CITY OF GRAND FORKS

POLICY TITLE: Asset Management Financial Policy **POLICY NO: 808**

EFFECTIVE DATE: January 11, 2016 **SUPERSEDES: NEW**

APPROVAL: Council **PAGE: 1 of**

BACKGROUND

The City of Grand Forks' Sustainable Community Plan, which provides a vision for the City and guidance on addressing several key challenges facing the City. One of these challenges is: "How we do strategically and sustainably deliver affordable services to our community?" To help address this challenge, the City developed its Asset Management Program.

The City's Asset Management Program is founded on the concept of sustainable service delivery. This aims to ensure that current community service needs, and how those services are delivered (in a socially, economically and environmentally responsible manner), do not compromise the ability of future generations to meet their own needs. Failure to care for our infrastructure and manage our natural resources risks degrading, or even losing, the services our community enjoys, and that future generations may rely on.

At the core of sustainable service delivery is financial sustainability. A financially sustainable government provides valuable services to residents within available means while proactively taking measures to build and preserve services in the long run. Although the City can balance its operating budget to meet annual requirements, the City will have to adapt to revenue opportunities, expense pressures, and service demands that may change in the future. Only with stable and reliable revenues, and careful planning of expenditures, will the City be able to provide the services its residents need and enjoy both today and in the future.

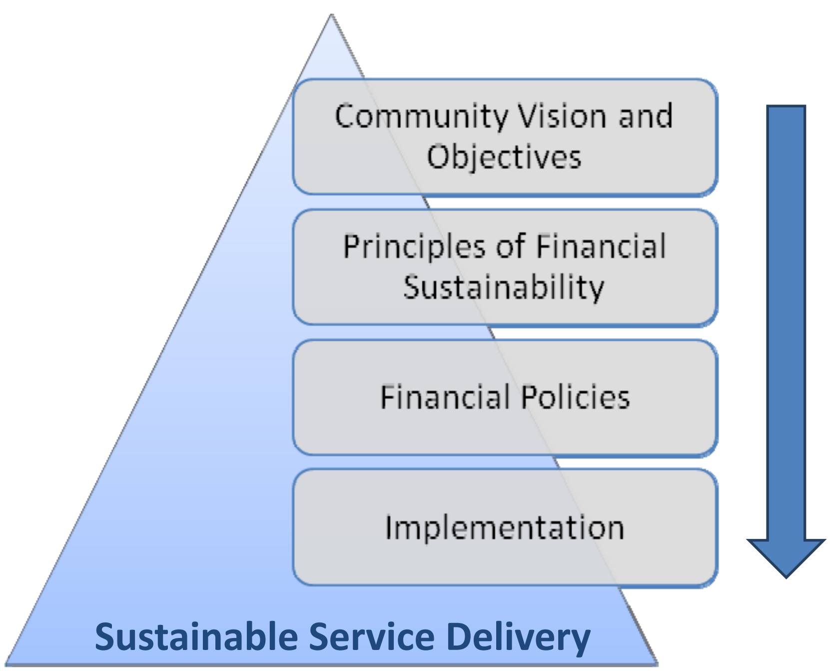
Sustainable service delivery is achieved by ensuring that decisions made by staff and Council, both today and tomorrow, are guided by a cohesive set of principles and policies based on financial sustainability, as well as Council priorities. Asset Management BC has established a framework for sustainable service delivery.

The following wheel shows the systematic, integrated process the City will follow for Asset Management. The Framework, like this policy, is a living document. As best practices change and are updated, this Policy will also be periodically updated.

PURPOSE

The purpose of this document is to articulate the principles, strategies and policies to guide staff and Council in the work they do. This document provides the City with a blueprint for making good financial decisions through changing conditions, including the funding of asset renewal and aims to provide clarity to staff, Council and the community with respect to how financial decisions are made today and into the future.

This document is an important resource in the City's overall decision-making framework. The graphic below illustrates the components of the framework for financial management.



SCOPE

The scope of the principles and policies applies to decisions made by City Council and staff regarding financial management and service provision to residents, business and industry, in the following key areas:

1. Property taxation and Utility Rates
2. User Fees
3. Asset Renewal and Replacement
4. New Capital and Enterprise
5. Reserves and Surplus Funds
6. Debt
7. Grants
8. Development Finance
9. Operating

While each of these areas represents particular financial decisions regarding the financial balance – i.e., revenues and expenses – they are all interrelated and work together to provide the basis for the policy statements.

