ 12,636	\$ 12,636	\$ 12,636	\$ 12,636	\$ -	\$ 12,636	\$ 12,636	\$ 12,636	\$ 12,636
<i>Sub-Total of New Revenue</i>	\$ -	\$ 53,341	\$ 60,125	\$ 66,909	\$ 73,693	\$ -	\$ 39,773	\$ 46,557	\$ 53,341	\$ 66,909
New Expenses						New Expenses				
Service of Supply	\$ -	\$ 8,765	\$ 9,028	\$ 9,299	\$ 9,578	\$ -	\$ 23,631	\$ 24,340	\$ 25,071	\$ 25,823
Sewer Plant Operations	\$ -	\$ 16,581	\$ 17,079	\$ 17,591	\$ 18,119	\$ -	\$ 39,870	\$ 41,066	\$ 42,298	\$ 43,567
Reserves	\$ -	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ -	\$ 80,000	\$ 80,000	\$ 80,000	\$ 80,000
<i>Sub-Total of New Expenses</i>	\$ -	\$ 65,346	\$ 66,107	\$ 66,890	\$ 67,697	\$ -	\$ 143,502	\$ 145,407	\$ 147,369	\$ 149,390

Key Highlights

- The City already provides water supply services to the West Fernie area, hence operating costs are not expected to increase
- The negative net impact illustrates the potential impact on allocations to capital reserves

Overview

Since the City already provides water supply services to the West Fernie service area, it is not expected that their operating costs would increase. In addition, residents in the area already pay the \$316 water fee to the City and hence no new revenues from that fee are expected.

The only additional expense anticipated relates to capital reserves.

The contribution to reserves is calculated in the High Scenario is based on 80% of the cost of the new water system (\$3.1 million) divided by the 80 year expected lifetime of these assets. The Low Scenario shows an alternative approach based on a contribution to reserves based on 40% of the full cost, intended to provide the funds required to conduct any major repairs.

	Low Scenario					High Scenario				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
New Revenue						New Revenue				
<i>None</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Sub-Total of New Revenue</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New Expenses						New Expenses				
Reserves	\$ -	\$ 15,500	\$ 15,500	\$ 15,500	\$ 15,500	\$ -	\$ 31,000	\$ 31,000	\$ 31,000	\$ 31,000
<i>Sub-Total of New Expenses</i>	\$ -	\$ 15,500	\$ 15,500	\$ 15,500	\$ 15,500	\$ -	\$ 31,000	\$ 31,000	\$ 31,000	\$ 31,000

Key Highlights

- The combined population of the restructured boundary would be 4,873 (based on 2011 census)
- Municipalities that surpass the 5,000 population mark take on greater responsibility for policing costs: 70% of the cost of police officers, 100% of the cost of support staff, and 100% of accommodation costs
- If the population were to rise above 5,000 residents, the City would incur approximately \$1.2-million in new costs starting in 2017

Overview

Municipalities like the City with a population of under 5,000 residents are policed by the RCMP through an arrangement with the Government of BC. This is funded through a special levy on property taxes which is a direct flow-through to the Government of BC.

Every five years after a census is completed, the Police Services Division (BC Ministry of Justice) examines whether any communities reach certain thresholds. In the event that a community's population rises above 5,000, the municipality must take on a greater responsibility for the cost of policing: 70% of the cost of police officers, 100% of the cost of support staff, along with 100% of accommodation costs. In these instances, BC's Ministry of Finance confirmed that the community is expected to cover the cost of policing through general revenues and not through any special policing levy.

The combined populations of the City and West Fernie (based on the 2011 census) is 4,873. At the time of the restructuring, the City would be responsible for completing a census of the new area. Even in the event the combined population is above 5,000, the Police Services Division confirmed that the existing arrangement would continue under a Restructure Assistance Program until at least 2017 once the 2016 census was completed. If at that point the population was still above 5,000 residents, the City would take on the additional costs.

