



# FINANCIAL PLAN

2010

## FINANCIAL PLAN

We are pleased to submit to Council the Financial Plan for 2010. This plan has been prepared taking into consideration the priorities and direction established by Council during the 2010 budget deliberations. The plan expresses in financial terms the financial direction for the Town for the next three years with an emphasis on 2010.

The plan provides an outline of the financial system, the municipal budget process, financial principles and policies, and the Operating and Capital Budgets of the Town of Banff. Municipal finance must follow certain practices and conventions set out by the accounting profession and provincial government legislation. This includes the practice of fund accounting and the use of capital reserves and self-funding utilities. These terms are discussed below to provide readers of the Financial Plan with a general understanding of municipal finance and the roles and responsibilities of the parties involved.

The financial principles and policies that the Town has fundamentally adhered to for many years are identified and discussed along with some new financial principles and policies that will lead the Town's financial stability and sustainability into the coming years. These principles and policies will establish the basic framework for the responsible management of the Town's financial resources.

The plan is segmented into four sections:

- ❖ Financial System
- ❖ Budget Process
- ❖ Financial Principles and Policies
- ❖ Operating and Capital Budgets

## **FINANCIAL SYSTEM**

### **FULL ACCRUAL ACCOUNTING**

Municipalities have typically used a form of accounting known as Modified Cash Accounting. This accounting system treated all capital purchases as expenses in the year in that they were purchased. In 2009, all Canadian municipalities were required to move to the Full Accrual Accounting method similar to the public traded companies. This accounting method will treat capital purchases as capital assets and the expense related to such capital purchases will be recorded over the useful life of the capital asset. This change will significantly impact the way in which municipalities report their financial position and value their infrastructure in the audited financial statements. For budgeting purposes and internal reporting the Town will continue to use a modified cash accounting system for 2010 and review procedures for the 2011 process.

While changes to reporting have been made by the Public Sector Accounting Board impact the way municipalities prepare financial statements. The Town of Banff will continue to use fund accounting for the 2010 budget process.

The Town of Banff will be expanding to four funds in 2010:

- ❖ General Fund -The general fund provides for all other operations, such as recreation, bylaw services, fire, maintenance of roads, buildings, etc.
- ❖ Water Fund - The water fund has been established to pay expenses in providing our water supply and distribution.
- ❖ Sewer Fund - The sewer fund is used to maintain the sewer infrastructure
- ❖ Solid Waste Fund – A new solid waste utility will be developed in 2010 with the establishment of a solid waste fee structure for 2011.

The municipality also uses “reserves” which are like separate “savings” accounts. Monies are set-aside in these reserves for future expenditures on specific items. At present, the municipality has seventeen (17) individual reserve accounts: General Operating Reserve, General Capital Reserve, Budget Stabilization Reserve, Water Reserve, Housing Reserve, and the Parking Facilities Reserve to mention a few. Funds set aside in reserves must be used for the specific purpose the reserve was set up for, and in many cases dictated by provincial legislation. Some of the municipal taxation revenue and utility revenue is put aside in the capital reserves to pay for future capital projects. Because the monies were collected for the purpose of the fund, the funds must be expended for that purpose. The monies in the parking facility reserve cannot be used to build a pedestrian bridge, or hire an additional RCMP officer—they can only be used for municipal parking facilities.

### **REVENUE AND EXPENDITURES**

Monies collected are used for either operational or capital expenditures. Operations consists of the wages, office supplies, electricity, spare parts and other day to day and ongoing expenses that are necessary to make the municipality run. These costs are included in each department’s operating budget, and are managed by the department manager.

The other type of expenditure, capital, consists of expenditures for infrastructure. The requirements for capital projects each year are discussed, in light of community needs, infrastructure maintenance and Council priorities, then a draft capital budget is prepared for Council's review. A summary listing of the capital projects proposed for the next five years is included in the 2010 Capital Budget. The total capital budget for one year might be more or less than another year, depending upon the number of projects. Each year a portion of the annual revenues collected by the municipality are set aside for current and future capital projects.

