

7.4

# Report to Council



**Date:** September 26, 2012  
**File:** 0220-20  
**To:** City Manager  
**From:** Angie Thiessen, Financial Planning Manager  
**Subject:** Assumptions Used in the 5 Year Financial Plan; Format Changes - 2013 Provisional Budget Volume

**Recommendation:**

That Council receives the report on Assumptions Used in the 5 Year Financial Plan and Format Changes - 2013 Provisional Budget Volume from the Financial Planning Manager, dated September 26<sup>th</sup>, 2012.

**Purpose:**

To provide Council with information on the assumptions used in the 5 Year Financial Plan to project the years 2 through 5 of the plan and to advise Council on format changes for the 2013 Provisional Budget Volume.

**Background:**

This report is in part in response to a service request (194629) whereby Council directed the Audit Committee to review all of the ongoing financial assumptions made with respect to the City's Financial Plan and report back to Council with recommendations. Staff feel this is a good opportunity to share this information with the Audit Committee and Council directly, as the assumptions and logistics behind the preparation of the 5 Year Financial Plan is not highlighted in great detail during budget deliberations. Additionally, with the 2013 budget process well underway, it is a good opportunity to provide Council with information that will be pertinent to the financial planning process for the upcoming year.

**Assumptions Used in the 5 Year Financial Plan**

The 5 Year Financial Plan is regulated by section 165 of the Community Charter. This section outlines the requirements for the relevant sources of funds, expenditures, and transfers between funds. The plan must be adopted each year by bylaw before the annual property tax bylaw is adopted. For the City of Kelowna, the 5 Year Financial Plan is prepared by Financial Planning staff and presented to Council for adoption in early May of each year. The first period of the plan is the current planning period and the following 4 years are projected using various assumptions, which will be described in this report.

General Assumptions:

The use of inflation and growth factors is a cornerstone of the projection of years 2 through 5 of the 5 Year Financial Plan and are used in both projections of funding sources and expenditures. The inflation factor is estimated based on economic projections and

experience. A rate of 2% has been used for the past number of years, including the 2012-2015 Financial Plan. The growth rate is taken directly from the Official Community Plan and is 1.88% for years 2011-2015 and 1.58% for years 2016-2020. These rates were used for each year of the 2012-2015 Financial Plan accordingly and the plan will continue with the percentages provided in the OCP until 2030.

Each type of funding source and expenditure is analyzed to determine which factor(s) should be applied to the current planning year to project the future year(s). These decisions are made based on experience and the economic outlook as well as considering the type of revenue or expenditure and/or the source department. For example: where an area of revenue is experiencing little or no growth and rates are stable, neither factor would be applied. Conversely, in an area where growth is anticipated and where there may be an opportunity to adjust rates, a combined factor would be applied. For most general expenditure accounts, only inflation is applied as our suppliers adjust their prices to us yet the City is in a period of maintaining services rather than expansion so increases due to growth would not be anticipated. Financial Planning has a reference template which is used as a guideline to provide a consistent approach in applying growth and inflation in addition to the use of professional judgment and experience.

Salaries and wages are one of the expenditure categories where both factors are applied. While each department does not receive new staff each year, by using growth and inflation annually for projection purposes, a smoothing out occurs. In actual experience, staff will be added in more of a step, or stair pattern, where there will be no actual addition for salaries or wages over a number of years and then it will jump up in the year of addition.

#### Debt

Financial Services maintains a schedule of all current debt issues with their respective servicing costs until the end of their terms. This list is updated as required throughout any given year, and years 2 through 5 are easily identifiable from the schedule. The 10 year capital plan is used to determine debt servicing requirements outside of the current planning year and feeds into the debt schedule. Periodically, projects not previously anticipated in the 10 year capital plan may be added throughout the year under the amendment process. Where borrowing is projected to be the funding source for these projects, servicing costs are estimated based on 10 or 20 year terms and at the current rates published by the Municipal Finance Authority. The ongoing impacts will be updated in the next 5 year plan.

