

**REPORT TO CAPITAL REGIONAL DISTRICT BOARD
MEETING OF WEDNESDAY, MARCH 18, 2020**

SUBJECT **Bylaw No. 4349: 2020 to 2024 Financial Plan Bylaw, 2020**

ISSUE SUMMARY

This report summarizes final updates to the 2020 budget and requests approval of Bylaw No. 4349 regarding the Capital Regional District (CRD) five-year Financial Plan for the years 2020-2024.

BACKGROUND

Section 374 of the *Local Government Act* requires the CRD to develop and approve a five year Financial Plan by March 31 each year. On October 30, 2019, the CRD Board approved 2020 Service Plans, the 2020 Staff Establishment Chart and the Provisional 2020-2024 Financial Plan. Before final approval, financial plans are amended based on year-end results, payments in lieu of taxes, revised assessment information, and other committee or commission directed changes.

Financial Plan revenues are derived from fees and charges, service and operating agreements, grants, and taxes. Expenditures are determined through a variety of processes, many of which the CRD Board controls directly. Other processes include delegated authority or those recommended by commissions. All approved recommendations are incorporated into service plans, operating plans and capital expenditure plans for approval by the Board.

The CRD Financial Plan consists of more than 200 budgets funding the delivery of regional, sub-regional and local services to over 400,000 residents, businesses and visitors to a dynamic and thriving region. Various trends and variables impact the Financial Plan including but not limited to economic conditions, population growth, demographics, climate change, and the regulatory environment. The Financial Plan aims to balance all of these factors in alignment with the Board approved strategic, corporate, and service plans.

ALTERNATIVES

Alternative 1

1. That Bylaw No. 4349, cited as “2020 to 2024 Financial Plan Bylaw, 2020”, be introduced, read a first, second and third time; and
2. That Bylaw No. 4349 be adopted.
3. That the Staff Establishment Chart as attached in Appendix G be approved.

Alternative 2

1. That Bylaw No. 4349 be cited as “2020 to 2024 Financial Plan Bylaw, 2020”, be introduced and read a first time and second time.
2. That Bylaw No. 4349 be amended as directed.
3. That Bylaw No. 4349 be read a third time.
4. That Bylaw No. 4349 be adopted.

IMPLICATIONS

Governance Implications

Public Consultation

Section 375 of the *Local Government Act* requires consultation on the Financial Plan before adoption. In support of the diverse services and governance structures at the CRD, the engagement process employs a variety of means to solicit feedback from regional, sub regional and local rate payers.

Many CRD services are governed through commissions or committees which are composed of elected officials and in many cases volunteer local rate payers. With commission and committees providing oversight and direction to services, public input is received leading up to the preparation of budgets through these bodies during service plan reviews at the individual service level. This process includes a significant amount of work undertaken by many commissioners who volunteer their services in the Southern Gulf Islands, Salt Spring Island, and Juan de Fuca electoral areas. For regional services the Board has oversight over the budget process through standing committees.

Commissions and committees receive input in the form of user statistics, customer feedback, surveys, advisory body reports, operational reports, presentations, and correspondence. The CRD also conducts public consultations for major regional initiatives such as the preparation of a new solid waste management plan. The review of budgets takes place in meetings open to the public, with meeting details advertised in local newspapers and on the CRD website leading up to the meeting dates. Appendix K provides a summary of communications activities related to the final budget.

To supplement these processes, the CRD also makes budget materials publicly available on the website with a public feedback form following provisional budget and ahead of final budget review by the Board. These materials and infographics are designed to increase understanding of the CRD's financial position and performance, and the CRD features the opportunity to participate on its home page, social media channels and media materials.

Public feedback on the 2020-2024 Five Year Financial Plan Bylaw concluded on January 31 and feedback received have been shared through the Board correspondence portal. All public feedback is considered and incorporated in alignment with corporate and strategic planning for Board approval and integrated into service planning where applicable.

Legislative Implications

Financial Plan Bylaw

The Financial Plan Bylaw includes operating and capital expenditures, reserve transfers, and revenue requirements from 2020-2024. Bylaw No. 4349, cited as "2020 to 2024 Financial Plan Bylaw, 2020" and inclusive of Schedules A and B, reflect approved service plans and any adjustments since provisional approval and is included as Appendix L.

