



To: Finance Committee

Date: June 28, 2007

From: Jerry Chong
Director Finance



File: 03-0970-01/2006-Vol 01

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 requests for updates with respect to the current financial status of the Long Term Financial Management Strategy.

Background

In 2003, the Long Term Financial Management Strategy (LTFMS) was adopted to address Richmond's challenges with insufficient revenue sources, ageing infrastructure, provincial downloading, rapid infrastructure expansion associated with urban growth, fluctuating market conditions, decreasing reserves and a lack of control over external costs. The LTFMS was based on addressing gaps regarding the replacement of existing infrastructure. New infrastructure requires its own funding strategy.

As previously reported, during the mid-1990's, Richmond lost \$5.7 million in provincial grants, and was subject to rising external costs. Richmond chose to absorb the loss of provincial grants and rising costs by reducing contributions to the reserves and finding significant efficiencies in order to require only nominal tax increases to property owners.

As a result, these past strategies had put the City in a tight financial situation. The reserve balances were shrinking and the difference between the actual reserve balance and the estimated required reserve levels was widening.

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. To this end, 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

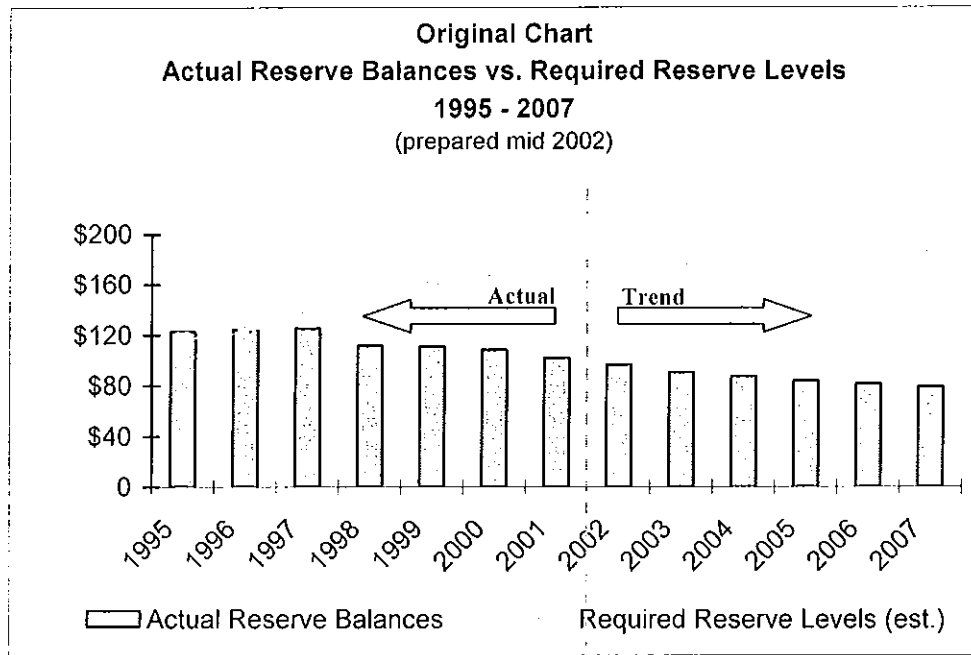
Since the inception of the LTFMS, the reserve balances have been steadily growing. The growth can be attributed to a combination of items including:

- The Long Term Financial Management Strategy (LTFMS) adopted by Council.
- Significant DCC revenues due to growth.
- Increase in Casino revenues which has 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 reserve figures quoted in the charts below are non-PSAB. This is for comparative purposes as historically PSAB entries were not made. Hence, these figures are different from the reserve balances now presented in the financial statements. Non-PSAB reserve balances provide a better reflection of the account balance as they include commitments. PSAB reserve balances as presented in the financial statements are on a cash basis and thus only account for expenditures when they are spent. This may artificially raise the balances as they are based on the timing of expenditures.

The original reserve chart (Figure 1.) prepared for Council in mid-2002 shows the probable reserve balances if the trends displayed from 1997 – 2001 continued. This chart emphasises the increasing gap between the estimated required levels of reserves and the actual reserve balance. These charts are considering only the replacement requirements for existing infrastructure. New infrastructure arising due to growth requires a separate funding strategy.