FINANCIAL MANAGEMENT PRINCIPLES

The financial management policy statements contained within this document are consistent with the principles presented below. These principles serve as a basis against which the financial policies can be tested, reviewed and updated as needed in the future.

1. **STABLE – The City's financial management practices will be reasonably consistent year to year**

   Residents and business would prefer that taxes, rates and user fee increases are measured and relatively consistent year-to-year, so that they are able to anticipate coming changes in their personal or business expenses.

2. **INFORMED - Financial decisions take measured risks and maximize the utilization of assets and resources**

   While in theory it is possible for all financial decisions made by a community to be free from risk, it wouldn't necessarily be practical. There will be occasions when assuming some degree of risk is advantageous to the City in order to take advantage of opportunities or to be ready to meet the needs of a changing population. However, any risks that are taken need to be measured and carefully considered such that the delivery of City services is never in jeopardy.

3. **FLEXIBLE - Financial decisions ensure future flexibility to adapt to opportunities and changing circumstances**

   In an ever-changing world, opportunities and challenges inevitably will present themselves. The City needs the flexibility to take advantage of arising opportunities and to respond to imminent challenges. Resources will need to be accessible for the unforeseen and policy frameworks will need to allow for flexibility and swift action when required.

4. **RELIABLE** - **Revenues have a high level of certainty to support long-term service needs of the community**

   The residents of Grand Forks value the services that they receive and are accustomed to. In order to meet these service level expectations, the City needs to ensure that spending for operations and infrastructure is effective and efficient. Similarly, revenues need to be reliable so that the investment required can be sustained over the long term.

5. **TRANSPARENT** - **Financial strategies, plans and processes are accessible and visible**

   The citizens of Grand Forks, like in any community, need to understand what their local government is doing. Having information easily available and presented in a form that is easy to understand encourages discussion and engagement, and holds decision-makers accountable. Being transparent ultimately builds trust in the government and benefits the community overall.

6. **FAIR** - **Everyone pays a fair amount for the services they receive, services are reasonably accessible by all citizens, and the burden is spread evenly amongst all generations.**

FINANCIAL MANAGEMENT POLICY STATEMENTS

Financial management policy statements have been developed for each of the nine key areas. They are intended to work together cohesively to align decision-making by City staff and Council.

1. PROPERTY TAXATION AND UTILITY RATES

Property taxes are generally used to fund services that are provided broadly to the whole community (e.g., roads, fire, transportation, drainage, waste collection and disposal).

Property tax is based on the assessed value of a property (i.e., land and improvements/buildings). Property owners have their property assessed on an annual basis by BC Assessment, and the assessed value of the property is then multiplied by the Grand Forks' tax rate (expressed as the amount of tax per thousand dollars of assessed property value) to compute an annual property tax. The tax rates are set for each of the various property classifications and adjusted annually to ensure that the City raises the required funds to support its annual budget.

Objective - To ensure property taxes and rates are sufficient to meet the community's short and long-term needs.

Policy Statements

Policy 1.1 — The City will strive to ensure that property tax increases remain as stable as possible over time and within 2 percent of inflation year to year after the initial 3 year correction period has been completed.

Policy 1.2 — Periodic reviews of taxes paid by individual classes will be conducted. Tax rates should be kept as competitive as possible to ensure continued investment both in the community and in the property itself. Recognizing that all tax classes have their financial challenges, tax shifts or tax redistributions will only be considered where a full comprehensive analysis and impact is undertaken. Where a tax shift is required, a gradual phase in will be considered to allow the properties in the class to adjust their budgets accordingly.

Policy 1.3 Beginning in 2017, The City's utility rates will increase consistently over time between 3 and 4 percent year to year, or balanced with additional revenues that have not yet been allocated or identified, to fund the asset management capital reserves.

Policy 1.4 Information about how property tax is allocated will be provided to residents in a manner that is easy to understand.

2. USER FEES & CHARGES

User fees and charges are a way that the City raises revenues to cover the cost of providing a service to those that benefit from it.
User fees and charges should have a direct relationship to the actual cost of providing a service. Some services are funded by a mix of fees and general taxation; recreation facilities and the cemetery are a good example: user fees pay for some of the cost but taxation covers the balance.

