

**REPORT TO THE CAPITAL REGIONAL DISTRICT BOARD
MEETING OF WEDNESDAY, MARCH 20, 2019**

SUBJECT: Bylaw No. 4291: 2019 to 2023 Financial Plan Bylaw, 2019

ISSUE

This report summarizes final updates to the 2019 budget and requests approval of Bylaw 4291 regarding the Capital Regional District (CRD) five-year financial plan for the years 2019-2023.

BACKGROUND

The CRD provides a range of key services to over 413,000 people as well as businesses and visitors in the region. Regional services are provided throughout the entire CRD, sub-regional services are provided within groups of municipalities and electoral areas, and local services are provided to individual municipalities, electoral areas or smaller local service areas.

The CRD operates in a changing and dynamic environment. Some of the trends impacting the CRD and local government partners are service pressures related to: the economy, population growth, changing demographics, environmental considerations, increasing regulations, technological advancements and aging infrastructure. The financial resources in the budget were established based on core service delivery requirements in alignment with the Board approved Strategic Plan and in consideration of inflation, fixed operating costs, maximizing grant opportunities and the implementation of key initiatives while ensuring legislative and regulatory compliance.

Annually the CRD must develop a financial plan that includes the operating and capital expenditure plans for the next five years. The CRD Financial Plan consists of more than 200 service budgets funding delivery of regional, sub-regional and local services. Financial Plan revenues are derived from fees and charges, service and operating agreements, grants, and taxes. Expenditures are determined through a variety of processes and agreements, some of which the CRD Board controls directly, and others which are delegated or recommended by local service commissions. All of the budget recommendations derived from these processes are incorporated into service plans and operating and capital expenditure plans for approval by the Board.

Service plans along with the 2019 Provisional Financial Plan were given preliminary approval by the Committee of the Whole (COW) on September 5, 2018.

As outlined in a report to the Board on March 13, 2019, and consistent with previous years, a preliminary budget was developed to meet requirements of various fees and charges bylaws which set rates as of January 1. In addition, expenditure authority for various capital projects and operating initiatives was required to ensure uninterrupted delivery of services.

The 2019 Financial Plan marks the final year of the four-year service planning cycle aligned to the Strategic Plan set by the outgoing Board. Following the election in October 2018, the next planning cycle began with a new 2019-2022 Strategic Plan recently developed and approved by the incoming Board.

The Provisional Financial Plan has been amended as a result of year-end adjustments, payments in lieu of taxes, revised assessment information, and other committee or commission-directed amendments prior to final approval. A number of these initiatives address priorities identified through the Board's Strategic Planning process. A Corporate Plan will be brought to the Board in April. The Corporate Plan will identify additional initiatives that will be taken to support Board Priorities beyond 2019. The Corporate Plan will also capture work necessary to deliver on the CRD's service mandates, approved plans and corporate priorities.

Financial Plan Bylaw

The Financial Plan Bylaw sets out the expenditures and revenue requirements over the next five years inclusive of the 2019 budget. As legislatively required, the bylaw also sets out planned reserves transfers. The bylaw reflects service levels as approved in service plans and any adjustments to the 2019 budget year since preliminary approval. A summary of the changes are provided in this report.

There will be a final adjustment made prior to billing, once assessed values for the region are released by BC Assessment after March 31. It is anticipated that no material change will result to the budgeted requisition.

Under the budget direction provided by the Board, review and recommendation of all electoral area-only service budgets was delegated to the Electoral Area Committee (EAC), including the review of Local Service Commissions budgets. The Electoral Area Committee recommended approval of the electoral area-only budgets on March 13, 2019.

Since the approval of the provisional budget, a number of service plan adjustments and, as a result, financial plan adjustments are being proposed through standing committees for consideration by the Board. In order to evaluate these recommendations holistically, they are included in the financial plan bylaw. Through staff, standing committees evaluated service levels related to the implementation of directed initiatives. The budget reflects committee recommendations. Staff have evaluated each of these initiatives, and in some cases can suggest deferring elements of committee direction to accommodate financial constraints.

