



# FINANCIAL PLAN

2015

## FINANCIAL PLAN

The 2015 Financial Plan has been prepared taking into consideration the priorities and direction established by council during the 2014 budget deliberations and subsequent direction throughout the year. This plan expresses in financial terms the financial direction for the Town for the next three years with an emphasis on 2015.

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 the Town has fundamentally adhered to for many years are identified and discussed along with some new financial principles and policies that will lead to 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**

This accounting method records revenue and expenses when they have occurred, not when they are paid, and it treats capital purchases as capital assets rather than expenses. Under full accrual accounting capital assets will be recorded as an expense over the useful life of the capital asset. For example, if the Town builds a new public washroom for \$1,000,000 the building will be recorded as a capital asset and will be gradually expensed over its useful life (50 years) at an amount of \$20,000 per year.

The Town of Banff will continue to use fund accounting for the 2015 budget process.

The Town of Banff will use four funds in 2015:

- ❖ Water Fund - The water fund was established to manage the financial resources of our water supply and distribution system.
- ❖ Sewer Fund - The sewer fund is used to maintain the sanitary sewer collection and treatment system.
- ❖ Resource Recovery Fund – The resource recovery fund is used to manage the financial resources of the solid waste collection and disposal system.
- ❖ General Fund -The general fund provides for all other operations, such as recreation, bylaw services, fire, maintenance of roads, buildings, etc.

### **OPERATIONAL REVENUE AND EXPENDITURES**

Revenues and expenses of the Town 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 the work is completed or product delivered) 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.

Revenue collected is used for either operational expenditures or capital purchases.

Operational expenses consists of the wages, office supplies, electricity, spare parts and other day-to-day expenses that are necessary municipal services provided to the community. These costs are included in each department's operating budget, and are managed by the department manager.

### **CAPITAL ASSET EXPENDITURES**

Capital asset expenditures as defined in Council Policy C110 are recorded as capital assets and amortized as an expense over the useful life of the capital asset.

The requirements for capital asset expenditures are discussed each year in light of community needs, infrastructure maintenance, and council priorities. The total capital asset expenditures 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.

## **RESERVES**

The use of operating and capital reserves provides a more stable approach to taxation. The amount of funding required for capital expenditures and certain operating expenses can vary greatly one year to the next, depending upon what is constructed or purchased. 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. If the community needed to build a new facility and it funded it solely by a tax increase in the year of construction, the burden of the tax increase would be difficult for many taxpayers. The municipality saves 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 enough cash to fund capital projects. In this way, the property tax bills are smoothed out. The funds placed in the reserve are held until they are needed.

At present, the municipality has twenty five (25) 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 certain reserves must be used for the specific purpose the reserve was set up for, and in some cases dictated by provincial legislation. For example, the funds 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 projects.

## **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 priorities, 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, and their service levels 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:

- ❖ Adjustments to fees and charges
- ❖ Productivity improvement
- ❖ Reserve levels
- ❖ Service level adjustments
- ❖ 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.

### **Tax Level**

The Town of Banff shall benchmark residential and commercial total property taxes (including education and senior housing) relative to municipalities identified in the REALpac Property Tax Rate Analysis prepared by Altus group (Appendix A) for the prior year.

### **Annual Tax Rate**

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 or commercial 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.

### **Tax Adjustment Cap**

Our property tax strategy is to limit any increase in total property tax to an amount at or below the current rate of inflation for Alberta, annualized for the period ending June 30 of the previous year.

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

It is typical in municipalities across the country to levy a higher tax rate on commercial properties than on residential properties. The municipal tax rate on commercial properties in Banff from 1990 to 2006 was typically five (5) times higher than the residential tax rate with the commercial properties accounting for about 80% of the municipal tax revenue. Over time council has deviated from the 5:1 municipal tax rate split in order to offset the impact of disproportional shifts in the assessed value of commercial and residential properties, thereby protecting both commercial and residential tax payers from extraordinary tax increases in a given year. In 2014, the municipal tax rate split was 4.96 to 1 with the commercial properties accounting for 76% of the total municipal taxes collected. This is unchanged from 2013.

In 2015 the tax split will move within a range having municipal tax decreases/increases being shared equally between both commercial and residential properties with a targeted split of between 5:1 and 4:1. Exceptional circumstances could see council deviate from this range with consideration of tax increases/decreases being shared equally between the commercial and residential sectors.

### **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 favourable 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. A schedule of the town debt is attached in Appendix B.

### **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 invested in liquid short-term investments with the Bank of Montreal and other firms. The Town has one mid-term investment to pay down debt in 2019 on an FCM loan for The Fenlands as per council motion COU11-318

Given the large number of capital projects currently underway, the Town's cash-flow (the net-cash available to meet expenditures) has become very important. With the new full accrual accounting model cash-flow will have to be monitored more closely. Similar to a business, we must ensure that we are not only financially strong, but that we maintain sufficient cash reserves to meet current and future expenditures.

