
City of Kelowna

MEMORANDUM

DATE: December 6, 2001
FILE: 1700-20
TO: Mayor and Councillors
FROM: City Manager
RE: 2002 FINANCIAL PLAN

I am pleased to present the 2002 Financial Plan to Council. This year's budget focuses on funding of both historically provided services and those service enhancements that Council believes add significant value in building a vibrant community. The City of Kelowna has continued to advocate modest annual taxation increases to support current and expanded services throughout an anticipated extended period of economic recovery in the Province. While this budget is not able to reflect all of the many worthwhile identified community needs, I believe it is important to continue to provide services and the infrastructure necessary to facilitate economic development and to sustain the amenities and lifestyle that Kelowna residents have come to enjoy.

I would like to acknowledge the effort put forth by the Senior Management Team, their Managers and staff, along with the Finance Budget Team in the preparation of budget submissions. Staff has demonstrated an ability to adapt to changing conditions in the economy and in services and funding provided by senior levels of government. Most have been called on to be innovative and creative in terms of finding more efficient and effective ways of delivering services to reflect Council and community desires, in spite of the challenges of an increasingly complex operating environment.

While there are always a number of external and community factors that impact the City's annual budget, the 2002 budget is particularly impacted by the following factors:

Debt Reduction Initiatives and Reserves Position – The City's ability to mitigate incremental taxation increases is directly tied to our ability to reduce debt servicing obligations through the judicious use of existing reserves to eliminate debt. Council's adoption of an aggressive capital program pay-as-you strategy reduces the reliance on long-term debt as a funding mechanism, which in turn reduces operational flexibility.

Economic Situation – While the recent decision to close the Western Star Truck plant next year will deal a significant blow to the industrial sector in the community, Kelowna continues to expand its role as the regional commercial and business activity centre. The housing market has been relatively buoyant in 2001 and indications are that this will continue through 2002. Council has strongly supported multi-year capital expenditure initiatives that will assist in accelerating this community's recovery. These initiatives include the completion of the Kelowna International Airport terminal building expansion, the development of the Rotary Arts Centre and a number of community partnerships in City facilities that will help promote cultural and sports tourism.

Business Models and Service Delivery – Public-private partnership models are becoming more commonplace in many of the larger municipalities in the province. The City of Kelowna continues to be involved in several initiatives that have a partnering component. As more experience is gained, partnering projects can be implemented without the extensive agreement development costs that are sometimes necessary when breaking new ground. Where service delivery is more efficient and cost effective through contracting opportunities, the City has worked closely with those impacted to maintain employment and develop transition plans that will best serve the community.

Expenditure Pressures – While there has been some recent moderation in commodity prices, higher costs for vehicle fuel and natural gas and electricity directly impact on utility and taxation requirements due to the City's extensive vehicle fleet and civic buildings inventory. Increases associated with the City's RCMP contract are once again being mitigated through the use of existing reserves to phase-in wage, fuel and other administrative costs (year two of a three-year program).

The City is also faced with significant cost increases for insurance coverage, partially as a result of market insecurity after the events of September 11, 2001. The additional taxation funded costs total \$178,560, a 34% increase in general fund insurance costs.

Annualizing of 2001 Expenditure Decisions – During formulation of the 2001 budget, Council approved additional service costs that were either part-year or were to be phased in over a two-year period. A portion of the impact has been mitigated through use of reserve funding, however the direct taxation impact of all annualized services included in the 2002 budget is just under \$1.2 Million, the majority of which is for the following services:

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|-----------------------------------------|-----------|
| • RCMP Contract increases | \$690,000 |
| • Transit Service increases | \$164,000 |
| • Additional firefighters hired in 2000 | \$156,000 |
| • Utility rate increase adjustments | \$100,000 |

Transportation and Parking Issues – The City is committed to addressing traffic congestion issues as identified through the annual citizen survey. Initiatives to provide enhanced road links that parallel portions of Highway 97, as well as the 4-laning of Springfield Road from Ziprick to Hollywood, will be actively pursued in 2002. Continuing attention has been given to road infrastructure renewal, through the road resurfacing program budget of \$1.8 million. A number of transportation related projects are being put forward that will assist in improving vehicular traffic, bicycle and pedestrian movement throughout the City.

