

OPERATING AND CAPITAL BUDGETS

Date Issued: September 12, 2017, R175-17

Mandated by: City Council

Current Revision: September 12, 2017

Cross Reference:

- Tangible Capital Assets Policy FIN-018-C
- Financial Reserves Policy FIN-021-C
- Allocation of Operating Budget Surplus Policy FIN-022-C

Next Review: January 1, 2019

Responsibility: Chief Financial Officer

PURPOSE

This Policy establishes principles and guidelines for the preparation of operating and capital budgets.

POLICY

The City shall develop and adopt operating and capital budgets in an accountable, open and transparent manner that takes into consideration Council's strategic priorities, anticipated revenues and expenses, and the short and long-term impacts to the City.

This Policy establishes principles for the preparation of operating and capital budgets in accordance with the *Municipal Government Act*. In some cases these principles will stand alone, while in others the principles will be further supported by separate policies established by Council.

DEFINITIONS

Annual Budget Process - shall mean the yearly development of the City's operating and capital budgets for review and deliberation by Council in November, and adoption by Council in December.

Base Budget - shall mean the previous year's approved operating budget adjusted for one-time revenues and expenses.

Capital Budget - shall mean the long-term financial plan for the proposed acquisition and financing of tangible capital assets, more commonly referred to as the 10 Year Capital Plan.

Capital Expenditure / Project - shall mean any expenditure, other than a major capital project, in excess of \$10,000 incurred to acquire, construct or improve a tangible capital asset used in the provision of municipal services.

City - shall mean the City of Fort Saskatchewan.

Council - shall mean the municipal Council of the City of Fort Saskatchewan.

Estimate Class - shall mean a cost estimate classification as defined by the American Society for Testing and Materials (ASTM) within its standard ASTM E2516-11. Estimate classes 1 through 5 define the accuracy range of an estimate, with 1 being the most accurate and 5 being the least accurate.

Major Capital Project - shall mean the construction of a tangible capital asset with total projected costs in excess of \$500,000.

Operating Budget - shall mean the financial plan for the purchase and financing of the City's day-to-day operations and includes expenses such as salaries, wages and benefits, and materials, supplies and utilities. After all own-source revenues have been accounted for, property taxes are levied to balance this budget.

Operating Plan Request - shall mean a proposed adjustment to the base budget that is recommended by Administration and presented to Council for deliberation.

Tangible Capital Assets - shall mean land, buildings, water and sewer systems, roads, infrastructure, machinery, vehicles, and equipment that has been purchased, constructed or contributed to the City and provides long-term benefits.

Utility Operations - shall mean a component of the operating budget that includes water distribution, wastewater collection and solid waste services with these specific services provided on a user pay basis, ensuring that users pay the full cost of utility services.

GUIDING PRINCIPLES

The adoption of the City's operating and capital budgets are among the most critical policy decisions made by Council. The annual budget process allows the City to prioritize projects, programs and services based on anticipated revenues and expenses, and allocate the resources to fund them.

Operating Budget:

1. Budget Requirement

Operating budgets shall be prepared annually on a rolling four-year basis. Council will adopt year one of the operating budget and will accept the remaining three-year financial plan operating forecasts as information.

2. Base Budget

Operating budgets shall be developed based on the principle of sustaining established and Council approved programs and service levels. As such, the previous year's approved operating budget will be used as the starting point for development of the current year's operating budget.

3. Balanced Budget

- a. The City shall adopt a balanced budget with operating revenues equal to operating expenditures. Under limited circumstances, the approved operating budget may be amended to reflect approved Council motions.

- b. Any year end operating budget surpluses shall be allocated in accordance with Allocation of Operating Budget Surplus Policy FIN-022-C.

4. Multi-Year Approach

- a. The City shall incorporate a multi-year approach to the annual budget process. This approach reinforces the commitment to sustain a financially viable municipality, and communicates the City's short and long-term plans to residents, businesses, and other stakeholders.
- b. Operating budgets and financial plan operating forecasts shall include the operating impacts of approved capital projects and capital projects proposed within the 10 Year Capital Plan.

5. Budget Reallocations

Reallocations to the base budget shall be permitted in the preparation of operating budgets provided that the net effect on revenues and/or expenses is zero, and there is no net increase to budgeted salaries, wages and benefits. Budget reallocations do not require separate approval by Council.

6. Capital Funding

- a. Annual capital funding shall consist of a base funding amount within the approved operating budget that supports the 10 Year Capital Plan through funding of new, one-time capital expenditures.
- b. Operating budgets shall provide adequate capital funding to support the lifecycle maintenance and replacement of the City's tangible capital assets over the long-term in accordance with Financial Reserves Policy FIN-021-C.

7. New Permanent Staff Positions

- a. As part of the annual budget process, Administration shall present requests for new permanent staff positions as operating plan requests to Council. Only under unique circumstances will Council consider these types of plan requests over the course of the budget year.
- b. Operating plan requests for new permanent staff positions shall be:
 - i. budgeted based on a start date of April 1, or the actual start date if known, and
 - ii. budgeted at an initial midpoint salary grade level, or equivalent, as defined within the relevant collective agreement, or the actual salary grade level if known.
- c. In addition to direct staffing costs, operating plan requests for new permanent staff positions shall include any related equipment costs (e.g. office equipment, computers, cell phones, etc.) required by the position.

8. Current Staff Positions

The operating budget shall include provisions for staff vacancies and salary grade levels based on actual historic staff vacancy trends and salary grade levels. These provisions shall be determined annually and applied at the corporate level.

