



COUNCIL REPORT

To: Paul Gipps, CAO

Date: January 30, 2023

From: Warren Everton, Director of Finance/CFO

Subject: **Draft 2023 - 2027 Financial Plan, Supplemental Requests and Ten-Year Capital Plan**

RECOMMENDATION

THAT Council consider and resolve to direct staff to incorporate the supported supplemental budget requests, capital projects, additions and deletions into the City of West Kelowna's Financial Plan for 2023-2027; and

THAT Council consider and resolve to give first reading to City of West Kelowna 2023-2027 Financial Plan Bylaw No. 0304, 2023.

STRATEGIC AREA OF FOCUS

Invest in Infrastructure – We will invest in building, improving and maintaining quality infrastructure to meet the needs of, and to provide a high quality of life for, current and future generations.

Economic Growth and Prosperity – We will work with our partners on the Westside and throughout the region to advocate for and support efforts aimed at helping West Kelowna businesses prosper. With a focus on the future, we will advance opportunities to expand our economy, increase employment, and develop the community in ways that contribute towards prosperity for all.

Strengthen our Community – We will provide opportunities for the residents of West Kelowna to build connections, celebrate successes, embrace the community's strengths and diversity, address shared needs, and contribute to shaping the community's future.

Investment in Infrastructure, Economic Growth and Prosperity, Safety and Wellbeing are the three areas of Strategic Priorities that financial planning touches. Forecasting revenues, expenses, capital and reserves is integral to a healthy and progressive young city.

BACKGROUND

LEGISLATIVE REQUIREMENTS:

Section 165 of the *Community Charter* requires that Council adopt, by bylaw, a five-year financial plan, which must establish the City's proposed expenditures, funding sources and transfers between funds. West Kelowna has a five-year Operating Plan and ten-year Capital Plan. The Operating Plan lists the revenues and expenses, which ultimately determines the tax requisition and rates and may be amended at any time.

DISCUSSION

The Financial Plan is a preeminent policy document for Council's consideration and reflects West Kelowna's continuing efforts to provide the highest quality of service in daily operations and in governance, as it relates to the strategic priorities and goals of the municipality.

This is the fourth-year staff have evolved the budget process that started with the 2020 plan. As you may remember Budget Guidelines were developed to better frame the budget process and further enable financial planning at the department level. Finance provides the tools and analysis to each of the departments and then uploads all the data to the financial system. For a second-year staff have updated the schedules that draw directly from the uploaded information in the financial system. This method was developed to avoid duplication of entries which was a major risk of error and accuracy in the past. Department schedules are again printed directly from the financial system and are in the landscape format for easier reading.

These schedules also display revenues as negatives, which is an accounting convention and hard coded in the programing. All the general ledger accounts are listed on the department schedules, except for Human Resources, Facilities, Water and Sewer where the accounts are rolled up into departmental sub-functions.

On January 30th and 31st staff will provide a detailed first review of the financial plan with Council and request feedback on the proposed revenues and expenditures.

Operating Budget

- Overall revenues and expenses are listed in summary form on the Schedule A (statutory requirement). Functional areas are further segmented out in Schedule B (General Fund), C (Sewer Fund) and D (Water Fund).
- Finance Department schedule shows a large increase (78%) which is due to the discretionary funds residing here on the contingency line. These funds are a culmination of the tax increase, net revenues vs expenses and the balancing factor for the GL budget listing.
- Legislative Services Department total is down 27% due to the election budget residing here in 2022.

