
City of Kelowna

MEMORANDUM

DATE: December 7, 2004
FILE: 1700-20
TO: Mayor and Councillors
FROM: City Manager
RE: 2005 FINANCIAL PLAN

I am pleased to present the provisional 2005 Financial Plan to Council in this, the City of Kelowna's Centennial Year. This year's budget will focus on addressing the critical capital and operational needs that are consistent with the rapid growth that Kelowna continues to experience. While community growth offers many opportunities to improve the quality of life and enhance services for our citizens, there is generally a time lag between service demands and the financial capacity to fulfill the need. The City remains committed to resolving this gap through a strategy that advocates modest annual taxation increases and prudent fiscal management.

While the 2005 Financial Plan is not able to reflect all of the many worthwhile identified needs, I believe it is important to continue to provide services, infrastructure and other amenities consistent with the needs of a growing, dynamic and vibrant community. The beauty and lifestyle enjoyed by the residents of the City of Kelowna must be protected, but still provide the services necessary to ensure a welcoming environment for visitors and new residents alike.

I would like to acknowledge the effort put forth by the Senior Management Team, their Managers and staff, along with the Financial Services Financial Planning Team in the preparation of budget submissions. Staff has demonstrated an ability to meet the challenges presented by ever changing conditions in the economy and in services, and the citizen sensitivity associated with our evolution from a small to mid-size city. The City, as a collective team of both Council and staff, are continually challenged to be innovative and creative in terms of finding more efficient and effective ways of delivering services to desired community levels in an increasingly complex operating environment.

While there are always a number of external and community factors that impact the City's annual budget, the 2005 budget will be particularly impacted by the following factors:

Transportation Issues – Traffic congestion was the single most important issue identified in the 2004 Citizen Survey. The Provincial Government initiative to replace the bridge over Okanagan Lake, scheduled to be operational in 2008, has led to the formulation of a Roads Task Force with a mandate to make recommendations to City Council on planned approaches to the bridge and Highway 97 access improvements. The Task Force is striving to balance cost with functionality and neighbourhood impacts. A number of options are being considered and a final decision is expected in the first quarter of 2005.

For 2005, work leading to the development of the Central Okanagan Bypass (formerly known as the North End Connector) between Ellis Street and Spall Road will continue and include railway relocation, retaining walls and the relocation of power poles. This roadway has been in the City's long term transportation plans for many years and is a key in offloading Highway 97 traffic as well as providing an alternate route to the City centre for local traffic. Funding is a major issue in constructing this road as anticipated provincial funding has not been supported to date. The City must now await federal and provincial government decisions on the allocation, phasing, timing and permissible use of the promised fuel tax transfer to cities prior to determining the affordability of the Central Okanagan Bypass within the planning horizon to 2020.

The intersection of KLO and Benvoulin Roads has come under increasing traffic pressure since the 4-laning of Benvoulin south from Springfield Road. Provision for additional through and turning lanes, and new, upgraded traffic signals have been budgeted. This project will be undertaken concurrently with the 4-laning of KLO Road between Benvoulin and Gordon Drive, allowing storm drainage issues to be resolved along with needed capacity improvements.

Further improvements to be highlighted include the extension of Dilworth Drive from Springfield Road to connect to Benvoulin, eliminating the 'temporary' set of traffic lights that have been in place since 1997 and the extension of Highway 33 between Highway 97 and Enterprise Way which will facilitate improved traffic movement in this commercial corridor as build-out nears.

Continuing attention has been given to road infrastructure renewal, through the road resurfacing program budget of \$2.3 million. A number of transportation related projects are being put forward that will assist in improving vehicular traffic, bicycle and pedestrian movement throughout the City.

Protective Services and Public Safety – A continuing community dilemma in addressing issues related to homelessness, drug addiction and mental illness has resulted in concerns for both those directly impacted and the general citizenry. Funding is included in the 2005 budget to provide a greater presence of police and bylaw enforcement and to generally improve security in areas most affected. As well, the City is involved in a number of initiatives with local agencies and senior levels of government that are addressing both short term and longer term needs, including funding for the Restorative Justice Program and a Community Planning review.

Economic Situation – The City's buoyant economy, for the most part, parallels that of Canada as a whole. Keys to sustaining the momentum are for inflation to continue within targets identified by the Bank of Canada, for interest rates to remain near historical lows and for ongoing injection of significant development capital into the region.