Reconstruction of the Chapman Parkade to include a total of 480 stalls on five stories will be completed in 2002 recognizing the need for increased parking availability in the downtown area.

Parks Issues – The City has been very active over the past year in preparing for facility development on the Mission District Park. A major commitment of both staff and financial resources will be required over the next 5 to 10 years in planning and developing the extensive playing field and facility plans for this park. Private sector partnering is likely to play an important role in facilities construction and service delivery.

Infrastructure Renewal – The City's inventory of roads, pipes, buildings and playgrounds has grown rapidly over the past 10 years. The need for infrastructure preservation and renewal programs is critical to maintaining continuous levels of service consistent with citizen expectations. While the focus is often on new programs, it is recognized that a sound infrastructure preservation program is a risk management issue that, if ignored, can be very costly in the long run.

Air and Water Quality – As the City has grown, so too has the need to protect local air and water quality from deterioration. Council's continuous support of initiatives developed by the Works and Utilities department, through its Environment section, have been beneficial as well as raised awareness of the general public to the importance of these issues.

Public Protection & Safety – Protective Services accounts for over 35% of the City's net annual operating budget. Council has been careful to balance the cost for policing, fire protection and bylaw enforcement with the coverage required to ensure a safe community. As noted earlier, there are ongoing budgetary pressures associated with these services and providing a high level of service at a reasonable cost continues to be an annual budget focus.

While these factors are important considerations for 2002 and beyond, they all link to the major corporate objective of **maintaining current service levels** in all areas in the most cost efficient manner. City staff is committed to seeking alternative funding and revenue sources and partnerships to enhance existing programs and to foster development of parks and community recreational facilities.

In response to the general direction and guidance from Council, my goal, throughout preparation of the 2002 Budget, was to achieve a Municipal Tax increase below 2.0%. I am pleased to recommend, in this budget, a **Municipal Tax increase of 1.63% for all property owners experiencing an average assessment increase.**

The estimated increase in tax **revenues generated from new construction is \$1.2 Million**, representing approximately 2.1% of the 2001 taxation demand of \$56,274,000. Revenue from new construction taxation is an important revenue source to assist with the provision of services associated with new growth.

Other **General Revenue** sources were examined to determine the level of potential flexibility available from these funding sources and an increase of \$444,600 has been included in this financial plan.

The following is a more detailed explanation of some of the budget issues already covered in summary. In addition, there are a number of other factors that Council should be aware of when reviewing the 2002 Provisional Budget:

1. The total one-time operating budget expenditures, funded from for 2002 is \$30,890 as compared to \$188,050 included in the 2001 budget. A number of one-time supplementals have been funded from reserves in prior years, however as a long-term strategy, this may not be sustainable.
2. A provision for growth in revenue from new construction of 2.1% or \$1.2 Million compares to the 2001 level of \$1.37 Million. Final new construction values will not be precisely known until the second quarter of 2002.
3. The 2001 Final Budget resulted in a General Taxation Demand of \$56.3 Million that included a **pay-as-you-go Capital Expenditure Program** of \$12.8 Million or approximately 22.8% of the General Taxation Demand.

Applying the Council objective of 50% of new construction taxation revenue being allocated to pay-as-you-go capital would result in an additional \$600,000 being included in the provisional budget totals. In order to meet the municipal taxation impact target, the pay-as-you-go capital increase has been limited to \$459,200. Should additional new construction taxation revenue be available by final budget, it may be possible to increase this amount to the previously targeted objective.

The pay-as-you-go Capital Expenditure Program of \$13.3 Million represents 22.8% of the projected General Taxation Demand of \$58.4 Million for 2002. The total General Fund Capital Expenditure Program, including funding from all sources, is budgeted at \$31.7 Million in 2002.

Debt Management

The City continues to improve its position in the area of debt management. Although some communities are targeting debt free balance sheets, the effective use of debt for specific projects can more accurately reflect the benefit of assets acquired by debt financing to existing and future citizens. While the cost of borrowing is very low on a short-term basis, yield curves reflect long-term rates that have been fairly consistent over the past few years.

The overall net general debt servicing costs of \$870,600 for 2002 has decreased by \$603,000 from 2001 levels. This represents 1.5% of the 2002 projected general taxation demand and compares very favourably to debt servicing levels of any Canadian local government.