### **Service Level Review**

Each year, prior to the start of the budget process, council will review the programs and services that the municipality provides.

### **Departmental Budgets**

Individual departmental budgets are built from a zero base each year. Based on the programs and services that council expects, each manager estimates the labour and material costs, and crafts a budget for provision for service accordingly.

### **New Service Requests**

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

### **Budget Stabilization Reserve**

Budget surpluses from prior year operating results are retained and used in the following years to stabilize the annual tax increase and provide funding for non-recurring (one-time) expenditures. The Town has established a target balance of 2% of the current year's total expenses net of amortization for the budget stabilization reserve. At the end of 2013 the reserve had an uncommitted balance of \$207,000 and the target balance for 2014 is \$551,000.

### **Operating Reserves**

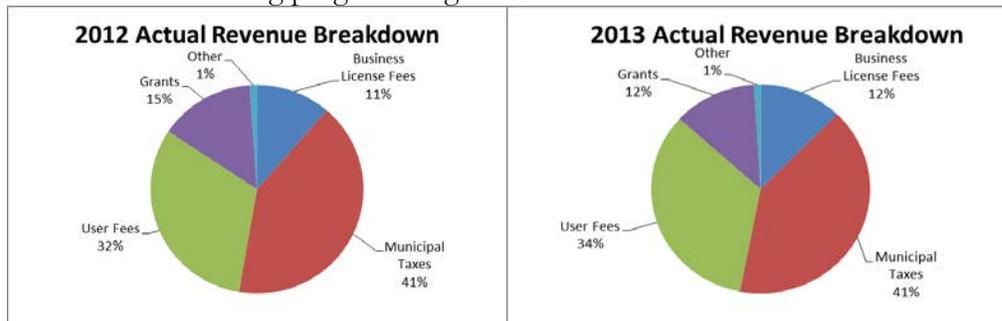
Council often allocates funds for future non-capital items. These non-capital items are often future commitments that council has approved, or the deferral of a current project to a future financial period. The funds are placed into the operating reserve and will be brought into future operating budgets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

### **Capital Reserves**

Council will ensure the capital reserves are at a positive balance within the first three years of the capital plan. The Town has established specific targets for each of its reserves, and target dates for reaching the required municipal-supported reserve contribution levels will be brought forward as part of the budget process.

### **Other Fees & 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 fees and charges (user fees) 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 at least every four years in conjunction with municipal election years. The comprehensive survey covers many aspects of community life. The survey allows council and administration an opportunity to identify new trends that have developed since the last survey and to see if improvements in services provided and delivered to the community have improved or deteriorated.

## **BUDGET CALENDAR**

The annual budget cycle commences in July each year and concludes with the adoption of a new operating and capital budget and the passing of the Tax Rate Bylaw.

- ❖ Financial Plan review –July (November in election year)
- ❖ Strategic planning session – determine priorities and strategies – September (November in election year)
- ❖ Departments prepare their work plans and budgets - August-September (November in election year)
- ❖ Draft operating and capital budget – September (November in election year)
- ❖ Management team budget review – September (November in election year)
- ❖ Service level review –November/December (December/January in election year)
- ❖ Council budget review – December (January in election year)
- ❖ Public consultation – November/December (January in election year)
- ❖ Budget adoption – December (January in election year)
- ❖ Passing of Tax Rate Bylaw - April

### **Financial Plan Review –July**

Prior to new budget creation, the Finance Committee reviews and adopts a new Financial Plan which will guide the budget process.

### **Strategic Planning Session – September**

At the start of the budget cycle, council meets with the management team for 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 Work Plans and Budgets– August/September**

Using the priorities of council, the service level review, and the budget guidelines, the corporate services department provides all departments with the budget templates and guidelines to start their budgets. Departments then outline their work plan for the coming year and develop the related budget requirements, which are then submitted to the senior accountant for coordination and compilation of the departmental budgets into the corporate-wide budget. Community group funding requests are prepared along with a budget impact analysis.

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

Invariably, estimated expenses exceed the available resources. The management team meets to review the requests and evaluate the corporate wide budget impacts of each department. Priorities are evaluated and a draft operating and capital budget is prepared for presentation to council for review.

### **Service Level Review – November/December**

Each year, as a part of the budget process, council will review the programs and services that the municipality provides. This process will confirm the level of service for each program and the associated budget estimates. The senior accountant and management team members will present the service levels to council in a series of public meetings and review the budgets and service level expectations.

**Council Budget Review - December**

Council will meet and review the first draft of the operating and capital budgets with the management team and the senior accountant. The 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 in December.

**Passing of Tax Rate Bylaw - April**

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 strategy outlined in the adoption of the budgets.

