

**REPORT TO THE COMMITTEE OF THE WHOLE  
MEETING OF WEDNESDAY, DECEMBER 13, 2017**

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**SUBJECT     2018 Revised Financial Plan**

**ISSUE**

This report presents the revised Capital Regional District (CRD) 2018 Financial Plan for preliminary approval.

**BACKGROUND**

At the November 29, 2017, meeting of the Committee of the Whole, the CRD 2018 Financial Plan was presented for preliminary approval along with Appendix 10: a listing of new initiatives and capital projects to commence ahead of final budget approval expected in March 2018.

At the meeting, the Committee referred the 2018 Financial Plan back to staff with the following direction:

1. For service 1.330 Regional Growth Strategy, “that there be no requisition in 2018 for the Regional Growth Strategy (RGS) budget, and that there be a one-time draw down of the RGS reserve to fund the 2018 RGS operating budget”
2. As shown in the Preliminary Financial Plan Summary (Appendix 4, page 3) for Regional Services, “that staff look at a total 2% decrease in requisition of regional services (from 4.85% to 2.85%) in the proposed budget (excluding the Core Area Wastewater Treatment Project)
3. As shown on slide 17 of the Financial Plan Presentation, “that the 2% be looked at also within the 14% materiality threshold”

For service 1.330 Regional Growth Strategy, the 2018 budget includes operating expenditures of \$405k, an increase of \$12k or 2.92%. The budget is funded from a combination of requisition of (\$383k) and payment in lieu revenue (\$22k). The service has an established reserve balance \$715k, which is in place to fund periodic revisions to the RGS, related initiatives and sub-strategies as directed by the Board.

The Preliminary Financial Plan Summary (Appendix 4, page 3) highlights the 2018 total regional requisition of \$24.32M, an increase of \$1.12M or 4.85% over 2017. A reduction of 2% in regional requisition represents a decrease of (\$0.46M).

Slide 17 of the Financial Plan Presentation presents a measured materiality threshold based on a Victoria CPI rate (from BC Stats) of 1.9% and \$50k. Based on this threshold, 30 of the 205 CRD budgets or 14% exceeded this threshold as either more than 1.9% and \$50k or less than (1.9%) and (\$50k).

**ALTERNATIVES**

**Alternative 1**

That the Committee of the Whole recommend to the Capital Regional District Board:

1. That the 2018 Preliminary Financial Plan be approved as presented at the November 29, 2017, meeting of the Committee of the Whole, inclusive of the one-time draw down of the Regional Growth Strategy reserve to fund the operating budget; and
2. That expenditures of the new initiatives and capital identified in Appendix 10 for as early as January 1 be approved.

Alternative 2

That the Committee of the Whole recommend to the Capital Regional District Board:

1. That the 2018 Preliminary Financial Plan be approved as amended, inclusive of the one-time draw down of the RGS reserve to fund the operating budget, and as directed with specific amendments from Appendix A; and
2. That expenditures of the new initiatives and capital identified in Appendix 10 for as early as January 1 be approved.

**IMPLICATIONS**

The process for approving the 2018 Financial Plan remains unchanged with provisional approval before year end to determine the revenue requirements, enable public consultation, engage with service participants and bring forward any amendments to fees and charges bylaws coincident with final approval of the budget. The provisional approval will still be subject to changes as a result of final year-end adjustments, revised assessment information and any other amendments prior to final approval by March 2018.

The 2018 total requisition as presented is \$64.3 million (excluding Municipal debt), an increase of \$3.4M or 5.5%. This is split into regional services increase of \$1.1M or 4.85%, sub-regional services increase of \$2M or 8.08%, electoral area services increases of \$0.3M or 1.80%, and local services increases of \$8k or 4.02%.

(in \$ millions)

Description	2018 Requisition	2017 Requisition	\$ Change	% Change
Regional	24.3	23.2	1.1	4.85%
Sub-Regional	26.6	24.6	2.0	8.08%
Electoral Areas Only	13.2	12.9	0.3	1.80%
Local Service	0.21	0.20	0.01	4.02%
<b>Total</b>	<b>\$64.3</b>	<b>\$60.9</b>	<b>\$3.4</b>	<b>5.50%</b>

In response to direction provided at the November 29, 2017, meeting of the Committee of the Whole, staff have identified budget items for the consideration of the Committee. A summary of the analysis and description of service plan implications resulting from a potential change to each budget item is included in Appendix A of this report. Deferral of items impacting requisition or the use of reserves are one-time funding reductions and would result in future funding increases. The alternative would be to reallocate resources; however, this would require additional changes to service levels or service reductions.

**1) Impact to service #1.330 Regional Growth Strategy**

The one-time draw down of reserves to fund the 2018 operating cost for the Regional Growth Strategy service is a reduction of \$383k in requisition. The reserve was established to fund future RGS revisions which were formerly funded by grants. At the end of 2016, approximately \$70k was transferred from operating to the reserve fund. The last RGS update was in 2003 and cost in excess of \$1M. The balance remaining after the one-time draw down will be \$332k. The one-time draw down will result in the requirement to reinstate the requisition in 2019 and subsequent years to undertake the obligations and work required to administer the RGS.