The decrease has resulted from:

- Payout of a \$1.5 million mortgage on the James Stuart Park property reducing annual debt servicing by \$269,000.
- Retirement of the mortgage on the Mission District Park property reducing annual debt servicing by \$154,300
- Retirement of short-term borrowing for the Downtown Library reducing annual debt servicing by \$202,400

Property Assessments

Although the Annual Assessment Roll has not yet been completed and authenticated, preliminary indications are that City of Kelowna residential property values, on average, are 1.0% greater than the 2001 assessments.

As occurs annually, there will be certain properties that experience a greater increase in value than others and in these cases, there will be a shift in taxation burden within each property class. This shift is unavoidable given the annually adjusted Assessment Roll and the authority provided to municipalities within the Local Government Act.

2001 Accomplishments/Future Budgets

- Kelowna was awarded second place in its category in the Nations in Bloom World Competition held in Shenzhen, China in late 2001. The judging criteria weighed each City's enhancement of the landscape, heritage management, use of environmentally sensitive practices, community involvement and planning for the future.
- On November 1, 2001, the City executed a series of agreements with BC Gas that completes a "lease-in, lease-out" transaction known as the BC Gas Legacy Opportunity Fund. The City has borrowed \$49.3 million in order to effect a capital lease on BC Gas' distribution system within the City. BC Gas, under the terms of an operating lease back from the City, will continue to operate the system over the next 17 years. Lease payments will, at a minimum, servicing the City's debt over this period. A predetermined final payout will also be made to the City when the agreement concludes, to the benefit of Kelowna's future citizens. The extent of the benefit, although originally estimated at a net present value of \$6.7 million, is subject to a number of financial variables that will impact the final benefit.

- While the majority of the Kelowna Airport Terminal Expansion was completed in 2000, ongoing improvements continue to enhance this facility's role as the "Gateway to Kelowna". The first aircraft loading bridge in the B.C. interior went into service November 26, 2001, allowing passengers to connect directly from the terminal walkway to the aircraft, eliminating the need to walk outside on the apron. Financing of the airport's capital improvement program has been possible by implementation of Airport Improvement Fees, collected by the Airlines on behalf of the City, with interim financing being provided from the City's general reserves.
- The Annual Citizen Survey released in September, 2001 highlighted the strong desire to maintain current levels of service and taxation (73%). The survey respondents also gave high importance ratings for all services provided by the City of Kelowna, reaffirming the daily impact of local government on residents lives and well being. Satisfaction ratings for major City departments ranged between 78% and 95%. Citizens surveyed felt that traffic congestion is the single most important issue facing the City. Staff will continue to work closely with Council and the community to address this complex issue in 2002.
- Approval by the Agricultural Land Commission for the exclusion of the Mission District Park lands will provide extensive opportunities for the further development of the Mission Sportsfields. Community input is currently being sought to determine what recreational amenities are most desirable.
- The development of Ben Lee Park has provided a valuable amenity for families in the Rutland area. The completion of the children's water park, skateboard park and multi-use 'rink' for box lacrosse, roller hockey and other activities has been well received and utilized over the past year.
- Construction is underway on the Rotary Arts Centre, a cultural destination that will feature workshop spaces, a theatre, galleries and retail boutiques. The Leisure Services department facilitated this partnership with community groups over the past few years. A major community fund-raising effort will provide over 50% of the expected cost of the facility. This project is an integral part of the many initiatives that have helped to make the north end of the City's downtown an exciting and vibrant cultural area.
- Two other important facility development partnership agreements at the Rutland Sportsfields site are in progress. The newly constructed home for the Kokanees Gymnastics Club is now in use with only minor work remaining on this \$1.1 million facility. The Club will repay the City 50% of the project cost over a 20-year period.
- Work will be completed in 2002 on the \$2.8 reconstruction of the Athans Aquatic Centre. This partnership with the YMCA-YWCA will see renewal of this facility first constructed in 1984. New program space, change rooms and other amenities will make this an attractive and active 'wellness' destination.

I would like to thank staff for their effort in formulation of the 2002 corporate financing and action plan for City Council and the citizens of the community. I know that City Staff are looking forward to the challenges and opportunities of the coming year.

R. A. Born