Islands Trust:

Island Municipality Transition Strategy

URBAN SYSTEMS

10/3/2000

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Appendices

1 Introduction

1.1 Purpose

The Islands Trust (the Trust), and the Ministry of Municipal Affairs (MMA), desire an examination of the implications of, and response options to potential island municipal incorporations within the Trust Area. The aim of the Transition Strategy (the Study) is to provide short to longer- term options and recommendations (2001 - 2007) to the Islands Trust and Ministry concerning:

- fiscal stability
- organizational adaptation

1.2 Background

The Islands Trust was established by Provincial legislation, the *Islands Trust Act,* (the *Act*) in 1974 to provide a unique form of local governance for 14 Local Trust areas and more than 470 islands located in the Strait of Georgia and Howe Sound. The *Object* of the Trust is to preserve and protect the Trust Area and its unique amenities and environment for the benefit of the residents of the Trust Area and of the Province generally. The *Act* was amended in 1990 to establish the Trust as an autonomous local government with land use planning regulatory authority. Subsequently, in the mid-1990's the *Act* was further amended to provide for the establishment of Island Municipalities within the Trust Area.

It is the implications and impact of the existing and potential incorporation of Island Municipalities, which is the subject of this study.

Governance for the islands, other than for the purposes of land use planning and regulatory authority, is provided by the seven adjacent Regional Districts, which operate under the *Local Government Act.* The level of growth on some of the larger islands is leading to a desire for increased local autonomy and to the establishment of new Island Municipalities. The first new Island Municipality was established in 1999 as Bowen Island Municipality. On Salt Spring Island, an Incorporation Study Committee, established in 1999, is currently reviewing the potential opportunities and impact of a new island municipal structure for that island. Similarly, discussions have recently commenced on the possible incorporation of Gabriola Island.

With the establishment of island municipalities, responsibility for local planning will be devolved from the Islands Trust to the newly created jurisdiction with, over time, the potential for significant financial and operational impacts on the Trust.

1.3 Format

The report is comprised of seven parts:

- Part 1 - Introduction - Outlines the purpose, background and methodology;
- Part 2 - Assumptions - Sets out the parameters assumed in the determination of the projections for the three identified scenarios;
- Part 3 - Implication Schedule - Provides details on the implications and a series of options to address the implications of each scenario;
- Part 4 - Conclusion - Provides a summary of significant findings and key conclusions are highlighted, with identified response themes;
- Part 5 - Response Options – Provides a Matrix to assist Council in their assessment and determination of appropriate actions;
- Part 6 - Action Plan – To be developed by the Trust Council, in a working session with senior staff, at the December meeting of Council; and
- Part 7 - Summary.

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1.4 Methodology

During the course of the development of this strategy document, we reviewed an extensive list of documentation related to the Trust, its operations and relevant incorporation information.

In addition to the review of documentation, interviews were conducted with senior staff from the Islands Trust, Ministry of Municipal Affairs and Ministry of Finance to provide additional perspectives on the intent and potential outcomes of the Transition Strategy.

A list of the documentation reviewed, and an interview list, is attached as Appendix "A"

2 Assumptions

The Islands Trust is a legislated entity, with corporate responsibilities, which will continue for the entire Trust Area, after the incorporation of island municipalities. The study assesses the impact of the potential incorporation of a number of the islands and provides a series of response options which will help to ensure the Trust continues as a viable operating entity, capable of carrying out the *Object* of the Trust, under various incorporation scenarios.

For the purposes of this study, we have used a seven-year projection period and constant 2000 dollars, plus the following assumptions:

2.1 Revenue

- Assessment base and the allocation of costs to the islands remain unchanged at the 2000 budget level
- Provincial Government grant remains unchanged at the 2000 level of $352,000
- Trust Area Service requisition continues for all Islands in accordance with the *Act*
- Fees and charges projections are based on the 1999 and 2000 actual revenue figures, and are reduced as the islands incorporate
- No appropriations from surplus have been included in the estimates
- Interest income declines, in line with the loss of revenue, over the term of the study
- Planning Service Contract Expiry Timetable:

  - Bowen Island contract expires December 31, 2002 and all local planning services and related costs are assumed by the new municipality for 2003
  - Salt Spring Island incorporates December 2001 and contracts for services for 2002 through 2004, with all local planning services to be provided by the new municipality commencing in 2005
  - Gabriola Island incorporates December 2002, and contracts for services for 2003 through 2005, with all local planning services to be provided by the new municipality commencing in 2006
  - Another island incorporates December 2003 and contracts for services for 2004 through 2006, with all local planning services to be provided by the new municipality commencing 2007

2.2 Expenditures

- Costs for Trust Area Service, which include the Trust Council, Trust Fund and Trust Area programs, remain constant at the 2000 budget level
- Capital Expenditure levels remain unchanged at the 2000 level of $15,000 per year
- Levels of Planning Service remain unchanged for all other unincorporated islands
- Elimination of direct office rental and lease expenses on the incorporated islands, at the conclusion of each contract period
- All direct costs for planning staff and directly related support services for each incorporated island are eliminated at the end of each contract period
- Average FTE salary and benefit costs have been estimated at $55,000, based on the 2000 budget estimates of approximately $2,000,000 in total costs for 36 FTE's
- Support staff cost are reduced by a ratio of .33 FTE's for each full-time planning position eliminated
- Indirect general administration and operation costs (overhead costs which include a portion of senior management salaries and expenses and unallocated general office operation costs) have been attributed to the Planning function and reduced,

upon the incorporation of each island, in relation to the reduction in staffing and services provided. Costs are set out on Schedule "E" and equate to approximately $40,000 for each full time planning position serving the 4 islands, which are considered in the study.

