



The Corporation of the District of Central Saanich

SPECIAL (OPEN) COUNCIL REPORT

For the Special (Open) Council meeting on Wednesday, October 23, 2024

Re: 2025 Financial Plan Guidelines

RECOMMENDATION(S):

That the following 2025 Budget Guidelines be approved:

- 1. Preliminary 2025 departmental budgets will be based on service levels from the 2024 budget, and non-discretionary increases (contracted services, wage and benefit costs, insurance, utilities, etc.).*
- 2. Continuation of the 2024 to 2027 Workforce Plan implementation including 3.0 full-time equivalent positions to be implemented in 2025. Road's labourer position identified for 2025 to be implemented January 1, 2025 with Council early approval.*
- 3. The 2024 to 2027 Strategic Implementation Plan and 2025 projects will be presented separately, with amendments for 2025, and considered with Councils early approval and referral to the Financial Plan.*
- 4. Continue increases according to the 2022 Asset Management Plan (AMP) Financial Strategies. A 1.25% property tax increase for future asset replacement, a 0.50% increase for new and active transportation infrastructure, and maintain trajectories of Water and Sewer increases toward 2032 targets identified in the AMP.*
- 5. Water and Sewer utility budgets will be prepared consistent with prior years including wage and benefit, CRD bulk water cost, rate increases for asset management and non-discretionary increases.*

PURPOSE:

The purpose of this report is to present 2025 budget preparation guidelines. This early presentation assists to establish expectations for the District, and for Council to provide direction to staff.

BACKGROUND:

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 updates its Five-Year Financial Plan which includes General Operations, Water and Sewer Utility and Capital Programs budgets.

The annual budget process, public engagement, and review are used to balance the level of operational services, implement Council's strategic initiatives, and maintain Asset Management Financial Strategies and long-term planning. In doing this the District strives to,

- Ensure adequate funding for services,
- Continue long-term financial strategies to increase infrastructure funding levels,
- Manage expenses, contain costs, be efficient,
- Regularly assess staff capacity and delivery of work plans,
- Provide for contingencies, manage risks and operate prudently,
- Maintain reserves for the future, and,
- Use debt strategically;

This report provides recommended 2025 budget guidelines and information to assist Council with setting expectations for 2025 budget preparation and deliberations and providing direction to staff.

Additional budget considerations are also provided in Appendix A.

DISCUSSION:

Wage and Benefits Increases

The most significant operations cost driver for the annual budget continues to be labour related costs. Wages and benefits represent approximately 55-60% of the Districts core operations. All employee contracts (Employee Association, Fire Department IAFF, and the Police Association) are either expired as of December 31, 2024 or rate increases have not been confirmed for 2025. Unknown wage rate increases does create budgeting risks. Contract increase estimates have been made that reflect changes in price indices and knowledge/judgement of current market conditions.

Benefits (extended health, dental, etc.) are expected to increase by 0.95% or \$7,900 overall for 2025.

Increases to 2025 wages and benefits include,

- Continued implementation of the 2024 to 2026 Work Force Plan (WFP), Appendix B, including the first full year of 2024 implemented positions, and new tax funded 2025 positions including,
 - Administrative Support, 0.5 FTE
 - OH&S and Return to Work Coordinator, 1.0 FTE
 - Roads and Drains Labourer, 1.0 FTE
 - Fire Inspection, 1.0 FTE
- Implementation of second half of Job Evaluation wage rate increases July 1, 2025
- Fire Department IAFF Agreement and implementation of new Capitan rate effective December 31, 2024
- Fire Department Paid-on-Call member budget increases due to increasing call volumes

Asset Management Plan (AMP) financial strategies

As an outcome of the 2022 AMP five-year update, the annual 1.25% property tax, and utility rate increases, were maintained in order to reach targeted funding levels of \$10.8 million by 2032 and within a fifteen-year plan. In addition, a new funding strategy was implemented in the 2022 Financial Plan of a 0.25% increase in 2022 and 2023, and 0.50% thereafter for new and active transportation infrastructure. In 2023 the new levy was increased from 0.25% to 0.75% to escalate the trajectory of funding and support implementation of \$10.2 million of active transportation amenities from 2024 to 2027.

Aging infrastructure replacement is the number one priority of the AMP. New infrastructure expected by the community will also continue to be a significant component of financial planning. Additional staff resourcing required to meet plans for new, and ongoing maintenance of new infrastructure is monitored

on a regular basis. Commitment to the AMP financial strategies, despite other budget pressures, is a critical success factor to reach higher and more resilient funding levels.

