
TO: GENERAL COMMITTEE

SUBJECT: LONG RANGE FINANCIAL PLAN AND FINANCIAL POLICY
FRAMEWORK UPDATE

PREPARED BY AND KEY CONTACT: C. Millar, Deputy Treasurer, Ext 4436

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J. Bull

RECOMMENDED MOTION

1. That the following strategies be implemented, starting with the 2012 Business Plan, to strengthen the City's financial condition:
 - a) Increase annual contributions to the Tax Capital Reserve such that, within 12 years, the annual contribution is equivalent to the annual amortization charge for assets supported by property taxes
 - b) When a new capital asset funded by property taxes comes into service, an amount equivalent to the asset's amortization charge be transferred annually to the Tax Capital Reserve to prepare for the asset's eventual replacement
 - c) Incorporate asset renewal and replacement charges into user fees as appropriate
 - d) Limit annual debt payments to 20% of the City's own source revenues
2. That existing financing plans for the City of Barrie's portion of two significant community projects be revised as follows:
 - a) That Barrie Hydro Holdings Incorporated (BHHI) be directed to re-invest dividends received from PowerStream into PowerStream Solar in accordance with the terms of the Subscription Agreement dated November 23, 2010
 - b) That additional financing which may be required to fulfill the terms of the Subscription Agreement be provided as a loan to BHHI, on terms and in a form satisfactory to the Director of Legal Services
 - c) That any dividends received from PowerStream following the fulfillment of the Subscription Agreement be applied first to any outstanding loans receivable and then to the Tax Capital Reserve.
 - d) That the remaining \$5.2M required to fund the Royal Victoria Hospital Grant be funded from the Tax Capital Reserve
3. That revisions to the City's Financial Policy Framework as identified in Appendix A be approved
4. That Finance staff be directed to update the long range financial plan to establish affordability thresholds in accordance with the City's Financial Policies Framework to be used to support the annual capital planning process.

5. That the options identified to reduce tax related debt identified in FIN020-11 be received.
6. That the Mayor and City Clerk be authorized to execute any agreements required to put these recommendations into effect.

PURPOSE & BACKGROUND

7. The purpose of this report is to recommend changes to the corporation's Financial Policies Framework, present updates to the Long Range Financial Plan (LRFP) and discuss the corporation's financial condition. This includes:
 - a) An analysis of new strategies that can strengthen the City's financial condition
 - b) Revisions to the corporation's Financial Policies Framework to support the new strategies
 - c) Proposed revisions to existing funding strategies for the City of Barrie's portion of two significant community projects - the RVH expansion and PowerStream Solar
 - d) Options available for reducing debt, in accordance with Council's direction from its 2011 Business Plan deliberations.
8. It is a requirement that, in the first year of its term, Council review and revise, if appropriate, the corporation's Financial Policies Framework. However, Council may also further review and make revisions to the framework at any point in its term.
9. For the past several years various staff reports have discussed the corporation's financial condition in accordance with the Public Sector Accounting Board's (PSAB's) recommended practices for reporting a government's financial condition. Specifically, financial condition is assessed using the elements of sustainability, vulnerability and flexibility.
10. During the 2006-2010 term of Council, members of Council expressed concern about the implications of relying on debt financing for the corporation's capital program. When combined with new information presented about asset condition, new financial statement reporting requirements for tangible capital assets and ongoing interest in maintaining property tax rates at "affordable" levels, staff and Council collaborated to create the Financial Policies Framework and the LRFP.
11. The City of Barrie's LRFP, combined with its Financial Policies Framework, is recognized as a best practice model for municipalities. In 2010 The Municipal Finance Officers Association of Ontario (MFOA) published a guide for municipalities about how to develop and use a long range financial plan; Barrie's experience provided a comprehensive case study that was described throughout the guide. As well, staff have made presentations at various public sector conferences about the LRFP and the corporation's business planning framework.
12. Information from the LRFP and asset condition data indicates that the corporation cannot sustain both its future financial commitments and current services and service levels without an increase in revenues. More resources need to be applied to ensure the corporation's existing assets support the provision of service at desired levels over their projected useful lives. These insights were most recently reported in the 2011 Business Plan (p. 164). Overall, the corporation's sustainability – its ability to maintain existing financial and service commitments without increasing debt levels or taxes – is declining.
13. This report does not specifically address financial strategies associated with development charges reserves or growth management. While these are a key component of our financial

planning and an area with significant risk exposure, strategies relating to growth and supporting policy revisions will be addressed in conjunction with the financial planning work currently underway with respect to the annexed lands and intensification plans.

Purpose of a Long Range Financial Plan

14. The LRFP is a comprehensive plan that is used to guide decision making. It includes a set of strategies, principles and policies used in conjunction with a ten year financial projection for operating, capital and user rate budgets. At a minimum, the LRFP supports assessments of the financial impact that decisions can have on the City's financial condition, now and in the future.
15. The forecasting capability provided by the LRFP increases the potential for the City to manage and improve the City's financial condition and monitor the key elements of sustainability, vulnerability and flexibility. It also provides the capability to identify the relationship between service levels, spending levels and capital investment decisions on future tax and user rates.

Improvements in Business Planning Drive the Quality of Long Range Financial Planning

16. When the LRFP was originally developed in 2009, it was understood that it would be a dynamic plan that would evolve as the quality and availability of data improved. Since then, the City's policy and planning framework has continued to evolve and significantly improve. For example, considerable progress has been made in understanding the condition of our assets and in our ability to prioritize asset investments. This improves our ability to identify maintenance and renewal requirements and/or new capital spending needs at levels which not only reflect the corporation's affordability limits, but also help maximize the useful life of the assets under our control.
17. A critical element affecting the quality of the LRFP forecasts is the capital plan. For example, the 2011 Capital Budget provides an achievable and affordable four year capital plan. The corporation's 10-year Capital Plan includes an additional six year forecast that incorporates renewal and replacement requirements based on expected useful lives and all requirements described in various master planning documents. This increases the accuracy and completeness of the LRFP forecasts, which improves its ability to guide decision making.

The major factor influencing the differences illustrated by these two charts is staff's growing ability to apply the insights obtained from reviewing the LRFP. For example, in 2009 the Capital Plan and forecast reflected known renewal and additional capacity needs based on expected useful life, but it did not consistently reflect affordability limits. Now, in 2011, capital project prioritization activities are aligned with affordability limits established by legislation and the corporation's Financial Policies Framework. The result is a smaller, manageable capital program that defers some current needs to future periods, which in turn increases the risk of asset failure and increases the potential that existing service levels may not be maintained..

19. When the 2009 LRFP was adopted it was anticipated that tax rate supported debt as a percentage of the total capital plan would be reduced from 37% to 31%, that the peak in tax rate supported debt in 2014 would be reduced from \$147 million (\$1,010 per capita) to \$132 million (\$991 per capita) and that the tax rate supported debt charges as a percentage of the levy would be reduced from 11% to 10% in 2014 and 9.1% by 2018.
20. Given the substantial changes in the magnitude and timing of the capital requirements, it is unlikely these targets will be met. Based on the current 10 year capital plan and revenue projections, it is anticipated that the debt will peak in 2019 will represent approximately 12% of the total capital plan. However, this is not as a result of debt requirements being reduced, rather it is a function of the size of the capital plan in 2011 relative to 2009 forecasts and the fact that the primary source of funding for the additional capital requirements is the Tax Capital Reserve.

ANALYSIS

The City of Barrie's Financial Condition

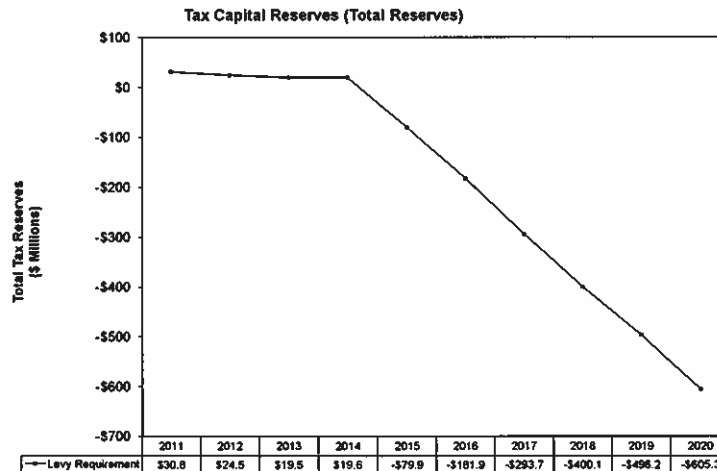
21. The Financial Policies Framework provides guidelines that serve as business rules in the LRFP. Based on these rules and the projections provided by the LRFP, Council can assess current and future implications associated with its financing decisions. Annually, the Business Plan describes the corporation's financial condition based on current, approved financial policies and recommended services and service levels.

Sustainability

22. Sustainability is a government's ability to maintain current services and service levels without increasing property taxes or its debt burden. Since 2006 the corporation's sustainability has been declining. The community's growth over the last ten years has placed more demands on services and capital expenditures. Reliance on debt financing has increased the corporation's liabilities and has been consuming a growing share of total revenue.
23. An important strategy for reducing reliance on debt is to maintain healthy reserve balances. As illustrated in the projections from the Long Range Financial Plan, the Tax Capital Reserve is oversubscribed and will be depleted by 2014. The projections are based on the 2011 – 2020 Capital Plan, as such, they do not currently reflect recent discussions regarding the Police Facility requirements and the cost sharing issues relating to the Duckworth/400 Interchange.

