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## REPORT TO THE CAPITAL REGIONAL DISTRICT BOARD MEETING OF WEDNESDAY, MARCH 30, 2016

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**SUBJECT: BYLAW NO. 4082 – 2016-2020 FINANCIAL PLAN, 2016**

### **ISSUE**

This report summarizes final updates to the 2016 budget and requests approval of Bylaw No. 4082 the Capital Regional District (CRD) five-year financial plan for the years 2016-2020, and the Juan de Fuca Water Distribution Development Cost Charge capital expenditure plan for the years 2021-2025.

### **BACKGROUND**

Annually the CRD must develop a financial plan representing the operating and capital expenditure plans for the next five years. The CRD Financial Plan consists of more than 200 service and sub-service budgets funding delivery of regional, sub-regional and local services. Financial Plan revenues are derived from fees and charges, service and operating agreements, grants, and taxes. Expenditures are determined through a variety of processes and agreements, some of which the Board controls directly, and others are delegated and/or are recommended by local service commissions. All of the budget recommendations derived from these processes are consolidated into the financial plan and capital expenditure plans for approval by the Board.

The service plans drive the financial planning process and provide necessary information to evaluate organizational requirements, new initiatives, proposed service levels and implications for the financial plan. They also provide information on initiatives that directly relate to the Board and corporate priorities. In October and November 2015, service plans were presented to the appropriate committee and commissions respectively, to allow a comprehensive assessment of the service delivery and work programs. This process provided committees and commissions the opportunity to consider work programs and resource requirements and make service amendments as necessary. Refer to Appendix 1 for the summary of Committee recommendations from the service plan review process.

The 2016 Financial Plan was given preliminary approval by the Board in November 2015. Under the budget direction provided by the Board, review and recommendation of all electoral area-only service budgets was delegated to the Electoral Area Services Committee (EASC), including the review of Local Service Commissions budgets. The Electoral Area Services Committee recommended approval of the Electoral Area only budgets in October 2015. Review and recommendation of all regional and sub-regional budgets was made by the Committee of the Whole (CoW) in November 2015.

The preliminary approved financial plan is subject to final adjustment such as surplus/deficits, payments in lieu of taxes, etc. Additionally, in early 2016 the Board Chair directed the Standing Committee Chairs and Vice Chairs to review the Board priorities, work plans and terms of reference at each standing committee's inaugural meeting. This review was meant to ensure that staff efforts align with the direction of the Board, and that Committees specifically consider staffing implications resulting from the work plans.

All the adjustments to the 2016 Financial Plan are now completed. Under *Section 374 of the Local Government Act*, the Board must adopt a five year financial plan by March 31.

### **Public Consultation**

Section 375 of the *Local Government Act* stipulates the following process for a financial plan:

1. A board must undertake a process of public consultation regarding the proposed financial plan before it is adopted.
2. The designated regional district officer must send a copy of the financial plan to each municipality in the regional district and to the inspector.

The Act does not specify or provide any information on the scope or type of public consultation that must be carried out. The CRD reviewed budget information in open meetings for which notifications are given in local newspapers. The financial information was also made available on the CRDs website. In addition various CRD Commissions and Committees receive input leading up to the preparation of budgets in the form of user statistics, customer satisfaction surveys, advisory body reports, annual operational reports and from a wide variety of public engagement activities. Local and sub-regional Commissions include elected representatives and often include rate payer representatives as well.

In addition to the above mentioned opportunities, the public consultation process was complemented with actions and initiatives aimed at increasing the understanding of the CRDs financial position. The following public consultation objectives occurred between the approval of the provisional budget in November and final adoption of the financial plan bylaw in March 2016.

- Expanded resident and business engagement on the proposed financial plan focusing on service and program delivery and proposed infrastructure investments through an enhanced website and media campaign.
- Consolidated reporting of feedback on service delivery and service levels, infrastructure and capital investments, and other new initiatives through a unique email submission address accessible to Board members (Appendix 2).
- Simplified infographics explaining the CRDs budget process and its proposed 2016 Financial Plan were developed and posted to the website.

### **Budget Highlights**

The CRD provides a range of key services to over 378,000 people as well as businesses and visitors in the region. Regional services are provided through the entire CRD, sub-regional services are provided within groups of municipalities and electoral areas; and local services are provided to individual municipalities, electoral areas or smaller local service areas.

The CRD operates in a changing and dynamic environment. Some of the trends impacting the CRD and local government partners are service pressures related to: the economy, population growth, changing demographics, environmental considerations, increasing regulations, technological advancements and aging infrastructure.

The development of the 2016 Budget is part of the long term financial planning process that ensures the Board can provide the required programs and services now and in the future. The financial resources in the Budget were established based on core service delivery requirements in consideration of inflation, fixed operating costs, maximizing grant opportunities and the implementation of key initiatives while ensuring legislative and regulatory compliance.