3 Implementation Schedule

This section provides specific information on the impact of the revenue and expenditure reductions in three scenarios.

- Scenario # 1 - addresses the immediate circumstances with the Bowen Island Incorporation;
- Scenario # 2 - foresees the potential incorporation of Salt Spring Island in the short term; and
- Scenario # 3 – provides a longer-range projection, which covers the possible incorporation of Gabriola Island and one other major island, after 2003.

3.1 Scenario # 1 – Bowen Island Incorporation

Appendix “B-2” provides details on the revenue, expenditures and the impact of this current scenario.

This Scenario reviews the implications of the incorporation of Bowen Island Municipality in December 1999. Under this current status scenario, the Trust has entered into an agreement for services with the newly incorporated municipality to provide Planning and Development Services for a three-year period running from January 1, 2000 to December 31, 2002.

- **Revenue**

The Service Agreement is based on the current level of services, which are provided by two Trust Planners, with appropriate support services for mapping and other ancillary services. Payment for the services provided is based on the *pro-rata* share of the net taxable assessed values for the Island properties, in accordance with the Bowen Island Letters Patent. For the 2000 contract year, the total cost of Local Planning Services for the entire Islands Trust area is estimated at $2,702,250, as set out in the approved budget. Revenue recoveries from development fees and charges are estimated at $100,000, with a further $33,500 appropriated from Surplus, leaving a net Local Planning Service cost of $2,569,050 for 2000. Bowen Island Municipality’s share for the first year of the Agreement is 13.16% of the net cost, for a *pro-rata* share of $338,087. This requisitioned amount is due and payable in two installments, with the first installment payable by May 3 and final payment due November 30, for the current year.

A protocol agreement provides for annual meetings and consultation between the Trust and Bowen Island municipal officials, to review the agreement and the contract fee for each ensuing year. For the purpose of this study, we have used constant 2000-dollar figures for the estimated contract fees and the requisition figures for the final two years of the agreement. With these assumptions, Bowen Island will continue to pay a contract fee of $338,087 in 2001 and 2002.

Upon conclusion of the current agreement, we have assumed that Bowen Island Municipality will commence to operate its own planning function, with a resulting loss of revenue to the Trust of $338,087 in contract fees, plus an estimated $8,000 in lost interest revenue earnings, for a total of $346,087 commencing in 2003, and for all subsequent years.

- **Expenditures**

With the conclusion of the three-year Service Agreement, we have estimated a reduction in the Trust's Local Planning Service expenditures, with the elimination of all direct costs for Bowen Island planning staff, related support services and office rental expenses, totaling $297,100 commencing in 2003.

Reductions in expenditures are estimated as follows:

Elimination of three planning staff positions & related operating costs (Actual 2000 budget figures allocated to Bowen Island planning costs)	$ 198,600
Elimination of direct office rental expenses	3,500
Elimination of a portion of the administration overhead costs	95,000

The net impact of the elimination of the contract fee and related expenses for the services, results in an operating shortfall of $48,987 for the 2003 budget year. This shortfall equates to a $3.37, an increase of 1.74% in the property tax level on an average residential dwelling valued at $250,000.

In addition to Local Planning Services covered by the Service Agreement, the new Bowen Island Municipality will continue to be responsible for its share of common Trust Area Services, in accordance with the Letters Patent for the new municipality and the *Islands Trust Act*. For the 2000 budget year, a levy of 12.97% of the net Trust Area Service costs has been requisitioned, based on a *pro-rata* share of the Converted Assessment Values, as determined by the BC Assessment Authority.

The net Trust Area Service costs for the 2000-year are estimated at $522,475, and this sum has been requisitioned for Trust Area Services in accordance with the *Islands Trust Act*. The current year's requisition from Bowen Island amounts to $67,765 for the common Trust Area Services delivered to Bowen Island residents. The level of services and share of costs are to be reviewed annually and a requisition levy established in accordance with *the Act,* based on the pro-rata share of assessment, as determined by the BC Assessment Authority. The protocol agreement provides for payment of the requisition by September 1st in each year of the agreement.

This pro-rata share of Trust Area Services costs will continue to be paid by Bowen Island Municipality after the conclusion of the Planning Service Agreement. This portion of the Islands Trust budget will not be affected in future years.

3.1.1 Implications of Bowen Island Incorporation

Under this first Scenario, the net revenue for local planning is reduced by $346,087, and expenditures are estimated to fall by $297,100, resulting in an operating shortfall of $48,987 in 2003. Implications for staffing, taxation requisition and service delivery are identified below.

- **Staffing**

  - Elimination of 3.0 planning and support staff positions by 2003, relating to direct service provided to Bowen Island Municipality, for savings of $165,000.
  - No immediate reduction in administrative support staff is projected or required under this scenario, although rationalization of administrative staff may follow in subsequent years.
  - Total staff compliment is reduced from budget estimates of 36 FTE's in 2000 to 33 FTE's in the year 2003, with possible implications relating to the Collective Agreement and other contractual arrangements, and may include early retirement options and reassignment of staff through negotiations with PSERC.