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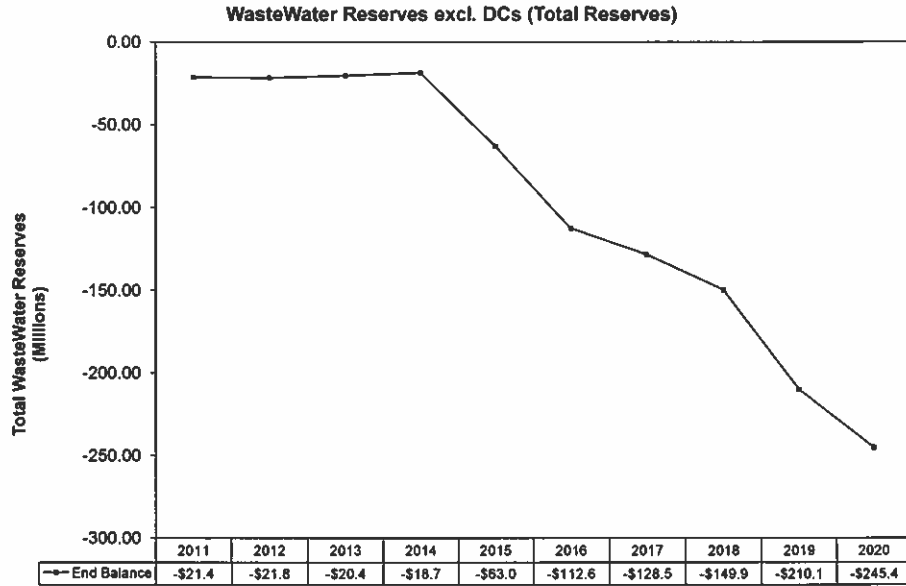
Tax Capital Reserves



24. The corporation's financial policy framework establishes a minimum target balance for the Tax Stabilization Reserve of 5% of gross operating revenues. The current balance in the Tax Rate Stabilization Reserve is 3.16% of gross operating revenues.
25. The financial policy framework also establishes minimum target balances for water and wastewater stabilization reserves of up to ten percent of gross operating revenues. However, funding of these reserves has not yet commenced. Policy changes recommended in Appendix "A" address this gap.
26. In the City's 2010 water and wastewater six year financial plan, it was identified that annual revenue increases of 13% for water and 19% for wastewater are required over the next several years to build sufficient reserve balances. Subsequent to the completion of the six year financial plan, the capital plan evolved to reflect additional capital asset renewal needs and recoveries from the tax rate supported budgets were refined to more accurately reflect the staff time required to support water and wastewater operations. Also, given the timing of the development of the six year capital plan, operating costs for the Surface Water Treatment Plan were based on estimates.
27. Given the additional information that is now available, the six year plans for water and wastewater will be updated in 2012. The sufficiency of the capital reserves and user rate requirements will be addressed at that time rather than in this report.

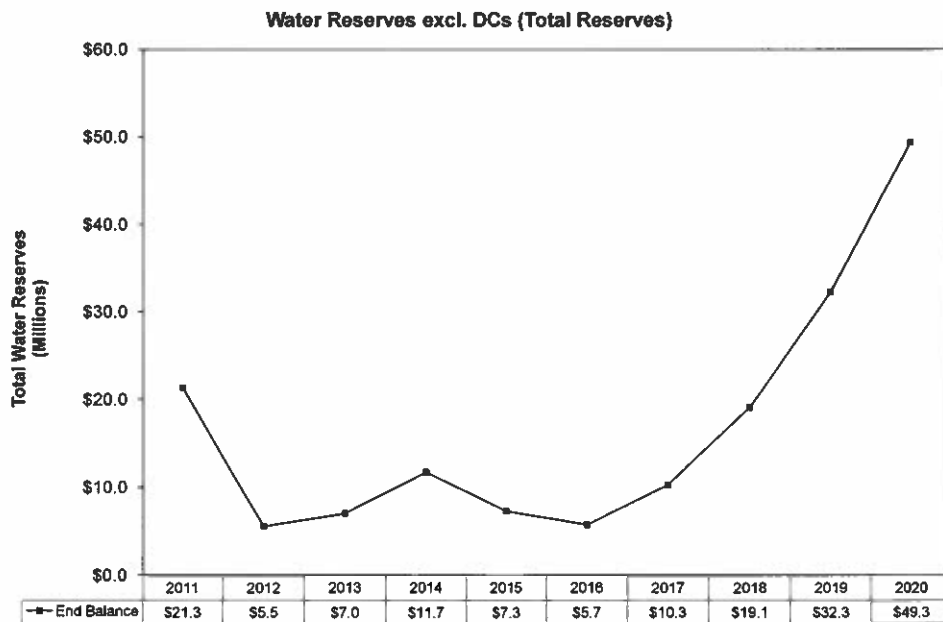
BARRIE

WasteWater Reserves excl. DCs
(Total Reserves)



BARRIE

Water Reserves excl. DCs (Total Reserves)



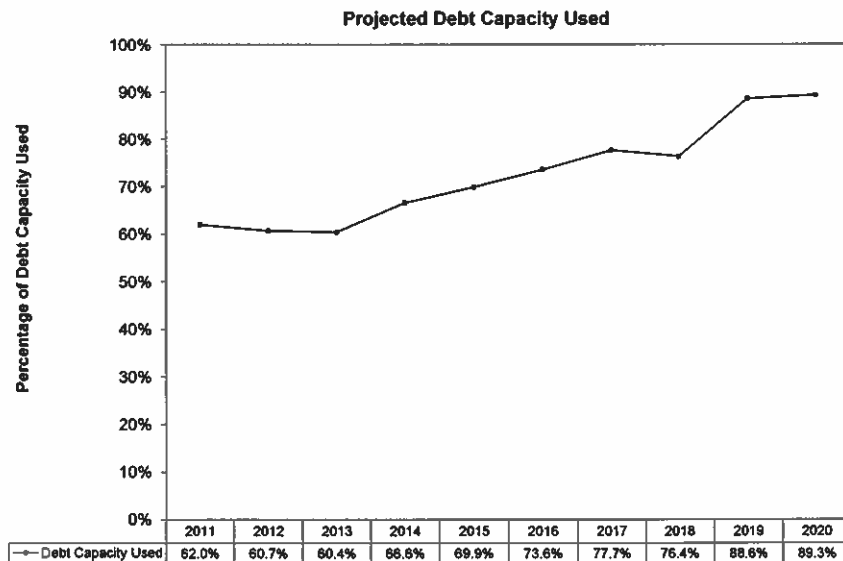
28. Similarly, Reserve Funds that rely on dedicated revenue streams, like the Development Charges Reserve Fund are below planned levels because the development activity that would trigger the contributions has not been occurring at the rate that was expected when the budget was set, and discounted rates approved by Council have reduced the amount of revenue earned from development activity. Since the 2008 Development Charges By-law update, only 75% of the

planned development charges revenue has been collected and the costs of the works are increasing due to inflation and refined cost estimates. As previously indicated, recommendations relating to development charges will be incorporated into the financial planning work currently underway as part of the intensification and annexed land planning.

29. The Province regulates the amount of a municipality can issue by limiting the annual debt payment amount to 25% of own source revenues. Currently, the annual debt payment amount represents 15.5% of Barrie's own source revenues or 62% of its available debt capacity. Total debt currently outstanding is \$186 million. Debt financing that has been committed but not yet issued is an additional \$175 million, for a total commitment of \$361 million.

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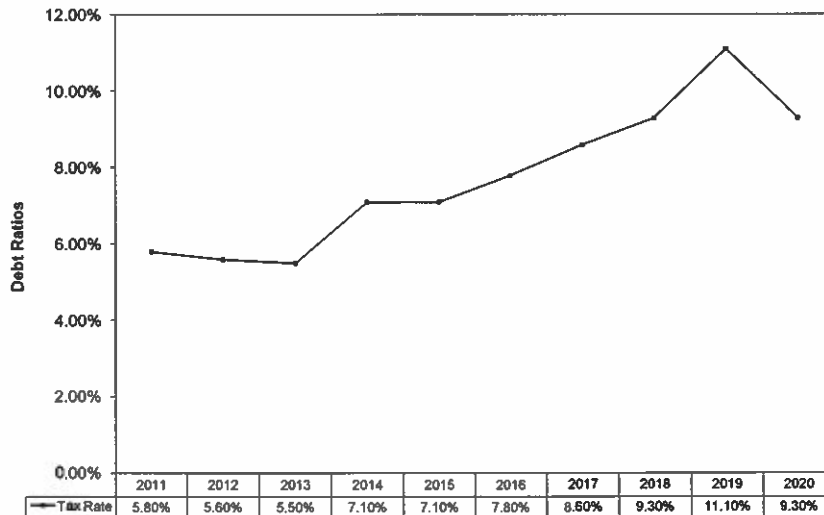
Projected Debt Capacity



30. Debt charges in for tax rate supported services currently represent 5.8% of expenditures but is expected to peak in 2019 at 11%.

BARRIE Tax Rate Debt

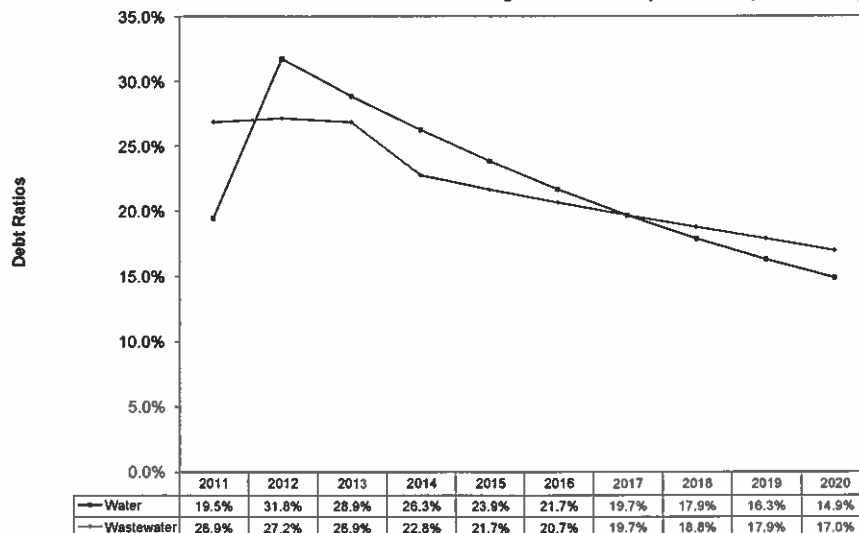
Tax Rate Debt Charges as a % of Expenditures (Debt Ratios)



31. Debt charges in user-rate supported services are higher over the same period, with water debt consuming 20% of expenses in 2011 and wastewater debt consuming 27% of related expenses. When the remaining debt relating to the SWTP is issued in 2012, debt charges for water will peak at 32% of expenses.

