

**REPORT TO THE CAPITAL REGIONAL DISTRICT BOARD
MEETING OF WEDNESDAY, MARCH 21, 2018**

SUBJECT: Bylaw 4230: 2018 to 2022 Financial Plan Bylaw, 2018

ISSUE

This report summarizes final updates to the 2018 budget and requests approval of Bylaw No. 4230 regarding the Capital Regional District (CRD) five-year financial plan for the years 2018-2022.

BACKGROUND

The CRD provides a range of key services to over 383,000 people as well as businesses and visitors in the region. Regional services are provided through 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 the operating and capital expenditure plans for approval by the Board.

The service plans provide necessary information to evaluate organizational requirements, new initiatives, proposed service levels and implications for the financial plan. They also provide information on initiatives that directly relate to the Board and corporate priorities. In October and November 2017, service plans were presented to the appropriate committee and commissions respectively, to allow a comprehensive assessment of the service delivery and work programs. This process provided committees and commissions the opportunity to consider work programs and resource requirements and make service amendments as necessary.

Service plans along with the 2018 Financial Plan were given preliminary approval by the Committee of the Whole (COW) on December 13, 2017 inclusive of committee directed reductions to funding for financial system enhancements, one-time park land acquisition public engagement process, liquid waste management planning and a reduction to requisition through the use of surplus to offset changes in the Arts Development Service.

Public Consultation

Section 375 of the *Local Government Act* (the Act) stipulates the following process for a financial plan:

1. A board must undertake a process of public consultation regarding the proposed financial plan before it is adopted.
2. The designated regional district officer must send a copy of the financial plan to each municipality in the regional district and to the inspector.

The Act does not specify or provide any information on the scope or type of public consultation that must be carried out and given the diversity of services the CRD utilizes a variety of mediums.

With CRD Commissions and Committees providing oversight and guidance on many of the CRD services, public input is received leading up to the preparation of budgets through these bodies during service plan reviews. Local and sub-regional Commissions include elected representatives and often rate payer representatives as well. Public input is also received in the form of user statistics, customer satisfaction surveys, advisory body reports, annual operational reports and from a wide variety of public engagement activities.

The financial information along with service plans and feedback forms have been made available on the CRD's public website and promoted on social media through the period of public consultation running from January to the end of February in the first year of the plan. In addition the consultation process was complemented with materials and infographics designed at increasing the understanding of the CRD's financial position. The public feedback as a result of consultation activities are shown in Appendix 2.

Overarching the aforementioned public consultation is the review of budgets in open Board meetings where the date and time of the meeting is advertised in local newspapers and on the CRD website.

Financial Plan Bylaw

At the conclusion of the public engagement period and, as legislatively required, the CRD annually develops the five year financial plan bylaw. The five year financial plan reflects service levels as laid out in the service plans and any adjustments to the 2018 budget year since preliminary approval.

Adjustments such as surplus/deficits, payments in lieu of taxes and updates to key assumptions and drivers have been made to the preliminary financial plan. 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 for the budgeted requisition amounts due to changes in the assessed values. Appendix 1 shows the change in the 2018 operating and capital plans versus 2017.

Under the budget direction provided by the Board, review and recommendation of all electoral area-only service budgets was delegated to the Electoral Area Services Committee (EASC), including the review of Local Service Commissions budgets. The Electoral Area Services Committee recommended approval of the Electoral Area only budgets on March 14, 2018.

ALTERNATIVES

Alternative 1

- 1) That Bylaw No. 4230, “2018 to 2022 Financial Plan Bylaw, 2018”, be introduced and read a first and second time;
- 2) That Bylaw No. 4230 be read a third time;
- 3) That Bylaw No. 4230 be adopted.
- 4) That the Staff Establishment Chart as attached in Appendix 6 be approved.

Alternative 2

That Bylaw No. 4230 be cited as “2018 to 2022 Financial Plan Bylaw, 2018” and be introduced and read a first time and second time, be amended and read a third time and adopted.

IMPLICATIONS

Budget Overview

The complete 2018 operating budget overview is provided in Appendix 3 and 4. The 2018 CRD budget includes \$248.4 million in operating expenditures, an increase of \$9.8 million or 4% over 2017, and \$213.7 million in capital investment, an increase of \$55 million or 35% primarily attributable to the increase to the Core Area Liquid Waste Treatment Project. Appendix 3 and 4 highlight the expenditures and sources of revenue for both operating and capital plans. A list of major capital projects is shown in Appendix 5.

Operating Expenditures

The following chart outlines the changes to the operating expenses between the 2018 preliminary and final budgets. The overall increase of \$1 million is primarily a result of carry forward project expenditures for work to be completed in 2018, funded by carry forward surpluses.

