

Principles and Strategies for Financial Strength and Stability

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INTRODUCTION

The foundation of a vibrant community

As outlined in the City of Kelowna's Official Community Plan (OCP) 2010-2030, members of the community envision a Kelowna that offers "the best balance between environmental protection, economic growth, social development and cultural vibrancy." Financial strength and stability will provide the foundation for the City to provide services, infrastructure and amenities desired by the citizens of Kelowna today and in the future.

Purpose of this document

The City defines financial strength and stability as "the ability to acquire and manage a portfolio of financial and physical assets that meet the current and future needs of our community". This is the goal. The principles and strategies set out in this document will guide decision-making within the City and help to realize this goal and, ultimately, the vision for Kelowna.

The purpose of this document is to outline those principles and strategies and to guide staff and Council in the work they do.

This document is an important resource in the City's overall decision-making framework. If the community's vision is the ultimate destination, and we need financial strength and stability to get there, then:

- these **principles** are what we live by
- these **strategies** are how we'll get there

These principles and strategies will guide the development of detailed policies, which will set the boundaries for budgeting and planning decisions. Performance measures will tell us how we're doing along the way.

Decision making framework



PRINCIPLES FOR FINANCIAL STRENGTH & STABILITY

The financial strategies contained within this document are consistent with the principles presented below. These principles serve as a basis against which the financial strategies can be tested, reviewed and updated as needed.

Sufficient | Revenues and expenses support the City's service levels and long-term goals

The 2015 Citizen Survey results tell us that residents of Kelowna value the high quality services that they receive and are accustomed to. In order to meet these service standards the City needs to ensure that the budgets for operations and infrastructure are *sufficient*. Revenues also need to be *sufficient* to meet long-term investment needs.

Pragmatic | Financial decisions take measured risks while ensuring appropriate service levels are protected

There will be occasions when assuming some degree of risk is advantageous to the City in order to leverage opportunities or to be ready to meet the needs of a changing population. However, any risks taken need to be measured and carefully considered so the impacts on delivery of City services are understood.

Flexible | Financial policies allow for opportunities and changing circumstances

The City needs the flexibility to take advantage of arising opportunities and to respond to emergent issues. Resources need to be accessible for the unforeseen and policy frameworks need to allow for flexibility and swift action when required.

Transparent | Financial strategies, plans and processes are accessible and visible

The citizens of Kelowna are interested in what their local government is doing. Having information easily available and presented in a form that is easy to understand encourages discussion and engagement, holding decision-makers accountable. Being transparent ultimately builds trust and benefits the community overall.

Balanced | Service levels are affordable and appropriate

The citizens of Kelowna expect consistent and quality services from their local government. They also expect that decisions regarding the variety and level of services they receive and pay for make efficient use of their tax dollars and user fees. This requires a careful balance between the level of service and the cost of the service to ensure the needs of the City are met.

FINANCIAL MANAGEMENT STRATEGIES

The ten strategies contained in this document are intended to guide the City's future financial planning. While some of these strategies focus on a particular component of the financial balance - revenues and costs - they are all interrelated and work together to provide a broad framework for managing the City's overall finances.

Reference these strategies widely and often. They guide the development of financial policies and performance measures, which provide boundaries for financial decision-making and report on how we are doing.

The ten financial management strategies are:

- Assets - New
- Assets - Renew
- Debt
- Development Financing
- Grants
- Operations
- Partnerships & Enterprise
- Property Taxation
- Reserves & Surplus Funds
- User Fees & Charges

ASSETS - NEW

New assets add to the City's inventory and are required to improve services or accommodate growth but do not include asset renewal or replacement.

Having clear processes in place for deciding on when and how to invest in new assets will facilitate sound financial decision-making that is understood and supported by Council, staff and the community. This means taking a holistic, multiple bottom line approach to prioritizing capital projects; evaluating emergent opportunities against existing priorities; and communicating the decision-making process in a way that is transparent and easy to understand.

