

SUSTAINABLE FINANCE GUIDELINES

City Government – Sustainable Fiscal Management

Approved by Council: September 23, 2013

PURPOSE:

To provide the framework for excellent financial management to enable the City to provide high quality services today and in the future.

GUIDELINES:

1. Financial Plan (Community Charter Sections 165 and 166)

The City's Financial Plan is aligned with its Strategic and Corporate Plans and reflects the revenues from and costs of delivering its services.

Guideline 1.0

Administration regularly reviews departmental/divisional operations and identifies efficiencies and cost savings.

Guideline 1.1

Budget Service Category Plans outline the levels of services to be provided and any operational cost savings that may be achieved.

Guideline 1.2

Approved new services and enhancements to existing services may be funded by one or a combination of the following:

- a. Reduced cost of existing services;
- b. Increased non-property tax revenues;
- c. Increased property tax revenue;
- d. Accumulated surplus (for one-time expenditures only).

2. Property Tax Rates (Community Charter Sections 197 and 199)

The City has property tax rates that are stable and fair in comparison to “peer municipalities”.

Guideline 2.0

Annually, the Finance and Audit Committee will determine a preferred tax rate option and recommend that Council approve it. During its deliberations, the Committee may consider the following information:

Sustainable Finance Guidelines

- a. Value of taxes from new construction;
- b. The City and its peer municipalities' assessed values, tax rates, percentages of taxation by class, tax class multiples, and taxes levied and utility fees charged on a representative home;
- c. The City's Class 4 (Major Industry) tax rate compared to the BC average municipal Class 4 tax rate.

3. Self-Funded Services

The City's water, sewer, district energy, solid waste, and off-street parking services are self-funded.

Guideline 3.0

User fees, parcel taxes, special agreements, and government grants are used to fully fund water, sewer, district energy, solid waste and off-street parking services.

Guideline 3.1

The cost structure of the water, sewer, district energy, solid waste, and off-street parking services include a management fee so that the users contribute to the City's general overhead costs which include the provision of facilities and office and general corporate services such as human resources and accounting.

4. User Fees (Community Charter 194)

The City of Prince George provides goods and services that benefit the community and goods and services that benefit specific organizations and individuals. The City follows the general principle that taxpayers pay for public goods and services and users pay for private goods and services but recognizes that there is the need for exceptions to that principle.

Guideline 4.0

Annually, budget managers will review their good's and service's costs and provide recommendations to the Finance and Audit Committee concerning the introduction of new user fees and the modification of existing user fees.

Guideline 4.1

Goods or services provided to specific, identifiable recipients will be fully funded through user fees except when:

- a. Subsidized or free use of a good or service will provide a significant public benefit or influence personal choice;
- b. Attempting to fully recover costs through user fees will result in reduced use of a good or service and in reduced revenue to the City;
- c. Attempting to fully recover costs through user fees will result in denied access to intended users;
- d. The cost of collecting user fees will be excessive or will require extreme measures.

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Guideline 4.2

Exceptions to the general principle that taxpayers pay for public goods and services and users pay for private goods and services will only be made after considering the impacts of making exceptions on the City, the taxpayers, and the users.

5. Financial Assistance

The City of Prince George may provide financial assistance to community organizations as a cost-effective means of achieving the City's objectives.

Guideline 5.0

Programs may be developed which provide financial assistance to community organizations. Such programs will include statements concerning the objectives to be achieved and will be recommended to Council for approval.

Guideline 5.1

The City's annual budget process will identify the funds which may be available for programs which provide financial assistance to community organizations.

Guideline 5.2

Organizations applying for financial assistance will be required to demonstrate that:

- a. The programs or projects for which they're applying for financial assistance will contribute to the attainment of the City's objectives.
- b. They have a need for financial assistance to operate the programs or projects.
- c. The level of public benefits provided by the proposed programs or projects is proportionate to the private or commercial benefits of the proposed programs or projects.
- d. In operating their programs or projects, they maximize partnerships, cooperation, or co-ordination with other community organizations.
- e. They have an inclusive approach and actively encourage potential beneficiaries of the programs or projects to participate in them.
- f. They adhere to acceptable standards of governance and accountability.