(in \$ millions)

Expenditure Type	2018 Final	2018 Prelim	\$ Change	% Change
Operations	156.8	156.3	0.5	0.3%
Debt Servicing	37.1	36.8	0.3	0.8%
Capital Funding	40.6	41.2	-0.6	-1.5%
Transfer to Reserves	13.9	13.1	0.8	6.9%
Total	\$248.4	\$247.4	\$1.0	0.4%

The total \$1 million increase is comprised of:

- \$126k in the Regional Housing Trust Fund Croftonbrook project,
- \$45k in the Arts Development Service to fund special project grant awards, fund the 2018 Arts Champions Summit and fund upgrades to the Landmark Public Art website.
- \$75k in Trunk Sewers & Sewage Disposal Service for the Macaulay Point Operations temporary office relocation, and
- \$839k in the Solid Waste Disposal Service related to additional surplus transfers to the reserve fund.

Operating Revenue

The following table summarizes the changes in revenue by source since the preliminary 2018 budget.

(in \$ millions)

Revenue Sources	2018 Final	2018 Prelim	\$ Change	%Change
Sale of Services	116.2	116.2	0.0	0.0%
Internal Allocations	34.2	34.2	0.0	0.0%
Transfer from Reserves	1.9	1.7	0.2	14.1%
Rentals and Other Revenue	7.8	7.8	0.0	-0.3%
Surplus Carryforward	4.9	4.0	0.9	24.5%
Grants and PILT	5.0	4.9	0.1	1.1%
Subtotal	170.0	168.8	1.2	0.71%
Requisitions*	78.4	78.6	-0.2	-0.2%
Total	\$248.4	\$247.4	\$1.0	0.41%

*includes municipal debt

The overall increase in revenue, from all sources, is \$1 million which is driven by an increase in surplus carryforward, reserve transfers and payments in lieu. The increase in planned revenue is primarily related to surplus carry forward from 2017 resulting in a reduction of requisition by \$0.2 million or 0.2%. The change in operating expenditures is outlined in the expenditure table later in this report.

2017 Surplus Carryforward

Surplus and deficits from 2017 year end results impact the current year budget as amounts carried forward are incorporated into the operating budget for each service. The total surplus carried forward from 2017 is \$4.9 million up from the preliminary estimate of \$4.0 million from the preliminary budget. The additional carryforward surpluses are a combination of the following drivers:

- Legislative and General: \$81k favorable due to staff vacancies.
- Regional Housing Trust Fund: \$120k related to the delayed Croftonbrook Project (Phase 1); the funds have been carried forward and will be expended in 2018.
- Environmental Services: \$82k favorable in labour. Surplus is carried forward to fund equipment purchases to support service delivery.
- Trunk Sewers Operating: \$92k favorable surplus due to unspent expenses related to the temporary office relocation of Macaulay Point Operations (\$75k) and lower than expected maintenance cost in other operating areas (\$17k).
- Trunk Sewers Debt: \$200k favorable related to debt servicing as a results of higher than expected return of debt reserve funds.
- Regional Source Control: \$105k favorable due to staff vacancies and program costs delayed into 2018.

Payments in Lieu

Payments in lieu of taxes (PILT) are payments recovered from tax exempt parcels owned by federal, provincial and crown agencies. These are a regular annual sources of funding received

by the CRD and which offset the cost of CRD services to participants where the properties are located.

Under the legislation, the class and value to be applied to property for the calculation of PILT is the value that would be attributable if the property was taxable. However, the amount of PILT can vary as the requirement to pay is primarily at the discretion of the Minister, Lieutenant Governor and heads of Crown Corporations. In addition, the local taxation authority must apply for PILT in most cases. As a result of uncertainty of the amount to be expected each year, a conservative approach is taken to incorporating PILT into the budget for CRD services. The current approach is to set expectations in line with prior year actuals.

When received by the regional district, PILT must be allocated proportionally to the services that are paid by the requisition per Section 389 of the *Local Government Act*.

The actual PILT received was consistent with the preliminary amount of \$3.1M.

Capital Investment

The 2018 Capital Plan is \$213.7 million which is funded through a combination of reserves, debt financing, grants, and operating budgets.

(in \$ millions)

Description	2018 Final	2018 Prelim	\$ Change	% Change
CAWTP*	134.7	134.7	0.0	0.0%
Engineered Structures	48.5	46.3	2.2	4.7%
Buildings	18.5	21.2	-2.7	-12.7%
Equipment	8.7	8.0	0.7	9.3%
Land	1.5	1.4	0.1	3.6%
Vehicles	1.8	1.7	0.1	8.4%
Total	\$213.7	\$213.3	\$0.4	0.2%

The net increase of \$0.4 million is due to revisions to the capital plan of:

- \$2.2 million in engineered structures primarily related to \$1.2 million for the JDF Water Distribution DCC projects (McCallum Road Water mains) and \$0.5 million for the Environmental Protection project (NET-B Pipe Lining) being advanced to 2018 vs. the preliminary budget approval timing of 2019.
- (\$2.7) million in buildings related to the spending plan for the \$1.8 million Facility Expansion at SEAPARC being re-phased from 2018 to 2019 and \$0.9 million VIHA leasehold improvements being delayed in favour of building assessment.
- \$1.0 million in net changes in equipment, vehicles and land primarily driven by Regional Parks (multi-use tractor) and the Royal & Macpherson Theatres (fire curtains and outdoor sign). The land relates to a change made in the capital plan for Regional Parks for the Thetis Lake Pistol Range remediation project.