Objective - To ensure user fees and charges are sufficient to meet the City's needs.

Policy Statements

Policy 2.1 The City will evaluate and set user fees and charges fairly for the services received. This means that the user fees and charges reflect the level of service provided to the people who benefit from it and their ability to pay; it does not necessarily mean that user fees and charges will be equal for all users.

Policy 2.2 The City will regularly review and communicate to the public how user fees are established.

Policy 2.3 Fees and charges will be periodically reviewed to ensure accounting for inflation and any changes in the level of service provided.

3. ASSET RENEWAL AND REPLACEMENT

The delivery of local services greatly depends on a wide variety of infrastructure, such as roads, buildings and water systems. While much of this infrastructure lasts a long time, it does eventually need to be renewed or replaced. The replacement of these assets is expensive and therefore needs to be carefully planned for so that the City maintains its financial sustainability over the long term. The timing and funding requirements for asset renewal and replacement are part of the City's long-term capital plan.

The Asset Management Plan sets out priorities for capital infrastructure upgrades in order to provide appropriate levels of service to the community over the long term. Deviations from the plan that defer needed asset renewal or replacement projects add to the City's infrastructure deficit and can jeopardize future service levels and lead to unexpected asset failures which can be costly and potentially pose a risk to public health and safety.

The City's Asset Management Plan using a risk based decision-support tool prioritizes investments in linear infrastructure (water, sewer, roads) renewal and replacement based on an assessment of:

- **Risk (likelihood of occurrence; consequence or impact)**
- **Desired level of service**
- **Affordability**

The decision-support tool identified three levels of funding for roads, water and sewer assets only. There is over $58 million in priority 1-3 projects required in the next 20 years. Priority 1 investments are assets with a high likelihood and consequence of failure. For example, 5th Street Water Main Replacement is a Priority 1 renewal.

Asset Category		Total Cost Priority 1	Total Cost Priority 2	Total Cost Priority 3	Total Infrastructure Investment
Linear	Water System	$ 2,616,494	$ 4,966,512	$ 777,158	$ 8,360,164
	Wastewater System	$ 6,306,309	$ 13,470,105	$ 862,643	$ 20,639,057
	Roadways	$ 5,078,765	$ 13,909,426	$ 10,372,419	$ 29,360,610
	Totals	**$ 14,001,568**	**$ 32,346,043**	**$ 12,012,220**	**$ 58,359,831**

The following table summarizes the amount needed to fund 50% of recommended annual investment for all assets including roads, water, waste water, buildings, fleet, storm and electrical systems.

Asset Category		Replacement Value	Average Annual Infrastructure Investment*	50% of Average Annual Infrastructure Investment
Linear	Water System	$ 27,200,000	$ 784,000	$ 392,000
	Wastewater System	$ 25,994,000	$870,000	$ 435,000
	Stormwater System	$ 5,201,000	$131,000	$ 65,500
	Electrical System	$ 9,700,000	$228,000	$ 114,000
	Roadways	$ 34,533,000	$1,240,000	$ 620,000
Non-Linear	Buildings and Facilities	$ 20,053,000	$293,000	$146,500
	Fleet	$ 4,382,000	$276,000	$138,000
	Totals	**$ 127,063,000**	**$ 3,852,000**	**$ 1,926,000**

*$30,000/year has been included for annual infrastructure inspections and asset management planning

Objective - To proactively manage and re-invest in City assets in order to, at a minimum, maintain levels of service for future generations.

Policy Statements

Policy 3.1 The City will, at a minimum, invest 50% of the annual recommended infrastructure investment in accordance with the Asset Management Plan.

Policy 3.2 The City will conduct reviews of the Asset Management Plan and annual asset funding every five years to ensure it continues to meet the long-term infrastructure renewal needs of the community.

Policy 3.3 The Asset Management Plan will balance funding with level of service and risk. For example, if the likelihood of failure of a sanitary main is high due to its age and condition, and the potential consequences to public health are deemed to be high, the City may decide that the risk to public health is sufficiently high to renew the infrastructure earlier than what would be required to accommodate growth.

