

LOCAL GOVERNMENT LEADERSHIP ACADEMY

LOCAL GOVERNMENT FINANCIAL MANAGEMENT

Douglas Holmes, *BBA, CA*

Assistant City Manager,
GM Corporate Services

City of Nanaimo

Scope of discussions

- Financial Planning Requirements
- Budgeting Cycle
- Budgeting Considerations
- Emerging Trends

Roles (related to financial plan)

Staff's

- Prepare financial plan documents and supporting analysis
- Make recommendations to Council/Board
- Carry out policy

Council's

- **Set Policy**
 - Services staff deliver
 - Tax rates (overall and each class)
 - Parcel taxes
 - User rates
 - Accumulation/use of reserves
 - Who pays for growth (i.e. DCC's)

Money as a Language

- What does your FP say about your community?
 - Economic Focus?
 - Social Focus?
 - Environmental Focus?
- What will your community's balance be?

Are Budget Decisions Financial Decisions?

- Local Governments
typically operate
Financial Losers

What services must we provide?

- Not many!
 - NOT water
 - NOT sewer
 - ...but likely prohibited from stopping once you do.
 - NOT sidewalks or roads
 - ...but highways vested to municipality so want to manage to contain liabilities.

What services must we provide?

- Solid Waste (RD's)
- Policing (municipalities >5,000)
- Land use (could create “open” zoning)

So, what services must we provide?

Conclusion:

Legislation is permissive

- “...municipality may provide any service that the council considers necessary or desirable... (Community Charter S. 8(2)) ”

Legislative Context

- Community Charter
- Local Government Act
- Common Law
- A bouquet of other acts

