Financial Policy Framework

Introduction

The City of Barrie's financial policy framework provides a foundation for effective financial planning and management to ensure long term financial flexibility and sustainability. The framework guides all financial decisions and serves as the primary tool to measure the City's financial condition. The financial policies along with the long range financial plan also provide a mechanism for identifying instances where actual performance differs from established targets in order to allow for adjustments to be made in a prompt and effective manner and prevents the potential for poor incremental decisions to erode the overall financial condition of the City over time. The financial policy framework will also:

- Support strategic and operational planning exercises
- Provide guidance during the annual business planning and budget process
- Support specific Council deliberations regarding the use of funds throughout the year
- Serve as an accountability and communication tool for Council and residents

Long Range Financial Planning

Council approved the City's Long Range Financial Plan (LRFP) through motion 09-G-174 on April 27, 2009. The LRFP is a comprehensive and dynamic plan that contains strategies, principles and policies and a ten year financial projection for operating, capital and user rate budgets that can be used to guide decision making. The LRFP considered and incorporated Council's Strategic Priorities, Business Plans, the Official Plan and the Financial Policy Framework. Other factors that contributed to the development of the LRFP were economic factors, a financial condition assessment, assumptions about population growth, demographics and changes in future revenues and expenditures.

The development of the LRFP and the forecasting capability it now provides creates the ability for the City to effectively manage its financial condition and the key elements of sustainability, vulnerability and flexibility. More specifically, it will facilitate decision making such that the impact on tax rates and user rates will be minimized and with a reasonable degree of stability and predictability. It will also guide decision making to reduce the reliance on debt financing, provide a basis for evaluating financing plans for new development and illustrate the impact associated with decisions about infrastructure maintenance spending levels.

The LRFP will constantly be evolving and will be updated on an annual basis to reflect changes in the underlying assumptions, new information not currently available and changes in Council's priorities. The City's actual performance and decision making will be captured and compared to the original LRFP to measure progress and to provide the opportunity make adjustments as necessary to re-align the City's financial condition to the plan.

Financial Policy Framework

Several strategies were developed in support of the LRFP to strengthen the tax and user rate reserves. These strategies include:

- Allocating the 2010 and 2011 tax room created by the uploading of the Ontario Disability Support Program (ODSP) to the Tax Capital Reserve (due to other increasing social service cost the tax room could not be allocated to the Tax Capital Reserve in 2010)
- Allocating the tax room created when the full funding of the RVH Expansion project is achieved to the Tax Capital Reserve,
- Consolidating the existing tax capital reserves into a single reserve called the Tax Capital Reserve in support of a needs driven Capital Program.
- Basing annual contributions to the Water and Wastewater Capital Reserve Funds in accordance with the recommended annual rate requirement increases of 11% and 16% respectively, pending the results of the recommended rate structure review,
- Establishing a Water Rate Stabilization Reserve and a Wastewater Rate Stabilization Reserve to fund revenue shortfalls resulting from less than anticipated consumptions.

The development of the long range financial policies also led to changes in the City's Financial Policy Framework to more closely align them with the LRFP and to address some of the challenges face by the City. Changes include establishing more aggressive targets for building reserves, introducing limits on the issuance of debt on growth related projects specifically and on tax and user rate supported debt that reflect the underlying operations and establishing affordability targets for tax and user rates.

Basis of Accounting and Budgeting

All financial information is prepared and presented in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board (PSAB). The City of Barrie follows the "full accrual" basis of accounting, which recognizes revenues as they are earned and expenses as they are incurred and measurable through the receipt of goods or services and where a legal obligation to pay exists. As required at year-end, revenues and expenses that have not yet been processed are accrued and then reversed in the following year.

New financial reporting standards that became effective in 2009 require municipalities to report information about the tangible capital assets they own on their financial statements. Details about their historical cost, accumulated amortization and an amount charged to operations that represents the value of the assets used up in the year ("amortization expense") need to be reported and are subject to audit. Currently, the city's budget does not include a charge for amortization. This effectively understates the reported cost of the programs and services described in the budget. Tangible capital assets represent a large proportion of a municipality's assets and are an important part of its operating activities. Reporting tangible capital asset data provides important information for assessing accountability and stewardship.

