



Regional Board Report

Information

To: Regional Board

From: Director of Financial Services

Date: February 16, 2023

Subject: 2023-2027 Five-Year Financial Plan – Draft - Update

Voting Entitlement: *All Directors - Unweighted Corporate Vote - Simple Majority (LGA s.208)*

Purpose: To further review the Regional District of Central Okanagan's draft 2023-2027 Five-Year Financial Plan

Executive Summary:

The Regional District of Central Okanagan's (RDCO's) draft 2023-2027 Five-Year Financial Plan (Plan) is focused on delivering effective services for residents by bolstering the regional emergency management program, building on important infrastructure, and increasing operating costs to keep pace with growth and inflation.

Updates to the plan have resulted in a slight increase in the overall increase in operating revenues and expenditures from the 3.4% presented on February 2, 2023, to 3.5% in the updated version. A redistribution of revenues, after receiving updated allocation information, has resulted in a shift of revenue from service fees to tax requisition. The updated tax requisition increase is 14.6% compared to 14.3% previously. What this means, for the average residential property owner in the Central Okanagan, with an assessed home of \$897K, is that their share of the total tax requisition has increased \$3/year to \$323. This is a 7.8% increase over 2022.

During the February 2, 2023 presentation to the Board, the Board provided several resolutions. This report, along with the attachments, has been prepared to update the Board on how staff has, or will, action the resolutions. Part of this includes options available to the Board to reduce the proposed tax requisition increase, along with the implications of those options.

The Board also requested additional financial information. It has also been prepared to provide additional information to support the Board in its decision-making process as it considers the options available for moving forward.

Recommendation(s):

THAT the Regional Board receives the 2023-2027 Five-Year Financial Plan – Draft – Update report from the Director of Financial Services, dated February 16, 2023, for information.

Approved by:



Tania McCabe, CPA, CA
Director of Financial Services

Attachment(s): Appendix A – Financial Plan Summary – Updated
 Appendix B – Financial Plan Summary by Department
 Appendix C – Year-Over-Year Financial Plan Changes
 Appendix D – 2023 Proposed Staffing Resources – Updated
 Appendix E – Capital Plan Summary
 Appendix F – Capital Plan Funding Summary
 Appendix G – Projected Operating Reserves Summary by Service
 Appendix H – Projected Capital Reserves Summary by Service
 Appendix I – Tax Requisition Comparison
 Appendix J – Tax Rates by Service
 Appendix K – Tax Rates by Service – Local Area Services
 Appendix L – Financial Plan Details – by Service

Strategic Plan Alignment:

Priorities: Sustainable Communities

Values: Good Governance, Resiliency

BACKGROUND:

The 2023-2027 Five-Year Financial Plan was presented to the Board for review at the February 2nd Regular Board meeting. During that meeting, the Board provided several resolutions. This report will provide a response to each of those resolutions. The Board also requested additional financial information be provided.

Financial Information

In addition to the appendices included with the report on February 2, 2023, there are four new appendices. The following is a list of all the appendices provided for the Board's information. The new ones are highlighted in yellow:

- Appendix A – Financial Plan Summary
 - A two page summary that shows the 2023 financial plan for each service of the Regional District, along with the 2022 financial plan, on one line.
 - The summary is grouped by service type – Regional, Sub-Regional & Local
- Appendix B – Financial Plan Summary by Department
 - The same information provided in Appendix A, but grouped by department
- Appendix C – Year-Over-Year Financial Plan Changes
 - Details on the reasons for changes in planned expenditures, by service, where the changes are significant (greater than 5% and \$10,000)
- Appendix D – Proposed Staffing Resources
 - A summary that shows the current staffing levels as well as the proposed new positions
- Appendix E – Capital Plan Summary
 - A summary, by department, service and then project, of the planned capital spending over the five years of the financial plan
- Appendix F – Capital Plan Funding Summary
 - A summary that shows how each funding source is being used to fund the planned capital projects.
- Appendix G – Projected Operating Reserves by Service
 - A projection of where operating reserve levels are expected to be at the end of each year of the financial plan
- Appendix H – Projected Capital Reserves by Service
 - A projection of where capital & equipment reserve levels are expected to be at the end of each year of the financial plan
- Appendix I – Tax Requisition Comparison
 - A breakdown by area, of the requisition amount, in dollars, for each service that the area funds. 2022 comparatives are provided as well as the year-over-year change.
- Appendix J – Tax Rates by Service
 - A comparison of the 2023 and the 2022 estimated tax rates for each of the services, as well as an estimate of the tax impact based on the assessed value of the average home for that service.
 - The average home value used depends on which areas are paying for each service. For example:
 - For Regional & Sub-Regional services, the average home value used is the combined average for all participants.
 - For the Electoral Area services provided to both electoral areas the average home value used is the combined average for both electoral areas.
 - For the Electoral Area services provided only to residents in the Joe Rich area, the average home value used is the average for that area.
- Appendix K – Tax Rates by Service - Local Service Areas
 - The same information as Appendix J, but specific to the services provided to each local service area.
- Appendix L – Financial Plan Details – by Service
 - This appendix provides the five-year financial plan for each service. It also provides the 2022 adopted financial plan and the draft financial results for 2022.

