

Report to Council



Date: April 8, 2024
To: Council
From: City Manager
Subject: Alternative Revenue Initiative
Department: Partnerships Office

Recommendation:

THAT Council receives, for information, the report from the Partnerships Office dated April 8, 2024, with respect to Alternative Revenue Initiative.

AND THAT Council receives, for information, the Driving Municipal Revenue Study.

Purpose:

To receive information on the Alternative Revenue Initiative and the Driving Municipal Revenue Study.

Background:

As one of the fastest growing communities in Canada, the City of Kelowna is undertaking an Alternative Revenue Initiative to look for new opportunities to generate municipal revenue. This initiative supports the corporate priority of “Active Financial Management – targeted projects to **increase non-tax revenue** are minimizing the City’s reliance on the tax revenue” which focuses on ensuring the financial well-being of the City. The City is looking to be a leader in alternative revenue generation to support the needs of our growing community through implementing user pay models, service improvements, and innovative technology, policies and practices.

Alternative revenue includes innovative tools, approaches, and opportunities to generate municipal revenue growth for the City of Kelowna while reducing the tax burden on residents. The City has assets which can be monetized and legislative abilities that the City is currently not utilizing. There are several alternative revenue opportunities including tools to recover costs and tools to raise money.

Discussion:

The City is well-positioned to meet its financial obligations, however, is looking to be a leader in innovative municipal revenue generation to have a well-diversified revenue stream and proactively supplement property taxes. As Kelowna changes and the demand for programs and services increases, this is a critical time to look for new methods to generate municipal revenue.

An example of a successful alternative revenue opportunity is the 2020 new Parks Development Cost Charges (DCC) program which now enables the City to include park development costs. This new DCC assists the City in recovering costs from development to build parks to support growth in our community. Through this new DCC, the City has generated funds to construct several parks including the newest Waterfront Park, Ballou Park, Tallgrass Park, the Pond's Community Park, and Gopher Creek Linear Trail.

Another example of a successful alternative revenue opportunity is the Grants Management Program. This program has resulted in significantly increased revenue through a three-fold increase in grant contracts managed over the last three years. These grants are used to leverage City funds for priority Council, corporate and community projects.

As part of the Alternative Revenue Initiative, a cross-departmental staff committee was formed to collaborate with Urban Systems and Neilson Strategies to provide expertise and support in the development of the Driving Municipal Revenue Study. This skilled staff committee included staff from Partnerships & Investments, Finance, Infrastructure, Information Services, Active Living & Culture, and Planning & Development.

The goal of the Study was to undertake a discovery process to document and explore innovative approaches, tools, and opportunities for the City of Kelowna to drive non-taxation revenue growth, while using a lens of equity to users. A gap analysis, best practice scan, and review of legislation were all completed as part of this study to find ways to amplify alternative revenue opportunities. This project outlines options on how the City can shape the delivery of services and attract partnerships to assist in achieving the corporate priority of active financial management.

This Study was developed over four phases:

1. Discovery – outlined gaps and opportunities in the City's current revenue generation efforts.
2. Discernment – developed a set of guiding principles and evaluation criteria.
3. Development of Options – a national network scan to highlight the best approaches.
4. Detailing the Approaches – identified the top 22 innovative revenue approaches.

During the Discernment phase of the Study, guiding principles and evaluation criteria were developed to assess the effectiveness, feasibility, and suitability of each of the potential revenue ideas. The five guiding principles that were used include:

1. Effective revenue tool: to ensure the tool will strengthen Kelowna's financial position.
2. Alignment with municipal priorities: to ensure alignment with ongoing plans and priorities.
3. Administrative efficiency: to ensure the development and implementation balance the demands of the existing initiatives and operations of the City.
4. Social impacts: to ensure the tool includes an equity lens and doesn't disproportionately affect equity-deserving groups.
5. Innovation: to showcase the City's leadership, progressive thinking, and consider new ideas.

Fourteen evaluation criteria were also included to provide a standardized framework to determine the merit of the revenue tool. These criteria included: legal authority, net revenue potential, social and political risk, financial risk, maintenance of levels of service, fairness, ease of implementation, assessment and start-up costs, technological readiness, social acceptance, economic impact, internal consistency, environmental responsibility, and flexibility and scalability.

During the Development of the Options phase, 125 revenue generation opportunities were identified. These opportunities were scored using the assessment matrix to determine their potential for Kelowna. The matrix provided a standardized framework to assess the proposed revenue tools using the five Guiding Principles and 14 Evaluation Criteria.

During the Detailing the Approaches phase, 22 innovative approaches were detailed, including cost recovery, raising money, cost avoidance, and other tools. Each approach includes revenue potential, complexity, and case studies from other jurisdictions in British Columbia and across Canada.

