



Regional District of Central Okanagan
1450 K.L.O. Road
Kelowna, BC, V1W 3Z4

June 2, 2020

Dear Chair Given,

Re: Request for Resolution in Support of OKSIR's Ability to Authorize Revenue Anticipation Borrowing

The OKSIR Board prides itself on sound fiscal management. The program has not raised its tax rates since 2010, all while continuing to provide environmental, economic, and social benefit to our valleys. As a local government organization, OKSIR is faced many of the same financial challenges as our partnering regional districts. One of these challenges is the gap between the timing of the bulk of our annual operating expenses (March through August) and the receipt of tax revenues (early August) in a given fiscal year.

The *Local Government Act*, s.404, provides a mechanism for local governments to authorize, through bylaw, borrowing to cover current-year operating expenditures included in the local government's five-year financial plan bylaw. Revenue anticipation borrowing through s.404 is not to be used to cover long-term borrowing needs or capital financing, and the borrowing is done through the Municipal Finance Authority.

Unfortunately, the OKSIR Program's governing legislation, the *Municipalities Enabling and Validating Act* (MEVA), s. 283 (1989), does not contemplate the same authority for the OKSIR Board, despite giving the Board autonomy over its annual budget and operations. Rather, the MEVA prohibits the OKSIR from borrowing money or incurring liabilities without the support of the partnering regional districts.

The OKSIR Program seeks the support of the Regional District partners to authorize our own cashflow management through revenue anticipation borrowing, subject to all the same restrictions as local governments. Authorization by the Regional Districts can be provided through the following resolution:

THAT the Regional District Board support OKSIR Board to authorize, by bylaw, a cashflow management program that mirrors the revenue anticipation borrowing authority granted to local governments under the Local Government Act s. 404, such that borrowed funds may only be used to cover current-year operating expenditures included in OKSIR's Five-Year Financial Plan, to a maximum of the amount owing to the OKSIR from the current-year tax requisitions.

The enclosed briefing note provides some additional background on our request.

As always, the OKSIR Board is grateful for the continued support of the regional district partners, as well as the continued service of the Directors who sit on the Board.

Sincerely,

Shirley Fowler
OKSIR Board Chair



Okanagan-Kootenay Sterile Insect Release Program
Letter to Participating Regional Districts
Briefing Note, June, 2020

REQUEST FOR RESOLUTION

in Support of OKSIR's Ability to Authorize Revenue Anticipation Borrowing

THE PROGRAM

The Okanagan-Kootenay Sterile Insect Release (OKSIR) Program is an area-wide, integrated pest management program that was established in 1989 to reduce the use of pesticides in local communities, and to protect the pome fruit industry of the Okanagan, Shuswap and Similkameen Valleys from infestations of codling moth. The Program today operates as an inter-regional service with four participating Regional Districts: the Regional Districts of Okanagan-Similkameen, Central Okanagan, North Okanagan and Columbia Shuswap.

The OKSIR Program has attracted considerable attention at home and abroad for its innovative and successful approach to pest management. Since its inception, the Program has enabled growers to reduce the volume of pesticides used to control codling moth infestation by 95%. Wild codling moth populations have dropped by +90% across the Program's service area; damage from the moth at time of harvest has been reduced to 0.2% of fruit in nearly 90% of all commercial orchards. Tourism, food security and relations between residents and orchardists have all benefitted from OKSIR's sustainable approach to pest management, as has BC's international reputation as a centre of excellence in horticultural research and innovation.

The Program's success can be attributed, in large part, to the support and involvement of the participating Regional Districts and the tree fruit industry. Success is also a function of the Program's legislative framework (MEVA s.283) that assigns responsibility for operations to an autonomous SIR Board, and which gives the Board key powers, including those related to budget approval and regulation.

OKSIR BUDGET APPROVAL/ANNUAL CASH FLOW

OKSIR follows local government financial standards. A five-year financial plan is prepared annually and approved by the OKSIR Board of Directors.

Like local governments, OKSIR's fiscal year begins January 1. Two of the biggest line item expenses in the OKSIR operating budget are diet ingredients (275K current year budget) and wages and benefits (2.28M current year budget). The bulk of diet ingredients are purchased in the first three months of the year. Seasonal labour costs (~700K) begin in March, peaking from May through August, and tailing off in October.

Taxes (both land and parcel) are received from the regional districts in the first weeks of August. Receivables from sales of egg sheets and moths are billed monthly, with the bulk of income occurring June through October.

