
City of Kelowna

MEMORANDUM

DATE: December 14, 2005
FILE: 1700-20

TO: Mayor and Councillors

FROM: City Manager

RE: 2006 FINANCIAL PLAN

I am pleased to present the provisional 2006 Financial Plan to Council in this, my final year of having the privilege of serving the City of Kelowna Council and citizens. This year's budget will focus on addressing the critical capital and operational needs that are consistent with the rapid growth that Kelowna continues to experience. While community growth offers many opportunities to improve the quality of life and enhance services for our citizens, there is generally a time lag between service demands and the financial capacity to fulfill the need. The City remains committed to resolving this gap through a strategy that advocates modest annual taxation increases and prudent fiscal management.

While the 2006 Financial Plan is not able to reflect all of the many worthwhile identified needs, I believe it is important to continue to provide services, infrastructure and other amenities consistent with the needs of a growing, dynamic and vibrant community. The beauty and lifestyle enjoyed by the residents of the City of Kelowna must be protected while still providing the services necessary to ensure a welcoming environment for visitors and new residents alike.

I would like to acknowledge the effort put forth by the Senior Management Team, their Managers and staff, along with the Financial Services Financial Planning Team in the preparation of budget submissions. Staff has demonstrated an ability to meet the challenges presented by ever changing conditions in the economy and in services, and the citizen sensitivity associated with our evolution from a small to mid-size city. 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 2006 budget will be particularly impacted by the following factors:

Transportation Issues – Traffic congestion continues to be the single most important issue identified in the City's annual Citizen Survey. Council has acted on recommendations made by the Roads Task Force relative to approaches and Highway 97 access improvements to the new Okanagan Lake Bridge which the Provincial Government is initiating and is scheduled to be operational in 2008. The Task Force is to be commended for their work in balancing costs with functionality and neighbourhood impacts.

For 2006, the highest priority is completion of the Central Okanagan Bypass between Ellis Street and Spall Road including railway relocation, retaining walls and the relocation of power poles. This roadway has been in the City's long term transportation plans for many years and is a key in offloading Highway 97 traffic as well as providing an alternate route to the City centre for local traffic. Funding will continue to be a major challenge in constructing this major roadway as anticipated provincial funding has not been supported to date.

Also in the lower Glenmore area, the Clifton Road extension south to the existing Skyline Road will be completed concurrent with intersection improvements at High Road and Skyline and realignment of High Road to Mountain Avenue.

The City is partnering with the Provincial Government and UBC Okanagan in achieving a new flyover entrance way into the university campus. This will eliminate the current left turn safety concern and achieve a service level to meet future expansion plans.

Continuing attention has been given to road infrastructure renewal, through the road resurfacing program budget of \$2.2 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.

The City is increasing its commitment to alternative transportation methods, particularly related to public transit service, both on the conventional and custom sides. Expanded service to the UBC Okanagan campus to meet current needs and to encourage future ridership is a very high priority for 2006.

Protective Services and Public Safety – A continuing community dilemma in addressing issues related to homelessness, drug addiction, increased crime rates and mental illness has resulted in concerns for both those directly impacted and the general citizenry. Funding is included in the 2006 budget to provide a greater police presence by adding 8 new RCMP members beginning July 1st to bring the total authorized strength at the Kelowna detachment to 133. As well, the City is involved in a number of initiatives with local agencies and senior levels of government that are addressing both short term and longer term needs, including supportive and temporary housing.

Economic Situation – The City's buoyant economy, for the most part, has exceeded Canada's performance as a whole. Keys to sustaining the momentum are for inflation to continue within targets identified by the Bank of Canada and for interest rates to remain an incentive for business to continue the injection of significant development capital into the region.

The ongoing demand for new housing has created very strong employment opportunities in construction and the many support and ancillary services in this sector. Commercial growth, in each of the town centres is encouraging, not just in scope, but in improving services that result in a reduced reliance on transportation corridors between town centres.

A total of 2,102 building permits valued at \$445 million were issued through November, 2005. This far surpasses the City's previous highest value for building permits recorded in 2004, where 2,131 permits were issued with a value of \$363 million. It is noteworthy that multi-family residential development, as envisioned and encouraged in the most recent Official Community Plan, has now surpassed the projected 53% of all residential dwelling units versus 47% for single/two family units and is presently accounting for 65% of total units constructed.

The City now has serviced properties on the Kelowna International Airport site and on lands extending to the City's northern boundary which will assist in stimulating industrial growth to an area that is well located and serviced. There is always a concern with balancing growth and sustainable employment opportunities, however I am optimistic about the potential for both commercial and industrial property development as Kelowna continues to expand its role as the regional commercial and business activity centre.

Debt Management Initiatives and Reserves Position – There was a conscious effort made to reduce annual general fund debt servicing obligations between the years 1999 - 2003 to better position the City to undertake planned large capital expenditures. Debt servicing of 4.7% of taxation in 1999 was reduced to a low of 1.2% of taxation in 2003. Completion of the 'Capital News Centre' in Mission Recreation Park in 2004 has resulted in a percentage of taxation increase committed to debt servicing to 1.9% for 2006.