Trends and Assumptions

Cost escalation pressures driven by strong local economy and low local unemployment continue to be a major factor in organization-wide service delivery.

- The Consumer Price Index (CPI) in the greater Victoria area ended the year at 2.4%, just below Vancouver at 2.7% and British Columbia at 2.9%¹
- Building permit values for the second year in a row totaled \$1.4 billion, with an increase in dwellings year over year of 34%², illustrating a shift to lower cost multi-family dwellings. The total regional assessed value is now approximately \$125 billion.

¹ At: <http://www.bcstats.gov.bc.ca/Files/085e8932-0f24-40d3-8d35-7c549292f3a8/ConsumerPriceIndexAnnualAverages.pdf>

² CRD Regional Planning statistics

- The New Housing Price Index (NHPI) in Victoria was higher by 1% through November versus 2017, whereas comparatively Vancouver increased by only 0.1%. The average price of a single family home is now \$858,600, an increase of 3.2%³ over the previous year.
- Victoria's unemployment rate of 3.2% in February is the lowest rate in BC, well below the provincial rate of 4.5% and below the national rate of 5.8%. Guelph is the only area with a lower unemployment rate, at 1.7%⁴, across Canada.

Although allowances for inflation, infrastructure investment and increased economic activity are key cost drivers impacting the preliminary budget, 2019 service levels remain largely consistent with those approved in 2018.

ALTERNATIVES

Alternative 1

1. That Bylaw No. 4291, "2019 to 2023 Financial Plan Bylaw, 2019", be introduced and read a first, second, and third time;
2. That Bylaw No. 4291 be adopted.
3. That the Staff Establishment Chart as attached in Appendix 5 be approved.

Alternative 2

1. That Bylaw No. 4291 be cited as "2019 to 2023 Financial Plan Bylaw, 2019", be introduced and read a first time and second time.
2. That Bylaw No. 4291 be amended as directed.
3. That Bylaw No. 4291 be read a third time.
4. That Bylaw No. 4291 be adopted.

IMPLICATIONS

Appendix 1 shows the change in the 2019 operating and capital plans versus 2018.

Budget Overview

The 2019 CRD budget includes \$261.8 million in operating expenditures, an increase of \$13.4 million or 5.4% over 2018, and \$382.2 million in capital investment, an increase of \$168.5 million or 78.8% primarily attributable to timing of capital expenditures of the Core Area Wastewater Treatment Project and the Regional Housing First Program. Appendix 2 and 3 highlight the expenditures and sources of revenue for both operating and capital plans. A listing of major capital projects is outlined in Appendix 4.

Table 1: CRD Budget Summary

Budget Type (\$M)	2019 Final	2018 Final	\$ Change	% Change
Operating	261.8	248.4	13.4	5.4%
Capital	382.2	213.7	168.5	78.8%
Total	\$644.0	\$462.1	\$181.9	39.4%

* 2018 Final amounts as shown in Bylaw 4258

³ At: https://www.vreb.org/media/attachments/view/doc/statsrelease2018_12/pdf/December

⁴ At: <https://www.cheknews.ca/victoria-near-lowest-unemployment-rate-in-canada-last-month-stats-canada-541415/>

Changes from Preliminary Operating Budget – Expenses

The final budget reflects all known factors to date since provisional financial plan approval in September 2018, including updates to incorporate both year-end adjustments and committee directed initiatives. The following table summarizes changes to operating expenses.

