



Local Government Leadership Academy *Finance 101*

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Agenda

- Roles & Key Legislation
- The Basics of Local Government Finance
- The Financial Plan
- Debt
- Reserves
- Emerging Issues



ROLES & KEY LEGISLATION

- Elected Officials' Role & Staff's Role
- Legislative Approvals & Important Legislation Tidbits

Elected Officials' Role with Finance

In general:

- Providing oversight for preparation of future plans
 - Set expectations for service levels and/or rates
 - Overall approval of the plans
- Oversight and Governance to the external audit and Financial Statements
- Policy decisions
 - Clear policy development helps set long term strategy

Elected Officials' Role with Finance

In terms of the financial plan:

- Determine the strategic plan & priorities for the community
- Determine the desired service levels
 - Service levels determine the budget



The Finance Department

The finance department provides stewardship over the Municipality's financial resources, ensures accurate record keeping, and supports other departments in the provision of quality services to the citizens.



Role of the Finance Officer (CFO)

Community Charter Section 149 - Financial Officer

One of the municipal officer positions must be assigned the responsibility of financial administration, which includes the following powers, duties and functions:

- (a) receiving all money paid to the municipality;
- (b) ensuring the keeping of all funds and securities of the municipality;
- (c) investing municipal funds, until required, in authorized investments;

Role of the Finance Officer (CFO)

Community Charter Section 149 - Financial Officer (continued)

- (d) expending municipal money in the manner authorized by the council;
- (e) ensuring that accurate records and full accounts of the financial affairs of the municipality are prepared, maintained and kept safe;
- (f) exercising control and supervision over all other financial affairs of the municipality.



Council Approval Required

Community Charter & Local Government Act

- 5 year financial plan
 - Approved annually, by bylaw (CC165)
 - Must be approved before property tax rates bylaw is approved
 - Council is required to undertake public consultation prior to adoption (CC166)
 - Fiscal year = calendar year (CC164)
 - Planning horizon for capital items is likely at least 15 years, despite financial plan bylaw



Council Approval Required

Community Charter & Local Government Act

- Financial plan can be amended by bylaw at any time (CC165.2)
 - but, financial statements must compare actual results to the originally approved budget



Council Approval Required

Community Charter & Local Government Act

- Property tax rates (CC197)
 - Approved annually, by bylaw
 - Must be adopted before May 15 (CC197.1)
 - Must be adopted after financial plan bylaw
- Appoint the Municipality's independent external auditor (CC169)
- Annual financial statements (CC167)



Council Approval Required

Community Charter & Local Government Act

- Approve various other bylaws
 - Fees (CC192 to CC196)
 - Reserve fund establishment (CC188)
 - Development cost charges (DCCs) (LGA559)
 - Local Area Service (LAS) (CC211 to CC219)
 - Permissive tax exemptions (CC224)

Council Approval Required

Community Charter & Local Government Act

- Borrowing (various sections of the CC)
 - Typically approved by bylaw
 - Approval of the electors is required in most cases



Council Approval Required

Community Charter & Local Government Act

- Annual report (CC98 & CC99)
 - Council must consider the annual report at a public meeting before June 30 each year
 - Report must be publicly available for 14 days prior
 - Required to include:
 - Audited annual financial statements
 - Tax exemptions
 - Progress report on Council's municipal objectives
 - Not applicable to Regional Districts



Important Legislation Tidbits

“Balanced budget” legislation (CC165.5)

- “proposed expenditures and transfers...for a year must not exceed the total of the proposed funding sources and transfers...”
- what happens if there’s a deficit?
 - “must be included in the next year’s financial plan as an expenditure in that year”



Important Legislation Tidbits

In order for an expenditure to be “legal”...

- Must be included in the financial plan (CC173)
- Must not otherwise be prohibited by legislation
- Exception provided for emergency expenditures, subject to certain requirements
 - Council must have a procedure to authorize the expenditures
 - Expenditures must be reported at an open meeting
 - Follow up with financial plan amendment to include the expenditures



Important Legislation Tidbits

- Statement of Financial Information (SOFI)
 - Required under the Financial Information Act
 - Submitted annually to the Ministry
 - Includes:
 - Council remuneration and expenses (satisfies CC168 reporting requirement)
 - List of staff remuneration and expenses > \$75,000
 - List of suppliers > \$25,000

Important Legislation Tidbits

- Certain topics are very strictly controlled by legislation:
 - Debt & borrowing
 - DCCs
 - Property taxes
 - Investing municipal funds