BARRIE Water & Wastewater Debt

Water & Wastewater Debt Charges as a % of Expenditures (Debt Ratios)



32. Generally, options that improve Sustainability reduce the corporation's reliance on debt financing. As described in Appendix "A", proposed policy revisions include several changes that can reduce debt financing requirements and improve Sustainability. However, it is important to recognize that it will take several years of following these policies to achieve this outcome.

Flexibility

33. Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden. Since 2006 the corporation's flexibility has remained stable and represents a strength for the corporation.
34. Property tax and user fee increases since 2006 are well below the thresholds Council identified in the Financial Policy Framework. The property tax and user fee increases approved in 2011 continue this stable trend.
35. Operational decisions may also influence Flexibility. For example, the extent to which maintenance is deferred on capital assets may create short-term savings in maintenance costs. However, this could lead to higher costs in the long-term as assets wear out prematurely or incur higher repair costs just to keep them in use for the duration of their expected useful lives. Staff considered this when preparing both maintenance budgets and the capital plan for 2011, emphasizing asset maintenance and renewal investments. The Capital Plan development process will be placing an emphasis on the importance of life cycle cost analysis.
36. The recommended policy changes in Appendix "A" help maintain the corporation's Flexibility. They also illustrate the interrelated nature of the elements of a government's financial condition. That is, by improving Sustainability, Flexibility is also maintained or enhanced. Without policy changes that improve Sustainability, Flexibility will also erode over time.

Vulnerability

37. The third element of financial condition is vulnerability. It is the extent to which a government becomes dependent on, and therefore vulnerable to, funding from senior levels of government over which it has no control.
38. The availability of funding from senior governments must be assessed in the context of the long-term financial implications associated with receiving it. There is a risk that service levels become artificially inflated unless a long-term funding plan exists to sustain the service without support from senior governments. For example, the benefit of funding which subsidizes the purchase of a capital asset (eg buses, or a recreation facility) needs to be weighed against the costs that will be incurred to operate, maintain and eventually replace the asset over its useful life.
39. The availability of reserves and reserve funds helps manage the risk that funding from senior governments artificially inflates service levels. Unfortunately, Barrie's reserve and reserve fund levels are too low to support required asset renewal investments for existing assets.

Proposed Strategies to Improve Financial Condition

40. Building reserves is a critical component of the LRFP as they can be used to provide stability to tax and user rates by smoothing variable or unanticipated factors and provide funding for one time or short term requirements. Reserves are also used to provide for replacement or acquisition of capital assets and to provide the flexibility to manage debt to stay within the debt policy limits.

41. As described in the previous section, the City's reserves are not adequate to meet future needs, therefore, the proposed strategies are targeted primarily at building reserves, which in turn will improve the City's flexibility to manage debt within debt limits and to protect the City's credit rating.
42. The following strategies to improve the City's financial condition are being proposed:

- a) **Increased contributions:** The introduction of the tangible capital asset reporting requirements and the asset condition work completed over the last three years has led to a greater understanding of the level of investment required to maintain the City's current asset portfolio. In 2010, the annual amortization for tax rate supported assets was \$22.8M. Amortization can be thought of as a measure of how much we are using up of our assets each year. It will continue to increase as new infrastructure is added to the City's portfolio.

In 2011, the City is contributing \$14.4M to the Tax Capital Reserve, an increase of \$3.1M over the previous year. However, the estimated amortization for tax support assets in 2011 is \$23M representing a difference of approximately \$8.6M.

There is a direct connection between annual amortization and contributions to reserves as amortization reflects the amount that an asset is used in a year and the contribution to reserve is a savings plan with the objective of having sufficient funds available when it comes time to replace that asset. As such, it is recommended that a commitment be made to a twelve year phase in plan to ramp up contributions to reserves until they are equal to annual amortization. It is estimated, based on an annual shortfall of \$8.6M, this would equate to an annual tax rate increase of approximately 0.5% based on current tax levels.

In order to ensure that the objective of having the annual contribution to reserve be equivalent to annual amortization by 2023, it is also recommended that when a new asset comes into service, the contribution should be increased by the annual amortization for that asset.

Using these two approaches, the average yearly increase to the Tax Capital Reserve would be approximately \$1.5M, representing an annual tax rate increase of 0.9% while still remaining within the property tax affordability ratio of 4%.

- b) **Incorporate Capital Contribution in User Fees:** The City's current financial system does not support activity based costing which is crucial for efficient, timely and accurate calculation of full costs including a capital contribution for amortization. However, some progress has made in determining full costs of specific services and moving forward will be used to incorporate a capital contribution for future fee structures
- c) **Increase allocation of surplus to Tax Capital Reserves:** The financial policies framework currently indicated that any tax rate operating surplus be allocated 50% to the Tax Rate Stabilization Reserve and 50% to the Tax Capital Reserve. It is recommended that the allocation of tax rate supported operating surpluses be revised to 30% to the Tax Rate Stabilization Reserve and 70% to the Tax Capital Reserve.

The impact of this change will not be visible in the LRFPS because in order to maintain a conservative approach to financial planning, it has been assumed that there will be no significant surpluses. However, this approach will help to address the inflationary impact will occur as a result of funding reserves at historical cost levels rather than replacement cost.

- d) **Establish Planned Contributions to User Rate Stabilization Reserves:** As part of the BMA recommendations in 2009, user rate stabilization reserves were established to fund revenue shortfalls resulting from less than anticipated consumption or unanticipated expenditures, however, there is no strategy currently in place to fund them.

Given that the existing water reserve is not sufficient to meet the known infrastructure renewal requirements and the wastewater reserve is currently in a deficit position it is not feasible to transfer any portion of the existing reserves to the rate stabilization reserves. Instead, it is recommended that the rate stabilization reserves be funded by allocating 30% of any year end surpluses to the rate stabilization reserves and the balance being allocated to the Water and Wastewater capital reserves respectively.

- e) **Reduced Debt Capacity Limit:** In 2011, the City's AA credit rating with a stable outlook was confirmed by Standard and Poor's, however, consistent with previous years assessments, Standard and Poor's continues to be concerned about the City's growing debt position as it compares to revenues. While they felt that the growth potential and resulting increases in property taxes made possible by the recent annexation could restore the relationship of debt to revenues to a level closer to the City's peers, they indicated that the AA stable rating reflected their expectation that the City would manage its Capital Plan and maintain debt forecasts that do not vary substantially from current forecasts.

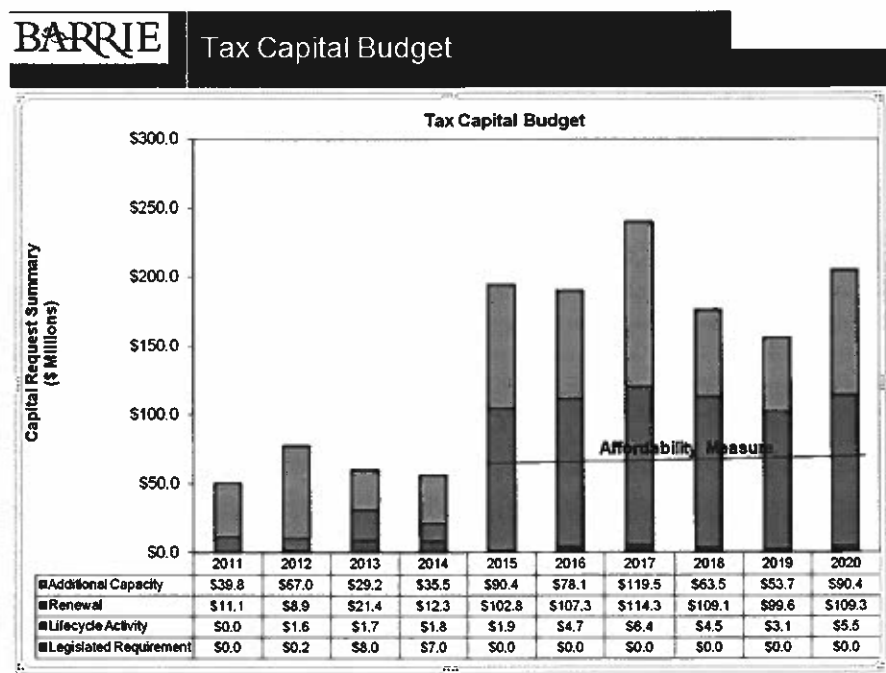
While it is difficult to quantify the impact of a downgraded credit rating it is estimated that the cost of borrowing may increase between 0.4% and 0.7%. The estimated impact on the net tax levy would be between \$22M and \$39M over the next 10 years.

The City's debt capacity currently peaks at 22.5% in 2020. Provincial guidelines require that annual debt payments not exceed 25% of a municipalities own source revenue, however, in order to protect the City's credit rating, it is recommended that the annual debt payments be limited to 20% of the City's own source revenues. This means that the debt forecasts for 2018 – 2020 would need to be revised as the current plan would result in the proposed 20% limit being exceeded.

Introduction of Affordability Thresholds to Capital Planning Process

43. The proposed strategies identified above focus on building reserves and reducing the City's reliance on debt, however, these strategies need to be applied in conjunction with strategies to support the development of affordable capital plans.
44. The improvements made to the corporation's business planning process have been critical for staff to develop insights about the corporation's financial condition and recognize a number of issues that need to be managed. Thanks to the policy guidance provided by the Financial Policies Framework and the forecasts provided by the LRFP, staff can also estimate the time available before risks become realized. For example, as previous reports have discussed and this report illustrates, the corporation will have depleted its Tax Capital Reserve by 2014. This means that beyond 2014 the capital plan will have to be scaled back, more debt financing will be required, and/or alternate forms of service delivery need to be explored to provide funds for projects that would have otherwise been funded by the Tax Capital Reserve. As the analysis in this report shows, the corporation also risks increasing the size of its "infrastructure deficit" when it expends funds on new capital assets before it addresses all of the renewal needs that must be addressed to keep existing assets in a state of good repair.

