
MEETING TYPE: Special Council Meeting
MEETING DATE: January 26, 2023
AUTHOR: Trevor James, CFO, Director of Finance & Administration
DEPARTMENT: Finance & Administration
ITEM TITLE: RFCD 2023-2027 Draft Financial Plan
DESCRIPTION: 2023-2027 Draft Financial Plan

QUESTION

Does the 2023-2027 Financial Plan meet the strategic and operational needs of the District?

OPTIONS

- A. THAT the 2023-2027 Financial Plan Bylaw 1197, 2023 be read a first time;
- B. THAT the 2023-2027 Financial Plan Bylaw 1197, 2023 be amended as outlined by Council;
AND THAT the 2023-2027 Financial Plan Bylaw 1197, 2023 be read a first time as amended;
- C. THAT the 2023-2027 Financial Plan Bylaw 1197, 2023 be referred back to staff.

EXECUTIVE SUMMARY

A 1% tax increase translates to approximately \$171,000 in additional revenue for the District. A base tax increase of 14% (Option A) or 9.95% (Option B) is being proposed (dependent on Council's choice on phase-in approach to increased policing costs) including:

- \$1,411,626 to address increased policing costs as a result of moving from a 70% to 90% funding model due to population size as well as funding 1 additional officer. This would be reduced by \$703,053 using Policing Reserve if Council opts for Option B).
 - **Option A:**
 - 2023 - 8.25% - move from 70% to 90% and 1 additional FTE (18 to 19)
 - 2024 - 2.75% - 2 additional FTE (19 to 21)
 - 2025 - 2.50% - 1 additional FTE (21 to 22)
 - 2026 - 2.00% - 1 additional FTE (22 to 23)
 - 2027 - 2.00% - 1 additional FTE (23 to 24)
 - **Option B:** (move from 70% to 90% spread across four years using Policing Reserve to supplement)
 - 2023 - 4.20% 2 additional FTE (18 to 19)
 - 2024 - 4.20% 1 additional FTE (19 to 21)
 - 2025 - 4.20% 1 additional FTE (21 to 22)
 - 2026 - 4.20% 1 additional FTE (22 to 23)
 - 2027 - 0.00% 1 additional FTE (23 to 24)
 - Note that percentages under both options do not add up to the same amount as 1% tax increase \$ impact changes over time.
- \$343,599 in additional funding for road maintenance contract (subject to change as this is a placeholder due to ongoing negotiations from an RFP process).
- \$86,190 to fund other 50% of wages & benefits for new Deputy Fire Chief as only 50% was funded in 2022.
- \$225,000 in remaining tax impact as a result of a fire servicing contract which was phased out.
- \$696,803 in additional funding for inflationary, contractual and wage rate increases.
- These increases are partially offset by an estimated 2% of taxes from assessment growth (non-market change) or \$340,163. As the growth in the community represents an additional burden on both the

infrastructure and the ability to provide services, this funding is being used to partially offset some of the additional costs above.

The average single-family home in 2023 is valued at \$1,087,000 per BC Assessment, up from \$992,000 in 2022. The cost to that average home is approximately \$20 for every 1% increase therefore Option A at a 14% increase represents approximately \$280 to the average home and Option B at a 9.95% increase represents approximately \$199.

As in the prior year, there are additional requests Council can consider over the base tax increase proposed.

Added to the base increase, Council may consider adding the following:

- 0.63% or \$108,000 to fund additional staffing
- 2.31% or \$395,303 to fund items which were one-time funded using reserves in the prior year.
- 2.08% or \$355,150 to fund additional operating supplementals

The total of all these additional items potentially funded through taxation is \$858,453 or 5.02% or approximately an additional \$100 to the average single-family home.

KEY INFORMATION

Proposed Timeline:

January 3, 2023	Council approved Early Approval Requests
January 26, 2023	5 Year Financial Plan 1 st reading and detailed review of the 2023 Budget and 2023 Capital Plan
January 31, 2023	Town Hall
January & February 2023	Public Input Opportunities
February 23, 2023	Summary of Public Input for Council's consideration and 2 nd and 3 rd Readings of 5 Year Financial Plan as amended
March 2023	Adoption of the 5 Year Financial Plan

Increasing property taxes in a community is a balance between delivering services, meeting the needs of the residents, affordability and ensuring the long-term fiscal sustainability of the District.