The estimated ranges below highlight what would happen if the population stayed below (low) or went above (high) the 5,000 resident threshold in the 2016 census. The cost estimates for 2017 and 2018 in the High Scenario were calculated based on information received from the Police Services Division, and is based on the City requiring eight officers and two municipal staff. Revenues in the High Scenario for 2017 & 2018 reflect what the City could retain if they lumped the existing policing levy into the current General Municipal rate.

It should also be noted that the current police detachment building in the City may require substantial renovations or replacement. In the scenario where the City took on responsibility for 100% of accommodation costs, replacing this detachment could add a significant cost not accounted for in this analysis.

	Low Scenario					High Scenario				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
New Revenue						New Revenue				
New Revenue from Police Portion of Property Tax	\$ 15,998	\$ 16,733	\$ 17,503	\$ 18,308	\$ 19,150	\$ 15,998	\$ 16,733	\$ 17,503	\$ -	\$ -
Police Property Tax Rate Lumped into General Rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 375,783	\$ 393,069
<i>Sub-Total of New Revenue</i>	\$ 15,998	\$ 16,733	\$ 17,503	\$ 18,308	\$ 19,150	\$ 15,998	\$ 16,733	\$ 17,503	\$ 375,783	\$ 393,069
New Expenses						New Expenses				
Flow through of additional property tax collected	\$ 15,998	\$ 16,733	\$ 17,503	\$ 18,308	\$ 19,150	\$ 15,998	\$ 16,733	\$ 17,503	\$ -	\$ -
Policing Costs									\$ 1,018,974	\$ 1,049,543
Municipal Employees									\$ 144,909	\$ 149,257
Accommodation									\$ 46,371	\$ 47,762
<i>Sub-Total of New Expenses</i>	\$ 15,998	\$ 16,733	\$ 17,503	\$ 18,308	\$ 19,150	\$ 15,998	\$ 16,733	\$ 17,503	\$ 1,210,254	\$ 1,246,562



Benefits and Costs to the City of Fernie Fire

Key Highlights

- The City currently provides fire services to West Fernie through the 'Fernie Rural Fire Protection' arrangement
- In 2012, the City received \$370,000 from the RDEK to provide this service, approximately 16% of it related to West Fernie.
- The reduced grant would be offset by the property taxes West Fernie residents would pay to the City
- Estimated increases in expenses are related to overtime costs for responding to emergencies on the stretch of Hwy 3 that runs through West Fernie

Overview

The City's fire service currently employs six full-time firefighters who are supported by approximately twenty volunteer firefighters. At any given time, there are two full-time firefighters working and whenever an emergency call is made where another firefighter is called in to work, the City incurs overtime expenses.

The City already provides fire services in West Fernie, along with other surrounding areas, through the 'Fernie Rural Fire Protection' arrangement. To provide this service, in 2012, the City received \$370,000 from the RDEK. Since this revenue is calculated in part on the assessed values of properties being served in the rural protection area, the RDEK estimates that they would reduce their payment to the City by 16% (\$59,200). It is expected that this would be offset by new property taxes collected by residents in West Fernie.

The only additional expense that the City would incur is overtime expenses for providing emergency response services on the portion of Hwy 3 which runs through West Fernie; something not included in the existing Fernie Rural Fire Protection arrangement. As a result, we have assumed a 2% increase in overtime costs for the High Scenario and 1% increase for the Low Scenario.

It is not anticipated that any new capital equipment would be required.

	Low Scenario					High Scenario				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
New Revenue						New Revenue				
Reduction in revenue on fire contract with Region	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)
<i>Sub-Total of New Revenue</i>	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)
New Expenses						New Expenses				
Fire Protection	\$ 800	\$ 824	\$ 849	\$ 874	\$ 900	\$ 1,600	\$ 1,648	\$ 1,697	\$ 1,748	\$ 1,801
<i>Sub-Total of New Expenses</i>	\$ 800	\$ 824	\$ 849	\$ 874	\$ 900	\$ 1,600	\$ 1,648	\$ 1,697	\$ 1,748	\$ 1,801

Key Highlights

- The City would take over responsibility from the Ministry of Transportation and Infrastructure (MOTI) for road maintenance and operations
- The City would receive \$152,000 over five years in transitional assistance from MOTI

Overview

Road maintenance and operations, including snow removal, in West Fernie is currently provided by the Ministry of Transportation and Infrastructure (MOTI) via a third-party contractor.

