



# The Corporation of the District of Central Saanich

## SPECIAL (OPEN) COUNCIL REPORT

For the Special (Open) Council meeting on Monday, March 4, 2024

Re: 2024 DRAFT Financial Plan

### PURPOSE:

This report provides a summary overview of the 2024 Financial Plan (Plan). The Plan presentation schedule is as follows:

- March 4th – General, Water and Sewer Operations, and Work Force Plan
- March 18th – Strategic Implementation Plan, Capital Plan, 2024 Summary and Adoption

### BACKGROUND:

The Financial Plan is a primary result of the District's Integrated Planning and Reporting (IP&R) that allows the District to bring plans and strategies together in a way that supports a clear vision for the future and provides an agreed roadmap for delivering community services, infrastructure, and priorities.

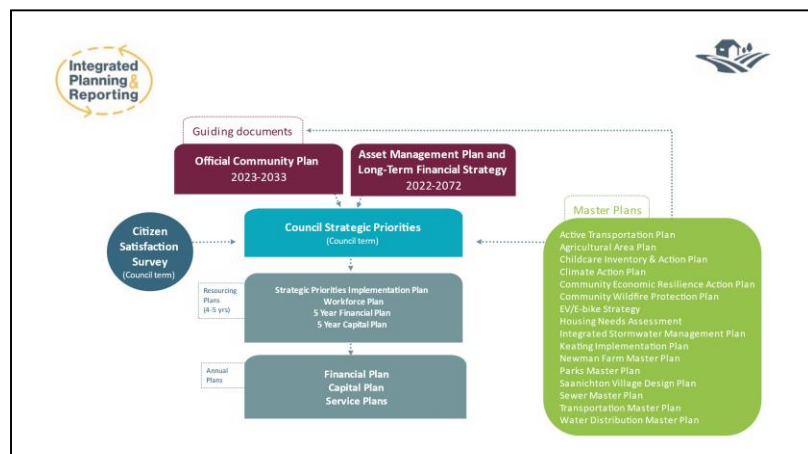
Once strategic priorities have been set, it is the District's responsibility to deliver and report against these objectives, undertake resource planning, and ensure the community's big picture ambitions become operational realities.

In May 2023, Central Saanich

Council adopted its 2024–2027 Strategic Implementation Plan which provides a framework for decision making and prioritizing services. The plan identifies six strategic priorities, each with specific outcomes and actions to make the vision for Central Saanich, as articulated in the Official Community Plan, a reality.

The *Community Charter* requires that local governments in British Columbia approve a Five-Year Financial Plan (in bylaw format) and Property Taxation Bylaw on or before May 15 of each year. To produce this bylaw, the District develops its Five-Year Financial Plan which includes general operating budgets, strategic Initiatives, water and sewer utilities and capital programs.

Each year, municipalities are faced with the challenge of balancing the budget as mandated by legislation. While a municipality can incur debt to pay large capital projects, it cannot borrow to fund day to day operations the same way that other levels of government can. This is a key difference as it



means that the municipality must rely primarily on sales of services and property taxation to cover off all operating and capital expenses for the year. Water and Sewer Utilities must also operate on a balanced budget basis.

The Municipality is also required to collect property taxes for other levy authorities including Provincial School taxes, Capital Regional District (CRD), Capital Regional Hospital District (CRHD), BC Assessment, BC Transit and Municipal Finance Authority (MFA). These all appear on the property owner's annual property tax notice.

The annual budget process and review are used to review and balance the level of services provided to the community with the level of property taxation and user fees. In doing this the municipality plans to:

- Ensure adequate funding for services
- Continue its long-term trajectory to reach targeted infrastructure replacement funding by 2032
- Continue a trajectory to escalate funding for new and active transportation infrastructure
- Pursue grants as much as possible
- Manage expenses, contain costs, and be efficient
- Regularly assess service capacity and delivery
- Provide for contingencies, manage risks, and operate prudently
- Maintain a resilient level of reserves funding for the future, and
- Use debt strategically for new infrastructure and supplement reserves for replacement funding

For reference, the 2024 Financial Plan Budget Principals can be found on page 29 of the Plan, and Budget Drivers on pages 7 and 8. The Consolidated Budget Summary 2023 – 2028 is on page 35.

