



City of Richmond

Report to Committee

To: Finance Committee

Date: January 14, 2009

From: Jerry Chong
Director Finance

File:

Re: Long Term Financial Management Strategy Update

Staff Recommendation

That the Long Term Financial Management Strategy update be received for information.

Jerry Chong
Director Finance
(4064)

FOR ORIGINATING DEPARTMENT USE ONLY		
CONCURRENCE OF GENERAL MANAGER		
REVIEWED BY TAG	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
REVIEWED BY CAO	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>

Staff Report

Origin

Pursuant to Council's request that annual updates regarding the current status of the Long Term Financial Management Strategy be provided.

Background

The Long Term Financial Management Strategy (LTFMS) was adopted in 2003 to address the widening funding gaps for the replacement of existing infrastructure and operations. The funding requirements for new infrastructure are outside the realm of the LTFMS and require a separate funding strategy.

During the mid 1990's, Richmond was faced with tough economic times through decreased grants from senior levels of government and rising external costs. Nominal tax increases were achieved by reducing the contributions to reserves while implementing significant efficiencies elsewhere. The consequence of these strategies was the diminishing of the reserve balances and the widening between the required and actual reserve levels.

Council and senior staff realized that something had to change and on May 26, 2002 Council directed staff to develop a Long Term Financial Management Strategy. The LTFMS model was created to address Richmond's financial challenges. The objective was to enhance the City's economic well being for future generations as part of the well-managed component of the City's vision without sacrificing the components of the City's vision, which affects the overall liveability of the community. The ten policies that govern the LTFMS are as follows:

1. Tax Revenue - Tax increases will be at Vancouver's CPI rate (to maintain current programs and maintain existing infrastructure at the same level of service) plus 1.0 % towards infrastructure replacement needs.
2. Gaming Revenue - Gaming revenues will go directly to the capital reserves, the grants program and a community legacy project reserve.
3. Alternative Revenues & Economic Development - Any increases in alternative revenues and economic development beyond all the financial strategy targets can be utilized for increased levels of service or to reduce the tax rate.
4. Changes to Senior Government Service Delivery - Any additional costs imposed on the City as a result of mandatory senior government policy changes should be identified and added to that particular year's taxes above and beyond the CPI and infrastructure percentage contribution.
5. Capital Plan - Ensure that long term capital funding for infrastructure (e.g. parks, trails, facilities, roads etc.) is in place in order to maintain community liveability and generate economic development.
6. Cost Containment - Staff increases should be achieved administratively through existing departmental budgets, and no pre-approvals for additional programs or staff beyond existing budgets should be given, and that a continuous review be undertaken of the relevancy of the existing operating and capital costs to ensure that the services, programs and projects delivered continue to be the most effective means of achieving the desired outcomes of the City's vision.

7. Efficiencies & Service Level Reductions - Savings due to efficiencies or service level reductions identified in the strategy targets should be transferred to the capital reserves. Any savings due to efficiencies beyond the overall strategy targets can be utilized to reduce the tax rate or for increased levels of service.
8. Land Management - Sufficient proceeds from the sales of City land assets will be used to replenish or re-finance the City's land inventory. Any funds in excess of such proceeds may be used as directed by Council.
9. Administrative - As part of the annual budget process the following shall be undertaken:
 - all user fees will be automatically increased by CPI;
 - the financial model will be used and updated with current information, and
 - the budget will be presented in a manner that will highlight the financial strategy targets and indicate how the budget meets or exceed them.
10. Debt Management - Utilize a "pay as you go" approach rather than borrowing for financing infrastructure replacement.

Analysis

Reserve Balances

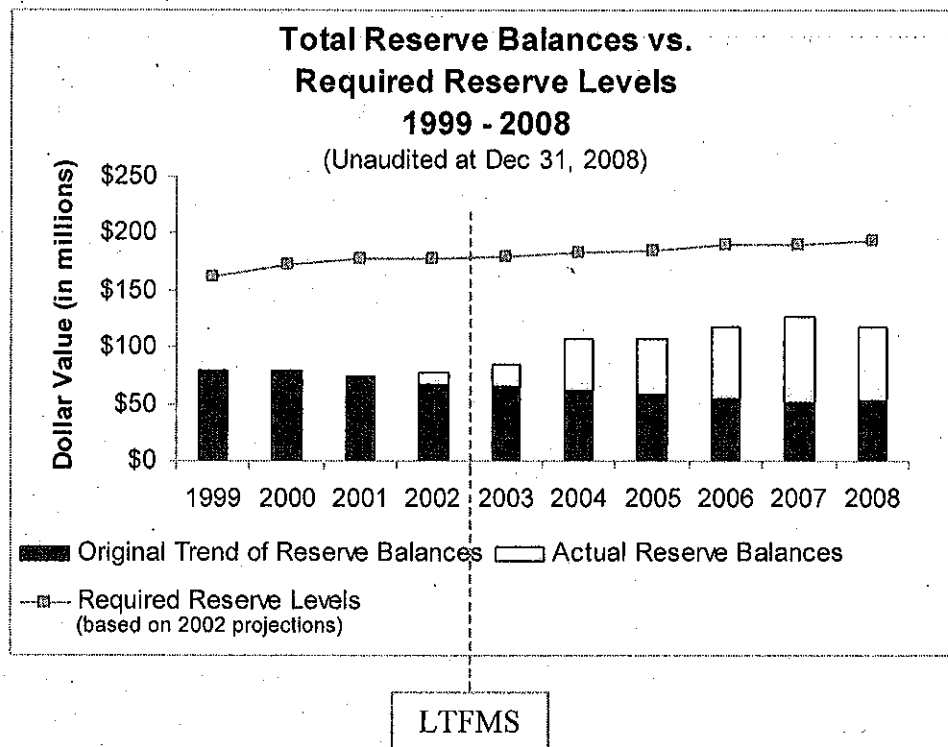
Since the inception of the LTFMS, the reserve balances have been steadily growing. The growth can be attributed to a combination of items including:

- The Long Term Financial Management Strategy (LTFMS) adopted by Council.
- Increase in Casino revenues which have been transferred to reserves.
- Annual increase in transfer to reserves by Council.
- Surpluses as a result of Building Permit revenues from increased construction activity.

The values in the chart below are the uncommitted reserve balances including utilities. These figures are different than those that are presented in the annual financial statements. The reserve balances as presented in the annual financial statements are on a cash basis and include the funds that are committed to projects but have yet to be paid. This may artificially raise the balances as they are based on the timing of expenditures. The uncommitted reserve balances used in this analysis provide a better reflection of the reserve balances that are available for use.

Figure 1. on the following page shows the anticipated trend in reserve balances prior to the implementation of the LTFMS and the actual reserve balances since its inception. Both of these balances are evaluated against the original required reserve levels. This chart emphasises the increasing gap that existed between the estimated required levels of reserves and the original reserve balance. This chart is considering only the replacement requirements for existing infrastructure. New infrastructure arising due to growth requires a separate funding strategy.

Figure 1.



Due to the items listed above and other factors, the declining trend of reserve balances was prevented. At the end of 2008, the reserves have grown to \$118.7M and the gap between the required reserve level has decreased.

Note: The balances above do not include DCC funds or the Community Legacy and Land Replacement Reserve.

LTFMS Policies

The implementation of the LTFMS in 2003 included ten policies, which govern the financial activities of the City. The following analysis summarizes the level of adherence to these policies:

	Policy	Analysis				Standing
1	Tax Revenue	Base Increase	Additional Expenditures	Reserves	Total Increase	Meets Requirement
		2003 2.90%	0.45%	1.00%	4.35%	
		2004 2.51%	0.76%	0.47%	3.74%	
		2005 1.25%	0.73%	0.00%	1.98%	
		2006 2.01%	0.97%	1.00%	3.98%	
		2007 1.65%	1.18%	0.82%	3.65%	
		2008 1.67%	2.25%	0.00%	3.92%	
		- The implementation of the LTFMS was in 2003 and the tax increases from that point in time are keeping within the budgeted CPI increase - The Increase to reserves was fully met in 2003 and 2006, no increase in 2005 and a partial increase in 2004 and 2007. The years beginning in 2008 and through 2011 do not include a 1% increase in taxes for transfer to reserves as the reserves are being funded from interest earned on the Community Legacy & Land Replacement Reserve Fund as approved by Council on July 23, 2007. The 1% transfer from taxes may resume in 2012.				
2	Gaming Revenue	- Gaming Revenue is currently used to fund capital reserves and the community grants program.				Meets Requirement
3	Alternative Revenues & Economic Development	- The City has attracted a major company in the technology sector and is currently working towards expanding and developing this industry within Richmond.				Meets Requirement
4	Changes to Senior Government Service Delivery	- Changes to Senior Government Service Delivery, such as the change in account regulations PSAB 3150 which result in increased costs are highlighted in the additional level process.				Meets Requirement
5	Capital Plan	- The Five Year Capital Plan is created on a yearly basis and projects the anticipated capital program costs and funding availability. - This ensures that the approved projects have future funds available to finance their costs.				Meets Requirement
6	Cost Containment	- Annually, department budgets are put through a rigorous review process to keep costs under control.				Meets Requirement
7	Efficiencies & Service Level Reductions	- Efficiencies and Service Level Reductions are reviewed during the annual budgets review process.				Needs Improvement
8	Land Management	- The proceeds from land sales are returned to land related accounts to fund future land acquisitions.				Meets Requirement
9	Administrative	- This is the third annual update on the LTFMS using actual results and the most up to date five year financial plans. - Currently where possible user fees are automatically increased by CPI on January 1st of each year.				Needs Improvement

		<ul style="list-style-type: none"> - The financial model and strategies are considered when decisions are made. Reports are reviewed with the LTFMS in mind and copies are attached to the Business and Financial Services report concurrences. - Every year, the Five Year Plan is prepared and addresses the tax increase, distribution of gaming revenue, isolation of additional levels of service and capital plan funding sources. 	
10	Debt Management	- Since the inception of the LTFMS no capital project has utilized external borrowing as a funding source. This form of efficiency allows for the savings from interest payments that would otherwise be payable.	Meets Requirement

When we provided the last LTFMS update (2007), seven of the ten policies met the policy requirements. Now, eight of the ten policies meet the requirements. The Administrative policy improvements are in progress as analysis is currently underway on the formation of a bylaw which will automatically increase all user fees by CPI on January 1st of each year.

Staff will update the LTFMS once the PSAB 3150 Tangible Capital Asset accounting regulation is fully adopted.

Conclusion

The LTFMS is currently on track and the reserve balances are trending favourably ensuring that the economic well-being for future generations is being proactively managed.

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