A \$20 million borrowing bylaw is in place for the future construction of an aquatic facility in Mission Recreation Park. This will add a projected taxation increase of 2.6% for debt servicing when the facility is completed, anticipated to be in 2008.

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. The judicious use and replacement of reserves remains paramount to the financial health of the City.

Expenditure Pressures – Increases associated with the delivery of policing services are once again being mitigated through reliance on provincial gaming revenues and, to a lesser extent, from general reserves that will allow a phase-in of taxation impacts. As well, the Crimestoppers program has committed to funding 2 of the new RCMP members. The net taxation impact of new members and increasing contract costs for existing members is just over 1% in 2006.

Operating budget demands to maintain newly developed parks and to improve safety and security in existing parks is necessary to meet public expectations. An increasing emphasis on culture and the cultural district is resulting in both new and expanded services. Active community initiatives, including "Kick Start Kelowna", while adding to quality of life, also require an ongoing financial commitment. Providing services to keep up with the demands of growth has resulted in this budget reflecting a number of staff positions in keeping with our corporate vision to meet the challenges and opportunities of our community through innovation, creativity and flexibility.

Annualizing of 2005 Expenditure Decisions – During formulation of the 2005 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 2006 budget is \$425,300 with material amounts committed to policing, parks and transit services.

Parks and Recreation Facilities – Negotiations are presently in progress on an 'Early Partnering Agreement' with a private sector partner for the design and construction of the future Mission Recreation Park Aquatic Facility. A financing plan has been approved for the \$33 million capital cost of this public aquatic centre which will include a 50 metre pool, large leisure area and a number of other aquatic related features. Council's approval of the financing plan is contingent on the overall municipal taxation increase being no greater than 4% when the annual debt servicing and operating expenditures are determined upon opening of the facility.

The Mission Recreation Park will also be the location of a new artificial turf field that will help to satisfy demand related to both growth and the anticipated temporary loss of up to 3 sportsfields over the next few years. The all weather nature of this type of field allows for extended sports event scheduling with reduced maintenance costs.

Infrastructure Renewal – The City's inventory of roads, pipes, buildings and playgrounds has grown rapidly since the early 1990's. The need for infrastructure preservation and renewal programs is critical to maintaining 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, has raised awareness of the general public to the importance of these issues.

The Environment section is initiating 'Environmental Management Systems' in 2006 within City departments in order to assess impacts and determine mitigative measures for daily operations. Increasing emphasis on drainage works is intended to mitigate the potential impacts of storm damage, particularly as residential hillside development expands.

While these factors are important considerations for 2006 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 2006 Budget, was to achieve a Municipal Tax increase comparable to the past year's inflation rate for the Province of British Columbia of 2.3% (October to October). As such, I am pleased to recommend in this budget, a **Municipal Tax increase of 2.35% for all property owners experiencing an average assessment increase.**

The estimated increase in tax **revenues generated from new construction is \$2.8 Million.** 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. An increase of \$373,000 includes an upward adjustment of \$235,000 in natural gas franchise fees and \$100,000 in property tax penalty revenue.

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 2006 is \$52,700 as compared to \$120,800 included in the 2005 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 \$2.8 Million is consistent with that achieved in 2005. While final new construction values will not be known until the second quarter of 2006, indications are that there may be upward assessment adjustments of up to an additional 10% from those provided to date by BC Assessment.

3. The 2005 Final Budget resulted in a General Taxation Demand of \$70.2 Million that included a **pay-as-you-go Capital Expenditure Program** of \$17.8 Million or approximately 25.4% 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 \$1,400,000 being included in the provisional budget totals. A total of \$1,090,800 has been added at this time to fund the extensive capital program priorities for 2006. In addressing the Council objective shortfall, there may be potential to commit further pay-as-you-go funding at final budget should additional new construction taxation revenue be available at that time.

The pay-as-you-go Capital Expenditure Program of \$18.9 Million represents 25.4% of the projected General Taxation Demand of \$74.7 Million for 2006. The total General Fund Capital Expenditure Program, including funding from all sources, is budgeted at \$58.0 Million in 2006.

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 removing spikes in taxation requirements.

While the cost of borrowing remains very low on a short-term basis, yield curves reflect long-term rates that have been fairly consistent over the past few years. The City is implementing internal financing strategies, where appropriate, to minimize current interest costs while ensuring that we don't lose sight of the potential to lock in borrowing prior to a shift to higher interest rates.

The overall net general debt servicing costs, including internal financing, of \$1,395,800 for 2006 has decreased by \$47,600 over 2005 levels. This represents 1.9% of the 2006 projected general taxation demand and compares very favourably to debt servicing levels of any Canadian local government.

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 over 13% greater than the 2005 assessments.