Capital Funding

The following table provides information on changes between the 2018 preliminary and 2018 final budgets for various capital plan funding sources.

(in \$ millions)

Capital Plan Funding by Source	2018 Final	2018 Prelim	\$ Change	% Change
Current Operating and Work in Progress	43.9	45.1	-1.2	-2.8%
Grants	43.5	44.3	-0.8	-1.8%
Debenture Debt and Temporary Borrowing	102.3	102.7	-0.4	-0.4%
Reserve Funding	18.4	15.7	2.7	17.4%
Donations and Third Party Funding	0.6	0.9	-0.3	-28.4%
Equipment Replacement Fund	5.0	4.6	0.4	8.7%
Total	\$213.7	\$213.3	\$0.4	0.2%

The decrease in current operating and work in progress is due primarily to the Facility Expansion at SEAPARC being rephrased from 2018 to 2019.

The net increase of \$0.4 million is due to revisions to the capital funding of:

- The decreases in grants, debt and donations are primarily due to the Facility Expansion at SEAPARC (\$1.8 million) and the Lyall Harbour for SGI Small Craft Harbour Facilities (\$0.5 million) timing moving from 2018 to 2019.
- The increase of \$2.7 million in reserve funding driven primarily by the advancement of the JDF Water Distribution DCC projects (McCallum Road Water mains) and the Environmental Protection project (NET-B Pipe Lining).
- The increase in the funding from the Equipment Replacement Fund is driven by capital plan revisions for Regional Parks (multi-use tractor) and the Royal & Macpherson Theatres (fire curtains and outdoor sign).

The five year capital plan of over \$859 million continues to reflect a focus on critical utility infrastructure investments. A summary of CRD Capital Service Activity and Investment is included in Appendix 8.

The total impact of the operating and capital budget on the 2018 Financial Plan Summaries along with 2018 Individual Municipal and Electoral Area Requisitions is included in Appendix 9.

Reserves

The following tables provides high level information on the projected 2018 capital reserve activity:

**Total Capital Reserves
(in \$ millions)**

Reserve Activity – Capital	2018 Final	2018 Prelim
Opening Reserve Balance – Dec 13	59.4	59.4
Transfer from surplus (2017)	1.9	-
Opening Reserve Balance – Mar 21	61.3	59.4
Transfers to/from Operating	12.8	12.9
Interest Income	1.3	1.3
Transfer to Fund Capital Plan	-18.4	-15.7
Closing Reserve Balance	\$57.0	\$57.9

The total projected capital reserves have decreased since the preliminary budget due primarily to additional funding to the capital plan. The decrease is made up of an increase in \$1.9 million additional surplus and \$2.8 million transfer out to fund the capital plan.

Capital reserves reflect funds retained and segregated by an organization to fund future capital activities. The CRD currently manages over 70 individual service capital reserves. 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 6 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. The Staff Establishment has not changed since preliminary budget approval in December, which had shown a total 595.29 FTE's including term and regular ongoing staff (2017 571.79 FTE's).

Financial Indicators

The financial indicators relate directly to the CRD and the services provided to the communities in which the CRD operates. These indicators provide a measurement of financial capacity including debt servicing capacity relative to revenue and planned capital expenditures, the level of capital investment relative to depreciation, and the level of transfers to reserves relative to the net book value of assets and operating expenditures. A summary of the financial indicators is included in Appendix 7.

Financial Plan Bylaw

The Bylaw No. 4230, cited as “2018 to 2022 Financial Plan Bylaw, 2018” and inclusive of Schedules A and B, representing the operating and capital plans for the years 2018 to 2022, for the Board's consideration and adoption, is included in Appendix 10.

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 2018 through 2022. The 2018 budget was preliminarily approved by the Board on December 13, 2017.

The 2018-2022 Financial Plan has been prepared to accommodate the Board's prior decisions, the strategic priorities, and the increasing demand for services. Staff recommends approving the 2018-2022 Financial Plan bylaw as presented.

RECOMMENDATION

1. That Bylaw No. 4230, "2018 to 2022 Financial Plan Bylaw, 2018", be introduced and read a first and second time;
2. That Bylaw No. 4230 be read a third time;
3. That Bylaw No. 4230 be adopted.
4. That the Staff Establishment Chart as attached in Appendix 6 be approved

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Attachments

- Appendix 1: CRD 2018 Final vs. 2017 Final
- Appendix 2: Financial Plan Feedback
- Appendix 3: 2018 Operating Budget Overview
- Appendix 4: 2018 Capital Budget Overview
- Appendix 5: 2018 Major Capital Projects Listing
- Appendix 6: Staff Establishment Chart
- Appendix 7: 2018 Financial Indicators
- Appendix 8: CRD Capital Service Activity and Investment
- Appendix 9: 2018 Financial Plan Summaries and Individual Municipality and Electoral Area Requisitions
- Appendix 10: Bylaw No. 4230 cited as "2018 to 2022 Financial Plan Bylaw, 2018" inclusive of Schedules A and B