- **Organizational Administration**

  - Elimination of operation and maintenance costs for Bowen Island Planning Services and general administration services (overhead costs), in direct relationship to the reduction in staff, for a total savings of $115,000 in 2003.
  - Computer Service costs are reduced by $13,600 (10%) in recognition of the reduction in the level of staff and planning and support services being provided.
  - Office space requirements will be reduced, with the elimination of direct lease costs of $3,500, relating to the lease costs for office space on Bowen Island eliminated in 2003.
  - Other islands associated with Bowen Island to be reallocated to other Trust Area.

- **Taxation**
  - If an increase in the taxation was to be considered to address the shortfall of $48,987 for this scenario, an increase of $3.37 would be required, increasing the total levy to $197.12 for the year 2003.

- **Service Delivery**
  - For the year 2003, service delivery to the other islands will remain relatively unchanged from the current level.
  - Mapping services and bylaw investigation services are fully funded and operations can be maintained, to ensure a continuing high level of service to the entire Islands Trust Area.

3.1.2 Options to Address Implications

- **Bowen Island – Immediate**
  - Elimination of 3.0 planning staff by December 31, 2002, directly relating to the planning services provided on Bowen Island.
  - Elimination of all operating and maintenance costs relating to the Bowen Island Contract effective December 31, 2002.
  - Elimination of Bowen Island office rental/lease agreement as of December 31, 2002 and utilize short-term lease or rental agreements for all other facilities to ensure maximum flexibility.
  - Reduce the indirect general administrative operating costs (overhead) by the sum of $115,000, commencing with the 2003 budget year.
  - Reduce computer service expenses by $13,600 (10%) commencing in 2003, in line with the reduction in staff and service provided.

- **Other Preparatory Steps - (September 2000 to May 2001)**
  - Prepare a staffing plan to address possible future incorporations and the resulting transition to a new organizational structure.
  - Commence planning for the potential reallocation or elimination of planning and support staff positions, in line with the reduced level of services required, following the incorporation of any other new Island Municipalities and the assumption of services at the local level.
  - Consideration should be given to hiring all new planning staff on a project or term contract basis, to provide maximum flexibility for any future staffing level adjustments.
  - Monitor and record actual service costs and staffing allocations on an island-by-island basis, for heightened awareness of service levels and enhanced accountability to the island residents.
  - Enhance communications with island residents to increase the understanding and level of support for the Islands Trust and its services, and to encourage

longer-term relationships and possible contracts for Planning and Development Services, e.g. GIS & general mapping services.

- Explore new and expanded contract service opportunities, particularly in the area of mapping services, which may reduce service costs and refine service delivery to the member islands.
- Review fees and charges on annual basis to achieve full cost recovery for services provided, wherever possible.
- Consider placing any unspecified surplus from operations in 2000, 2001 and 2002 into a new Incorporation Transition Reserve Account to offset the potential impact of subsequent island incorporations.
- Approach the Province to ensure the level of Provincial Grant funding is maintained or increased from the 2000 level.
- Commence a review of policies governing the allocation of the Provincial Grant, e.g. consideration of allocation of all or part of base funding to the Planning function rather than 100% of grant being allocated to Trust Area Services.
- Recommend the “trigger” for implementing these additional measures to be a successful incorporation vote on any of the larger islands.

3.2 Scenario # 2 – Salt Spring Island Incorporation

Appendix “B-3” provides details on the projected revenue, expenditures and the implications of this scenario.

This Scenario includes the current status, as outlined in Scenario #1, and adds the potential incorporation of Salt Spring Island, which is assumed to occur in December 2001, following a successful referendum in the late fall of 2000.

- **Revenue**

Under this scenario, the new Salt Spring Island Municipality would enter into a Planning Service Agreement for a period of three years, in accordance with the Protocol Agreement with the Ministry of Municipal Affairs, which would parallel the Bowen Island Agreement in form and substance. Under the agreement, commencing January 1, 2002, Salt Spring Island Municipality would pay its net *pro-rata* share of Planning and Development Services, which amounts to $847,787 for the 2000/2001 budget year based on 33.8% of the Taxable Assessed Values for the current year. Again, using constant 2000 dollars, the amount of $848,000 has been used as the estimated share of Planning costs for each of the three years covered by the Agreement, years 2002, 2003 and 2004.

Following completion of a three-year service agreement, the Trust would lose the estimated contract revenue of $848,000 commencing in 2005 and for each subsequent year. Revenues would be reduced by a further $20,000 commencing in the year 2005, representing a loss in interest revenue arising from the Salt Spring Island contract fee, for a total reduction in revenue of $868,000. The cumulative loss of revenue to the Trust, including the loss of Bowen Island revenue, would rise to $1,249,087 in the year 2005, assuming no alternative revenue is being generated.

- **Expenditures**

Reductions in the directly related costs for Local Planning on Salt Spring Island, commencing in the year 2005, would reduce expenditures by an additional $465,600, for a total reduction of $779,900, and would leave an operating shortfall of $469,187 in that year.

