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## REPORT TO THE CAPITAL REGIONAL DISTRICT BOARD MEETING OF WEDNESDAY, MARCH 22, 2017

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**SUBJECT: BYLAW NO. 4173 2017-2021 FINANCIAL PLAN, 2017**

### **ISSUE**

This report summarizes final updates to the 2017 budget and requests approval of Bylaw No. 4173 the Capital Regional District (CRD) five-year financial plan for the years 2017-2021.

### **BACKGROUND**

Annually the CRD must develop a financial plan that includes the operating and capital expenditure plans for the next five years. The CRD Financial Plan consists of more than 200 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 CRD 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 2016, 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 2017 Financial Plan was given preliminary approval by the Committee of the Whole (CoW) in November 2016. 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 with one amendment to the Salt Spring Island budget on March 15, 2017. With the exception of the provisional budget for the Royal McPherson Theatre, review and recommendation of all regional and sub-regional budgets was made by the CoW on November 30, 2016. The provisional budget for the Royal McPherson Theatre was approved by the Board in February 2017. Appendix 2 to this report shows the financial highlights from the 2017 provisional budget.

The preliminary approved financial plan is subject to final adjustments such as surplus/deficits, payments in lieu of taxes, etc. All adjustments to the 2017 Financial Plan have been completed and the changes from the preliminary financial plan as approved in November, are shown in this report and in its Appendices. It should be noted that each year final assessed values for the Capital Region are released by the BC Assessment Authority after March 31. It is anticipated that

no material change in the budgeted requisition amounts will be required due to changes in assessed values. 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* (the 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 were given in local newspapers. The financial information was also made available on the CRD's public 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 CRD's 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 2017.

- 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.
- Social media messaging shared on CRD Facebook and Twitter channels, supplemented by low-cost targeted Facebook advertisements to garner responses and reach a wider audience.
- Simplified infographics explaining the CRDs budget process and its proposed 2016 Financial Plan were developed and posted to the website.

The public feedback opportunities outlined above resulted in four responses shown in Appendix 3.

### **Budget Highlights**

The CRD provides a range of key services to over 388,000 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 2017 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 2017 operating budget overview is provided in Appendix 4. The 2017 CRD budget includes \$238.2 million in operating expenditures (2016 \$218.7 million) and the investment of \$157.2 million (2016 \$104.5 million) in capital initiatives in various regional, sub-regional and local services. Appendix 4 highlights the sources of revenue and how money will be spent within the various service areas, as well as the sources of funding for capital expenditures. A list of major capital projects is shown in Appendix 5.

The Staff Establishment Chart is attached as Appendix 6 to outline the number of Regular-staff Full Time Equivalent (FTE) employees that are included in the budget for each Department and Division within the CRD. The “Regular Ongoing” Staff Establishment has not changed since preliminary budget approval in November, which had shown an increase of 2.14 FTEs for Salt Spring Island to address converted union positions within existing staff resources.

The Core Area Wastewater Treatment Project (CAWTP), with delegated authority through the Project Board, has conveyed a requirement for an additional 16.25 FTEs (since preliminary budget approval) which is included in the Project Control Budget, and this is reflected in the “Regular Fixed Duration” Staff Establishment accordingly. These are positions which expire with the conclusion of the CAWTP.

### **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 financial Indicators is included in Appendix 7.

### **2016 Variance from Budget**

Prior year surplus and deficit calculations often impact the current year budget, as in some cases have been carried forward to the operating budget. The total net impact of all surplus and deficits from 2016 is \$16.8 million. The significant variances to budget and the resulting impacts are outlined below:

1. Regional Water Supply showed a favourable variance to budget of \$2.8 million (+10.0%) for 2016 due to increased water consumption and improved metering in the region. This

surplus was transferred to the Water Capital Fund (WCF), as approved by the Commission, to reduce reliance on debt for capital programs and help mitigate spikes in water rates. The balance at the end of 2016 for WCF is \$11.4 million (including the \$2.8 million surplus), planned capital spending in 2017 of \$10.3 million, and an estimated closing balance for 2017 of \$4.8 million.

