
City of Kelowna

MEMORANDUM

DATE: December 12, 2006
FILE: 1700-20

TO: Mayor and Councillors

FROM: City Manager

RE: 2007 FINANCIAL PLAN

I am pleased to present the provisional 2007 Financial Plan to Council in this, my first year of having the privilege of serving the City of Kelowna Council and citizens in the capacity of City Manager. This year's budget begins to recognize the City's exposure to market and inflationary cost pressures that are consistently higher than general inflation as represented by the consumer price index (CPI). The overall focus is on addressing the critical capital and operational needs that must be funded to mitigate the service gaps that are the product of Kelowna's continuing rapid growth. 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 is committed to resolving this gap through established corporate strategies that will require moderate annual taxation increases and continuing prudent fiscal management.

While the 2007 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 Council priorities that recognize the needs of a growing, dynamic and vibrant community. The beauty and lifestyle historically enjoyed by the residents of the City of Kelowna must be protected while 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 a genuine commitment to meet the challenges presented by persistent development pressures, emerging new standards and legislation, ever changing conditions in the economy and in services as this Council's focus and direction emerges. 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 2007 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 direction on approaches and access improvements to Highway 97 near the new Okanagan Lake Bridge are well underway in advance of the scheduled 2008 opening. This work will continue in 2007 with the establishment of the Water Street – Pandosy Street Link across the highway and widening on Richter Street north of the highway.

To ensure a holistic approach, the City is increasing its commitment to alternative transportation methods with two major initiatives for 2007. The introduction of phases 1 & 2 of a Bus Rapid Transit (BRT) line will provide high frequency travel between downtown Kelowna and UBC Okanagan. University student support for the implementation of a U-Pass as part of the tuition package makes this an excellent opportunity to better accommodate the needs of students and employees alike. The Rails with Trails project will eventually bring a safer, off-road facility for cyclists and pedestrians between the City Centre and UBC Okanagan. The project will be initiated with the securing of some property and facility development from Gordon Drive to Spall Road.

While pursuing long-term viable alternatives, in 2006 the first major phase of the Central Okanagan Bypass between Ellis Street and Spall Road including railway relocation, retaining walls and the relocation of power poles has been completed. The 2007 strategy is to complete detail design for both phase 2 (Spall to Highway 33) and phase 3 (Highway 33 to McCurdy). The alignment of this roadway has topographical and environmental challenges that must be balanced with the primary goals of offloading Highway 97 traffic and providing an alternate route to the City centre. The efficient movement of goods and services is critical to maintaining Kelowna's stature as the hub of trade and commerce in the interior of British Columbia. Determining funding for future construction of these 2 phases, currently estimated at \$47.8 million, continues to be a major challenge as the province will not provide funding to the City for this project. Debenture borrowing will be required for a significant portion of the construction cost.

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.

In the Mission area, long anticipated improvements to Swamp Road, the Casorso Road link to Benvoulin and a reconstruction of the Casorso Road bridge will provide a safer and more efficient route to the Springfield/Hwy 97 town centre and beyond.

Continuing attention has been given to road infrastructure renewal, through the road resurfacing program budget of \$2.7 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.

Protective Services and Public Safety – A continuing community dilemma in addressing issues related to homelessness, drug addiction, crime rates and mental illness has resulted in concerns for those directly impacted, as well as Kelowna's citizens and visitors. Funding is included in the 2007 budget to provide a greater police presence by adding 2 new RCMP members beginning May 1st to bring the total authorized strength at the Kelowna detachment to 133. As well, the City has partnered with local agencies and senior levels of government in addressing both short term and longer term needs, including supportive and temporary housing. A recommendation is also included for the addition of 2 firefighters beginning April 1st. Requests for additional police (3) and firefighters (2) beyond those recommended had to be balanced against other important competing demands and are included as priority 2 for Council consideration.

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. While housing starts have dropped considerably in the United States and slowed in Canada, development indicators are that Kelowna will have a much softer landing with more of a 'catch your breath' market correction.

Commercial growth, in each of the town centres is encouraging, not just in scope, but in improving services that will assist in reducing reliance on transportation corridors between town centres.

A total of 1,893 building permits valued at \$354 million were issued through October, 2006. This compares to the City's previous highest value for building permits recorded in 2005, where 1,896 permits were issued with a value of \$406 million.