Council reviews and sets priorities annually and the financial plan along with additional requests, support these priorities.

The addition of new lots, houses and commercial buildings in the community adds new taxes to the tax base but also creates additional infrastructure that needs to be operated, maintained, and eventually replaced. New growth also adds strain to existing services and infrastructure.

The most significant impact the District is facing in this budget cycle is as a result of the District's population surpassing 15,000 in the most recent Census which increases the ratio of RCMP costs the District must take on. Please see **Attachment B** for more details on this change as was presented at the January 3, 2023 Regular Council Meeting.

Inflation rates which have not been seen in several decades, supply chain issues and overall rising costs have had a significant impact on operations at the District and have also influenced long term capital plans.

In November 2020, the District received \$2.947 million from the Provincial Government under the COVID-19 Safe Restart Grant. The District received \$2.947 million under this grant program. The District has used the majority of these funds in 2021 and 2022 to cover revenue shortfalls, additional expenses such as enhanced cleaning, PPE and eligible capital costs such as computer and technology costs to improve connectivity and virtual communications. The grant balance as at December 31, 2021 was \$1,681,310. Between capital carryforwards and other committed amounts through the 2022 budget, there is \$475,431 remaining of these grant monies prior to considering minor

revenue offsets and additional expenses in 2022. There will be further discussion in this report and at the presentation of the Draft Financial Plan on the use of those funds.

DESIRED BENEFIT

That certainty of funding be provided for 2023 to advance strategic priorities, capital projects and staffing changes.

STRATEGIC RELEVANCE AND COMMUNITY SUSTAINABILITY

Financial sustainability is key to ensuring long term operation of the District. The District has completed a number of long-term plans and those plans have been incorporated into the financial plan.

REQUISITES

None.

UNINTENDED OUTCOMES

None.

BACKGROUND/HISTORY

The legislative requirements of producing a financial plan bylaw include identifying the proportion of total revenue associated with each revenue source type, the distribution of taxes amongst the property classes, use of permissive tax exemptions and separating transfers from revenues and expenses.

Local governments are required to produce a balanced budget annually that ensures no deficit or surplus is created. Section 165 (5) of the *Community Charter* states:

(5) The total of the proposed expenditures and transfers to other funds for a year must not exceed the total of the proposed funding sources and transfers from other funds for the year.

In order to balance the budget for each of the five years of the plan, adjustments are made to the transfers to or from reserves.

Bylaw 1197, 2023 (**Attachment A**) contains all the information required in a financial plan bylaw as per legislation.

Proposed Tax Increase

Policing

- A \$1,411,626 increase is required to address the increased RCMP costs from moving from a 70% to 90% funding agreement and adding an additional officer to the contracted strength. This is in addition to future increases required to move from the current authorized strength of 18 (19 in 2023 if approved) to 24 by 2027 as outlined in **Attachment B**.

Road Maintenance Contract

- A \$343,599 (placeholder/estimate due to ongoing contract negotiations) budget increase is required for the road maintenance contract to ensure established levels of service are maintained.

CPI

- The consumer price index (CPI) for British Columbia "Latest 12-Month Average % Change" was 6.7% and was 7.2% higher in November 2022 than November 2021 (source – *Statistics Canada*). While most local government purchases do not fit within the "basket of goods" that CPI is calculated on, it is an indicator of overall cost increases.
- The Building Construction Price Index per Statistics Canada has increased 19% in Q3 2022 compared to Q3 2021 for Residential Buildings and 12% for Non-Residential Buildings, this is after having already increased 20% for Residential and 8% for Non-Residential in 2021 compared to the year before. These are further indicators of the cost of supplies and materials dramatically rising.
- To maintain existing service levels, a \$696,803 increase is required to the base budget for inflationary/contractual increases, rising materials and supplies, rising utilities costs and salaries, wages, and benefits.

Deputy Fire Chief

- As the new Deputy Fire Chief was hired part way through 2022, Council opted to fund 50% of the position's salary & benefits in 2022 and as such \$86,190 is required to fund the remainder.