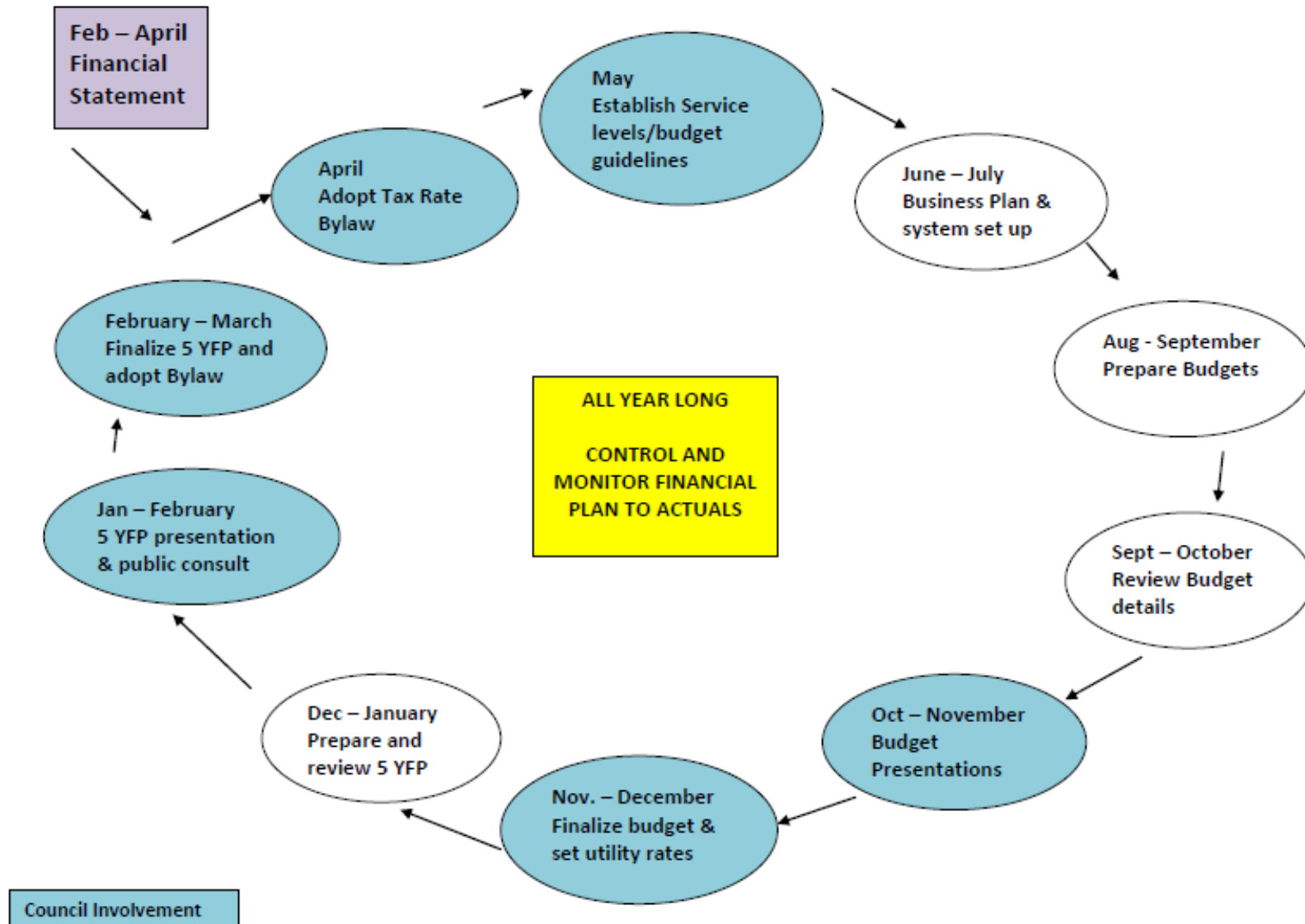
Financial Plan (and related) deadlines

- Tax Rate Bylaw by May 15th
- Five Year financial plan BEFORE the tax rate bylaw
- Public Process BEFORE financial plan adopted
- May amend plan by bylaw throughout year

Financial Plan (and related) deadlines

- Council must accept Financial Statements
- Audited Financial Statements to Inspector by May 15
- Permissive Tax Exemption Bylaw by Oct. 31
- Annually, report of council remuneration, expenses & contracts
- Annual Report by June 30

TYPICAL BUDGET CYCLE



Financial Plan Components

- 5 Years (current year plus 4)
- Expenditures
- Revenues
- Inter-fund Transfers
- Revenue Policy
- Expenditures don't exceed Funding Sources

Financial Plan Components

- Expenditures
 - Must be in Plan to be legal (except an emergency)
 - Debt Principle/Interest
 - Capital Expenditures
 - Operating Expenditures
 - Prior year's deficiency

Financial Plan Components

- Revenues
 - Taxes (ad velorem, parcel, LSA)
 - Fees and Charges (services, regs, fines, penalties)
 - Other current sources (e.g. grants, gifts, agreements)
 - Borrowing

Financial Plan Components

- Inter Fund Transfers
 - Reserves
 - Other special funds (e.g. funds in trust)
 - Development Cost Charges
 - Accumulated Surplus

Parcel Tax

- Parcel taxes may be imposed:
 - per parcel
 - on taxable frontage
 - on taxable area
- A separate bylaw is required for the preparation of the parcel tax roll
- Distributes tax burden differently than “Ad Valorem” taxes

Property Taxes

Assessment x Tax Rate =
“Ad Valorem” Property
Taxes

CLASSIFICATION OF PROPERTIES

- 1 Residential
- 2 Utilities
- 3 Supportive Housing
- 4 Major Industry
- 5 Light Industry
- 6 Business/Other
- 7 Managed Forest Land
- 8 Recreation/Non-Profit
- 9 Farm Land

Assessment and Taxation Cycle

July 1	Assessment Valuation date
October 31	Permissive Exemptions set
December 31	Assessment Rolls & Notices
January 31	Court of Revision deadline for appeal
Before May 15	Tax Rates set
May 15 (approx.)	Tax Notices mailed
July 2 (approx.)	Tax due date
Last Monday in September	Tax sale takes place at 10 a.m.

Property Taxes

$$\text{Assessment} \times \text{Tax Rate} = \text{Property Taxes}$$

Who sets tax rates?

