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City of Kelowna

MEMORANDUM

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DATE: December 5, 2007  
FILE: 1700-20  
  
TO: Mayor and Councillors  
  
FROM: City Manager  
  
RE: 2008 FINANCIAL PLAN

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I am pleased to present the provisional 2008 Financial Plan to Council. It has been a privilege to serve the City of Kelowna Council and citizens in my capacity of City Manager over the past year. Instilling the core corporate value of **People First**, whether it relates to our citizens, customers or staff team will move us towards my goal of making Kelowna the best mid-sized city in Canada. Over the coming year we will focus on becoming an adaptive response organization. I am confident that we have the team in place to achieve this objective.

This year's budget continues 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 a recognized time lag between service demands and the financial capacity to fulfill the need. The City is committed to resolving this gap through established and new corporate strategies that will require moderate annual taxation increases and continuing prudent fiscal management.

While the 2008 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 vibrant, dynamic and growing 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 adapting to community desires for service delivery 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 2008 budget will be particularly impacted by the following factors:



**Parks and Recreation Facilities** – Construction of the \$44.1 million Mission Recreation Park (MRP) Aquatic Centre began with the removal of pre-load material in June, 2007. The project, approved in 2006, will include a 50 metre pool, large leisure area and a number of other aquatic related features and has an expected completion date in early 2009. An associated average property owner taxation increase for 2008 of 2.86% is the first of a 2-year phase-in projected to be 4.91% in total. Also at MRP, 2007 will see completion of the first 2 softball fields as part of a quad complex.

**Transportation Issues** – Traffic congestion continues to be the single most important issue identified in the City's annual Citizen Survey. Improvements to Highway 97 adjacent to the new Okanagan Lake Bridge are nearing completion in advance of the scheduled 2008 opening.

To ensure a balanced approach to transportation demand, the City is continuing with its commitment to increase the mode split between alternative transportation methods (transit, cycling, walking, etc.) and motorized vehicles. The full implementation of the first 2 phases of the Bus Rapid Transit (BRT) line provides high frequency travel between downtown Kelowna and UBC Okanagan. University student approval 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. Funding in 2008 for a number of BRT stations and a new major transit exchange at Orchard Park Mall will enhance the attractiveness of transit and encourage new ridership.

While design work is in progress on phase 2 of the Central Okanagan Bypass (COB), the construction phase from Spall Road to Highway 33 at \$12.0 million is not able to be funded within the 2008 capital project priorities. It is anticipated that design will be completed in 2008 and its priority be reviewed for 2009. The City has been advised that the Province will not provide funding assistance for this roadway that has a primary goal 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 both phases 2 & 3, currently estimated at \$60.9 million, continues to be a major challenge. Debenture borrowing will be required for a significant portion of the construction cost.

A City partnership with the Province will see critical improvements completed on Highway 33 from McKenzie Road to Gallagher Road over a 2-year period. The City's \$11.8 million share of the projected total cost of \$23.8 million cost will be \$5.8 million in 2008 and \$6.0 million in 2009.

In the lower Glenmore area, the opening of Skyline Road connecting Clifton and High Roads will allow for the final piece in this area, High 1 from the COB to Mountain Avenue to be completed over the next two years with \$1.1 million provided in 2008.

In the Mission area, the completion of Swamp Road has been delayed to 2008 due to ground conditions that were even worse than anticipated. With the completion of the Casorso Bridge and roundabouts in 2007, this third key link from the south will provide a safer direct route to the Springfield/Highway 97 town centre than had been historically available.

Continuing attention has been given to road infrastructure renewal, through the road resurfacing program budget of \$3.5 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 2008 budget to provide a greater police presence by adding 6 new RCMP members beginning

May 1<sup>st</sup> to bring the total authorized strength at the Kelowna detachment to 139. The City continues to work with local agencies and senior levels of government in addressing both short term and longer term needs, including supportive, temporary and affordable housing initiatives. A recommendation is also included for an additional Bylaw Enforcement Officer beginning on April 1, 2008.

**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 continues to sustain 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. We are still awaiting any signs of reduced building activity.

Commercial growth, especially in the Rutland town centre 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 1,959 building permits valued at \$544 million were issued through October, 2007. 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, 2007 were over 1.1 million, a 13% increase over the same period in 2006. Total 2006 passenger volumes were 14% higher than those experienced in 2005, so we will again reach unprecedented levels for 2007. This success has triggered improvements that will be completed in 2008 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 property owners.

**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 1.6% of taxation in 2007. The new MRP Aquatic Facility will increase debt servicing to 3.7% of tax demand for 2008.

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.

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 and facilities related maintenance and transit service as has been earlier noted.

**Annualizing of 2007 Expenditure Decisions** – During formulation of the 2007 budget, Council approved a total of \$1.12 million, representing 1.4% of 2007 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 parks, transit and policing initiatives.

**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. New requirements for local governments adopted by the Public Sector Accounting Board (PSAB 3150) mandate amortization of tangible capital assets and will significantly change the City's financial statement presentation. The effort to comply with PSAB 3150 will be costly and require dedicated resources to develop a full inventory and methodology for amortization. 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 on a steep learning curve relative to 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. A Sustainability Working Group of staff members has developed a comprehensive report on where the City is already engaged in sustainable practices and actions we need to undertake to take a greater leadership role.

