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**REPORT TO FINANCE COMMITTEE
MEETING OF WEDNESDAY, JULY 05, 2023**

SUBJECT Capital Region Emergency Service Telecommunications Inc. (CREST) Service Agreement

ISSUE SUMMARY

The service funding agreement between the Capital Regional District (CRD) and CREST expired on December 31, 2021. Additional funding exceeding call answer levy (CAL) revenue requires a new service funding agreement.

BACKGROUND

Service Authority Bylaws and Agreements

The CRD has the authority within **Bylaw No. 2891**, “Capital Regional District Service of Emergency Communications Service Establishment Bylaw No. 1, 2001”, to provide an emergency communication service or to make a financial contribution towards the cost of an emergency communication service operated by another person or organization.

The CRD under **Bylaw No. 2893**, “CREST Members’ Agreement Bylaw No. 1, 2001”, entered into a membership agreement with CREST, together with the other partners. Each member, including 13 municipalities, the Provincial Government and other public agencies hold a single share except the CRD, where the regional district holds three, representing three Electoral Areas within the capital region. Each member appoints a representative to the CRD Board of Directors equal to the number of shares held. For the CRD, the appointees represent each Electoral Area and are not required to be the Electoral Area Director(s).

Within the Member Agreement, the CRD financial contribution (“CRD Charge”) is capped at the net fees collected from consumers with active land phone lines each month in the region under **Bylaw No. 2911**, “Emergency Communications Charge Bylaw No. 1, 2001”. Currently the rate is set at 66 cents per line per month, commonly referred to as the Call Answer Levy (CAL). CREST revenue requirements over and above the CRD Charge are recovered from members by way of cost sharing. CAL revenues vary by year and have been trending down since 2013. The decline in phone line revenue creates a difference in CREST’s revenue requirements.

A discretionary subsidy contribution over and above the CAL was granted by the CRD Board from 2017 through 2021; the terms and conditions of the subsidy contribution have been set out in the “Emergency Communications Service Agreement” (Service Agreement), an agreement between the CRD and CREST.

Since the expiration of the Service Agreement, the CRD contribution to CREST has been in accordance with the existing aforementioned bylaws in place, as there has been no authority for the CRD to provide a contribution above the CAL.

Agreement Renewal

At the December 8, 2021 CRD Board meeting, the Board approved a recommendation from the Planning and Protective Services Committee:

That the Chief Administrative Officer be authorized to enter into a new regional service agreement with CREST to provide general emergency radio communications services, with annual contributions limited to inflationary adjustments.

In the process of negotiating and preparing a new Service Agreement, an agreement was drafted that incorporated financial constraints including annual Consumer Price Index adjustments to a base fee, an upper limit on annual operational expense increases at 3%, and revised financial reporting and disclosure requirements.

As a result of subsequent discussions between the CRD and CREST staff, in March 2022 the CRD Board approved a recommendation from the Finance Committee:

That the Chief Administrative Officer be authorized to enter into a service agreement as attached (Revised 2022 Service Agreement) to provide general emergency radio communications services.

The revised agreement, attached as Appendix B, included an upper limit on inflation of 3% reflecting financial constraints set by the CRD Board at the time through the annual financial planning process. Additionally, upon request, CREST would be required to provide financial information in alignment with the Financial Information Act. Finally, that CREST be required to present annually to the CRD Board.

CREST did not agree to the terms of the (revised) Service Agreement as approved by the CRD Board. Negotiations and discussions have continued between Chairs of both organizations (through the spring/summer 2022) and more recently between staff where a further revised Service Agreement has been drafted and agreed to in principle between CRD and CREST staff. The following changes to the March 2022 draft agreement are being proposed:

Table 1: Service Agreement Concordance of Changes

Section	July 2023																					
2. Term	Extend term of the agreement from five (5) years to six (6) years																					
3. Services	Revise sub-section 3.2 and 3.3, 3.1 and 3.4 remain unchanged																					
3.2	Each year, at least once annually on a date determined by mutually agreeable to both CREST and the CRD, CREST will present to the CRD Board on CREST's annual operational and financial plans, including on performance against strategic plan and project plans, and other organizational and financial matters requested by CRD.																					
3.3	Upon request from the CRD, and as per the 'Financial Statements' requirements of the Members' Agreement, CREST will provide financial information in the form of annual audited financial statements, annual budget and five-year financial plan. in alignment with the provisions of the Financial Information Act as if the Act applied to CREST as a regional district service (e.g. schedules of remuneration for board directors and staff >\$75,000) in relation to the regional district service.																					
4. Payment Matters	Revise sub-section 4.1(i), remove sub-sections 4.1(ii), (iii), and (iv)																					
	<ul style="list-style-type: none"> 4.1(i) add that the service payment will be increased annually over the base year (2021) by a percentage increase equal to the following schedule: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="background-color: #d9e1f2;">Year</th> <th style="background-color: #d9e1f2;">Rate Per Agreement</th> <th style="background-color: #d9e1f2;">Amount Per Agreement</th> </tr> </thead> <tbody> <tr> <td>2022</td> <td>2.0%</td> <td>\$1,749,540</td> </tr> <tr> <td>2023</td> <td>3.8%</td> <td>\$1,816,023</td> </tr> <tr> <td>2024</td> <td>4.9%</td> <td>\$1,905,008</td> </tr> <tr> <td>2025</td> <td>4.9%</td> <td>\$1,998,353</td> </tr> <tr> <td>2026</td> <td>4.9%</td> <td>\$2,096,272</td> </tr> <tr> <td>2027</td> <td>2.9%</td> <td>\$2,157,064</td> </tr> </tbody> </table> 4.1(ii), (iii) and (iv) are removed as the terms related to CPI are no longer relevant 	Year	Rate Per Agreement	Amount Per Agreement	2022	2.0%	\$1,749,540	2023	3.8%	\$1,816,023	2024	4.9%	\$1,905,008	2025	4.9%	\$1,998,353	2026	4.9%	\$2,096,272	2027	2.9%	\$2,157,064
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The CRD Board resolution approved on March 9, 2022 will need to be rescinded and Board approval of the 2022 to 2027 Emergency Communications Service Agreement included in Appendix C is being recommended.

ALTERNATIVES

Alternative 1

The Finance Committee recommends to the Capital Regional District Board:

1. That the March 9, 2022 Board resolution pertaining to the approved Service Agreement be rescinded;
2. That the Chief Administrative Officer be authorized to enter into a further revised Service Agreement to provide emergency communications services, as attached at Appendix C; and,
3. That Staff be directed to amend the Financial Plan to reflect the increased service agreement payments for 2022 to 2027.

Alternative 2

The Finance Committee recommends to the Capital Regional District Board:

1. That the Chief Administrative Officer be directed to enter into the Service Agreement as approved March 9, 2022 to provide emergency communications services.

Alternative 3

The Finance Committee recommends to the Capital Regional District Board:

That this report be referred back to staff for additional information.

IMPLICATIONS

Service Delivery Implications

The CRD has the authority within Bylaw No. 2891, “Capital Regional District Service of Emergency Communications Service Establishment Bylaw No. 1, 2001” to make a financial contribution towards the cost of an emergency communication service operated by another person or organization. Additionally, the CRD under Bylaw No. 2893, “CREST Members’ Agreement Bylaw No. 1, 2001”, entered into a membership agreement on behalf of the three electoral areas with CREST to receive emergency communication services. Other members are the 13 regional municipalities, the Provincial Government, and other public agencies such as BC Transit.

Under alternative 1, the Service Agreement as included in Appendix C, will result in continuance of CRD contributions to CREST and in turn, the required operations of an emergency communications service on behalf of the CRD. Service levels and operational oversight are provided by and approved by the CREST Board annually through their planning approval processes.

The more recent Service Agreement negotiations were based on:

- The CRD’s need to ensure the annual contribution percentage increases for the CRD were the same as the other member agency contribution annual percentage increases; this is now the case for proposed 2024-2027 increases.
- An acknowledgment that CREST is facing increasing annual operational and capital costs.
- Forecast decline in CAL revenue and forecast Service Agreement (subsidy) revenue to balance CREST five year financial plan.
- The CRD’s need for improved financial and service delivery reporting.

Alternative 2, results in service payment escalation tied to inflation with a 3% cap reducing the payments through 2023-2026 of the 2022-2027 six-year term. This would most likely result in an equivalent increase in memberships fees to maintain required operations of CREST and potentially, if not covered by membership fees, result in a CREST service level adjustment.