It is important to note, as infrastructure investments are delayed, risks grow exponentially. Some assets could be run to failure, while other will need to be replaced before they fail. By understanding the risk (consequence and likelihood of failure) and condition, projects can be strategically prioritized to address infrastructure investment needs while minimizing risk.

Policy 3.4 The City will seek additional sources of funding for asset renewal. As the additional funding will mostly be from uncertain sources (e.g., grants), it is not intended to replace the certain funding established in the annual base budget.

Policy 3.5 The City will implement proactive, preventative maintenance and renewal strategies to minimize the life cycle costs of infrastructure.

Policy 3.6 The City will continually consider options for cost containment measures and alternative revenue sources to balance costs and revenues. This could include investigating approaches such as: alternate maintenance management practices, adjusting levels of service, increasing risk where appropriate, refining system capacity, building and protecting reserves, economies of scale, renewable energy sources and applying these measures to a triple bottom line approach to capital planning.

4. NEW CAPITAL & ENTERPRISE

Just as it is imperative for a local government to invest in asset renewal and replacement, it must also invest in new capital in order to meet the needs of a growing and dynamic population. New capital projects should be supported by a sound business plan. Having a clear process in place for deciding when and how to invest in new capital, grounded in best practices, will facilitate sound financial decision-making that is understood and supported by Council, staff and the general community.

The City will take a holistic, multiple-account approach to prioritizing capital projects; evaluating emergent opportunities against existing priorities; and communicating the decision-making process in a way that is transparent and easy for all to understand.

Objective: To ensure the provision of new capital projects is financially sustainable, and leverage resources to provide services that are aligned with City priorities.

Policy Statements

Policy 4.1 The City will follow a clear, documented process for decision-making on new capital. This process will be openly communicated to Council, staff, and the community.

Policy 4.2 New capital investments should be made in accordance with the City's master plans in order to address the community's highest needs.

Policy 4.3 The City's long-term capital plan will be prioritized based on social, economic and environmental factors, full life cycle cost, and risk tolerance.

Policy 4.4 The City may invest in capital projects in response to emergent opportunities if they align with the community objectives and priorities.

Policy 4.5 In order to provide new services that might not normally be funded, the City may consider establishing new sources of funding or revenue streams. This may be accomplished, for example, through exercising rights conferred on the City through legislation, and leveraging City assets.

Policy 4.6 The City may partner with and leverage other entities in order to deliver the most effective and efficient services to residents.

5. RESERVES AND SURPLUS FUNDS

Saving money for future projects and unexpected expenditures is an important planning consideration for the City. Reserves provide a financial mechanism for saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can also provide a degree of financial stability, by reducing reliance on indebtedness to finance capital projects and acquisitions, or flexibility to leverage opportunities as they arise.

There are three basic types of reserves:

Accumulated surplus	This is the net annual surplus that builds up over time.
Reserve accounts	These are reserves that are set aside for a future purpose, but can be readily repurposed through a Council resolution, based on a solid business case.
Statutory reserves (Reserve funds)	These are reserves that are established by Council for a specific purpose through a bylaw. These reserves cannot be repurposed without revising the bylaw. Legislated use reserves (as identified in the Community Charter), such as DCC's, cannot be repurposed.

Sufficient reserves offer the City resiliency in the event of abrupt changes to costs or revenues, and they should be generated and allocated judiciously as part of the City's overall financial management practices.

Objective - To build reserves so the City has the flexibility to invest into asset renewal, respond to opportunities, and maintain or improve levels of service

Policy Statements

Policy 5.1	The City will ensure that each fund (General, Water, Electrical and Sewer) has a dedicated asset management capital reserve, the purpose of which is documented at the time it is established.
Policy 5.2	Operating surplus balances will be maintained at a minimum of 15 percent to a maximum of 25 percent of operating costs.
Policy 5.3	Minimum asset management capital reserve balances will be sufficient to fund Priority 1 asset replacement. Maximum asset management capital reserve balances will be in accordance with the long-term asset management requirements identified in the asset management plan.
Policy 5.4	Uncommitted annual surplus will be directed to asset management capital reserves to fund asset renewal.

6. DEBT

Debt is a common tool that local governments use to finance capital expenditures over both the medium and long terms. Debt is viewed as a fair way of financing a project since those who are paying the principal and interest charges are able to benefit from the service immediately. This is different than having a "pay as you go" strategy, which requires some or all of the funds to be built up over time before completing the project.

