



COUNCIL REPORT

To: Paul Gipps, CAO

Date: December 12, 2023

From: Warren Everton, Director of Finance / CFO

Subject: **Draft 2024 – 2028 Financial Plan, Supplemental Requests and Ten-Year Capital Plan**

RECOMMENDATION

THAT Council direct staff to incorporate the supported supplemental budget requests, capital projects, additions and deletions into the City of West Kelowna's Financial Plan for 2024-2028; and

THAT Council give first reading to City of West Kelowna 2024-2028 Financial Plan Bylaw No. 0312, 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.

Pursue 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 fifth-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 third-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 December 12th and 13th staff will provide a detailed first review of the financial plan with Council and request feedback on the proposed revenues and expenditures.

Operating Budget Variance Analysis

- 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 (155%) 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 up 25% due to one Customer Service FTE being included in this department.

- Council expenditures are up 16% due mostly to conferences, remuneration and public relations, which also houses community associations liability insurance.
- Administration department has increased 60% due mainly to the addition of the Deputy CAO position in 2023.
- Information Services is up 11.5% and accounts for 0.59% of the tax increase. This is primarily due to the inflationary increase in software and hardware licensing costs.
- Police Services net costs are projected to rise by 8% in 2024, equating to 1.8% of the draft tax increase. Per member costs have risen by \$18,267 or 9% for 2024. This applied to the current collator total of 28 members equates to \$508,676. Two new police members are also proposed for 2025 for a maximum authorization of 38 after adding two members in 2023 and three members in 2022.
- Fire and Rescue net costs are up 4.6% for 2024. Expenses are projected to be up 5.9% mostly due to wages and administration costs, as well as recovery revenue for outside services rising another 9.6%.
- Operations and Road Maintenance is the next largest expenditure outside of Police and Fire and is up 5% mostly due to wages, contract inflation and admin charges.
- Solid Waste, after going through a budget re-evaluation in 2023 reflects the City's actual experience with revenues up 8% and costs flat over 2023 with a net revenue of just over \$515,000. As in previous years this surplus will be used for garbage cart replacements and to ensure mitigation of any potential fines from recycling contamination, which is still an issue in the Central Okanagan.
- Building department revenues are expected to be up 14% with costs up 3.9%. Net revenue of \$862,000 expected which mitigates over 2% of taxation.
- Recreation is seeing an increase in net expense (11%) due to a combination of expected revenue increases (30.2%) and a corresponding increase in expenses (14.9%). Adult and youth program revenues are up 30% with Youth Centre costs expected to be up 73% to \$225,000.
- Facilities is expected to see no net change with revenues rising by 31.8% and expenses only up 11.2%. This is led by new lease revenues expected through governmental partnerships at the new City Hall.
- Parks Department is seeing a 5.7% change in net expense which is partly mitigated by higher field rental revenue, but costs are mostly affected by an increase in wages, overtime, admin charges and maintenance.
- Administration Fees have again been updated for 2024 generating an increase of \$760,000 or 8%. These fees encompass the cost of the City's administrative functions that support the organization applied across all non-administrative departments and utilities. The offsetting revenues appear in Schedule B1 – General Fund Revenues on the financial plan.

Capital and Reserves Overview

The overall capital budget is projected to be \$33.18 million and includes the following major projects:

- Equipment:
 - Proposed spending includes 21 projects for a total of \$1,669,000. Most notable include a Road Sweeper for \$530,000 and a Yard Loader for