Things Elected Officials DON'T DO

- You are not the doers!
 - You set the direction, staff does the doing
 - Elected officials do not select suppliers; fair and transparent procurement practices select suppliers
 - Don't review the budget line-by-line
 - Let staff do that, you focus on service levels
 - Don't promise a specific service



THE BASICS OF LOCAL GOVERNMENT FINANCE

- Terminology
- Revenues, Expenses, and the Flow of Funds



Regional Districts...similar but different

- RD is a separate corporate body
- Every service kept separate (taxation, reserves)
 - Only the participants pay for services
 - General overhead is allocated to each service
- No direct taxation
 - Tax indirectly through the Province and municipalities
 - Tax sale in electoral areas conducted by the Province
- Fixed allocation in tax classes in electoral areas



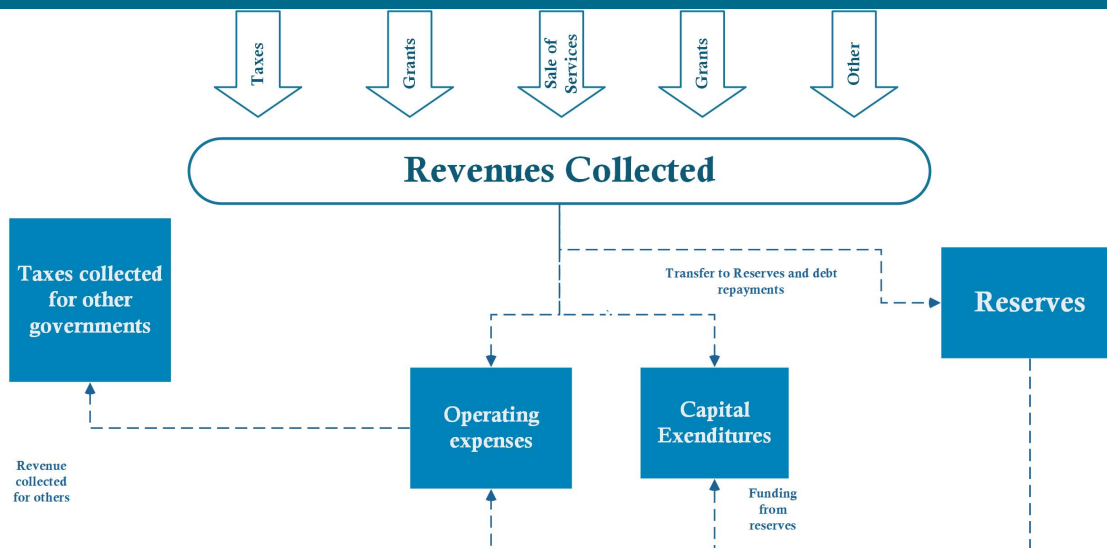
Key Legislative Dates

May 15 th	<ul style="list-style-type: none"> • Financial Plan Bylaw • Audited Financial Statements • Tax Rate Bylaw
June 30 th	<ul style="list-style-type: none"> • Statement of Financial Information • Annual Report
July 2 nd	<ul style="list-style-type: none"> • Property Taxes Due
Last Monday in September	<ul style="list-style-type: none"> • Tax Sale
October 31 st	<ul style="list-style-type: none"> • Permissive and Revitalization Tax Exemptions

Finance Terminology

- **Revenue:** money coming in
 - E.g. property tax, grants, user fees
- **Flow-through revenues:** amounts collected for others
- **Operating expenditures:** day-to-day business
 - E.g. wages and benefits, fuel, supplies, maintenance
- **Capital expenditures:** projects or assets that provide long-term services
 - E.g. infrastructure (roads, water pipes, buildings, vehicles)
- **Reserves:** monies set aside for future uses (savings)

How the Money Flows



Financial Statements

Private Sector	Public Sector
Balance Sheet	Statement of financial position
Income Statement	Statement of operations and accumulated surplus
Statement of cash flows	Statement of cash flows
n/a	Statement of change in net financial assets



Revenues Considerations

- Property taxes and user fees – the primary revenue sources for most local governments
- Some revenues have specific requirements for how they can be spent
 - Provincial legislation, municipal bylaws, council policy, grant agreements



Revenues Considerations

- Difficult to compare
 - Each municipality is different
- How reliable is the revenue source?
- What are economic conditions in your local area?
- Estimate conservatively when possible