- Municipality
- School District
- Regional District (requisition)
- Regional Hospital District (requisition)
- Regional Library (requisition)
- Municipal Finance Authority
- B.C. Assessment

Fees and Charges

- Common Law Distinction
- Fees can cover the service but no more

Taxes vs. Fees

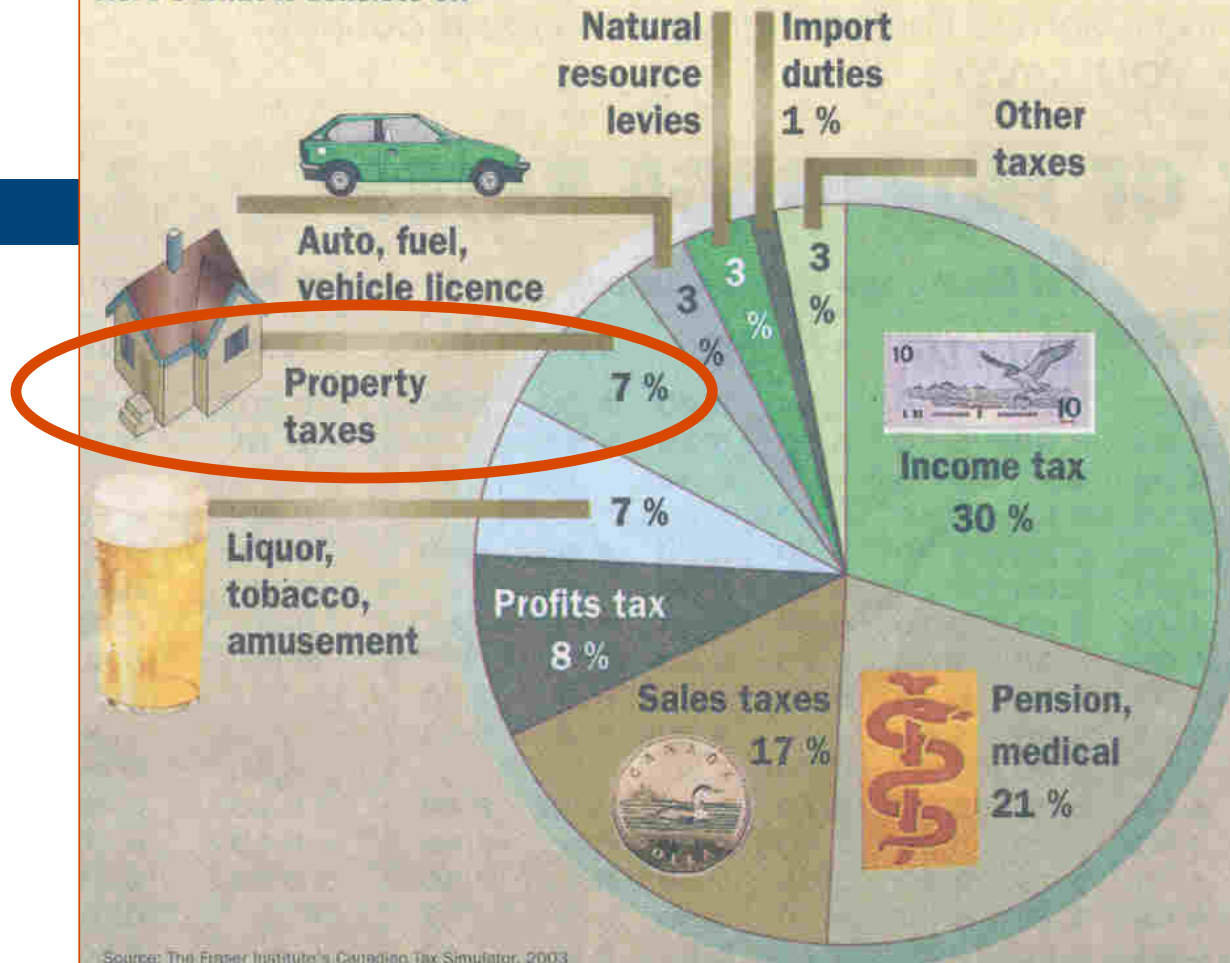
- Which are “better”?



