



City of Richmond

Report to Committee

To: Finance Committee

Date: June 18, 2013

From: Jerry Chong, CA
Director, Finance

File:

Re: Long Term Financial Management Policy

Staff Recommendation

That item 10 of the Long Term Financial Management Strategy (Council Policy 3707) be amended, as follows:

“Utilize a “pay as you go” approach rather than borrowing for financing infrastructure replacement unless unique circumstances exist that support borrowing.”

Jerry Chong
Director of Finance
(4064)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER	
REVIEWED BY DIRECTORS	INITIALS: DW
REVIEWED BY CAO (DEPUTY)	INITIALS: JE

Staff Report

Origin

The purpose of this report is to recommend amendments to Council Policy 3707 Long Term Financial Management Strategy (LTFMS) in order to ensure that the policy is consistent with the following Council Term Goal.

Council Term Goal No. 5- Financial Management

5.1 -Develop a strategic plan that considers borrowing to take advantage of the current low interest rates and results in significant long-term financial benefits for the City.

Analysis

The original LTFMS policy was adopted by Council in 2003 and changes are recommended in order to keep up to date with changes in the economy and business climate. The City last entered into external borrowing arrangements for capital expenditures with Municipal Finance Authority of BC (MFA) in 1999 for the acquisition of Terra Nova. Since then, the City has been paying down its outstanding long-term debt. Under the current debt repayment schedule the City will fully repay and extinguish all of its outstanding MFA long-term debt in 2014. The City is currently in solid financial condition; however there may be instances where required capital projects cannot be funded internally through reserves. Therefore borrowing externally allows the City to finance these required capital projects.

With interest rates being maintained at historical low rates, the City has additional options if it chooses to proceed with various capital projects that extend beyond the capacity of the current reserves.

MFA is the borrowing vehicle for all municipalities and regional districts in the province and provides financing for municipal capital projects. The joint and several pledge supporting MFA's debt issuance requires all member governments to satisfy the obligations of a deficient borrower and ultimately requires the borrower to repay the authority for the deficiency. If any municipality cannot meet its payments, MFA will draw on these unencumbered reserves.

Members have the option to borrow for periods ranging from of 5 to 30 years and any terms that exceed the 10 year period will need to have their lending rate reset starting in year 11. Therefore annual payments and interest rates can only be assured for 10 years.

The City could continue to fund capital projects by utilizing its reserves, however given the City's strong financial position, the low interest rates that exist and the desire to maintain liquidity to provide flexibility in funding future capital projects, staff recommend that item 10 of the LTFMS policy be amended.

5.1 – Utilize a “pay as you go” approach rather than borrowing for financing infrastructure replacement unless unique circumstances exist that support borrowing.

Financial Impact

None.

Conclusion

The City of Richmond is currently in a very good financial position. However, in order to ensure that the LTFMS aligns with Council's Term Goals (2011-2014) and to fulfill a number of major capital requirements, staff recommend that Council Policy 3707, Long Term Financial Management Strategy be amended to allow staff to bring forward external debt financing options if there are immediate needs and the right circumstances exist.



Jerry Chong, CA
Director, Finance
(604-276-4064)

**Policy 3707:****It is Council Policy that:**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 unless unique circumstances exist that support borrowing.