The MOTI offers transitional assistance to newly incorporated municipalities as well as to those who have had a major boundary extension. They retain those highways and structures of provincial interest and for other roads that become a municipal responsibility, would either continue to provide road maintenance services for 5 years or give the equivalent in financial assistance. The MOTI estimates that the financial assistance would be approximately \$152,000 which would be split equally over five years. For the purposes of our analysis, we have assumed that the City would opt into receiving the financial assistance.

Street, snow removal and traffic services costs are expected to rise proportional with the increase in the amount of roads (4.8%). In the High Scenario the increase is applied to all costs, while in the Low Scenario it is only applied to clearly variable costs, expecting some benefits of scale.

An allowance of \$3,800 per year (being the total of 4.8% of 2012 external snow removal contracts and 4.8% of 2012 snow removal operating supplies) has been accounted for in both the Low and the High scenarios starting in 2014 and increasing by 3% every year. A variety of options may be available to the City for dealing with additional snow removal service costs – these may include increasing the use of existing external contracts and equipment, purchasing new equipment and/or using additional external services and/or renting additional equipment, and/or changing service levels. The City would decide which option or combination of options best suit its needs.

The contribution to reserves is calculated in the High Scenario based on 80% of the cost of the road reconstruction (\$3.5 million) divided by the 40 year expected lifetime of these assets. The Low Scenario shows an alternative approach based on a contribution to reserves based on 40% of this amount, intended to provide the funds required to conduct any major repairs.

	Low Scenario					High Scenario				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
New Revenue						New Revenue				
<i>Transitional Funding (Temporary)</i>	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400
<i>Sub-Total of New Revenue</i>	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400
New Expenses						New Expenses				
Streets	\$ 9,168	\$ 9,443	\$ 9,726	\$ 10,018	\$ 10,319	\$ 20,089	\$ 20,692	\$ 21,313	\$ 21,952	\$ 22,610
Street Lighting	\$ 9,548	\$ 9,835	\$ 10,130	\$ 10,433	\$ 10,746	\$ 9,548	\$ 9,835	\$ 10,130	\$ 10,433	\$ 10,746
Snow Removal - Streets	\$ 15,955	\$ 16,434	\$ 16,927	\$ 17,434	\$ 17,957	\$ 29,042	\$ 29,913	\$ 30,810	\$ 31,735	\$ 32,687
Traffic Services	\$ 293	\$ 302	\$ 311	\$ 320	\$ 330	\$ 3,750	\$ 3,862	\$ 3,978	\$ 4,098	\$ 4,221
Reserves	\$ -	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ -	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000
<i>Sub-Total of New Expenses</i>	\$ 34,964	\$ 71,013	\$ 72,093	\$ 73,206	\$ 74,352	\$ 62,429	\$ 134,302	\$ 136,231	\$ 138,218	\$ 140,264

Benefits and Costs to the City of Fernie

City's Operating Budget (All Other Areas)

Overview

Four other areas of the City's Operating budget are expected to be impacted:

- Administration:** The City would pay a higher general liability insurance premium given that a major part of the calculation made by the Municipal Insurance Association of BC (MIABC) is based on population size. The same estimated expense was used for both the High and Low scenarios.
- Bylaw Enforcement:** In the first two years of the boundary extension, it is anticipated that the City's bylaw department would need additional resources to educate West Fernie residents about the City's bylaws and to establish a pattern of compliance. The High Scenario anticipates the need to increase salary expenses by 50% in the first two years, with the Low Scenario anticipating salary expenses of 20% over the same time period. For 2016-2018, increases in the budget in the High Scenario are based on the proportional increase in the number of properties being served (8.2%). In the Low Scenario only a quarter of the increase in the High Scenario is applied.
- Building Inspection:** There is currently a moratorium on new builds in the West Fernie area. With this moratorium lifted, it is anticipated that residents in West Fernie could apply for building permits which would bring in new revenues but also require a greater number of inspections. The High Scenario anticipates 21 permits being sought in the first two years. The Low Scenario anticipates 7 permits in the same first two years. The revenue was calculated at the same ratio (\$103,000 in expense to \$75,000 in revenue) as the current operating budget.
- Planning & Development:** Operating costs are expected to rise proportional to the increase in the number of properties (8.2%). The High Scenario applies this 8.2% increase to the current operating budget, while the Low Scenario applies a 5% increase. In addition, both Scenarios provides a \$200,000 allocation in 2014 for the City to hire a consultant to update the Official Community Plan and development related bylaws.