45. These insights suggest it is necessary to change the corporation's approach to long range financial and capital planning. Currently, and appropriately, capital plans reflect guidance from master plans and asset management data and show the cost of all known service needs for the next ten years. When it comes to building a financing plan, however, affordability constraints limit our ability to deliver all of the projects in the capital forecast. Therefore, staff propose that a long range financial plan be developed that establishes affordability thresholds for capital spending based on reserve levels and debt capacity availability and in accordance with the Financial Policies Framework.
46. These affordability thresholds would be used to support the capital planning process. Specifically, staff recommend the first four years of a 10-year capital plan reflect the affordability thresholds. The remaining six years of the capital plan, however, would still reflect all known additional capacity and renewal needs based of expected useful life of the City's assets and master plans and be used as the starting point for the prioritization process each year.
47. The graph below provides an indication of how the affordability threshold would be applied. This is based on the average spending on the current four year plan but would need to be refined to reflect the City's financial policy framework principles and targets and the debt capacity limits.



48. Each year, the fourth year of the four year plan would be prioritized using the optimized decision making framework already in place and the most updated asset management information available at that time. For instance, included in 2015 may be assets that are scheduled for replacement based on their age, however, it may be that they are still performing at acceptable levels and therefore replacement could be deferred to future years.
49. Staff believe this is a reasonable and prudent approach for managing limited financial resources. It also helps manage expectations about the timing and level of anticipated service enhancements throughout the 10-year forecast period.

50. **Other Strategies Considered But Not Recommended**

- a) **Liquidation of the \$20 million promissory note from PowerStream:** The promissory note is currently earning interest at 5.58%. Based on Infrastructure Ontario's current lending rates, the cost of borrowing is interest of 3.38% for a ten year term and 4.12% for a twenty year term, therefore the option to liquidate the promissory note is not recommended at this time. Staff will continue to monitor interest rates and report back to Council if the relationship between investment earning and cost of borrowing changes.
- b) **Use of a Capital Levy:** Several municipalities were contacted to identify the extent to which separately identified capital levies were being used. Generally speaking, most municipalities included a contribution to reserves from their operating budgets but relatively few were separately identifying the levy on the tax bills. Rather than utilize a capital levy it is recommended that a communication plan be developed that clearly identifies the portion of the property taxes that support asset renewal activities and the importance of doing so.

Funding Strategy Revisions

Green Energy Project

51. On December 14, 2009, City Council adopted motion 09-G-526 authorizing the City's participation in the PowerStream Green Energy Project ("PowerStream Solar"). At that time, it was anticipated that Barrie's funding commitment of \$12.3 million would be funded from the Tax Capital Reserve.
52. PowerStream Solar is supported by an agreement between PowerStream's shareholders. Therefore, it is recommended that the funding strategy be revised to have BHHL re-invest the PowerStream dividends into this project along with the proceeds from the sale of the water heater business that is anticipated later this year. Any discrepancies between the dividends and the timing of the funding requirements for the project would be addressed by establishing a short term loan agreement between the City of Barrie and Barrie Hydro Holdings.
53. Current projections indicate that the full investment of \$12.3M will be required by the end of 2013 and that the dividends relating to PowerStream Solar will begin in 2014. Barrie Hydro Holdings has already contributed \$886,800 to the Project. Based on projected PowerStream dividends in the amount of \$5,647,750 for 2012 and 2013 combined with the anticipated pre-tax proceeds from the sale of the water heater business of approximately \$830,000 it is anticipated that the total loan requirement would not exceed \$5M. Current projections indicate that any loans established could be fully paid by the end of 2015.
54. Once Barrie Hydro Holding's funding commitment is fulfilled, dividends declared would first be applied to any loan amounts outstanding and then be allocated to the Tax Capital Reserve.

Royal Victoria Hospital

55. In 2009, the strategy developed for funding the RVH grant was to allocate the PowerStream dividends to the RVH Reserve with the objective of meeting the full commitment by 2012. The total commitment to RVH is \$52.5M. Considering payments made to date of \$5.3M and the balance in the reserve is \$42M, an additional \$5.2M is required. Given that the re-investment of the hydro dividends into a hydro related project is a more logical fit, it is recommended that the remaining funding commitment of \$5.2M be funded from the Tax Capital Reserve.

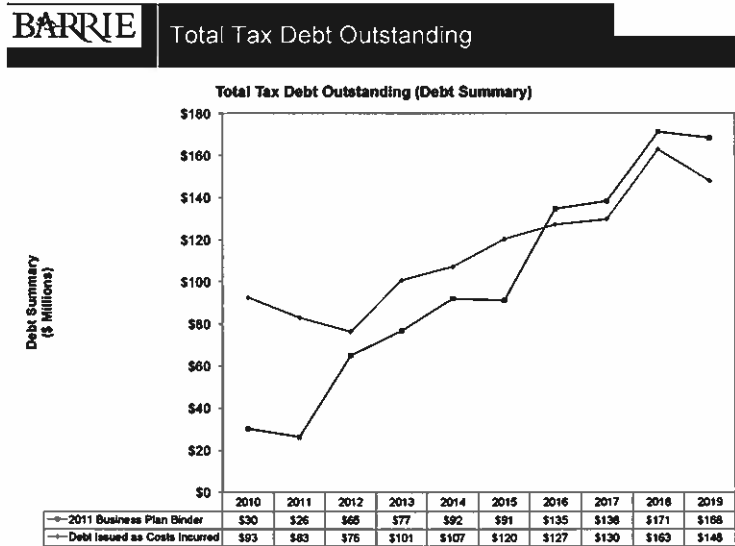
Financial Policy Framework Update

56. Proposed revisions to the City's Financial Policy Framework Update have been provided in Appendix A. The objective of the proposed changes are to improve the City's financial condition by building reserves, protecting the City's credit rating by limiting the level of new debt and increasing non-tax revenues. The revisions will also improve the degree of guidance provided when making financial decisions. The highlights and a brief description of the proposed changes are identified below:
- a) **Asset Management:** It is recommended that this policy be repealed as a new Corporate Asset Management Policy is being developed by the Corporate Asset Management Department
 - b) **Growth and Development:** This policy will be revised once the intensification and annexation studies are complete.
 - c) **Debt:** Additional guiding principles have been established to clarify the circumstances under which debt should be issued and to formalize the City's approach of ensuring that 50% of the annual debt charges should be included in the current operating budget in order to smooth tax rate/user rate increases. The policy has also been updated to reflect a revised debt capacity limit which limits the annual debt charges to 20% of the City's own source revenues.
 - d) **Investments:** Changes to this policy have been deferred until 2012 so that they can be reviewed in conjunction with a broader investment strategy development initiative.
 - e) **Operating Surplus/Deficit:** Proposed changes are to clarify the use of the Tax Rate Stabilization Reserve and to establish that any surplus amounts not required to meet the Tax Rate Stabilization reserve target will be allocated to the Tax Capital Reserve.
 - f) **Budgeting:** Proposed changes are to formalize and reflect current practices.
 - g) **Revenue – User fees and service charges:** Proposed changes are intended to clarify the City's intent to set fees at full cost recovery levels and to incorporate an asset renewal replacement component to fees where appropriate to assist in building capital reserves.
 - h) **Revenues – Property Taxation:** Proposed changes to the property taxation policy are primarily housekeeping related in order to incorporate the affordability targets established in 2009 and to utilize the Long Range Financial Plan as the basis for annual tax increases as it is a more reasonable target than the Consumer Price Index or Construction Price Index given the unique nature of the City's expenditures.
 - i) **Revenues – Non-recurring revenues:** Proposed changes to this policy are intended to reflect the importance of evaluating the longer term financial implications of receiving and utilizing grants from senior levels of government.
 - j) **Financial Position:** No changes are being proposed at this time.
 - k) **Reserve/Reserve Fund Management:** This policy has been updated to reflect the recommendation to phase in increased contributions to the Tax Capital Reserve with the objective of reaching a contribution level equivalent to amortization within twelve years and to increase contributions to reserves in an amount equivalent to the annual amortization for all new assets when they come into service. By using this approach, targets relating to various triggers for increased contributions to the tax capital reserve

can be removed. The recommendation to set the allocation of surpluses to tax and user rate stabilization reserves and capital reserves to 30% and 70% respectively.

Options for Reducing Tax Rate Supported Debt

- 57. As part of the 2011 Business Plan deliberations, staff were directed to investigate options that would reduce tax rate supported debt by as much as 50% from 2012 - 2014.
- 58. For context, the debt projections that have been provided in annual business plans have been based on when debt is anticipated to be placed which was typically a year following the completion of the project. The capital planning process, which drives the long range financial plan, captures debt using a spending plan approach. From this point forward, debt forecasts will be expressed based on the spending plan approach for consistency and to more accurately reflect the debt commitment.
- 59. The following graph illustrates the impact on previously reported debt forecasts. At the outset, debt levels appear higher but eventually line up after three to four years which generally reflects the length of time to complete a significant capital project.



- 60. For this exercise, the starting point for tax rate supported debt reduction is based on the 2012-2014 debt forecasts presented in the 2011 Business plan of \$89M therefore, a reduction in 50% of debt would be equivalent to \$44M.
- 61. In accordance with the Municipal Act, 2001 and related regulations, the City's debt capacity is recalculated each time Council approves a motion to fund a project by debt. The current debt capacity is 62% and includes projects listed in Appendix B. The debt capacity does not include forecasted projects that have been included in the Capital Plan unless Council has pre-approved the use of debt for a particular project.
- 62. The largest debt financed projects in the 2011 – 2020 Capital Plan with the greatest degree of flexibility for deferral are the Transit Garage, Police Headquarters and Station works and the Allandale Station. Combined, these projects represent approximately \$34.8 million or 40% of the forecasted debt over the next three years.