The Kelowna International Airport continues to be challenged in meeting the market demand of the traveling public. Year over year passenger volumes through October, 2006 were just over 1 million, a 14% increase over the same period in 2005. Total 2005 passenger volumes were 21% higher than those experienced in 2004, so we will again reach unprecedented levels for 2006. This success will trigger improvements in 2007, including a runway extension and expansion of the departure room along with other capital projects.

There continues to be strong potential for both commercial and industrial property development as Kelowna solidifies its role as the regional commercial and business activity centre. For example, the development of the Marshall feedlot will be welcomed by adjacent residents.

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 has been reduced to a low of 1.6% of taxation in 2007 when including internal borrowing impacts associated with the 'Capital News Centre' in Mission Recreation Park.

A \$29.5 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 3.2% for debt servicing, prior to debt retirements, when the facility is completed, in late 2008. Looking ahead to 2008 through 2010, construction of the remainder of the Central Okanagan Bypass will result in further substantial long term borrowing requirements.

Council's continued support of an aggressive capital program pay-as-you-go strategy has reduced the City's reliance on long-term debt as a funding mechanism. While this has placed some pressure on the City's ability to fund all operational needs, it 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. Replacement of reserve funds used for projects like the Aquatic Centre will be a challenge given the number of initiatives currently planned or underway.

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.

Funding to maintain a number of ongoing services within an acceptable taxation increase framework has required some difficult trade-offs. It is critically important to meet community standards for roads, parks, drainage, facilities and equipment maintenance. The levels of service being recommended in this budget, while not ideal, are supported as acceptable by each of the operating departments responsible. Significant priority has been placed on parks related maintenance and transit service as has been earlier noted.

Annualizing of 2006 Expenditure Decisions – During formulation of the 2006 budget, Council approved a total of \$1.35 million, representing 2% of 2006 taxation demand, of incremental service costs that were either part-year or were to be phased in over a two-year period. Major components of this increase include costs associated with policing, transit and affordable housing initiatives.

Parks and Recreation Facilities – Negotiations have just been completed on a Design Build lump sum agreement with a private sector partner for the design and construction of the future Mission Recreation Park (MRP) Aquatic Centre. Construction is expected to begin in the spring of 2007. The financing plan for this \$44.1 million project, which will include a 50 metre pool, large leisure area and a number of other aquatic related features, was approved in 2006. Also at MRP, 2007 will see development of the first 2 softball fields as part of a quad complex.

City Park rehabilitation and improvements, necessary as a result of the new Okanagan Lake bridge project, will be initiated and will include field realignment and development of washrooms and a change room for field users.

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.

We, as a City, are in the very early stages of wrestling with the question of **sustainability** and what it means to our community. While sustainability has traditionally addressed environmental issues like water and air quality, there are economic and social impacts that also require strategies and best practices to deliver ongoing services to our citizens.

Other Challenges – Recruitment and retention in the current period of high employment consistent with an expanding economy has been a very significant issue for the City over the past few years. Baby-boomer retirements are resulting in the need to replace not just an employee, but generally people with a tremendous municipal knowledge bank. Training and education programs are increasingly important in integrating new team members and other initiatives are being introduced to ensure the City hires progressive and innovative staff.

Dealing with the **pine beetle** epidemic will continue to require considerable resources to assist the public in education, prevention and monitoring of Ponderosa pine trees in the City. This year's budget includes considerable funding to continue the fuel modification program in partnership with senior governments and to increase the number and diversity of new trees being planted.

While these factors are important considerations for 2007 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 2007 Budget, was to achieve a Municipal Tax increase that addresses primary needs for the community while recognizing both inordinate cost increases faced by the City and taxpayer ability to pay. As such, I am pleased to recommend in this budget, a **Municipal Tax increase of 3.47% for all property owners experiencing an average assessment increase.**

The estimated increase in tax **revenues generated from new construction is \$2.7 Million**. This is based on the most recent information available to the City from BC Assessment. 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 \$295,000 includes an upward adjustment of \$100,000 in interest income on investments.

