PURPOSE:
To communicate findings of analysis performed regarding the Bowen Island Municipal Tax Levy.

BACKGROUND:
At its November 21, 2018 meeting, as a result of increasing pressures from a portion of Bowen Island Municipality councilors and constituents to reduce their tax requisition to Islands Trust, Financial Planning Committee (FPC) made the following resolution:

FPC-2018-023
It was MOVED and SECONDED,
that staff be directed to develop options for calculating the formula for the municipal tax requisition calculation contribution in the Islands Trust budget.

In order to develop and recommend changes to the formula for calculating municipal tax requisitions, staff have undertaken the following approach:

1. Understand the factors in the calculation that are contributing to the increases in the municipal levy;
2. Assess the municipal levy against levies requisitioned from other Local Trust Areas (LTAs) to determine if the application of the current calculation generates a fair and equitable allocation of tax funding across the Trust area; and
3. Assess if expenditure allocations are appropriate between federation-wide services and local planning services to ensure the equitable allocation of funds is being applied to an appropriate pool of funds, and if required develop more appropriate options for calculating the municipal levy as directed by Financial Planning Committee, ensuring any options developed are in keeping with legislated requirements in the Islands Trust Act.

The work of steps one and two are complete and findings were reported to Trust Council at their June 2019 meeting. This briefing addresses step three of the above.

POLICY DEFINED REVENUE AND EXPENDITURE ALLOCATIONS

Trust Council policy 7.2.6 Municipal Tax Requisition Calculation (“the Policy”) contains three appendices, two of which are relevant to the analysis of Islands Trust budgeted expense allocations:

1. Appendix A – List of Islands Trust Financial System Location Codes
2. Appendix B - Revenue Budget Lines Categorized for Municipal Pool Calculations
These appendices are attached for reference. An analysis of the appropriateness of the direction in these Policy appendices has been undertaken, in conjunction with a review of whether or not the Policy direction is being appropriately applied in the Islands Trust draft budget process.

**REVIEW OF APPENDIX A AND ITS APPLICATION**

Appendix A assigns each expense area (or “location code”) in the Islands Trust financial system to a category of expense as defined in the Islands Trust Act (“the Act”) section 14(3)(c), or as Islands Trust administration. In essence, it assigns all of Islands Trust expenses to the various categories that the Act defines. The Act section 14(3) reads as follows:

“14 (3) The budget must
   (c) set out separately the anticipated expenditure relating to
      (i) operations of the trust council and of the executive committee, except the operations of the executive committee acting as a local trust committee under section 23 (5),
      (ii) general operations of the local trust committees, including the operations of the executive committee acting as a local trust committee under section 23 (5) and excluding the operations referred to in subparagraph (iii),
      (iii) operations of a local trust committee that are additional operations not included within the general operations of all the local trust committees under subparagraph (ii), and
      (iv) administrative operations of the Islands Trust Conservancy board.”

Assignment of Islands Trust expenses to the categories defined in the Act is important as it is these categories that ultimately determine if an expense will be contributed to by Bowen Island Municipality (BIM). Recalling previous communications on this subject, BIM should contribute only to expense items (i) and (iv) of section 14(3)(c) and to a portion of administration expenses of the Trust.

Staff have reviewed Appendix A and agree with the expenditure assignments as outlined by the Policy to the various Act categories.

**Islands Trust Budget Template**

Practical application of the expenditure assignments in the Policy are reflected in the Islands Trust budget template, which is employed on an annual basis to develop the draft budget for Financial Planning Committee and Trust Council. Assignment of planned expenditures into this template is a manual exercise undertaken by Islands Trust finance staff, and reviewed by the Director, Administrative Services and Financial Planning Committee during the budget development process each year.

A review of the budget and budget template for the fiscal 2020 year, has revealed the following:

- Section 14(3)(c)(i) expenditures – no inappropriately allocated expenses identified.
- Section 14(3)(c)(ii) expenditures – no inappropriately allocated expenses identified.
- Section 14(3)(c)(iii) expenditures – no inappropriately allocated expenses identified.
- Section 14(3)(c)(iv) expenditures – no inappropriately allocated expenses identified.
- Islands Trust administration expenses – no inappropriately allocated expenses identified. However, one expense item was identified as unique in how it is impacting Islands Trust and BIM. This item relates to Geographic Information Systems (GIS) software licensing.

**GIS Software Licensing**

Administration expenses include costs associated with Information Services (IS) at Islands Trust. Information Services is responsible for the Information Technology (IT) delivery and maintenance for all departments at the organization. This includes technology related to Geographic Information Systems
(GIS) that the Islands Trust uses for mapping purposes associated with local planning services as well as Trust Council (TC) and Islands Trust Conservancy (ITC) services. BIM contributes only to the portion of these systems that relate to TC and ITC through the administration allocation rate, in the same way that other administration costs are handled. This means BIM is not contributing to the local planning portion of the GIS licensing expense. It was interesting to note during review, that while BIM does not contribute to the Islands Trust local planning portion of this expense, BIM planning staff and contractors, do in fact use the Islands Trust GIS technology in their own local planning work. BIM does not purchase their own licences for this technology. There are currently 25 users of the Islands Trust GIS licences. Of these 25 users, nine (36% of total) are being used by Islands Trust and 16 (64%) are being used by BIM.