- For each service, there are up to three sections:
 - The top section is the operational financial plan. This section provides information on operating expenditures, transfers to reserves (operating & capital), administrative and engineering overhead costs, transfers from operating reserves, tax requisitions and other funding, if applicable.
 - The next section, if applicable, is the capital financial plan. This section shows a summary of the planned capital projects as well as the funding sources for those projects.
 - The last section is the reserves for the service. This section provides the opening balance, transfers in, transfers out and estimated interest to be earned for each reserve the service has.

Two additional tables have also been prepared to provide the insight being sought by the Board. The first shows the proportionate share each participating member has in the total assessment base:

<i>Table 1 - Proportionate Share of Total Assessment Base + Year-Over-Year Change in Assessment Base</i>						
	2023		2022		Change	
	Value	% Share of Total	Value	% Share of Total	Value	% Change in Value
City of Kelowna	62,486,726,201	66.0%	53,749,019,676	65.3%	8,737,706,525	16.3%
District of Peachland	2,707,735,986	2.9%	2,436,327,167	3.0%	271,408,819	11.1%
District of Lake Country	7,119,877,174	7.5%	6,366,420,271	7.7%	753,456,903	11.8%
City of West Kelowna	15,568,871,782	16.4%	13,546,990,405	16.4%	2,021,881,377	14.9%
Electoral Area West	1,995,395,412	2.1%	1,733,317,528	2.1%	262,077,884	15.1%
Electoral Area East	1,728,769,504	1.8%	1,580,783,253	1.9%	147,986,251	9.4%
Westbank First Nation	3,106,855,941	3.3%	2,958,910,420	3.6%	147,945,521	5.0%
TOTAL	94,714,232,000	100.0%	82,371,768,720	100.0%	12,342,463,280	15.0%

The next table shows the proportionate share of the total tax requisition for each member:

<i>Table 2 - Proportionate Share of Total Requisition + Year-Over-Year Change in Change in Share of Tax Requisition</i>						
	2023		2022		Change	
	Value	% Share of Total	Value	% Share of Total	Value	% Change in Value
City of Kelowna	16,374,862	49.5%	15,102,017	49.3%	1,272,846	8.4%
District of Peachland	1,393,857	4.2%	1,338,927	4.4%	54,930	4.1%
District of Lake Country	1,843,688	5.6%	1,802,816	5.9%	40,872	2.3%
City of West Kelowna	8,240,791	24.9%	7,824,308	25.5%	416,482	5.3%
Electoral Area West	1,676,829	5.1%	1,409,648	4.6%	267,182	19.0%
Electoral Area East	1,181,577	3.6%	1,060,493	3.5%	121,084	11.4%
Westbank First Nation	2,393,016	7.2%	2,097,734	6.8%	295,282	14.1%
TOTAL	33,104,620	100.0%	30,635,943	100.0%	2,468,678	8.1%

These two tables highlight the relationship between assessment values and the distribution of the tax requisition. Members with a larger than average increase in assessment base will see an increase in their share of the total tax requisition.

Updates

Friends of Fintry Request

The Board passed the following resolution in response to the request from Friends of Fintry:

THAT the Regional Board receive the supplemental report from the Manager, Parks Services regarding the funding request from the Friends of Fintry Provincial Park Society, dated February 2, 2023, for information;

AND THAT the Regional Board provide a \$40,000 grant-in-aid to the Friends of Fintry Provincial Park Society for 2023;

AND FURTHER THAT the Friends of Fintry Provincial Park Society provide a report to the Board, prior to the 2024 budget review, to provide information on the activities supported by the 2023 grant-in-aid funding.

While this resolution was not part of the review of the Financial Plan, it does have an impact that has been incorporated into the plan. This addition resulted in a change to the tax requisition increase by 0.1% for the overall average home.