2003 Taxes of the average B.C. family with two or more members

Total tax bill on income of \$66,816 is \$33,157 (or 49.62%).

Here's what it consists of:



(Kane, Michael; "BC has to wait for its 'Tax Freedom Day'". Article in *The Vancouver Sun*, 2003-JUN-27 edition; p.G1)

Loc. Govt. Taxes: Further Context

	Total	Fed	Prov	Local
1961	\$10B	\$6.2B	\$2.1B	\$1.7B = 17%
2000	\$386B	\$202B	\$150B	\$34B = 9%

Source: Canada West Foundation, Property Taxes in Western Canada's Big Six,
Western Cities Project Report #33, October 2004 www.cwf.ca

Grants

- Unconditional
 - Very few, mostly for smaller organizations
- Conditional
 - E.g. Federal Gas Tax
 - Federal/Provincial Infrastructure
- Incrementality
- Timing
- Local objectives vs. Provincial / Federal

Borrowing

- Statutory limitations
- Elector Assent (Petition, AAP, Referendum)
- Budget it twice!
- Policy question:
 - Does debt compromise intergenerational equity?
 - Does paying cash?

Capital Spending



- May be funded by taxes, reserves, grants
- The Virtues of Long Term Planning
- “Capital Spending Envelope”

Reserves

- Must (if you collect these things) set up statutory reserves for:
 - DCC's
 - Sale of Parkland, highways
 - Money in Lieu of Parkland
 - Payment in lieu of providing off-street parking
 - Proceeds from tax sales

Reserves

- May set up for all kinds of things (e.g. fleet or building replacement, land acquisition)
- Differentiate based on source of revenue (e.g. water rates, sewer rates)
- Accumulated Surplus
(aka Appropriated Surplus)
- Shall we lower taxes with reserves?

Case study: Lowering taxes with Reserves

	2009	2010	2011	2012	2013
% Increase	4.1%	4.2%	5.2%	4.8%	2.1%
Prev Yr Taxation + Proj. Growth	\$72.8	\$77.0	\$81.5	\$86.9	\$92.3
Tax Increase (\$ million)	3.0	3.2	4.2	4.2	1.9
Total Taxation	\$75.8	\$80.2	\$85.7	\$91.1	\$94.2
Prior Year Surplus or Reserve	\$0.0				
Total Revenue	\$75.8	\$80.2	\$85.7	\$91.1	\$94.2
<i>Revenue needed</i>	<i>75.8</i>	<i>80.2</i>	<i>85.7</i>	<i>91.1</i>	<i>94.2</i>
Overage / (shortfall)	0.0	0.0	0.0	0.0	0.0
Taxation adjustment	0.0	0.0			

Case study: Lowering taxes with Reserves

	2009	2010	2011	2012	2013
was 4.1%	1.4%	4.3%	5.3%	4.9%	2.1%
% Increase	1.4%	4.3%	5.3%	4.9%	2.1%
Prev Yr Taxation + Proj. Growth	\$72.8	\$75.0	\$79.5	\$84.9	\$90.3
Tax Increase (\$ million)	1.0	3.2	4.2	4.2	1.9
Total Taxation	\$73.8	\$78.2	\$83.7	\$89.1	\$92.2
Prior Year Surplus or Reserve	\$2.0				
Total Revenue	\$75.8	\$78.2	\$83.7	\$89.1	\$92.2
Revenue needed	75.8	80.2	85.7	91.1	94.2
Overage / (shortfall)	0.0	(2.0)	(2.0)	(2.0)	(2.0)
Taxation adjustment	(2.0)	0.0			

Case study: Lowering taxes with Reserves

This WAS
4.2%!