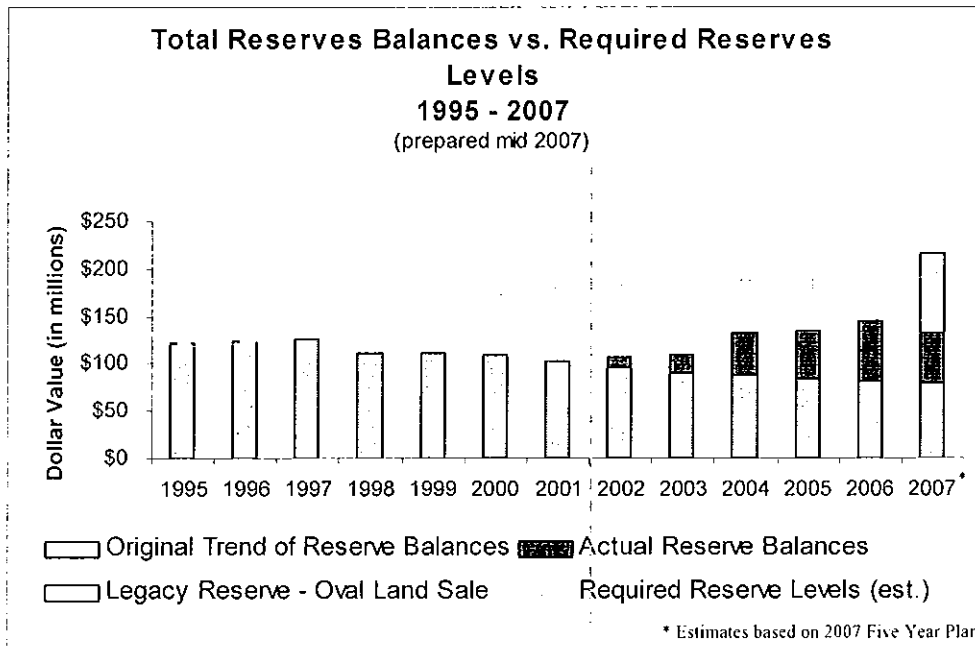
Figure 1.



LTFMS

Due to the items listed above and other factors, the declining trend of reserve balances was prevented. At the end of 2006, the reserves have grown to \$144.9M from \$102.1M at the end of 2001. Figure 2. shows the actual reserve balances in relation to the projected trends noted in mid 2002. 2007 has grown substantially as a result of the injection from the excess on the sale of land at the Oval site. However, in the future most of these funds will be utilized to replenish the land portfolio and other endowment fund opportunities, thus great reliance cannot be placed on these funds as they may not be available for the long-term replacement of infrastructure.

Figure 2.



* Estimates based on 2007 Five Year Plan

LTFMS

LTFMS Policies

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

	Policy	Analysis				Standing
1.	Tax Revenue	Base Increase	Additional Level	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%	
		<ul style="list-style-type: none"> - 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 				
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 Economic Development section is addressing this policy and is currently in the process of developing the filming and sponsorship programs.				Needs Improvement
4.	Changes to Senior Government Service Delivery	<ul style="list-style-type: none"> - 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. - The RCMP and ECOMM contracts have increased at rates greater than the LTFMS policy of CPI. Consideration should be made on whether these are Senior Government items. RCMP increases are highlighted within the annual budget presentations. 				Meets Requirement
5.	Capital Plan	<ul style="list-style-type: none"> - 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	- This is an ongoing process, for example, recently the Water Utility has identified efficiencies resulting in a savings of \$361,200 which is to be transferred to reserves.				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	<ul style="list-style-type: none"> - This is the second annual update on the LTFMS using actual results and the most up to five year financial plans. - Currently where possible user fees are automatically increased by CPI on January 1st of each year. - 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. 				Needs Improvement
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

June 28, 2007

- 6 -

At the point in time of the 2006 LTFMS update, six of the ten policies met the policy requirements. Now, seven of the ten policies meet the requirements and steps are underway to address the necessary improvements to the remaining three policies. The Economic Development section is addressing the Alternative Revenues and Economic Development policy through the filming strategy and sponsorship program. The results of this should be evidenced in later updates. The Efficiencies and Service Level Reductions policy is being addressed during the department budget reviews. The Administrative policy improvements are in progress as analysis is currently underway on the formation of a bylaw which would automatically increase all user fees by CPI on January 1st of each year.

Staff will update the LTFMS in the next few months following additional information relating to the PSAB 3150 Tangible Capital Asset accounting regulation.

Conclusion

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

A handwritten signature in blue ink, appearing to read 'Jerry Chong', is positioned above the printed name and title.

Jerry Chong
Director, Finance
(4064)