Net Debt and Accumulated Surplus

The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's Balance Sheet. Among other details, it reports two of the five key indicators – net debt and accumulated surplus (deficit). The net debt is the difference between financial assets and liabilities and represents the amount that must be financed from future budgets to pay for prior period decisions. Net debt results from spending that exceeds revenues raised. Accumulated Surplus is the amount by which all assets, including tangible capital assets, exceed liabilities. A surplus indicates a government has net resources (financial and physical) to provide services in the future, while a deficit indicates liabilities are greater than assets and the government has been financing annual operating deficits by borrowing.

Although tangible capital assets are a considerable share of accumulated surplus, they do not provide liquidity and are not typically available for sale. So, although the existence of a growing accumulated surplus balance is positive, it is tempered by the existence of net debt. Reporting accumulated surplus is a new and positive change for municipal financial reporting. Historically, the emphasis on net debt facilitated a short term perspective about the implications of investing and financing decisions. By reporting accumulated surplus, there is a more complete picture of the corporation's financial position that makes it easier to understand the importance of maintaining sufficient reserve balances, prudently using debt and protecting the investment in tangible capital assets with asset management plans and sufficient expenditures on asset maintenance.

Budgeting

Council is required to approve a balanced budget each calendar year that must be finalized and approved before final property tax bills can be issued. The operating budget includes annual expenditures for personnel costs, materials and supplies, purchased services, minor capital, debt charges, reserve transfers, taxation, subsidy revenue and program fees. City Council approves the operating budget each year (January 1 to December 31), and receives the following two year's operating budgets as forecasts.

Barrie is currently not incorporating the OMBI's recommendations for re-allocating corporate support costs to the programs and services that receive benefits from them into the annual business plan. However, corporate support costs will be re-allocated for the purposes of Provincial reporting and the City's participation in the OMBI program. From a budgeting standpoint, costs that are incurred in one program to provide support services to another program are not transferred between programs, therefore, program and service costs as presented in the business plan may not include the "full cost" associated with them.

Financial Policy Framework

Any assumptions and risks are disclosed in the budget. Council also approves a capital budget that identifies the projects that will be undertaken during the year, how they will be funded, a forecast of projects that will proceed within the term of Council and a ten year outlook.

The budget reflects the City's business plan. It demonstrates respect for the taxpayer thorough a commitment to continuous improvement and a high regard for economy, efficiency and effectiveness in City programs in conjunction with National Quality Institute certification principles. Affordability targets have been established based on average household income of 4% for tax rate supported budgets and 2.5% for water and wastewater supported budgets.

Recurring expenditures are to be financed from recurring sources of revenue and one-time, non-recurring expenditures can be financed if necessary from tax rate stabilization reserves. During each business plan development process, Council will consider a range of program eliminations, reductions, efficiencies and enhancements.

Currently the City's financial system provides limited access to real-time information. An initiative is currently underway to enhance the timeliness and availability of financial management reporting. In the meantime, access to financial management reports are limited to those produced and circulated by Finance Department staff. Monthly financial reports are circulated to all appropriate staff on a monthly basis to monitor actual expenditures and revenues. Variance information is reported to Council on a quarterly basis.

Amendments to Approved Budget

The approved budget may be amended from time to time at the direction of City Council without altering the amount to be collected from property taxes or user fees. Such changes are generally limited to changes to the Capital Budget and are typically funded through senior government funding, reserves and reserve funds. Amendments to the operating budget in response to unplanned events or opportunities may also be made and are typically funded from the Tax Rate Stabilization Reserve.

Capital Project Financial Control Policy

Council is required to approve a Capital Plan each year which includes the Capital Budget and the Capital Forecast. The Capital Budget includes capital projects approved for expenditure with related funding sources. The Capital Budget may include Capital Projects or Project Phases that extend over multiple years. In these instances a Capital Spending Plan will also be submitted for approval which represents the annual cash flow projection for each Capital Project. The Capital Forecast represents the projection of expenditures and financing sources that are not included in the Capital Budget but are planned over the next nine years.