Although the tax and rate increase strategies are a fifteen-year plan, increases for capital are considered long-term or even perpetual due to construction cost escalation, expanding infrastructure service levels, and required upgrades for community growth and densification.

The AMP financial strategies are scheduled to be updated again in 2026 for 2027 Financial Plan amendments if required.

Capital Plan Escalation, Delivery, and Staffing

A Growing Communities Fund grant (GCF) and Active Transportation Plan (ATP) Implementation Report was presented to Council July 10, 2023 and Council approved a four-year, \$10.2 million dollar capital plan to escalate ATP amenities. The Plan will be funded with the \$5.2 million GCF grant and \$5.0 million of debt.

Three new staff positions were added in 2024 to facilitate this work including two Engineering Technicians and one Financial Analyst. As these positions are related to the capital plan, they are funded within the plan and Active Transportation projects funding. Although the current AMP does not provide funding for staffing costs, they are being funded within the current flexibility of the plan. The 2026 AMP update will include a capital plan staffing model with funding strategy options and recommendations.

Police Services Cost

The Police budget represents core policing costs of labor, contracted costs for E-Comm dispatch, integrated units and supplies. Approximately 82% of policing costs are for wages and benefits.

Primary drivers of the Police budget are annual wage increases, overtime, and contracted services such as Greater Victoria Integrated units. E-Comm dispatch services also continues to escalate with a significant increase expected for 2025. The 2025 draft budget presented to the Board in October sees a 7.13% or \$456,600 increase, representing a 2.07% or \$49 property tax increase to an average home.

As part of organizational effectiveness, staff will continue to introduce the Police budget to Council for information after Police Board adoption in December, and prior to presentation of the Districts complete budget and five-year plan.

Other 2025 Financial Plan considerations

As the District continues to evolve with escalated strategic, capital, and staffing plans, there are numerous plans and drivers that will influence the budget over the next several years, including,

- Facilities redevelopment financial implications
- Safety program improvements
- Provincial directives and incentives to increase housing supply
- Operational projects and Council's 2024 to 2027 Strategic Implementation Plan;
- Workforce Planning to match staff resources and capacity to achieving operational, capital, and Strategic Implementation Plan goals, including the redevelopment of Civic Facilities
- Fire Master Plan outcomes
- Parks Master Plan outcomes
- Infrastructure Master Plan outcomes

Workforce Plan and Strategic Implementation Plan updates and amendments will be brought to Council under separate reports for consideration for early approval/ and referral to the 2025 budget process. Other initiatives will be brought to Council when they have advanced sufficiently for consideration to include in the Financial Plan, or for a future budget amendment if required.

Currently, projects and Council's four-year strategic plan initiatives are dependent on funding from prior year operating surpluses and not taxation. Projects and strategic initiatives have evolved from being considered "one time" expenditures to being consistent in the budget and linked largely to Council's Strategic Plans and direction. Over the last five years this area of the budget has grown from approximately \$300,000 annually to over \$1.9 million in 2024. New property tax funding strategies may be recommended to Council with the 2025 Plan to provide a base of, and more resilient future, funding as project volumes are expected to continue for the foreseeable future. This would mitigate strategic initiatives being dependent on budget surplus and compromising the financial health and reserve contributions that annual surplus should provide.

Other issues and overall approach

Revenue Forecasts

Income from investments supports the general, water and sewer operating budgets and offsets a portion of the property tax and utility rates each year. 2025 investment income is expected to start trending downward from prior years due to the current declining interest rate environment. Income will continue to be budgeted prudently at a forecasted five-year average/trends level to maintain consistent and predictable tax rates.

There are no significant forecasted revenue increases to note.

Early Approvals for 2025

A 2025 Budget Early Approval report for specific capital projects, equipment, Work Force Plan position, and amended Strategic Implementation Plan will be present to Council for consideration.

Water and Sewer Budget Forecasts

The Water budget will be prepared on a status quo basis while increasing transfers to reserve toward 2032 asset management targeted funding. Within the five-year plan additional rate increases are expected for capital replacement debt servicing, and escalation of Peninsula bulk water rates and other regional service changes. Bulk water rate increases from Saanich Peninsula Water Commission are expected for infrastructure replacement needs and resiliency upgrades over the next several years.

The Sewer budget will also be prepared on the same basis. Within the five-year plan additional rate increases are expected for debt serving of capital replacements including the Brentwood sewer project.

Forecasted 2025 Draft Financial Plan increase

As is the case each year, the budget will be developed with an approach of balancing services being delivered, saving for the future, and overall impacts on taxation. With all the factors and pressures discussed above, staff forecast the 2025 Draft Financial Plan increase will be in the range of a 7.0% to 9.0% property tax increase to an average home.