When interest rates are low, the use of debt to deliver projects can be very attractive; however, local governments need to carefully consider the long-term financial impacts. Generally, a local government may not commit more than 25 per cent of its total own-purpose revenues to service debt and other long-term obligations without requesting permission from the Province.

Objective - To ensure debt is used prudently to maintain the City's financial sustainability.

Policy Statements

Policy 6.1	Debt servicing costs will remain at or below 20 percent of annual taxation in order to ensure that the annual debt payments are reasonable and that future debt capacity remains to take advantage of emergent opportunities.
Policy 6.2	Relatively stable capital expenditures, such as paving roads and replacing water mains, will be financed using current revenues wherever possible; debt will not be the preferred financing mechanism.
Policy 6.3	Debt capacity will be preserved for when it is truly needed; e.g., for major capital investments such as community sewer system expansions, wastewater treatment plant improvements, or a major community facility.
Policy 6.4	The City will make the early retirement of existing debt a priority when it is beneficial to do so.

7. GRANTS

A grant is a transfer of money to the City from another entity (generally a higher level of government). There are two types of grants in general: conditional and unconditional.

Conditional grants	These are provided for a specific purpose and may not be used for any other project. An example would be the provincial Gas Tax Capital Grants.
Unconditional grants	These are provided without conditions on their use. An example would be the provincial Gas Tax community works fund.

Grants are a useful tool in a local government's financial tool box, and they can be used strategically to offset costs to taxpayers and ratepayers. However, a reliance on grants to fund capital projects and services will undermine a community's ability to attain financial sustainability. Furthermore, most grants require that the beneficiary covers a portion of the cost to deliver the project; this can lead to funds being diverted from where they are actually, and highlights the need for grants to be leveraged for projects that are a local priority.

Objective - To strategically leverage grant opportunities.

Policy Statements

Policy 7.1	The City will budget for projects annually under the assumption that conditional grants will not be available.
Policy 7.2	The City will only pursue grants that will support community projects that have previously been identified as a local priority.

8. DEVELOPMENT FINANCING

As Grand Forks grows, so too does the demand for new or expanded infrastructure. Financing this necessary infrastructure is an important responsibility of the City and requires careful consideration.

A number of development finance tools are available to local governments with development cost charges (DCCs) being the most prevalent. DCCs are collected by local governments from land developers to offset the cost of new or expanded infrastructure for new users, such as roads, drainage, sewers, water, and parks. DCCs are one-time charges that are paid by the developer at the time of subdivision or acquiring a building permit. DCCs do not pay for operating costs or for the future repair, rehabilitation or replacement of infrastructure; i.e., asset renewal.

Objective - To ensure growth pays for growth and does not impose a financial burden on City taxpayers.

Policy Statements

Policy 8.1 DCCs will be used as part of the overall financing strategy to pay for new infrastructure required to service growth.

Policy 8.2 Where existing users benefit from new or upgraded infrastructure required to service growth, the costs to pay for the infrastructure will be distributed fairly between the existing and the developer.

Policy 8.3 The breakdown of costs between developers and existing users will be fair and will be made available to residents in a way that is easily understood.

9. OPERATING

The City strives to provide infrastructure and to deliver services to the community that meet its residents' needs today and over the long term; and residents expect relatively consistent levels of service over time and across neighborhoods. In order to achieve this, reliable revenues are needed in order to sustain ongoing operations over the lifetime of a service or assets; without them, service levels may be affected and assets can quickly become liabilities.

The City will live within its means and follow best practices in order to ensure that existing and future services align with priorities; that the full financial cost of operations are understood in order to adequately cover them through appropriate means; and that future needs are anticipated and planned for today.

Objective: To ensure operations receive sufficient financial support to provide programs and services to residents.

Policy Statements

Policy 9.1 The City will regularly review its services to ensure they align with the City's priorities.

Policy 9.2 The City will regularly review its operating costs to ensure that services are being delivered effectively and efficiently.

Policy 9.3 The full financial cost of service provision, including long-term staffing requirements, will be understood and considered by Council and administration when making investment decisions.

Policy 9.4 The City will set taxes, fees and charges to achieve full cost recovery, where appropriate, for operating costs. Ongoing operating costs will not be covered through reserves, debt, or grants.