

LOCAL GOVERNMENT LEADERSHIP ACADEMY

LOCAL GOVERNMENT FINANCIAL MANAGEMENT FOR REGIONAL DISTRICTS

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Elected Officials Seminars 2015

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Scope of discussions

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

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Roles (related to financial plan)

Staff's

Council's

- Statutory Roles of the Chief Financial Officer (cc.149)
- Make recommendations to Council/Board
- Carry out Council/Board policy
- Set Policy
  - Services staff deliver
  - Parcel taxes
  - User rates
  - Accumulation/use of reserves
  - Who pays for growth (i.e. DCC's)

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### 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?

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### Are Budget Decisions Purely Financial Decisions?

- Local Governments typically operate Financial Losers

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### What services must we provide?

- Not many!
  - NOT water
  - NOT sewer
- ...but likely prohibited from stopping once you do.

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### What services must we provide?

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

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### So, what services must we provide?

Conclusion:

Legislation is permissive

- "... Subject to the specific limitations and conditions established under this or another Act, **a regional district may operate any service that the board considers necessary or desirable** for all or part of the regional district.... (Local Government Act 796 (1) )

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### Legislative Context

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

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### 3 or 4 Key Plans

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

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### Financial Plan (and related) deadlines

- Five Year financial plan by March 31
- Public Process BEFORE financial plan adopted
- Copy to Inspector and member muni's after adopted
- May amend plan by bylaw throughout year

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### 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 and SOFI by June 30

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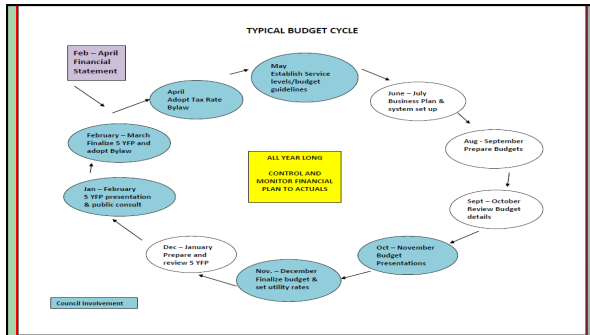
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### Financial Plan Components

- 5 Years (current year plus 4)
- Each service is separate
- Expenditures don't exceed Funding Sources
- Must be in Plan to be legal, except an emergency

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### Financial Plan Components

- For each service:
  - Expenditures
  - Revenues
  - Inter-fund Transfers
  - Prior years' deficiency

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Financial Plan Components

- Expenditures (separate for each Service)
  - Amounts for:
    - Debt Principle/Interest
    - Capital Expenditures
    - Prior year's deficiency
    - Other Purposes (including current operating)
    - Share of overhead, common costs

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Financial Plan Components

- Revenues (Funding Sources for ea. Service) from:
  - Property Value Taxes (a.k.a. ad valorem)
  - Parcel Taxes
  - Fees and Charges (services, regs, fines, penalties)
  - Other current sources (e.g. grants, gifts, agreements)
  - Borrowing

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Financial Plan Components

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

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### 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
- Cannot use for a regulatory service
- tax distribution different than “Ad Valorem” taxes

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### Local Service Area Taxes

- For services that council considers provide particular benefit to part of the municipality, and
- Business improvement area services
- Municipality may recover part of the costs of a local area service by means of any other source of municipal revenue.

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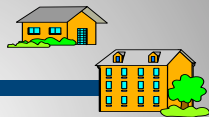
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### Property Taxes



Assessment x Tax Rate =  
“Ad Valorem” Property Taxes

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### 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

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### Assessment and Taxation Cycle

Jul-01	Assessment Valuation date
Oct-31	Permissive Exemptions set
Dec-31	Assessment Rolls & Notices
Jan-31	Court of Revision deadline for appeal
Mar-31	Regional District Requisition
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.