Objective

To ensure new asset investments are financially strong, stable, and aligned with City priorities.

Strategies

1.1 Expenditures for new assets will be prioritized based on social, economic and environmental factors and life cycle cost implications

The community's vision for Kelowna is a balance of social, economic, and environmental factors. It is important for the City to consider this holistic set of factors when setting priorities for expenditures, as there may be cases where a project meets the financial bottom line but may negatively impact the environment over the long term. The full life cycle costs of operating, maintaining and replacing infrastructure, and providing services will be considered when making financial decisions.

1.2 Emergent opportunities will be evaluated against existing priorities

It is important that the City remains open and flexible to emergent opportunities, whether they are opportunities for new grants, innovative ways of providing services, or new approaches to community development. However, the City will maintain its long-term vision and will evaluate emergent opportunities against existing priorities.

1.3 Investment in new assets should follow the long-term capital plan

New capital investments should be made following the long-term capital plan in order to address the community's highest needs and the City's risk tolerance. It is important to maintain a certain degree of flexibility along the way to respond to emergent opportunities.

1.4 The decision-making process for new asset investment will be documented, transparent and clearly communicated to Council, staff and the community

A clear process for identifying and prioritizing new capital projects will provide Council, staff and the community with a common language so decisions regarding capital expenditures are clearly communicated and understood. This is essential for fostering an engaged community and for holding decision-makers accountable.

ASSETS - RENEW

The delivery of municipal services greatly depends on a wide variety of infrastructure such as roads, buildings, sewer and water systems. While much of this infrastructure lasts a long time, it eventually needs to be renewed or replaced. The replacement of these assets is expensive and therefore needs to be carefully planned for so the City maintains its financial strength and stability for future generations. The timing and funding requirements for asset renewal and replacement are part of the City's long term capital plan.

Objective

To proactively manage and reinvest in City assets to meet service level needs for current and future generations.

Strategies

2.1 The City will invest in existing infrastructure renewal in accordance with the long-term capital plan

The City's long-term capital plan sets out priorities for capital infrastructure upgrades in order to provide appropriate levels of service to the community over the long term. Deviations from the plan can jeopardize future service levels, leading to unexpected asset failures which can be costly and potentially pose a risk to service levels, public health and safety.

2.2 Funding for asset renewal will be balanced against service levels and risk tolerance

The point at which infrastructure will require renewal cannot be known exactly, and needs to be viewed with consideration to service levels and risk tolerance. For example, infrastructure that is considered critical to system operations will be given a higher priority for capital reinvestment. This may come with the tradeoff of deferring renewal of other less critical infrastructure.

2.3 Life cycle costs should be managed through preventative maintenance and renewal strategies

Proactive asset management should yield more stable annual costs and lower total lifecycle costs than reactive repair and renewal. Asset management is about making investment decisions with respect to building, operating, maintaining and replacing infrastructure assets.

DEBT

Debt is a common tool that municipalities use to finance capital expenditures over both the medium and long term. Debt is viewed as a fair way of financing a project since those who are paying the principal and interest charges are benefitting from the service.

Objective

To ensure debt financing is used strategically to maintain the City's financial strength and stability.

Strategies

3.1 General Fund debt servicing costs will be maintained at or below a targeted level of annual taxation demand

The City's general fund is used to cover the cost of providing services such as roads and police/emergency services (i.e. services which benefit the entire community, as opposed to a specific user or group). For such general services, debt servicing costs will remain at or below a targeted level of annual taxation in order to ensure that the annual debt payments are reasonable and that future debt capacity remains to take advantage of emergent opportunities.