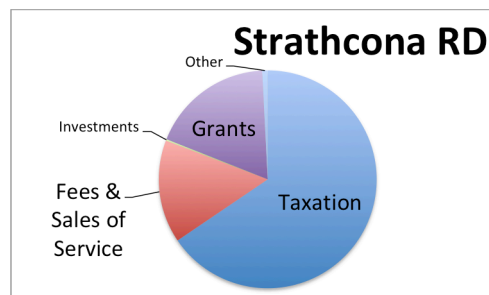
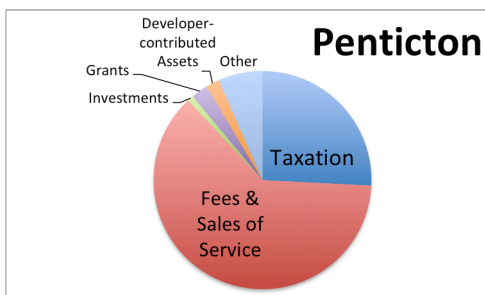
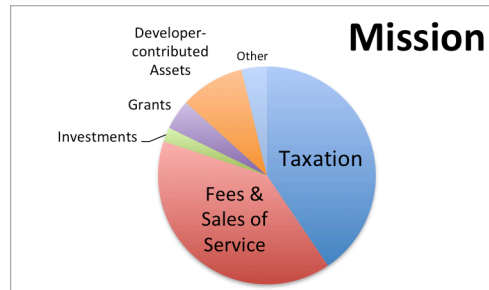
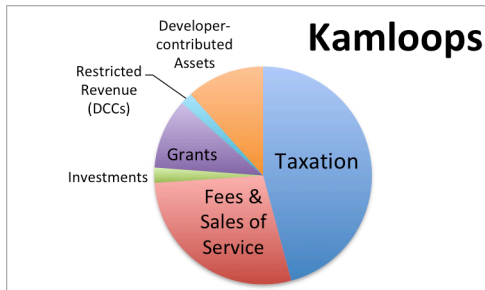


Typical Revenue Sources

- Property taxes, local service taxes, parcel taxes
- User fees/sale of services/utility fees
- Grants
- Development Cost Charges
- Investment income
- Non-cash revenue: infrastructure assets received through development activity



Revenues are Difficult to Compare



Property Taxation Process

- **Local government** sets total tax revenue to be collected through the financial planning process
- **BC Assessment** provides independent property valuations (assessed values)
- Total tax revenue \div total assessed values = “**mill rate**”
- Individual’s tax bill = their assessed value \times mill rate
- *Not a direct link between an individual’s assessment increase and their tax increase (video to explain)*



Understanding Assessments and Property Tax

And now, a message from BC Assessment...



Understanding Assessments and Property Tax

- Very difficult to create an “average household”
- Can’t compare mill rate community to community
- Can’t compare mill rate year over year
- Almost no one in your community will have the announced tax rate increase/decrease



User Fees – Who Should Pay?

- Section 194 of *Community Charter* allows a Municipality to charge a fee for all or part of a service of the Municipality
- Each community needs to decide what to charge for and what to provide as part or core services



User Fees – Who Should Pay?

- Council's need to consider:
 - What % of services should be covered by user fees vs. taxes
 - Should the user fee covers whole cost?
 - Is it service the community needs/wants – even if it needs to be subsidized?
 - Should the user fee make it affordable to all?
 - Do you want to impose a user fee to restrict use or prevent over use?



Revenues – So Many Things to Balance

- Residential vs. business tax rates
- Availability of other funding
- On-going vs. one-time revenue
- Sustainability of certain revenues
- Volatility of growth, stability of economy
- User fees and access to services
 - Social requirements, government is not a business



Development Cost Charges (DCCs)

- Levied to fund infrastructure required to directly or indirectly service growth, but limited to:
 - Roads
 - Drinking water
 - Sanitary sewer
 - Storm drainage
 - Parkland acquisition and improvement
- Goal: Developers assist to pay for growth-related infrastructure



Development Cost Charges (DCCs)

- A one-time charge, collected at subdivision or building permit
- Local governments can subsidize DCC projects with other revenue sources - to lower DCC fees
- DCCs are NOT a simple tool to use!!
 - Complex legislation
 - Complex process to implement DCCs



Development Cost Charges (DCCs)

Elected Officials Guide



development cost charge guide for elected officials



All

Images

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Shopping

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Settings

Tools

About 44,100,000 results (0.55 seconds)

Development Cost Charge for Elected Officials & Best Practices Guides

www.toolkit.bc.ca › The Tools › Guides ▼

Guide for Elected Officials The Development Cost Charges (DCCs) Guide for Elected Officials is designed to increase understanding about DCCs among local ...

