



Local Government Financial Management 101

Christopher Paine, CPA, CGA

FIT Local Government Consulting FLGC.CA

Linda Tynan, BBA, CPA, CGA

Linda Tynan Consulting



Agenda

- Roles & Key Legislation
- The Basics of Local Government Finance
- The Financial Plan (aka “the budget”)
- Debt
- Reserves
- Other Finance Matters



Roles & Key Legislation

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

Elected Officials' and Staff's Roles

Staff

- Statutory Roles of the Chief Financial Officer (cc.149)
- Make recommendations to Council/Board
- Carry out Council/Board policy
- Provides stewardship over municipality's financial resource and ensure accurate record keeping

Council

- Determine **service levels**
- **Strategic Plan & priorities** for community
- Set **Policy**
 - Tax rates (overall and each class)
 - Parcel taxes, user rates
 - Accumulation/use of reserves
 - Who pays for growth (ie. DCC's)

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
- Staff don't set policy/service levels/priorities – you do
- Don't review the budget line-by-line
 - Let staff do that, you focus on service levels
- Don't promise a specific service

Council Approval Required

- **5 Year financial plan**
 - Approved annually, by bylaw
 - Must be approved before property tax rates bylaw is approved
 - Council is required to undertake public consultation prior to adoption
 - Fiscal year = Calendar year
 - Financial Plan can be amended by bylaw at anytime



Council Approval Required

- **Property Tax Rates**
 - Approved annually, by bylaw
 - Must be adopted before May 15
 - Must be adopted after financial plan bylaw is adopted
 - Fiscal year = Calendar year
- **Appointment of the municipality's independent external auditor**
- **Annual financial statements**
- **Other finance related bylaws**



Council Approval Required

- **Borrowing**
 - Approval of the electors is required in most cases first
- **Annual report**
 - Council must consider the annual report at a public meeting before June 30
 - Report must be available to public 14 days prior
 - Annual report includes:
 - *Audited financial statements*
 - *List of tax exemptions*
 - *Progress report on council's municipal objectives*
 - Not applicable to Regional Districts

Legislative tidbits for discussion...

Statement of Financial Information (SOFI)

- Required under the Financial Information Act
- Submitted annually to the Ministry
- SOFI includes:
 - Council remuneration and expenses
 - List of staff remunerations and expenses >\$75,000
 - List of suppliers >\$25,000

Legislative tidbits for discussion...

Certain topics are very strictly controlled by legislation:

- Debt and borrowing
- Development Cost Charges (DCC's)
- Property taxes
- Investment of municipal funds



Legislative Context

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



A scenic view of a large body of water under a bright sun with a lens flare, and a forested shoreline in the distance. The sun is positioned in the upper left quadrant, creating a prominent lens flare that extends across the sky. The water is a deep blue, with white foam from a boat's wake visible in the lower left corner. The horizon line is low, showing a dark, forested shoreline. The overall atmosphere is bright and clear.