This follows an unprecedented increase of 25% between 2004 and 2005 and typically results in a wider overall taxation variance among properties within the class than is experienced in a more stable market. While Council is given the authority through the Local Government Act to shift the tax burden between property classes (i.e. between residential & business), it has limited tools to control shifts within each property class.

2005 Accomplishments/Future Budgets

While there is a summary of 2005 City of Kelowna accomplishments contained on pages A19 through A22 of this document, there are some additional highlights that merit attention:

- The City and city staff were the recipients of a number of awards and recognition in 2005 including:
 - The Government Finance Officers Association's **Distinguished Budget Presentation Award** for the City's 2005-2009 Financial Plan. This is the fourth consecutive year that the City has earned the award.
 - The Government Finance Officers Association's **Canadian Award for Financial Reporting** for the third time for the City's 2004 Annual Report.
 - A pilot project at the Glenmore Landfill received a **Union of BC Municipalities Award** in September. The Landfill Gas Recovery project uses a microturbine to convert collected landfill gas into electricity. This, coupled with the use of flare stations, has meant the virtual elimination of dissipating greenhouse gases from the landfill.
 - The Central Okanagan achieved first place for the fourth year in a row in the **Commuter Challenge**, a friendly competition to use environmentally-friendly forms of transportation for one week.
 - Kelowna Memorial Park Cemetery was awarded first prize in the international **Cemetery and Funeral Association's 2004 "Keeping It Personal" Awards**. The honor is in recognition of the Brevity Memorial, a joint project between the Cemetery and the Kelowna chapter of The Compassionate Friends.
 - The City, School District 23 and the Regional District of Central Okanagan joined forces and were awarded a **Guinness World Record** for planting the most trees simultaneously. The event in May involved 22,857 students, teachers and adult volunteers planting 134,083 seedlings in 50 sites through the Central Okanagan.
 - An **Environmental Award** was presented to the City, received by Don Degen on behalf of the Energy Management Committee, for our commitment to reduce energy use; LED traffic signals, energy efficient retrofits at the Parkinson Recreation Centre, joint project between the City's Wastewater Treatment Facility and Okanagan College and the Capital News Centre infrastructure.
 - A special **Environmental Leadership Award** was also presented to Mayor Gray for his championing of environmental causes including the Mayor's Environmental Expo, composting and the landfill microturbine project.
 - Don Degen, Water and Drainage Manager, was awarded the **Warren S. Fuller Award** from the American Water Works Association for distinguished service to the water supply field. The award was given in April.
 - Fire Chief Gerry Zimmerman received the **Lieutenant Governor's Award** for public safety at Government House in Victoria on December 9. He was nominated by Terasen Gas for the collaborative effort in fighting the Okanagan Mountain Park Fire.
- A corporate performance measurement initiative began in conjunction with preparation of the 2004 budget and provided a number of high level goals and performance indicators. Reporting of results for the year was integrated into the 2004 Annual Report. The performance measurement initiative has continued to expand this year with goals that can be more directly measured in each City department. I am confident that this process will assist Council and the management team in determining the efficiency and effectiveness of many of the City's services.
- As part of the federal "New Deal" for cities and communities, agreement was reached between the federal, provincial and BC's municipal governments for delivery of gas tax funds to the local level. Initial funding of \$834,000 in 2005 under the Community Works Fund Agreement is the first step in what is hoped will be a reliable revenue source to assist the City in the provision of sustainable infrastructure. Initiatives in 2006 are focused on enhancing community green space and promoting alternative transportation through the "Rails with Trails" initiative (\$784,240), on community sustainability planning (\$25,000) and on an energy saving street light program (\$25,000).

- The City has entered into a new 5-year agreement effective January 31, 2006 for the provision of utility billing customer care, meter reading and water meter services with an established service provider. This unique partnership is expected to improve service levels to our utility customers and has the potential for additional savings through lower per customer costs as other communities sign similar agreements with the service provider.
- In meeting our commitment to excellence in the provision of services to the citizens of Kelowna, it is important to provide underlying support for staff members to best enable them in their duties on an ongoing basis. The City's "Employee Wellness Program" initiative was kicked off in 2005 and will be a focus in 2006 in encouraging and assisting our employees in leading a healthy, balanced and productive lifestyle. The City also has a well established program for job site safety.
- I am very proud of our City staff's and Council members' leadership and participation in a number of community initiatives and fundraising events in 2005 including:
 - United Way
 - Heart and Stroke Foundation
 - Terry Fox Day in support of cancer research
 - Run For The Cure in support breast cancer research
 - Kelowna Food Bank drive
 - Adopt-a-Family at Christmas

Involvement in these activities provides further evidence of our commitment to serving and building a great community!

I would like to thank staff for their effort in formulation of the 2006 corporate financing and action plan for the newly elected Mayor and City Council and the citizens of the community. I know that City Staff are looking forward to working with Council on the challenges and opportunities of the coming year.

R. A. Born