Project	Level of Debt Financing	% of total debt 2012-2014	Total Forecasted Debt for the Project
Transit Garage	\$10.94M	12.4%	\$11.16M
Police Headquarters and Station Works (Note 1)	\$15.32M	17.4%	\$24.47M
Allandale Station	\$ 8.6M	10%	\$8.6M
Total	\$34.8M	40%	\$44.23M

Note 1: The debt financing identified for the Police Headquarters and Station Works represents what is currently included in the 2011-2020 Capital Plan for renovations to 29 Sperling, 60 Bell Farm Rd and 79 Bell Farm Rd. It does not reflect and discussions that have occurred since the approval of the 2011 Business Plan..

63. Other projects such as transportation related works on Essa Road, Harvie Road and in the Duckworth and Cundles area have a much lower degree of flexibility for deferral largely as a result of being driven by development. The timing of the related developments could however, change and would result in an opportunity for deferring the City's capital works that are necessary for the developments to proceed. The Landfill Re-engineering and the construction of Fire Station 5 are also viewed as having a much lower degree of flexibility for deferral.
64. To achieve a 50% reduction in forecasted debt over the next three years, projects that are not currently being funded through the issuance of debt would need to be deferred which would allow the Tax Capital Reserve funding from those projects to be re-allocated to debt funded projects. This would result in the deferral of additional capacity driven projects that are intended to address current service deficiencies that exist. Projects such as the expansion of Mapleview Drive and Ferndale Drive are intended to address transportation service deficiencies in their respective areas. Deferring either or both of these would result in significant amounts of Tax Capital Reserve funding becoming available to re-allocate to address debt funded projects. As previously noted however, this would result in deficiencies in the City's transportation service continuing and perhaps worsening. It is not recommended to defer proposed works related to the renewal of existing assets given the rate of deterioration that is currently being experienced.
65. Use of the Provincial and Federal Gas Tax to replace debt was also considered. The Provincial Gas Tax is only to be utilized towards transit is currently being optimized in alignment with funding program guidelines to increase ridership. The Federal Gas Tax is currently being used to fund road renewal activities, address the in excess of \$100 million storm drainage issues as well as the Landfill Re-Engineering project that is otherwise funded through the issuance of debt. The strategy for allocating federal gas tax has been to apply it to lifecycle activities first and then capital projects that can easily meet the program criteria. Any amounts remaining have already been used to reduce the debt on the Landfill Re-Engineering project, therefore, it is felt that there is limited opportunity for reallocation of these funds.

ENVIRONMENTAL MATTERS

66. There are no environmental matters related to the recommendation.

ALTERNATIVES

67. There are four alternatives available for consideration by General Committee:

Alternative #1

General Committee could maintain the existing Financial Policies Framework.

The current Financial Policies Framework represents a best practice in municipal financial planning. Collectively, however, the policy limits it provides are not sustainable based on the corporation's current services, service levels, known asset management and renewal requirements and growth related infrastructure needs. The recommendations in this report reflect initial steps to improve the City's financial condition.

Alternative #2

General Committee could maintain the existing funding strategies for the PowerStream Solar and Royal Victoria Hospital projects.

Although this alternative is available, it is not recommended. The re-investment of hydro dividends into a hydro related project is a logical financing plan. The Tax Capital Reserve is an appropriate funding source for funding the City's commitment to RVH that would not be addressed by the funds available in the RVH reserve.

Alternative #3

General Committee could alter the proposed recommendation by adopting a longer phase in period to increase contributions to the Tax Capital Reserve to the point where they are equivalent to annual amortization.

The proposed timeframe represents a reasonable balance between funding requirements and affordability. As circumstances evolve or Council's views on service priorities change, the duration of the phase-in period could change to incorporate new information or priorities.

Alternative #4

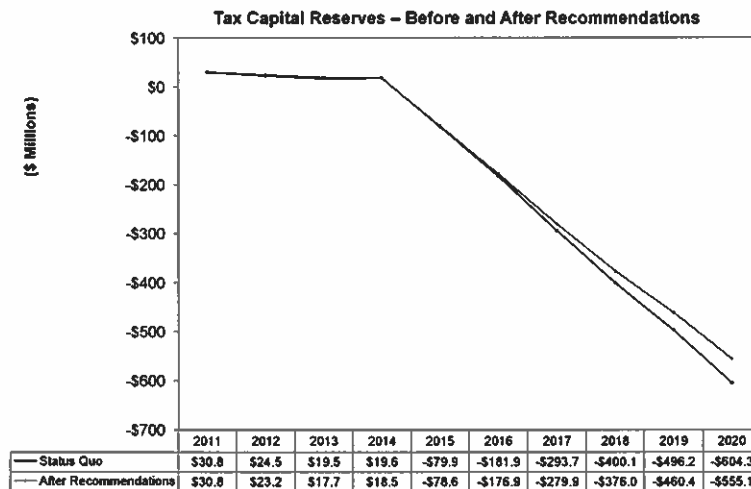
General committee could maintain the existing debt capacity limit of 25% established by the Province.

Reducing the debt capacity limit to 20% is an effective strategy to reduce the City's reliance on debt, thereby taking steps to improve its Sustainability and Flexibility. This strategy is also intended to protect the City's current credit rating of AA stable..

FINANCIAL

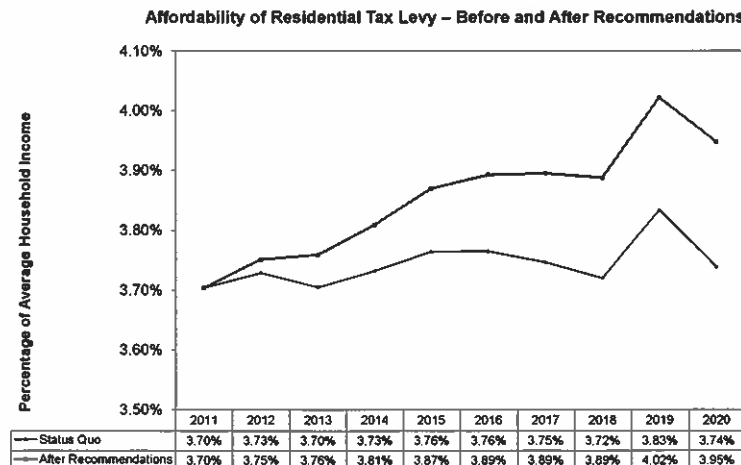
68. The strategies recommended will result in a net increase to the Tax Capital Reserve by 2020 of \$50M. The strategies relating to increasing the contribution to reserves result in an increase of \$65M over the ten years, however, this is offset by the recommendation to re-invest the PowerStream dividends into the PowerStream Solar project and to fund the remaining RVH grant from the Tax Capital Reserve.

BARRIE Tax Capital Reserves



69. The Financial Policies Framework includes a property tax affordability threshold of 4%. This ratio calculates the average residential property taxes as a percentage of household income. The recommendations were specifically designed to ensure that the affordability ratio remained within the established threshold as identified in the graph below.

BARRIE Affordability of Residential Tax Levy



70. The strategy to establish a debt capacity limit will result in the current projected debt capacity limit of 22.5% to be reduced to 20%. This approach will also provide guidance for future decisions relating to debt that will help to preserve or potentially improve the City's AA stable credit rating.
71. The revised funding strategies proposed will also achieve a better alignment between two significant projects in which the City of Barrie is an investor. Specifically, dividends from PowerStream would be directed to fund the City's investment in PowerStream Solar and the Tax Capital Reserve would be used to fund the remaining portion of the City's commitment to the RVH expansion.

LINKAGE TO 2010-2014 COUNCIL STRATEGIC PLAN

72. The recommendation(s) included in this Staff Report support the goal of strengthening the City's financial condition by establishing a reasonable and affordable set of strategies and policies that represent the initial step to ensure that the needs of the community can be met now and in the future.

APPENDIX "A"

Revisions to Financial Policies Framework

Financial Policies Framework

Key Principles

The goal of the framework is to place the City's finances on a sound and sustainable footing so that financial, service and infrastructure standards can be met without resorting to unplanned or excessive increases in rates or disruptive cuts in services. The following key principles apply to all decisions:

Principle	Meaning
Respect for the taxpayer	<ul style="list-style-type: none"> ▪ Constant search for excellence and value with due regard to economy, efficiency and effectiveness while striving to attain NQI Level 4 certification ▪ Programs subject to periodic internal and external review ▪ A City that lives within its means with predictable tax levels. ▪ Fair and equitable treatment by other orders of government
Maintain and enhance the City's financial condition	<ul style="list-style-type: none"> ▪ Sufficient revenues are raised to fund operations, while maintaining appropriate levels of debt and equity ▪ Liabilities arising out of current operations fully funded by current taxpayers and user ratepayers
Maintain assets	<ul style="list-style-type: none"> ▪ Physical assets are maintained/replaced using models of best economy
Look ahead and deal with contingencies	<ul style="list-style-type: none"> ▪ Financial decisions based on a multi-year forecast ▪ Equity (reserves) provides flexibility to respond to economic cycles and manage financial risk ▪ Prudence and flexibility built into the budget ▪ Deals with financial issues with permanent solutions
Borrow only for substantial long-term assets at affordable levels	<ul style="list-style-type: none"> ▪ Debt used for specified capital programs at levels affordable to taxpayers and user ratepayers ▪ Credit ratings sustained and/or improved
Diversify revenues	<ul style="list-style-type: none"> ▪ "User pay" is an operating principle considered for all program areas; recovery rates are research-based ▪ Identify new funding sources/financing methods that maintain or enhance the City's financial sustainability
Cautious investor	<ul style="list-style-type: none"> ▪ Invests cash balances only in high-grade securities and to the extent that does not result in short term borrowing or bank overdraft situations
Short and long term financial plans respect the financial policies framework	<ul style="list-style-type: none"> ▪ Budget directions and the long-range financial plan respect the financial policies framework ▪ Report on financial condition and performance relative to the framework on an annual basis
Pursue innovation	<ul style="list-style-type: none"> ▪ Continuously find efficiency and quality improvements in the way we manage and deliver services

Financial Elements

The financial elements are:

- Growth and development
- Strategic initiatives and enhancements
- Debt Management
- Investments
- Operating surplus/deficit
- Budgeting
- Revenues - user fees and service charges
- Revenues - property taxation
- Revenues – non recurring revenues
- Program review
- Financial position
- Reserve/Reserve Fund Management
- Capital Project Financial Control Policy

The financial policies framework is a high-level document appropriate for Council and residents who are interested in financial matters. Staff will have more detailed and prescriptive policies (i.e. debt and capital leasing policy and investment policy) and targets for internal management purposes. In some instances Council will approve these detailed statements of policy.