The Basics of Local Government Finance

Regional Districts...similar but different

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

Finance Terminology

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



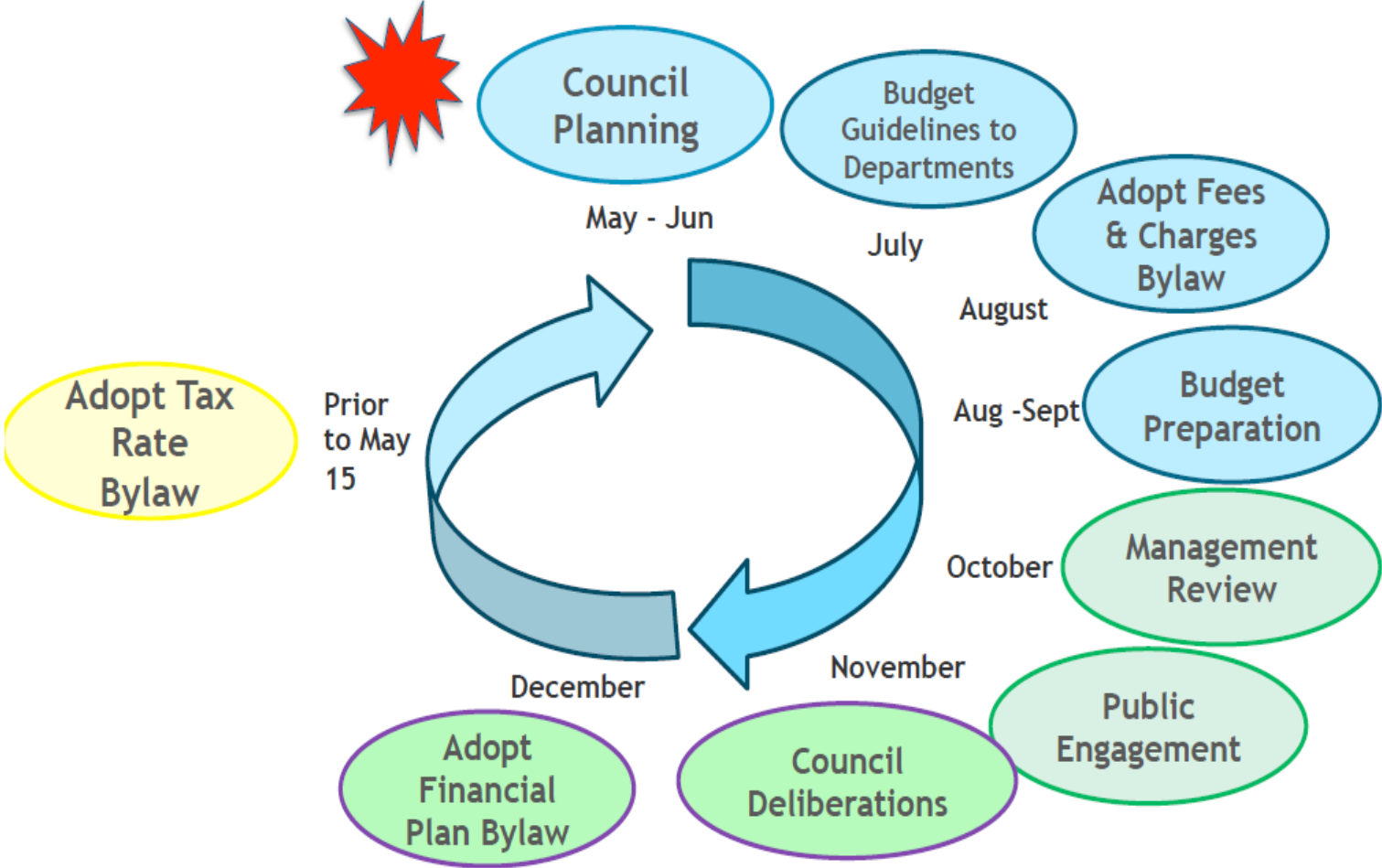
The Financial Plan

(aka "The Budget")

Financial Plan Components

- 5 Years (current year plus 4)
- Operating plan: day-to-day operations
- Capital plan: long-term assets and infrastructure
- New initiatives and increases to service levels
- Revenues and expenses
- Reserves (transfers to & from)
- Debt

Budget Process & Timeline Sample



Five Year Expenditure Authorization

- Five Year Financial Plan is expenditure authorization for all 5 years
- Staff are authorized to spend on January 1, 2023 pursuant to the 202²-2027 Financial Plan
- Do not make Staff wait until May 14, 2023 to begin 2023 spending/projects
- Make it a true 5-year plan and do annual refinements

Five Year Expenditure Authorization

	2022	2023	2024	2025	2026
Revenues:					
Revenue from Property Value Taxes	131,066,161	139,406,022	145,191,112	150,616,828	155,652,170
Revenue from Parcel Taxes	201,500	204,265	207,076	209,936	55,191
Revenue from Fees & Charges	57,245,423	59,388,867	62,596,652	64,212,732	65,679,900
Revenue from Other Sources	39,009,235	32,871,637	25,459,872	25,159,586	24,931,228
	227,522,319	231,870,791	233,454,712	240,199,082	246,318,489
Expenses:					
General Operating Expenditures	164,343,267	155,060,765	158,898,149	161,979,616	164,888,908
Sanitary Sewer Operating Expenditure:	5,597,263	5,177,948	5,209,747	5,251,711	5,374,537
Waterworks Operating Expenditures	11,152,795	11,056,112	11,491,413	11,495,769	11,399,450
Interest Payment on Municipal Debt	1,895,615	1,901,291	1,901,290	1,914,294	1,948,308
Amortization	29,655,472	31,365,838	32,217,437	33,074,608	33,916,249
Annual Surplus/Deficit	14,877,907	27,308,837	23,736,676	26,483,084	28,791,037