Trust Area Services, at a net cost of $176,600, based on a 33% pro-rata share of the net Converted Assessed Values in the year 2000, would continue in accordance with the *Islands Trust Act* and as would be confirmed in the Letters Patent for the new Salt Spring Island Municipality.

3.2.1 Implications of Salt Spring Island Incorporation

Under this Scenario, the net revenue is reduced by a further $868,000 to a total reduction of $1,249,087 and expenditures are estimated to fall by a further $465,600, for a total reduction of $779,900 in the year 2005. This will result in an additional shortfall of $402,400 in 2005, increasing the accumulated shortfall to $469,187. Implications for staffing, taxation requisition and service delivery are identified below.

- **Staffing**

  - Elimination of 5.0 planning and support staff positions by 2005, relating to direct service provided to Salt Spring Island Municipality, for savings of $275,000.
  - Elimination of 1 administrative staff position is projected under this scenario, reducing general administrative staff to 8 FTE’s, plus the 3 Trust Fund employees. This will result in estimated savings of $55,000 per annum commencing in 2005. Elimination of additional administrative positions, under this scenario, is deferred until 2006 and 2007.
  - Total staff compliment is reduced from budget estimates of 33 FTE's in 2002 to 27 FTE’s in the year 2005, with implications relating to the Collective Agreement and other contractual arrangements, and may include early retirement options and reassignment of staff, through negotiations with PSERC.

- **Organizational Administration**

  - Elimination of direct operation and maintenance costs for Salt Spring Island Planning Services and a portion of the general administration costs, corresponding to the reduction in staff, totals $90,500 in 2005.
  - Office space requirements will be reduced in the year 2005, with the elimination of rental costs of $31,500 reflecting the actual rental costs for office space on Salt Spring Island.

- Computer service costs are reduced by further $13,600 (approximately 10%), in recognition of the continuing reduction in staffing levels and planning and support services to be delivered.

- **Taxation**

  - The shortfall resulting from the loss of revenue from Salt Spring Island equates to a tax increase of $42.99 *per annum*. This would increase the total tax levy to $241.45, an increase of $47.70 over the 2000 taxation level.

- **Service Delivery**

  - For the year 2005, service delivery to the remaining islands can remain relatively unchanged under this scenario, assuming the shortfall is covered by an increase in taxation or some other source of revenue.
  - Mapping services and bylaw investigation services continue to be fully funded to maintain a high level of service to the Islands Trust area.

- **Governance**

  - With the incorporation of two islands, the Islands Trust Council will have 4 of 26 elected members representing the incorporated islands and will start to see a change in the dynamics of the Council, similar to the rural/urban split in a number of regional districts.
  - Will require recognition of the new dynamics and a conscious effort to maintain the support of the Council as a whole to address the Trust mandate.

3.2.2 Options to Address Implications

- **Salt Spring Island – Mid-Term**

  - Implementation of tax increases, upon approval of an incorporation vote, to be phased-in over a three-year period, concurrent with the Planning Service Contract. The level of taxation would increase to 0.84 in 2003; 0.90 in 2004 and to 0.966 in 2005, representing annual increases of approximately $16.00 in each year to a total of $241.45 in 2005. This represents an increase of $47.70 *per annum* over the 2000 level, on an average residential dwelling valued at $250,000.
  - Elimination of 5 Planning staff positions as of December 31, 2004, at a savings of $275,000.
  - Reduction of a portion of the indirect administrative and operating costs (overhead) by $131,850, including the elimination of 1 full time administrative staff position.
  - Elimination of rental and operating costs relating to the Salt Spring Island contract effective December 31, 2004, for a savings of $58,750.
  - Reduction in Computer Service costs by further $13,600.

- **Other Short Term Adjustment (June 2001 – November 2002)**

  - Establish a Multi-Year Budget and Financial Planning process to address reduced revenue e.g. planned utilization of Reserve Funds and any other special transitional assistance, which may be provided by the Province, to phase-in the impact of reducing revenue from incorporated island municipalities.
  - Utilize short-term lease agreements for office facilities and equipment, to maintain flexibility to address future reduced space and equipment requirements.
  - Review taxation options including the potential for specified service area tax rates to reflect the varying levels of service provided to the islands, e.g. specific legal actions.
  - Consider tax increases to establish Special Reserves for transitional funding, to address the potential loss of Planning Service revenues which will result from the incorporation of other islands.
  - Develop a concrete proposal for future Provincial Government Grants, based on the approved Islands Trust Policy Statement and the broad Provincial Interest and benefit to the residences of the province.
  - Staffing plan to be finalized and implemented to address the reducing staff requirements.
  - Consider reallocation of 50% of the Provincial Grant ($176,000 based on the current level) to the Planning Service function, not later than 2005, to assist in covering the shortfall occurring upon the completion of the Salt Spring Island Service Contract. This action would result in the reallocation of $82,320 to the

two incorporated islands considered in this scenario, reducing a potential annual tax increase by $7.85 for an average residential unit.

3.3 Scenario # 3 – Gabriola and Another Island's Incorporation

Appendix "B-4" provides details on the revenue, expenditures and financial implications under this scenario.

This Scenario includes Scenarios # 1 and # 2 and adds the potential incorporation of Gabriola Island in 2002 and the incorporation of one of the other major islands in 2003. Under this scenario, the new municipalities would commence payment for their Planning Services under Agreements, which would run from January 1, 2003 to December 31, 2005 for Gabriola Island and for the years 2004 through 2006 inclusive for the other island.