#### Utilities

All information in the 5 Year Financial Plan related to the Utility Funds is pulled from the Utility Models maintained by the Special Projects branch of Financial Services in collaboration with the Infrastructure Planning branch. The models have their own assumptions for revenues, expenditures and capital planning. These models are the same source used for establishing annual utility rates.

#### Taxation Demand, New Construction Revenue and Pay-as-you-go Capital (PAYG)

There is a direct correlation between these three areas of the Financial Plan in projecting the balances for years beyond the current planning year. Generally speaking, taxation demand is targeted to increase by inflation, however, the estimate of taxation demand from one year to

the next is impacted by changes in general revenues and net operating budget as well as PAYG capital.

New construction revenue is estimated based on the prior year's taxation demand multiplied by growth from the OCP.

PAYG capital, or taxation capital, is estimated by allocating 40% of estimated new construction revenue for the current planning year to the prior year's amount of taxation capital. This ensures that there is a certain amount of growth in the capital plan from year to year. The 10 Year Capital Plan is the source for capital for years 2 through 5 of the Financial Plan along with other related funding sources such as reserves, borrowing, grants and other sources. Anticipated ongoing operating impacts from projects in the 10 yr capital plan will be considered and added to operating categories in the appropriate year.

It is worth noting that all of these assumptions and targets are guidelines which establish a foundation, and specific realities, circumstances or knowledge of changes to established plans can influence the actual amounts used in the projection.

### **Format Changes - 2013 Provisional Budget Volume**

The preparation and assembly of the Provisional Budget Volume 1 is a highly labour intensive endeavour with the product being a binder of information that has grown considerably in size over the years. Financial Planning proposed a number of changes for 2013 with the intent of reducing the size of the volume and providing only value added information to Council. As such, the following changes will be seen this year:

- Move from a single request per page format to a 2 request per page format
  - Do not display 'consequences of not funding' section - incorporate where required into the justification.
  - Remove account codes and replace with source of funding only.
- Each request will provide a direct link to one of 4 Council priorities.
- Goals and Objectives will be replaced with Drivers and Activities from the Integrated Work Plan system, where activities will be referenced to a Council priority.
- Operating budget impacts from 2013 Capital program requests will be entered as operating requests and presented for approval along with the capital project in order to give Council the complete financial impact.
- Staff are exploring the opportunity to have priority 2 requests included in the budget volume by summary only, with details provided to Council offline for review prior to budget deliberations. While the logistics of this could not be achieved for 2013, staff will pursue this process efficiency for 2014 if it is a direction Council supports.

By implementing the above changes, staff will achieve efficiencies in time and cost savings in the production and presentation to Council as well as reducing the time required by Council in preparing for budget deliberations.

#### **Internal Circulation:**

Director, Financial Services

#### **Legal/Statutory Authority:**

**Legal/Statutory Procedural Requirements:**

Existing Policy:  
Financial/Budgetary Considerations:  
Personnel Implications:  
External Agency/Public Comments:  
Communications Comments:  
Alternate Recommendation:  
Considerations not applicable to this report:

Submitted by:



A. Thiessen, Financial Planning Manager

Approved for inclusion:



(the department director initials here)

cc: Director, Financial Services  
Audit Committee



City of

**Kelowna**

**ASSUMPTIONS IN THE 5 YR FINANCIAL  
PLAN; 2013 BUDGET FORMAT CHANGES**



# 5 YR FINANCIAL PLAN - SAMPLES

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Schedule "A"