	Low Scenario					High Scenario				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
New Revenue						New Revenue				
Building Permits	\$ 3,630	\$ 3,630	\$ 3,410	\$ 3,410	\$ 3,410	\$ 10,889	\$ 10,889	\$ 3,410	\$ 3,410	\$ 3,410
<i>Sub-Total of New Revenue</i>	\$ 3,630	\$ 3,630	\$ 3,410	\$ 3,410	\$ 3,410	\$ 10,889	\$ 10,889	\$ 3,410	\$ 3,410	\$ 3,410
New Expenses						New Expenses				
Administration	\$ 3,276	\$ 3,374	\$ 3,475	\$ 3,579	\$ 3,687	\$ 3,276	\$ 3,374	\$ 3,475	\$ 3,579	\$ 3,687
Bylaw Enforcement	\$ 12,172	\$ 12,537	\$ 1,969	\$ 2,028	\$ 2,088	\$ 30,430	\$ 31,343	\$ 7,874	\$ 8,111	\$ 8,354
Building Inspection	\$ 5,792	\$ 5,792	\$ 5,441	\$ 5,441	\$ 5,441	\$ 17,376	\$ 17,376	\$ 5,441	\$ 5,441	\$ 5,441
Planning & Development	\$ 230,319	\$ 37,229	\$ 38,346	\$ 39,496	\$ 40,681	\$ 249,823	\$ 57,317	\$ 59,037	\$ 60,808	\$ 62,632
Drainage	\$ 2,315	\$ 2,385	\$ 2,456	\$ 2,530	\$ 2,606	\$ 4,251	\$ 4,378	\$ 4,510	\$ 4,645	\$ 4,784
River Dyke Inspections	\$ 368	\$ 379	\$ 391	\$ 402	\$ 415	\$ 737	\$ 759	\$ 782	\$ 805	\$ 829
<i>Sub-Total of New Expenses</i>	\$ 254,242	\$ 61,696	\$ 52,078	\$ 53,477	\$ 54,918	\$ 305,891	\$ 114,546	\$ 81,118	\$ 83,389	\$ 85,727



Benefits and Costs to the City of Fernie

Summary of Net Impacts

Key Highlights

- The three factors which influence the results most are:

1. Policing
2. Treatment of capital reserves
3. The City's ability to manage increases in cost to service the extended area

Overview

The following table summarizes the total net impact by new revenues and expenses. The Low Scenario shows a positive net impact to the City of Fernie, while the High Scenario demonstrates a considerable negative net impact. Any deficits shown could be reduced or eliminated with transitional funding from the province.

The three factors which influence the results most are:

1. Policing
2. Treatment of capital reserves
3. The City's ability to manage increases in cost to service the extended boundary

