



Governance and Priorities Committee Report

For the Meeting of January 22, 2015

To: Governance and Priorities Committee **Date:** January 9, 2015
From: Susanne Thompson, Director, Finance
Subject: Potential Review of City's Financial Sustainability Policy

Executive Summary

The purpose of this report is to seek Council direction regarding a potential review of the City's Financial Sustainability Policy.

As an important guiding policy for the City's budget development, it is prudent to review the policy regularly to ensure that it continues to reflect the policy direction of Council. The draft 2015 financial plan was developed based on the current policy, with the exception of the increase to capital funding for which Council gave direction to levy a 1.25% tax increase for 2015 rather than the 1.5% per the policy.

Over the last year, a number of questions have been raised by Council regarding some of the policies. This report provides a short summary of some of the policies that may be considered during a review.

Recommendation:

That Council:

1. Direct staff to initiate a review of the Financial Sustainability Policy
2. Provide direction regarding the scope of the review
3. Direct staff to report back to Council outlining the proposed resource requirements and timeline for the review

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Susanne Thompson".

Susanne Thompson
Director, Finance

Report accepted and recommended by the City Manager:

Date:

A handwritten signature in black ink, appearing to be a stylized "M".
January 14, 2015

Purpose

The purpose of this report is to seek Council direction regarding a potential review of the City's Financial Sustainability Policy.

Background

The Financial Sustainability Policy (attached as Appendix A) guides the City's budget development. The primary objective is to outline 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. The policy contains 14 policies addressing items including growth in the property tax base, property tax increases and infrastructure funding.

The draft 2015 financial plan was developed based on the current policy, with the exception of Policy 6 – Infrastructure Maintenance and Replacement, for which Council gave direction to levy a 1.25% tax increase for the capital budget for 2015 rather than the 1.5% per the policy.

Issues & Analysis

As an important guiding policy for the City's budget development, it is prudent to review the policy regularly to ensure that it continues to reflect the policy direction of Council.

Over the last year, a number of questions have been raised by Council regarding some of the policies. Below is a short summary of some of the policies to give Council an overview of what may be considered during a review.

Policy 1 – Growth in Property Tax Base:

This policy guides how new property tax revenue is used. The current policy is to transfer this revenue to infrastructure reserves.

Policy 6 – Infrastructure Maintenance and Replacement:

The 2014-2033 Capital Plan includes increases of 1.25% for 2014 and 2015 and 1.5% for 2016 to 2018. The current policy outlines an annual property tax increase of 1.5% to increase capital budget funding.

Policy 8 – Debt Management:

This policy only addresses debt from external sources. Internal borrowing through the Debt Reduction Reserve could also be an option. The current policy keeps the debt servicing charges that are funded through property taxes at a fixed amount (\$7.8 million). Having a limit on the debt servicing level ensures that the draw on the annual revenues to service debt is controlled.

Policy 9 – Fees and Charges:

Some fees and charges, such as utility and recreation user fees, are reviewed and adjusted annually. However, other fees, such as development cost charges, have not been increased in a number of years. The current policy suggests that all fees and charges be reviewed annually and that inflationary increases be applied each year.

Options & Impacts

Option 1 – Direct staff to initiate a review of the Financial Sustainability Policy addressing specific items as outlined by Council.

Impact – will provide Council an opportunity to amend the policy as desired

Option 2 – Do not initiate a review of the Financial Sustainability Policy

Impact – will not address any concerns Council may have regarding this policy

Recommendation

That Council:

1. Direct staff to initiate a review of the Financial Sustainability Policy
2. Provide direction regarding the scope of the review
3. Direct staff to report back to Council outlining the proposed resource requirements and timeline for the review

Appendix A

<i>Department of Finance</i> <i>Policies and Procedures</i>	
Financial Sustainability Policy	
Authorized by: Council	Date of issue: January 20, 2009 Date of amendment: March 24, 2011

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 address infrastructure upgrade demands as a result of new developments or re-developments, any non-market change assessment revenue will be transferred to infrastructure reserves.

Appendix A

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.

Appendix A

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

The City will only apply for grant funding for projects that are already included in the Five-year Financial Plan and the 20-year Capital Plan.

Appendix A

6. Infrastructure Maintenance and Replacement

Much of the City's infrastructure is at or nearing the end of its life. The City is in the process of creating an inventory and completing a condition assessment of its assets. This will allow the City to develop a plan 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

An annual property tax increase of 1.5% will be levied to increase capital budget funding.

7. Self Financed Programs

The City has several self financed programs: Water Utility, Sewer Utility, Garbage Utility, and the Victoria Conference Centre. The costs for self financed programs should be fully funded by user fees. The Water and Sewer Utilities and the Victoria Conference Centre 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.

Appendix A

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 by adding new debt only in the years when other debt issues are retired. This will ensure that there is no additional budget impact and in turn no increase in property taxes as a result of new debt.

Policy 8.2

Debt for Self-financed entities (Water Utility, Sewer Utility, Victoria Conference Centre, 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.

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.

Appendix A

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 and Sewer 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.

Appendix A

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.