



CITY OF ST. ALBERT CITY COUNCIL POLICY

NUMBER	TITLE
C-FS-05	Budget and Taxation Guiding Principles
ORIGINAL APPROVAL DATE	DATE LAST REVISED
September 2, 2003	January 23, 2017

Purpose

To establish principles for the preparation of budgets and property taxation levies in accordance with the *Municipal Government Act*. In some cases these principles will stand alone, while in others the principles are excerpts from separate policies established by Council.

Policy Statement

The City shall follow the principles established by this policy in the development of the budget and property taxation levies.

Service Standards/ Expectations

1. 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.
2. Municipal and Utility operating budgets/forecasts shall be prepared for Council for a rolling three (3) year period for information. Council will debate and approve year 1 of the plan.
3. Municipal and Utility capital budgets shall be prepared and approved by Council for a rolling ten (10) year period and Administration shall be given approval to execute on year one (1) of the plan.
4. The City shall maintain a fair, transparent, and competitive system in determination of:
 - a. Municipal property taxation, and
 - b. Utility rates

while collecting the necessary revenue to meet municipal and utility program and service obligations.

5. The approved operating and capital budgets shall serve as the financial plan for the City and provide Administration with the direction and resources necessary to accomplish Council's strategic direction and Council approved services and service levels in accordance with the Services and Service Levels Inventory, provided as Schedule 1.
6. The Corporation uses a set of guidelines, principles and policies to develop the annual budget and determine the required municipal tax and utility rates. Council approves these rates through the property tax and utility by-laws.
7. The City is committed to the preservation and long term viability of its current infrastructure and as such commits available capital dollars towards the repair, maintenance and replacement of existing assets prior to consideration of new capital growth projects and assets.
8. The City shall, where possible, endeavor to decrease the reliance on residential property taxes, by enabling annual taxable assessment growth to effect change to the municipal property tax split.

Budget Guiding Principles

9. Multi-Year Planning

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.

10. Base Budget

The operating budget shall be developed based on the principle of sustaining established and Council approved services and service levels. As such, the previous year is used as the starting point with various factors including inflation and other corporate adjustments.

The Services and Service Levels Inventory as attached to this policy shall serve as the basis for the development of the proposed budget. Council shall review the Services and Service Levels Inventory annually and make any amendments to services and service levels prior to the development of the proposed budget for the year in which the amendments are to be implemented.

The Services and Service Levels Inventory shall be used as a basis for the development of new Business Cases and/or Capital Charters to maintain and/or, when approved by Council, amend service levels.

11. Balanced Budget

The City shall adopt a balanced budget whereby operating revenues are equal to operating expenditures for each year. The approved budget may be amended to reflect approved Council motions.

12. Operating Business Cases and Capital Charters

As part of the annual business planning and budgeting process, Council Members and Administration shall have the opportunity to submit requests for new resources/non-capital projects and associated funding through Operating Business Cases (OBC) and request for capital projects and associated funding through Capital Charters (CC).

Administration shall maintain a prioritization criteria matrix for both Operating Business Cases and Capital Charters. All OBC's and CC's, whether Council Member or Administration initiated, will be ranked by Administration through the prioritization criteria, and dependent on the available funding in each category, may be recommended by approval and funding to Council in the proposed budget.

13. New Permanent Staffing Requests

When a new staffing request is being recommended, a separate business case shall be presented to Council. Only in unique circumstances will such a request be considered during the course of the year. A business case relating to a new staffing request shall be based on a start date of April 1 and be budgeted at step three (3) on the appropriate salary grid level or an equivalent as defined within the relevant collective agreement.

14. Tax and Utility Rate Stabilization Strategies

The City shall implement strategies to ensure that the tax and utility rates are stabilized and to mitigate fluctuations over the long term.

a. Capital Funding Formula

The City's capital funding strategy is based on a Capital Funding Formula that ensures the current and long term infrastructure needs will be met without significant impact to municipal taxes.