Revenues and expenses of the Town of Banff are recorded on an accrual basis. Briefly, this means that obligations of the municipality are recorded as expenses when they are incurred (i.e. when goods' title transfers or work is completed), not when they are paid or when they are ordered. Revenues are recognized when the municipality becomes entitled to collect (i.e. when services are rendered) not when actual payment is received.

Capital purchases (good and supplies that have a useful life of longer than five years and exceed prescribed dollar limits) will no longer be recorded as an expense in the year of purchase. They will be recorded as capital assets and amortized (depreciated) as an expense over the useful life of the asset.

## **RESERVES**

The amount required for capital projects can vary greatly one year to the next, depending upon what is built. If taxpayers were taxed each year on exactly how much was spent each year, property tax bills would vary widely from one year to the next. To provide a more stable approach to taxation, reserves are used. The funding for capital projects comes from reserves. If the community needed to build a new facility funded solely by a tax increase in the year of construction the burden of the tax increase would be difficult for many taxpayers. So, the municipality saves up funds in reserves to smooth out the fluctuations in property tax rates. Each year, some amount of the revenue collected is set-aside in these reserves in order to "save up" enough to fund capital projects. In this way, the property tax bills are smoothed out. The funds placed in the reserve are invested until the funds are needed. With the introduction of full accrual accounting in 2009, the reporting of reserves will be impacted, but the concept of setting aside and saving cash funds for the future purchase of assets will remain the same.

## **BUDGET PROCESS**

### **ROLES AND RESPONSIBILITIES**

The following is a description of the roles and responsibilities of the key people involved in the budget process.

#### **Council**

Council reviews the corporation's strategic plans, public surveys, economic factors and other related information as a starting point for the budget process and provides direction for the next budget year relative to the following issues:

- ❖ Priorities, strategies, services and programs to be considered in the budget preparation process;
- ❖ Level or range of tax increases or decreases to be considered in the budget preparation process;
- ❖ Approval of the Operating and Capital Budget.
- ❖ Amending Operating and Capital Budgets during the fiscal year as required

#### **Town Manager**

The Town Manager is responsible for providing Council with the background information required to assess budget issues for the next year. This would include information concerning financial trends and the Management Team's perspective pertaining to major issues, services and programs. Finally, the Town Manager is responsible for submitting for Council's consideration a budget that is consistent with the principles, policies and budget guidelines established by Council.

#### **Management Team**

The Management Team is comprised of the departmental managers, and the Town Manager. The Management Team is responsible for preparing recommendations for Council's consideration relative to major issues, services and programs. This would include recommendations concerning:

- ❖ General tax increase;
- ❖ Adjustments to fees and charges;
- ❖ Service levels;
- ❖ Productivity improvement;
- ❖ Capital Reserve levels;
- ❖ Other budgeting issues as they may arise.

#### **Corporate Services Department**

The Corporate Services department is responsible for coordinating the annual budget process and preparation of the financial plan. This will include:

- ❖ Coordination of the budget preparation process;
- ❖ Accumulating and coordinating all the figures into a final corporate-wide budget;
- ❖ Preparation of appropriate financial forecasts relative to revenue, expenditures, inflation and other important factors;
- ❖ Provision of financial advice and recommendations concerning key financial policies;
- ❖ Provision of timely financial reports to assist the departments, the Management Team and Council in the review of prior budget performance and preparation of current budget;
- ❖ Tracking budget revisions and distributing budget documents;
- ❖ Monitoring of the process for compliance with statutory requirements.

## **Operating Departments**

Each department is responsible for formulating and managing their own budgets. This includes documenting the purpose, cost and scope of their capital projects. All managers and supervisors are responsible for ensuring that budget principles and guidelines are adhered to.

## **BUDGET FACTORS AND GUIDELINES**

There are a number of factors that affect the preparation of the budgets. These include inflation, growth, development activity, economic trends, key trends affecting Banff, changing market conditions, taxation issues, and policy decisions of Council. The more significant of these are discussed below.

### **Annual Inflationary Adjustment**

Taxes payable are derived from multiplying the assessed property value by the tax rate. The tax rate has decreased most years to offset the market growth in assessed value experienced in Banff. In general, it is easier to discuss the general tax adjustment, which is defined as the tax increase or decrease experienced by the average residential property. It requires changing the tax rate to compensate for changes in assessment levels. The general tax adjustment is the increase or decrease in taxes payable experienced by the average property. Properties whose assessment increased more than the average will see an increase above the general tax adjustment, and properties whose assessment did not increase by the average rate will see an adjustment below the general tax adjustment.

