
City of Kelowna

MEMORANDUM

DATE: December 12, 2002
FILE: 1700-20

TO: Mayor and Councillors

FROM: City Manager

RE: 2003 FINANCIAL PLAN

I am pleased to present the provisional 2003 Financial Plan to Council. This year's budget focuses on funding strategies to sustain historically provided levels of service and to enhance services that Council believes will add significant value to Kelowna citizens. The City of Kelowna continues to advocate modest annual taxation increases to support current and expanded services throughout this extended period of economic recovery in the Province. While the 2003 Financial Plan 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 protect our existing assets, facilitate economic development and to sustain the amenities and lifestyle that Kelowna residents 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 reduced funding provided by senior levels of government. The City, as a collective team of both Council and staff, are continually challenged to be innovative and creative in terms of finding more efficient and effective ways of delivering services to desired community levels in an increasingly complex operating environment.

While there are always a number of external and community factors that impact the City's annual budget, the 2003 budget is particularly impacted by the following factors:

Transportation Issues – Traffic congestion was the single most important issue identified in the 2002 Citizen Survey. The extension of Enterprise Way from Leckie Road to the highway intersection at Leathead Road will help relieve pressure on Highway 97 in this high traffic corridor. The extension of Dilworth Road south across Springfield to Benvoulin Road will be a timely replacement for the interim improvements installed a number of years ago. The first phase of the multi-year North End Connector project will begin between Ellis Street and Spall Road, requiring significant property and rights-of-way acquisition as well as relocation of the existing railway line. This roadway has been in the City's long term transportation plans for many years and is now necessary to help offload Highway 97 traffic as well as provide an alternate route to the City centre for local traffic.

Continuing attention has been given to road infrastructure renewal, through the road resurfacing program budget of \$2.3 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.

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. We are mindful of opportunities to internally finance projects from reserves in order to maintain repayment flexibility and minimize interest charges.

Council's continued support of an aggressive capital program pay-as-you-go strategy reduces the reliance on long-term debt as a funding mechanism placing some pressure on the City's ability to fund all operational needs, however this is still viewed as the best long term strategy to manage growth effectively.

Economic Situation – The City continues to be challenged in mitigating taxation impacts of costs downloaded from the provincial government. Recent announcements regarding transit and prisoner maintenance funding cuts places an incremental financial burden on the City over at least the next 2 years and an ongoing demand thereafter.

Locally, a buoyant housing market does create positive economic activity within the community. There is always a concern with balancing growth and sustainable employment opportunities, however I am cautiously optimistic about the untapped potential for commercial and industrial property development. While the recent closure of the Western Star Truck plant has been a significant blow to the industrial sector, Kelowna continues to expand its role as the regional commercial and business activity centre.

Business Models and Service Delivery – Public-private partnership models have become commonplace in many of the larger municipalities in the province. The City of Kelowna continues to be involved in several initiatives, for the provision of new community amenities and new or expanded services 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 commodity prices have moderated over the past year, 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 reliance on provincial gaming revenues.

The City, as is true for the entire public sector, continues to be 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 \$123,840, a 20% increase in general fund insurance costs.

Annualizing of 2002 Expenditure Decisions – During formulation of the 2002 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 2003 budget is \$568,000, the majority of which relates to RCMP contract costs.

Parks and Recreation Facilities Issues – The City concluded negotiations with a private sector partner in 2002 for construction and operation of the Mission District Park Recreation and Sports Facility. Completion of this \$16.6 million project having 2 NHL size ice arenas, 2 dry floor multi-court arenas, a fitness centre, running track and other amenities, is anticipated in the fall of 2003. The City's plan to long term borrow \$11.0 million will not impact taxation through debt servicing until 2004. 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 expansion plans within this park.

Infrastructure Renewal – The City's inventory of roads, pipes, buildings and playgrounds has grown rapidly over the past 12 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.

Environmental Protection – 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. Environmental matters and a desire for the preservation of agricultural lands are key areas identified in the 2002 Citizen's Survey.

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 2003 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 guidance from Council and considering all new cost pressures, my goal, throughout preparation of the 2003 Budget, was to achieve a Municipal Tax increase limited to the past year's inflation rate for the Province of British Columbia. As such, I am pleased to recommend in this budget, a **Municipal Tax increase of 2.25% for all property owners experiencing an average assessment increase.**

The estimated increase in tax **revenues generated from new construction is \$1.5 Million**, representing approximately 2.5% of the 2002 taxation demand of \$58,945,000. Revenue from new construction taxation is an important revenue source to assist with the provision of infrastructure and 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 \$290,900 has been included in this financial plan.

The following is a more detailed explanation of some of the budget issues already covered in summary.