Financial Policy Framework

Expenditures for a Capital Project may be incurred or committed only up to the limit approved by Council. Any over expenditure in excess of materiality threshold of, the lesser of 10% of the project budget or $250,000, must be approved by Council. Any over expenditures below the materiality threshold can be funded from holding accounts established by fund. The holding accounts are funded by under expenditures in other capital projects up to a limit prescribed by Council.

A Capital Project Status Staff Report is prepared semi annually to report on the status of projects and address any additional funding adjustments required to complete the approved projects. The quarterly financial variance reports will report spending plan variances.

Operating Surplus and Deficit

Ontario municipalities may not budget an operating deficit. Any operating surplus in any given year is allocated to reserves in accordance with the Reserve/Reserve Fund Management Policy. Operating surpluses are treated as non-recurring revenues and therefore are not used for funding the following year's operations.

The tax rate stabilization reserve is used to cover potential deficits and to fund one time non-recurring expenditures. Any amounts above the defined maximum are subject to Council direction for disposition. Operating deficits, if not funded from other sources within the year or from the tax rate stabilization reserve, become the first item of taxation in the subsequent year. Status reports on spending against budget and forecasts to year end are prepared on a quarterly basis.

Revenues – User Fees and Service Charges

The City utilizes user fees and service charges that are either at or approaching full cost recovery, for funding of municipal services that benefit defined users. This requires users of municipal services that do not benefit the community as a whole to have the responsibility for the cost of those services thereby reducing or eliminating the requirement from the property tax. The calculation of user fees will be a percentage of full cost recovery that considers:

- the operating and capital costs including an allocation of corporate overhead
- Council's decisions with respect to the extent of private, commercial and community benefit, use of the service by non-residents (but not including tourists)
- rates for commercially available services
- the impact of changing user fees on demand levels

The fees are subject to an annual review and changes to user fees will be transparent and occur in conjunction with the business plan and budget development process and Council deliberations. Capital and operating costs for water, wastewater and parking operations must be 100% percent recovered by fees net of development charges and other sources such as government funding.

Financial Policy Framework

Revenues – Property Taxation

Property taxes are calculated by multiplying the property assessment values established by the Municipal Property Assessment Corporation (MPAC) by the tax rate set for each property class that is sufficient to raise the revenue required to support municipal and education services. The amount required for municipal services is based on planned capital and operating expenditures net of all other revenue sources including payments made in lieu of taxes by senior governments and their agencies. Education rates are set by the Province outside of municipal control. All amounts levied are paid directly to the School Boards.

The taxes levied for municipal purposes should be at a level to fund/protect the City's financial condition, investment in infrastructure, on-going expenditures and liabilities incurred. To the extent possible, the burden of property taxes is to be reduced through the diversification of revenue sources. Affordability is assessed by the overall level of taxation required to finance the City's requirements relative to other comparable Ontario municipalities and the City's financial policies framework. Consideration is given to tax relief programs for senior and disabled persons where feasible and in accordance with Provincial legislation.

Each year Council establishes budget directions for staff to set out priorities for the year and the level of taxation deemed to be acceptable for that year. Tax increases for all municipal services to maintain existing level of services is based on an index comprised of 85% of the Consumers Price Index and 15% of the Toronto area non-residential construction index.

The mandatory capping protection for commercial, industrial and multi-residential properties is funded by properties in the same tax class that would otherwise have a tax decrease by clawing back sufficient amounts which mitigates any impact to residential taxpayers.

Revenues – Non-Recurring

Non –recurring revenues are defined as those revenues that the City has little control over in terms of the amount, timing or conditions associated with receiving them. Examples of non-recurring revenues include funding from senior levels of government for a specific purpose or for a specific time period, an operating surplus, a financial gain resulting from the sale of an asset or a windfall as a result of some unique transaction or event. Non-recurring revenues will only be used for non-recurring expenditures or to replenish any reserve or reserve fund when it is below its maximum level.