2. Juan de Fuca Water Distribution showed a favourable variance of \$1.1 million (+7.4%) also due to increased water consumption. This surplus has been transferred to the Water Capital Fund, as endorsed by the Commission, to offset spikes in water rates and to fund future capital projects. This fund has a balance of \$6.5 million (including the \$1.1 million surplus), planned capital expenditures of \$6.7 million in 2017, and an estimated closing balance of \$3.2 million.
3. The Solid Waste service showed a favourable variance of \$5.1 million (+29.3%) due to additional volume related to the temporary closure of the Tervita Highwest landfill, additional tipping fee revenue from increased construction activity, and lower than expected operating expenditures. This variance has been transferred to the Environmental Sustainability Fund to support Environmental Resource Management in future capital projects, which is consistent with the service plan approved in November 2016. This transfer resulted in a balance of the Environmental Sustainability Fund of \$17.5 million, with planned capital expenditures of over \$10 million in 2017. The estimated balance at the end of 2017 is \$7.4 million.
4. The Regional Housing Trust Fund showed a favourable variance of \$1.1 million (+65.5%) at the end of 2016 as a result of capital housing projects that are still awaiting approval. This variance will be carried forward to 2017 to fund these capital projects when approved.
5. Regional Grants in Aid ended 2016 with a favourable variance of \$1.3 million (+100%) as very little was awarded in 2016 and \$20k in interest was accumulated. This variance will be carried forward to 2017 to be used to future grants.

## **ALTERNATIVES**

### *Alternative 1*

- 1) That Bylaw No. 4173, “2017 to 2021 Financial Plan Bylaw, 2017”, be introduced and read a first and second time;
- 2) That Bylaw No. 4173, “2017 to 2021 Financial Plan Bylaw, 2017”, be read a third time;
- 3) That Bylaw No. 4173, “2017 to 2021 Financial Plan Bylaw, 2017”, be adopted.
- 4) That the Staff Establishment Chart as attached in Appendix 6 be approved.

### *Alternative 2*

That Bylaw No. 4173 be cited as “2017 to 2021 Financial Plan Bylaw, 2017” be amended and introduced and read a first time and second time, read a third time and adopted.

## **IMPLICATIONS**

### **Operating Budget**

The following chart outlines the changes to the operating expenses between the 2017 preliminary and final budgets.

(in \$ millions)

Expenditure Type	2017 Final	2017 Prelim	\$ Change	% Change
Operations	146.0	144.2	1.8	1.2
Debt Servicing	38.8	38.8	-	-
Capital Funding	41.6	41.1	0.5	1.2
Transfer to Reserves	11.8	11.7	0.1	0.9
<b>Total</b>	<b>\$238.2</b>	<b>\$235.8</b>	<b>\$2.4</b>	<b>1.1%</b>

As previously outlined \$1.1 million will be carried forward from 2016 to 2017 in the Regional Housing Trust Fund for capital projects awaiting approval

Operations have been increased by a further \$300k to account for administrative support which will be provided to the CAWTP. These costs will be funded by allocations from the project, which are included in the control budget.

Other drivers related to the increase of \$1.8 million in operations are:

- o New agreement with CREST \$140k (Service 1.921);
- o Community Health \$140k (Service 1.224);
- o Land Banking and Housing \$130k (Service 1.310).

The increase from 2017 preliminary to 2017 final budgets in debt servicing costs pertain to a new debt service for the Vancouver Island Regional Library to provide funding for the construction of a new library in Sooke (Service 1.129).

Capital funding for 2017 has increased by \$500k as a result of higher spending on CAWTP and the increase in transfers to reserves is the result of higher than anticipated surpluses from 2016.

### Revenue for Operating Budget

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 2017 revenue by various sources.