As in previous years, there will be an additional adjustment made prior to billing, limited to final amendments by BC Assessment after March 31. There are no expected material changes as a result of this information.

As approved by the Board, review and recommendation of all electoral area-only service budgets was delegated to the Electoral Areas Committee (EAC), including the review of budgets of local service commissions. The Electoral Area Committee recommended approval of the all electoral area-only budgets on March 11, 2020.

Economic Implications

Trends and Assumptions

While some indicators signal a moderation and slowing of economic growth in construction and housing starts, demand and service utilization trends remain positive. Cost escalation pressures such as inflation combined with low unemployment rates continue to be significant factors in service delivery costs across the organization. Key indicators include:

- The Consumer Price Index (CPI) for greater Victoria was 2.5%, compared to Vancouver at 2.4% and British Columbia at 2.3%; significantly higher than the national average of 1.9%.¹
- The total regional assessed value remained fairly flat at approximately \$128 billion versus \$125 billion in 2019, a change of 2.4%.² This is down from recent highs of 10%, 16% and 18% in 2019, 2018 and 2017 respectively.
- New building permit values dropped 14% to \$1.2 billion in 2019.³
- CMHC housing starts for the region through November 2019 showed a year over year decline of (7%) or 3,242 new units. The most significant reductions were in Central Saanich (75%), Oak Bay (73%), Saanich (57%), and North Saanich (51%). New housing starts were led by Esquimalt and Colwood with 223 (1927%) and 428 (128%) respectively.⁴
- The average price of a single family home is now \$868,100, an increase of 3.5%.⁵
- As of December 2020, the region had the lowest unemployment rate across Canada with 3.4%, compared to 4.8% in BC, and 5.6% nationally.⁶
- BC experienced the highest average hourly wage growth across Canada with a 5.8% year over year increase (\$1.55 increase to \$28.35/hour).⁷

Assessment and Growth

Assessment values and quantity of folios are primary factors impacting Financial Plan costs per household. Through 2020, the region experienced \$464 million or a 3.2% growth in converted assessments while folios grew by 1900 or 1.3%. The change in assessments varies by municipality and electoral area. The Financial Plan presentation includes several charts and tables comparing the changes across the region.

¹ At: https://www2.gov.bc.ca/assets/gov/data/statistics/economy/cpi/cpi_annual_averages.pdf
At: https://www2.gov.bc.ca/assets/gov/data/statistics/economy/cpi/consumerpriceindexhighlights_202002.pdf

² BC Assessment Values 2020

³ CRD Regional Planning Division Stats

⁴ At: <https://www.vrba.ca/blog/colwood-housing-up-128-while-saanich-declines-57/>

⁵ At: https://www.vreb.org/media/attachments/view/doc/statsrelease2020_02/pdf/statsrelease2020_02.pdf

⁶ At: <https://www.timescolonist.com/business/unemployment-rate-in-greater-victoria-is-canada-s-lowest-1.24050652>
At: <https://www150.statcan.gc.ca/n1/daily-quotidien/200110/dq200110a-eng.htm>

⁷ At: https://archive.news.gov.bc.ca/releases/news_releases_2017-2021/2019JTT0047-002143.htm

Financial Implications

Budget Overview

The 2020 CRD Financial Plan includes \$282.6 million in operating expenditures, an increase of \$20.8 million or 7.9%, and \$402.1 million in capital investment, an increase of \$17.8 million or 4.6% over 2019.

Table 1: 2020 CRD Budget – Change from prior year

Budget Type (\$M)	2020 Final	2019 Final	\$ Change	% Change
Operating	282.6	261.8	20.8	7.9%
Capital	402.1	384.3	17.8	4.6%
Total	684.7	646.1	38.6	6.0%

* 2019 Final as shown in Bylaw 4332

Appendix A provides additional tables summarizing 2020 year over year changes in operating and capital expenditures, requisition, and reserves. The total impact of the operating and capital budget on the 2020 Financial Plan Summaries, along with 2020 Individual Municipal and Electoral Area Requisitions, is included in Appendix J.

Updates Following Provisional Budget Approval

The final budget reflects amendments to the Provisional Financial Plan approval of October 2019, including year-end results, BC Assessment information, and committee, commission, and staff recommended initiatives. The focus of this report are changes since Provisional Budget approval, as such, tables 2 through 5 compare and summarize the 2020 Final to the Provisional budget. Appendix B and D provide an overview of the 2020 operating and capital budgets.

