

<b>Department of Finance</b> <b>Policies and Procedures</b>	
<b>Financial Sustainability Policy</b>	
<b>Authorized by: Council</b>	<b>Date of issue: January 20, 2009</b> <b>Date of amendment: October 1, 2015</b>

**Purpose**

The purpose of the Financial Sustainability Policy is to guide the City’s financial planning to meet financial obligations while providing high quality services.

**Primary Objective**

The policies shall be designed and structured to develop principles that guide, support and respect the direction of the community so that tax payers can look forward to stable, equitable and affordable property taxation.

**Policies**

**1. Growth in Property Tax Base**

The City is surrounded by other municipalities and has no ability to expand. However, re-development is occurring that brings in new property tax revenue. This new revenue must be estimated using the best available data. The City recognizes that any new developments or re-developments increase demand on existing infrastructure and may result in the need to expand that existing infrastructure.

**Policy 1.0**

Conservative estimates of non-market change assessment revenue will be included in the budget based on information provided by BC Assessment, the Planning and Development Department and the Finance Department.

**Policy 1.1**

To balance infrastructure upgrade needs with ongoing operating funding requirements, the first \$500,000 of assessment growth (non-market change) property tax revenue will be transferred to infrastructure reserves and the remaining balance allocated as determined by Council.

**2. Property Tax Increase**

Rising costs of existing services at existing service levels must be recognized. One-time revenues or non-renewable reserves should not be used to fund on-going operating expenses.

## **Policy 2.0**

Each budget cycle, Council will consider the property tax increase required by first covering the projected cost increase for existing services at existing service levels and then considering other enhancements. (Also see Policy 3.)

### **3. New Services and Major Enhancements to Existing Services**

The property tax increase established under Policy 2 allows the City to provide the same level of service to the existing tax base. It is not designed to provide for new services or major enhancements to existing services.

## **Policy 3.0**

New services or enhancements to existing services will be funded by one or a combination of the following:

1. A reduction in the cost of existing services. This may include a reallocation of resources from one area to another.
2. An increase in non-tax revenues.
3. A further increase in property taxes.

### **4. Efficiencies, Demand Management and Service Level Changes**

As a sound business practice, departments strive to find and explore efficiencies throughout the City's operations. The City does not have the resources to meet all of the demands that are made. Demand must be managed to make sure that expectations reflect our fiscal realities and the need to contain expenditures. Areas where service level changes may be possible must be identified and brought forward for Council's consideration.

## **Policy 4.0**

Business Plans will identify demand management strategies and will include options for service level changes and alternative service delivery models.

### **5. Alternative Revenues and External Funding**

To diversify its revenue base, the City continually looks for new revenue sources that are consistent with the City's Five-year Financial Plan and 20-year Capital Plan.

## **Policy 5.0**

All departments will make every effort to access external funding from non-City sources including other levels of government. All departments will endeavour to develop partnerships, strategic alliances and shared project funding to assist in the reduction of expenditure to the City. Any additional funding can be used to reduce property tax increases, increase service levels and/or provide new services.

### **Policy 5.1**

Grants should be sought for known infrastructure needs or identified priorities in the City's Strategic Plan even if they are not included in the financial plan due to limited funding or pending Council decision.

## **6. Infrastructure Maintenance and Replacement**

Much of the City's infrastructure is at or nearing the end of its life. The City has an inventory and performs condition assessments of its assets on an ongoing basis. This allows the City to develop and update plans to keep the infrastructure in a proper state of repair to avoid costly failures.

### **Policy 6.0**

The City will establish and maintain an inventory of its infrastructure. A maintenance/replacement plan will be developed utilizing best practices, to keep existing infrastructure in an acceptable condition. This program will be included in the Five-year Financial Plan and the 20-year Capital Plan.

### **Policy 6.1**

The City will depreciate its infrastructure over the useful life of the assets and a sustainable funding strategy will be developed.

### **Policy 6.2**

Each year, Council will consider a property tax increase dedicated to increasing capital infrastructure investment.

## **7. Self Financed Programs**

The City has several self financed programs: Water Utility, Sewer Utility, Stormwater Utility and Solid Waste and Recycling Utility. The costs for self financed programs should be fully funded by user fees. The Water and Sewer Utilities have established reserves. Any surplus or deficit is transferred at the end of each year to or from each reserve.

### **Policy 7.0**

The City's self financed programs are to be fully funded by user fees including corporate overhead, equipment replacement, debt financing, transfers to reserves and capital expenditures.