The continuing demand for new housing has created very strong employment opportunities in construction and the many support and ancillary services in this sector. Commercial growth, particularly in the Highway 97 / Enterprise Way corridor, is also moving at a brisk pace. A total of 2,130 building permits valued at \$364 million were issued through November, 2004. This far surpasses the City's previous highest value for building permits recorded in 2003, where 2,289 permits were issued with a value of \$286 million. It is noteworthy that multi-family residential development, as envisioned and encouraged in the most recent Official Community Plan, is now near the projected 53% of all residential dwelling units versus 47% for single/two family units.

The extension of sewer service, completed in 2004 to the City's northern boundary, will assist in stimulating industrial growth to an area that is otherwise well located and serviced. There is always a concern with balancing growth and sustainable employment opportunities, however I am optimistic about the potential for both commercial and industrial property development as Kelowna continues to expand its role as the regional commercial and business activity centre.

Debt Management Initiatives and Reserves Position – There was a conscious effort made to reduce annual general fund debt servicing obligations between the years 1999 - 2003 to better position the City to undertake planned large capital expenditures. Debt servicing of 4.7% of taxation in 1999 was reduced to a low of 1.2% of taxation in 2003. Completion of the 'Capital News Centre' in Mission Recreation Park in 2004 has resulted in a percentage of taxation increase committed to debt servicing to 2.2%. A strategy to reduce interest costs in the short term and maintain repayment flexibility is being implemented through internal financing of the required borrowing for this recreational facility of \$11.0 million.

Council's continued support of an aggressive capital program pay-as-you-go strategy reduces the reliance on long-term debt as a funding mechanism placing some pressure on the City's ability to fund all operational needs, however this is still viewed as the best long term strategy to manage growth effectively. The judicious use and replacement of reserves remains paramount to the financial health of the City.

Expenditure Pressures – Increases associated with the delivery of policing services are once again being mitigated through reliance on provincial gaming revenues and also with new revenue through increased province-wide sharing of provincially approved traffic fine allocations from 25% to 100% in 2004. This represents a projected increase for Kelowna of \$670,000 per year.

Operating budget demands to maintain newly developed parks and to improve safety and security in existing parks is greater than in past years. An increasing emphasis on culture and the cultural district is resulting in both new and expanded services. Providing services to keep up with the demands of growth has resulted in this budget reflecting a number of staff positions in keeping with our corporate vision to meet the challenges and opportunities of our community through innovation, creativity and flexibility.

Annualizing of 2004 Expenditure Decisions – During formulation of the 2004 budget, Council approved additional service costs that were either part-year or were to be phased in over a two-year period. A portion of the impact has been mitigated through use of reserve funding, however the direct taxation impact of all annualized services included in the 2005 budget is \$484,400 with material amounts committed to policing, debt servicing, parks, recreation and transit services.

Parks and Recreation Facilities – Design work will be initiated on the future Mission Recreation Park Aquatic Facility. Subject to community approval, the largest and finest public aquatic centre in Canada designed for both leisure and aquatic sports, will be operational in 2007 or 2008. With a capital cost of \$33 million, this facility will result in future annual debt servicing and operating expenditures that are being planned for now.

The Mission Recreation Park will also be the location of a new artificial turf field that will help to satisfy demand related to both growth and the anticipated temporary loss of up to 3 sportsfields over the next few years. The all weather nature of this type of field allows for extended sports event scheduling with reduced maintenance costs.

Infrastructure Renewal – The City's inventory of roads, pipes, buildings and playgrounds has grown rapidly since the early 1990's. The need for infrastructure preservation and renewal programs is critical to maintaining levels of service consistent with citizen expectations. While the focus is often on new programs, it is recognized that a sound infrastructure preservation program is a risk management issue that, if ignored, can be very costly in the long run.

Environmental Protection – As the City has grown, so too has the need to protect local air and water quality from deterioration. Council's continuous support of initiatives developed by the Works and Utilities department, through its Environment section, has raised awareness of the general public to the importance of these issues.

The 2003 fire and subsequent rainfall event has highlighted the ongoing need for mitigative measures in the urban-forest interface areas. Fuel modification and drainage works are among a number of strategies designed to reduce the risk of repeating these disasters.

While these factors are important considerations for 2005 and beyond, they all link to the major corporate objective of **maintaining current service levels** in all areas in the most cost efficient manner. City staff is committed to seeking alternative funding and revenue sources and partnerships to enhance existing programs and to foster development of parks and community recreational facilities.

In response to the general guidance from Council and considering all new cost pressures, my goal, throughout preparation of the 2005 Budget, was to achieve a Municipal Tax increase of no greater than the past year's inflation rate for the Province of British Columbia of 2.4% (October to October). As such, I am pleased to recommend in this budget, a **Municipal Tax increase of 1.9% for all property owners experiencing an average assessment increase.**

The estimated increase in tax **revenues generated from new construction is \$2.8 Million.** Revenue from new construction taxation is an important revenue source to assist with the provision of infrastructure and services associated with new growth.