Operating Expenses

Since Provisional approval, the operating budget increased \$4.6 million or 1.7%. The following table summarizes changes by type of expense:

Table 2: Changes in Operating Expenses

Expenditure Type (\$M)	2020 Final	2020 Prelim	\$ Change	% Change
Operations	183.3	181.0	2.3	1.3%
Debt Servicing	42.1	40.3	1.8	4.5%
Capital Funding	32.8	39.1	-6.3	-16.1%
Transfer to Reserves	24.4	17.6	6.8	38.6%
Total	\$282.6	\$278.0	\$4.6	1.7%

Debt Servicing expenses have been revised based on an opportunity to retire an outstanding loan in the Solid Waste Disposal service resulting in ongoing interest savings. Capital Funding and Transfer to Reserves are related through the Core Area Wastewater Treatment Project, designating \$6.6 million to fund future operating commitments related to the performance period of the HRP contract, and participating municipality commitments.

The \$2.3 million change in Operations is a result of various service budgets being updated to reflect carry forward and deferral of 2019 work programs into 2020 as well as a number of new staff identified initiatives listed in Appendix C.

Operating Revenue

Funding of the operating expenditure changes listed in table 2 are summarized in table 4 below.

Table 4: Changes in Operating Revenue

Revenue Type (\$M)	2020 Final	2020 Prelim	\$ Change	% Change
Sale of Services	134.7	133.5	1.2	0.9%
Internal Allocations	37.9	37.2	0.7	1.9%
Rentals and other Revenue	8.7	8.7	0.0	0.0%
Surplus Carryforward	7.4	4.7	2.7	57.4%
Grants and PILT	4.5	4.4	0.1	2.3%
Transfer from Reserves	3.4	1.8	1.6	88.9%
Subtotal	196.6	190.3	6.3	3.3%
Requisition*	86.0	87.7	-1.7	-1.9%
Total	\$282.6	\$278.0	\$4.6	1.7%

* Total requisitions includes municipal debt payments of \$14.9 million.

The change in Sale of Services is a result of the Town of View Royal entering into a service agreement for Core Area Wastewater Treatment and Trunk Sewers costs. The agreement authorizes the CRD to move billings on a go forward basis (\$1.2 million for 2020) from Requisition to invoicing. In turn, this will provide the Town of View Royal the ability to recover costs by way of user fees instead of property taxes. For the CRD, this change results in a corresponding reduction in requisition revenue.

The Surplus Carryforward increase of \$2.7 million from Provisional approval is driven by surpluses in Solid Waste Disposal, Trunk Sewer Operating, and Land Banking & Housing. In addition there was a change in timing for a Regional Housing Trust Fund grant revised to 2020. A comprehensive list of operating revenue change drivers is included in Appendix C. As in previous years, surplus carryforward estimates are included in the Provisional budget as a forecast in each service and are revised for final budget with actual 2019 year end results.

Payments-in-Lieu (PILT)

PILT are monies recovered from tax exempt parcels owned by federal, provincial and crown agencies within the region. Under legislation, the amount of tax is determined by class and rate if the properties were taxable. However, the amount of PILT can vary as the requirement to pay is discretionary to 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. The historical approach through the provisional budget is to plan prior year actuals, as current year PILT information is not available in time. Revisions for final budget include the actual PILT

amounts. For 2020, the PILT received was slightly higher than the Provisional budget, totaling \$3.3 million or an increase of \$0.2 million. Appendix C includes a summary of PILT revenue by member municipality.

Capital Investment

Table 5 summarizes changes to the capital portion of the Financial Plan by Community Need.