#### **Funding the Financial Plan:**

The 2024 Plan is balanced with \$60.6 million of both revenues and expenditures. Property taxes account for \$22.2 million of revenues. The different parts of the Plan (general operations and capital, water and sewer operations and capital, reserves, and strategic projects) have different funding sources within the plan. Table 1 below outlines Financial Plan funding sources.

Table 1: Financial Plan funding sources



**Plan Highlights:**

The Plan provides business as usual funding for the continuation of services expected by the community in addition to the following changes,

- Increases in building permit and fee revenues due to increased development activity and future housing plans for the District.
- Elimination of business license renewal fees.
- The proposed three-year implementation of 11.9 new positions from work force planning outcomes.
- 2024-2027 Strategic Implementation Plan (SIP) projects.
- Transitioning prior years funding from surplus and the COVID Safe Restart Reserve used for operations, back to property taxation.
- Long-term financial strategy continuation of increased funding for both future infrastructure replacement and new assets (active transportation) expected by the community.

With elevated work volume planned by the District around the Strategic Implementation Plan (SIP) projects including the capital work plan, and other legislated drivers such as the Provincial Housing directives, a 2024-2027 Work Force Plan (WFP) was developed in 2023 to ensure we are matching staff resources and capacity to work plan volumes. The WFP identified 11.9 new positions required to carry out planned work volume. These positions have been included in the Plan for Council’s consideration. Positions and funding are on pages 23 and 106 in the Plan.

The Plan also sees the first year of Council’s 2024-2027 SIP. The comprehensive plan begins in 2024 with approximately 40 projects identified and a budget of over \$1.8 million dollars.

The 2024 capital plan is budgeted at \$19.9 million dollars which sees,

- the continuation of ongoing underground pipe (water, sewer, drain) end of life replacements;
- a backlog of scheduled vehicles and equipment replacements due to several years of supply chain issues, 18 in total;
- The start of the Brentwood Bay sewer replacement project including sewer mains, pump stations, and a bike lane along Wallace Drive at \$8.2 million; and
- The start of the four-year \$10.4 million Active Transportation Plan escalation to connect District nodes of Brentwood Bay to Saanichton Village to Lochside Drive.

The economic risks impacting the District, its budget, and long-term financial planning include,

- Contracted services and construction costs continue to escalate at rates much higher than property taxes and CPI; and
- the availability of some vehicle and equipment is also minimal with longer wait times.

Non-market change (NMC or new construction) in property assessment forecast for 2024 contributes approximately \$15 or 0.65% tax reduction to the average home. After NMC is considered, the 2024 budget is based on a combined Municipal, Debt, Police and Library property tax increase of \$144 or 6.01% to the average residential property. In addition, infrastructure replacement of \$29 or 1.25%, and new infrastructure funding of \$12 or 0.50%, combine for a total increase of \$185 or 7.76% as seen in Table 2.

Table 2. 2024 Property Tax increase to average residential property over 2023

Municipal operations	4.15%	\$100
Police operations	1.61%	38
Library	0.25%	6
Subtotal	6.01%	\$144
Infrastructure replacement	1.25%	29
New infrastructure	0.50%	12
Total	7.76%	\$185

A Council motion was passed at the September 25, 2023, meeting with the Budget Guidelines report,

*“That staff report back on methods that could decrease the proposed tax increase from 6.6% to 6%”.*

During the budget preparation process staff worked to refine both revenues and expenses to deliver the services expected while keeping property tax increases as low as possible. This is reflected in the draft Plan presented. Should Council direct the draft tax increase be reduced, staff can bring back reduction scenarios for Council’s consideration. The operational tax increase is at 6.01% and the Infrastructure levy is 1.75%.