3.2 The City's debt capacity will be preserved by limiting the use of debt to fund only one-time major capital projects

Many capital expenditures recur on an annual basis and are relatively stable over time. This would include expenditures such as paving roads and replacing water and sewer mains. These recurring types of expenditures can be readily financed with a "pay as you go" strategy. However some projects do not recur on an annual basis and require significant amounts of funds, such as a new fire hall or sewage treatment plant. For these one-time major capital projects, debt is the preferred funding source. By borrowing for major, one-time capital projects only, the City will preserve debt servicing capacity for when, or if, it is truly needed.

3.3 If possible and when beneficial, debt will be paid down earlier

It is not always beneficial to pay down debt at every opportunity. Variables such as existing and future interest rates are a key consideration in this decision. For example, if the cost of borrowing for a new major infrastructure project is significantly higher than the interest rates on existing debt, the City should consider maintaining the existing debt and transferring available funds to the new capital project. However, when it is beneficial to do so, the City should consider retirement of existing debt a priority.

3.4 Financing for less than a five-year term will be completed through internal financing

For smaller projects requiring a financing term of five years or less, the City should fund by borrowing from its reserves. This approach conserves borrowing capacity and has the benefit of the City paying the interest to itself rather than to an external lender.

3.5 Impacts on overall City debt levels from "self-funded" cost centres and Funds will be reviewed and understood

The City has several "self-funded" cost centres and Funds whereby these cost centres and Funds debt servicing costs are paid for by user fees specific to that area. I.e. Airport, Water, Wastewater and Parking. Impacts on overall City of Kelowna debt capacity should be considered so that these areas do not inadvertently negatively affect the City's ability to borrow for General Fund purposes.

DEVELOPMENT FINANCING

Development cost charges (DCCs) are collected by the City from land developers to offset the cost of new or expanded infrastructure for new users, such as roads, drainage, sewers, water, and parks. DCC's are one-time charges that are paid by the developer at the time of subdivision or acquiring a building permit. Development charges do not pay for operating costs or for the future repair, renewal or replacement of infrastructure.

Objective

To ensure growth helps to pay for the demand it creates and does not impose an undue financial burden on Kelowna taxpayers.

Strategies

4.1 Developers will pay their fair share for growth-related infrastructure through DCCs and other tools

Infrastructure costs should be paid by those who will use and benefit from the installation of such systems. DCC's should employ mechanisms that distribute these costs between existing users and new development in a fair, equitable and transparent manner.

4.2 Where appropriate, other funding can be used to provide additional capacity over and above the current OCP horizon

For some capital upgrades, it may be appropriate to consider growth over a longer horizon than the timeframe covered by the City's OCP. The OCP horizon is parallel to the DCC program horizon. Examples include long term utility plans that have a vision beyond the OCP; over sizing a sewer main to eventually service existing homes beyond the identified growth area.

4.3 Taxation-funded DCC's through grant programs may be used to encourage economic development and community projects

Financial assistance for non-profit and affordable rental housing is an example of the social investment the City may wish to make in achieving its vision.

GRANTS

A grant is a transfer of money to the City from another entity (generally a higher level of government). There are two types of grants:

Conditional grants	These are provided for a specific purpose and may not be used for any other project. An example would be the Infrastructure Canada Grants.
Unconditional grants	These are provided without conditions on their use. An example would be the provincial Gas Tax community works fund.

Grants are a useful tool in a municipality's financial toolbox, and can be used strategically to offset costs to taxpayers and ratepayers. However, a reliance on grants to fund capital projects and services will undermine a community's ability to attain financial strength and stability. Furthermore, most grants require that the beneficiary covers a portion of the cost to deliver the project, highlighting the need for grants to be leveraged for projects that are a City priority.

Objective

To pragmatically leverage grant opportunities.

Strategies

5.1 Grants will only be pursued for the City's priority projects

Grants are often offered to local governments by senior levels of government in response to senior government priorities. These priorities may not always align with those of the City of Kelowna, which are set out by Council in response to the community's needs and aspirations.