The complete 2016 budget overview is provided in Appendix 3. This appendix provides high level budget information encompassing all three CRD entities (including the Capital Regional Hospital District and the Capital Region Housing Corporation). The 2016 CRD budget includes \$218.7 million in operating expenditures and the investment of over \$100 million in capital initiatives in various regional, sub-regional and local services. The 2016 operating budget overview is summarized in Appendix 4. The attachment highlights the sources of revenue and how money is spent within the various service areas.

The 2016 capital budget overview is summarized in Appendix 5. The attachment highlights the capital funding sources including grants, debt, reserve funding, donations and contributions from current operating. The attachment also highlights various areas of capital investment in the CRD.

**Financial Indicators**

The financial indicators relate directly to the CRD and the services provided to the communities in which the CRD operates. These indicators provide a measurement of financial capacity including debt servicing capacity relative to revenue and planned capital expenditures, the level of capital investment relative to depreciation, and the level of transfers to reserves relative to the net book value of assets and operating expenditures. A summary of the five financial Indicators are included in Appendix 6. An analysis of these indicators year over year is included in Appendix 7.

**ALTERNATIVES**

- 1) That Bylaw No. 4082, cited as “2016 to 2020 Financial Plan Bylaw, 2016”, be introduced and read a first time and second time, read a third time and adopted.
- 2) That Bylaw No. 4082 be cited as “2016 to 2020 Financial Plan Bylaw, 2016” be amended and introduced and read a first time and second time, read a third time and adopted.

**IMPLICATIONS**

**Expenditures:**

Expenditure Type	2016 Financial Plan Final	2015 Financial Plan	\$ Change
Operations	144 M	142.8 M	1.2 M
Debt Servicing	37.9 M	40 M	(2.1) M
Capital Funding	24.9 M	28.4 M	(3.5) M
Transfer to Reserves	11.9 M	7.3 M	4.6 M
<b>Total</b>	<b>\$218.7 M</b>	<b>\$218.5 M</b>	<b>\$0.2 M</b>

The 2016 CRD expenditures totals \$218.7 million. This includes \$14 million MFA (municipality’s own debt). The year over year increase in total expenditures is flat. The total expenditures takes into account all potential spending related to new supplementaries and initiatives as approved in the 2016 service planning process.

It is important to note that the final planned 2016 expenditures are slightly higher than the projected expenditure of \$217.8 million in the preliminary approved plan. The changes from the preliminary budget are due to higher than expected surplus carry forwards and payments in lieu impacting both the revenue and expenditure totals as well as changes in committee or commission direction since November 2015.

**2016 Revenue**

The CRD has a stable revenue base, with requisition, sales of services, user fees, and grants as major sources of operating revenue. The following table provides information on the 2016 revenue by various sources.

Revenue by Source	2016 Final	2015
Requisitions	72.2 M	71.2 M
Grants	4.3 M	4.4 M
Sale of Services	100.7 M	100.2 M
Rentals & Other Revenue	5.9 M	8.3 M
Surplus	3.6 M	5.4 M
Allocation to other services	32 M	29 M
<b>Total</b>	<b>\$218.7 M</b>	<b>\$218.5 M</b>

### Capital Budget

The 2016 Capital Expenditure Budget for 2016 is \$104.5 million. Capital projects are typically funded by annual contributions from operating or from grants, reserves or by debt servicing. Funds are typically contributed to projects from current operating or budgeted to be contributed into reserves for future capital requirements. Every effort is made to leverage senior government funding, utilize existing capacity to deliver projects, and improve operations through capital investments. The 2016 Capital Program as compared to 2015 is detailed below.

Capital Plan	2016	2015	\$ Change
Buildings	2.7 M	2.8 M	(0.1) M
Equipment	7.1 M	7 M	0.1 M
Land	3.5 M	11.6 M	(8.1) M
Engineered Structures	89.8 M	110.2 M	(20.4) M
Vehicles	1.4 M	1.4 M	-
<b>Total</b>	<b>\$104.5 M</b>	<b>\$133 M</b>	<b>\$(28.5) M</b>

The Capital Plan has been adjusted by \$5.8 million as compared to the 2016 preliminary approved financial plan. The majority of Committee or Commission directed changes to the capital plan have resulted from revised timelines leading to capital budget carry forwards. Some of the projects that have been adjusted from the preliminary plan are summarized below.

- Acquisition of golf course property for SeaParc in 2016 - \$1.025 million
- Deferring of SeaParc arena floor upgrade project - \$50,000
- Addition of Greenglade Facility Roofing Replacement for Panorama Recreation Center - \$200,000
- Deferred HVAC upgrade from 2016 to 2017 at Greenglade Facility for Panorama Recreation Center - \$100,000
- A new project to upgrade the Lochside Regional Trail for \$175,000 was added in 2016 for Regional Parks
- Addition of \$160,000 to acquire the weed harvester was included in Regional Parks
- Purchase of Self Contained Breathing Apparatuses for \$120,000 in 2016 for the South Galiano Fire Protection service
- Deferred Salt Spring Island Multi-purpose room project for \$255,000 from 2016 to 2017
- Deletion of several projects from Salt Spring Island Community Transit & Transportation as a result of unsuccessful grant application.
- Addition of several new projects and capital initiatives totaling \$776,000 to upgrade 11 docks under the Southern Gulf Islands Small Craft Harbour service
- Addition of South Skirt Pump Station engineering design project for \$82,000 in JDF Water Distribution
- Replace the Japan Gulch Chlorination System with Standby Power for UV for \$850,000
- Addition of Capital project for SAP enhancement for \$200,000 to support new General Ledger structure to enhance budgeting, financial reporting and grant management and dash-boarding capabilities
- \$1.2 M upgrade of Viewfield Rd building for tenant lease.