- **Revenue**

Payment for services under the agreements would be in line with the Protocol Agreement and Letters Patent for the new jurisdictions. The allocation of costs would be based on the *pro-rata* assessed values and amount to $308,300 per annum (12.06%) for Gabriola and an estimated $165,000 *per annum* (6.5%) for the other island, for the three year periods of their contracts.

Upon conclusion of the two Agreements, annual revenues would be reduced by a further $313,300 in 2006, representing the loss of the Gabriola contract fee for service plus lost interest earnings of $5,000 *per annum*, and an additional $170,000 for the other island in the year 2007, again including $5,000 in lost interest revenue in each year. This represents a total additional reduction of $483,300 for the two islands and an accumulated loss of revenue totaling $1,747,387 in the final year of the study period.

- **Expenditures**

At the end of the Service Agreement periods, elimination of costs directly related to the Planning Service function on these islands and corresponding reductions in administrative staff and related services, would reduce expenditures by a total of $266,600 in 2006 and a further $164,500 in the year 2007. This represents a total reduction of $1,232,600 in the year 2007. This would result in an additional operating shortfall of $46,700 in 2006 and a further $5,500 in 2007 for an accumulated shortfall of $514,787 in the final year of the study period.

As in the other scenarios, Gabriola and the other incorporated Island would continue to be responsible for their pro-rata share of cost for the Trust Area Services.

3.3.1 Implications of Gabriola and Another Island's Incorporation

Under this Scenario, the net revenue is reduced by a further $313,300 in 2006 and a further $170,000 in 2007, for a total reduction of $483,300 and an accumulated loss in revenue of $1,747,387 by 2007. Expenditures are estimated to fall by a $266,600 in 2006 and an additional $164,500 in 2007 for a total of $431,100 for the two islands, and an accumulated decline in revenue of $1,232,600 in the final year of the study period. This would result in an increase in the shortfall of $46,700 in 2006 and a further $5,500 in 2007 for a maximum shortfall of $514,787 for the 2007 budget year. Implications for staffing, taxation requisition and service delivery are identified below.

- **Staffing**

  - Elimination of 2.25 planning and support staff positions in 2006 and a further 1.75 staff in 2007, relating to the planning services provided to Gabriola Island Municipality and the other island municipality, for a direct savings of $220,000 in the year 2007.
  - Elimination of 1 additional administrative staff position in each of the years 2006 and 2007, reducing the general administrative staff to 6 FTE's, plus the 3 Trust Fund employees, and reducing expenditures by an additional $55,000 in 2006 and a total of $110,000 for 2007 and beyond.
  - Total staff compliment is further reduced from 27 FTE's in 2005 to 21 FTE's in the year 2007, again with potential implications relating to the Collective Agreement and other contractual arrangements, including potential early retirement options and the reassignment or transfer of staff.

- **Organizational Administration**

  - Elimination of operation and maintenance costs relating to the Planning Services provided to the two Island totaling $61,300. This saving reflects the reduction in staff and a portion of the servicing costs for the two islands.
  - Office space requirements will be reduced, with the elimination of rental costs of $13,000, being the direct rental costs for office space on Gabriola Island, to be eliminated in 2006.
  - Computer service costs have been further reduced by $26,800, relating to approximately 10% in each of the years 2006 and 2007. This recognizes the continuing reduction in staffing levels support services provided to the islands.

- **Taxation**

  - The additional direct shortfall relating to the two islands would equate to a tax increase of $14.74 in 2006 and a further $ 7.87 in 2007 for a total increase of $69.65 over the seven years of the study period, to a total levy of $263.40.

- **Service Delivery**

  - For the years 2006, 2007 and beyond, we have projected that service delivery can remain relatively unchanged for the remaining islands sharing the planning services function, again assuming the shortfall is covered by an increase in taxation or other source of revenue.
  - As in the other scenarios, mapping services and bylaw investigation services continue to be fully funded to maintained a high level of service to the Islands.

- **Governance**

  - With this scenario, the Trust Council will include 8 representatives from the incorporated islands, representing over 30% of the elected officials. The group dynamics will have changed significantly by this time and representation on the Executive Committee should be amended to ensure adequate representation from the incorporated islands.

3.3.2 Options to Address Implications

- **Gabriola or Other Island - Longer Term**

  - Elimination of related planning positions estimate at 2.25 FTE's for Gabriola and 1.75 FTE's for the other island and direct support services for a savings of $123,700 in 2006 and a further $96,300 in 2007.
  - Reduction of the administration overhead costs, estimated at $116,300 for Gabriola and $55,000 for the other island. This includes the elimination of 1 administrative staff position for each of the islands involved at this stage and we have projected the elimination of 1 position in 2006 and 1 position in 2007.
  - Reduction in computer service costs of $26,800 over the two year period
  - Elimination of rental costs relating to the two islands for a saving of $13,000.