Loss of Fire Servicing Contract

- The Kelowna fire servicing contract was phased out between 2020 – 2021. Reserve funds were used to phase in tax increase, \$100,000 was covered through 2022 budget and remaining \$225,000 needs to be added in 2023.

General Note

- We are seeing much higher increases than even inflation in building materials and construction costs. If we do not at least maintain existing levels and consequently reserve contributions, the financial pressures we will face for capital projects down the road will be even further magnified.

Additional Requests

- Additional requests have been separated for Council's consideration. Council can choose whether to add each of these items to the financial plan by resolution.
- Two of the requests, \$138,000 for "Inflationary Increase to MIP Funding" and \$65,000 for "Road Crack Sealing" relate to the recently adopted Mobility Improvement Program. The program acknowledges that even with these additions there is a funding deficit in the program. However, as the Road Development Cost Charge (DCC) program has not been updated since 2016 and there have been significant construction cost increases since then, the District's estimates show that the majority of the deficit relates to development via DCCs versus through taxation of existing taxpayers. As such, a DCC update for Roads, Water and Sewer is planned for 2023. After performing this analysis, a determination can be made on the funding required to meet the program objectives and levels of service and the appropriate ratio of development vs. existing taxpayers.
- The 1.5 Bylaw Officers were hired in 2021 using COVID-19 Restart Grant funds and then one-time funded again in 2022 using the same grant. An additional tax amount is required to fund on an ongoing basis.
- The 1.25% Parks, Recreation & Culture Master Plan Increase relates to a funding shortfall for existing facilities replacements identified by the plan that was to be addressed through 4 consecutive 1.25% tax increases. A 1.25% increase occurred both in 2020 and 2021 however the 2022 amount was funded through the COVID-19 Restart Grant funding on a one-time basis and as a result two more 1.25% increases are required to keep the master plan on track.

2023 Non-Market Change

There are additional taxes received from new assessment growth in the community, also called non-market change. Non-market change is the term applied to all change in assessment in the District that is not related to market increases. Almost all the non-market change in the District is related to new inventory being added to the roll including new properties (as a result of subdivisions) and the construction of new homes and commercial buildings. The latest estimation from BC assessment is 2.32% of non-market change or growth for the 2023 roll. As this is an early estimation and still subject to appeals resulting from the January 1, 2023 assessments that were sent out, staff is conservatively estimating the non-market change at 2.0% for 2023 (growth was 2.65% for 2022) as this number typically drops after all appeals are handled. This will result in \$340,163 in additional tax dollars in 2023. Staff is proposing to use this growth to partially offset some of the additional costs related to growth such as the increase in RCMP costs. These funds have been used for the last few years to offset the costs of maintaining and providing new services related to growth and the recommendation is the same in 2023.

The non-market change is less than last year. Despite the large amount of building construction dollars being recognized, there is not a direct correlation to assessment growth in the District. This is due to:

- Despite building permits being taken out, actual construction may lag, resulting in a delay in assessment growth.
- Not all building construction dollars are equal – some renovations, swimming pools, out buildings or civic buildings (a new school) do not necessarily directly correspond to equal amounts of assessment growth.
- Higher growth figures are generally achieved from subdivision of land, not building permits. The building permits generally follow the subdivision.

2023 – Staffing

There are four staffing requests for 2023, we have broken them down into positions that will be funded through offsetting revenues (building permits, user fees etc.) and those that would need to be funded through taxation.

Wages & Benefits are budgeted at approximately \$12 million (including the new positions funded through revenue other than taxation, not including the potential positions funded through taxation) for all service functions of the District which represents approximately 31% of the operating costs.

2023 – Capital Plan

Council has been provided with a 5 Year Capital Plan contained in the 2023 Financial Plan document. There are 51 projects and equipment requests identified for 2023 totaling \$15,052,890. It should be noted however, that of this amount \$3,366,520 relates to grant funded, grant dependent developer contributed capital expenditures. Detailed capital project sheets have been included for all the capital projects proposed in the 2023 Capital Plan. Council can debate the projects being proposed and approve, remove, or change the year of any of the projects. It is important to note that capital funding is “one time” funding and cannot be used to offset any “ongoing” requirements such as tax increases.