Table 5: Changes in Capital Investment

Investment Type (\$M)	2020 Final	2020 Prelim	\$ Change	% Change
Affordable Housing	79.6	70.6	9.0	12.7%
CAWTP	225.2	195.7	29.5	15.1%
Climate Action & Adaptation	2.5	2.5	-	-%
Landfill & Recycling	7.6	7.6	-	-%
Parks & Natural Resource Protect.	12.3	10.6	1.7	16.0%
Protective Services & Transport.	8	6.8	1.2	17.6%
Recreation, Arts & Culture, Health	5	5	-	-%
Wastewater	15.7	15.6	0.1	0.6%
Water	42.5	42.2	0.3	0.7%
Accountability	3.7	3.6	0.1	2.8%
Total	\$402.1	\$360.2	\$41.9	11.6%

The drivers of the change in capital investment since Provisional Budget approval relate to the Core Area Wastewater Treatment Project (CAWTP) and the Regional Housing First Program (RHFP). The CAWTP increase is a result of unspent capital in 2019 being carried forward into 2020. The Project Team managing CAWTP continues to forecast the total capital program to be on budget. The RHFP is a net impact of two projects with revised timing; the purchase of West Park Lane was advanced from 2021 into 2020, while Hockley was deferred from 2020 to 2021. Additional details and explanations for change drivers in capital investment are summarized in Appendix F.

Capital Funding

Funding of the capital investment changes listed in table 5 are summarized in table 6 below.

Table 6: Changes in Capital Investment Funding

Investment Funding Source (\$M)	2020 Final	2020 Prelim	\$ Change	% Change
Current Operating and WIP	85.4	42.2	43.2	102.4%
Grants	178.6	189.4	-10.8	-5.7%
Debenture Debt	40.0	38.4	1.6	4.2%
Donations & Third Party Funding	62.4	56.6	5.8	10.2%
Reserve Funding	35.7	33.6	2.1	6.3%
Total	\$402.1	\$360.2	\$41.9	11.6%

Changes to capital funding are required to balance the capital plan. The increase in current operating and WIP is a result of deferrals related to CAWTP. Grants and Donations & Third Party Funding have been revised by a net \$4.8 to reflect timing of the West Park Lane and the Hockley RHFP projects, with the remaining change of 0.2 due to other initiatives.

The current 2020-2024 capital plan totals \$787 million and continues to reflect a focus on critical utility infrastructure while incorporating significant investment in affordable housing. As in previous years, any changes to the capital plan will be managed through quarterly amendments to the Board. A summary of CRD Capital Investment is included in Appendix D and a complete list of capital projects greater than \$0.5 million is included in Appendix E.

Staff Establishment Chart

The Staff Establishment Chart (SEC) is attached as Appendix G 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. While some positions have been shifted between divisions (Table 7), the overall total 2020 FTE's planned has not changed since the provisional approval.

Table 7 – Summary of Changes to Staff Establishment Chart

Department & Division	Change in FTEs since Preliminary Approval
Finance & Technology	
Financial Services	(1.00)
Asset Management	1.00
Integrated Water Services	
Administration	2.29
Customer & Technical Services	(4.29)
Infrastructure Operations	2.00
Total	-

Financial Indicators & Reserve Forecasts

Consolidated summaries of operating and capital reserve activity can be found in Appendix H.

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 I.

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 2020 through 2024. The 2020 budget was preliminarily approved by the Board on October 30, 2019.

The 2020-2024 Financial Plan has been prepared in alignment with Board decisions and committee direction. Staff recommends approving the 2020-2024 Financial Plan bylaw as presented.

RECOMMENDATION

1. That Bylaw No. 4349, cited as “2020 to 2024 Financial Plan Bylaw, 2020”, be introduced, read a first, second and third time; and
2. That Bylaw No. 4349 be adopted.
3. That the Staff Establishment Chart as attached in Appendix G be approved.

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Concurrence:	Nelson Chan, MBA, CPA, CMA, Chief Financial Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

ATTACHMENT(S)

Presentation: 2020 Capital Regional District Financial Plan Bylaw
Appendix A: CRD 2020 Final vs. 2019 Final Budgets
Appendix B: CRD 2020 Operating Budget Overview
Appendix C: Drivers for Changes in Operating Budget
Appendix D: CRD 2020 Capital Budget Overview
Appendix E: CRD 2020 Major Capital Projects > \$500,000
Appendix F: Drivers for Changes in Capital Budget
Appendix G: CRD 2020 Staff Establishment Chart
Appendix H: CRD Changes in Operating and Capital Reserve Forecasts
Appendix I: CRD 2020 Financial Indicators
Appendix J: CRD 2020 Financial Plan Summaries and Individual Municipality and Electoral Area Requisitions
Appendix K: Public Input
Appendix L: Bylaw No. 4349 cited as “2020 to 2024 Financial Plan Bylaw, 2020”, inclusive of Schedules A and B