- **Other Long Term Readiness (2003 and beyond)**

  - Consider adoption of policies governing the allocation of the Provincial Grant to reduce the financial impact of the structural changes in the Trust and its service delivery; e.g. Reallocation of a portion of the Provincial Grant to the Planning function, which could reduce the level of a potential tax increase by sharing a larger portion of the corporate costs over all of the islands. Specifically, reallocation of 50% of the Grant to Planning Services would reduce the total tax requisition for planning purposes by $176,000 and the apportionment would result in a reallocation of $111,910 to the four incorporated islands covered in this scenario. This action could reduce the projected tax increase by $16.33 on an average residential unit.
  - Team building initiatives should become a regular occurrence, and a high priority for the Board, to maintain a strong level of support for the federation and its activities.

3.4 Secretariat Model

The Executive Committee requested that we also consider a base level of staffing and services for the Trust, assuming incorporation of all of the major islands and the elimination of all planning service to the remaining islands. A base level of staff would be as follows:

General Manager/Corporate Secretary & 1 support staff	- 2	FTE's
Manager of Finance/Treasurer & 1 support staff	- 2	FTE's
Senior Planner and ½ support position	- 1.5	FTE's
Trust Fund Coordinator and ½ support position	- 1.5	FTE's
Contract services for Mapping & any other services	- 0	FTE's
Total Base Secretariat Staff required	7	FTE's

We have used an average FTE cost of $55,000, resulting in a base budget for a Secretariat with 7 FTE's, and with overhead costs at 50% of staffing costs, estimated at $630,000 plus Trust Council costs of $325,000, for a total annual cost of $955,000.

3.5 Summary of Key Points

- **Scenario # 1** - Bowen Island Incorporation

  - Three-year Planning Services Agreement expires December 31, 2002
  - Revenues will decline by $ 346,087 commencing in 2003
  - Expenditures should decline by $297,100 by 2003
  - Planning staff to be reduced by 3 employees at a savings of $165,000
  - Elimination of planning service operating expenses of $11,300
  - Elimination of Bowen Island office lease expenses of $3,500

- Reduction of indirect overhead expenses of $113,700
- Reduction in computer services expenses of $13,600
- Operating deficit of $48,987 results for the year 2003
- Islands associated with Bowen Island to be reallocated to other Trust Areas
- Trust continues as a viable operating entity, with the level of service provided to the other islands remaining relatively unchanged, assuming costs are covered by an increase in taxation in 2003

❑ **Scenario #2** – Salt Spring Island Incorporation, in addition to Scenario # 1

- Incorporation is assumed to occur in December 2001
- Three-year Planning Services Agreement expires December 31, 2004
- Revenues will decline by an additional $868,000 for a total reduction of $1,249,087 in 2005
- Expenditures will decline by a further $465,600 for a total of $779,900 in 2005
- Planning Staff reduced by a further 5 employees for a savings of $275,000
- Elimination of planning service operating expenses of $26,250
- Elimination of Salt Spring Island office lease expenses of $31,500
- Reduction of indirect overhead expenses of $64,250
- Elimination of 1 administrative staff position for a savings of $55,000
- A further reduction in computer services expenses of $13,600
- An increase in the operating deficit of $402,400 in 2005 for an accumulated shortfall of $469,187 in the budget year 2005.
- All trust services will continue at the previous level for all other islands, assuming the shortfall is covered by an increase in property taxation or from some other source

❑ **Scenario #3** - Gabriola Island Incorporation and One Other Major Island Incorporation, in addition to Scenarios # 1 & # 2