2012 FINANCIAL PLAN

FINANCIAL PLAN 2012 - 2016

Recreation & Cultural Services

## Financial Plan 2012 - 2016

## REVENUE AND EXPENDITURE SUMMARY BY YEAR

	2012	2013	2014	2015	2016	2017-2030
<b>REVENUE</b>						
PROPERTY VALUE TAX	99,498,000	106,886,994	111,474,332	116,632,496	122,904,899	2,239,132,149
LIBRARY REQUISITION	5,085,447	5,187,156	5,290,999	5,395,717	5,500,451	100,286,010
PARKCL TAXES	3,512,905	3,280,944	3,303,992	3,295,340	3,246,223	50,711,981
FEES AND CHARGES	121,103,255	124,339,469	129,814,920	134,563,666	139,738,751	2,276,828,741
BORROWING PROCEEDS	0,291,150					60,000,000
OTHER SOURCES	59,349,290	43,407,222	46,292,705	49,669,582	47,231,326	720,459,865
	296,840,147	282,121,785	295,876,849	329,563,802	338,625,206	5,447,453,745
<b>TRANSFERS BETWEEN FUNDS</b>						
RESERVE FUNDS	5,990,445	4,394,485	4,395,805	4,396,545	5,114,061	79,391,036
DCC FUNDS	27,294,946	26,436,040	20,561,993	20,474,950	22,037,929	285,399,008
SURPLUS/RESERVE ACCOUNTS	86,804,089	32,521,201	29,566,892	20,041,446	15,525,346	209,015,236
	121,049,480	63,351,726	54,524,591	44,912,941	42,677,336	574,805,280
<b>TOTAL REVENUE</b>	418,889,627	345,473,510	350,402,240	374,476,743	381,702,536	6,921,764,025
<b>EXPENDITURES</b>						
MUNICIPAL DEBT	10,452,941	10,151,948	9,076,757	10,057,456	10,677,447	92,804,058
DEBT INTEREST	13,633,810	12,893,692	11,233,055	11,431,266	12,684,729	102,500,333
CAPITAL EXPENDITURES	150,869,270	75,748,705	71,462,155	88,849,094	84,319,294	1,161,839,505
OTHER MUNICIPAL PURPOSES	28,630,602	28,944,402	29,662,001	30,367,672	31,087,181	635,521,739
GENERAL GOVERNMENT	21,623,371	19,118,995	19,077,734	20,287,805	20,689,400	359,850,708
PLANNING, DEVELOPMENT & BUILDING SERVICES	67,658,381	68,999,945	71,193,133	73,346,323	75,482,023	1,300,287,230
COMMUNITY SERVICES	41,285,992	44,488,519	47,431,215	49,195,350	52,104,657	897,673,246
PROTECTIVE SERVICES	46,233,590	45,385,298	47,232,196	49,187,330	51,414,628	885,691,483
UTILITIES	10,702,762	10,988,437	11,366,298	11,755,526	12,150,294	209,306,430
AIRPORT						
	393,091,009	316,719,041	319,258,365	345,237,745	351,209,683	5,545,403,774
<b>TRANSFERS BETWEEN FUNDS</b>						
RESERVE FUNDS	13,623,866	10,723,901	10,818,901	10,809,401	10,821,201	169,047,070
DCC FUNDS	18,174,702	18,030,568	20,324,753	18,429,597	19,671,702	307,308,181
SURPLUS/RESERVE ACCOUNTS	28,798,568	28,794,469	31,143,654	29,233,998	30,492,903	476,355,239
	418,889,627	345,473,510	350,402,240	374,476,743	381,702,536	6,921,764,025