Other **General Revenue** sources were examined to determine the level of potential flexibility available from these funding sources. An increase of \$93,000 was more than offset by a reduction in annual utility penalty revenue of \$150,000 which was necessitated by a Supreme Court of Canada precedent setting case that set a ceiling on penalty charges. The City's 10% penalty on unpaid utility bills had been in place for over 25 years.

The following is a more detailed explanation of some of the budget issues already covered in summary.

1. The total one-time operating budget expenditures, funded from taxation for 2005 is \$76,000 as compared to \$48,700 included in the 2004 budget. A number of one-time expenditure requests have been funded from reserves, however as a long-term strategy, this may not be sustainable.
2. A provision for growth in revenue from new construction of \$2.8 Million is consistent with that achieved in 2004. While final new construction values will not be known until the second quarter of 2005, we are not anticipating material upward assessment adjustments from those provided to date by BC Assessment.
3. The 2004 Final Budget resulted in a General Taxation Demand of \$66.1 Million that included a **pay-as-you-go Capital Expenditure Program** of \$16.1 Million or approximately 24.3% of the General Taxation Demand.

Applying the Council objective of 50% of new construction taxation revenue being allocated to pay-as-you-go capital would result in an additional \$1,400,000 being included in the provisional budget totals. A total of \$1,385,100 has been added at this time in order to fund the extensive capital program priorities for 2005.

The **pay-as-you-go Capital Expenditure Program of \$17.5 Million represents 24.9% of the projected General Taxation Demand of \$70.2 Million for 2005. The total General Fund Capital Expenditure Program, including funding from all sources, is budgeted at \$38.3 Million in 2005.**

Debt Management

Although some communities are targeting debt free balance sheets, the effective use of debt for specific projects can more accurately reflect the benefit of assets acquired by debt financing to existing and future citizens while removing spikes in taxation requirements.

While the cost of borrowing is very low on a short-term basis, yield curves reflect long-term rates that have been fairly consistent over the past few years. The City is implementing strategies to minimize current interest costs while ensuring that we don't lose sight of the potential to lock in borrowing prior to a shift to higher interest rates.

The overall net general debt servicing costs, including internal financing, of \$1,550,400 for 2005 has increased by \$31,200 over 2004 levels. This represents 2.2% of the 2005 projected general taxation demand and compares very favourably to debt servicing levels of any Canadian local government.

Property Assessments

Although the Annual Assessment Roll has not yet been completed and authenticated, preliminary indications are that City of Kelowna residential property values, on average, are over 23% greater than the 2004 assessments.

This is the highest market assessment increase since 1993 which were, at that time, determined every second year and saw residential values increase by over 30%. The outfall of such a significant escalation will be a wider overall taxation variance among properties within the residential class than has been experienced over the past 12 years. While Council is given the authority through the Local Government Act to shift the tax burden between property classes (i.e. between residential & business), it has limited tools to control shifts within each property class.

2004 Accomplishments/Future Budgets

- The City was the recipient of a number of awards and recognition in 2004 including:
 - The Government Finance Officers Association's **Distinguished Budget Presentation Award** for the City's 2004-2008 Financial Plan. This is the third consecutive year that the City has earned the award.
 - The Government Finance Officers Association's **Canadian Award for Financial Reporting** for the second time for the City's 2003 Annual Report.
 - **Communities in Bloom Competition**
 - **Earned 2nd place** in the **International Challenge** category among 5 communities
 - Received the **Environmental Awareness Award** recognizing the City's management of its liquid and solid waste, specifically the development of Ogo-Grow and Glenmore Grow, and initiatives including the Mayor's Environmental Expo, the Go Green Campaign and the Cash for Clunkers and Wood Stove Exchange programs.
 - The **Kelowna International Airport** was **ranked #1** (tie) in facilities and services in a 2004 survey of 11 medium-sized Canadian Airports.
 - The City of Kelowna has the **highest workplace safety merit rating among all BC municipalities** as determined by the Workers' Compensation Board. Internally, six City functional divisions earned the City's 2003 **safety award**, all with perfect scores of 100%. Special recognition was given to the Kelowna Fire Department staff for their outstanding efforts in combating the Okanagan Mountain Fire with limited injuries
- The City very successfully hosted over 1,000 delegates at the Union of British Columbia Municipalities Convention (UBCM) in September.