Other Changes

In addition to the Friends of Fintry funding reinstatement through grant-in-aid, additional updates to the plan are a result of:

- An adjustment to the allocation of costs between participants for some services, due to updated assessment values for one participant. The overall expenditures don't change. Instead, the share of the total requisition for each participant has changed.
- Incorporation of the draft 2022 financial operating deficit for North Westside Fire Department. There are no operating reserves for this service, therefore, the deficit must be recovered in 2023. In future years of the financial plan, the deficit recovery will be shifted into the operating expenditures to reduce the potential for this happening in future years.
 - This service is a local area service and is therefore paid for through a local service area (LSA) fee. The impact of changes for this service are not incorporated into the calculated tax increase.
 - The change results in an increase of \$24 for the average home in the local service area.
 - Options to address this increase are outlined in the section on options to reduce the tax requisition increase for Electoral Area West, starting on page 6.
- An update to the financial plan numbers for the Sterile Insect Release program.

The changes noted above resulted in a change to the average tax requisition increase of 1%, from 6.8% to 7.8%. The estimated property taxes for the average home, with these changes incorporated, are:

Table 3 – Estimated Property Taxes for Average House

	Average House Value	Annual Tax per House	Monthly Tax per House	\$ Change per Avg House over 2022	% Change per Avg House over 2022	Monthly \$ Change per Avg House over 2022
Kelowna	\$951,000	\$194	\$16	\$20	11.6%	\$1.67
Peachland	914,000	\$215	18	\$16	8.0%	\$1.33
Lake Country	1,029,000	\$238	20	\$17	7.5%	\$1.38
West Kelowna	1,012,000	\$226	19	\$21	10.1%	\$1.73
Electoral Area West	566,000	\$473	39	\$54	13.0%	\$4.54
Electoral Area East	912,000	\$594	49	\$13	2.2%	\$1.09
AVERAGE	897,333	\$323	27	\$23	7.8%	\$1.96

An updated Appendix A is included as an attachment to this report. The services with changes have been highlighted in red.

Resolutions

There were resolutions passed by the Board during the review of the draft financial plan. The first resolution passed by the Board passed was:

THAT a review of Policy 7.19 - Administrative Overhead be completed for the 2024-2028 Five-Year Financial Planning Process.

A review of this policy has been added to the workplan for the Financial Services department, with the review to begin in early summer 2023.

The next resolution passed by the Board was:

THAT the Board request staff to explore options for a climate action reserve and report back to the Board.

A review of this may be added to the workplan for several departments who will work collaboratively on the project.

The following resolution was also passed by the Board:

THAT staff investigate reducing the Transfers to Reserves for services in Electoral Area West to spread the required tax requisition increase over two years.

A review of the services provided to Electoral Area West identified the following options to address this resolution:

1. Reduction in the transfer to capital reserves for Westside Community Parks.
 - a. In the draft plan, an increase of \$60K was made to the transfer to this reserve.
 - b. That increase could be reduced or eliminated. Eliminating it would result in a 3.9% reduction in the tax requisition increase for Electoral Area West property owners, from 15% (after the updates) down to 9.1%.
 - c. It's important to note that the future impact of the reduction is dependent on whether it is:
 - i. a one-time reduction that is reinstated the following year, along with the tax requisition impact.
 - ii. a permanent reduction, which would remove \$60K a year, for every year, from the capital reserves. In the five-year plan, this would be a reduction in available funding of \$300K.
 - d. The impact of this reduction would be felt in future years, if the need for spending on capital projects is more than what is available in the capital reserves.
2. Reduction in the increase for Killiney Community Hall
 - a. An increase of \$32K (from \$23K in 2022) was incorporated at the request of the North Westside Community Association (NWCA). NWCA provided a five-year financial plan that identified the operating and capital needs that the additional funding was needed for.
 - b. This service is paid for through a LAS fee. Any reduction in the amount provided would result in a reduction in the LAS fee of up to \$14.72 for the average home in the local service area.
 - c. A reduction in this amount could impact the operations of the NWCA. To what extent is not known by Regional District staff.
3. Reduction in the transfer to capital reserves for the North Westside Fire Department.
 - a. In the draft plan, an increase of \$30K was made to the transfer to this reserve.
 - b. That increase could be removed or eliminated. This service is paid for through a LAS fee. Eliminating the increase would result in a reduction in the LAS fee of \$13.64 for the average home in the local service area.
 - c. The impact of this reduction would be dependent on whether it is a one-time or permanent reduction, the same as for the option #1.

The final resolution passed by the Board was:

THAT staff review the 2023-2027 Financial Plan and look at options to reduce the tax requisition increase.