If Council chooses to remove a capital project, a resolution is required to reallocate the funding.

Reserves

The District adopted a Reserve Fund Policy in 2016 which was updated in 2022. One of the key issues is the District is not currently meeting the minimum reserve balances in some areas. Each year, as the work on the fiscal year end winds down in April, a report is brought to Council that outlines the state of the reserves and recommendations for allocation of surpluses, if any. The District has enjoyed surpluses over the last number of years and these surpluses have assisted in funding reserve balances that do not yet meet the minimum. When the District reaches a point that it is not recognizing surpluses due to revenues over budgeted amounts (as we have seen with building permit revenues), a strategy will have to be considered to fund reserve balances not meeting minimums. There is no strategy considered in 2023 due to the surpluses previously recognized.

Contained within the financial plan are several transfers to reserves that support the reserve fund policy, ensure the continuity of the capital project program and ensure fiscal sustainability for the District.

COVID-19 Safe Restart Grant

In November 2020, the District received notification of an award of \$2.947 million under the COVID-19 Safe Restart Grant. The grant is intended to support local governments as they deal with increased operating costs and lower revenue due to COVID-19.

There are specific eligible costs for response and recovery including but not limited to:

- facility reopening and operating costs;
- emergency planning and response costs;
- protective services and bylaw enforcement costs;
- programs for vulnerable populations;
- computer and other electronic technology costs;
- budgeted revenues that have not been collected.

The grant is conditional, meaning the eligible costs must fall within the conditions, however these conditions are extremely broad. The directives for this Grant have also dictate what it cannot be used for. The Grant cannot be used to replace funds that Councils and Boards chose not to include in financial plans in 2020 - 2022. For example, the grant cannot be used to top up any decrease in property taxation that resulted if a Council chose to lower their tax increase in 2022.

As has been reported to Council, the District did have significant financial impacts as a result of the pandemic. \$424,752 of the grant was used in 2020 to cover revenue shortfalls and additional expenses, another \$840,938 was used in 2021 for revenue shortfalls, additional expenses and certain identified eligible capital projects such as our new Enterprise Resource Planning system (Property System Software), financial software, cloud-based meeting management & live streaming software and Mic/Audio Upgrades for Council Chambers. The balance as at December 31, 2021 was \$1,681,310 however \$781,095 of the amount is allocated to capital projects which were carried forward to 2022 and \$424,784 was budgeted to be used as one time funding for a number of 2022 budget supplementals in addition to funding the second year of the 1.5 bylaw officers meaning there was \$475,431 of unencumbered funds remaining in the grant. While the 2022 financial statements are not yet prepared, revenues in most areas (other than transit) were back to typical pre-pandemic levels and there were only minimal additional costs for cleaning, PPE etc. in 2022 as such the majority of this balance will be available to spend in 2023.

While there is no time limit in the regulation for this grant, given the majority of activities are at pre-pandemic levels it is recommended the remainder of the funds be used in 2023. Given the broad categories for the use of the funds there are some options that Council could consider for the remaining funds. It should be noted that in spending the funds on one off items, either capital projects or one-off operating items it helps preserve existing reserves while spending on operating items can delay the impact for a year or more, ultimately taxation will be required at some point to keep those programs going on an ongoing basis.

DISCUSSION/ANALYSIS

APPLICABLE LEGISLATION AND POLICIES

The 2023-2027 Financial Plan incorporates all relevant District policies. These policies include the Reserve Fund Policy, Council Remuneration & Expenses Policy as well as other policies relating to expenses.

Section 165 of the *Community Charter* sets out the requirements for a financial plan and section 166 states that public consultation must occur prior to the adoption of the financial plan. Adoption of the financial plan must occur prior to the adoption of the tax rates bylaw and prior to May 15 each year.

IMPACT ON INFRASTRUCTURE OR MUNICIPAL SERVICES

The financial plan sets the levels of service and determines the renewal or replacement of infrastructure.

IMPACT ON STAFF CAPACITY AND FINANCIAL RESOURCES

Each director had input on the Financial Plan and has planned both operations and capital projects considering staff capacity and resources.