Growth and Development

Growth includes capital projects and operating costs related to the economic maturity and expansion within the City. The Development Charges Act permits the City to fund the growth portion of new infrastructure required to support new development from a charge levied at the building permit stage. This infrastructure must be maintained by the City, resulting in the need for an increased operating budget. While new residents bring in more taxation, they also participate in City programs, resulting in increased costs to maintain the same standard of service.

Guiding Principles:

- Asset acquisitions and construction are subject to a cost and benefit analysis that considers initial and lifecycle expenditures and alternative financing arrangements
- The Development Charge (DC) Bylaw will be used to recover the costs of growth to the full extent permitted by legislation (thereby minimizing the financial burden of the costs of growth on existing residents)
-
- Growth projects are undertaken as DC's are collected, consistent with the DC Background Study. Certain projects can proceed in advance of collection of DC's subject to the availability of funds/financing
- Other methods will be explored with developers/others to fund growth related projects that are not eligible for development charges
- Official Plan discussion about options to expand the urban boundary should include the projected impact on the operating budget and capital budget as well as an estimate of property tax revenue.

Targets

- DC's to be applied to the full extent permitted by legislation
- The cost associated with growth included in the operating budget will be identified and compared to new assessment generated by growth with impacts to existing taxpayers quantified where possible.
- The cost associated with development charge discounts will be identified and reported
- The cost impact of growth will be identified and quantified in the operating budget

Accountability

- Status of Development Charge accounts reported by the Director of Finance annually to Council and the Province
- The cost of growth will be reported as part of the City's Business Plan and Budget

Strategic Initiatives and Enhancements

Strategic Initiatives include capital projects and additional operating requirements that enhance the quality of life in the City, respond to changes in demand for services, enable organizational efficiency, or are required because of senior levels of government regulation. These items are not related to growth nor are they required to maintain existing assets or programs. Council will establish its priorities for strategic initiatives and enhancements at the beginning of its term.

Guiding Principles

- Capital strategic initiatives will be advanced based on their priority as established by Council over a multi-year timeframe
- Dedicated sources of funding, including confirmed funding from other levels of government, to be considered as the first source of financing for strategic initiatives (relative fairness in funding from other levels of government will be sought)
- Council will assess asset management status and the sustainability of City finances when considering strategic initiatives and enhancements
- Identification and analysis of the impact of future operating cost should be completed
- Strategic initiatives and enhancements are highlighted in budget documents

Targets

- Public-private partnership opportunities will be considered and presented to Council.
- No target is set for strategic initiatives and enhancements, other than the general financial limitations.

Accountability

- Strategic initiatives and their sources of funding to be specifically identified in the operating and capital budget

Debt

Debt includes long-term debt and capital lease obligations. As stipulated in the Municipal Act, long-term debt can only be used to finance capital assets. The term of the debt must be equal to or less than the life of the asset subject to limitations imposed under the Municipal Act. The Province limits the total amount of debt that a municipality can issue to 25 per cent of its own-source revenues (all revenue received less Federal and Provincial Grants). The City issues debt that is repaid from a variety of sources including water, wastewater and parking user rate, development charges, provincial/federal gas tax and property taxation and local improvements.

Guiding Principles

- Long-term debt to be used only for the purchase, construction, or replacement of assets excluding vehicles, machinery and equipment with long useful lives that provide a benefit for future taxpayers
- The term of the debt repayment must match or be less than the expected useful life of the asset.
- Debentures should not be issued if internal funds are available at a lower cost i.e. the interest rate on borrowed DC reserves which must be equivalent to the rate earned if the funds were invested, is less than the cost of borrowing
- Long-term debt for replacement and refurbishment of existing capital assets be reduced and ultimately eliminated
- Short-term borrowing (e.g. line of credit, bank overdraft) to be used where feasible if cash flow is forthcoming or as an interim measure prior to issuance of long-term debt
- The overall measure of the affordability of debt is the burden of principal and interest relative to city's own source revenue (i.e. not including government grants)
- The total amount of debt issued must not compromise the City's credit rating
- Debt maturities should be staggered when possible, so that interest rates are contracted at various times
- Before borrowing for growth related tax rate supported capital projects all developer related advanced financing arrangements that are in accordance with the Development Charges legislation must be exhausted
- Where debt is issued on behalf of development charges, the repayments to be recovered from future development charge revenues, including interest, be tracked separately

Targets

- More than 2/3 of all outstanding tax rate supported debt to be retired within 10 years in any single reporting period
- Average debt retirement period for all of the City's outstanding debt not to exceed 12 years in any single reporting period.
- Principal and interest must not exceed 20% of own source revenues
- Principal and interest for tax rate supported debt not exceed 10% of the City's net levy requirement.
- When new debt is issued, 50% of the annual debt charges must be included in the current year budget and any portion not required for actual debt charges be established as a budgeted transfer to the capital reserve for that year.
- Principal and interest for water rate supported debt not to exceed 25% of the City's water revenues by 2018
- Principal and interest for wastewater rate supported debt not to exceed 25% of the City's wastewater revenues by 2014

- Short-term borrowing not be used for longer than three years for any given construction project or asset acquisition.
- All debt charges for DC borrowings as a percentage of own source revenues will be less than 1%
- The total debt charges in each year is not to exceed 10% of the DC reserve fund balance.
- The maximum term of borrowing for growth related tax rate supported projects will not exceed 10 years

Accountability

- Council authorizes new debt financing with the annual capital budget
- Director of Finance determines short-term borrowing needs and reports to Council annually on any balance and their use.
- The Director of Finance through the staff report process will seek Council approval on new debt prior to works being formally undertaken and will advise Council of issuance of debt when it is being undertaken.
- The Director of Finance will include in the Annual Report a review of debt against the targets.
- An annual report describing adherence to the City's financial policies and the implications of any policy exceptions will be produced and submitted to Council
- The Director of Finance will provide the multi-year cash flows for DC Reserves Funds as part of the Capital Budget portion of the annual Business Plan.

Investments

Municipalities are faced with restrictions on the type and duration of investments it may make of any funds not immediately required to meet current operating or capital needs. These funds may include any reserve funds, proceeds from debentures or other monies not immediately required for the ongoing operations of the City but any earnings must be credited to each fund in proportion to the amount invested from it.

Guiding Principles

- Investments must only be made from surplus cash not immediately required to satisfy operational or capital needs.
- Investments cannot be made such that the City is placed in an overdraft or borrowing situation, either short-term or long-term.
- Sufficient cash flow analysis and projection must be undertaken to ensure that maturity dates of investments meet current and future obligations as they arise
- Investment will be primarily in highly liquid marketable securities with high credit ratings
- Must not be limited to any one specific issuer or sector to avoid over concentration and reduce risk

Targets

- Average rate of return on invested funds to exceed bank account rate of interest by a minimum 1.0%
- Average daily bank balance of uncommitted funds not to exceed \$1M

Accountability

- The Director of Finance will include in the Annual Report a schedule of investments at year- end and the rate of return for investments maturing during the year.

Operating Surplus/Deficit

Ontario municipalities may not budget an operating deficit. Any operating surplus in any given year is allocated to reserves to ensure target levels are achieved with any amounts above the defined maximum subject to Council direction for disposition. Operating deficits, if not funded from other sources within the year, become the first item of taxation in the subsequent year. Staff report quarterly to Council on the status of spending against budget and provide forecasts at the mid-point and third quarter, identifying any actions that may be required to eliminate a potential deficit.

Guiding Principles

- An operating deficit is funded by the Tax Rate Stabilization Reserve,
- Surpluses are allocated to reserves in accordance with the Reserve/Reserve Fund Management Policy
- Notwithstanding the Reserve/Reserve Fund Management Policy, surpluses not required to meet the rate stabilization reserve balance target will be allocated to the Capital Reserves.
- Department staff to respect and manage a global budget (higher than expected spending in one area is first offset by savings in another)

Targets

- Forecast of year end results provided to Council with the second and third quarterly reports

Accountability

- The disposition of a prior year surplus or deficit is reported annually to Council by the Director of Finance
- Director of Finance to issue quarterly reports on finances with comparisons of actual year to budget and previous year

Budgeting

Council is required to approve a balanced budget each calendar year that must be finalized and approved before final property tax bills can be issued. Included in the operating budget is a forecast for the two following budget years. Assumptions and their associated risks are disclosed in the budget. Council also approves a capital budget that identifies the projects that will be undertaken during the year, how they will be funded, a forecast of projects that will proceed within the term of Council and a 10-year outlook. Capital & operating spending against budget is reported quarterly with adjustments identified throughout the year.