The impact to total CRD requisition after this adjustment is (\$0.4M) or (0.63%), moving the 2018 requisition from 5.5% to 4.87%.

**2) Impact of 2% decrease in requisition of regional services (from 4.85% to 2.85%)**

To achieve the requisition target, as directed by the Committee, staff have reviewed all regional service budgets with increases greater than 2.85%. Service plans for these budgets were reviewed to reconsider service levels that could be deferred, reallocated or removed while maintaining operational effectiveness.

This table summarizes by service area, options for reduction in the requisition (detailed in Appendix A) for committee consideration:

<b>Regional Services</b>	<b>Reduction in Requisition (\$)</b>
CAO and Legislative Services	(112,500)
Financial Services	(200,000)
Climate Action and Adaption	(38,500)
Land Banking & Housing	(55,000)
Regional Parks	(198,000)
<b>Total Regional Services</b>	<b>(\$604,800)</b>

**CAO and Legislative Services**

The option is to delay implementation of staff which will in turn impact efforts to improve our experience rating and obtain Workers Compensation Board discounts through the Certificate of Recognition (COR) Program, implementation of a comprehensive Corporate Disability Management Program, and a reduction in available time for the Safety Manager to perform field work. The deferral also includes a proposed conversion of requisition funding for the safety manager to a service allocation for current and future years.

The impact of this option to the Regional CRD requisition is (\$0.113M) or (0.49%).

**Financial Services**

The option is for a deferral of \$100k of requisition funds for the Climate Action Fund and a delay of system development of \$100k. The deferral for the Climate Action Fund will impact the timeline on actions 2-6, 3-1, 6-2 and 6-5 of the approved Corporate Climate Action Strategy, and introduces greater risk in meeting the 2020 GHG emissions reduction target. The fund will still be established in 2018 with a reduced amount of \$150k funded through allocations. The delay of system development towards open data architecture and financial system automation will require

reallocation of internal resources to continue manual processes. Exploration of open data and automation technology was intended to drive efficiencies in budgeting, reporting, and performance management, both within finance as well as operating departments. Gained efficiencies would have advanced staff time to drive greater internal controls, policy and procedure refinement, and implementation of a decision support business partnering model.

The impact of this reduction to the Regional CRD requisition is (\$0.2M) or (0.86%).

#### Climate Action and Adaption

Removal of the additional 0.3FTE will impact service level adjustments including:

- Support for inter-regional collaboration on green building policy (i.e. BC Energy Step Code), adaptation research, planning and education
- Annual Regional Climate Action Strategy reporting (on behalf of the CRD) and a requirement of the Regional Climate Action Strategy
- Community climate data and indicators (including energy and emissions studies & tracking) as the province is no longer producing Community Energy and Emissions Inventories
- Increased local government and community support around: renewable cities, adaptation planning (including sea level rise), grant applications, electric vehicles
- Support for the development and management of the Capital Region Resilience Network (for local governments, public sector and institutional regional stakeholders)
- Support for development of a Biodiversity Strategy-Regional Climate Action Strategy requirement in 2018/2019

The impact of this reduction to the Regional CRD requisition is (\$0.039M) or (0.17%).

#### Land Banking & Housing

The proposed deferral or reduction of funding for the one-time consulting expenditure will impact the ability to research the development of a potential program or structure for a Social Purpose Real Estate Investment Trust (REIT). The budget item was to contract expertise to determine if setting up a REIT was possible and viable for the CRD with the intention to invest in affordable housing projects with moderate rates of return to investors.

The impact of this reduction to the Regional CRD requisition is (\$0.055M) or (0.24%).

#### Regional Parks

The items include deferral of service level enhancements for;

- Park Officer and bylaw patrols in Regional Parks to address management of dogs and public safety at Thetis Lake,
- Park Officers as planned for the Sea-to-Sea Regional Park Phase 2 opening, and
- the one-time public consultation around the future of the land acquisition fund.

The deferral of Park Officer (bylaw) patrols will defer enhanced education, data collection, public relations and assessment of the environmental and social impacts of dogs in parks. This role was to be the prime method to raise awareness and influence dog owners to change behaviors and to be more responsible with their dogs in a regional park. The Park Officers would also help organize an enforcement response when necessary by directing Bylaw Officers to areas identified as having dog management issues. Data collection that is necessary to complete recommendations for a comprehensive dog management strategy will take longer, and will delay completion of the dog management report identified for 2019. This deferral will also impact the

extra patrols planned for Thetis Lake Regional Park during peak periods in the summer, intended to educate visitors about swimming and cliff-jumping hazards.

The impact of this reduction to the regional requisition is (\$0.100M) or (0.43%).

The Regional Parks Service Plan presents a 4-year strategy to open the Sea to Sea Regional Park. Deferral of funding for park officers in 2018 will defer the opening of Phase 2 of the Park, including deferral of backcountry camping at Shields Lake and deferral of enforcement patrols within Phase 2, namely the area including Shields, Crabapple, Grass, and Peden lakes.

