

LOCAL GOVERNMENT LEADERSHIP ACADEMY

LOCAL GOVERNMENT FINANCIAL MANAGEMENT

Douglas Holmes, *BBA, CPA, CA*
Douglas Holmes Consulting

Elected Officials Seminars 2015

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Scope of discussions

- Financial Planning Requirements
- Budgeting Cycle
- Tricks, Traps, Trials and Tribulations
- Emerging Trends

Roles (related to financial plan)

Staff's	Council's
<ul style="list-style-type: none"> • Statutory Roles of the Chief Financial Officer (cc.149) • Make recommendations to Council/Board • Carry out Council/Board policy 	<ul style="list-style-type: none"> • Set Policy <ul style="list-style-type: none"> - 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?
- What financial legacy will you leave?

Are Budget Decisions Purely 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

3 or 4 Key Plans

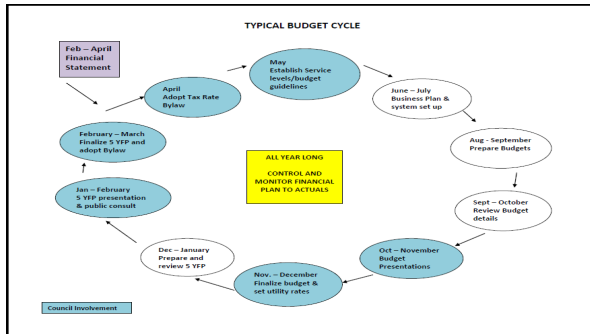
- Official Community Plan
- Financial Plan
- Regional Growth Strategy
- Corporate Strategic Plan

Financial Plan (and related) deadlines

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

Financial Plan (and related) deadlines

- Permissive Tax Exemption Bylaw by Oct. 31
- Council must accept Financial Statements
- Audited Financial Statements to Inspector by May 15
- Stmt of Financial Information (SOFI) by June 30
- Annual Report by June 30



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 (or personally liable)
 - Debt Principle/Interest
 - Capital Expenditures
 - Operating Expenditures
 - Prior year's deficiency

Financial Plan Components

- Revenues
 - Taxes (ad valorem, parcel, LSA)
 - Fees and Charges (services, permits, 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

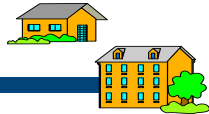
Parcel Tax

- 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

Local Area Service Taxes

- For services that council considers provide particular benefit to part of the municipality, and
- Business improvement area services
- may recover part of the costs by means of any source of municipal revenue (not just taxes).

Property Taxes



Assessment x Tax Rate =
“Ad Valorem” Property Taxes

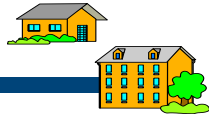
CLASSIFICATION OF PROPERTIES

- 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

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%

Doubled

	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	

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)

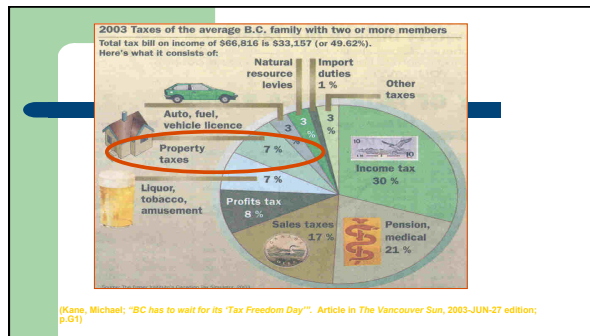
Fees and Charges

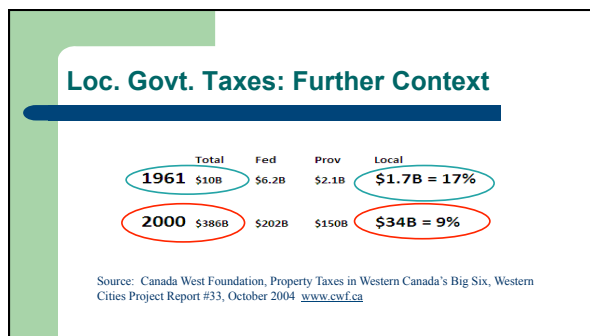
- Common Law Distinction
- Fees can cover the service but no more

Taxes vs. Fees

- Which are "better"?







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

- Municipal Finance Authority
- 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”
 - Expenditure vs. Contribution

Capital Asset Management

- Asset Management is an integrated process, bringing together skills, expertise, and activities of People with Information about a community's physical Assets and Finances so that informed decisions can be made, supporting Sustainable Service Delivery.

Cap Asset Mngt: Continuous Cycle



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. extra parkland, cash) 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.
- $\$5.05\text{m} \times 99\% / 5,000 \text{ units} = \$1,000/\text{unit DCC}$

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 operating (non-capital) reserves?

Case study: Lowering taxes with Reserves

Financial Plan Year	Scenario A				Scenario B			
	2015	2016	2017	2018	2015	2016	2017	2018
Tax Increase %	3.0%	3.0%	3.0%	3.0%	0.0%	0.0%	9.3%	3.0%
Prior Year Taxation \$	1,000	1,030	1,061	1,093	1,000	1,000	1,000	1,093
Tax Increase \$	30	31	32	33	-	-	93	33
Total Taxation	1,030	1,061	1,093	1,126	1,000	1,000	1,093	1,126
Use of Reserves	-	-	-	-	30	61	-	-
Total Revenue \$	1,030	1,061	1,093	1,126	1,030	1,061	1,093	1,126

So: how should we spend accumulated surplus or op. 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!)

Regional District Thumbnail

- Separate Corporate Body
- Every Service Separate (taxation & reserves)
- Only Participants pay for services
- Overhead allocation
- No direct Taxation
- Fixed allocation in tax classes (Electoral areas)
- Tax sales in rural areas done by Province

Current Trends Summary

- Infrastructure deficit (too big for LG tax base)
- Capital Asset Management
(<http://www.assetmanagementbc.ca>)
- Demographics (of community and your staff)
- Good Employer
- Compensation levels

Current Trends Summary

- Lobbying (CFIB, Unions, Industry Groups)
- Policy Commentary
 - (e.g. Fraser Institute; Canada West Foundation; UBCM)
- Municipal Auditor General
http://www.aglg.ca/includes/docs/AGLG_Audit_Topic_3_Tool_1.pdf

Current Trends Summary

- Industrial Tax Erosion (need to decrease reliance?)
- Legal Challenges on Property Taxation
- Benchmarking / Comparables
- Analysis of Service Delivery ("Core" Services vs. "Best practices")
- Strategic Planning

Current Trends Summary

- Grants
 - Starting to reward behavior (e.g. Bldg Canada Fund requires SOFI on time; progress on Asset Management)
 - (www.timeforcities.ca)
- Downloading:
 - <http://www.columbiainstitute.ca/news-events/whos-picking-tab-federal-and-provincial-downloading-local-governments>

Current Trends Summary

- Resource Revenue Sharing
- Inter-Municipal Business Licence
- Emissions Tracking (Counting Carbon)
- Revenue Sources (UBCM Position Paper)
- Cities Going Broke? (e.g. Detroit)
- First Nations Relations

Closing thoughts...

- 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@shaw.ca

Bus: 250.739.0124

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
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	0.0	0.0			

Case study: Lowering taxes with Reserves

	2009	2010	2011	2012	2013
% Increase	4.1%	4.4%	4.3%	5.3%	4.9%
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**

	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			

This WAS
4.2%!