	Low Scenario					High Scenario				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
New Revenues										
Property Taxes	\$ 256,806	\$ 268,619	\$ 280,975	\$ 293,900	\$ 307,420	\$ 256,806	\$ 268,619	\$ 280,975	\$ 293,900	\$ 307,420
Sewer Fee & Frontage Tax	\$ -	\$ 53,341	\$ 60,125	\$ 66,909	\$ 73,693	\$ -	\$ 39,773	\$ 46,557	\$ 53,341	\$ 66,909
Lost revenue on fire contract with Region	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)	\$ (59,200)
Building Permits	\$ 3,630	\$ 3,630	\$ 3,410	\$ 3,410	\$ 3,410	\$ 10,889	\$ 10,889	\$ 3,410	\$ 3,410	\$ 3,410
Transportation Transitional Funding (Temporary)	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400	\$ 30,400
Police Property Tax Rate Lumped into General Rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 375,783	\$ 393,069
Total New Revenues	\$ 231,635	\$ 296,789	\$ 315,710	\$ 335,419	\$ 355,722	\$ 238,895	\$ 290,480	\$ 302,142	\$ 697,634	\$ 742,007
New Expenses										
Sewer	\$ -	\$ 25,346	\$ 26,107	\$ 26,890	\$ 27,697	\$ -	\$ 63,502	\$ 65,407	\$ 67,369	\$ 69,390
Fire, Roads & Operating	\$ 290,006	\$ 98,533	\$ 90,020	\$ 92,557	\$ 95,171	\$ 369,920	\$ 180,496	\$ 149,047	\$ 153,355	\$ 157,792
Policing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,210,254	\$ 1,246,562
Contribution to Replacement Reserves	\$ -	\$ 90,500	\$ 90,500	\$ 90,500	\$ 90,500	\$ -	\$ 181,000	\$ 181,000	\$ 181,000	\$ 181,000
Total New Expenses	\$ 290,006	\$ 214,379	\$ 206,627	\$ 209,947	\$ 213,367	\$ 369,920	\$ 424,998	\$ 395,453	\$ 1,611,978	\$ 1,654,744
Net Impact of Operations	\$ (58,371)	\$ 82,410	\$ 109,083	\$ 125,472	\$ 142,355	\$ (131,025)	\$ (134,518)	\$ (93,312)	\$ (914,344)	\$ (912,737)

Chapter 5

Estimated Impact on the Taxpayer

Estimated Impact on the Taxpayer

How would the change impact taxpayers?

Key Highlights

- The choices that Council makes about capital reserves, and the City's ability to manage increases in operating costs due to the extended boundary, could materially impact whether property taxes would have to increase
- Taking on greater responsibility for policing could have a material impact on taxpayers
- Residents from West Fernie would have increased taxes, but a stable water supply, and can save the costs of maintaining their private sewage systems

City of Fernie Residents

The low scenario shows that the boundary extension could put the City in a positive position such that Council may be able to reduce taxes (or reduce an increase that would otherwise be required) as a consequence of the boundary extension.

The high scenario shows that Council may have to find ways to cover increased costs depending on the policy choices it makes on capital reserves and the City's ability to manage increases in operating costs due to the extended boundary. This challenge is further exacerbated if the City's population rises above 5,000 residents in the 2016 census. In this case, Council would have to find an additional \$834,471 to cover the cost of policing (net of the current contributions to policing).

Thus, in 2018, if the impact of the restructuring is dealt with solely through property taxes and nothing else, the average City resident** could expect the change to their property tax bill to fall in this range:

	Low Scenario	High Scenario
% Change	↓ 2.4%	↑ 15.4%
\$ Change (average)	↓ \$31	↑ \$200

**Note: In 2012, the average assessed value for a single family dwelling in the City of Fernie was \$385,297.

West Fernie Residents

Taxpayers in the West Fernie area would see a number of changes by joining the City of Fernie.

- The tax rate for residential properties would increase 39.4% to reach the City of Fernie rate – and then would also be adjusted as City of Fernie rates change as noted above.
- Each property that connects to the sewer system would be responsible for the costs of connecting, and would pay an annual sewer fee (planned to be \$289.92 starting in 2014) and a sewer frontage tax (\$54)
- Each property that connects to the sewer system would avoid the costs of maintaining and replacing their septic system.
- Each property would pay a Parcel Tax to cover the cost of the upgraded infrastructure. The following table illustrates the anticipated range of what the tax could be:

Interest Rate	3.3% (Current MFA Rate)	4%	5%	6%
Parcel Tax per Property	\$730	\$820	\$948	\$1,077

Chapter 6

Conclusions

The financial viability to the City of Fernie of extending the boundary to include West Fernie is largely dependant on three key items:

1. The size of the City's population and its impact on policing
2. Policy choices on capital reserves.
3. The City's ability to manage increases in operating costs.