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 2007 is \$157,000 as compared to \$463,000 included in the 2006 budget, which included a \$400,000 appropriation to reserve to fund major arterial roads needs. A number of 2007 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 \$2.7 Million is less than the \$3.0 Million generated in 2006. While final new construction values will not be known until the second quarter of 2007, indications are that there may be only minor upward assessment adjustments from those provided to date by BC Assessment.
3. The 2006 Final Budget resulted in a General Taxation Demand of \$74.7 Million that included a **pay-as-you-go Capital Expenditure Program** of \$19.2 Million or approximately 25.7% 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 \$1,330,000 being included in the provisional budget totals. A total of \$1,010,800 has been added at this time to fund the extensive capital program priorities for 2007. 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 \$20.2 Million represents 25.2% of the projected General Taxation Demand of \$79.9 Million for 2007. The total General Fund Capital Expenditure Program, including funding from all sources, is budgeted at \$52.5 Million in 2007.

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 \$1,269,200 for 2007 has decreased by \$126,600 over 2006 levels. This represents 1.6% of the 2007 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 and commercial property values, on average, are approximately 20% greater than the 2006 assessments.

This continues a trend of elevated assessment increases in recent years 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.

2006 Accomplishments/Future Budgets

While there is a summary of 2006 City of Kelowna accomplishments contained on pages A15 through A19 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 2006 including:
 - City Manager Ron Born was presented with the prestigious **Lieutenant Governor's Silver Medal for Excellence in Public Administration**. Mr. Born received the custom-made silver medal and citation by Lieutenant Governor Iona Campagnolo at an award ceremony on June 1, 2006 at Government House in Victoria. The Silver Medal pays tribute to public sector practitioners whose careers exhibit the highest standards of excellence, dedication and accomplishment.
 - The **Public Works Association of BC** presented the City of Kelowna with a first place award in the Ideas and Gadgets category for equipment operator Sheldon Kokorudz's mesh roll dispenser invention that turns a four-person job into a one-person job and extends the lifespan of roadways.
 - The Government Finance Officers Association's **Distinguished Budget Presentation Award** for the City's 2006-2010 Financial Plan. This is the fifth consecutive year that the City has earned the award.
 - The Government Finance Officers Association's **Canadian Award for Financial Reporting** for the fourth time for the City's 2005 Annual Report.
 - City employee Kelly Scott led her rink to victory at the **Scott Tournament of Hearts** and now represents our country as Team Canada for the next year. Kelly's team was awarded the bronze medal at the 2006 World Curling Championships.
- Approval for the borrowing of \$29.5 million of a total project cost of \$44.1 million for the **Mission Recreation Park Aquatic Centre**. Scheduled to open in late 2008, preloading of the site has begun and construction will start in the spring of 2007. This state of the art aquatic facility includes a 50 metre pool and a large leisure area for water play and relaxation.
- The **Mission Recreation Park artificial turf stadium** opened in the fall of 2006. This facility will provide a number of sports with a longer season and use that is about 3 times that of a regular grass field.
- The **City Park Cenotaph** reconstruction was completed in time for the 2006 Remembrance Day services. This \$675,000 project was a partnership between the Veendam Sister City Association, the City and the Province of British Columbia.

- Introduction of **Kickstart Kelowna**, part of a 5 year **Active Communities** program that is focused on increasing physical activity levels of our community 20% by 2010
- The City of Kelowna was chosen as host of the **2008 BC Summer Games** and will be hosting the **2007 Special Olympic Winter Games** in mid-February.
- The City continues to show leadership in environmental issues and transportation demand management. The Mayor's seventh annual **Environmental Expo** was held in conjunction with a number of community partners. Initiatives like the **Commuter Challenge**, **Bike to Work Week** and a **Carpool** program all contributed to awareness of transportation alternatives.
- Phase 1 of the **Central Okanagan Bypass** to Spall Road was opened in December, 2006. As noted earlier, this roadway is a critical link in offloading traffic from Highway 97.
- 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.
- 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, which was kicked off in 2005, introduced a number of initiatives in 2006 that encourage and assist 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 2006 including:
 - United Way
 - Heart and Stroke Foundation
 - Terry Fox Day in of support of cancer research
 - Run For The Cure in support breast cancer research
 - Canadian Cystic Fibrosis Foundation
 - Kelowna Food Bank drive
 - Smile Africa – an initiative to advance literacy through books
 - 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 all departments for their effort in formulation of the 2007 corporate financing and action plan for the 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. L. (Ron) Mattiussi