Five Year Expenditure Authorization

- Biggest Myth from a Frugal CFO “We have to wait until when the budget is passed”
- No – Council approved 5 years of funding last year
- Council directs CFO – CFO populates Financial Plan accordingly
- The draft Financial Plan should reflect accumulated Council direction

“A Balanced Budget” per cc

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



“A Balanced Budget” per cc

Revenues	\$20,000,000
Expenditures	\$18,000,000
Accounting Surplus	\$2,000,000
Less: Capital Expenditures	(\$2,000,000)
Less: Debt Principle	\$500,000
Less: Transfers to Reserves	(\$1,000,000)
Add: Debt Proceeds	\$1,000,000
Add: Transfers from Reserves	\$500,000
Budgetary Surplus	\$-



Budgetary Surplus vs Accounting Surplus

	BUDGET	ACTUAL
Revenues	\$20,000,000	\$20,000,000
Expenditures	\$18,000,000	\$17,900,000
Accounting Surplus	\$2,000,000	\$2,100,000
Less: Capital Expenditures	(\$2,000,000)	(\$2,000,000)
Less: Debt Principle	\$500,000	\$500,000
Less: Transfers to Reserves	(\$1,000,000)	(\$1,000,000)
Add: Debt Proceeds	\$1,000,000	\$1,000,000
Add: Transfers from Reserves	\$500,000	\$500,000
Budgetary Surplus	\$-	\$500,000

Revenue: *Considerations*

- **Property taxes and user fees** – PRIMARY revenue sources for most local governments
- Some revenues have **specific requirements** for how they can be spend (“conditional”)
 - *provincial legislation, municipal bylaws, council policy, grant agreements*
- How reliable is the revenue source?
- Estimate conservatively when possible (e.g. building permit revenue)



Revenue: *Typical Sources*

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



Revenue – Property Taxation



Assessment x Tax Rate =
Property Taxes

BC Assessment

- BC Assessment is **independent of the local government**
- Sets assessments in July of each year
- Tax rates are expressed in a \$ per \$1,000 of assessment
- Recently, there have been large increases in assessments in many municipalities causing concern that this will affect taxes
- Important to note that BC Assessment classifications are not the same as the municipality's zoning!




BC ASSESSMENT

Revenue – Property Taxation



**Assessment x Tax Rate =
Property Taxes**

Revenue – Property Taxation

- **The local government** sets total tax revenue to be collected through the financial planning process
- Typically, confusion regarding “**mill rate**” 
- Total tax revenue to be collected / total assessed values = “mill rate”
- Property owners tax bill = their assessed value X mill rate

“My assessment has gone up 25%, I can’t afford for my taxes to go up 25%”

There is no direct link between an individual’s assessment increase and their tax increase

The Fallacy of Ratios – between classes

- Ratio: relationship between the tax rates of different classes (eg. commercial and residential)
- Of some use in context, meaningless on their own

Example: Village of *Anytown*, BC

	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	

Remember...total tax revenue for each class is \$500,000....

Rate (\$/\$1,000) = Total Tax revenue ÷ Total Assessment

Example: Village of *Anytown, BC*

- **5 Years Later (assume no construction)**
- **Headlines from the *Anytown, BC News*:**
 - 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 *Anytown*, BC

Still collecting the same amount of taxes from Commercial and Residential customers...

	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	

Up 25%

Doubled

3.2 to 1

Summary - Assessments & 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

Taxation...communication is key

- Same principle for increasing assessments...rates don't mean anything when out of context.
- If total tax collected by the municipality remains the same...
- Tax Rate bylaw must be adopted by May 15th

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

Tax Exemptions

- Constitutional
 - Federal or Provincial Property
- Statutory
 - Eg. cemeteries, churches, hospitals, schools (BC Assessment Authority administers the legislation)
- **Permissive (Granted by Council)**
 - Eg. 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)
- Good to have a specific policy or constantly approached

User Fees

- Each community needs to decide **what services to charge for and what to provide as part or core services**
- **Examples** – fees for cemeteries, recreational facilities, business inspection, copies of documents, subdivision, rezoning applications etc....
- Fees can cover the service but no more (what does this actually mean?)

Taxes vs. Fees

Which are “better”?