The Capital Funding Formula is a base budgeted amount built into the operating budget consisting of three components:

- i. Long term debt – an amount equal to the actual amount of principal and interest due in a given year to fulfill the City's debt obligations.

- ii. Capital asset lifecycle reserves – an amount equal to the planned funding required for a given year as determined by the supporting schedules of the various lifecycle reserves.
- iii. Pay-as-you-go (PAYG) – the residual of the amount of the Capital Funding Formula less the allocations for the first two components and is rebalanced annually.

If the need for an increase/decrease to the Capital Funding Formula is determined, a business case will be brought forward for Council review as part of the annual budget process.

b. New Assessment Growth

- i. New assessment growth is defined as the anticipated future property tax revenue for new residential/non residential building construction forecasted for the following budget year.
- ii. The City shall apply new assessment growth revenue through a balanced approach of 70% growth revenue to fund new initiatives (business cases and/or capital charters) and 30% to offset the base budget property tax requisition.
- iii. Any portion of the 70% of growth revenue not applied to business cases or capital charters during the budget process shall be transferred to the Growth Stabilization Reserve.

c. Reserves

- i. Reserves and reserve funds are established as required and maintained in accordance with their respective policy as determined by Council. Use of reserves is planned and is not considered as an alternate-funding source in place of good financial practice.
- ii. The Budget will allocate an appropriate level of funds to Reserves in order to maintain services throughout economic cycles, mitigate unexpected events/expenditures and to stabilize tax and utility rates during periods of growth.

15. Utility Budget

The utility budget shall be funded by user rates and achieve financial independence and sustainability in accordance with the Utility Fiscal Policy.

16. Public Participation

Council shall engage the public prior and during the budget process when required by established policies with support from the City. Public input will be

taken into consideration during the development of the proposed budget and in Council's deliberation of the proposed budget.

17. Revenues

a. Revenue Estimates

Operating revenue projections shall be based on actual historic trends, supplemented with additional knowledge of future expectations.

b. Revenue Diversification

- i. The City shall charge fees for services where applicable and cost effective to do so.
- ii. The City shall charge fines as permitted through policy, by-law or other legislation.
- iii. The City shall strive to maximize cost recovery where it is applicable and cost effective to do so. Consideration will be given to regional competitiveness and user affordability.
- iv. The City shall continuously seek new and diverse revenues so as to limit the dependence on one or only a few sources and in order to maintain approved service levels.

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.

d. Unconditional New Operating Revenues

When the City creates or receives a stable, lasting and unconditional revenue source, the City Manager shall present an operating business

case to Council. The business case shall recommend either new programs/services, supplements to existing programs/services, additional debt repayment, or increased reserve allocations.

e. Grant Revenue

- i. The City will pursue federal, provincial, and private operating grants but will strictly limit financial support of these programs to avoid commitments which continue beyond funding availability.
- ii. All capital grants are reviewed on an annual basis to ensure the allocation of funds are fully maximized.
- iii. Provincial Municipal Sustainability Initiative (MSI) grant dollars shall be directed solely to Municipal Capital Projects from the year 2020 onwards. During the approved phase out of MSI from the Utility model from the year 2016 through 2020, MSI grant dollars shall be allocated as follows:

	<u>2015 & Prior</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Municipal	70%	76%	82%	88%	94%	100%
Utilities	30%	24%	18%	12%	6%	0%

And;

Federal grants of \$987,000 annually be allocated to Utilities.

18. Expenses

Operating expense projections shall be based on actual historic trends, supplemented with additional knowledge of future expectations.

19. Capital Budget

- a. The City utilizes a rolling 10 Year Capital Plan that provides key strategic inputs for the upcoming budget year, a framework for the three year budget plan, and a future outlook of long range capital requirements.
- b. The City shall operate under an asset management framework which includes the compilation and maintenance of a full asset inventory including condition assessment and lifecycle plans to support the maintenance and replacement of assets.
- c. The City shall utilize a facility predictive model to inform growth capital strategies.