[PDF]

Development Cost Charges Best Practices Guide - Government of B.C.

https://www2.gov.bc.ca/assets/gov/british...our.../dcc_best_practice_guide_2005.pdf ▼

representatives from the province, local government and the development community. it was first in the Development Cost Charge Guide for Elected Officials.



Expenditures

- Operating and Capital
 - **Operating**: funds spent on day to day operations
 - **Capital**: funds spent on adding and replacing infrastructure (long term value)
- Level of expenditures relate to:
 - **Agreed upon service levels**
 - Strategic plan and objectives



Expenditures

Expenditure levels are impacted by various factors:

- Demands and expectations of community
- Ability to share costs with others
- Weather patterns & geography
- Community size
- Age of infrastructure
- Level of growth

THE FINANCIAL PLAN (aka "THE BUDGET")

- Process & Timeline

Financial Plan Components

- Operating plan: day-to-day operations
- Capital plan: long-term assets and infrastructure
- New initiatives and increases to service levels
- Revenues and expenses
- Transfers to and from reserves
- Debt

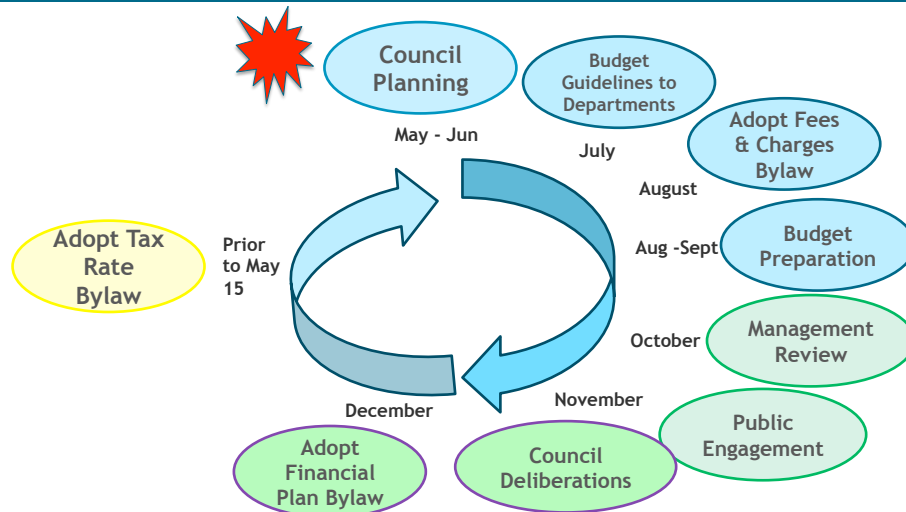
Budget – Staff's Role

- Coordinate and lead the annual budget process
- Review the budget line-by-line
- Identify core budget increases/decreases
 - Non-discretionary items, assuming service levels are maintained
- Recommend funding sources

Budget – Elected Officials' Role

- Provide high-level guidelines to staff
 - Strategic plan
- Provide specific direction to staff at budget meetings
 - E.g. tax increase will be limited to CPI
- Listen to and consider public feedback on the budget
- Adopt Financial Plan Bylaw
- Keep the Communities long term interest in mind

Budget Process & Timeline Sample



Financial Planning Methodologies

- Prepare initial budget based on maintaining existing services, then consider service improvements and new items
- Attempt to balance tax increases and user fees with cost savings through efficiencies
- Stabilize tax rate increase through long-term planning
- Prioritize requests and requirements



So you have a financial plan...now what?

- Ensure accountability by reviewing the budget
 - Compare budgets to actuals
 - Report publicly, including projections to year-end
 - Recommend quarterly reviews (could omit Q1)
- Amend the financial plan throughout the year, as required (by bylaw)



How Does Municipal Debt Work?

- Municipalities are required to borrow from the Municipal Finance Authority of BC (MFABC)
 - Applies to Loan Authorization Bylaws
 - i.e. long-term debt
 - Certain exceptions for short-term borrowing



MFABC Borrowing

- Municipal borrowing must be done through the applicable Regional District
 - Requires consent of the Regional District Board
- MFABC borrowing opportunities occur twice a year (Spring and Fall)
 - Terms available for 5, 10, 20, 25 & 30 years
 - MFA typically issues 10-year debt, then refinances in 5 year increments as required
 - Early debt payout opportunities are available at each refinancing date (without penalty)

What Makes MFABC So Great?