Grants

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

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 (eg. extra parkland, cash) from developer in exchange for a benefit (eg. higher density or more height than current bylaws allow)
- Development Cost Charges (more on next)

Development Cost Charges (DCC's)

- Premise:

Growth pays for the infrastructure that supports growth

- Projects cost divided by development units

- Roads, Drinking Water, Sanitary Sewer, Storm Drainage, Parkland acquisition and improvement

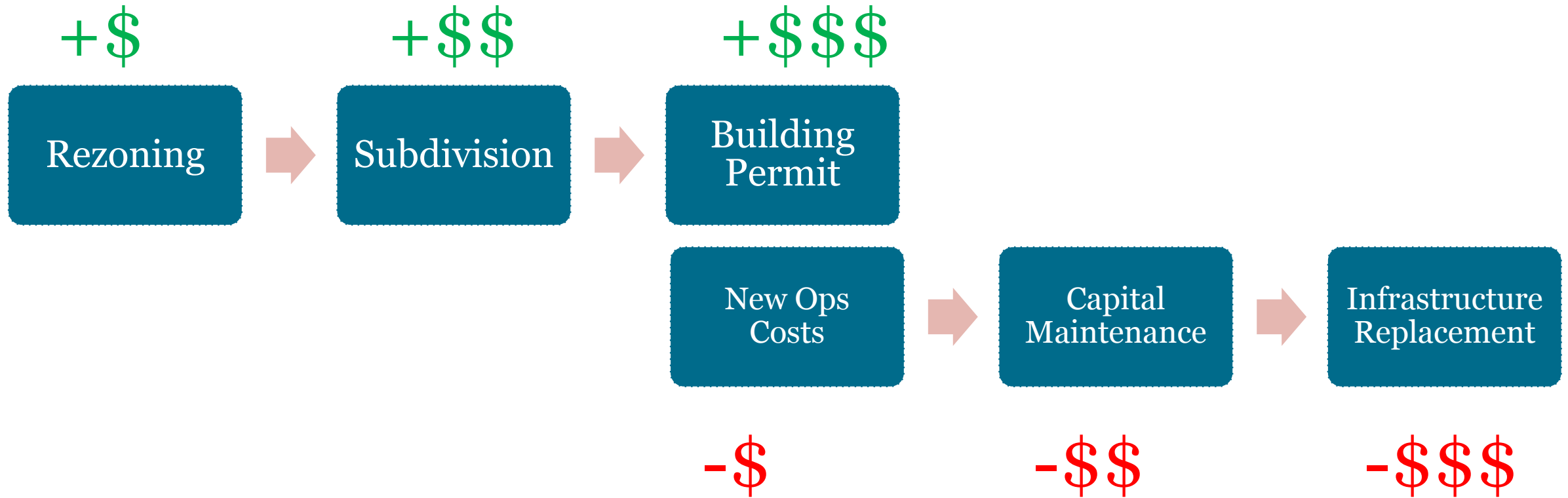
- Goal:

Developers assist in paying for growth-related infrastructure

Development Funding – ongoing costs

- New development = new costs
- New development = new tax revenue (“Non-Market Change Revenue”)
- Use new taxes to pay for new costs
- New costs lag, however

Development Funding – ongoing costs



Expenditures

- ✦ Must be in financial plan to be legal, except an emergency
 - ✦ Debt Principle/Interest
 - ✦ Capital Expenditures
 - ✦ Operating Expenditures
 - ✦ Prior year's deficiency
- 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

Capital Spending

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

Debt (Borrowing)

- **Municipal Finance Authority**
 - “AAA” Credit Rating
 - BC local governments have access to some of the lowest interest rates available
- **Statutory limitations – how much can you borrow?**
- **Elector Assent...and exceptions**
 - Petition, AAP, Referendum



**Municipal Finance
Authority of BC**

Debt (Borrowing)

- Difficult to compare debt levels between communities
- Interest cost associated with long term debt adds significantly to the cost of a project
- Delay in construction may also add costs!
- Why Borrow?
 - Spreads cost of the assets over their useful life
 - Minimizes spikes in tax requirements

Debt (Borrowing)

Philosophy – Pay now or pay later?

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

Reserves

- **Reserve funds are established by bylaw**
 - Bylaw states that money could be deposited in the reserve fund
 - Bylaw states a specified purpose for the reserve fund ie. how money can be used
- **Reserve funds function like a savings account**
- **Some revenue MUST be deposited in a reserve (called Statutory Reserve)**
 - Development Cost Charges
 - Sale of Parkland, highways
 - Money in lieu of Parkland (subvision)
 - Payment in lieu of providing off-street parking
 - Proceeds from tax sales

Reserves

- May set up for all kinds of things (eg fleet, building replacement, land acquisition)
- Differentiate based on source of revenue (eg water, sewer)
- Accumulated Surplus (aka Appropriated Surplus)
- Reserve policy helps frame requirements in Financial Plan
- Can be either operating or capital – not intended for ongoing funding
- **Shall we lower taxes with operating (non-capital) reserves?**

Case Study: lowering taxes with reserves

	Scenario A				Scenario B			
Financial Plan Year	2022	2023	2024	2025	2022	2023	2024	2025
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

Over 4 years, taxes increased 12% in Scenario A but in Scenario B....tax increased 12.3% PLUS \$91 in reserves were used!