### **Policy 7.1**

To ensure that programs remain self funded, user fees for each will be adjusted annually to offset any changes in costs.

## **8. Debt Management**

The maximum amount that the City can borrow from external sources is set by the Community Charter. Debt should only be incurred for one-time capital expenditures and not for on-going programs. Borrowing for one-time capital expenditures allows the cost of the project to be spread out over the useful life of the asset. This results in the costs being paid by future beneficiaries as well as current taxpayers.

### **Policy 8.0**

Debt from external sources should only be incurred for one-time capital projects. These projects should be identified as debt-funded projects in the Five-year Financial Plan and 20-year Capital Plan. A separate report, including a business case, to Council is required seeking approval for proceeding with the borrowing process.

### **Policy 8.1**

Every attempt should be made to keep the debt servicing charges at the current budget level of 7% of the property tax levy by adding new debt only in the years when other debt issues are retired. This will minimize the impact on property taxes as a result of new debt.

### **Policy 8.2**

Debt for Self-financed entities (Water Utility, Sewer Utility, Stormwater Utility, Solid Waste and Recycling Utility and Parking Services) can be incurred if supported through a business case, without consideration of Policy 8.1 which only applies to projects that impact on property taxes.

### **Policy 8.3**

As an alternative to external borrowing, funds in the City's Debt Reduction Reserve can be borrowed with a maximum repayment term of 15 years at an interest rate equal to the lost investment interest

## **9. Fees and Charges**

Fees and charges are a significant portion of the City's revenues. They will be reviewed on a regular basis to avoid major changes and to provide users with adequate notice of those changes. Any review will include an analysis of the City's costs in providing the service as well as a comparison to other municipalities.

### **Policy 9.0**

Fees and charges will be reviewed annually and adjusted where appropriate. Departments should consider a minimum increase equal to inflation (CPI.) The users will be provided with no less than 2 months notice of those changes. Fee bylaws should, when appropriate, include an annual increase equivalent to the Consumer Price Index for Victoria.

## **10. Surplus**

Surplus represents non-renewable savings and should not be used for operating purposes or for on-going capital programs.

The Financial Stability Reserves (Operating Fund, Police Department, Water Utility, Sewer Utility, and Stormwater Utility) were established to ensure ongoing financial stability and fiscal health of all City Entities. They are funded from the year-end surplus in each respective fund.

### **Policy 10.0**

Surplus will only be considered as a funding source for one-time expenditures. Any surplus not used for one-time expenditures will be transferred to infrastructure reserves, financial stability reserves and/or debt reduction reserves. (Also see Policy 11.)

## **11. Reserve Funds**

The City has a number of reserve funds established for various purposes. The City strives to develop appropriate reserves to meet future financial obligations with respect to City equipment and infrastructure, fiscal needs and employee benefit obligation.

### **Policy 11.0**

Each reserve fund is governed by the City's Reserve Fund Policy that outlines the purpose, the types of expenditures permitted and the desired levels of each reserve.

## **12. Capital Projects and Programs**

Capital projects and programs are funded from a variety of sources including a capital property tax levy, grants and reserves. Once the project or program is completed, its on-going maintenance costs need to be included in the operating budget and future upgrade and/or replacement costs need to be included in the capital plan. These on-going and future costs must be clearly understood before a capital project is approved.

### **Policy 12.0**

Each capital project or program submitted for consideration must clearly state the full initial cost as well as future costs, including operating and upgrade/replacement costs. In addition, the source of sustainable funding for such costs has to be demonstrated.

### **13. Re-budgeted Capital Projects and Programs**

Every year, some capital projects and programs are not completed in the year they were budgeted for. In such instances, a request to re-budget the portion of the project or program that is yet to be completed is submitted to Finance.

#### **Policy 13.0**

Requests to re-budget capital projects underway are granted. However, other capital items may be scaled back or deferred to accommodate the re-budget request.

#### **Policy 13.1**

Requests to re-budget capital projects that have not been started are not granted. These projects will be considered and prioritized along with all other capital items being put forward.

#### **Policy 13.2**

Requests to re-budget capital programs are not normally granted. However, should such a request be granted, next year's program will be scaled back to accommodate the re-budget request.

### **14. Large Scale Capital Projects**

Some capital projects are very large in scale and have various phases.

#### **Policy 14.0**

Large scale capital projects will be budgeted in at least two phases. Phase one is for planning and design. Phase two and any subsequent phases are for implementation/build.