CITY OF ST. ALBERT

ADMINISTRATIVE BACKGROUNDER

TITLE: AMENDMENT TO CITY COUNCIL POLICY C-FS-05 – BUDGET AND TAXATION GUIDING PRINCIPLES

On April 3, 2017 Councillor Hughes provided notice in accordance with Section 23 of Procedure Bylaw 22/2016 that she intended to bring forward the proposed motion below.

In order for Council to debate the motion, the motion must be formally moved.

That Budget and Taxation Guiding Principles, C-FS-05, Section 9 (C) is amended to add a provision that the first $500,000 of each year's surplus is applied to reduce the following year's tax rate.EG: the first $500,000 surplus from the 2017 budget would be used to reduce the 2018 tax rate.

BACKGROUND:

Council Policy C-FS-05 Budget and Taxation Guiding Principles provides the following direction for application of budget surpluses:

“c. One Time Revenues, Surpluses and Unpredictable Revenue

One time revenues and surpluses and unpredictable revenue shall not be relied upon to fund ongoing expenditures, unless otherwise noted in the Financial reserve policy/schedules. This could result in annual expenditure obligations that may not have adequate funds available for future years.
In the event of an operating surplus/deficit, funds will applied to/from:

i. Reserves, municipal and/or utility, for use in maintaining reserve levels set by Council policy; or
ii. one-time expenditures; or
iii. repayment of outstanding debt.”

Should the motion pass, the above policy section would be amended so that it refers to the primary allocation being to reduce the following year’s tax rate by $500,000 and the residual amount allocated as per the existing policy c. i, ii, and iii.

However, there are other revisions that would be required to this policy and potentially to Council Policy C-FS-01 Financial Reserves, as discussed below:

C-FS-05 Budget and Taxation Guiding Principles

Administration recommends that the highlighted wording in the following sections of C-FS-05 Budget and Taxation Guiding Principles also be modified, with Council's alternate wording, to ensure a consistent fiscal philosophy throughout the policy.

1. Service Standard 6 - The City shall implement strategies to ensure that the **tax** and utility **rates are stabilized and to mitigate fluctuations over the long term**.

   Commentary: If these funds were applied every year, there would be a tax savings in the first year and no impact on the tax increase/decrease in any subsequent year as long as the full amount is applied to the tax rate. In any year that an equivalent surplus was NOT applied, there would be a tax increase. Application of one-time surplus dollars against the base operating requirement may create a situation where the annual tax increase in one year could fluctuate up or down by approximately 0.5% solely based on access to a surplus. Historically, the surplus values would have been adequate to support this. While probably "likely", there is no guarantee this will continue in the future.

   If Council no longer fully supports the inherent philosophy of Service Standard 6, then the standard should be clarified that short-term fluctuations are acceptable when related to lack of budget surplus funds.

2. Policy Statement 3 - "Budgets shall be developed in a consistent and planned manner **and take into consideration the impacts on future years** and the City's ability to fund those impacts."

   Commentary: The City does not plan for surpluses, but for a balanced budget. Our surplus experience in large part is due to unforeseen or unplanned events, including the pace and size of developments, WCB rebates/dividend distribution, fine revenues, snow removal, RCMP contract and interest rates. The City budgets to avoid a deficit which, if it occurs, is required by legislation to be covered in the following year (longer with Ministerial approval), and is therefore cautious in its budgeting approach. Because in years when there is not sufficient surplus to offset the next year's tax rates, as per the proposed amendment to the policy, there would be a tax increase, the impact of not having sufficient surplus may warp the process such that a surplus is "manufactured" to achieve the perceived desired buffering from a tax hike.

   If Council supports the motion, it is recommended that Policy Statement 3 be clarified how Council wishes the impact to be considered in relation to tax rate impacts in years when the surplus is insufficient to reduce the next year's tax rate.

3. Service Standard 1 - "The City utilizes **a multi-year planning method** to enhance and improve the budget process that reinforces the commitment to

long-term fiscal strategies. Although the budget is approved for one year, this multi-year view communicates the short and long term plans to residents and other stakeholders."

Commentary: The allocation of surplus funds to reduce tax rates has short term benefits and longer term detriment in terms of tax rate implications.

Council Policy C-FS-01 Financial Reserves

1. Historically, the topping off of the Stabilization Reserve has been accomplished through allocation of the prior year's budget surplus. The Stabilization Reserve ceiling is set at 2% of revenues, or about $4 million each year. The Reserve exists "to stabilize tax rates for non-recurring, emergent, one-time expenditures or losses of revenue that will not be built into the base operating budget in future years." Examples of application include "but are not limited to, abnormal snow removal, fluctuating interest rates, declines in revenues, increased utility costs, by-election, plebiscites, special projects or other items that would result in an overall deficit to the municipal operation." The Stabilization Reserve is funded either through the transfer of annual surplus or "Annual transfer or other sources as approved by Council." Given the consistent use of this reserve throughout the year, it is important that adequate funds be made available. Should this motion pass, dependent on the existence and size of the surplus in a given year, there may be limited opportunity for topping up this reserve.

2. There are several reserves which are funded through specific program surpluses:

    a. The Risk Management Reserve: "Automatic transfer of insurance premium annual budget surpluses, if the ceiling has not been reached; or, Automatic transfer of surplus funds left over from unspent budgeted claims expense dollars, if the ceiling has not been reached; or Annual transfer or other sources as approved by Council.
    b. The Children's Festival Fund: "Any surplus/deficit of the Children's Festival program is automatically balanced against this reserve."
    c. Automated Traffic Enforcement Technology – Speed on Green: "An automatic transfer at year end of an amount equal to 50% of net proceeds of operating the Speed on Green Program."
    d. RCMP Contract Expense Reserve: "Reserve funding contribution will be derived from any surplus from the Policing Operating Budget related to the RCMP contract through an automatic transfer at year end."
    e. Election and Census Reserve: "Any operating surplus balance remaining after an election or census will be transferred back to this Reserve automatically."
    f. Major Recreational Lands & Facilities: "Surplus proceeds from the sale of reserve lands • Payment in lieu of reserve land dedication to meet the cost of acquiring and developing public use lands as prescribed in the Municipal Government Act. •

g. Municipal Land & Facilities Reserve: “Sale of properties and City facilities other than recreation facilities • Net proceeds on the disposition of road right of ways”

To clarify the intent of the motion, it is understood that Reserves which are directly funded by related program surpluses, as noted above, are not included in the intent of the motion.

Long Term Capital Financial Plan

As part of the multi-year project Administration on March 13, 2017 presented to Council (SCOW) was the planned Financial Philosophy and Policy Review to commence in Q1 2018. The outcome is to ensure that the City has a comprehensive/holistic fiscal policy framework for the range of time horizon Councils make decisions on i.e. short, mid and long term. Administration recommends that this motion be referred to the project for assessment/analysis in the context of a fiscal philosophy discussion with Council and taxation strategies.

Report Date: May 1, 2017
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