The financial viability to the City of Fernie of extending the boundary to include West Fernie is largely dependant on three key items:

1. **The size of the City's population and its impact on policing.** If the City's population rises above 5,000, it would be responsible for approximately \$1.2-million in new costs for policing. This would outweigh the current police tax revenues that could be retained (estimated at \$376,000 in 2017) if the current police portion of the property tax rate was added to the general municipal rate. There is also the potential that the current police detachment building in the City would need to be replaced – adding even greater costs to the City. While there is always the potential that the current City could achieve the 5,000 population mark without the boundary extension due to economic growth, it is not anticipated to occur before 2016.
2. **Policy choices on capital reserves.** While the City has a goal of setting aside enough funds to cover the full cost of each asset over its useful life, it currently sets aside approximately 60% of the full cost. If the City were to set aside 80% of the cost for the \$14.6 million in new infrastructure being built in West Fernie, it would cost the City approximately \$181,000 in annual contributions to the reserves. It would, however, be setting aside money that would generally not be needed for 80 years (the expected life of water and sewer pipes). However, there are components of the assets that would not last that long and would need significant repairs to ensure the systems reach their designed life. The asphalt overlay is one example, the need to reline some pipes is another. A more modest reserve contribution could be established to cover these shorter life components so that they can be repaired or replaced as required. The contributions based on 40% of cost shown in the low scenario, are more consistent with this approach. Setting aside the \$181,000 per year would require tax increases now to meet needs in 80 years.
3. **The City's ability to manage increases in operating costs.** The increased revenue in sewer fees and property taxes is sufficient to cover the increased operating costs that would result even if all the related costs increase proportionate to the increase in system size. It should be possible to add the new assets with a somewhat lower increase in costs reflecting the fact the assets are new and that existing resources may be sufficient to meet the relatively small increase in requirements. To the extent these economies can be achieved, there can be scope for reserve contributions that can meet needs in the foreseeable future.

Addendum

**Alternate Scenario
Analysis**

Background

Subsequent to the final report, the RDEK requested that an additional scenario be analyzed by KPMG to assess the cost/benefits to the City if the boundary extension did not occur until the City's population reached 5,000 at the 2016 census. The following factors were assumed in the scenario:

- The City changes its policy and agrees to provide water and sewer services outside of its boundary on the understanding that the boundary extension will happen once the City reaches a population of 5,000 and is responsible for the higher policing costs;
- The infrastructure upgrade proceeds;
- The RDEK assumes ownership of the infrastructure, would be responsible for sewer and water line maintenance, and enters into a bulk water/sewer agreement with the City;
- The boundary extension does occur in 2017, assuming the City's population reached 5,000 at the 2016 census, and ownership of the water, sewer and road assets would be transferred to the City.

Based on the costs identified in the analysis, the RDEK and City would be able to determine what rates the City should charge RDEK for bulk water and sewer.

Timing

The analysis is based on the City's population reaching 5,000 at the 2016 census. It is also based on the infrastructure renewal being completed and operational by 2014. Hence, the revenue and costs for 2015 & 2016 reflect what would be expected before the boundary extension, with 2017 & 2018 reflecting a post-boundary extension world. If the City's population did not reach the 5,000 threshold in 2016, it is expected that the boundary extension would be delayed. In that case, the revenue and costs reflected in 2015 & 2016 would be reflective of the ongoing arrangement until the boundary was extended.

Assumptions

The assumptions used in the original analysis as it relates to increases in operating costs and treatment of capital reserves were applied, hence many of the revenue and operating cost estimates for 2017 & 2018 (once the extension occurs) are the same. The following changes or added assumptions were used for this analysis:

- While the City would have responsibility for providing water service and sewage treatment, the RDEK would have responsibility for maintaining the water and sewer system in West Fernie until the boundary extension occurred.
- The City would stop charging West Fernie residents the water fee in 2015 and 2016 while the RDEK owned the infrastructure. The "Minimum revenue expected from bulk water (sewer) contract" is shown as the amount by which the sewage treatment costs could be expected to increase with the new flows, and the amount by which the decrease in water revenues would exceed the elimination of the costs to maintain the water distribution system in West Fernie. It is assumed Fernie would increase those charges by 12.5% to cover administrative overhead costs.
- Having reached the 5,000 population threshold in the 2016 census, the City would incur a larger amount to the cost of policing. In the High Scenario, this would increase further proportional with the increase in population related to the boundary extension (9.6%), while the Low Scenario assumes 75% of the High Scenario increase.