Guideline 5.3

City staff or Council committees will adjudicate applications for financial assistance. City Council will approve applications for financial assistance or, in the case of some programs, delegate the authority to approve applications to staff.

Guideline 5.4

Organizations which have received financial assistance will be required to report on their programs' or projects' activities, contribution to the City's objectives, and use of public funds.

Sustainable Finance Guidelines

Guideline 5.5

The City may provide permissive tax exemptions (Community Charter Section 224) to non-profit organizations as a means of achieving its objectives of enhancing the community's quality of life and delivering services economically.

Guideline 5.6

The City may provide revitalization tax exemptions (Community Charter Section 226) as a means of encouraging development which will enhance the community's economic, social, and cultural quality of life. Revitalization tax exemption programs will be enacted by bylaw and included in the City's Financial Plan.

6. Investments (Community Charter Section 183)

The City invests funds that are in excess of its current needs.

Guideline 6.0

Staff primarily purchases Municipal Finance Authority investments due to their competitive rates and lower administrative costs.

Guideline 6.1

Staff purchases a combination of short, medium, and long term investments that both maximize the rate of return and ensure that funds are available to meet the City's current and scheduled financial obligations.

Guideline 6.2

Reports on investment activities and results are provided to the Finance and Audit Committee in accordance with its Terms of Reference.

7. Accumulated Surpluses for Operating Contingencies

The City projects revenues and expenses conservatively and analyzes budget variances regularly. This approach usually results in modest annual operating surpluses. General, water, sewer and district energy fund accumulated surpluses are retained to: reduce the need to borrow early in the year before property tax and utility fee revenues are received and provide funds that may be required to deal with major emergencies.

Guideline 7.0

The City attempts to maintain the General, Water, Sewer and District Energy Operating Funds' accumulated surpluses for operating contingencies between 5% and 10% of the respective Operating Fund's annual expenditures. Funds in excess of 10% of an Operating Fund's annual expenditures are transferred to the respective fund's infrastructure reserves.

8. Capital Expenditure Plan

The City's Capital Expenditure Plan is closely coordinated with its Official Community Plan so that land use policies reflect the City's ability to fund growth and development and so that financial planning reflects the need to invest in infrastructure.

Sustainable Finance Guidelines

The City funds capital projects from a variety of sources including property taxes, gaming income, grants, reserves, and debt. Once capital projects are completed, they usually have ongoing operating (e.g. maintenance) and capital (e.g. replacement) costs.

Guideline 8.0

The City balances the need and desire for major capital expenditures against its ability to fund them.

Guideline 8.1

Each capital funding request will clearly indicate the initial cost, the future operating and replacement costs, and the estimated service life of the project and will identify the sources of sustainable funding for those costs.

Guideline 8.2

The unspent amount of funding for an approved capital project may be carried forward to the following year's Financial Plan if the project has begun. Unspent onetime operating funds or capital funds for projects that have not begun may be carried forward with the Director of Corporate Services' approval.

9. Gaming Income

The City has a Host Financial Assistance Agreement with the Province of BC (Minister of Public Safety and Solicitor General) for the Treasure Cove Casino. The agreement provides for 10% of net gaming income to be transferred to the City on a quarterly basis. The funds can be used for any purposes that are within the lawful authority of the City.

Guideline 9.0

The following guideline will be implemented over a four year period beginning in 2014:

Gaming income will be used to fund general capital projects and non-recurring general operational projects or programs approved by Council in the 5 year financial plan.