The five year capital plan reflects a focus on critical utility infrastructure investment. The five year plan includes a total of \$932 million invested into capital. A summary of CRD Capital Service Activity and Investment is included in Appendix 8. The following table provides year over year information on various capital plan funding sources.

Capital Plan by Funding Source	2016	2015	\$ Change
Funds from current operating & work in process	35.6 M	29 M	6.6 M
Equipment Replacement Fund	3.3 M	3.1 M	0.2 M
Donations & Third Party Funding	9.4 M	9.5 M	(0.1)M
Reserve Fund	14.8 M	13.7 M	1.1 M
Debenture debt	19.9 M	18.9 M	0.9 M
Grants	21.5 M	58.8 M	(37.3)M
<b>Total</b>	<b>\$104.5 M</b>	<b>\$133 M</b>	<b>\$(28.51)M</b>

### Requisition

Description	2016 Requisition Final	2015 Requisition Final	\$ Change
Electoral Area	12.78 M	12.42 M	0.36 M
Regional /Sub regional	45.48 M	43.69 M	1.79 M
Municipalities Own Debt	\$13.94 M	\$15.08 M	\$(1.14)M

The final requisition includes an increase in Electoral Area local service levy of \$0.36 million and an increase in Regional and Sub-Regional levy of \$1.79 million offset by a decrease in Municipalities own debt servicing over 2015 as outlined below. It is important to note that the actual impact to the municipalities and electoral areas varies based on the services they receive through the CRD. The requisition also varies as a result of proportionately different changes in the cost-sharing basis (i.e. assessment). The 2016 Financial Plan Summaries along with 2016 Individual Municipal and Electoral Area Requisitions is attached in Appendix 9.

### Reserves

Reserves reflect the funds retained by an organization to fund future capital and operating activities. The CRD currently manages over 70 individual service capital reserves. Detailed reserve schedules for each service were provided as part of the budget review process. The following table provides high level information on the projected 2016 Reserve Activity:

Forecasted 2016 Reserve Activity	
Opening Reserves	\$64.0 M
Transfers to/from Operating	11.9 M <sup>1</sup>
Estimated Interest Income	1.1 M <sup>2</sup>
2016 Capital Expenditure Plan	(14 M)
<b>Ending</b>	<b>\$63 M</b>

<sup>1</sup> includes \$15 million for the Core Area Liquid Waste Management

<sup>2</sup> interest calculation based on a one year time horizon

Reserve bylaws and policies are currently under review to provide for improved administration of reserve bylaws. Future financial planning will include new budget tables showing annual and projected reserve activity which assists in evaluating proposed transfers to reserves from current operating budget, and the impact of prior year surpluses and deficits.

The Bylaw No. 4082 cited as “2016 to 2020 Financial Plan Bylaw, 2016” inclusive of Schedules A, B and C representing the operating and capital plans for the years 2016 to 2020 for the Board’s consideration and adoption is included in Appendix 10.

**CONCLUSION**

The CRD Board must adopt a five year financial plan bylaw each year by March 31. The attached bylaw and supporting schedules summarize the CRD Financial Plan for 2016 to 2020. The 2016 budget was preliminarily approved by the Board in November 2015.

The 2016-2020 Financial Plan has been prepared to accommodate the Board’s prior decisions, the strategic priorities, and the increasing demand for services. Staff recommends approving the 2016-2020 Financial Plan bylaw as presented.

**RECOMMENDATION**

That Bylaw No. 4082, cited as “2016 to 2020 Financial Plan Bylaw, 2016”, be introduced and read a first time and second time, read a third time and adopted.

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- Attachments:
- Appendix 1: Summary of Committee Recommendations
  - Appendix 2: Financial Plan Feedback
  - Appendix 3: CRD 2016 Budget Overview
  - Appendix 4: 2016 Operating Budget Overview
  - Appendix 5: 2016 Capital Budget Overview
  - Appendix 6: Summary of Financial Indicators
  - Appendix 7: Financial Indicators Year over Year Analysis
  - Appendix 8: CRD Capital Service Activity and Investment
  - Appendix 9: 2016 Financial Plan Summaries and Individual Municipality and Electoral Area Requisitions
  - Appendix 10: Bylaw No. 4082 cited as “2016 to 2020 Financial Plan Bylaw, 2016” inclusive of Schedules A, B and C