The City will strategically identify opportunities for grants that align with local priorities. This will ensure that efforts remain focused on what matters in the community, and that the City's funds or resources are not diverted from where they are actually needed.

5.2 Grant funding will not increase the scope of a project without Council endorsement

Direction on the scope of a priority project is provided by Council so it delivers the appropriate level of service. An increase in scope in response to a grant opportunity may not be the most appropriate use of City funds or resources; therefore, Council will review such grant opportunities and revisions to scope and only endorse them if they align with the City's.

5.3 Annual project funding must be sufficient without conditional grants

Dependence on grants as a funding source is not in line with the City's principles of financial management. The City will plan and budget for projects and services annually under the assumption that conditional grants will not be received by the City. Grants will be treated as opportunities to leverage City funds only where appropriate.

5.4 Long-term financial planning will rely on unconditional grant opportunities only

Unconditional grants may be used as a planned source of revenue only if it can be expected as funding available over the long term. An example of this is the Community Works Fund under the Renewed Gas Tax Agreement, which is available to all municipalities from the federal government as a direct annual allocation to support local priorities.

OPERATIONS

The City needs sufficient revenues to sustain ongoing operations over the lifetime of a service or asset. Without sufficient revenues, service levels may be affected and assets can quickly deteriorate and become liabilities.

Objective

To ensure operations receive sufficient financial support to provide programs and services to residents.

Strategies

6.1 All services, including new services, must be aligned with the City's priorities and reviewed regularly

It is important that that City regularly reviews its services and related operating costs to ensure that services continue to align with the City's priorities, providing good value to the community.

6.2 The full financial cost of service and staff requirements will be understood by Council and administration

The City's decision-makers need to have a comprehensive understanding of the full cost of service provision so that service levels and revenues remain in balance. This includes accounting for staffing requirements that provide corporate services support such as finance, human resources, information technology, and communications which are required as City services change.

6.3 Future changes in operating costs, including personnel resourcing requirements, will be considered in long-term capital and financial planning

The City must consider the impacts on the operating budget as part of long term capital planning to ensure that the full cost of delivering the service is incorporated into long term financial plans.

6.4 Ongoing operating activities will only be funded through taxes, fees and charges

Ongoing operating costs will not be covered through reserves, debt, or grants. The City will set taxes, fees and charges to achieve full cost recovery, where appropriate, balancing affordability and accessibility with value for level of service.

PARTNERSHIPS & ENTERPRISE

A healthy community thrives on establishing economically and socially beneficial partnerships. To provide the services its residents want, Kelowna has nurtured many partnerships with individuals, community groups and private-sector companies. Partnerships can be an effective approach to providing community facilities, programs and services without increasing general taxation.

Objective

To proactively explore opportunities that build community capacity and connections, and leverage resources to provide services that are aligned with City priorities.

Strategies

7.1 The City will pragmatically partner with other entities to deliver community services and amenities

The most efficient and effective forms of service delivery will be considered by the City, including partnerships with other entities that align with City objectives and priorities. This is to ensure that the resources within the community, or neighbouring communities, are leveraged to provide the best value to the citizens of Kelowna.

7.2 The City will explore access to new sources of capital and revenue streams

There is a limit to the level of taxes and fees that can be levied to provide services. In order to provide new services that might not normally be funded, the City needs to seek out new sources of capital and/or new revenue streams. This may be accomplished through exercising certain rights conferred on the City through legislation, leveraging City assets and/or making staff expertise available to other governments.

7.3 The City will leverage existing assets to attract private sector involvement

The City of Kelowna possesses many valuable assets such as land, parks and facilities. These assets can be attractive to the private sector in many different ways and therefore provide the City of Kelowna the opportunity to leverage these assets in giving greater value to the community.

7.4 The City will leverage the expertise of outside partners

In order to provide the best value to the community, the City will leverage the expertise of outside partners where appropriate. This may include, but is not limited to, other local governments, senior levels of government and agencies, First Nations, academia, private contractors, not-for-profits and non-governmental organizations.