10. Reserves (Community Charter Sections 188 and 189)

The City establishes and maintains reserves to:

- a. Provide sources of funds for future capital expenditures.
- b. Provide sources of funds for areas of expenditures that may fluctuate significantly from year to year (e.g. mobile equipment, computer equipment).
- c. Protect the City from uncontrollable or unexpected increases in expenditures (e.g. snow control) or decreases in revenues or a combination of both.

Guideline 10.0

Money in a reserve, including the interest earned, will only be used for the purpose for which the reserve was established. Proposals to appropriate funds from reserves will include repayment plans.

Sustainable Finance Guidelines

Guideline 10.1

Annually, Administration will present information to the Finance and Audit Committee concerning reserve balances and recommended transfers. Reserves that are repealed will have their balance (if any) transferred to either the Endowment or the Capital Expenditure Reserve.

11. FortisBC (formerly Terasen Gas) Lease-In Lease-Out Agreement

The City has entered into an agreement with Fortis BC that has resulted in the creation of the FortisBC Reserve Fund. Under the terms of the agreement, the City has entered into 35 year capital and 17 year operating leases, both commencing on November 1, 2004. At the end of the operating lease term (October 31, 2021), FortisBC has the option of terminating the agreement with the City and making a lump-sum payment estimated to be \$29 million or negotiating a new 18 year operating lease and continuing to make semi-annual lease payments.

Guideline 11.0

Maximization of long-term benefits to City residents will be Council's guiding principle in making decisions concerning the use of the FortisBC LILO Agreement's revenues.

Guideline 11.1

Prior to the temporary depletion of the FortisBC Reserve, forecast to occur in 2017, Council will determine how shortfalls between the City's payments to the Municipal Finance Authority and to FortisBC under the capital lease and payments from FortisBC under the operating lease will be covered (options include City internal borrowing, MFA or FortisBC external borrowing, or alternate short term financing).

12. Internal Debt

The City operates the Endowment Reserve as a "revolving fund". Appropriations from this reserve are referred to as "internal debt" and the monies borrowed are repaid with interest from the General Operating Fund.

Guideline 12.0

Repayment of monies appropriated from the Endowment Reserve is not a legal requirement. As required, Council may approve adjustments to internal debt interest rates and repayment schedules to meet budget needs.

13. External Debt (Community Charter Sections 174 and 175)

The City of Prince George may use long term debt to finance major capital projects. Using long term debt allows the costs of acquiring capital assets to be spread out over their useful lives and to be paid for by their current and future beneficiaries. The Community Charter governs the maximum amount of external debt that the City can incur. The City makes debt payments for general, sewer, water and district energy projects from their respective operating funds.

Sustainable Finance Guidelines

Guideline 13.0

The City will only incur external debt for one-time capital projects; it will not incur external debt for ongoing programs (e.g. road rehabilitation).

Guideline 13.1

The City will make every effort to maintain its current property tax supported debt servicing charges at their current or a lower level (i.e. to only add new debt in years when old debt is retired).

Guideline 13.2

Notwithstanding Guideline 13.1, the City may incur new debt for self-financed entities (e.g. Water Utility, Sewer Utility, FortisBC Lease-In Lease-Out Agreement).

Guideline 13.3

The City will review balances owing on Municipal Finance Authority issued debentures upon their 1st ten year maturities and consider using the Debt Reduction Reserve to retire the debentures.

14. Budget Management

City department directors are accountable for their departments' financial results.

Guideline 14.0

At scheduled times during the year; budget managers will review and document their capital and operating variances (i.e. the differences between their Service Categories' budgeted revenues and expenses and their actual revenues and expenses) and submit them to the Manager, Financial Planning. Budget managers will explain business unit variances that exceed 10%.

Guideline 14.1

Budget transfers within a department require the director's approval. Budget transfers between departments require the approval of both directors.

Guideline 14.2

Budget amendments of \$250,000 or less may be approved by directors. Budget amendments greater than \$250,000 and less than or equal to \$1,000,000 may be approved by the City Manager. Budget amendments greater than \$1,000,000 require Council's approval.