- \$400,000. Both proposed to be funded through Municipal Finance Association (MFA) equipment borrowing regime.
 - Other equipment funded through the equipment reserve include three replacement trucks totalling \$253,000, two equipment trailers for \$150,000 and a drum roller at \$80,000 among others.
- Roads:
 - Road Rehabilitation Program at \$2.1 million up from \$1.2 million in 2023 funded from gas tax (\$1.2 million) and capital reserves (\$850,000). There is a proposed 1% tax increase to enhance capital reserves for this program.
 - Shannon Lake Road – WFN boundary to Swite Road with an estimated total of \$4,750,000 funded 72% from Development Cost Charges (DCC) and the balance from capital reserves.
 - Total budget for Roads is proposed at \$7,150,000.
- Pedestrian Infrastructure:
 - Projects funded by gas tax and infrastructure reserve include the yearly Sidewalk Program at \$1.5 million as well as multi-use path connections for \$380,000.
- The \$14.47 million Facilities plan includes:
 - Fire Hall #32: In addition to \$8 million in borrowing budgeted in 2023 there is another \$6.3 million in funding from reserves, DCC and recoveries in 2024.
 - Mount Boucherie Community Centre (MBCC): renovation and gymnasium addition for \$5.5 million funded by New Spaces Grant for \$3 million, Growing Communities Fund at \$1.5 million and the balance from reserves.
 - Score Clock and Gondola for Royal LePage Place at \$600,000 and energy retrofits at \$1.8 million funded through a grant for \$1.35 million and the balance through MFA equipment financing.
- Fire Department Equipment:
 - As part of the multi-year Fire plan a combined ladder and pumping truck called a Quint is proposed at \$1.9 million as well as two personnel transport vans for \$180,000.
- Information Services:
 - Significant items include hardware replacements of \$230,400 for 2024 along with two-way radio network design and construction at \$179,500. A number of Artificial Intelligence (AI) projects to automate low level tasks and streamline customer service are also planned for a total of \$104,000.
- Water
 - Powers Creek Diversion Structure tops the list at \$750,000 along with a Dam Safety Review and SCADA system upgrades each for \$250,000 along with various fire hydrant upgrades totalling \$225,000.
- Sewer
 - The Sewer Master Plan is the main capital item in 2024 at \$100,000.
- Reserves and DCCs:
 - The total transfer to reserves projected in the General Fund budget is \$14.26 million, which is about \$332,800 greater than 2023 when adjusted for interest earned on reserves.
 - Water, Sewer and Storm reserve transfers are projected to increase by \$126,677 for a total of \$4.173 million in 2024.

Consolidated Total Revenues and Expenditures – Schedule A

This schedule presents the various components of revenues and expenditures based on the draft 11.41% tax increase. This proposed increase is substantial and has not been taken lightly by management with considerable mitigation efforts to bring it down. The breakout of the percentage includes a base budget increase of 5.24%, as well as 3% increase for reserves, one of which is for the 75% increase in capital spending on the road rehabilitation program. The second 1% is to support general capital reserves similarly to the previous two years. The third 1% supports the infrastructure reserve allocation and is applicable in each of the next two years of the Financial Plan (original Council intent was to commit to a five-year program). 2024 marks the fourth year of applying the allocation and similar to 2023 includes a framework on how the money is to be spent going forward. In order to support the infrastructure pillar of Council’s strategic priorities it’s imperative that reserves are maintained at a robust level.

Growth for 2024 has been projected at 1.5% which is down from 2023’s 1.75% and 2022’s 2.5%. Factoring expected growth into the plan Council has \$3.01 million in discretionary funds for 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
	2023	2024
Growth (Projected)	1.75%	1.50%
Previous Year Taxes	38,935,530	41,563,677
Growth	681,372	623,455
Budget Increase (base plus options)	1,557,421	3,495,507
Increase in Infrastructure Allocation	389,355	415,637
Additional Transfer to Reserves & Roads	-	831,274
Current Taxes	\$ 41,563,677	\$ 46,929,549
Total Increase	6.75%	12.91%
Less Growth (pre-roll report)	1.75%	1.50%
Net Tax Increase	5.00%	11.41%*

* if all options selected (see following chart)