**DISCUSSION:**

**Water and Sewer Utility:**

Water and sewer operations and infrastructure replacement are funded through utility fees. The 2024 Water Utility Budget is based on a water rate of \$1.946 per cubic meter (1.14% increase) and a fixed charge of \$141 annually. The Capital Regional District (CRD) bulk water rate is \$1.1978, or a 4.7% increase over 2023. For an average residential property this would be a combined total of \$615, or a \$5

increase over 2023. The next five years of the Water Capital Program are focused on an annual replacement program for asbestos concrete mains coming to the end of their useful lives.

The water delivery model and pricing to First Nation communities is being reviewed by the CRD but has not yet been completed. Should this change in 2024, staff will amend the water budget and rates accordingly, and bring back to Council for review and approval.

The 2024 sewer utility budget is based on a sewer rate of \$2.04 per cubic meter, an increase of 7.5%. For an average residential property this would be \$365 or an increase of \$25 over 2023. The next five years of the Sewer Capital Program includes maintenance to several lift stations, implementation of an annual asbestos concrete main replacement program, and a significant project for Brentwood Bay pump stations and main replacements to start in April 2024.

2024 Water and Sewer utility rates reflect business as usual operations and the 2022 realignment of asset replacement funding from the water to sewer fund according to the updated Asset Management Plan (AMP). The combined annual water and sewer utility increase has been focused on the sewer utility to reduce asset replacement funding gap and ensure both utilities can reach targeted AMP funding levels by 2032.

#### **2024 – 2027 Strategic Implementation Plan (SIP):**

On May 23, 2023, Council adopted the 2024-2027 Strategic Plan. The 6 priorities and 18 goals lay out the vision for the community. The strategic plan was developed through a combination of workshops and discussion with Council and informed from the many recent public engagement opportunities including the Community Satisfaction Survey. In reflecting the areas of importance for our community, the Strategic Implementation Plan sets out the road map for the next four years, including into the next Council term. Staff have identified the projects and initiatives that will best achieve the community's vision – this is laid out in detail in the 2024-2027 Strategic Implementation Plan (SIP). See Appendix A – 2024 to 2027 SIP, with project descriptions.

The initiatives and projects identified in the 2024-2027 Strategic Plan each contribute to one or more of the priorities identified. The projects, many of which Council has already directed or align with existing and adopted plans, are the most effective use of resources to achieve the vision of Council set by the SIP.

In addition, metrics and measures of achievement have been identified so that Council can be informed on a quarterly and annual basis of the progress that has been achieved, and where additional or more focus needs to be made.

Each year's projects will be reviewed and approved as part of the annual Financial Plan process. The Integrated Planning Framework is on page 14 in the Plan, and strategic plan priorities, goals, and tracking progress on pages 15 to 21. Projects beginning in 2024 are on page 22. The five-year project budgets and summary are on pages 82 to 84, and SIP project listing on pages 102 to 105.

#### **Work Force Planning 2024 to 2026**

Prior year business-as-usual staff service levels have been maintained as part of the 2024 Financial Plan. In addition, the District has developed a Workforce Plan (WFP) in 2023 with KPMG to identify areas of operational risk, the required staff to support the District's routine operations, such as upcoming capital projects, as well as delivering the new projects to achieve the goals of the 2024-2027 Strategic Plan. It suggests a number of new positions are required in 2024 to keep pace with the District's work plans.

The Workforce Implementation Plan will be updated/reviewed/deliberated annually, and a new WFP will be developed in the 2027 Integrated Planning process.

The WFP is on page 23 of the Financial Plan listing the 11.9 FTE positions identified for implementation. The WFP funding sources by year and position are on page 106 of the FP. See Appendix B – 2024 to 2026 Work Force Plan, with work plan impacts.

### **Use of COVID Safe Restart Reserve and Surplus Funding for Operations:**

In late 2020 the District received a Federal/Provincial COVID Safe Restart Grant of \$3.455 million. The grant was intended to offset decreased revenues and increased expenses due to COVID. The District did not have heavily impacted areas from COVID such as recreation revenue losses, parking, etc. The conditional grant has a wide scope of uses but is not to be used for capital projects or to artificially reduce tax rates. Since the end of COVID the Province has been asked for further direction on eligible uses of remaining funds but has not provided any further guidance.