	2012	2013	2014	2015	2016	2016
<b>REVENUE</b>						
PARCEL TAX	(4,094,898)	(4,254,750)	(4,820,471)	(5,001,632)	(5,186,351)	(5,186,351)
FEES AND CHARGES	(2,997,442)	(3,414,713)	(3,637,029)	(3,273,955)	(3,913,544)	(3,913,544)
Sales of Services						
Other	(1,097,426)	(1,140,037)	(1,183,445)	(1,223,697)	(1,272,807)	(1,272,807)
OTHER REVENUE	(116,150)	(112,200)	(114,444)	(116,733)	(119,068)	(119,068)
Interest						
Grants	(146,150)	(112,200)	(114,444)	(116,733)	(119,068)	(119,068)
Other						
Services to Other Governments						
Interdepartment Transfer						
Intrafund Transfer						
<b>TRANSFERS FROM FUNDS</b>						
Social (Stat Reserve) Funds	(229,965)	(62,385)	(62,385)	(62,385)	(62,385)	(62,385)
Development Cost Charges						
Accumulated Surplus	(229,965)	(62,385)	(62,385)	(62,385)	(62,385)	(62,385)
<b>TOTAL REVENUE</b>	(4,441,013)	(4,429,835)	(4,997,800)	(5,180,770)	(5,367,803)	(5,367,803)
<b>EXPENDITURES</b>						
SALARIES AND WAGES	3,671,135	3,902,067	4,055,833	4,207,468	4,362,067	4,362,067
INTERNAL EQUIPMENT	102,486	103,979	106,058	108,180	110,343	110,343
MATERIAL AND OTHER	4,289,073	4,180,006	4,263,606	4,348,878	4,433,856	4,433,856
MUNICIPAL SERVICES	3,052,582	3,122,936	3,185,416	3,249,124	3,314,106	3,314,106
DEBT INTEREST						
DEBT PRINCIPAL						
RCMP CONTRACT						
INTERNAL ALLOCATIONS						
Interdepartment Transfer						
Interfund Transfer						
<b>TRANSFERS TO FUNDS</b>						
Social (Stat Reserve) Funds	416,829	471,829	471,829	471,829	471,829	471,829
Development Cost Charges						
Accumulated Surplus	416,829	471,829	471,829	471,829	471,829	471,829
<b>TOTAL EXPENDITURES</b>	11,843,101	11,785,837	12,042,742	12,385,498	12,604,211	12,604,211
<b>NET OPERATING EXPENDITURES</b>	7,101,988	7,356,502	7,085,442	7,204,728	7,336,418	7,336,418

## ASSUMPTIONS

- ▶ Community Charter section 165
- ▶ Funding Sources and Expenditure Categories
  - ▶ Inflation - economic projections, experience
  - ▶ Growth - Official Community Plan

Projected Growth & Inflation Rates			
Time Period	Growth	Inflation	Combined
2011-2015	1.0188	1.0200	1.0368
2016-2020	1.0158	1.0200	1.0358
2021-2025	1.0138	1.0200	1.0338
2026-2030	1.0122	1.0200	1.0322

- ▶ Debt - Debt Schedule
- ▶ Capital - 10 Yr Capital Plan

## ASSUMPTIONS CONTINUED

- ▶ Utility Funds - Utility Models
- ▶ Taxation Demand - Inflation is guide
- ▶ New Construction Revenue - pr/yr taxation demand x OCP growth
- ▶ Pay-as-you-go Capital - 40% of est. NCR added to pr/yr PAYG



# NET PROPERTY OWNER IMPACT

## General Fund Tax Impact Summary

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
GENERAL REVENUES	(12,534,390)	(12,820,546)	(13,112,203)	(13,409,468)	(13,712,449)
NET OPERATING BUDGET	96,591,510	102,523,980	107,641,295	112,983,564	118,185,848
PAY-AS-YOU-GO CAPITAL	15,440,880	16,183,560	16,645,240	17,064,400	18,431,500
TAXATION DEMAND	<u>99,498,000</u>	<u>105,886,994</u>	<u>111,174,332</u>	<u>116,638,496</u>	<u>122,904,899</u>
NEW CONSTRUCTION TAX REVENUE	(1,654,600)	(1,870,562)	(1,943,140)	(2,018,534)	(1,762,249)
NET PROPERTY OWNER IMPACT	<u>1.12%</u>	<u>4.54%</u>	<u>3.16%</u>	<u>3.10%</u>	<u>3.86%</u>

## 2013 BUDGET FORMAT CHANGES

- ▶ Budget Volume Changes
  - ▶ Single request per page to 2 per page format
  - ▶ No display of account codes - will identify cost and funding sources
  - ▶ Goals and Objectives replaced with Drivers and Activities from Integrated Work Plan system
  - ▶ Requests linked to council priorities
  - ▶ Capital and operating requests presented together
  - ▶ Priority 2 requests - review by council request?