Our property tax strategy typically starts by using an annual property tax adjustment set at or below the current rate of inflation for Alberta. In any year where the annual property tax adjustment is set significantly below the current rate of inflation due to economic reasons in the community, in preparation of the draft budget future property tax adjustments will be increased by an amount to reclaim the lost inflationary increase.

### **Use of Debt**

The Town of Banff's budgeting system has typically been based on the philosophy of no tax-supported debt and paying for projects upfront. The Town has in recent years utilized tax supported debt that is either funded by future capital grants or is short term in nature in order to capitalize on favorable borrowing rates. The Town must manage its debt within the debt capacity and servicing limits set by provincial legislation. The organization will review the Town's debt and loan guarantees during the budget process and at the time of Council considering any new borrowing bylaws.

### **Economic Factors**

The economic downturn in 2009 has impacted visitation to Banff and therefore significantly impacted many of the Town's commercial ratepayers. Construction cost for capital projects have stabilized or dropped in 2009 relieving some financial pressure on our capital reserves.

### **Real Assessment Growth**

The amount of new construction that takes place each year, measured as new assessment, has a limited effect on Banff's operating budget. New construction provides for some additional tax revenues although growth in recent years has been less than one percent.

### **Investment Income**

The municipality invests funds that are not required for current financial requirements in low risk investments. The investment income supplements the contributions made by taxpayers. The state of the financial markets, changes in inflation and the amount of capital available for investment all influence the investment earnings. With the number of large capital projects that the Town is currently undertaking, the Town has solely invested in liquid short-term investments.

Given the large number of capital projects currently underway, the Town's cash-flow (the net-cash available to meet expenditures) will become very important. With the new Full Accrual Accounting Model it will be more important to know the available cash resources that will be available for future capital expenditures.

### **New Service Requests**

There is continuing pressure to provide new programs and services or expand existing program and services. Funding for new or expanded programs and services that require ongoing expenditures will be presented as part of the budget process. Funding for new programs and services that do not have a new revenue source will require a property tax increase over and above the annual inflationary increase, and/or a reduction in other municipal services.

### **Budget Stabilization Reserve**

Savings (surpluses) from the prior years operating results are retained and used in the following years budget to stabilize the annual tax increase and provide funding for non-recurring (one-time) projects. After a significant deficit in 2008 and use of the entire budget stabilization fund, the Town has identified to replenish this fund between 2009 and 2011 with no funds to be drawn on this fund during this period.

### **Operating Reserves**

Council often allocates funds for future non-capital items. These non-capital items are often future commitments that Council has approved or the deferral of a current project to a future financial period. The funds are placed into the operating reserve and will be brought into future operating budgets when the project moves ahead.

### **Franchise Fees, User Fees & Other Charges**

As local governments move forward, there continues to be an increasing emphasis on reducing their dependency on property tax revenues. As a result, there will be added emphasis on ensuring that existing franchise fees, user fees and other charges remain current and perhaps begin to fund a larger share of the cost burden. Fees and charges will be reviewed on an annual basis as part of the budget process to ensure that fees are generating adequate revenues and covering programming costs.

### **Resident Satisfaction Survey**

A resident satisfaction survey will be conducted in 2010. This survey will be a comprehensive document covering many aspects of community life. The survey will allow Council and administration an opportunity to identify new trends that have developed since the 2007 survey and to determine if improvements in services provided and delivered to the community have improved or deteriorated during the past three years. The 2007 survey provided direction for Council and the Management Team in the development of the 2010 budget.

## **Community Plan**

The Banff Community Plan was approved by the Federal Government in 2009. This document sets direction on a number of community priorities in order to achieve community sustainability. The budget is developed with the goals and targets in this document in mind.

## **BUDGET CALENDAR**

The annual budget cycle commences in August each year and concludes with the adoption of a new Operating and Capital Budget and the passing of the Tax Rate Bylaw.