Of the 22 approaches, there are seven that have been identified as immediate priorities to analyze, and/or implement. The seven immediate priority were chosen to showcase a variety of tools and approaches that are implementable in a short time-frame and have revenue potential and include the following:

Category	Initiative	Current Work	Opportunity
Cost Recovery Tools	Fees and Fines Review	The City's Fees and Charges Bylaw No. 9381 was reviewed and amended in 2023.	To conduct annual Fees and Fines Review to provide ongoing revenue-generating opportunities.
	Facility Fees	The City charges facility use fees and rental fees to users of City-owned facilities including the Kelowna International Airport, recreation and community centres, and sports fields.	To establish an effective pricing structure for City-owned facilities. This could include a dynamic pricing model.
	Storm Drainage Utility	The City currently does not have a dedicated Storm Drainage Utility but is actively pursuing one.	To establish a user-pay storm drain utility fee to cover storm drainage operations and capital costs.
	Frontage Works Program	The City's Subdivision, Development & Servicing Bylaw No. 7900 includes some standards for frontage improvements.	To expand into a formal program to recover development costs to help fund streetscape improvements.
Raise Money Tools	Dark Fibre	The City has invested in the fibre optic network over the last decade and the network has grown to 36 kilometers since 2015.	To expand investment in fibre optic cables and focus on increasing leasing opportunities.
	Marine Facility User Pay Program	The City conducted an operational review of municipal boating facilities in 2022 and implemented a successful commercial license program.	To expand the commercial license program to include a public user pay system for marine users.

Other Tools	Monetization of Value-Added Data	The City is at the forefront of digital advancement through a focus on digital transformation including the AI Chat Bot that speeds up building permit applications.	To develop customized solutions and implement fees for value-added data.
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The next steps involve further assessment of the above immediate priority initiatives. This will involve forming an ongoing Alternative Revenue Governance Committee consisting of senior staff from Partnerships & Investments and Finance to examine and assess the immediate priorities to determine the path forward. This will involve developing procedures and a comprehensive evaluation of the initiatives based on several factors such as government-based initiatives vs. potential business initiatives, alignment with City plans and priorities, resources required, feasibility analysis, revenue creation potential, financial estimates, risks and impacts, and implementation factors.

For the immediate priority initiatives that fit within the lens of a business venture, such as Dark Fibre and Monetization of Value-Added Data, the Alternative Revenue Governance Committee should take a dynamic approach, be nimble and agile, and move the viable initiatives forward that meet an alternative revenue financial business case.

The Alternative Revenue Governance Committee will also lead and champion new Alternative Revenue ideas and proposals through ongoing innovation, collaboration, analysis, and prioritization of initiatives.

Conclusion:

The City of Kelowna, like many other municipalities, has yet to unlock the full potential of existing revenue sources or implement new approaches to revenue. Alternative revenue can provide tools to improve fiscal health and improve services for residents while reducing the demand on property taxes in alignment with the City’s corporate priorities.

The amount of revenue that alternative revenue tools can generate for cities varies depending on several factors. By further exploring these tools the City can support economic growth, reduce tax burdens, and demonstrate innovative governance and leadership. An annual report to Council will provide updates on this initiative.

Internal Circulation:

- Partnerships & Investments Divisional Director
- Infrastructure General Manager
- Financial Services Divisional Director
- Planning, Climate Action and Development Services Divisional Director
- Partnerships Office Director
- Information Services Director
- Real Estate Department Manager
- Capital Planning and Asset Manager
- Energy Manager
- Administration & Business Services Manager
- Financial Planning Manager

Considerations applicable to this report:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Existing Policy:

Fees and Charges Bylaw No. 9381

Council Policy No. 376 – Corporate Sponsorship and Advertising

Financial/Budgetary Considerations:

Kelowna's 2024 property tax increase remains well below the average increase being considered throughout the province. Unlike higher levels of government, the City has a legal obligation to not run a deficit. Maintaining its financial health is prioritized through a corporate priority of Active Financial Management. The 2024 Budget maintains the City's commitment to keep the tax rate as stable as possible by ensuring expenditures and revenues are closely aligned.

Only ~25 per cent of the City's 2024 operating and capital costs will come from annual taxation. This is in-line with the City's commitment to seeking own source revenues and partnerships to fund services, reducing the burden on taxpayers. Other revenue sources include reserves, grants, and income from user fees including those from self-funding business units such as, Kelowna International Airport, the City's water and wastewater utilities and solid waste operations.

Consultation and Engagement:

Communications Comments:

Considerations not applicable to this report:

Submitted by:

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Approved for inclusion: Derek Edstrom, Partnerships & Investments Divisional Director

Attachments:

- Phase 4 Driving Municipal Revenue Study