Supplemental Full Time Equivalent (FTE) Requests

The CAO and Senior Management Team have reviewed and rationalized the full-time equivalent (FTE) requests down to \$754,268 (7.6 FTE) funded through discretionary spending as well as \$663,635 (7.1 FTE) self-funded through various means such as janitorial contract savings, Housing Accelerator Fund revenues and capital project recoveries. Safety and Security planning process has identified the need for two new police members funded in future years (increasing authorization from 36 to 38) with the

funded collator increasing by two members (28 to 30) for \$438,900. This along with a cost per member increase of \$18,267 totalling \$508,676 make up most of the increase. Additionally, Police Services is proposing the creation of two civilian Watch Support Officer positions totalling \$185,000. Total cost for the Safety and Security initiatives is just under 1.187 million or a 2.86% of the indicated tax increase.

Base Budget Breakout	Amount	Tax %
Public Works Infrastructure Maintenance increases	117,000	0.28%
IS Licencing cost increase	245,563	0.59%
Road maintenance contract and internal costs	111,862	0.27%
Library cost increase (includes 2023 variance)	222,000	0.53%
Inrease in Rec/Parks/Facilities net of revenue	135,438	0.33%
Fire Services Plan	200,691	0.48%
Contingency for contractual considerations	1,296,985	3.12%
Offsetting interest revenue	-150,000	-0.36%
	2,179,539	5.24%
Infrastructure Funding Options		
Infrastructure Allocation 1%	415,637	1.00%
Capital Reserve & Road Rehab Allocation 2%	831,274	2.00%
	1,246,911	3.00%
FTE Staffing Options		
Resources for Current Service Level 7.6 FTE	754,268	1.81%
Service Increases (7.1 FTE fully funded at \$663,635)	0	0.00%
	754,268	1.81%
Safety and Security Options		
Policing per member cost increase (\$18,167 x 28)	508,676	1.22%
Policing collator increase (28 to 30 members)	438,900	1.06%
Policing - Watch Support Officers (2)	185,000	0.45%
Bylaw Officer Seasonal	54,283	0.13%
	1,186,859	2.86%
Subtotal	5,367,577	12.91%
Less Growth	-623,455	-1.50%
Total Tax Increase (All options)	4,744,122	11.41%
** See pages 51-52 of Budget Binder for further analysis of options		

2024 Capital Plan

The Capital Plan has been organized by department and project type. The general fund portion of the capital plan includes requests that total \$31.32 million, and the utilities portion of the plan includes requests totalling \$1,862,000 for an overall total capital budget of \$33.18 million. The funding regime for these projects are estimated to be 59% from reserves at \$19.4 million, 14% DCCs at \$4.6 million, 18% grants and recoveries at \$5.86 million and 9% debt at \$3.28 million.

2024 Grants in Aid Requests (GIA)

With the application period closed at the end of October, Finance staff have summarized the list of the organizations and applications and organized them into the GIA binder and budget schedules. A meeting to review applications, to decide on limits and how to allocate the funds has been set for January 9th. There has been an unprecedented volume of applications this year but currently the budget has the same level as 2023 allocated in anticipation of the deliberation meeting.

Next Steps

Early capital and resource approvals will follow the first reading of the budget bylaw. These are the items that have some level of urgency warranting management to request an earlier start than at the point of bylaw adoption.

Finance and Communications staff are also planning a number of public budget consultations over ten days in late January, early February to engage with and collect feedback from the public on the 2024 – 2028 Draft Financial Plan. Two in-person sessions are planned between January 30th and February 9th with dates yet to be finalized. 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 2024-2028; 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 2024-2028 Financial Plan Bylaw No 0312, 2023.

REVIEWED BY

Lisa Siavashi, Financial Services Manager / Deputy CFO

Corinne Boback, Legislative Services Manager / Corporate Officer

Trevor Seibel, Deputy CAO

APPROVED FOR THE AGENDA BY

Paul Gipps, CAO

PowerPoint: Yes No

Attachments:

Attachment 1 – Financial Plan Bylaw 0312, 2023, including Schedule A – 2024-2028
Financial Plan Summary and Financial Policies