- ❖ Strategic Planning Session – determine priorities and strategies
- ❖ Department Prepare their Budgets and New Service Requests (August-September)
- ❖ Draft Operating Budget (September)
- ❖ Management Team Budget Review (September)
- ❖ Council Budget Review (November)
- ❖ Public Consultation (November)
- ❖ Budget Adoption (December)
- ❖ Passing of Tax Rate Bylaw (April)

## **Strategic Planning Session**

At the start of the budget cycle, Council holds a strategic planning session. During this planning session, Council discusses current issues and establishes the priorities and strategies of the Town of Banff for the next year. This strategic planning session is particularly critical at the start of the Council's elected term of office.

## **Departments Prepare Their Budgets and New Service Requests– August/September**

Using the priorities of Council and the budget guidelines, the Corporate Services department provides all departments with the budget templates and guidelines to start their budgets. Departments then prepare budgets and new service requests, which are submitted to the Senior Accountant for coordination and compilation of the departmental budgets into the corporate-wide budget. The new service requests and community group funding requests are prepared along with a budget impact analysis.

## **Management Team Budget Review - September**

Invariably, funding requests exceed the available resources. The Management Team meets to review the requests and evaluate the corporate wide budget impacts of each department. Projects are approved or deleted, and a draft operating and capital budget is prepared for presentation to Council for review.

## **Council Budget Review - November**

Council will meet and review the first draft of the operating and capital budgets with the Management Team and the Senior Accountant. The Senior Accountant and Management Team members will present the budgets to Council and review the budget guidelines and policies that went into the preparation of the budgets and then highlight the significant changes from past budgets. The new services listing and capital budget impacts on the operating budget will be presented and discussed.

### **Public Consultation Process - November**

The Senior Accountant and Management Team members will present the budgets to Council in a public meeting and review the budget guidelines and policies that went into the preparation of the budgets and then highlight the significant changes from past budgets. The new initiatives listing and capital budget impacts on the operating budget will be presented and discussed. All budget meetings are open to public and are advertised in advance. At least one of the scheduled budget meetings is dedicated to external group requests and presentations as well as general comments from the public.

### **Council Adoption of the Budget - December**

The final drafts of the budgets are presented to Council with any changes made during the public consultation process. Council reviews the capital and operating budgets and the impact on taxpayers, with the objective of adopting both budgets by the second meeting December.

### **Passing of Tax Rate Bylaw**

The annual tax rate bylaw is presented to Council in early April after the provincial government has presented their annual budget and has set the amount of education taxes to be levied against municipalities. Based on the amount of education taxes, Council will adjust the annual operating budget to reflect any changes required to maintain the overall tax increase outlined in the adoption of the budgets. The financial plan will be presented to Council at the time of passing the tax rate bylaw.

### **Amending the Budget After Adoption**

Often, changes to the operating and capital budget are required as a result of new projects or changes in project estimates. Projects with material budget variations require Council authorization to revise the budget to incorporate the new budget amount and to identify a source of funds. The Senior Accountant revises the budget and keeps track on any budget amendments.

Financial variances that are minor or outside the control of Administration or Council will be recorded in the quarterly forecast reports.

## **FINANCIAL PRINCIPLES AND POLICIES**

### **FINANCIAL PRINCIPLES**

Resident, business and visitor demand for services and the community's ability to pay for these services guide municipal spending. Thus far, the municipality has been able to provide the necessary services and facilities, at a level generally acceptable and affordable for most taxpayers, with current funding sources. As the infrastructure ages, funds must be committed for proper maintenance and refurbishment. With current funding levels it will be difficult to cover the costs of maintaining a world-class visitor destination, while providing for program and service enhancements. Property taxes cannot fund these costs alone and choices will need to be made between new facilities and services and the appropriate maintenance of what we have.

Banff Town Council recognizes that taxpayers are demanding value for their money. A balance must be struck between customer demand for services and the taxpayers' ability to pay for these services. The municipality is responding by adopting a more creative, cost-effective approach to the delivery of services. Administration will review existing programs and services during the budget process to ensure that we are providing the programming and services demanded by the community and visitors. We must ensure that services, programs and facility commitments are sustainable now and in the future.