The impact of this reduction to the regional requisition is (\$0.064M) or (0.28%).

Reducing the scope of the public engagement process to online and written submissions for the use of the land acquisition fund could eliminate the costs for a survey. This was a Board directed initiative from March 8, 2017 board meeting where staff were directed to report back to the Committee in 2017 with a consultation plan, to be incorporated into Regional Parks' service plan and budget for implementation in 2018, that explores and confirms the public's view on the land acquisition fund and sources of funding for the development and renewal of park infrastructure and enhancement of parks and trails.

The impact of this reduction to the regional requisition is (\$0.035M) or (0.15%).

### 3) Impact of Services exceeding the materiality threshold

All services, both regional and sub-regional, exceeding the materiality threshold were reviewed by staff. A number of services considered have already been included as part of the regional services reductions above. Those services not included and addressed as sub-regional options are summarized in the following table and detailed in Appendix A for consideration by the Committee:

Sub-Regional Services	Reduction in Requisition (\$)
Regional Growth Strategy	(383,000)
Liquid Waste Management Planning	(289,550)
Arts Grants and Development	(12,000)
<b>Total Sub-Regional Services</b>	<b>(684,550)</b>

The sub-regional requisition is \$26.6M, an increase of \$2M or 8.08%. The combined optional reductions would result in a sub-regional requisition of 5.29%: a decrease of 2.79%.

#### Regional Growth Strategy

This item was addressed and explained earlier in the report. It is included here to summarize the impact on sub-regional service requisition.

The impact of this reduction to the sub-regional requisition is (\$0.383M) or (1.56%).

#### Liquid Waste Management Planning

Every 3–5 years, the Core Area Liquid Waste Management Plan (CALWMP) is consolidated and refreshed to include new amendments. The last consolidation was completed in 2011. Over the

next 1–2 years, amendments and all specific commitments within the CALWMP up to and including Amendment No. 12 need to be reviewed to ensure regulatory compliance. The adjusted expenditure level is sufficient to cover the ongoing costs for maintenance, consolidation and auditing of the CALWMP under the provincial requirements; however, the requisition impact will ultimately be incorporated into the sewer cost apportionment model when the new wastewater treatment plant enters into service.

The impact of this reduction to the sub-regional requisition is (\$0.290M) or (1.18%).

#### Art Grants and Development

The increase in requisition is primarily a result of the Board approved FTE for the Arts Implementation Strategy. Options for reducing the requisition could include;

- Reduction in funds to be granted (entire amount or a portion of requisition increase)
- One-time use of reserve funds (entire amount or a portion of requisition increase)
- Redirecting forecasted year end surplus of \$12k from reserve to offset requisition

The reserve was established in 2004 for the purpose of program and policy development. Historically, it has funded pilot or one-off initiatives for which there is no budgeted resources including; Economic activity studies of the arts, two 3-year pilot cycles of IDEA grants 2011-2013 and 2014-2016, ArtsVest; a program in partnership with Business for the Arts that provided workshops for organizations in developing sponsorship opportunities, etc. The reserve currently has a balance of \$164k, of which \$50k is committed to programming initiatives.

Redirecting the expected surplus of \$12k from a transfer to reserve to offset requisition will not impact programming commitments as driven by the Arts Implementation Strategy. It should also be noted the use of surplus or reserve funds are one-time funding relief mechanisms and will result in requisition increases in the subsequent year.

The impact of this reduction to the regional requisition is (\$0.012M) or (0.05%).

#### Other Services

Other services exceeding the materiality threshold have been reviewed, with no recommendation for deferral or reduction of service levels, as these services are primarily funded by fees and charges, and service recovery allocations.

### **SUMMARY**

In response to the direction of the Committee, staff have provided additional analysis and discussion of service levels to be considered for deferral or removal. The provisional budget as presented at the November 29 Committee of the Whole meeting, with directed amendments shown in Appendix A and the one-time draw down of the RGS reserve to fund the operating budget, will be used as preliminary authorization of service levels and service costs for 2018.

The impact to total CRD requisition after all adjustment would be (\$1.29M) or (2.12%), moving the 2018 requisition from 5.5% to 3.38%.

The budget is subject to change as a result of final 2017 surplus/deficits, receipt of revised assessment and any adjustments recommended by the respective Commissions and the Electoral Area directors and the Board prior to final approval of the Financial Plan bylaw by March 31, as outlined in the *Local Government Act*.

**CONCLUSION**

The 2018 CRD revised Financial Plan with amendments requires provisional approval.

**RECOMMENDATION**

That the Committee of the Whole recommend to the Capital Regional District Board:

1. That the 2018 Preliminary Financial Plan be approved as presented at the November 29, 2017, meeting of the Committee of the Whole, inclusive of the one-time draw down of the Regional Growth Strategy reserve to fund the operating budget; and
2. That expenditures of the new initiatives and capital identified in Appendix 10 for as early as January 1 be approved.

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Attachments:

Appendix A: Financial Plan Items for Consideration