Total revenue is the same

To generate the same revenue, must increase taxes 9.3%!

Reserves – Potential Pitfalls

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

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
- Amend the financial plan throughout the year, as required (by bylaw)

Regional District Recap

- Every Service Separate (taxation & reserves) – sometimes 100's of them....
- 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

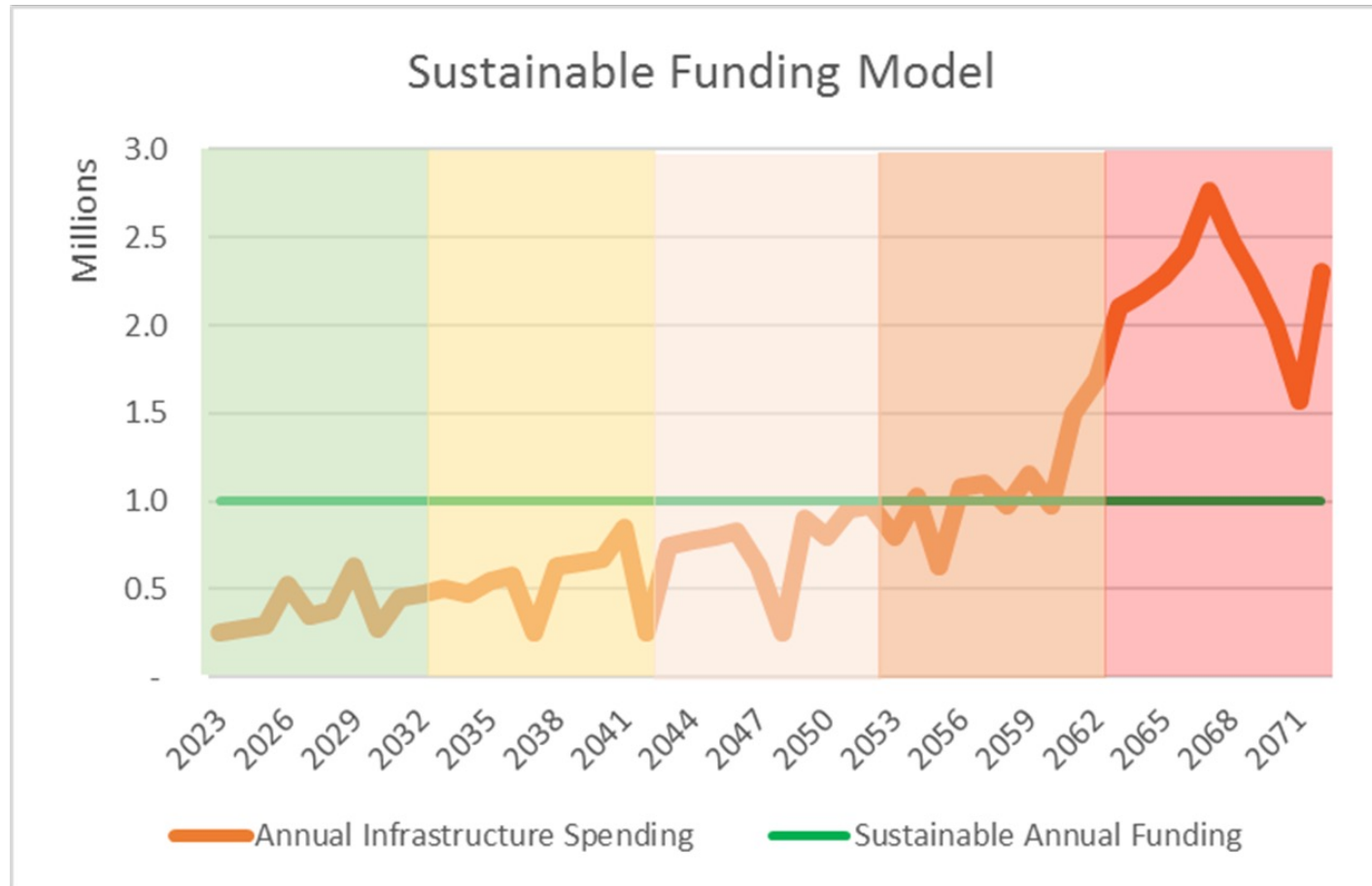


Other related topics - Finance



Asset Management

Infrastructure Life Cycle Costs



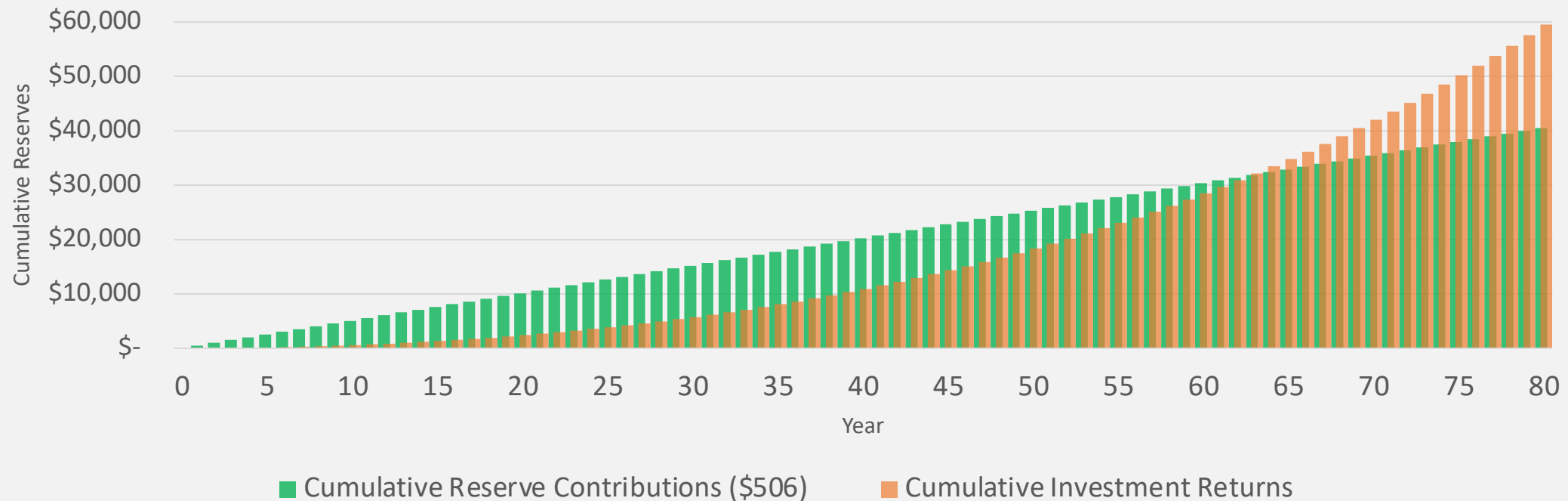
Years 1-10 Average	\$390k
Years 11-20 Average	\$540k
Years 21-30 Average	\$765k
Years 31-40 Average	\$1,092k
Years 41-50 Average	\$2,230k
50-year Sustainable	\$1,004k

Infrastructure Life Cycle Funding

- Intergenerational funding equity: spread infrastructure costs over their lifespan
- Annual, even transfers to reserves
- Take advantage of investment returns on reserves
- Avoid debt if you wish

Infrastructure Life Cycle Funding

Sustainable Funding
Reserve Contributions & Investment Returns
2% Return, 80 Year Life, 100K Replacement Cost





Emergency Management

New Services & Costs

- Challenge for elected officials
- Downloading?
- Increased regulations
- **What is your role?**
- **Is it your problem to solve?**



Economic Uncertainty



Benefits of Collaboration

Transparency – Public Accountability

- Challenge to present complex information in a simplistic way....but it is possible!
- Legislation is only the minimum
- Public has desire for transparency in all decisions
- Be aware of your role of oversight...take it seriously.

Closing thoughts...

- **Be aware 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....”**
- **Take the time to understand the finance basics – it is important!**
- **What can we do differently? Why do we need to change?**



For questions or more information,
contact:

Linda Tynan, BBA, CPA, CGA

250-551-5215

Lmtynan@outlook.com



**WE ARE
HIRING!**

Retaining
and Recruiting
Finance staff

What services must we provide?

Not many (contrary to popular belief...)!

- 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 (Regional Districts)
- 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...”