(in \$ millions)

Revenue Sources	2017 Final	2017 Prelim	\$ Change	%Change
Sale of Services	106.2	106.4	(0.2)	(0.2)
Internal Allocations	31.5	31.1	0.4	1.3
Transfer from Capital Reserves	11.1	11.1	-	-
Rentals and Other Revenue	6.0	5.9	0.1	1.7
Surplus Carryforward	4.3	2.4	1.9	79.2
Grants and PILT	3.6	3.1	0.5	16.1
<b>Subtotal</b>	<b>162.7</b>	<b>160.0</b>	<b>2.7</b>	<b>1.8%</b>
Requisitions*	75.5	75.8	(0.3)	(0.4)
<b>Total</b>	<b>\$238.2</b>	<b>\$235.8</b>	<b>\$2.4</b>	<b>1.1%</b>

\*includes municipal debt

Payments in lieu of taxes (PILT) are payments recovered from Crown parcels which are exempt from paying property taxes. These are a regular annual source of funding to the CRD. The 2017 PILT and grants are \$500k higher than projected in the preliminary 2017 plan due to an increase in PILT from Federal Crown properties (mainly in Esquimalt) and surplus carry forward revenue for Land Banking and Housing of \$90k.

\$1.1 million of the surplus carryforward is attributable to the Regional Housing Trust Fund as outlined above, along with higher than anticipated interest income on investments of over \$200k. Other services which saw significant increases in surpluses were:

1. Salt Spring Island Administration – moving expenses deferred to 2017 of \$60k;
2. Traffic Safety Commission – lower than budgeted advertising spending of \$53k;
3. Land Banking and Housing – additional surplus carry forward revenue of \$90k;
4. Municipal Septage – disposal revenues higher than planned of \$53k.

The increase of \$2.7 million in 2017 revenues was accounted for by deferring expenditures previously budgeted in 2016 to 2017 of \$1.4 million, by adjusting Grants, PILT, and Allocations by \$0.9 million and by reducing the tax requisition for Legislative and General Services by \$300k as shown below.

(in \$ millions)

Services Adjusted	Grants and PILT	Surplus Carryforward	Allocations	Subtotal	Requisition	Total
Regional Housing Trust Fund	-	1.1	-	1.1	-	1.1
Legislative and General	-	-	0.3	0.3	-	0.3
Regional CREST	-	0.1	-	0.1	-	0.1
Community Health	-	0.1	-	0.1	-	0.1
Land Banking and Housing	-	0.1	-	0.1	-	0.1
<b>Total Operations</b>	-	<b>1.4</b>	<b>0.3</b>	<b>1.7</b>	-	<b>1.7</b>
Debt Servicing – VIRL	-	-	0.1	0.1	-	0.1
Capital Funding – CAWTP	0.5	-	-	0.5	-	0.5
Reserve Trans – CAWTP	-	0.1	-	0.1	-	0.1
Requisition – Leg and Gen	-	0.3	-	0.3	(0.3)	-
<b>Total Increase in Funding</b>	<b>\$0.5</b>	<b>\$1.8</b>	<b>\$0.4</b>	<b>\$2.7</b>	<b>\$(0.3)</b>	<b>\$2.4</b>

**Capital Budget:**

The 2017 Capital Expenditure Budget is \$157.2 million which are funded by capital reserves, debt, grants, or operating budgets. Wherever possible grant funding from various levels of government are leveraged.

(in \$ millions)

Description	2017 Final	2017 Prelim	\$ Change	% Change
CAWTP*	65.6	43.6	22.0	50.5
Engineered Structures	56.6	54.6	2.0	3.7
Buildings	21.5	21.4	0.1	0.5
Equipment	8.6	8.3	0.3	3.6
Land	2.9	2.8	0.1	3.6
Vehicles	2.0	2.0	-	-
<b>Total</b>	<b>\$157.2</b>	<b>\$132.7</b>	<b>\$24.5</b>	<b>18.5%</b>

\*includes ineligible expenses and recoveries

The cash flow projections related to the CAWTP were adjusted after the preliminary budget due to the approval of the business case budget and consequently refinement of the capital/construction schedule. An update cash flow for the project was not available at the time of the preliminary budget, therefore the original budget was used. With the progress of the CAWTP refined capital projections are now available.

The increase of \$2.0 million for engineered structures is made up of two projects in the Juan de Fuca Water Distribution Service:

1. \$1.2 million for the Millstream Extension project funded from DCC Reserves. This project was moved forward to 2017 in order coincide with work underway by a developer in the District of the Highlands.
2. \$800k for a small diameter pipe project brought forward to 2017 in order to coordinate with work being conducted by the Ministry of Transportation and Infrastructure on Sooke Rd.