Table 2a: Changes in Operating Expenses

Expenditure Type (\$M)	2019 Final	2019 Prelim	\$ Change	% Change
Operations	165.3	163.1	2.2	1.3%
Debt Servicing	38.6	37.4	1.2	3.2%
Capital Funding	41.3	42.9	-1.6	-3.7%
Transfer to Reserves	16.6	17.2	-0.6	-3.5%
Total	\$261.8	\$260.6	\$1.2	0.5%

Table 2b: Drivers for Changes in Operating Expenditures

Service	(\$M) Change	Description	Impact	Funding Source	Direction
Legislative and General Government	0.117	First Nations Relations – 1.5FTE's and expenses related to Forum of all Councils	Regional	Requisition (ongoing)	First Nations Relations Committee
	0.028	First Nations Relations – expenses related to Forum of all Councils and other programming	Regional	Reserve (one-time)	First Nations Relations Committee
	0.060	First Nation Archeology Study	Regional	Reserve (one-time)	First Nations Relations Committee
	0.058	Corporate Services – 1.0FTE policy analyst to improve legislative controls	Regional	Requisition (ongoing)	Staff Identified Requirement
	0.090	Corporate Services – Electronic Document and Records Management (EDRM)	Regional	Reserve (one-time)	Board Priority from 2015-2019 Plan
	0.124	Information Technology – 1.0FTE to support SharePoint and EDRM, and costs related to standby	Regional	Allocations (ongoing)	Board Priority from 2015-2019 Plan Staff Identified Requirement
Community Health	0.085	Increased funding for the Coalition to end Homelessness.	Regional	Requisition (one-time)	Hospital and Housing Committee

Service	(\$M) Change	Description	Impact	Funding Source	Direction
Climate Action and Adaptation	0.095	Funding for a regional greenhouse gas emissions inventory and modelling exercise and energy manager term position	Regional	Requisition (ongoing)	Parks and Environment Committee
	0.050	Salary costs earmarked pending successful BC Hydro grant related to energy manager term position	Regional	Grant (one-time)	Parks and Environment Committee
Regional Housing Trust Fund	0.165	Budget carryforward for grants not paid out in 2018.	Sub-Regional	Carry Forward (one-time)	CRD Board
CAWTP*	(0.200)	Net impact of Debt Issuance	Sub-Regional	Existing Requisition (Ongoing)	CRD Board
Municipal Debt	0.102	Increase in debt requested by municipalities		Flow through Requisition (Ongoing)	Municipalities, CRD Board
All other services (Including EA)	0.426	Net increase across 62 other services			
Total	\$1.2				

* Core Area Wastewater Treatment Project

Changes from Preliminary Operating Budget – Revenue

New initiatives and service plan adjustments since the provisional budget are funded through a variety of revenue sources totaling \$0.7 million and incremental requisition of \$0.5 million. The following table summarizes the changes.

Table 3a: Changes in Operating Revenue

Revenue Type (\$M)	2019 Final	2019 Prelim	\$ Change	% Change
Sale of Services	124.0	124.3	-0.3	-0.1%
Internal Allocations	35.1	34.9	0.2	0.1%
Rentals and other Revenue	9.0	9.1	-0.1	0.04%
Surplus Carryforward	5.2	4.2	1.0	0.4%
Grants and PILT	4.1	3.9	0.2	0.1%
Transfer from Reserves	1.9	2.2	-0.3	-0.1%
Subtotal	179.3	178.6	0.7	0.3%
Requisition*	82.5	82.0	0.5	0.6%
Total	\$261.8	\$260.6	\$1.2	0.5%

* Total requisitions includes municipal debt payments of \$15.0 million. Of the \$0.5 million change since preliminary \$0.1 million is due to incremental municipal debt.

Changes in operating revenue, excluding requisition, increased by \$0.7 million. This is a result net change between additional revenue in surplus carryforward, grants and PILT, offset by reductions in sale of services, transfers from reserves, rental and other revenue.

Surplus Carryforward – 2018 results impact the 2019 budget as amounts carried forward are incorporated into the operating budget for each service. The total surplus carryforward is \$5.2 million or an increase of \$1.0 million from the preliminary budget. Drivers for the change include:

Table 3b: Drivers for Changes in Surplus Carryforward

Service	(\$M) Change	Description	Impact
Legislative and General Government	0.098	Due to staff vacancies and recruitment challenges in a tight labour market	Regional
Regional Housing Trust Fund (RHTF)	0.180	Related to two grants that were not disbursed in 2018 due to project delays. These will be granted in 2019.	Regional
Environmental Services	0.061	Carry forward of operating for delayed minor non capital equipment	Regional
Trunk Sewers Debt	0.490	Lower than expected debt servicing costs in 2018 and higher returns in two MFA debt reserve fund recoveries	
All other services (Including EA)	0.213	Net increase across 29 other services	
Total	\$1.0		