Additional Scenario – Results & Analysis

As was done in the original analysis, the City's current property tax rates were adjusted into future years to estimate the revenue from West Fernie residents. If the City's population does reach 5,000 in the 2016 census, they would be responsible for over \$1-million in new policing costs which are expected to be covered through increased property taxes. Hence, the property tax revenue increase shown in this analysis is likely lower than would actually occur once overall City taxes increased to accommodate policing costs.

The following table summarizes the total net impact on the City of Fernie.

	Low Scenario					High Scenario				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
New Revenues										
Property Taxes	\$ -	\$ -	\$ -	\$ 293,900	\$ 307,420	\$ -	\$ -	\$ -	\$ 293,900	\$ 307,420
Minimum Revenue Expected from Bulk Sewer Contract	\$ -	\$ 16,544	\$ 17,040	\$ -	\$ -	\$ -	\$ 39,870	\$ 41,066	\$ -	\$ -
Admin revenue related to operating sewer system	\$ -	\$ 2,068	\$ 2,130	\$ -	\$ -	\$ -	\$ 4,984	\$ 5,133	\$ -	\$ -
Sewer Fee & Frontage Tax	\$ -	\$ -	\$ -	\$ 66,909	\$ 73,693	\$ -	\$ -	\$ -	\$ 53,341	\$ 66,909
Minimum Revenue Expected from Bulk Water Contract	\$ -	\$ 28,901	\$ 27,986	\$ -	\$ -	\$ -	\$ 49,536	\$ 49,536	\$ -	\$ -
Admin revenue related to operating water system	\$ -	\$ 3,613	\$ 3,498	\$ -	\$ -	\$ -	\$ 6,192	\$ 6,192	\$ -	\$ -
Loss of Water Fee revenue	\$ -	\$ (59,408)	\$ (59,408)	\$ -	\$ -	\$ -	\$ (59,408)	\$ (59,408)	\$ -	\$ -
Water Fees	\$ -	\$ -	\$ -	\$ 59,408	\$ 59,408	\$ -	\$ -	\$ -	\$ 59,408	\$ 59,408
Lost revenue on fire contract with Region	\$ -	\$ -	\$ -	\$ (59,200)	\$ (59,200)	\$ -	\$ -	\$ -	\$ (59,200)	\$ (59,200)
Building Permits	\$ -	\$ -	\$ -	\$ 3,410	\$ 3,410	\$ -	\$ -	\$ -	\$ 3,410	\$ 3,410
Transportation Transitional Funding (Temporary)	\$ -	\$ -	\$ -	\$ 30,400	\$ 30,400	\$ -	\$ -	\$ -	\$ 30,400	\$ 30,400
Police Property Tax Rate Lumped into General Rate	\$ -	\$ -	\$ -	\$ 18,308	\$ 19,150	\$ -	\$ -	\$ -	\$ 18,308	\$ 19,150
Total New Revenues	\$ -	\$ (8,283)	\$ (8,754)	\$ 413,135	\$ 434,281	\$ -	\$ 41,174	\$ 42,520	\$ 399,567	\$ 427,497
New Expenses										
Sewer	\$ -	\$ 16,544	\$ 17,040	\$ 17,551	\$ 18,078	\$ -	\$ 39,870	\$ 41,066	\$ 42,298	\$ 43,567
Water	\$ -	\$ (30,507)	\$ (31,422)	\$ -	\$ -	\$ -	\$ (9,872)	\$ (9,872)	\$ -	\$ -
Fire, Roads & Operating	\$ -	\$ -	\$ -	\$ 292,555	\$ 101,169	\$ -	\$ -	\$ -	\$ 353,355	\$ 163,793
Policing	\$ -	\$ -	\$ -	\$ 86,729	\$ 89,330	\$ -	\$ -	\$ -	\$ 115,638	\$ 119,107
Contribution to Replacement Reserves	\$ -	\$ -	\$ -	\$ 90,500	\$ 90,500	\$ -	\$ -	\$ -	\$ 181,000	\$ 181,000
Total New Expenses	\$ -	\$ (13,963)	\$ (14,382)	\$ 487,336	\$ 299,077	\$ -	\$ 29,998	\$ 31,194	\$ 692,292	\$ 507,467
Net Impact of Operations	\$ -	\$ 5,681	\$ 5,628	\$ (74,200)	\$ 135,204	\$ -	\$ 11,176	\$ 11,325	\$ (292,725)	\$ (79,970)

