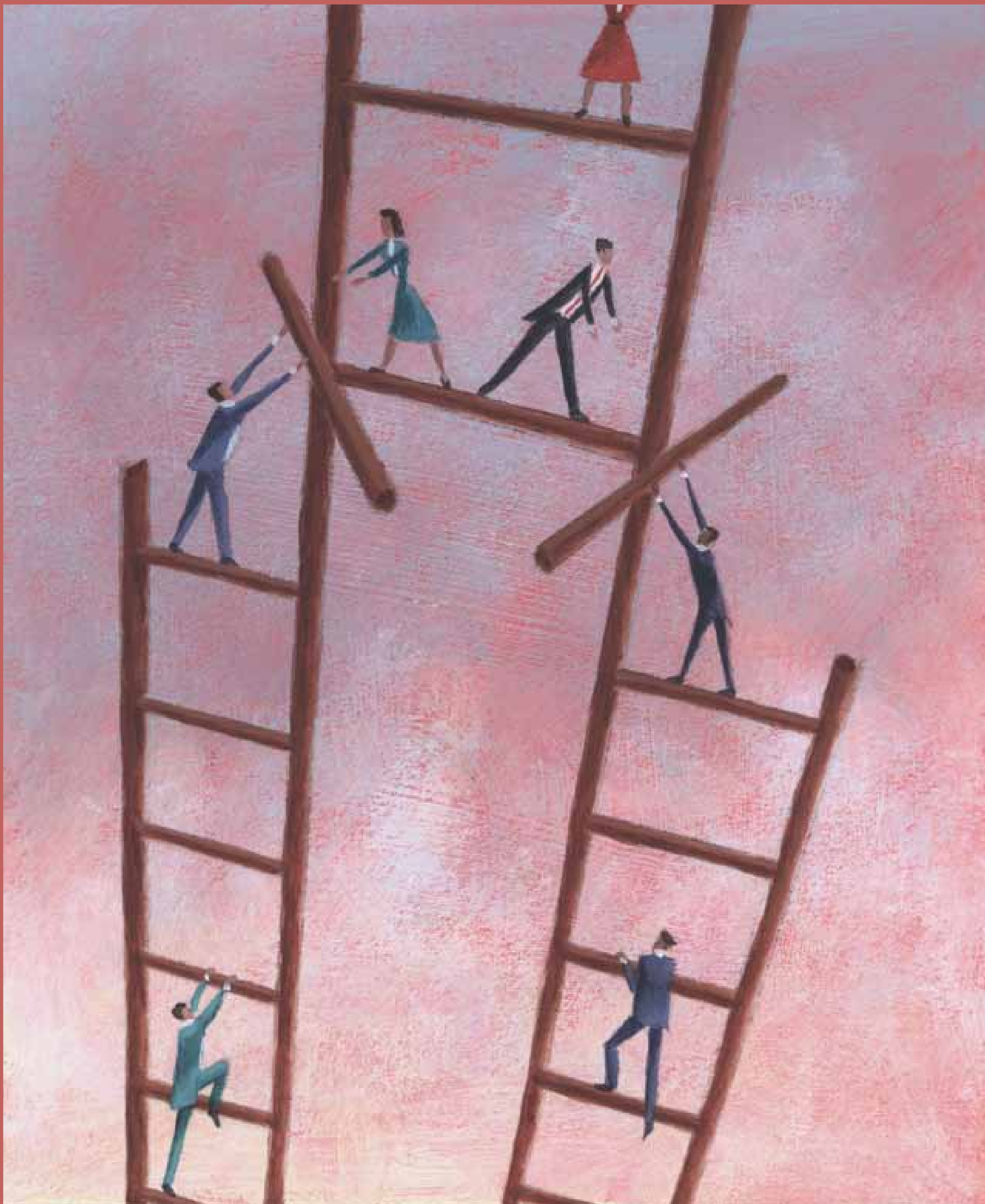

KELOWNA, BRITISH COLUMBIA, Hones Its Financial Principles and Strategies

BY GENELLE DAVIDSON

Defining financial strength and stability enables a government to build its individual financial principles and strategies, which will guide the organization's staff and governing body. The process can be supported by citizen surveys, official community plans, and elected officials.

Finance officers in local governments have to navigate a number of complexities, from citizen expectations to organizational structures that include airports; water and sewer delivery systems; bridge, road and infrastructure development; and fire and policing services. Providing guidance as to what a well-run organization should look like helps build a foundation that allows jurisdictions to provide the services, infrastructure, and amenities required by its citizens, today and in the future.