To date these funds have been used to replace decreased revenues and COVID related expenses in 2020 through 2022. In addition to phasing back to taxes the 2020 budget decrease, the current and former Council Chambers renovations, improvements in information technology, grants to First Nations and Saanich Fair, economic recovery position, a 2023 budget reduction, Blue Heron Soccer Turf Field forgivable loan, and committing funds for a potential Food Hub. The remaining balance in the reserve is committed to 2024 additional contingency (\$250,000) and Food Hub (\$415,000).

The use of COVID reserve or prior year surplus funding for operations is not sustainable, as it pushes the property tax impact forward to futures years adding to the financial pressures and level of increase required to taxes. Although future property tax impact pressures are forecast to be higher than normally seen in the past (3-5%), staff do not recommend the use of surplus or reserve funding to decrease the impact as it will continue to escalate pressures in the future. The 2024 impact from this funding in the past transitioning back to taxes is \$314,900 or a 1.5% tax increase.

### **Asset Management Plan:**

The asset management challenge facing most Canadian local governments is the growing capital and infrastructure replacement obligation in the long term, for most of the underground infrastructure and facilities built in the 1950's through the 1980's. Many of these assets were constructed with significant funding support from senior levels of government which is now unavailable. These assets will be approaching the end of their useful lives and renewal investment is required to maintain service to the community through resilient asset management planning and funding. In addition, there are pressures to implement new infrastructure such as active transportation and recreation facilities as well which requires its own funding source.

An important success factor of the District's AMP has been Mayor and Council's financial commitment and dedication to it, while other financial pressures exist.

The District's AMP long-term financial strategies incorporated in this Plan are as follows,

- General Capital, 1.25% annual tax increase, to reach \$7.2 million targeted funding level in 2032, a fifteen-year plan.
- New assets including active transportation, 0.50% increase in 2024 and thereafter. Reaches \$1.0 million in annual funding by 2031, \$1.5 million by 2035.
- Water Capital, annual capital reserves contribution have been adjusted to reach \$1.5 million targeted funding levels by 2032, a fifteen-year plan.
- Sewer Capital, annual capital reserves contribution have been adjusted to reach \$2.1 million targeted funding levels by 2032, a fifteen-year plan.

The District's capital funding approach is to charge an expected and consistent amount of taxes and fees which gets transferred to capital reserves to then fund annual replacement spending and debt servicing.

This provides stability by not having to fluctuate taxation with the varying amounts of capital spending each year. Other funding sources for both replacement and new assets include grants, long-term debt, and development related contributions including development cost charges, amenity contributions, and cash-in-leu of improvements. New provincial housing legislation will also impact funding contributions from new developments in the future.

The 2022 update validated the financial trajectory of the annual tax and rate increases, and that they are still sufficient to reach 2022 targeted funding levels by 2032, within the fifteen-year plan. The next update is scheduled for 2026 for 2027 implementation.

*Taking care of existing assets is the first priority for asset management and capital planning.* Simply said, our current AMP replacement reserves are prioritized for asset replacement, and new infrastructure funding and debt for new assets.

**2024 Capital Program:**

The 2024 capital plan consists of \$19.9 million of work with funding of \$11.8M from reserves, \$4.0M from grants, \$4.1M from debt. Highlights include:

Project	Budget	Funding Comments
Road Construction	\$600,000	Reserves
Active Transportation Projects	\$2,982,300	Reserves/Debt
Fleet Vehicle Replacements (11)	\$1,938,000	Reserves
Phone System Replacement	\$75,000	Reserves
Server & Desktop Replacements	\$239,400	Reserves
Annual Water Main Replacements	\$2,000,000	Reserves
Brentwood Bay Sewer (April start)	\$8,200,000	Grant/Reserves/Debt

The 2024 plan is a continuation of the review and redevelopment of the 2022 capital program from the AMP update. The five-year capital plan is ambitious given the District’s size and staff capacity. Asset management planning has identified the need for significant amounts of underground pipe replacement over the next ten to twenty years for asbestos concrete, steel, and vitrified clay pipes as they reach the end of their useful lives. The replacement plans and success will be evaluated annually over the next several years to ensure adjustments are made if necessary to meet replacement goals, with the next complete AMP update scheduled in 2026.