Islands Trust budgeted $19,500 in the 2019/20 year for the licenses and maintenance associated with GIS software. BIM contributed $999.39 towards this expense, as determined by the tax requisition calculation. This portion defines the BIM contribution towards the TC and ITC use of this software (the 9 Islands Trust user accounts). No contribution was made to this expense item to reflect the use of this software by BIM planning staff and contractors. If amounts were charged to BIM for their use of this GIS software, the invoice would amount to approximately $12,480 based on the prorated share of users that BIM currently has.

While these GIS licenses do reflect a service or product that BIM is receiving at no charge from Islands Trust, it does not reflect a contravention of the Act or the Policy, as the Act and the Policy do not speak to BIM local planning service expenditures, to which this use relates. As such, no recommendation for Policy amendment is being made as it relates to this item.

REVIEW OF APPENDIX B AND ITS APPLICATION

Appendix B of the Policy provides direction on how non-tax revenue sources will be allocated in the Islands Trust budget. Non-tax revenue sources reduce the need for property tax revenue and include fees and sales (i.e.: development application fees), provincial grant funds, appropriations from surplus, interest income, grant income, miscellaneous income, and other income. This Policy direction ensures that credits afforded to local trust areas as a result of other revenue sources are also appropriately afforded to BIM.

Staff have reviewed Appendix B and agree with the way in which treatment of non-tax revenue sources are codified in the Policy. It was noted however, that the Policy discussion of appropriations from surplus, while deemed appropriate in terms of calculating the municipal tax requisition, does highlight a source of potential impact to the BIM tax requisition which may not have formerly been contemplated.

Appropriations from Surplus

Surplus funds are generated when planned spending in any given year is not realised to its full intent. That is, funds are raised but not used to the extent planned. This can be due to any number of factors, such as deferral of planned work to future years, unanticipated staff vacancies, cost efficiencies found and realised, etc. These unspent funds flow into the general revenue surplus fund and accumulate over time as the accumulated surplus fund balance. Surplus funds may be used to fund expenditures in the annual budget, as determined by TC. Use of surplus funds as a revenue source is commonly referred to as an appropriation from surplus.

Appendix B of the Policy gives the following guidance on how appropriations from surplus to fund the budget should be treated:
It is important to note that appropriations from surplus must be allocated to specific areas of spending in order for this Policy guidance to be appropriately applied.

Upon review of the practical application of this section of the Policy in the Islands Trust budget, staff note no appropriations from surplus that have been unallocated, or that are not generating appropriate tax credits to BIM in accordance with the Policy. However, some topics of potential interest should be highlighted:

- **Guidance on Allocation of Appropriations from Surplus**
  Not contemplated in the Islands Trust Act, nor in Trust Council Policy, is a codified manner of how surplus funds will be allocated in the budget each year. Once allocated, the Policy provides direction on how the allocation will impact the BIM requisition, however the actual allocation of surplus funds to specific areas of work is determined by FPC and TC as part of their budget approval process. As such, it remains outside of the scope of the Policy and is not discussed. Staff note that historical practice of FPC and TC has been to allocate as much appropriation from surplus towards BIM requisition-impacting projects as possible, in order to afford credits to BIM as much as possible.

- **Accumulated Surplus Fund Tracking**
  Accumulated surplus funds are not broken out between those funds generated from monies BIM contributes to raising (i.e.: surplus funds generated from TC and ITC work) versus surplus funds generated from monies BIM does not contribute to raising (i.e.: surplus funds generated from LPS). All unspent funds at the end of a fiscal year flow into the same surplus fund pool, with no history as to where the funds originated. That means that surplus funds generated from LPS in year one may be applied to TC services in year two. In this example, BIM would not have contributed to the surplus funds generated by LPS, however they would receive a tax credit for the surplus funds used for TC services in the subsequent year. The same principle would be true if the scenario were reversed: surplus funds generated from unspent TC services funds in year one may be applied to LPS in year two, which would mean BIM would not receive a tax credit for use of funds they have contributed to raising.
This practice of not tracking surplus funds into the accumulated surplus fund pool is typical of local
governments (excluding reserve funds, which do follow such tracking). This type of tracking would
essentially be tracking by department, which staff assume most organisations would find
unwarranted as far as accumulated surplus fund balances are concerned. However, given the unique
components to Islands Trust funding as it relates to municipalities in the Trust Area, this may be an
area Trust Council wishes to explore as an option to assist with transparency and fairness of the
application of appropriations of surplus in the Islands Trust budget. Trust Council may consider
tasking staff with performing a historical review of accumulated surplus funds to determine the
impact this may be having on the BIM tax requisition. Any changes to how Islands Trust handles
surplus funds would require a change in Trust Council policy 6.5.1 Reserves and Surplus.

CONCLUSION
Staff conclude that no expenditure allocations have been identified as inappropriate in the Islands Trust
budget, per the Islands Trust Act and Trust Council policy. Consequently, no recommendation for a
change in the calculation of the municipal tax requisition has been made. Items of potential interest and
further consideration have been highlighted for Trust Council.

ATTACHMENT(S):
1. Islands Trust Council Policy 7.2.6 Municipal Tax Requisition Calculation Appendix A
2. Islands Trust Council Policy 7.2.6 Municipal Tax Requisition Calculation Appendix B

FOLLOW-UP: As directed by Trust Council.

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                Executive Committee/September 4, 2019