### **FINANCIAL POLICIES**

The policies that had an impact on Financial Plan 2010 are:

#### **Property Taxes**

Due to concerns over the economic climate, Council approved a 0% property tax increase in 2009. The 0% tax increase was achieved by making one-time reductions in the operating budget, which over the long term cannot be sustained without future service cuts. The starting point for the 2010 property tax increase was the 2008 Alberta CPI of 3.1% plus the estimated inflation rate for 2009 of 0.0%.

New projects, initiatives and services in 2010 need to be funded by a property tax increase above the inflation increase approved by Council or through service cuts.

#### **Annual Cost of Living Adjustment for Town Wages**

With the 0% property tax increase in 2009 staff wages were frozen. The starting point for the 2010 wage adjustment was the 2008 Alberta CPI of 3.1% plus the inflation rate for 2009 estimated at 0.0%. Performance based progression through salary ranges would also resume in 2010.

#### **Education Tax Capacity**

Reductions in the provincial education tax levy will be collected through the municipal tax levy and earmarked to the capital reserve for municipal infrastructure renewal. The additional reserve funds will be used for the replacement of capital infrastructure and to reduce the municipality's infrastructure funding deficit.

### **Infrastructure Sustainability Strategy**

- ❖ The municipality will strive to increase the amount of municipal property tax to the reserve funds and capital projects on an annual basis.
- ❖ The municipality will target a minimum of one-third of current property tax revenue to municipal infrastructure renewal.
- ❖ The municipality will strive to eliminate the infrastructure funding deficit through a combination of funding sources: municipal tax levy transfers, grants, user-pay revenue, and private and municipal partnerships.

### **Budget Stabilization Fund**

- ❖ Annual operating surpluses will be directed to the budget stabilization fund.

### **Utilities**

- ❖ Utilities (water and sewer) will be operated on a self-funded basis through equitable user fees.
- ❖ Water rates will increase by 20 percent per year until 2011.
- ❖ Sewer rates will increase by 13 percent per year until 2011.
- ❖ Solid waste utility rates will be presented in 2010 and proposed for 2011.
- ❖ Utility funds to contribute a minimum of 50 percent of annual revenues to future capital projects.
- ❖ Out of Town utility user rates will be set to ensure full cost recovery of the service provided.

### **Fees and Charges**

- ❖ Recreation fees will be established for full cost recovery for adult recreation programs, 50 percent cost recovery for youth programs, and less than 50 percent of cost recovery for disabled, low income and seniors programs.
- ❖ Development related functions (building inspection, development approvals, and subdivisions) will be set at levels for full cost recovery.
- ❖ Fees may reflect a difference between a resident and a visitor when appropriate.
- ❖ Comparisons will be made at regular intervals to ensure that fees and charges paid by residents and visitors are competitive with other Alberta communities and similar resort communities.
- ❖ Fees and charges will be reviewed annually as part of the annual budget process.
- ❖ Franchise fees for electricity and natural gas companies will be reviewed as part of the annual budget process.
- ❖ Transit system fares and contracted partners will cover the majority of the costs of running the transit system and new revenue opportunities and partnerships will be pursued with local businesses to increase ridership and expand the system.

### **Municipal Debt**

- ❖ The municipality will strive to limit tax-supported debt.
- ❖ Tax-supported debt is being used for capital projects to take advantage of favorable borrowing rates and for capital projects with future grant revenue sources.
- ❖ Municipal debt with revenue streams to fund the debt servicing will be encouraged.

### **Commercial/Residential Municipal Tax Split**

- ❖ The 2010 municipal tax rate split will continue to be 4 to 1.

### **Alternative Revenue Sources**

- ❖ The costs of maintaining our community to world-class standards will require entrepreneurial government and alternative revenue sources.
- ❖ Banff and other tourism-based communities are reviewing alternative revenue sources with the provincial government in order to fund the cost of municipal infrastructure associated with tourism.
- ❖ Continue to work with Parks Canada and provincial and federal Ministers to pursue programs, projects and relationships that benefit both the park and the town.

### **Business Licensing Fees**

- ❖ Business licensing fees will continue to fund destination marketing and other tourist-related projects.

### **Investment Management**

- ❖ Funds will be invested to provide an optimal blend of investment return and security while meeting the daily cash flow demands of the municipality.