Guiding Principles

- The budget utilizes an outcome based budgeting format and reflects the City's business plan
- Financing plans for the City's budget reflect the City's long term financial plan and will not produce material variances to "base case" targets.
- The long term financial plan will take into account long term growth related impacts, new and capital infrastructure maintenance requirements and the operating costs relating to additional capital infrastructure.
- Respect for the taxpayer through a commitment to continuous improvement and a high regard for economy, efficiency and effectiveness in City programs and in conjunction with NQI certification goals.
- Budget guidelines will incorporate relevant economic factors and be specific enough to reflect the financial impact of continuing existing services ie impacts arising from new labour agreements, anticipated increases in commodity pricing
- Recurring expenditures are to be financed from recurring sources of revenue
- One-time, non-recurring expenditures can be financed, if necessary, from Tax Rate Stabilization Reserves
- The operating budget is to be segmented by:
 - Water, Wastewater and Parking Rate supported;
 - Tax rate supported
- Budget expenditures that may continue to be incurred in advance of annual budget approval will be identified and reported as part of the annual Procurement Activity Report
- For each budget, Council will consider a range of program eliminations, reductions, efficiencies and enhancements
- If program costs must be constrained, then costs savings will be identified with a focus on the highest savings and the least impact to service levels. All vacant position should undergo an evaluation to determine if the position can be permanently eliminated through internal restructuring
- The budget will be presented on a functional basis with operating and capital components shown separately
- Any contributions required from the tax operating budget to fund capital requirements will be budgeted as a transfer to the Tax Capital Reserve
- Input from all stakeholders, including the public should be encouraged during the budget preparation cycle
- Key service usage and performance statistics will be maintained and benchmarked where possible to highlight specific service areas where an increased level of funding and support may be required to maintain acceptable service levels and to identify opportunities for improvement.

Targets

- Taxes levied for municipal purposes, based on an average dwelling value, not to exceed 4% of average household income.
- Average water and wastewater costs as a percentage of household income not to exceed 2.5%
- Annual operating budgets reflect plans that produce results in accordance with the “base case” Long Range Financial Plan targets of no more than plus or minus ten per cent.
- Financial condition measures of flexibility, vulnerability and sustainability into the Long Range Financial Plan will be used to ensure the long term financial health and sustainability of the City as recommended by the Public Sector Accounting Board (PSAB)
- Quantify growth related revenues and expenditures and identify funding shortfalls were possible;

Accountability

- The Director of Finance to comment on spending relative to budget and the prior year in the quarterly reports and adherence to the Long Range Financial Plan
- The Director of Finance to comment on the progress of all authorized capital projects including an assessment of approximate completion.
- Budget documents and the Annual Report to reveal extent of Council control over various categories of expenses
- The Annual Report will include an analysis of budget to actual and prior year (operating and capital) and explanations for the differences
- The Director of Finance will provide regular measurement of the City's actual financial performance against the current Long Range Financial Plan to ensure that corrective action can be initiated on a timely basis when material variance to the longer term plan are identified.

Revenues – User fees and service charges

Funding of municipal services that benefit defined users by collecting fees and service charges that are at or approaching full cost recovery.

Guiding Principles

- User fees should be used as a full cost recovery mechanism for services that are provided for the benefit of individuals rather than for the community as a whole and particularly where the use of the municipal service is discretionary to the user.
- Objective criteria is used to determine where user fees apply, and for the range of fees to be applied
- Recovery rates for services consider:
 - Operating and capital costs including an allocation of corporate overhead;
 - Incorporation of an asset renewal or replacement charge
 - Extent of private, commercial and community benefit (note: community benefit includes environmental considerations)
 - Use of service by non residents (not including tourists);
 - Rates for commercially available services
 - Impact of changing user fees on demand
- Service fees implemented where individual beneficiaries of the service can be identified
- Fees subject to periodic study and review
- Programs to mitigate the impact of fees on specific users should be adjusted in accordance with fees
- Changes in user fees to be transparent and to occur in conjunction with annual operating budget process and Council deliberations.

Targets

- Capital and operating costs for water, wastewater and parking operations to be 100 per cent recovered by fees (includes associated development charges)
- All other services that have user fees will recover a percentage of cost that reflects Council's decisions about an appropriate level of cost recovery after considering the extent to which:
 - A service provides a private or commercial benefit,
 - A service is routinely supplied to non residents, or
 - A service provides a community or common good
- User fees and service charges will be updated annually and reported as part of the City's Business Plan and Budget

Accountability

- Report on user fees and recoveries to be published on an annual basis by the Director of Finance

Revenues – Property taxation

Property taxes are calculated utilizing assessment of property values provided by the Municipal Property Assessment Corporation (MPAC) on an annual basis multiplied by a rate determined for each property class in effect (e.g. residential, commercial, industrial) sufficient to raise required revenues to support planned capital and operating expenditures net of all other revenue sources including payments made in lieu of taxes by senior governments and their agencies.

Guiding Principles:

- Tax levels adequate to fund/protect the City's:
 - Financial condition;
 - Investment in infrastructure;
 - On-going expenditures (including those of local Boards) ; and
 - Liabilities incurred
- Affordability is assessed by:
 - the overall level of revenue required to finance the City's needs relative to other comparable Ontario cities
 - the typical cost of property taxes as a percentage of household income
- To the extent possible, the burden of property taxes is to be reduced by diversifying revenue sources, such as user fees
- Adequate consideration given to tax relief programs for disabled and senior citizens to be included were feasible and in accordance with provincial legislation
- Capping protection for properties not being taxed at full current value assessment be funded from properties in the same tax class that would otherwise have a tax decrease by clawing back sufficient amounts such that the impact to residential taxpayer is eliminated or minimized (i.e. industrial pays for industrial, commercial pays for commercial, multi-residential pays for multi-residential).

Targets

- Council will establish directions for staff at the beginning of the budget development process that generally describe, among other details, the level of taxation it deems to be acceptable
- Tax increases for all municipal services will be based requirements to maintain existing levels of services and proposed service level changes and on long range financial planning strategies.
- Boards and agencies will follow the City's budget directions, subject to further information from them that supports a different increase

Accountability

- Municipal tax bills will provide details about the components of city spending and changes in tax levels from previous periods
- Special levies will be identified separately
- The Director of Finance will comment in both the City's Business Plan and Budget and in the annual report on the City's financial condition

Revenues – Non-recurring revenues

From time to time, senior governments may provide funding to municipalities that is for a specified purpose (like an infrastructure project) or that is available only for a specified period (usually one year). Similarly, a municipality may receive a financial gain when it sells an asset or enjoy a "windfall" as a result of some unique transactions or events. The nature of these nonrecurring revenues can vary significantly, but overall a municipality has little control over the amount, timing or conditions associated with receiving them. Careful attention needs to be paid to ensure ongoing government operations don't rely on these types of revenues for support, or shortfalls will inevitably occur that put upward pressure on property taxes and/or user fees.

Guiding Principles:

- Non-recurring revenues will only be used for non-recurring expenditures or to replenish any reserve or reserve fund. Nonrecurring expenditures include studies, investment in tangible capital assets, land and other one-time expenditures.
- The City will not budget for non-recurring revenues
- The availability of funding from senior governments must be assessed in the context of the long-term financial implications associated with receiving it

Reimbursements, grants or other similar payment for the purchase/construction of tangible capital assets will first be used to reduce the amount of debt financing required or, if that is not possible, be placed in a reserve to begin

Targets

- Non-recurring revenues will only be used to fund the purchase or construction of tangible capital assets, subject to an analysis of the ongoing cost implications of doing so that indicates the assets can be properly maintained and operated
- Proceeds from the sale of assets will be placed in an appropriate reserve

Accountability

- The Director of Finance will report the level and source of non-recurring revenues received each year in the City's Annual Report

Program & services review

All programs and services are subject to periodic internal and external review. Staff report to Council on performance against pre-determined standards on a quarterly basis.

Guiding Principles

- Each municipal department will prepare annual business plans prior to developing their budget that clearly describe the relationship between resources, services and service levels
- Executive Management Team will appear before General Committee once every year at budget approval stage to:
 - Review established service-level standards
 - Review department performance with respect to established outcome-based performance measures
- All departments are subject to periodic external program review
- Investments in government business enterprises are subject to periodic review to consider public policy mandate and performance
- Barrie is committed to outcome based performance management

Targets

- Every department will produce data that facilitates a consistent understanding among Council, staff and interested members of the public about the use of resources included in the base operating budget
- Unit cost data will be developed to assess the continued sufficiency and appropriateness of base budget levels, identify productivity improvements and cost saving opportunities
- Managers' individual performance appraisals will include an assessment of their ability to use data for identifying, managing and reporting information about the resources under their control

Accountability

- Chief Administrative Officer to issue quarterly performance report
- All Directors to produce Performance Plans in the City's annual Business Plan and Budget that are supported by departmental workplans and follow corporate standards

Fund Balances and Municipal Position

The municipal position on the City's consolidated statement of financial position—its balance sheet—represents the difference between recorded assets and liabilities. Like all municipalities in Canada, it does not currently include physical assets (buildings, fleet, roads, wastewater and other infrastructure). The Public Sector Accounting Board has changed the reporting requirements so that these physical assets must be recorded in the City's financial statements commencing in 2009. Once implemented the municipal position will be more meaningful, and will indicate the extent to which the net book value of the City's total assets is financed by debt versus annual taxpayer contributions.

The municipal position is currently being expressed as the difference between the city's fund balances (including reserves, reserve funds and equity in business enterprises) and amounts that will be recovered from future taxation (long term debt and liabilities related to unfunded employee benefits). This relationship means that sustaining reserve and reserve fund balances serves to protect the City's municipal position.

Given the substantial change in municipal accounting, it is appropriate to wait until the 2010 budget cycle to establish guidelines and targets for the newly defined net municipal financial position. However, in the interim, guidelines are nonetheless relevant to sustaining the City's overall financial condition.

Guiding Principles

- The City will sustain an appropriate level of municipal equity to manage risk and to generally sustain the finances of the corporation. This will be accomplished by maintaining the level of fund balances on the City's financial statements at or above current levels until 2010.
- A policy will be developed thereafter that ensures the net municipal position of the City is sustained or enhanced. A target range will then be established for the municipal position relative to the City's long-term debt and assets

Targets

- Fund balances on the City's statement of financial position to be sustained in real terms for 2008 and 2009 (i.e. current balance plus the consumer price index)
- A policy establishing a level or range for net municipal position will be prepared and approved for 2010 after physical assets are recorded on the City's statement of financial position commencing with 2009 reported results.

Accountability

The Director of Finance will report on the maintenance of fund balances for 2008 as part of the Annual Business Plan and Budget and as part of the financial statements. Recommendations for a new policy on municipal position will be produced no later than 2010.