Option 1 (recommended):

- 1. Preliminary 2025 departmental budgets will be based on service levels from the 2024 budget, and non-discretionary increases (contracted services, wage and benefit costs, insurance, utilities, etc.).*
- 2. Continuation of the 2024 to 2027 Workforce Plan implementation including 3.0 full-time equivalent positions to be implemented in 2025. Road's labourer position identified for 2025 to be implemented January 1, 2025 with Council early approval.*

- 3. *The 2024 to 2027 Strategic Implementation Plan and 2025 projects will be presented separately, with amendments for 2025, and considered with Councils early approval and referral to the Financial Plan.*
- 4. *Continue increases according to the 2022 Asset Management Plan (AMP) Financial Strategies. A 1.25% property tax increase for future asset replacement, a 0.50% increase for new and active transportation infrastructure, and maintain trajectories of Water and Sewer increases toward 2032 targets identified in the AMP.*
- 5. *Water and Sewer utility budgets will be prepared consistent with prior years including wage and benefit, CRD bulk water cost, rate increases for asset management and non-discretionary increases.*

Option 2:

Council can provide additional or different direction to staff.

The draft 2025 Financial Plan will be published early February 2025, with Council presentations to start in March.

CONCLUSION:

This report provides an outline of the many issues being considered and the approach taken to prepare the draft 2025 – 2029 Financial Plan for Council consideration in March 2025. It is an opportunity for Council to be updated on the budget preparation process, cost drivers, priorities, and considerations that will influence the budget process, and be able to provide staff feedback and direction on the preparation guidelines.

Respectfully written and submitted by:	Troy Ziegler, Director of Finance and Information Technology
Concurrence by:	Christine Culham, Chief Administrative Officer

ATTACHMENTS:

- Appendix A: Financial Considerations
- Appendix B: Work Force Plan Funding and Detail

Appendix A 2025 Financial Planning Considerations

In addition to those detailed in the 2025 Budget Guidelines report, there are other issues considered during preparation of the budget. Other considerations include:

- **Inflation:** The inflationary pressures faced by local government including contract wage and benefit increases, construction cost escalation, vehicle and equipment costs, utility costs, and other professional service providers. The twelve-month average change for Victoria Consumer Price Index (CPI) at December 2023 was 3.7%. The average has reduced to 2.6% at September 2024.
It's expected that prior year's inflation and material and supplies price increases will continue to impact the District's budget. Costs are not expected to decrease.
- **Supply Chain Delays – Materials, Equipment and Vehicles:** Post Covid related supply chain delays and availability continue to be experienced. Certain materials and especially vehicles, and equipment are proving difficult to procure and get delivery on a timely basis. These issues are being managed on an ongoing basis with our Procurement Coordinator and reviewing the budget and capital work plan regularly to adjust priorities and purchases based on the market and what can be achieved. Efforts to reduce the supply chain delay impacts, such as alternative procurements and temporary alternative service delivery, are constantly carried out to reduce the impacts on the budget and capital work plan. Staff will also be recommending multi-year capital plan approval to further mitigate some of these issues.
- **Newly Mandated or Legislated Obligations:** The Provincially mandated housing supply goals, and policy and plans updates will continue to be a focus in 2025 and years to come.
- **Debt Servicing:** Current debt servicing levels are modest. Although interest rates have risen since early 2022, they are now on a downward trend. The strategic use of debt can assist in maintaining generational equity and move larger projects forward that otherwise could not be afforded. The Districts Asset Management Plan forecasts the use of debt to assist in managing cash flow for the renewal of existing and new infrastructure. Further debt financing is expected in the 2025-2025 Plan for Keating Flyover, Wallace bike lane, Active Transportation four year plan, facility replacements, Brentwood Sewer, and Water and Sewer underground replacements. As larger future projects requiring debt evolve, staff will continue to provide Council forecasts for use of debt, timing, and electoral consent thresholds.
- **Infrastructure Investment:** Working towards gradually achieving resilient infrastructure replacement funding is a challenge given that contributions to reserves were not progressive in the past; that is, the contributions to reserves do not contribute sufficiently for the future replacement of infrastructure that the District already owns. The Districts Asset Management Plan outlines an approach to resolve this growing challenge. The long-term fifteen-year approach plans to gradually increase annual capital program funding over a number of years to reach targeted infrastructure replacement funding levels by 2032. This will require additional funding through an infrastructure specific property tax. Deferring these contributions will simply transfer this significant financial risk to the next

generation and require higher levels of debt in the future and risks increased infrastructure repairs when replacement is due to failure.