Financial Implications

Service payments, as contained within the agreement in Alternative 1, are set to escalate each year based on specified percentage rates. Based on this schedule of payments, the service payments will continue to be higher than the originally intended cap which was previously equal to the CAL revenue and higher than the agreement under Alternative 2. The voluntary subsidy contribution over and above the CAL was granted from 2017 through 2021 by way of the service agreement. Currently, the rate per line per month is set at 66 cents. The CRD contribution amount over and above the CAL revenue collected is optional and within full discretion of the CRD Board.

With the CAL revenue expected to continue to decline, the voluntary subsidy will grow as a share of the total service payment. Table 2 shows the subsidy \$ and % under the previous service agreement and under Alternative 1 for 2022 and 2023.

Table 2: Alternative 1 – Service Agreement Payments vs. Projected CAL Revenue

	2017	2018	2019	2020	2021	2022	2023
\$ Service Payment (\$M)	1.58	1.62	1.65	1.68	1.72	1.75	1.82
\$ Call Answer Levy (\$M)	1.33	1.31	1.29	1.26	1.11	1.09	1.09
\$ Subsidy (\$M)	0.25	0.30	0.36	0.42	0.60	0.66	0.73
% Subsidy	16%	19%	22%	25%	35%	38%	40%

For comparison, under Alternative 2, the subsidy in 2023 would be reduced to \$0.71M and 39%.

Additionally, under Alternative 1, a difference from the approved financial plan by year would be as shown in table 3 below:

Table 3: 2022-2027 Financial Plan Amendment by Year

Year	\$ Amount per Plan	\$ Amount per Agreement	\$ Financial Plan Amendment
2022	\$1,749,540	\$1,749,540	-
2023	\$1,784,531	\$1,816,023	\$31,492
2024	\$1,820,221	\$1,905,008	\$84,787
2025	\$1,856,626	\$1,998,353	\$141,727
2026	\$1,893,758	\$2,096,272	\$202,514
2027	\$1,931,634	\$2,157,064	\$225,430
Total	\$11,036,310	\$11,722,260	\$685,950

Upon completion of the service agreement, the 2023 to 2027 CRD Financial Plan will require amendment to reflect the agreement. The net difference for 2023 can no longer be an amendment to revenue, so will result in a deficit within the service. As required by legislation a deficit within a service will be included in the immediate next year plan for revenue purposes. The anticipated deficit is \$31,492.

Additionally, upon completion of the agreement, amounts withheld since 2022 will be released. Without a service agreement in place, payments to CREST were aligned and capped to the CAL based on applicable bylaw and member agreement. For 2022, CRD remitted \$1,166,360 versus the approved 2022 budget of \$1,749,540, withholding the voluntary subsidy of \$583,180 or 33%.

CONCLUSION

The service agreement between the CRD and CREST was set to expire on Dec 31, 2021, and requires renewal. The CRD has the authority within Bylaw No. 2891, “Capital Regional District Service of Emergency Communications Service Establishment Bylaw No. 1, 2001”, to provide an emergency communication service or to make a financial contribution towards the cost of an emergency communication service operated by another person or organization. CREST, under agreement with the CRD, is delivering this service to users within the regional district. Renewal of the service agreement will result in continuance of CRD contributions to CREST, and in turn, the required operations of an emergency communications service on behalf of the CRD.

RECOMMENDATION

The Finance Committee recommends to the Capital Regional District Board:

1. That the March 9, 2022 Board resolution pertaining to the approved Service Agreement be rescinded;
2. That the Chief Administrative Officer be authorized to enter into a further revised Service Agreement to provide emergency communications services, as attached at Appendix C; and
3. That Staff be directed to amend the Financial Plan to reflect the increased service agreement payments for 2022 to 2027.

Submitted by:	Rianna Lachance, BCom, CPA, CA, Acting Chief Financial Officer
Concurrence:	Kristen Morley, J.D., General Manager, Corporate Services & Corporate Officer
Concurrence:	Ted Robbins, B. Sc., C. Tech., Chief Administrative Officer

ATTACHMENTS

- Appendix A: Staff Report: December 8, 2021 CRD Board CREST
- Appendix B: Staff Report: March 9, 2022 CRD Board CREST
- Appendix C: Service Agreement 2022-2027 (with tracked changes)