**Other Challenges** – The **AIM (Agresso Information Management)** project is a corporate-wide integrated software implementation initiative that began in 2007 and is scheduled for completion in late 2008. This is the most significant cross-departmental project that has been undertaken in many years. It will be key to management decision making for many years and includes core financials, human resources and payroll and project modules.

**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. Work time flexibility, wellness and other initiatives that foster work/life balance are being implemented to position the City to be an employer of choice for the pool of talent committed to a career in local government services.

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 2008 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 2008 Budget, was to achieve a Municipal Tax increase that addresses primary needs for the community while recognizing the impact of the new aquatic facility and inordinate cost increases faced by the City. As such, I am recommending a **Municipal Tax increase of 6.48% for all property owners experiencing an average assessment increase.**

The estimated increase in tax **revenues generated from new construction is \$3.9 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.

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 2008 is \$301,000 as compared to \$127,000 included in the 2007 budget.
2. A provision for growth in revenue from new construction of \$3.9 Million is the same level as that generated in 2007. While final new construction values will not be known until the second quarter of 2008, indications are that there may be only minor upward assessment adjustments from those provided to date by BC Assessment.
3. The 2007 Final Budget resulted in a General Taxation Demand of \$80.7 Million that included a **pay-as-you-go Capital Expenditure Program** of \$20.6 Million or approximately 25.5% 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 \$1,950,000 being included in the provisional budget totals. A total of \$1,261,300 has been added at this time to fund the extensive capital program priorities for 2008. 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 \$21.9 Million represents 24.4% of the projected General Taxation Demand of \$89.8 Million for 2008. The total General Fund Capital Expenditure Program, including funding from all sources, is budgeted at \$54.6 Million in 2008.**

*There are a number of operating and capital projects that are currently included as Priority 2 requests that would normally have been included within the budget except for the taxation level this year. These requests are included on Page B57 as sensitive items that Council may want to consider further.*

### **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 \$939,660 for 2008 has increased by \$2,034,760 over 2007 levels. This represents 3.7% of the 2008 projected general taxation demand and still 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 19% and 14% greater than the 2007 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.

### 2007 Accomplishments/Future Budgets

While there is a summary of 2007 City of Kelowna accomplishments starting on page A15 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 2007 including:
  - The **Crimson Apple Award** from the Planning Institute of British Columbia (PIBC) for the City's Hillside Development Audit in the Comprehensive Planning and Policy category.
  - 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 2007-2011 Financial Plan. This is the sixth consecutive year that the City has earned the award.
  - The Government Finance Officers Association's **Canadian Award for Financial Reporting** for the fifth time for the City's 2006 Annual Report.
  - The Central Okanagan took 1<sup>st</sup> place in our population category (100,000 - 499,000) in the Commuter Challenge for the sixth year in a row.
  - Kelowna placed second to the City of Vancouver in the inaugural **Green Cities Award** program sponsored by the provincial Ministry of Community Services.
  - Kelowna was recognized as the Best Blooming Community in Canada for achieving the highest aggregate score in both the **WinterLights Celebrations** and the **Communities in Bloom** programs for 2007.
  - Former City employee Kelly Scott led her rink to the gold medal at the **2007 World Women's Curling Championship** adding to victories at the last two **Scotties Tournament of Hearts** and a bronze medal at the 2006 World Women's Curling Championship.
- The **2025 Airport Master Plan** was completed and approved by Council. The plan provides for major expansion to both airside and groundside facilities. The \$8 million runway extension, scheduled for completion in 2008, will allow for direct flights between European cities and Kelowna.

- The **Boundary Extension Review Team** worked diligently with City Council to provide Kelowna citizens as well as Westside residents weighing governance options with facts relative to a potential amalgamation with Kelowna.
- Completed a **Heritage Strategy** and a **Sustainability Strategy** that will assist in future decisions both looking back and moving forward.
- Completed re-construction of the **Casorso Road bridge and 2 new roundabouts** leading up to it. The roundabouts have been shown to contribute to traffic safety and have been funded in partnership with the Insurance Corporation of British Columbia (ICBC).
- In partnership with the Ministry of Transportation and University of British Columbia Okanagan, completed the **Highway 97 Flyover** project which provides an appreciably safer link between Highway 97 and the UBC-O campus.
- The City of Kelowna successfully hosted the **2007 BC Special Olympic Winter Games** in mid-February.
- The City continues to show leadership in environmental issues and transportation demand management. The Mayor's eighth 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 contribute to awareness of transportation alternatives.
- 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 2004 through 2006 were integrated into the City's Annual Report. The performance measurement initiative has continued to expand 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 2007 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 2007 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 Diabetes Association
  - Salvation Army
  - Canadian Blood Services
  - C.H.I.L.D. Foundation
  - Amyotrophic Lateral Sclerosis (ALS)
  - Canadian Cystic Fibrosis Foundation
  - Kelowna Food Bank drive
  - Adopt-a-Family at Christmas

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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 2008 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