- A corporate performance measurement initiative began in conjunction with preparation of the 2004 budget and provided a number of high level goals and performance indicators. Reporting of results for the year will be integrated into the 2004 Annual Report. Phase 2 of the performance measurement initiative has been included in this year's budget and expands goals to be measured more directly into each City department. I am confident that this process will assist Council and the management team in determining the efficiency and effectiveness of many of the City's services.
- A Reserve Policing program has been approved and initiated that will enable the RCMP to fill short term vacancies and enhance policing services in peak periods with retired members who continue to meet RCMP standards.
- Community response to the functional completion of the Capital News Centre recreational complex in Mission Recreation Park has been overwhelming as is evidenced by the number of vehicles on-site throughout the day and night. The two hockey rinks, two multi-court arenas, fitness facility and physiotherapy clinic are receiving very favourable comments from users. The development of space for relocation of the Mission Library branch and a restaurant are targeted for completion in 2005.
- Replacement of the Memorial Arena floor, along with other cosmetic and functional improvements, will extend the useful life of this 50 year old facility far into the future, particularly for minor hockey.
- The Abbott Street recreational corridor provides safe and enjoyable off-road areas for cycling, rollerblading, running and walking between Highway 97 and the approach to Strathcona Park. Extension of the corridor to the north side of the park is to be completed in 2005. Funding for a review of the potential for extending the corridor to Gyro Beach is included in this year's budget.
- Submissions from 4 proponents to a request for proposals process for the former Kelowna Secondary School site will allow the City to protect the important heritage value found in a portion of the school as well as create opportunities to control the property's development consistent with the objectives of the Downtown Town Centre Plan. Proposals are currently being evaluated and a recommendation will be before Council shortly that will allow for development to proceed as early as 2005.
- While design work was being completed for Stuart Park, located on the waterfront opposite City Hall, a development proposal was presented for discussion to City staff for land immediately south of the park property. The developer's vision does impact the park's design and City staff are working with the developer to create significant public space and other benefits for the revitalization of the downtown area.
- The completion of the Glenmore Road 4-laning project between Glenmeadows and Dallas Road represents a phased approach to relieving traffic congestion in the Glenmore Valley. As well, new traffic lights at Dehart Road and Gordon Drive are expected to alleviate the long line-ups at the 4 way stop that have been building as development has progressed in the South Mission.
- The Water division is in the process of awarding a contract for system-wide ultra violet water treatment that will ensure water borne organisms do not adversely affect the health of individuals. This project will address community concerns around water quality since the 1996 outbreak of cryptosporidium occurred.

- The Wastewater division has been aggressively advancing toward the goal of sewer services throughout urban areas of the City. Success in obtaining infrastructure grants has made sanitary sewer affordable for many residents, particularly in areas with septic fields that have reached their useful life. Of particular note, construction began in 2003 that will see 1,800 properties serviced in North Rutland by the end of 2004.

Also, a concerted effort was made in 2004 by Council, Provincial and Federal politicians, City staff and affected residents to secure a Canada/British Columbia Infrastructure Grant to service a total of 252 properties in the Okaview/Viewcrest area of the City. The timing in moving this project forward was critical for servicing 109 properties that were completely destroyed in the Okanagan Mountain Park Fire and, for the most part, are at or near reconstruction. The works are now complete thus avoiding the need for septic field replacements in an area very close to Okanagan Lake.

- A partnership with the City of Vernon to acquire land in a remote location for composting of biosolids has been achieved. This will enable the development of a long term production facility to meet our joint needs and provide for continued manufacture and sales of Ogo-Grow.
- The installation of a multi-level, in-line hold baggage screening system at the Kelowna International Airport in cooperation with the Canadian Air Transport Security Authority (CATSA) is nearing completion. This project is fully funded by CATSA and will result in improved security and quicker check in for passengers moving through the departure process.
- The Annual Citizen Survey released in September, 2004 highlighted that 94% of citizens were either very or somewhat satisfied with the overall level and quality of services provided by the City of Kelowna. Also, 58% of Kelowna residents would prefer a tax increase over service cuts. The survey respondents gave high importance ratings for all services provided by the City of Kelowna, reaffirming the daily impact of local government on residents' lives and well being. Satisfaction ratings for major City departments ranged between 79% and 97%. Citizens surveyed felt that traffic congestion, particularly the existing Okanagan Lake bridge deficiency, continues to be the single most important issue facing the City. Staff will continue to work closely with Council and the community to address this complex issue in 2005 and beyond.

I would like to thank staff for their effort in formulation of the 2005 corporate financing and action plan for City Council and the citizens of the community. I know that City Staff are looking forward to the challenges and opportunities of the coming year.



R. A. Born