- **Adverse Weather Events:** recent years have seen several significant and more consistent weather events affecting BC such as a Heat Dome, extended dry periods, wildfires, and an Atmospheric River. Comparatively, the District fared very well through these events and received Provincial financial assistance through Emergency Management BC. The District is in a reasonable position financially with operational reserves and annual contingency budgets to deal the effects of these events. However, they impact departmental work and annual service plans should they continue and/or become more significant. In 2023 the District increased our emergency management staff position from part to full time to provide more capacity in planning for and coordinating responses for such events.
- **User Fees and Utility Charges:** User fees and charges form a significant portion of planned revenue. Many specific municipal services such as water, sewer and development services can be measured and charged for on a user pay basis. This approach attempts to fairly apportion the value of municipal service to those who make use of it. Annual reviews are completed to update the Districts fees and charges with each budget cycle or when required. Reviews will be completed annually in order to keep these up to date.
- **Investment Portfolio Revenue:** Income earned on investments supports the general, water and sewer operating budgets and offsets a portion of the property tax and utility rate requirement each year. 2025 investment income is expected start trending downwards from the 2024 Plan due to declining interest rates. Income will continue to be budgeted prudently at a forecasted five-year average level and trends to maintain consistent and predictable tax rates. Longer term outlooks and portfolio holdings will continue to be monitored given current global economic uncertainties.
- **Property Taxation Policy:** The practice of the municipality has been to set tax rates in order to maintain tax stability. This is consistent with many municipalities across the province and is accomplished by maintaining the proportionate relationship provided between the property classes, while using new construction values to reduce taxes. This practice allows taxpayers in the municipality to be confident that in any year, their property tax bill will increase proportionately to the increase in tax revenue required year over year, taking into account assessment increases of their property to the assessment class average. This is particularly important in a rural agricultural municipality with a significant proportion of ALR farmland that is both assessed and taxed at low levels of taxation. New construction assessment can vary considerably from year to year as major development projects are completed. Note that a 1% property tax increase in municipal taxes generates \$220,500 in 2025.

Workforce Plan Funding Sources and Detail

Funding Source	Department	Capacity Shortfall / Gap	2024	2025	2026	Business Need
Taxes	Administration	Administrative Support		0.5		0.4 increase to address business as usual (BAU)** backlog
	Administration	OHS and Disability Management		1		Ensure compliance is met and best practices are adopted in the area of corporate occupational health and safety and disability management
	Corporate Services	Police Communications			0.5	Increase to address BAU backlog
	Engineering	Roads Labour			1	To support BAU backlog
	Finance & IT	GIS Coordinator	1			To address BAU backlog and incremental increase due to inadequate GIS system to support effective District services
	Finance & IT	Network Client Specialist	1			To address significant BAU backlog and incremental increase in service delivery.
	Fire	Fire Inspection and Prevention			1	To address BAU inspection backlog and incremental service increase for climate mitigation and emergency response.
TOTAL FULL TIME EQUIVALENT (FTE)			2	4	0.5	
TOTAL CUMULATIVE ANNUAL FUNDING*			\$ 69,100	\$ 395,800	\$ 697,100	
Surplus	Administration	Administrative Support	0.5			This is the same position as above being implemented April 1, 2024 to May 31, 2025 as a 0.5 FTE funded from surplus. Position will increase to 1.0 FTE June 1, 2025 funded then from Taxes
	TOTAL CUMULATIVE ANNUAL FUNDING*			\$ 31,400	\$ 19,900	
Grant	Corporate Services	Climate Mitigation and Response Public Education and Communications	1			To address BAU backlog and incremental increase for Climate Mitigation and Response for public education activities. <i>Term position. Position will be renewed in 2026 if Provincial grant funding is continued.</i>
	TOTAL CUMULATIVE ANNUAL FUNDING*			\$ 37,900	\$ 93,700	
Increased Permit Revenue	Planning	Planning Technician and Building Inspection	1.4			To support BAU backlog and significant increase in development services
	TOTAL CUMULATIVE ANNUAL FUNDING*			\$ 44,900	\$ 158,300	
Capital Reserves	Finance & IT	Financial Analyst - Capital	1			To address incremental BAU increase and project management for Active Transportation projects and Capital projects due to increased service levels. To address incremental BAU increase and project management for Active Transportation projects and Capital projects due to increased service levels
	Engineering	Engineering Technician - Capital/Active Transportation	2			
TOTAL CUMULATIVE ANNUAL FUNDING*			\$ 242,300	\$ 343,100	\$ 367,500	
TOTAL FTE = 11.9			By year:			
			7.9	3.5	0.5	

* Annual funding is total cumulative cost (not new)