When used for the purchase of tangible capital assets an analysis will be conducted to identify the on-going cost implications of operating and maintaining the asset. Reimbursements, grants or other similar payment for the purchase/construction of tangible assets will first be used to reduce the amount of debt financing required or if that is not possible, be placed in a reserve to begin saving for the assets eventual replacement.

Financial Policy Framework

The City will not budget for non-recurring revenues but will pursue every opportunity for earning non-recurring from senior governments.

Program and Services Review

Barrie is committed to outcome based performance management. Each department prepares an annual performance plan prior to developing their budget that clearly describes the relationship between resources, services and service levels. Unit cost data will be developed wherever possible to assess the continued sufficiency and appropriateness of base budget levels, identify productivity improvements and cost saving opportunities. As part of the business plan approval process, Council will review proposed service level standards and departmental performance with respect to established outcome based performance measures. Staff report to Council on performance against pre-determined standards on a quarterly basis. In order to ensure the City has the capacity deliver outcome based performance management, Manager's individual performance appraisals will include an assessment of their ability to use data for identifying, managing and reporting information about the resources under their control.

All City programs are subject to periodic internal and external review and investments in government business enterprises are subject to periodic review to consider public policy mandate and performance.

Reserve/Reserve Fund Management Policy

Reserves and reserves funds are a critical component of the City's long range financial planning. They are used to provide tax rate and user rate stability by smoothing the effect of variable or unanticipated expenditures or revenues, to provide funding for one time or short term requirements, to provide for future replacement or acquisition of capital assets and to provide the flexibility to manage debt within the City's Debt Management Policy. All discretionary capital related reserves are consolidated to reflect the fact that investments should be made on a needs driven basis rather than based on the availability of funds in reserves tied to specific assets. The LRFP identifies the projected contributions and disbursements for each reserve and strategies to ensure that funding will be sufficient to meeting planned future obligations.
Some of the specific strategies established to build the Tax Capital Reserve are to contribute:

- As debt matures, the annual amount that is no longer required from the operating budget in the year of maturity for that year and subsequent years to the Tax Capital Reserve
- 10% of gross fleet expenditure
- At a minimum, an additional $200,000 annually
- Annual phased contributions 0.5% to 2.5% of the value of each new facility upon financing approval.
- An additional 10% to the Landfill Closure Reserve until the estimated landfill closure date of 2026.
- 50% of annual tax rate supported operating surpluses to the Tax Rate Stabilization Reserve and 50% to the Tax Capital Reserve.

Financial Policy Framework

In additional to the reserve building strategies several targets have been established that will be used to assess the progress toward building reserves that will be sufficient for future needs. A minimum balance of five percent of gross operating revenues be maintained in the Tax Rate Stabilization Reserve, a balance of no more than ten per cent of gross operating revenues be maintained in a Water Rate Stabilization Reserve and a Wastewater Rate Stabilization reserve.

The City also receives development charges as provided for in the Development Charges Act, 1997 and the related City by-law. These funds are maintained in separate reserve funds that are restricted in use and applied to eligible growth-related capital projects in accordance with the legislation.

The status of the City's reserves and reserve funds and the future demands associated with each are reported to Council each year.

Investments

Municipalities are faced with restrictions on the type and duration of investments they may make of any surplus funds not immediately required to meet current operating or capital needs. Investments are not made such that the City is placed in an overdraft or borrowing situation, either short term or long term. Cash flow analysis and projection techniques are used to ensure that maturity dates of investments meet current and future obligations as they arise. Investments are primarily in highly liquid marketable securities with high credit ratings and are not limited to any one specific issuer or sector to avoid over concentration and reduce risk. These funds may include any reserve funds, proceeds from debentures or other monies not immediately required for the ongoing operation of the City earnings are be credited to each fund in proportion to the amount invested from it. The targeted average rate of return on invested funds is to exceed the bank account rate by a minimum of 1% and on average the daily balance of uncommitted funds should not exceed $1 million.