Payments in lieu of taxes (PILT) are payments recovered from tax exempt parcels owned by federal, provincial and crown agencies within the region. Under the legislation, the amount of tax is determined by class and rate as if the property were taxable. However, the amount of PILT can

vary as the requirement to pay is at the discretion of the Minister, Lieutenant Governor, and heads of Crown Corporations.

Monies collected in each municipality are processed by the CRD and returned through credit to each of the services the municipalities participate in. These payments are a regular source of funding and are meant to compensate the municipality's share of annual costs for CRD services. When received by the CRD, PILT must be allocated proportionally to the services that are paid by requisition per Section 389 of the *Local Government Act*.

The historical approach through the provisional budget is to plan the prior year actuals, while current year PILT information is available in time for final budget. For 2019, the actual PILT received was marginally higher than forecast in the preliminary budget, totaling \$3.3 million or an increase of \$0.2 million.

The following table summarizes the PILT received, which has been credited against the appropriate CRD services, reducing revenue requirements from each participant.

Table 3c: Drivers for Changes in Payments in Lieu of Taxes (PILT)

Municipality (M's)	2019 Final	2019 Prelim	\$ Change	% Change
Township of Esquimalt	2.002	1.772	0.230	13%
City of Victoria	0.438	0.445	-0.007	-2%
District of North Saanich	0.280	0.315	-0.035	-11%
City of Colwood	0.228	0.223	0.005	2%
District of Saanich	0.187	0.177	0.010	6%
District of Metchosin	0.097	0.102	-0.005	-5%
Electoral Areas	0.054	0.056	-0.002	-4%
City of Langford	0.022	0.021	0.001	5%
District of Central Saanich	0.019	0.019	-	0%
Town of Sidney	0.009	0.009	-	0%
District of Sooke	0.006	0.007	-0.001	-14%
Town of View Royal	0.005	0.035	-0.030	-86%
District of Oak Bay	0.001	0.001	-	0%
Total	\$3.348	\$3.182	\$0.166	5.22%

* excludes municipalities and electoral areas that do not receive PILT

Table 3d: Drivers for Changes in Requisition Revenue

Service	(\$M) Change	Description	Impact	Direction
Legislative and General Government	0.117	First Nations Relations – 1.5FTE's and expenses related to Forum of all Councils	Regional	First Nations Relations Committee
	0.058	Corporate Services – 1.0FTE policy analyst to improve legislative controls	Regional	Staff Identified Requirement
Community Health	0.085	Increased funding for the Coalition to end Homelessness.	Regional	Hospital and Housing Committee
Climate Action and Adaptation	0.095	Funding for a regional greenhouse gas emissions inventory and modelling exercise and energy manager term position	Regional	Parks and Environment Committee
Municipal Debt	0.102	Increase in debt requested by municipalities	Sub-Regional	Municipalities, CRD Board
Total	\$0.5			

Changes from Preliminary Capital Budget – Investment

The final budget reflects all known factors to date since provisional financial plan approval in September 2018, including updates to incorporate both year-end adjustments and committee directed initiatives. The following table summarizes changes to capital investment.

Table 4a: Changes in Capital Investment

Investment Type (\$M)	2019 Final	2019 Prelim	\$ Change	% Change
CAWTP	260.2	242.8	17.4	5.6%
Buildings	52.7	7.9	44.8	14.5%
Engineered Structures	51.7	48.9	2.8	0.9%
Land	8.3	1.7	6.6	2.1%
Equipment	7.4	7.0	0.4	0.1%
Vehicles	1.9	1.6	0.3	0.1%
Total	\$382.2	\$309.9	\$72.3	23.3%