There are several options for how this can be approached. They are:

1. Increasing the planned transfers from operating reserves for 2023.
 - a. Doing this will result in a shift of the required increase in the tax requisition from 2023 to 2024. How much of a shift will be dependent on the amount of the increase. The amount shifted would increase the amount of increase required in 2024.
 - b. While not all services have sufficient, or any, operating reserves to use for this purpose, the following are services that, if the transfer from operating reserves were increased, it would have a measurable impact:

Service	Transfer from Operating Reserve Reduced by	Projected Operating Reserve Balance – Dec 2022	Transfer from Operating Reserve Increase
Regional Parks	\$375,000	\$870,000	\$185,000
Building Inspection	\$100,000	\$1,000,000	\$50,000
EA West parks	\$25,000	\$20,000	\$10,000
Electoral Areas	\$55,000	\$50,000	\$25,000

The following table shows the savings, per average house, by area, for each of these changes:

				Regional Parks - \$185K		Building Insp - \$50K		EA West Parks - \$10K		Electoral Areas - \$25K	
	Average House Value	Annual Tax per House	% Change per Avg House over 2022	\$ Savings Per House	Change in Tax Increase	\$ Savings Per House	Change in Tax Increase	\$ Savings Per House	Change in Tax Increase	\$ Savings Per House	Change in Tax Increase
Kelowna	\$951,000	\$194	11.6%	1.51	0.9%	-	0.0%	-	0.0%	-	0.0%
Peachland	914,000	\$215	8.0%	1.70	0.9%	-	0.0%	-	0.0%	-	0.0%
Lake Country	1,029,000	\$238	7.5%	1.88	0.8%	-	0.0%	-	0.0%	-	0.0%
West Kelowna	1,012,000	\$226	10.1%	1.78	0.9%	-	0.0%	-	0.0%	-	0.0%
Electoral Area West	566,000	\$473	13.0%	1.06	0.3%	7.29	1.7%	2.72	0.7%	3.64	0.9%
Electoral Area East	912,000	\$594	2.2%	1.71	0.3%	11.74	2.0%	-	0.0%	5.87	1.0%
AVERAGE	897,333	\$323	7.8%	1.61	0.5%	3.17	1.1%	0.45	0.2%	1.59	0.5%

2. Reducing the planned transfers to capital reserves for 2023.
 - a. It's important to note that the future impact of any reduction is dependent on whether it is:
 - i. a one-time reduction that is reinstated the following year, along with the tax requisition impact.
 - ii. a permanent reduction, which would remove the funding each year, for every year, from the capital reserves.
 - b. The impact of any reduction would be felt in future years, if the need for spending on capital projects is more than what is available in the capital reserves.
 - c. The services were this could have a significant impact on the tax requisition, are both in Electoral Area West, and discussed, on page 7.
3. A reduction in operating expenditures.
 - a. Outside of the transfers to reserves (discussed in #2 above), the other increases are in response to increasing external costs the Regional District is facing or to contractual cost increases such as the specified annual increase in wages per the collective agreement.
 - b. The report on February 2nd, 2023, provided explanations for the reasons for the needed increases in the financial plans.
 - i. Annual increase in salaries & benefits.
 - ii. Increases in rates for contracted services.

- iii. Increases in supply & maintenance costs.
- c. A reduction in these expenditures would mean service level reductions. As noted in response to the Citizens Survey completed in late 2022, most respondents indicated that they would prefer to see an increase in taxes rather than a decrease in service levels.
- 4. Staffing requests
 - a. Taking the current economic climate into consideration, the new position requests presented for the Board's consideration are based on what is needed to continue to provide the same service levels for residents of the Regional District.
 - b. The process began last summer, with each department submitting their requests. The requests included a comprehensive rationale for each request including how the request assists in realizing the Board's strategic objectives and the impact of not funding the request. Total requests = 11.3 FTEs
 - c. The 11.3 requests were reviewed by Administration and reduced. The resulting FTE requests are presented for Board consideration to maintain service levels. Requests presented to the Board = 5.3 FTEs
 - d. Appendix D has been updated to include additional information for each proposed position.

At this time, further changes have not been made to the financial plan based on the options noted above. With further direction from the Board, staff will incorporate the impact of additional updates into a report to be brought back to the Board at a subsequent meeting.

Considerations:

Alternate Recommendation:

THAT any recommended amendments be incorporated into the 2023 – 2027 Five-Year Financial Plan and brought back to the Regional Board.

Approved for Agenda



Brian Reardon, CAO