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### Property Taxes



Assessment x Tax Rate =

Property Taxes

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## Who sets tax rates?

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

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## 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?"

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## 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	

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### 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?"

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### 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	

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### Service Establishing Bylaws

- Required to provide virtually all services (few exceptions)
- Does the following:
  - Describes the service
  - Define the boundaries
  - Identify participants
  - Indicate methods of cost recovery (property value tax, parcel tax, fees and charges, revenues from agreement, enterprise, gift, grant or otherwise, revenues pursuant to statute)

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### Service Establishing Bylaws (cont'd)

- Does the following (cont'd):
  - Set the maximum requisition (by amount, by tax rate product or by the greater of the two)
  - Maximum not needed for some services
- Can authorize >1 service (can be broadly defined)
- Can set out apportionment of costs
- Can set out custom voting, terms/conditions of withdrawal and other governance provisions

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### Service Establishing Bylaws (cont'd)

- Some special cases:
  - Indemnification or court order or arbitration charged to service
  - "Negligence of the Board" charged to general administration
  - Feasibility: pd by all, service repays if established
  - Service pays for its referendum

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### Service Establishing Bylaws (cont'd)

- Note: collected in Muni same as requisitioned
- Creating (or Amending) establishing bylaw requires:
  - Approval of inspector
  - Participating area approval (if debt, considered at same time)
    - voting
    - AAP (max reqn: \$.50 / \$1,000 OR sewage, water, solid waste)
    - consent on behalf in some cases (e.g. All muni; All EA & no debt)
    - Board responsible to conducting; may consider all areas as one

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## Tax Exemptions

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

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## Grants in Aid

- Board can give them
- BUT, cannot assist business
- UNLESS, specifically allowed (e.g. BIA, P3)
- must not, in total, exceed the amount that would be obtained by a tax of 10¢ per \$1,000 on the net taxable value of land and improvements in the regional district

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## Fees and Charges

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

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## Taxes vs. Fees

- Which are "better"?




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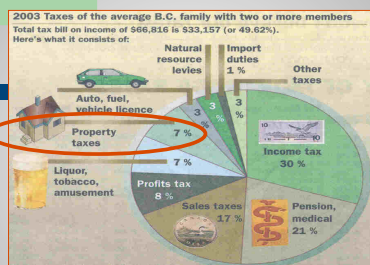
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(Note: Michael, "BC has to wait for its 'Tax Freedom Day'". Article in The Vancouver Sun, 2003-JUN-27 edition, p. D1)

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## 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](http://www.cwf.ca)

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### Grants (cost recovery)

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

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### Borrowing

- Municipal Finance Authority
- Borrowing bylaw states limitations
- Elector Assent (Petition, AAP, Referendum)
- Security Issuing Bylaw
- Joint & Severally liable

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### Borrowing

- Budget it twice!
- Policy question:
  - Does debt compromise intergenerational equity?
  - Does paying cash?

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## Capital Spending

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

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## 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.**

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## 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

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## 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

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## DCC Example: Water Reservoir

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

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## Reserves

- Each reserve tied to a specific service
- 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

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## 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) and separate by service
- Accumulated Surplus (aka Appropriated Surplus)
- Shall we lower taxes with reserves?

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## Case study: Lowering taxes with Reserves

Financial Plan Year	Scenario A				Scenario B			
	2015	2016	2017	2018	2015	2016	2017	2018
Tax Increase %	2.0%	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

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**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			

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**Case study:  
Lowering taxes with Reserves**

	2009	2010	2011	2012	2013
% Increase	4.1%	1.4%	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			

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**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			

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### 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!)

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### 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

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### 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](http://www.aglg.ca/includes/docs/AGLG_Audit_Topic_3_Tool_1.pdf)

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### 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

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### Current Trends Summary

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

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### 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

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### 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..."

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### Thank You

[douglas.holmes@shaw.ca](mailto:douglas.holmes@shaw.ca)

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