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KELOWNA'S GOVERNING PRINCIPLES

The City of Kelowna, British Columbia, hired an experienced consultant to help its elected officials determine what financial strength and stability meant for its community. After a series of workshops, the government agreed on a definition: that financial strength and stability is "the ability to acquire and manage a portfolio of financial and physical assets that meet the current and future needs of our community." This is Kelowna's end goal, which all of its policies and activities are designed to produce.

Kelowna's leaders think of the city's financial principals and strategies as essential tools in determining how the jurisdiction will achieve and maintain the community's vision. Of course, determining the specific principles that are essential to an individual organization is a challenge; government leaders have to find the middle ground between too many choices, which leads to redundancy, and too few choices, which leads to ineffective decision making because the scope is too wide and the boundaries ill-defined.

Kelowna honed in on five financial principles, which are to focus on:

1. Providing sufficient revenues and expenses.
2. Making pragmatic decisions.
3. Being flexible about opportunities and changing circumstances.
4. Maintaining transparency in financial decisions.
5. Balancing service levels based on what is affordable and appropriate.

Principle 1: Sufficiency. The city's revenues and expenses must support its service levels and long-term goals. According to a 2015 citizen survey, Kelowna residents value the high-quality services they receive and expect. To meet these service standards, the city needs to ensure that the budgets for operations and infrastructure are sufficient and that revenues will meet long-term investment needs.

Principle 2: Pragmatism. Pragmatic financial decisions require that appropriate service levels are protected when measured risks are taken. There will be occasions when assuming some degree of risk is advantageous, allowing the city to take advantage of opportunities or to meet the needs of a changing population. These risks must be carefully measured to make sure the potential effects on delivery of services are well understood.

Principle 3: Flexibility. Financial policies must allow for changing circumstances, providing the city with the flexibility and agility it needs to take advantage of opportunities as they arise and to respond to emerging issues. The organization's policy framework makes resources accessible if swift action is required to address unforeseen situations.

Principle 4: Transparency. The city's financial strategies, plans, and processes are easily accessible. Information is presented in a form that is easy to understand, encourages discussion and engagement, and holds decision makers accountable. Transparency ultimately builds trust between a community and its government.

Principle 5: Balance. Citizens expect consistent and high-quality services. They also expect that the city make efficient use of their tax dollars and user fees. This requires a careful balance between the level and cost of services.

FINANCIAL STRATEGIES

With the principles established, the next step is to develop a set of interrelated financial strategies that will guide the city's future financial planning on the ground. These strategies — which address ten areas, including new and existing assets, debt, development financing, grants, operations, partnerships and enterprise, property taxation, reserves and surplus funds, and user fees and charges — are meant to be referenced widely and often as city officials create financial policies and performance measures.

New Assets. Having clear processes in place for when and how to invest in new assets helps the city make sound financial decisions and helps elected officials, staff, and the community understand and support them. Expenditures are prioritized by social, economic, and environmental factors, and lifecycle costs, including providing services and operating, maintaining, and replacing infrastructure. For example, a project might meet the city's financial bottom line, but have a negative impact on the environment over the long term.

New asset investments need to be financially strong, stable, and aligned with city priorities. This means that while the city remains open to opportunities for new grants, innovative ways of providing services, or new approaches to development, all opportunities will be evaluated against its long-term vision, existing priorities, and risk tolerance.

Existing Assets. Replacing essential infrastructure such as roads, buildings, and sewer and water systems is expensive, and therefore requires careful planning. The city stresses preventative maintenance and renewal strategies to achieve more stable annual costs and lower total lifecycle costs than reactive repair and renewal, and funding for asset renewal is balanced against service levels and risk tolerance. The timing and funding requirements for asset renewal

and replacement are part of the city's long-term capital plan, which sets forth priorities for capital infrastructure upgrades. Adhering to the plan is important because deviations can jeopardize future service levels, leading to unexpected asset failures that are potentially costly and pose a risk to service levels or public health and safety.

Use of Debt. The city uses debt financing strategically, maintaining general fund debt servicing costs at or below a targeted level of annual taxation demand. The city preserves its debt capacity by limiting the use of debt to fund only one-time major capital projects. Many capital expenditures recur annually and are relatively stable over time (e.g., paving roads and replacing water and sewer mains), and these types of expenditures can be readily financed with a pay-as-you-go strategy. The city funds smaller projects that require a financing term of five years or by borrowing from itself, an approach that conserves borrowing capacity and allows the city to pay the interest to itself rather than to an external lender. For projects that are not recurring and require significant amounts of funds (e.g., a new fire department building or sewage treatment plant), debt may be the best

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financial tool. If possible and when beneficial, debt should be paid down earlier than scheduled; variables such as existing and future interest rates are key considerations.