	2009	2010	2011	2012	2013
% Increase	1.4%	7.0%	5.2%	4.8%	2.1%
Prev Yr Taxation + Proj. Growth	\$72.8	\$75.0	\$81.5	\$86.9	\$92.3
Tax Increase (\$ million)	1.0	5.2	4.2	4.2	1.9
Total Taxation	\$73.8	\$80.2	\$85.7	\$91.1	\$94.2
Prior Year Surplus or Reserve	\$2.0				
Total Revenue	\$75.8	\$80.2	\$85.7	\$91.1	\$94.2
Revenue needed	75.8	80.2	85.7	91.1	94.2
Overage / (shortfall)	0.0	0.0	0.0	0.0	0.0
Taxation adjustment	(2.0)	2.0			

So: how should we spend accumulated surplus or reserves?

- Good tool for non-recurring items (e.g. adding capital or one-time projects, mindful of ongoing resulting operations costs);
- BE CAREFUL with recurring items (e.g. policing costs or pool operations), as the benefits can be short lived (Do Analysis!)

Development Financing

- Parkland Acquisition Charges
 - 5% of land or a cash equivalent at subdivision
- Latecomer Agreements
 - Developer installs oversize or extended services; reimbursed by subsequent development
- Development Works Agreements
 - Municipality gets extra amenities (e.g. public art or extra parkland) from developer in exchange for a benefit (e.g. higher density or more height than current bylaws allow)
- Development Cost Charges

Development Cost Charges (DCC's)

- Premise: Growth pays for the infrastructure that supports growth
 - Benefitting factor
 - Assist Factor
- Projects cost divided by development units
- Recognize as revenue when spent
- Sewer, Water, Drainage, Roads, Parkland

DCC Example: Water Reservoir

- \$5.05m; attributable to growth; expect 5,000 new units in 20 years; growth to pay fully.
- $\$5.05\text{m} \times 99\% / 5,000 \text{ units} =$
\$1,000/unit DCC

Revenue Policy

- Must state objectives and policies for:
 - Proportion of Revenue from Each Source
 - Distribution of Taxes among Classes
 - Use of Permissive Exemptions

Tax Exemptions

- Constitutional
 - Federal or Provincial Property
- Statutory
 - E.g. cemeteries, churches, hospitals, schools (BCAA administers the legislation)
- Permissive (Granted by Council)
 - E.g. some non-profits, charitable organizations, property subject to a (P3) partnering agreement used for public purposes, certain designated revitalization areas

Grants in Aid

- Council can give them
- BUT, cannot assist business
- UNLESS, specifically allowed (e.g. BIA, P3)

The Fallacy of Ratios

- Ratio: relationship between the tax rates of different classes (e.g. commercial and residential)
- Of some use in context, meaningless on their own
- Before we illustrate, we ask, “Why have different rates for different classes?”.

Example: Village of *La Ratio*

	Assessment	\$ / \$1,000	Tax Revenue	Ratio
commercial	50,000,000	\$ 10.00	\$ 500,000	2 to 1
residential	100,000,000	\$ 5.00	\$ 500,000	
total	150,000,000		\$ 1,000,000	

Example: Village of *La Ratio*

- 5 Years Later (assume no construction)
- Headlines from the *La Ratio Tattler*:
 - Commercial Tax Rates go from twice Residential to OVER THREE TIMES!!
 - Chamber of Commerce says, “We want to pay our share, but this is too much!”
 - Business owners ask, “Why is Council “anti-business?”

Example: Village of *La Ratio*

Up 25%

	Assessment	\$ / \$1,000	Tax Revenue	Ratio
commercial	62,500,000	\$ 8.00	\$ 500,000	3.2 to 1
residential	200,000,000	\$ 2.50	\$ 500,000	
total	262,500,000		\$ 1,000,000	

Doubled

Current Trends

- Lobbying (CFIB, Unions, Industry Groups)
- Capital Asset Management
- Legal Challenges on Property Taxation
- Municipal Auditor General
- Grants (www.timeforcities.ca)
- Strategic Planning

Conclusion

- Beware of the quick fixes, consider the longer view
- Concentrate on policy; your staff will know “the details”
- “I move that staff prepares a report on the implications of...”

Thank You



douglas.holmes@nanaimo.ca

Bus: 250.755.4488