**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. Council approval is required for budget amendments which are made when there is a significant impact to the budget from a known event, such as bringing a new service online or changing the scope of a capital project. Cost overruns from day-to-day operations are reported to council quarterly in 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. As the infrastructure ages, funds must be committed for proper maintenance and refurbishment. 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.

The Town of Banff 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. Annual reviews of existing programs and services will be completed to ensure we are providing the programs and services demanded by the community and visitors and that we are reacting to these changing service and programming needs. We must ensure that services, programs and facility commitments are sustainable now and in the future.

### **FINANCIAL POLICIES**

The policies that have an impact on the Financial Plan are:

#### **Property Taxes**

Our property tax strategy is to limit an increase in total property tax to an amount at or below the Alberta annual inflation for the period ending June 30 of the previous budget year. For the 2015 budget the cap will be 2.2%.

New projects, initiatives and services could be funded by a property tax increase over and above the annual inflation increase approved by council.

#### **Property Tax Due Date**

Property taxes will be due at 4:30 p.m. on the last working day of June. The following will be the property tax due dates for the next three years:

June 30, 2015

June 30, 2016

June 30, 2017

Mail dates for tax notices for the next three years will be not later than:

May 29, 2015

May 30, 2016

May 30, 2017

#### **Annual Adjustment for Town Wages**

The Town of Banff does not have a unionized workforce. In 2013 council approved moving from a cost of living adjustment to a market-facing system for wage adjustments. For 2015, the base wage market adjustment is estimated to be 2.57 based on an average of the following:

(a) Statistics Canada – using a calculation of annualized average change in average weekly earnings (non-union, local, municipal, and regional public administration) in Alberta from July of the previous year to June of the current year. This is estimated to be 2.36% for the 12 month period.

(b) Alberta Government – using a calculation of annualized average change in average weekly earnings (all industries) in Alberta from July of the previous year to June of the current year. This is estimated to be 2.62% for the 12 month period.

(c) Conference Board of Canada – using the current Mid-Year Pulse Check market facing data for the public sector. This is 2.8% in 2014

(d) Hay Group – Canadian Salary Forecast – using the most recent actual market facing data for the public sector. This is forecasted to be 2.5%.

In a year when the market adjustment is greater than the inflationary tax cap, the inflationary tax cap will be used as the annual wage adjustment. The 2015 inflationary cap is projected to be 2.2% therefore the 2015 base wage adjustment is projected to be 2.2%.

### **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. In the event that the provincial school tax levy increases from one year to the next at a rate greater than inflation, with the intention to fund the capital reserves appropriately annually, council may allow the amount that exceeds inflation to be billed to the taxpayer. In 2013 the Town saw a substantial increase in the education tax levy, but that was followed by a small decrease in 2014. 2015 is projected to see another small decrease in the education levy.

### **Infrastructure Sustainability Strategy**

- ❖ The municipality is faced with the reality of increasing the amount of municipal property tax contribution to the reserve funds and capital projects on an annual basis up until the point that estimated required transfer levels are met.
- ❖ In 2011-2012 the municipality has established specific targets for the transfer to capital reserves, based on the estimated remaining life of specific infrastructure together with their replacement costs. The future replacement cost of infrastructure has been estimated using a 20-year average of the Alberta Consumer Price Index and the Calgary Non-Residential Building Construction Index.
- ❖ The municipality has the responsibility 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. A target balance of 2% of the current year's total expenses net of amortization has been set for the reserve.

### **Utilities**

- ❖ Utilities (water and sewer) will be operated on a self-funded basis through equitable user fees.
- ❖ Water rates have been established for 2012 and 2013 and will be evaluated again in 2014.

- ❖ Sewer rates have been established for 2012 and 2013 and will be evaluated again in 2014.
- ❖ The waste and recycling utility rates are now fully phased in with 75% funding coming from user fees and 25% from municipal property taxes.
- ❖ Out of town utility 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% cost recovery for youth programs, and less than 50% 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.
- ❖ 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. The Town of Banff targets to be in the top 20% for cost recovery for transit systems belonging to the Canadian Urban Transportation Association (CUTA).
- ❖ 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.

### **Municipal Debt**

- ❖ The municipality will strive to limit tax-supported debt.
- ❖ Tax-supported debt is being used for capital projects such as The Fenlands Banff Recreation Centre redevelopment to take advantage of favourable borrowing rates and for capital projects with future grant revenue sources.
- ❖ Non-tax revenue streams to fund the debt servicing will be encouraged.

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

- ❖ The commercial and residential tax rate split for municipal taxes was set at 4.96 to 1 in 2014. Council targets a tax rate split of between 4:1 and 5:1. The annual commercial and residential tax rate split will be set by council after the provincial government has released the annual education tax levy amount.

### **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.

### **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.