Table 4b: Drivers for Changes in Capital Investment

Service	(\$M) Change	Description	Impact	Funding Source	Direction
Regional Housing First Program (RHFP)	44.5	Changes in the property acquisition model for Millstream Ridge at 713/715 Treanor (132-units) to 2019	Regional	Prepaid Lease \$35.5 Grants \$9.0	CRD Board
Core Area Wastewater Treatment Project	17.4	Carryforward of unspent capital in 2018, mainly related to construction delays in conveyance	Sub-Regional	Current Operating and WIP -\$42.8 Debt \$45.0 Grants \$15.3	Project Board/CRD Board
Regional Parks Land Acquisition	6.7	Land acquisitions (Rise and Report to come)	Regional	Land Acquisition Fund \$6.7	Parks and Environment Committee
Regional Water Supply	1.6	Re-scoping of Lubbe Dam due to unexpected geological conditions	Regional	Carryforward \$1.0 Utility \$0.6	Regional Water Commission
All other services (Including EA)	2.1	Net increase across 41 capital projects planned in 2019			
Total	\$72.3				

Changes from Preliminary Capital Budget – Revenue

New initiatives and service plan adjustments since the provisional budget are funded through a variety of revenue sources totaling \$72.3 million. The following table summarizes the changes.

Table 4c: Changes in Capital Investment Funding

Investment Funding Source (\$M)	2019 Final	2019 Prelim	\$ Change	% Change
Current Operating and WIP	154.2	194.9	-40.8	-13.2%
Grants	93.7	68.8	24.9	8.0%
Debenture Debt	70.1	25.8	44.3	14.3%
Donations & Third Party Funding	36.8	0.5	36.4	11.8%
Reserve Funding	27.4	19.9	7.5	2.4%
Total	\$382.2	\$309.9	\$72.3	23.3%

The overall increase in funding is primarily due to \$35.5 million in prepaid lease from the Capital Region Housing Corporation for 713/715 Treanor and grant funding of \$24.9 million for both 713/715 Treanor (\$9.0M) and the CAWTP (\$15.3M).

Current Operating & WIP decreased with the conversion of short term borrowings to long term debt for CAWTP while the increase in reserve funding is primarily driven by the purchases of park land.

The current 2019-2023 five year capital plan is nearly \$1 billion and continues to reflect a focus on critical utility infrastructure while incorporating significant investment in affordable housing. Staff continue to evaluate implications of the new Board Strategic Plan, as well as develop the new Corporate Plan. As in previous years, any changes to the capital plan will be managed through quarterly capital plan amendments, while a major capital project status report will continue to be reported quarterly through the CAO update to the Board. A summary of CRD Capital Investment is included in Appendix 7.

The total impact of the operating and capital budget on the 2019 Financial Plan Summaries, along with 2019 Individual Municipal and Electoral Area Requisitions, is included in Appendix 8.

Changes in Reserve Schedule

The following table provides consolidated information on operating reserve activity.

Table 5a: Changes in Operating Reserves

Reserve Activity	2019
Opening Reserve Balance	40.8
Transfers from Operating	0.5
Interest Income	0.8
Transfer to Operating	-1.9
Closing Reserve Balance	\$40.2

Consolidated operating reserves through the end of 2018 are estimated to be \$40.8 million. Net budgeted transfers, interest income, and funding of operating costs result in a forecasted balance of \$40.2 million at the end of 2019. A detailed listing of fund balances are included in the audited financial statements.

The following table provides consolidated information on capital reserve activity.

Table 5b: Changes in Capital Reserves

Reserve Activity	2019 Final	2019 Prelim	\$ Change	% Change
Opening Reserve Balance – Sept 5	67.7	57.0	10.7	-
Transfer from operating (2018)	2.5	-	2.5	100%
Opening Reserve Balance – Mar 21	70.2	57.0	13.2	23.2%
Transfers to/from Operating	16.1	16.7	-0.6	-3.6%
Interest Income	1.3	1.3	-	-
Transfer to Fund Capital Plan	-27.4	-19.9	-7.5	-37.7%
Closing Reserve Balance	\$60.2	\$55.1	-\$5.1	-9.3%

The total net decrease in capital reserves is projected to be \$5.6 million or 10.2% since the preliminary budget. The decrease is primarily due to additional transfers to the capital plan with respect to the park land acquisitions. Additional contributions to reserve from surplus totaled \$2.5 million. Surpluses were generated due to higher construction waste activity at the landfill and increased water usage with a drier summer and fall season.