- d. The City utilizes two categories to define its infrastructure needs:
 - i. Repair, Maintain, Replace (RMR) – Capital initiatives that relate to maintaining current service levels that are required by lifecycle plans and are considered a replacement or rehabilitation of existing infrastructure, facilities, and equipment.
 - ii. Growth – Capital initiatives that are required to meet future demand relating to facilities, equipment, technology, and infrastructure for the development of cultivating and strengthening the community.
- e. The City has several sources of financing available to be used toward Capital Infrastructure. The funding allocations are comprised of various Provincial and Federal Grants, City Reserves, and the predetermined amount of Pay as You Go (PAYG) funds established through the Capital Funding Formula.
- f. Council shall review and approve the RMR Capital Budget approximately six months prior to the next fiscal year so that preparatory work and applications can be completed and be made available at the beginning of the next approved budget year.

While expenditures relating to these RMR projects will not be incurred until final approval of the corporate business plan and budget, significant effort is expended based on this early pre-approval. Amendments and/or ultimate non-approval of these projects at a later date may result in loss of this productivity.

Complete project charters supporting the 10 year RMR capital plan will be provided to Council as part of the review process.

- g. Capital projects relating to Growth will be reviewed during Council's deliberation of the subsequent budget year. Complete project charters supporting the 10 year Growth capital plan will be provided to Council as part of the review process.

20. Budget Amendments

Additional Expenditures and or Revenues

As per the MGA (section 248.2), council authorization is required for expenditures and/or revenues that are not included in the approved budget. This includes any new services, programs or projects undertaken.

Taxation Guiding Principles

21. Municipal Property Tax Split

- a. The annual adjustment to the municipal property tax split will be determined by the City Manager based on an evaluation of the following criteria:
 - i. The amount and weighting of annual taxable assessment growth,
 - ii. Municipal tax increase differential between the residential and non-residential property classes,
 - iii. Comparative annual property tax increases within the Capital Region,
 - iv. Comparative municipal property tax rates within the Capital Region.
- b. Based on the evaluation criteria above, the City Manager will recommend to Council an annual adjustment to the general municipal tax split, which may result in higher average municipal tax increases for the non-residential property class as compared to the residential property class.
- c. The need for programs, services and associated service levels shall be the major considerations in determining tax rates; however, comparative tax rates and municipal tax splits of other municipalities will also be taken into consideration.
- d. The percentage of the City's municipal property tax requirement assigned to the non-residential assessment class shall not decrease over time in relation to the percentage of the City's municipal property tax requirement assigned to the residential assessment class.
- e. The municipal tax rates will be set by Council annually through the Property Tax Bylaw.

22. Revenue Neutrality

The City's municipal property tax revenues shall not increase automatically with market assessment increases, in an effort to protect ratepayers from large shifts in property taxation due to annual market value assessment changes.

23. This policy shall be reviewed annually by Administration

Legal References

Municipal Government Act Sections 242-249

Cross References

C-CAO-01 City Manager Delegations
CAO-17 City of St Albert Community Brand
C-CG-06 Strategic Framework
C-CS-04 Public Art
C-FS-01 Financial Reserves
C-FS-12 Outside Agencies Budget Guiding Principles
C-FS-14 Utility Fiscal Policy
C-FS-16 Municipal Fees and Charges
C-P&E-07 Asset Management
C-FS-02 Investment
C-CAO-15 Program and Service Review Policy

Attachments

Schedule 1 - Services and Service Levels Inventory

REVIEW	REVISION
August 2018 – Financial Services	C486-2003 09 02 C187-2005 05 02 C355-2006 07 04 C25-2009 01 19 C98-2010 02 16 C161-2011 03 07 C220-2012 04 16 C151-2013 04 22 C110-2014 03 03 C453-2014 09 22 C544-2014 12 01 C598-2015 12 03 C424-2016 06 27
REVIEW DATES	