7.5 Services from partnerships will be reviewed regularly to ensure the needs of the City continue to be met

Partnership agreements and services will be regularly reviewed to ensure that the service provided by the partnership is still relevant and continues to provide good value to the City.

7.6 The City supports organizations within the community that enhance the quality of life

The City recognizes the significant value of volunteers, volunteer groups and agencies to the spiritual, educational, social, cultural, and physical well-being of the community.

PROPERTY TAXATION

Property taxes are generally used to fund services that are provided broadly to the whole community (e.g. roads, policing, fire, transportation, waste collection and disposal).

Property tax is based on the assessed value of a property (i.e. land and improvements/buildings). Property owners have their property assessed on an annual basis by BC Assessment, and the assessed value of the property is then multiplied by the City of Kelowna's tax rate (expressed as the amount of tax per thousand dollars of assessed property value) to compute an annual property tax. The tax rates are set for each of the various property classifications and adjusted annually to ensure that the City raises the required funds to support the annual budget.

Objective

To ensure property taxes and fees are sufficient to meet the community's short and long-term needs.

Strategies

8.1 Property taxes will remain as stable as possible over time

The City will strive to ensure that tax increases are measured and relatively consistent year to year.

8.2 Property taxes will be comparative with similar communities

The City needs to remain comparative in order to attract and retain economic development; however, it is recognized that the services and amenities provided by the City are also a major incentive for people and businesses moving to the region. The General Municipal taxes levied for the average house market value will be comparative.

8.3 Increases to property taxes will be balanced among assessment classes

It is not uncommon for certain classes of properties to increase in value by a greater percentage than others in any given year. This would result in the amount of taxes being paid on these classes of properties to increase at a greater rate than for other classes whose values have not appreciated as quickly. In order to ensure that property tax increases are distributed fairly, the City will adjust the tax class ratios so that all classes of properties see their taxes increase by the same percentage in any given year.

8.4 Property tax information will be transparent and easy to understand

By continuing to be transparent and providing citizens access to information that is complete and easy to understand, they can better appreciate the high value they receive for their tax dollars.

8.5 Property taxes will reflect the infrastructure, services and service levels that the community believes are important

Built with input from the public, the City of Kelowna has a vision for the future and plans to get there. Through continued consultation, the City remains aware of community investment priorities and funding preferences, ensuring that plans and budgets stay on track to meet the needs of the community.

RESERVES & SURPLUS FUNDS

Saving money for future projects and unexpected expenditures is an important planning consideration for the City. Reserves provide a financial mechanism for saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can also provide a degree of financial stability, by reducing reliance on indebtedness to finance capital projects and acquisitions, or flexibility to leverage opportunities as they arise.

There are three basic types of reserves:

Accumulated surplus	This is the net annual surplus that builds up over time.
Reserve accounts	These are reserves that are set aside for a future identified purpose, but can be readily accessed and repurposed as may be necessary.
Statutory reserves (Reserve funds)	These are reserves that are established by Council for a specific purpose through a bylaw. These reserves cannot be repurposed without revising the bylaw.

Sufficient reserves offer the City resiliency in the event of abrupt changes to costs or revenues, and they should be generated and allocated judiciously as part of the City's overall financial management practices.

Objective

To maintain sufficient reserves so the City has the flexibility to respond to opportunities, and maintain or improve levels of service.

Strategies

9.1 The purpose of each reserve will be documented and reviewed regularly

The City will ensure that the purpose of each reserve is documented at the time it is established, and that this is reviewed on a regular basis to ensure that the reserve is still required and that the balance in the reserve is appropriate.

9.2 Ongoing operating requests will not be funded from reserves

Redirecting funds from reserves or accumulated surplus to offset ongoing operating costs will not be considered by Council as an appropriate practice.