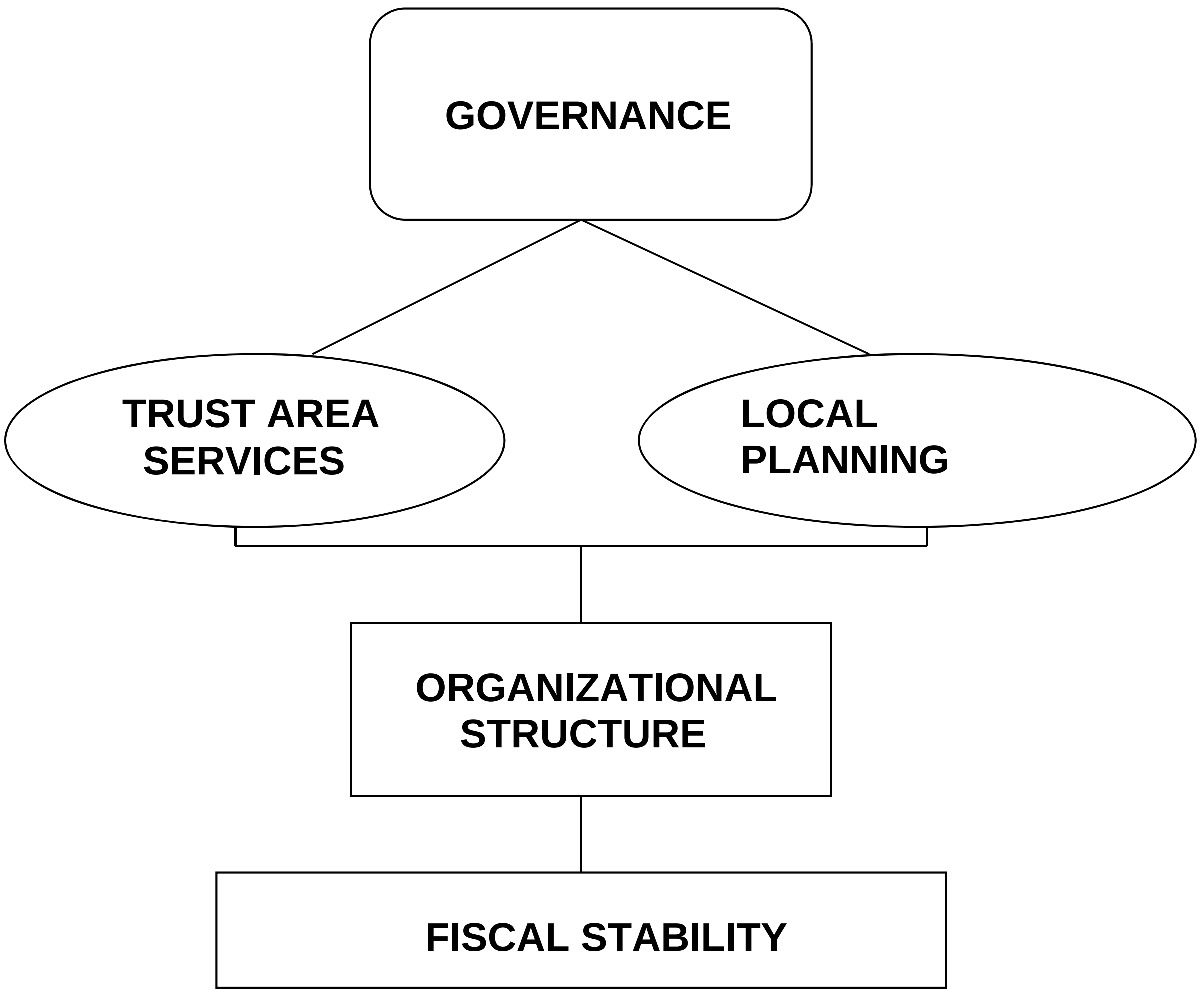
- Incorporations are assumed to have occurred in 2002 and 2003
- Three-year Planning Service Agreements expire at the end of 2005 & 2006
- Revenues will decline by a further $483,300 to a total of $1,747,387 by 2007
- Expenditures will decline by a further $431,100 for a total reduction of $1,232,600 by 2007
- Planning Staff reduced by an additional 4 employees, 2.25 FTE's in 2006 and 1.75 FTE's in 2007, for a savings of $220,000 per year in the final year of this scenario
- Elimination of related operating expenses estimated at $61,300
- Elimination of related office lease expenses of $13,000
- Reduction of indirect overhead expenses estimated at $110,000 by elimination of 2 additional administrative support staff, one in each year of 2006 and 2007
- A further reduction in computer service expenses of $26,800 over two years

- An additional operating deficit of $47,700 in 2006 and a further shortfall of $5,500 in 2007 for a maximum operating deficit of $514,787 which occurs in the final year of the study period.

4 Conclusions

4.1 Conclusion Areas

Conclusions have been identified in five areas as set out in the attached diagram:



4.2 Conclusion Summary Matrix

Themes	Base Year	Scenario # 1	Scenario # 2	Scenario # 3
Time Frame	2000	2003	2005	2006 & 2007
Staffing Levels	Total Compliment of 36	Reduced by 3	Reduced by 6 including, 1 Administration support for a total reduction of 9 staff	Reduced by 6 including 2 additional administrative support staff, for a total reduction of 15 staff
Organizational Administration	Total Lease/Rental Expenses of $270,800	Elimination of direct and a portion of overhead costs Elimination of office space on Bowen Island	Elimination of direct and a portion of overhead costs Elimination of office space on Salt Spring Island or equivalent	Elimination of direct and a portion of overhead costs Elimination of office space on Gabriola Island
Service Delivery	Total Cost of $136,000	Unchanged for the remaining islands Computer Service support reduced by 10%	Unchanged for the remaining islands Computer service support reduced by 10%	Unchanged levels for remaining islands Computer service support reduced by 20%
Taxation	Total Taxation Levy $193.75	Increase of $ 3.37 Total Taxation $ 197.12	Increase of $44.33 including $1.34 in lost fees and charges in earlier years for a total levy of $ 241.45	Increase of $14.74 for Gabriola and $7.87 for the 2nd island for a total increase of 21.95, net of .66 to offset fees and charges lost in previous years for a total levy of $263.40
Governance	26 Trustees	2 trustees from incorporated island – 7.7% No Change	4 Trustees from incorporated islands - 15.3% Limited Impact	8 Trustees from incorporated islands – 30.8% Changed dynamics Change in structure required

4.3 Key Conclusions

- **Trust Area Services**

  - It is the remaining output related to island municipalities.
  - It is the primary output related to the provincial interest.
  - Least fiscally vulnerable area.

- **Local Planning Services**

  - It is the primary output for island communities
  - Highest fiscal vulnerability due to lost subsidies of candidate island municipalities.
  - Unincorporated areas may realize significant changes in services.

- **Organizational Infrastructure**

  - The infrastructure (office systems, administrative services) does not have a discreet or direct ratio correlation to the scenarios.
  - The Infrastructure is vulnerable when Salt Spring Island and/or two more other island municipalities incorporate.

- **Trust Area Governance**

  - There will no longer be a federated resource pool.
  - Trustee roles will be varied and internal relationships will change.