Debt Management

"Debt" includes long term debt and capital lease obligations. As stipulated in the Municipal Act, long term debt can only be used to finance capital assets. The term of the debt must be equal to or less than the life of the asset subject to limitations imposed under the Municipal Act. Notwithstanding the limitations of the Municipal Act, the City has established targets relating to the term of debt; the average debt retirement period for all outstanding debt should not exceed twelve years and that at least two thirds of all outstanding debt to be retired within ten years in any single reporting period. The maximum term of debt for tax rate supported growth projects should not exceed ten years and debt charges for these projects should not exceed 1% of the net revenue fund revenues. In these instances the maximum repayment level in each year should not exceed 10% of the reserve fund deposits.

Financial Policy Framework

Debt should be affordable to taxpayers and must not result in significant tax or user rate increases. Debt charges for tax supported debt should not exceed 10% of the net levy. Debt levels for water and wastewater supported debt have also been established and reflect the capital intensive nature of the operations. Water rate supported debt should not exceed 25% by 2018 and wastewater supported debt should not exceed 25% by 2014.

The Province limits the total amount of debt that a municipality can issue to 25% of its own-source revenues (all revenues less Federal and Provincial Grants); however the City has established a limit of 10% of the net levy for itself. The City issues debt that is repaid from a variety of sources including water, wastewater and parking user rates, development charges, provincial/federal gas tax revenues, property taxation and local improvements.

Short term borrowing should generally be avoided but used where feasible if cash flow is forthcoming or as an interim measure prior to the issuance of long-term debt. When short term borrowing is used it must not extend beyond three years for any given construction or asset acquisition. Debt may be considered when it leverages funds from other levels of government. The total amount of debt issued must not compromise the City's credit rating.

Asset Management

Asset management encompasses the protection, maintenance and replacement of the City's assets. A ten year maintenance plan will be disclosed as part of the LRFP. Capital assets are maintained and/or replaced based on an analysis of the lowest cost purchase method. Capital assets that are not required to meet the City's current or future program or operational requirements are disposed. An objective and transparent asset management framework is under development and will be in place for all assets by 2010. This framework will be used to evaluate asset condition and the corresponding need and priority for maintenance and/or replacement. In years where an asset management gap exists funds are allocated first to assets that impact public health, safety and operational requirements and then to assets where the long term financial returns are highest.

Growth and Development

Growth includes capital projects and operating costs related to the economic maturity and expansion within the City. The Development Charges Act (DCA) permits the City to fund the growth portion of new infrastructure from a charge levied at the building permit stage. The DCA by-law is used to recover the costs of growth to the full extent permitted by the legislation. Any costs associated with development charge (DC) discounts will be identified and reported to Council. Growth projects undertaken as DC's are collected, consistent with the DC Background Study. Certain projects can proceed in advance of collection of DCs subject to the availability of funds/financing. Other methods will be explored with developers/others to fund growth related projects that are not eligible for development charges.

Financial Policy Framework

The new infrastructure must be maintained by the City resulting in the need for increased operating costs. While new residents bring in more taxation, they also participate in City programs, resulting in increased costs to maintain the same standard of service. The cost associated with growth is identified and compared to the new assessment generated by growth with impacts to existing taxpayers quantified where possible.

Strategic Initiatives and Enhancements

Strategic initiatives include capital projects and additional operating requirements that enhance the quality of life in the City, respond to the changes in demand for services, enable organizational efficiencies or are required because of senior levels of government regulation. These items are not related to growth nor are they required to maintain existing assets or programs. Strategic initiatives and enhancements are established by Council at the beginning of each term.

Capital strategic initiatives will be advanced based on the level of priority established by Council over a multi-year timeframe. Dedicated sources of funding including confirmed funding from other levels of government to be considered as the first source of financing for strategic initiatives.

Council will assess asset management status, future operating costs and the sustainability of City finances when considering strategic initiatives and enhancements.