Reserve/Reserve Fund Management

Reserves and reserves funds are a critical component of the City's long range financial planning. They are used to provide tax rate and user rate stability by smoothing the effect of variable or unanticipated expenditures or revenues, to provide funding for one time or short term requirements, to provide for future replacement or acquisition of capital assets and to provide the flexibility to manage debt within the City's Debt Policy.

A reserve is established by Council for a specific purpose but the funds do not relate to any particular asset and there is no requirement for the reserves to earn interest. Reserves are created either through a planned contribution established in the budget process or through the transfer of unspent funds at the end of a year. Any transfer of unspent funds at year end must be authorized by Council. A reserve fund is similar to a reserve except that the reserve fund assets are segregated and restricted to meet the purpose of the reserve fund. There are two types of reserve funds; obligatory and discretionary reserve funds. Obligatory reserve funds must be created whenever a statute requires revenue received for special purposes be segregated from the general revenues of the municipality i.e. Development Charges. Discretionary reserve funds are established through a by-law of Council for a specific purpose. Investment income generated by reserve funds must be accumulated in the reserve fund and accounted for as part of it.

Guiding Principles

- The Capital Reserves are to be used for the future replacement or acquisition of capital assets
- The annual contribution to the Capital Reserves should be at least equivalent to the annual amortization charge of capital assets
- The Rate Stabilization Reserves are to be utilized to provide rate stability by smoothing the effect of variable or unanticipated expenditures or revenues and to provide funding for one time or short term requirements.
- The City determines future capital reserve requirements based on the stock of its tangible capital assets, condition assessment and lifecycle costing
- The tax rate supported Capital Reserves be managed on a consolidated basis for effective management of the capital financing program
- All reserves and reserve funds will be supported by a financial plan identifying contribution sources and projected disbursements required to meet their planned future obligations.

Targets

- As debt charges mature, the annual amount that is no longer required from the operating budget in the year of maturity shall be transferred for that year and subsequent years to the Tax Capital Reserve in order to build a reserve for future major refurbishment, renovation, capital improvement or replacement expenditures.
- Contributions to the Tax Capital Reserve should be phased in over 12 years when it is expected that the contribution is equivalent to the annual amortization charge
- When the construction of new capital infrastructure is authorized, a corresponding contribution to the Tax Capital Reserve equivalent to the annual amortization charge of that asset, should be budgeted concurrently.
- The annual contribution from the operating budget to the Landfill Closure Reserve be increased by 10% until the estimated landfill closure date of 2026.

- Annual tax and user rate supported operating surpluses be allocated by transferring 30% to the Tax Rate Stabilization Reserve and 70% to the Tax Capital Reserve.
- Five per cent of gross operating revenues (excluding transfers to capital, specific reserves, and debt principal repayments) to be maintained as a minimum balance in the Tax Rate Stabilization Reserve to cover potential deficits and to fund one-time non-recurring expenditures
- A range of no more than ten per cent of gross operating revenues (excluding transfers to capital, specific reserves, and debt principal repayments) to be maintained as a minimum balance in the Water Rate Stabilization Reserve to cover potential deficits and to fund one-time non-recurring expenditures
- A range of no more than ten per cent of gross operating revenues (excluding transfers to capital, specific reserves, and debt principal repayments) to be maintained as a minimum balance in the Wastewater Rate Stabilization Reserve to cover potential deficits and to fund one-time non-recurring expenditures

Accountability

- The Director of Finance will report annually on the status of the City's reserves and reserve funds and the future demands associated with each.

Capital Project Financial Control Policy

Council is required to approve a Capital Plan each year which includes the Capital Budget and the Capital Forecast. The Capital Budget includes capital projects approved for expenditure with related funding sources. The Capital Budget may include Capital Projects or Project Phases that extend over multiple years. In these instances a Capital Spending Plan will also be submitted for approval which represents the annual cash flow projection for each Capital Project. The Capital Forecast represents the projection of expenditures and financing sources that are not included in the Capital Budget but are planned over the next nine years. A Capital Project Status Staff Report will be prepared semi annually to report on the status of projects and address any additional funding adjustments required to complete the approved projects. Quarterly financial variance reports will report spending plan variances.

Guiding Principles

- The current, approved Capital Budget includes all of the capital projects eligible for funding.
- Except for Extraordinary Circumstance purchases made in accordance with the provisions of the Purchasing By-law, work that is not part of an approved capital project budget may not proceed without prior approval from Council.
- Holding Accounts will be established to serve as a funding source when a capital project's costs exceed its budget by no more than the lesser of 10% of the capital project's approved budget or \$250,000.
- Funding requirements that exceed the lesser of 10% of the capital project's approved budget or \$250,000 require Council approval.
- The Finance Department has responsibility for managing Holding Accounts. A Holding Account is funded, up to a prescribed limit, via savings from other capital projects.
- Expenditures for a Capital Project may be incurred or committed only up to the limit approved by Council, subject to the materiality threshold described in this policy.
- A Capital Project will be closed if any of the following criteria are met:
 - Project completed at or under budget
 - Project deleted or deferred in order to finance a new project or to fund over-expenditures in other projects and such deletion or deferral has been approved by Council
 - Project completed over budget and a report recommending a funding source for the over-expenditure has been approved by Council
 - There has been no activity for 18 months
 - Prior to the end of the 18-month inactivity period, projected costs exceed the approved budget by more than the materiality threshold
 - Prior to the end of the 18-month inactivity period, but before work commences, there is a substantive change in the nature or scope of the project compared to what was originally approved by Council
- When an incomplete or inactive capital project has been closed it will be classified as a pending project and funding will be returned to source. The decision to proceed with the project will be based on the project's new assumptions and its subsequent ranking using the Integrated Decision Support System.

Targets

- Completion of Capital Project in accordance with the Capital Plan
- Completion of Capital Projects within 10% or \$250,000 of the Capital Project Budget
- Capital Project variances within 10% or \$250,000 be funded from Holding Accounts established by project savings from other Capital Projects.
- Holding accounts and respective target balances will be maintained as follows and reviewed annually:

○ Tax Rate Holding Account	\$3,000,000
○ Water Rate Holding Account	\$1,000,000
○ Wastewater Rate Holding Account	\$1,000,000
○ Parking Rate Holding Account	\$ 100,000

Accountability

- The quarterly variance reports prepared for Council will provide the status of the Capital Spending Plan.
- Staff assigned responsibility for managing capital projects must monitor progress and costs to ensure anticipated over-expenditures are reported to the responsible Department Head as soon as the potential for over-expenditure is identified.
- A semi annual report will be prepared for Council to:
 - Identify Capital Project Status
 - Report on any anticipated over expenditures that either exceed the materiality threshold or for which insufficient funding exists in the appropriate Holding Account with related financing adjustment recommendations
 - Report on the deferral or closure of projects to either finance new projects or to fund over-expenditures in other projects
 - Address substantive changes in the nature or scope of a Capital Project
 - Recommend the closure of capital accounts and recommend the treatment of project savings and to recommend financing plans for over-expenditures exceeding the materiality threshold.

APPENDIX "B"

Projects with Approved Council Motions Included in the Calculation of Projected Debt Capacity

Project Name	Motion	Approved Amount
1 Dunlop St. W (Playhouse Theatre)	07-G-357	850,000
5 Dunlop St. W	08-G-077	100,000
Airport	09-G-310	4,233,400
Allandale Train Station	10-G-175	4,300,000
City Hall Electrical Upgrade	06-G-451	900,000
Collier St. Parking Garage	Issued	10,311,454
Cundles - Livingstone to Duckworth	11-G-014	2,868,000
Downtown Theatre	11-G-036	1,856,000
Duckworth - Cundles to Bernick	11-G-014	1,915,000
Fire Station 1 (Replacement)	09-G-310	4,666,600
GO Transit	Issued	5,415,887
Gowan Street/Go Platform	ENG052-10	3,662,818
Holly Recreation Centre	Issued	17,267,061
Kenneth Bertha Urbanization	Issued	11,290,107
Lakeshore Trunk Sewer Phase I & II	08-G-368	10,000,000
Landfill re-engineering Phase I	08-G-372	352,141
Local Improvements - Sewer	Issued	403,565
Local Improvements - Water	Issued	880,000
Operations Centre SWP	09-G-465	24,300,000
Oro-Medonte Biosolids facility	08-G-218	5,171,292
Pine Drive Ph III	10-G-086	1,520,845
Pine Drive Phase I Urbanization	07-G-588	1,734,000
Pine Drive Phase II Urbanization	08-G-391	345,000
Police - Purchase 35 Sperling Dr.	10-G-351	18,600
Sec 326 Ardagh Rd.	03-G-151	152,374
Sec 326 Ardagh/Crawford/Ferndale	04-G-345	556,000
Sec 326 Big Bay Pt. - Sewer	07-G-344	163,400
Sec 326 Big Bay Pt. - Water	07-G-344	552,257
Sec 326 Gray/Arbour - Water/Sewer	04-G-321	141,194
Sec 326 Gray/Arbour II - Sewer	06-G-355	1,527,685
Sec 326 Gray/Arbour II - Water	06-G-355	54,850
Sec 326 Little Ave.	03-G-182	470,000
Sec 326 Pine Dr Phase II - Sewer	08-G-391	673,536
Sec 326 Pine Phase I - Sewer	07-A-329	77,302
Sec 326 St Paul's - Sewer	06-G-347	35,963
Sec 326 St Paul's - Water	06-G-347	360,230
Sec 326 Tiffin - Water	07-G-467	10,000
Sec 326 Tynhead - Water Laterals	07-G-364	121,036
Sec 326 Veterans - Sewer	04-G-386	62,802
Sec 326 Veterans - Water	04-G-386	200,000
Sec 326 Yonge	02-G-096	150,000,000
SWTP and Low-Lift Pumping Station	08-G-165	10,250,000
Transit Garage	07-G-310	883,000
WPCP Expansion	07-G-658	81,000,000