- Police Services net costs are projected to rise by 14% in 2023, equating to 1.7% of the 5% draft tax increase. Two new police members are proposed for 2023 after adding three members in 2022, which at that time was a 2.4% tax increase.
- Fire and Rescue net costs are flat over 2022. Expenses are projected to be up 1.3% mostly due to wildfire mitigation costs and grants being moved to the balance sheet, as well as recovery revenue for outside services being up another 4.7%.
- Operations and Road Maintenance is the next largest expenditure outside of Police and Fire and is up 8.25% mostly due to wages, inflation, contracts and admin charges. Further to the wage increase, one Parks position was transferred to the department skewing the wage increase higher than expected but subsequently lower in the Parks Department.
- Solid Waste and Recycling has undergone a budget re-evaluation both on the revenue and cost side. When the current contract was implemented three years ago, staff's anticipated cost escalations over the first few years didn't materialize. The budget now reflects the City's actual experience with revenues down 9.4% and costs down 13.7% with a net revenue of just over \$300,000. This small surplus will be used for garbage cart replacements and to ensure mitigation of any potential fines from recycling contamination, which is an issue in the Central Okanagan.
- Recreation is seeing a drop in net expense (2%) due to a combination of expected revenue increase (18.3%) and a modest increase in expenses (1.6%)
- Facilities, much like Recreation is expected to see a drop in net expense (2%) with revenues rising by 9.7% and expenses only up 1.7%
- Parks Department has a very small change in net expense (0.3%) which is due in part to increased field rental revenue but mostly due to a change in salary allocations between Parks and Fleet as well as an FTE transfer to Roads.
- Administration Fees have again been updated for 2023 generating an increase of \$930,000 or 10.5%. Fees applied to capital projects and utilities made up most of the increase. These fees encompass the cost of the City's administrative functions that support the organization applied across all non-administrative departments and utilities.
- Changes to the way debt servicing costs appear on budget Schedules A and B vs the department schedules have created a larger variance on the summary for departments that have debt costs. Instead of the costs appearing as one line on Schedule A they now appear as part of the department total. For the General Fund this is most notable in Parks with its equipment financing and Facilities with the remaining arena debt.

Capital and Reserves

The overall capital budget is projected to be \$33.9 million and includes the following major projects:

- Equipment:
 - In the 2022 Budget there was about \$1.15 million in equipment purchases for the Stevens Road lift station approved to be funded through the Municipal Finance Authority's Equipment Finance Program. For 2023 equipment purchase and MFA financing is proposed for a fire tender truck at \$800,000, Powers Creek WTP intake screen and hypochlorite system for \$2.6 million, electrical instrumentation for the Rose Valley system at

- \$101,000 and an additional \$554,000 for the Stevens Road lift station on top of the \$1.15 million from 2022.
 - Other equipment funded by the equipment reserve include a sidewalk machine at \$340,000, capital crew excavator and trailer at \$435,000 and water reservoir excavator at \$205,000
- Roads:
 - Road Rehabilitation Program at \$1.2 million funded from Gas Tax and Capital Reserves.
 - Boucherie Pathway - at \$2.4 million
 - Butt Road sidewalk and Old Okanagan intersection for \$2.75 million funded from reserves and DCCs.
 - Casa Loma emergency egress at \$750,000.
- Pedestrian Infrastructure projects funded by Gas Tax include the yearly Sidewalk Program at \$1.5 million as well as walkway and stair repairs for \$200,000.
- The \$11 million Facilities plan includes:
 - Fire Hall #32 Replacement at \$8 million funded by long-term debt.
 - Fire Hall #33 Decontamination and gear room at \$500,000 funded from reserves.
 - Public Works Yard phase two at \$2 million funded from the operating surplus reserve.
- Information Services and Finance:
 - Main Software Platform:
 - Total estimated cost is \$2 million funded from software replacement and equipment reserves as well as the balance of the COVID Restart grant funds
 - The software replacement reserve stands at \$500,000 (including the 2023 transfer). At this pace it will take two more years of transfers to reach the \$1 million required from this reserve. However, considering that the project is up to three years in length the reserve should reach the required level by the end of the third year.
- Water
 - Powers Creek Intake Screen and Hypochlorite System valued at \$ \$2.6 million with an additional \$95,000 in design costs on top of the \$130,000 budgeted in 2022.
- Sewer
 - Steven's Road Lift Station Replacement originally budgeted at \$1.15 million in 2022 and re-estimated at \$2.372 million requires an additional equipment borrowing of \$554,000 and an additional \$568,000 in DCC funding. This is a high priority replacement as this legacy station continues to operate beyond capacity and is at risk of failure.
- Reserves and DCCs:
 - The total transfer to reserves projected in the General Fund budget is \$10.67 million, which is about \$239,000 greater than 2022 when adjusted for interest earned on the reserves.
 - Water, Sewer and Storm reserves are projected to increase by \$255,792 for a total of \$3.5 million in 2023