9.3 Accumulated surplus will only be used as an emergency funding source

Accumulated surplus will act as a fund for emergencies, such as fires and floods. Accumulated surplus should not be redirected to fund small capital projects or operating expenditures.

USER FEES & CHARGES

User fees and charges are another way that the City of Kelowna raises revenues. User fees and charges are useful because those that benefit from a service bear the cost of it.

User fees and charges should have a direct relationship to the actual cost of providing a service. Some services are funded by a mix of fees and general taxation. Recreation facilities are a good example - user fees pay for some of the cost but taxation covers the balance of the cost.

Objective

To ensure user fees and charges are sufficient to meet the City's needs.

Strategies

10.1 Everyone will pay a fair amount for the services they receive

It is important that the people, who benefit from a service, pay a fair amount for it.

10.2 Services will be reasonably accessible by all citizens

This means that the City may choose to set user fees and charges for certain services so they do not fully recover the cost to provide the service, and use other sources of funding in the budget to subsidize the cost. Examples include services for which the entire community benefits, and/or where ability to pay is a primary criterion, such as sportsfields.

10.3 User fees will be transparent and easy to understand

There should be a clear link between the benefit received from the service and the fee paid. Fees are calculated in a way that is fair, those who use the service pay for it, they are understandable, reviewed regularly and available to the public if requested.

GLOSSARY

Accumulated Surplus | The balance in a fund that represents the cumulative excess in revenues over expenditures.

Capital Expenditures | Expenditures of a non-operating or maintenance nature, such as costs to acquire equipment, land, buildings and costs associated with new infrastructure or improvements to existing infrastructure.

Costs | The expenditure necessary to attain something.

Cost Centre | A department within the City that may or may not directly generate revenue, but still costs the City money to operate.

Debt Servicing | Cash that is required for a particular time period to cover the repayment of interest and principal on a debt.

Development Cost Charges | monies collected from land developers to offset some of the infrastructure expenditures required to service new development.

Expenditures | The payment of cash on the transfer of property or services for the purpose of acquiring an asset or service.

Fees and Charges | A source of revenue generated by the activities, works or facilities undertaken or provided by or on behalf of the City.

Financial Assets | A non-physical asset including cash, bonds and stocks.

Financial Plan | Commonly referred to as a budget. The budget must be adopted by bylaw through City Council and cover a minimum five-year period. Year one relates to the year in which it comes into force, years two through five are the following four years. The financial plan identifies the revenue sources and the proposed expenditures to be incurred to meet the outlined objectives.

Fund | A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific activity. The City has five main funds: general, water, wastewater, natural gas and airport.

Holistic | Emphasizing the importance of complete systems rather than with individual parts.

Infrastructure | Facilities and improvements such as buildings, roads, sidewalks, storm drainage, waterworks, sanitary sewer systems.

Level of Service | The outputs or objectives the City intends to deliver to its customers.

Liabilities | The state of being responsible or liable for something.

Life Cycle Costs | The total costs estimated to be incurred in the design, construction, operation, maintenance, and final disposition of a physical asset or system over its anticipated useful life span

Official Community Plan | An Official Community Plan (OCP) is a City bylaw that defines policies for land use and development.

Performance Measures | Indicators that are used to assess how well an organization is achieving its desired objectives.

Physical Assets | An asset that you can touch and feel such as a road or a pipe.

Reserve Account | Money that has been earmarked for future operating or capital expenditures. Reserve levels are planned to meet the capital requirements and to provide for operating swings in expenditures or revenues.

Revenue | The income received by the City from taxes, user fees, government transfers and other sources.

Self Funded Cost Centres and Funds | The City's has four "self funded" funds that are: water, wastewater, natural gas and airport. The City also has self-funded cost centres such as the Parking function. These Funds and Cost Centres must be self-sufficient so that revenues generated must offset all operating and capital expenditures.

Service | A system that fulfills a public need such as transportation and water distribution.