



COUNCIL REPORT

To: Paul Gipps, CAO

Date: December 10, 2020

From: Warren Everton, Director of Finance/CFO

Subject: **Draft 2021-2025 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 2021-2025; and

THAT Council give first reading to City of West Kelowna 2021-2025 Financial Plan Bylaw No 0284, 2020.

STRATEGIC AREA OF FOCUS

Economic and financial well-being of the City of West Kelowna

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

This year the City has continued the new budget process that started with the 2020 plan. As you may remember Budget Guidelines were developed to better frame the budget process and 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. This year we have created new schedules that draw directly from the uploaded information in the financial system. That was to avoid duplication of entries which was a major source of error and reconciliation. You will note that the department schedules are now printed directly from the financial system and are in the landscape format. This format makes the reports more readable but does present a challenge using the budget binder when switching from reading the schedules in portrait mode to reading the department reports in landscape. As well, these schedules display revenues as negatives, which is an accounting convention and hard coded in the programming. All the GL 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 10th Staff will provide a detailed first review of the financial plan with Council and request feedback on the proposed revenues and expenditures.

Operating

- Overall revenues and expenses are listed in summary form on the statutorily required Schedule A. 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 (72%) which is due to the discretionary funds residing here. These funds are a culmination of the tax increase, net revenues vs expenses and the balancing factor for the GL budget listing
- Allocations of Directors wages have changed with the CAO's reorganization of the corporate structure. With an overall decrease in this area, some departments are seeing a reduction and others a corresponding increase. Examples of this are Planning Department costs moving to Development Engineering and Bylaw and Finance Department moving to Facilities and Recreation.
- Recreation and Facilities together represent about \$500,000 net expense increase (18%) due to reduction of revenue. This is mainly due to COVID as reported previously to Council
- Parks Department is seeing a small drop in net expense (2.2%) despite a reduced field rental revenue projection and the first full year of in-house turf mowing. The reduction of contracted mowing to zero has helped keep expenses down.

Capital and Reserves

- In the 2020 budget much of the equipment purchases were approved to be funded by the Municipal Finance Authority's Equipment Finance Program. For 2021 equipment is proposed to be funded from reserve in order to keep short term borrowing conservative. There is about \$1.16 million in Fire Services equipment including breathing apparatus funded from the Fire Equipment Reserve and about \$675,000 in equipment from the regular Equipment Reserve.
- The major roads projects listed in the Capital Plan include:

- Road Rehab Program at \$1 million funded from Gas Tax and Capital Reserves
- Gellatly Road North & Carrington Roundabout – \$2.5 million funded from reserves for \$695,000 and DCCs for \$1.805 million
- Shannon Lake and Bartley Intersection - \$3.43 million funded from reserve for \$1.3 million and DCCs for \$2.13 million
- The significant Facilities plans include:
 - Fire Hall Drawings for \$175,000
 - Jim Lind Arena Chiller Replacement for \$450,000
 - Public Works Site Preparations and Drawings for \$275,000
 - City Hall Concept Plan, Drawings and Consulting for \$2 million
- Information Services and Finance
 - Budget Software for \$100,000. This proposal is the next step in the evolution of the budget process. The budget is currently completed within the Financial System, which is an improvement over the previous spreadsheet system but still far from ideal. Budget software would overlay and integrate with the financial system making it much more functional
- Water
 - Rose Valley Water Treatment Plant borrowing at \$23.5 million. This was approved through Borrowing Bylaw 0281 but was never previously reflected in the Capital Financial Plan
 - Various Water System components totalling \$472,500
- Reserves
 - The total Transfer to Reserves projected in the General Fund Budget is \$8,512,098, which is a \$92,742 increase or 1.1% over 2020 transfers. This represents Staff's minimum recommended levels to keep our Capital Reserves in reasonable health
 - When reviewing the totality of capital projects including prior year carry forward amounts, a number of reserves appear underfunded and will require discussion on whether to have them borrow from other reserves for current and future projects or whether to move some of them to short-term borrowing. Underfunded reserves include:
 - Fire Department Equipment Reserve
 - Powers Creek Water Reserve
 - West Kelowna Sewer Reserve

Consolidated Total Revenues and Expenditures – Schedule A

This schedule presents the various components of revenues and expenditures based on the proposed 4.75% tax increase. This increase includes a new 1% infrastructure levy applicable in each of the five years of the Financial Plan. Such a levy has been introduced in previous years but for the current budgeting process is to include a framework on how the money would be spent going forward (separate report).

Please note that until Council provides direction on the 2021 capital requests, the expenditures and the revenue sources for these capital expenditures will not be reflected in the schedules.

Supplemental Budget Requests

There are supplemental General Fund Budget requests totalling \$128,000 of which all are ongoing expenditures. There is one supplemental request in utilities for \$75,000 of ongoing expenditures.

Supplemental Full Time Equivalent (FTE) Requests

There are \$767,543 in supported FTE requests with \$149,242 in first year savings and \$42,470 in proposed funding from capital projects for a net total of \$575,831 in 2021. Ideally, the budget should fund the full amount in 2021 in order to avoid transferring the burden onto the following year's taxes, which has happened in previous years. Additionally, with the reduction to the tax increase in 2020 the FTE request listing that was put on hold at the time is being brought back for approval. These requests total \$344,370 and will remain unfilled until they are re-approved by Council.

2020 Capital Plan

The Capital Plan has been organized by project type and department. The general portion of the capital plan includes requests that total \$16,841,075 and the utility portion of the plan includes requests totalling \$23,972,490 (which includes Rose Valley Water Treatment Plant borrowing). The Capital Plan total is \$40,813,565 or \$17,313,565 excluding the RVWTP borrowing.

2020 Grants in Aid Requests

Finance Staff have summarized a list of the organizations that have made an application for funding including the amount of funds requested, a description of the organization and the proposed use of the grant. The total requested for 2021 is \$477,933 with \$153,629 in cash grants and \$324,304 in non-cash grants. The 2020 cash grants were \$117,800 and non-cash grants were \$303,596 for a total of \$421,396.

Next Steps

Staff are also planning a number of public budget consultations in late January and/or early February to receive feedback from the public on the 2021 – 2025 Draft Financial Plan. These sessions will be different than the open houses conducted for the 2020 budget and will be conducted via video meeting. The feedback from these sessions will be presented to Council and staff would then ask for direction on changes prior to 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 2021-2025; 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 2021-2025 Financial Plan Bylaw No 0284, 2020.

REVIEWED BY

Shelley Schnitzler, Legislative Services Manager/Corporate Officer

APPROVED FOR THE AGENDA BY

Paul Gipps, CAO

PowerPoint: Yes ☒ No ☐

Attachments:

Attachment 1 – Financial Plan Bylaw 0284, 2020

Schedule A – 2021-2024 Financial Plan Summary and Financial Policies