Capital reserves reflect funds retained and segregated by service to fund future capital activities. The CRD currently manages over 70 capital reserve funds. Detailed reserve schedules for each service were provided as part of the preliminary budget review process.

Staff Establishment Chart

The Staff Establishment Chart (SEC) is attached as Appendix 5 to outline the number of regular staff or Full Time Equivalent (FTE) employees that are included in the budget for each Department and Division within the CRD. Changes in the SEC since the provisional plan are listed in Table 6, below. The CRD has an additional 482 auxiliary employees.

Table 6: Summary Staff Establishment Chart

2019 SEC Amendments	FTE 's	Explanation
2018 Final	596.89	
+ CRHC SEC Amendments	3.23	1 Property Manager 1 Admin Clerk 1 Caretaker 0.23 related to Collective Agreement changes for caretakers
+ 2019 SEC Additions	9.5	6 Core Area Wastewater Treatment Plant 1.5 First Nations and Administration 1 SharePoint and EDRM 1 Regional Housing Development 1 Policy Analyst 3 Infrastructure Engineering Services (4) Term Position Conversions
2019 Final (March 20, 2019)	609.62	

The Policy Analyst and the three Infrastructure Engineering staff are term conversions resulting in no net impact on the total FTE's.

Financial Indicators

The financial indicators relate directly to the CRD and services provided to the communities in which the CRD operates. These indicators provide a measurement of financial capacity including debt servicing relative to revenue and planned capital expenditures, capital investment relative to depreciation, and transfers to reserves relative to the net book value of assets and operating expenditures. A summary of the financial indicators is included in Appendix 6.

Financial Plan Bylaw

Bylaw No. 4291, cited as “2019 to 2023 Financial Plan Bylaw, 2019” and inclusive of Schedules A and B, representing the operating and capital plans for the years 2019 to 2023, for the Board’s consideration and adoption, is included in Appendix 9.

Prior to participant billing, final adjustments are made once final BC Assessment information for the region is released. It is anticipated there will be no material changes in assessment data.

CONCLUSION

The CRD Board must adopt a five year financial plan bylaw each year by March 31. The attached bylaw and supporting schedules summarize the CRD Financial Plan for the years 2019 through 2023. The 2019 budget was preliminarily approved by the Board on September 5, 2018.

The 2019-2023 Financial Plan has been prepared in alignment with Board decisions and committee direction. Staff recommends approving the 2019-2023 Financial Plan bylaw as presented.

RECOMMENDATION

1. That Bylaw No. 4291, “2019 to 2023 Financial Plan Bylaw, 2019”, be introduced and read a first, second, and third time;
2. That Bylaw No. 4291 be adopted.
3. That the Staff Establishment Chart as attached in Appendix 5 be approved.

Submitted By:	Rianna Lachance, BCom, CPA, CA Senior Manager, Financial Services
Concurrence:	Nelson Chan, MBA, CPA, CMA, Chief Financial Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

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Attachments

- Appendix 1: CRD 2019 Final vs. 2018 Final Budgets
- Appendix 2: CRD 2019 Operating Budget Overview
- Appendix 3: CRD 2019 Capital Budget Overview
- Appendix 4: CRD 2019 Major Capital Projects > \$500,000
- Appendix 5: CRD 2019 Staff Establishment Chart
- Appendix 6: CRD 2019 Financial Indicators
- Appendix 7: CRD Service Activity & Investment
- Appendix 8: CRD 2019 Financial Plan Summaries and Individual Municipality and Electoral Area Requisitions
- Appendix 9: Bylaw No. 4291 cited as “2019 to 2023 Financial Plan Bylaw, 2019” inclusive of Schedules A and B