The following table provides information on changes between the 2017 preliminary and 2017 final budgets for various capital plan funding sources.

(in \$ millions)

Capital Plan Funding by Source	2017 Final	2017 Prelim	\$ Change	% Change
Current Operating and Work in Progress	75.9	52.7	23.1	44.0
Grants	31.0	18.5	12.5	67.6
Debenture Debt and Temporary Borrowing	20.9	34.5	(13.6)	(39.4)
Reserve Funding	16.6	14.4	2.2	15.3
Donations and Third Party Funding	8.8	8.6	0.2	2.3
Equipment Replacement Fund	4.0	4.0	-	-
<b>Total</b>	<b>\$157.2</b>	<b>\$132.7</b>	<b>\$24.5</b>	<b>18.5%</b>

The five year capital plan of over \$942 million reflects a focus on critical utility infrastructure investments. A summary of CRD Capital Service Activity and Investment is included in Appendix 9.

Subsequent to CoW's approval of the preliminary 2017 Financial Plan, agreements with the Federal Government, the Province of British Columbia, and PPP Canada have been finalized. As a result the cash flow projection for the CAWTP has been adjusted to account for grant funding in 2017 by \$12.5 million. Also \$23.1 million in funding from current operating and funds on hand in Work in Progress (WIP) have been earmarked for spending in 2017; debt funding for the CAWTP has been reduced accordingly.

The 2017 Financial Plan Summaries along with 2017 Individual Municipal and Electoral Area Requisitions are attached in Appendix 10.

### Capital Reserves

Capital reserves reflect funds retained and segregated by an organization to fund future capital activities. The CRD currently manages over 70 individual service capital reserves. Detailed reserve schedules for each service were provided as part of the preliminary budget review process. They showed that the planned transfers to capital reserves align with the CRD services' capital expenditure plans. There has been no significant change in the transfer amounts since that preliminary review. The following table provides high level information on the projected 2017 Reserve Activity:

(in \$ millions)

Reserve Activity	2017 Final	2016
Opening Reserve Balance	63.0	64.0
Transfers to/from Operating	11.8	11.9
Interest Income	1.4	1.1
Capital Expenditure Plan	(16.6)	(14.0)
<b>Closing Reserve Balance</b>	<b>\$59.7</b>	<b>\$63.0</b>

The Bylaw No. 4173 cited as "2017 to 2021 Financial Plan Bylaw, 2017" inclusive of Schedules A, B and C representing the operating and capital plans for the years 2017 to 2021 for the Board's consideration and adoption is included in Appendix 11.

### 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 the years 2017 through 2021. The 2017 budget was preliminarily approved by the Board on November 30, 2016.

The 2017-2021 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 2017-2021 Financial Plan bylaw as presented.



**RECOMMENDATION**

- 1) That Bylaw No. 4173, “2017 to 2021 Financial Plan Bylaw, 2017”, be introduced and read a first and second time;
- 2) That Bylaw No. 4173, “2017 to 2021 Financial Plan Bylaw, 2017”, be read a third time;
- 3) That Bylaw No. 4173, “2017 to 2021 Financial Plan Bylaw, 2017”, be adopted.
- 4) That the Staff Establishment Chart as attached in Appendix 6 be approved.

Submitted By:	Amber Donaldson, MA, CPA, CMA, A/Senior Manager, Financial Services
Concurrence:	Nelson Chan, MBA, CPA, CMA, Chief Financial Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

- Attachments: Appendix 1: Summary of Committee Recommendations  
Appendix 2: CRD 2017 Final, 2017 Preliminary, and 2016 Final Budgets  
Appendix 3: Financial Plan Feedback  
Appendix 4: 2017 Operating Budget Overview  
Appendix 4a: 2017 Capital Budget Overview  
Appendix 5: 2017 Major Capital Projects Listing  
Appendix 6: Staff Establishment Chart  
Appendix 7: 2017 Financial Indicators  
Appendix 8: CRD Capital Service Activity and Investment  
Appendix 9: 2017 Financial Plan Summaries and Individual Municipality and Electoral Area Requisitions  
Appendix 10: Bylaw No. 4173 cited as “2017 to 2021 Financial Plan Bylaw, 2017” inclusive of Schedules A and B