Consolidated Total Revenues and Expenditures – Schedule A

This schedule presents the various components of revenues and expenditures based on the proposed 5.0% tax increase. This increase includes a 1% infrastructure levy applicable in each of the next three years of the Financial Plan (original Council intent was to commit to a five-year program). 2023 would mark the third year of applying the levy and as in the previous year includes a framework on how the money is to be spent going forward.

Growth for 2023 has been projected at 1.75% which is conservative compared to 2022's actual growth of 2.5%. Factoring this in and recognizing that 2023 uses another \$1.1 million of COVID Restart Grant funds to supplement revenues, \$1.46 million remains in discretionary funds for Council to use towards the recommended resources and transfers to reserves or other projects and initiatives that Council wishes to pursue.

Schedule A Summary	Approved	Forecast
	2022	2023
Growth (Projected)	2.50%	1.75%
Previous Year Taxes	36,559,183	38,935,530
Growth	913,980	681,372
Budget Increase	1,096,775	1,557,421
Increase in Infrastructure Allocation	365,592	389,355
Current Taxes	\$ 38,935,530	\$ 41,563,677
Total Increase	6.50%	6.75%
Less Growth (from completed roll)	2.50%	1.75%
Net Tax Increase	4.00%	5.00%

Supplemental Full Time Equivalent (FTE) Requests

There are CAO reviewed FTE requests of \$1.186 million including \$402,000 for future policing resources (two new members) with current needs already accounted for in the expected member count in the Policing budget. Another factor affecting this budget is a \$272,000 (60%) increase to the Kelowna Police support contract.

2023 Capital Plan

The Capital Plan has been organized by project type and departmental sections. The general portion of the capital plan includes requests that total \$28.28 million, and the utility portion of the plan includes requests totalling \$5.64 million for an overall total capital budget of \$33.9 million. The funding regime for these projects are estimated to be from reserves at \$17.59 million, DCCs at \$4.27 million and debt at \$12.05 million.

2023 Grants in Aid Requests

With the application period closed at the end of October, Finance Staff have summarized the list of the organizations and applications and organized them in the budget schedules. A committee of the whole meeting on February 9th will give applicants a chance to present their applications to Council with a follow-up meeting on the 14th to decide on GIA limits and how to allocate the funds.

Next Steps

Finance and Communications staff are planning a number of public budget consultations for two weeks in February to engage with and collect feedback from the public on the 2023 – 2027 Draft Financial Plan. Two in-person sessions are planned for February 8th and 15th but if not feasible due to resurgent COVID-19 safety measures these sessions would move online much like what happened during the 2022 Budget. The feedback from these sessions will be presented to Council with any amendments incorporated as part of the 2nd and 3rd readings of the Financial Plan Bylaw.

Alternate Motion:

THAT Council direct staff to incorporate the supported Capital projects, supplemental budget requests, additions and deletions into the City of West Kelowna's Financial Plan for 2023-2027; and

THAT Council authorize a different tax increase and reduce the proposed transfer to reserve, and

THAT Council give first reading to City of West Kelowna 2023-2027 Financial Plan Bylaw No 0292, 2023.

REVIEWED BY

Corinne Boback, Legislative Services Manager / Corporate Officer

APPROVED FOR THE AGENDA BY

Paul Gipps , CAO

PowerPoint: Yes ☒ No ☐

Attachments:

Attachment 1 – Financial Plan Bylaw 0304, 2023, including Schedule A – 2023-2027 Financial Plan Summary and Financial Policies