9. Revenues

a. Revenue Estimates

Operating revenues shall be estimated conservatively using an objective, analytical approach based on actual historic trends, predictive statistical analysis and professional judgment.

b. Revenue Diversification

Revenue diversification is an important consideration in the preparation of operating budgets, since the City has limited revenue raising tools available. After property taxes, user fees, fines and penalties are the most significant source of own-source revenue. A consistent and planned approach to the setting of user fees, fines and penalties shall be taken to protect this vital revenue source.

- i. The City shall charge fees for services where applicable and cost effective to do so. These fees shall be listed in the Fees & Charges Bylaw.
- ii. The City shall charge fines and penalties as permitted through policy, bylaw or other legislation.
- iii. The City shall endeavor to maximize cost recovery where applicable and cost effective to do so. Also, consideration shall be given to user affordability and regional competitiveness.
- iv. The City shall continuously pursue new and diverse revenues so as to limit the dependence on one, or only a few sources of revenue in order to maintain approved service levels.

c. Grant Revenue

The City shall continuously pursue federal, provincial and private operating grants, but will strictly limit financial support of these programs to avoid commitments which continue beyond funding availability.

d. One-Time and Unpredictable Revenues

One-time and unpredictable revenues, such as proceeds on sale of property, shall not be relied upon to fund ongoing expenditures, rather they shall be applied to:

- i. reserves in accordance with Financial Reserves Policy FIN-021-C; and/or
- ii. one-time expenditures; and/or
- iii. repayment of outstanding debt.

e. Unconditional New Operating Revenues

When the City creates or receives a new, stable, lasting and unconditional revenue source, Administration shall present an operating plan request to Council that recommends either:

- i. new programs or services; and/or
- ii. changes to existing programs or services; and/or
- iii. reductions to the property tax levy; and/or
- iv. additional debt repayment; and/or
- v. increases in reserve allocations.

10. Expenses

Operating expense projections shall be estimated using an objective, analytical approach based on actual historic trends, predictive statistical analysis and professional judgment.

11. Utility Operations

Utility operations shall be funded on a user pay basis such that users pay the full costs of utility services at rates established and approved by Council annually.

Capital Budget:

12. Budget Requirement

Capital budgets shall be prepared annually on a rolling ten-year basis. Council will give Administration approval to execute on year one of the 10 Year Capital Plan and will accept the remaining years as information. Under limited circumstances, the approved capital budget may be amended to reflect approved Council motions.

13. Capital Project Thresholds

Capital budgets shall only include capital projects with total projected costs in excess of \$10,000 in accordance with Tangible Capital Assets Policy FIN-018-C.

14. Asset Management

The City shall operate under an asset management framework, which includes the compilation and maintenance of a full tangible capital asset inventory that includes a condition based assessment and lifecycle plans to support the maintenance and replacement of tangible capital assets.

15. Multi-Year Capital Projects

- a. Capital projects with a completion timeframe of more than one budget year shall be identified as multi-year capital projects within the 10 Year Capital Plan.

- b. The total cost of a multi-year capital project shall be considered and deliberated by Council as part of the current year's capital budget.

16. Major Capital Projects

Where a major capital project requires design work to be completed to determine a Class 3 or better estimate, the project shall be approved by Council in 2 phases:

- a. Under phase 1, Council will approve 50% of the design money for the project based on a Class 5 estimate. The design process is started, refining the scope and project definition leading to a Class 2 or better estimate.
- b. Under phase 2, Council will approve the remainder of the design and construction budgets based on a Class 2 or better estimate.

17. Capital Financing

Several financing sources are available to fund capital projects including, but not limited to, federal and provincial grants, capital reserves, long-term debt and annual capital funding.

- a. Each capital project identified within the 10 Year Capital Plan shall include a planned capital financing source.
- b. Capital financing sources shall be reviewed annually to ensure that the allocation of funds are appropriate and that capital grants have been fully utilized.
- c. The future impacts of proposed capital projects on property tax rates, reserves, debt limits and debt service limits shall be included as part of the capital budget, or presented separately, where applicable.

18. Changes in Scope

Over the course of the budget year, there may be opportunities to change the scope of an approved capital project due to higher or lower than expected revenue or costs. The original scope of an approved capital project shall only be changed subject to Council approval.

Debt Management:

The City recognizes that debt management is an important long-term planning tool for reaching and achieving the City's objective of sustaining a financially viable municipality. The City also recognizes that excessive debt reduces the City's flexibility and its ability to respond effectively to unforeseen challenges.

- 19. Long-term debt shall be used to finance the purchase or construction of tangible capital assets having long term benefits. This asset category generally includes land, buildings, recreational facilities, water and sewer systems, and other major infrastructure, and excludes machinery, vehicles and equipment.
- 20. The use of long-term debt to finance long-term capital projects mitigates cost increases that could arise from the deferral of these projects, and ensures that long-term capital project costs are fairly and equitably distributed across generations that benefit from the underlying assets.

21. Long-term debt shall not be used to fund operating expenditures.

Property Tax Strategy:

The City relies on property taxes as an essential source of revenue to fund programs and infrastructure to support residents, businesses and industry.

22. The setting of property tax rates requires judgment on the part of Council with multiple factors to consider, balancing the interests of the overall community to distribute the tax burden fairly and equitably, while maintaining an affordable environment for residents, businesses and industry.
23. The property tax rates and corresponding annual tax increases / decreases established for budget purposes are reflective of estimates of assessment growth and market value changes.
24. The property tax bylaw finalizes assessment growth and market value changes for property tax rates and corresponding annual tax increases / decreases established at the time of bylaw adoption.

AUTHORITY / RESPONSIBILITY TO IMPLEMENT

1. The City Manager is responsible for administrative compliance and monitoring of this Policy.
2. The City Manager may delegate responsibility to the Chief Financial Officer to establish and administer compliance with this Policy, and for compliance with City Bylaws, the *Municipal Government Act*, and other applicable legislation.