In 2015 & 2016, as a result of the RDEK retaining ownership of the water and sewer infrastructure, the City could expect the following changes to occur:

- The City would no longer charge the water fee to West Fernie residents. Considerations for recovering this lost revenue through a bulk water and sewer arrangement is discussed on the next page.
- The City's costs for sewer plant operations would increase as a result of increased volume for treatment.
- The City's costs for water operations would decrease because it will no longer have to maintain the system in West Fernie.

The net result of these changes is positive for the City, primarily due to the 12.5% admin fee to the RDEK to operate the sewer and water system. Once the boundary extension occurs (assumed to be in 2017), the City would realize a deficit in 2017 solely as a result of the start up costs (\$200,000 in both scenarios to hire a consultant to update City by-laws). The City could be in a positive financial position if they chose to limit the scope of the by-law update, or completed it in-house. These costs could also be offset by transitional funding from the Province. In 2018, the Low Scenario shows a positive financial impact to the City which presumes, as the original analysis did, that the City sets aside a lower amount for capital reserves (equal to half of the amount assumed in the High Scenario) and is able to manage increases in operating costs due to the extended boundary. The High Scenario in 2018 illustrates what could happen if the City maintained its current position on capital reserves, along with operating costs increasing substantially as a result of the extended boundary.

This analysis did not account for administrative and other transitional costs related to the City stopping, and then restarting, the levying of the water fee to West Fernie residents. It is also possible that the City would expect the RDEK to make reserve contributions during the time that the Region owns the assets and to transfer the reserves to the City upon transfer of ownership, although given the life of the assets, a two year delay in reserve contributions would not be significant.

Bulk Water and Sewer Contract Revenue Considerations

At a minimum, it is expected that the City would want to charge the RDEK a rate that covers any additional expenses along with the lost revenue from forgoing the water fee charge. Hence, the minimum expected revenue shown in the financial analysis reflects that break-even scenario. It shows Fernie receiving bulk water revenues of \$32,513 in the low scenario to \$55,726 in the high scenario, which would be 55% to 94% of the \$59,408 in fees it currently receives to supply water (and the distribution system) to West Fernie residents. This is in the same range as the 75% of retail rates that RDEK pays for bulk water supply in another area of the Region.

On the sewer services, the forecast minimum bulk charges would be in the range of \$19,000 (low) to \$45,000 (high). This compares to revenues forecast by applying the Fernie sewer rates to various numbers of West Fernie residents (depends upon the rate of participation) of between \$30,000 and \$50,000. The ratio between the bulk sewer rate and the retail rate therefore depends upon both the final cost structure the bulk rate reflects and the participation rate – but is likely in the range of 63% to 90% for most viable scenarios.

The negotiation of bulk rates will have to consider the range of cost estimates as well as the expected participation rate to come to an appropriate conclusion. The issue of reserve contributions is probably not a significant consideration should a bulk supply agreement just last two years, but any agreement would have to consider the implications of a possible delay if the population does not achieve 5,000 by 2016, and the potential that the bulk supply agreement could last long. The City is unlikely to accept transfer of the infrastructure later in its life without some commensurate reserve funds.



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