- **Fiscal Stability**
  - Heavy reliance on property taxes, which does not reflect input (taxes)/output (services) equity.
  - Salt Spring Island incorporation will have a significant impact to be managed.
  - Other scenarios have a significant cumulative impact but over a longer period of time.

5 Response Option

5.1 Response Themes

5.2 Response Options Analysis

RESPONSE OPTIONS/STRATEGY	ASSESSMENT/NOTES
Expense Adjustments Office Lease Terminations Computer System Reductions Seek Contractual Arrangements with Regional Districts Review Current Capital Program	
Service Adjustments Determine Planning Service Levels Assign Resources to Service Levels Adjust Bylaw Investigations /Enforcement Services Establish Work Program Allocation Ratios Adjust GIS/Mapping Services	
Staff Adjustments Pre-Arrange Transfers to Municipalities Ensure Protection Rights via PSERC Utilize Term Employment for Vacancies Contract-Out Some Services Seek Partnerships Establish Staff Adjustment Strategy	
Taxation Adjustment Service Driven Tax Rate Scheme Utilize Local Levies for Non-Core Services Initiate Phased-In Transition Programs	
Provincial Support Seek Provincial Interest Support Seek Provincial Grant Increase – Trust Area Services Seek Provincial Grant – Local Planning Transition Seek Provincial Grant – Local Planning for Unincorporated Area	

Reallocate a Portion of Benefit to Planning Function	
Organizational Restructure Regional Governance Model Commission Model	
Other Revenue Re-Calculate Trust Area Services Cost Share for Island Municipality Seek Support for Trust Fund Board Increase Fees and Charges	

6 Action Plan

The Action Plan to address the implications of the potential incorporation of Island Municipalities is to be developed by the Islands Trust Council, in a working session with senior staff, at the December Trust Council meeting.

7 Summary

Incorporation of island municipalities is a reality with Bowen Island incorporated in 1999 and it is only a question of time before other islands proceed with restructure studies as well. The impact of this first island incorporation will be relatively minor, assuming the number of planning staff and direct costs of administering the planning function for Bowen Island are reduced, in accordance with the “Immediate Options”, which are set out in Section 3.1.2 on page 6 of this report.

This first phase of island incorporations will allow the Trust time to address the potential implications of subsequent incorporations and to prepare specific strategies to respond to the resulting changes that will be required to mitigate the impact on revenue and services. Consideration should be given to the “Other Preparatory Steps”, which are also outlined in Section 3.1.2 on page 6 of this report.

The “trigger” for implementation of the strategies developed will be the approval of a vote on an incorporation referendum on any island.

Should Salt Spring Island approve a referendum and proceed with incorporation, as outlined in Scenario #2 of this report, it will be necessary for the Trust to immediately commence the implementation of specific actions to address the significant loss of revenue which will occur. While the current protocol agreement will allow some time with the three-year planning service agreement, we would specifically encourage the Trust Council to consider the following actions:

1. Prepare a multi-year Budget;
2. Implement a staff reduction plan, including the hiring of planning staff on a project or term contract basis;
3. Implement a 3-year phased-in taxation increase to the new threshold;
4. Consider a tax increases to establish Special Transitional Reserve account;
5. Consider the use of Specified Service Area Taxation to cover costs of specific services and functions;
6. Utilize short term lease agreements for office facilities;
7. Commence a review of policies governing the allocation of the Provincial Grant;
8. Seek partnerships and contractual arrangements with regional districts;
9. Commence a detailed review of the Governance Options to address the future needs of the Trust;
10. Develop a concrete proposal for future Provincial Government grants, based on the approved Trust Policy Statement and the identified Provincial Interest; and
11. Upon completion of the 3-year planning agreement, implement the "Midterm Options", which are set out in Section 3.2.2 on page 9 of this report.

Incorporation of other islands, aside from Salt Spring Island, will have a cumulative effect on the organization and the operations of the Trust. Reductions in staffing and service levels will be required to address subsequent incorporations of island municipalities.
The Islands Trust Transitional Strategy foresees the continuing operation of the Trust as a viable and financially stable organization, capable of achieving its objectives. This statement is predicated on the assumption that the appropriate changes in staffing levels and operation costs are implemented, as outlined in the 3 Scenarios, along with the suggested increases in taxation or other sources of revenue.

A tax increase of up to 36% may be required over the next five to seven years, if a number of the scenarios are realized. Staffing levels will have to be reduced by over 40% and new service delivery options will have to be considered. These options will include contractual service arrangements with neighbouring regional districts, and others, and may include the implementation of direct fee for service options and specified service area tax levies.

Governance of the Islands Trust will change significantly with the incorporation of a number of the islands, and changes will be necessary to address the changing demands of the member islands. Governance structures, which may be considered, include a new regional district covering the islands in the Trust Area. A more likely option would be a Secretariat model, with responsibilities reduced to address the Provincial Interest, with all other services, including the planning function, becoming the responsibility of the existing regional districts in the area.

A preferred option may be the continuation of the existing model, to address the unique mandate of the Islands Trust, but with the levels of services provided reduced to more appropriately address the needs of the remaining, unincorporated islands.

The Scenarios outlined in the study are hypothetical, but the financial analysis provided should form a practical base for development of long range financial strategies to address the potential incorporation of island municipalities in the future.