The District has been successful on a number of capital and operating grants over the last several years including the Brentwood Bay sewer project. However, grant management work capacity has expanded because of this due to tracking opportunities, completing grant applications, and subsequent reporting requirements. Larger grants such as Brentwood Bay sewer have a significant amount of work required around tracking costs, and reporting and submitting claims. This will be an area of attention in future years budget development and workforce planning, so the District can leverage grant opportunities as much as possible.

Debt

The District’s current debt as of December 31, 2023, can be found in Table 2.

Table 2: District Debt

Debt Issue	Term (years)	Balance (\$)	Annual Servicing (P&I) (\$)	Maturity Date
Firehall #1	25	6,542,726	453,200	2040
East Saanich Road	15	331,271	91,200	2026
East Saanich Road	15	168,468	66,500	2025
<b>Total</b>		<b>7,042,465</b>	<b>610,900</b>	

Debt levels are currently quite low and the District’s reserves health is good and continues to improve with the AMP financial trajectories. Debt and early debt retirement funding are part of the overall AMP funding. The firehall debt is scheduled to be paid off early in 2025 from the Debt Retirement Reserve.

Property taxes and utility fees funding of capital reserves are the primary source of funding for the capital plan, and debt is used to supplement funding for large projects (Brentwood sewer, facilities replacement, etc.), periods of high replacement, and new and upgraded infrastructure (Hwy 17 Flyover, active transportation, etc.) where financial reserves are not established or available for those purposes.

Municipal Debt and asset free borrowing are governed by the Community Charter. Municipalities can spend a maximum of 25% of eligible revenues to service debt (principal and interest). The asset free maximum borrowing is 5% of revenues (or 20% of the maximum). The District’s current total borrowing capacity without obtaining electoral approval is approximately \$15M-\$20M.

It’s forecast the District will require electoral approval later this decade depending on certain initiatives such as active transportation, facilities replacement, or other projects requiring debt. The 2026 AMP update will consider future forecasted debt levels and funding sources for servicing so phased long-term implementation funding strategies can be utilized where possible.

**Public Feedback and Engagement**

The 2024 Financial Plan was published February 2, 2024. Public education initiatives launched at the District’s open house on January 20, attended by approximately 60 people, where the Director of Finance had a display. Widespread engagement began in early February with information on the District’s website, engagement site, social media and the distribution of a press release. The Director of Finance’s contact information was provided, and public questions and feedback can be submitted to Community Engagement. Information was also posted for Council budget meeting dates, and for residents who wish to speak or make a submission to Council via email or phone.

The 2023 Community Satisfaction Survey asked residents about their feelings on tax rates and service levels. In summary, 64% were satisfied with property taxes and 76% believe they get fairly good to very good value for their tax dollars. The majority of respondents (70-80%) preferred to maintain current service levels. Services identified as areas for potential focus included road maintenance and snow clearing (a notable 26% asking for increased snow clearing services through additional taxes), active transportation infrastructure and maintenance of this infrastructure, community planning and growth management, bylaw enforcement.

There has been little input or comments received to date for the 2024 Plan. A summary of questions, comments, or input received to March 11<sup>th</sup> will be provided to Council at the March 18<sup>th</sup> budget meeting.

**CONCLUSION:**

The 2024 Financial Plan includes a number of key components as ambitious strategic and capital plans are implemented along with increased staffing resources to carry out work plans.



Any changes and adjustments noted during deliberations will be recorded, adjusted, and reported in the adopted Plan. Once adopted, the Financial Plan along with corresponding tax rates and financial plan bylaws will be presented for Council adoption.

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**ATTACHMENTS:**

Appendix A: 2024 to 2027 SIP, with project descriptions.

Appendix B: 2024 to 2026 Work Force Plan, with descriptions and implications if deferred

Appendix C: 2024 DRAFT Financial Plan