- “AAA” Credit Rating
 - Highest possible credit rating
 - Perspective: City of Toronto is “AA” rated (two levels lower)
- BC local governments have access to some of the **lowest** interest rates available
 - Why? Aside from being exceptionally well managed, MFABC has the power to impose property tax

How Does Debt Work?

- Municipal borrowing is strictly legislated
- Legislation limits total debt servicing costs
 - “Debt servicing costs” means annual principal and interest payments
 - Maximum of 25% of specified revenues

How Does Debt Work?

- Long-term debt requires a “Loan Authorization Bylaw”
 - Bylaw requires approval of Inspector of Municipalities
 - May also require approval of the electors
- First 20% of debt servicing limit doesn’t require approval of electors (aka “approval-free zone”)
 - Remaining 80% does require elector approval

Why Borrow?

Think of it like a mortgage...

- For new or upgraded assets with a significant cost and a long-term benefit
 - E.g. new facility, bridge, water treatment plant, etc.
- Spreads the cost of the assets over their useful life
- Minimizes spikes in tax requirements



Debt Considerations

- Difficult to compare debt levels between communities
- Can your municipality share infrastructure with other municipalities?
 - i.e. Community A builds an ice rink and Community B builds a pool
- Long term stability of community?
- Is infrastructure required or desired by the community?
- What other budget pressures are you facing?

Debt Philosophy – Pay Now or Pay Later?

- Interest cost associated with long-term debt adds significantly to the cost of a project
- Delay in construction may also add costs
- Consider inter-generational equity
 - Today's users pays to build a 50-year water plant?
 - Or spread the cost out over the next 30-years of users via debt?

RESERVES

- How do they work?
- Objectives
- Pitfalls

How Do Reserves Work?

- Reserve Funds are established by bylaw (CC S.188)
 - Bylaw states what money could be deposited in the reserve fund
 - Bylaw states a specified purpose for the reserve fund, i.e. how the money can be used
- Reserves function like a savings account
 - Deposit a small sum each year so you have a large sum in a few years when you need it
 - Not intended for ongoing funding needs
 - Intended for one-time/periodic funding
 - Emergency or unplanned expenditures



How Do Reserves Work?

- Reserves are typically cyclical by nature
 - Lots of money on hand while saving up for something
 - Then drain the account when you make the big purchase
 - Therefore, high and low balances aren't necessarily good or bad; rather it depends where you are in the cycle
- Council's need to have a plan for reserves
 - Reserve Policy helps frame requirements in Financial plan

Some Objectives for Reserves

- Focus on long-term financial stability and predictable tax levies
- Provide for operating emergencies
- Safeguard and maintain existing assets
- Finance new capital assets
- Fund specific operations



Some Objectives for Reserves

- Reserves can be for operating or capital
 - Operating reserves
 - For contingencies, or recurring projects that do not happen every year (e.g elections)
 - Not intended to provide ongoing funding
 - Capital reserves
 - Specific types of assets
 - Intended to smooth out the funding required for significant assets



Reserve Pitfalls

- Funding ongoing things from reserves
- Overtaxing with no plan
- Relying on annual surplus without planned contributions to reserves
- Failure to develop a long term outlook





EMERGING ISSUES IN LOCAL GOVERNMENT FINANCE

Hot Topics for Councils and the Public

- Asset Management
- Downloading of services to the local level
- Transparency – Public Accountability
- Fake News – Social media

Asset Management

- Being done informally in most municipalities
- Formalization - Long term financial plans
 - Requires time and commitment (resources)
- 10+ years; 25 year capital plans
- Requirement for some grants



ASSET MANAGEMENT BC

Downloading of Services and Costs

- Challenge for elected officials
- Increased regulations from all Ministries
- Expectation of more services = New costs
- Local governments need to be wary of what new things they take on
- **What is your role? Is it your problem to solve?**



Transparency – Public Accountability

- Public's desire for transparency in all decisions
- Minimal effort by public/media to understand the complexities
- Challenges presenting complex information in a simplistic way



Fake News – Social Media

- Speed at which information travels
- Public's inability to determine if information is accurate
- Social media 'trolls'
- Time consuming to monitor and react

FIGHTING FAKE NEWS

THE END!

Questions?