1. The total one-time operating budget expenditures, funded from taxation for 2003 is \$40,400 as compared to \$167,570 included in the 2002 budget. A number of one-time expenditure requests have been funded from reserves, however as a long-term strategy, this may not be sustainable.
2. A provision for growth in revenue from new construction of 2.5% or \$1.5 Million compares to the 2002 level of \$1.74 Million. Final new construction values will not be known until the second quarter of 2003.
3. The 2002 Final Budget resulted in a General Taxation Demand of \$58.9 Million that included a **pay-as-you-go Capital Expenditure Program** of \$13.7 Million or approximately 23.3% 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 \$750,000 being included in the provisional budget totals. A total of \$700,000 has been added at this time in order to fund the extensive capital program priorities for 2003.

The pay-as-you-go Capital Expenditure Program of \$14.4 Million represents 23.4% of the projected General Taxation Demand of \$61.8 Million for 2003. The total General Fund Capital Expenditure Program, including funding from all sources, is budgeted at \$35.0 Million in 2003.

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 \$755,700 for 2003 has decreased by \$114,900 from 2002 levels. This represents 1.2% of the 2003 projected general taxation demand and compares very favourably to debt servicing levels of any Canadian local government.

As noted previously, debt-servicing costs for the new facility in Mission District Park will commence in 2004 after the facility is completed. This will result in an estimated \$1.0 Million in additional costs or an estimated average taxation demand equal to 1.6%.

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 5.1% greater than the 2002 assessments.

This is the highest market assessment increase since 1994 and will result in a wider overall taxation variance among properties within the residential class than has been experienced over the past 10 years. While Council is given the authority through the Local Government Act to shift the tax burden between property classes (i.e. between residential and business), it cannot control shifts within each property class.

2002 Accomplishments/Future Budgets

- The City was the recipient of a number of awards in 2002 including:
 - The Government Finance Officers Association's **Distinguished Budget Presentation Award** for the City's 2002 – 2006 Financial Plan.
 - **Environmental Award** in the Concept and Assessment Category from the Association of Professional Engineers and Geoscientists of British Columbia for the City's study of the Influence of Limnology on Domestic Water Intakes.
 - Aquila Networks **Canada 2002 Environmental Excellence Award** which recognizes the Energy Management Committee's accomplishments in energy efficiency.
 - The City of Kelowna and Neptune won two awards in the 2002 Ontario Water Works Association Annual Awards of Excellence:
 - **2002 Comprehensive Award** for our overall **Water Smart Education Program**
 - **2002 Specialized Award** for our 2001 **Crawford Estates Irrigation study** in which participants reduced their peak water use by 26%
 - Lung Association Regional Asthma Program recognized the City's Environment Division for their efforts to improve **air quality throughout the Okanagan Valley**. The awards were presented at the National Air Quality Conference held in Kelowna this past October.
 - Internally, a record six City departments were awarded the 2001 **safety award**, all with perfect scores of 100%.
- The opening of the new Rotary Centre for the Arts will help to fulfill the vision for the City's Cultural District. The \$6.8 million facility shown on this year's Financial Plan cover has been a joint effort of the City and a non-profit society formed to raise funds towards construction and for the ongoing facility operation.
- Reconstruction of the Chapman Parkade, including a total of 480 stalls on five stories was completed in 2002 at a cost of \$9.25 million, funded from parking reserves. This site was used for redevelopment recognizing its strategic location in providing increased parking availability in the downtown area.
- The Abbott Street recreational corridor (phase 1) will provide safe and enjoyable off-road areas for cycling, rollerblading, running and walking between Highway 97 and Park Avenue. Plans to extend the corridor to Strathcona Park are included in this year's budget.
- Acquisition in 2002 of the former Kelowna Secondary School site will allow the City to protect the important heritage value found in a portion of the school as well as creating opportunities to control the property's development consistent with the objectives of the Downtown Town Centre Plan. Funding for planning the future use of this site is included in this document.
- Springfield Road was 4-laned between Ziprick and Hollywood Roads. Completion of this project has helped to ease traffic congestion along Springfield Road and on the parallel section of Highway 97. Considering the need for about 65 property acquisitions, the project proceeded in a very timely fashion within the project budget. The existing sewer trunk main on Highway 97 is nearing capacity and the expansion of Springfield Road in this area afforded the opportunity to install a major new sewer trunk main to service the Rutland area of the City.
- While the majority of the Kelowna Airport Terminal Expansion was completed in 2000 and 2001, ongoing improvements continue to enhance this facility's role as the "Gateway to Kelowna". Financing of the airport's capital improvement program has been made 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, 2002 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 96%. 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 2003 and beyond.

I would like to thank staff for their effort in formulation of the 2003 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