LOCAL GOV. REVENUE ANTICIPATION BORROWING

The challenge of covering operating expenses in the months before tax revenues are collected can be common problem for local governments. If local governments cannot fund their operations between January and July from their existing cash surplus, they can borrow against their anticipated revenue for the year. The *Local Government Act*, s.404 provides a mechanism for local governments to authorize, through bylaw, borrowing to cover current-year operating expenditures included in the local government's five-year financial plan bylaw. Revenue anticipation borrowing is not to be used to cover long-term borrowing needs or capital financing, and the borrowing is done through the Municipal Finance Authority.

REGIONAL DISTRICT SUPPORT FOR OKSIR'S REVENUE ANTICIPATION BORROWING

OKSIR's legislation does not support the program to incur liabilities or borrow money without the support of the partnering regional districts. OKSIR seeks the regional districts support to allow the OKSIR Board to authorize revenue anticipation borrowing through its own bylaws. All borrowing would be subject to the guidance laid out by the



Province for Local Government Revenue Anticipation Borrowing. The borrowed funds may only be used to cover current-year operating expenditures included in OKSIR's Five-year Financial Plan, to a maximum of the amount due from the current year tax requisitions.

OKSIR does not have access to funds through the Municipal Finance Authority, and revenue anticipation borrowing would have to be done through OKSIR's bank with a line of credit. Current interest rates offered through OKSIR's bank are competitive with MFA rates.

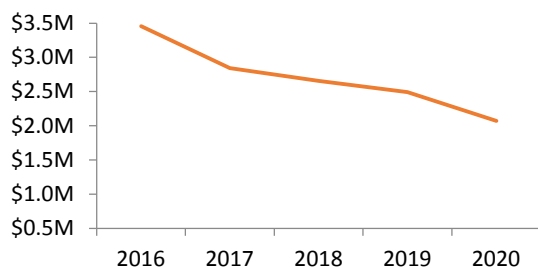
OKSIR'S SOUND FISCAL MANAGEMENT

The OKSIR Program has a long history of sound fiscal management. The Program has not raised land nor parcel taxes since 2010. Additionally, with the support of the regional district partners, the program is making strides towards significant revenue generation. Using the excess capacity of the program's production facility, OKSIR is on track to earn over \$600K in sales for 2020.

OKSIR SURPLUS AND RESERVES

OKSIR does not have any statutory reserve requirements in its legislation, and all monies can be kept in a general fund. As a requirement of our permit for the irradiator, however, the program must keep a financial reserve to decommission the irradiator (~300K) when it is no longer needed (a replacement fund is not required). The decommissioning and replacement of the irradiator is a major capital expense, and from 2005-2015, the program earmarked funds for this purpose, budgeting \$1.5M. The process was completed in 2016, using cash from the reserve, for \$1.05M.

Figure 1. Financial Assets (cash, portfolio investments, and accounts receivable) as of January 1



Rather than raise taxes, which were last increased in 2010, the Board has slowly drawn the general fund for capital replacement and operating costs in excess of yearly tax revenues.

OKSIR CASH FLOW PROJECTIONS: 2020 & BEYOND

Despite the complications of the current pandemic, OKSIR is on track to finish the year on budget as approved in the 2020-24 Five Year Financial Plan, OKSIR Bylaw No. 35. Having started the 2020 fiscal with only \$2M in the general fund, however, a cash flow analysis predicts a likely shortfall through June and July 2020 until requisitions are received.

For 2021 and beyond, OKSIR will continue to face cash flow challenges unless the program increases its reserve.

ALTERNATE OPTIONS

If the Board is unable to access revenue anticipation borrowing, the alternative cash flow management options include:

- 1) Increase tax requisitions to build reserves back to levels that allow the program to fund operations from existing cash surplus until tax requisitions are received in August; or,
- 2) Request an advance on tax requisitions from the regional district partners.

REQUESTED RESOLUTION

The SIR Program seeks the support of the Regional District partners to authorize their own cashflow management through revenue anticipation borrowing, rather than through the alternate options provided above. Authorization by the Regional Districts can be provided through the resolution provided below:

THAT the Regional District Board support OKSIR Board to authorize, by bylaw, a cashflow management program that mirrors the revenue anticipation borrowing authority granted to local governments under the Local Government Act s. 404, such that borrowed funds may only be used to cover current-year operating expenditures included in OKSIR's Five-Year Financial Plan, to a maximum of the amount owing to the OKSIR from the current-year tax requisitions.