COMMENTS FROM EXTERNAL AGENCIES, COMMITTEES AND STAKEHOLDERS

Both the Parks & Recreation Committee and the Water Advisory Committee have reviewed projects specific to those areas.

CONSULTATION AND COMMUNICATION

Public consultation is a required part of the Financial Plan Bylaw adoption process. The communications department has developed a multi-faceted communications plan using numerous communications channels.

2023 Budget Communication and Engagement Plan:

Background:

With the implementation of all municipal budgets, the need for community engagement and input is a vital part of the process. Council must be provided with opportunities for meaningful dialogue with constituents prior to finalizing the budget. The 2021 budget was a challenge as traditional methods of engagement were not permitted due to the pandemic. The new normal was an opportunity for the communication and engagement team to be creative and use new methods in addition to more traditional methods to reach community members with a public education campaign. Equally important is providing safe and effective ways for members of the public to ask

questions and receive clarity on budgeted items. The methods used in 2021 were very successful and continued to be successful in rolling out the 2022 budget and as such we plan on using a number of those methods again for 2023.

Following is a framework of how the 2023 budget will be delivered to the community.

Date	Topic	Communication Channel	Platform
December 2022	2023 Budget and Five-Year Financial Plan <ul style="list-style-type: none"> • Information on budget process as it evolves • Documents, links and timelines related to the budget • Space to leave a comment or ask questions and have it responded to by staff 	Let's Talk- Lake Country	Website
December 2022 – January 2023	You Asked – How will Lake Country's growing population hit me in the pocketbook? You Asked – Why does road maintenance cost so much? You Asked- Why are water rates going up?	Articles meant to educate the community on the taxation issues being faced.	Website Email subscribers Let's Talk – Lake Country
January 13, 2023	Information release explaining proposed 2023 budget.	Article	Website Email subscribers Let's Talk – Lake Country
January 13, 2023 <i>Date corresponds with publication of the agenda.</i>	Let's Talk-Lake Country 2023 Draft Budget	Online engagement platform	Let's Talk – Lake Country Website
January 26, 2023	Special Council meeting for 1 st Reading	In person & Video	Live via Teams Recording available for future viewing Shaw TV
January 27, 2023	Outcomes of the January 26 th Council meeting to review the draft budget	Article	Website Email subscribers Let's Talk – Lake Country
January/February, 2023	Submit questions & comments about the budget	Lake Country Calendar	Local weekly newspaper

January 16, 2023	Budget information and details on the virtual town hall and how to participate – January 31, 2023	Postal code mailout 5,500 homes and businesses in Lake Country	Canada post mail drop
January 31, 2023	Virtual town hall	Online	Facebook LIVE
January & February	Facebook & Instagram stories	Online	Facebook & Instagram
February 16, 2023	Public engagement report to Council	Report included in Council agenda package for February 21 meeting.	Website Presentation at February 21 meeting.
February 23, 2023	2023 Budget – 2 nd and 3 rd Reading	In person & video	Live via Teams Recording available for future viewing
February 24, 2023	Outcomes of the 2 nd and 3 rd Readings	Article	Website Email subscribers Let's Talk – Lake Country
March 2023	Final Adoption of 2023 Budget	In person & video	Live via Teams Recording available for future viewing
March 2023	Recap of 2023 budget and that Council has given final approval and adoption of the 2023 budget.	Article	Website Email subscribers Facebook & Instagram

ANALYSIS OF OPTIONS FOR CONSIDERATION

Staff has categorized all items based on base levels to maintain current levels of service, impact on taxation, operating and capital supplementals and Council has the ability to choose which options they desire to make up the 2023-2027 Financial Plan. As mentioned above there are numerous opportunities for public input and multiple readings where Council has the ability to make changes prior to adopting the final budget in March 2023.

Respectfully Submitted,
Trevor James, CFO, Director of Finance & Administration

Report Approval Details

Document Title:	RFCD 2023-2027 Draft Financial Plan.docx
Attachments:	- 1197, 2023-for 2023-01-26 1st reading.docx - Attachment B - RCMP Levels of Service Increase .pdf
Final Approval Date:	Jan 13, 2023

This report and all of its attachments were approved and signed as outlined below:

Tanya Garost, Chief Administrative Officer - Jan 13, 2023 - 4:36 PM