Development Financing. The city seeks to ensure that growth helps pay for the demand it creates and does not impose an undue financial burden on taxpayers. The city collects development cost charges from land developers to offset the cost of new or expanded infrastructure (e.g., roads, drainage, sewers, water, and parks) for new users. These one-time charges are paid at the time of subdivision or acquiring a building permit. Because infrastructure costs should be paid by those who will use and benefit from the installation of such systems, development cost charges need mechanisms for distributing these costs between existing users and new development in a fair, equitable, and transparent manner.

Grants. Grants can be used strategically to offset costs to taxpayers and ratepayers; however, a reliance on grants for funding capital projects and services will undermine a community's ability to attain financial strength and stability. The city only pursues grants for its priority projects, the scope of which is determined by the city council to make sure it delivers the appropriate level of service. The city plans and budgets for projects and services annually under the assumption that it won't receive conditional grants. Instead, grants are treated as opportunities to make more use of city funds, although only where appropriate. Long-term financial planning relies only on unconditional grant opportunities, which can be used as a planned source of revenue only if the funding is available over the long term.

Operations. The city must ensure that it has sufficient revenues to sustain ongoing operations over the lifetime of a service or asset. Insufficient revenues can adversely affect service levels, and assets can quickly deteriorate and become liabilities.

The city's decision makers need to thoroughly understand the full cost of providing services, balancing service levels with available revenues. This includes accounting for support staffing requirements in areas such as finance, human resources, information technology, and communications. Future changes in operating costs, including personnel resourcing requirements, are considered as part of long-term capital and financial planning. Ongoing operating activities are funded through taxes, fees, and charges (and not reserves, debt, or grants) that are set at levels covering the full cost of the service, where appropriate, balancing affordability and accessibility with value for level of service. All services must be aligned with the city's priorities, provide good value to the community, and be reviewed regularly.

The city's revenues and expenses must support its service levels and long-term goals.

Partnerships and Enterprise. Communities thrive when they establish economically and socially beneficial partnerships. Partnerships can be an effective approach to providing community facilities, programs, and services without increasing general taxation. The city considers the most efficient and effective forms of service delivery, including partnerships with other entities that align with city objectives and priorities, and explores access to new sources of capital and revenue streams. Partnership agreements and services are reviewed regularly to ensure that the service provided remains relevant and continues to provide good value.

Property Taxation. Property taxes are generally used to fund services that are provided broadly to the entire community (e.g., roads, policing, fire, transportation, waste collection and disposal). They are based on the assessed value of the land and improvements/buildings; rates are set for each property classification and adjusted annually to ensure that the city raises the required funds to support the annual budget. The city's goal is for property taxes to remain as stable as possible over time, and increases are balanced among assessment classes. To make sure property tax increases are distributed fairly, the city adjusts the tax class ratios so that taxes for all classes of properties increase by the same percentage in any given year.

Property taxes reflect the infrastructure, services, and service levels that the community believes are important. Through continued consultation, the city remains aware of community investment priorities and funding preferences, ensuring that plans and budgets stay on track to meet the needs of the community. The city gives citizens access to information that is complete and

easy to understand so that they can better appreciate the high value they receive for their tax dollars.

Any jurisdiction needs to remain comparative in order to attract and retain economic development — but at the same time, its services and amenities are a major incentive for people and businesses moving to the region. The general municipal taxes levied for the average house market value in Kelowna are comparable to those in similar communities.

Reserves and Surplus Funds. Saving money for future projects and unexpected expenditures is an important planning consideration. Reserves provide a financial mechanism for saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can also provide a degree of financial stability by reducing reliance on indebtedness to finance capital projects and acquisitions, or flexibility to take advantage of opportunities as they arise. The city ensures that the purpose of each reserve is documented at the time it is established, and that this is reviewed regularly to ensure that the reserve is still required and that the balance is appropriate.

Accumulated surplus acts as a fund for major emergencies such as fires and floods. It should not be redirected to fund small capital projects or operating expenditures.

User Fees and Charges. These charges must be sufficient to meet the city's needs. User fees and charges are paid by those who benefit from a service, and these fees should be fair, having a direct relationship to the actual cost of providing a service. Services funded by fees and charges should be reasonably accessible to all citizens, which means that the city may choose to set user fees and charges for certain services at a level that doesn't fully recover their cost, using other sources of funding to subsidize the cost (e.g., for services that benefit the entire community benefits, and/or where ability to pay is a primary criterion). Some services are funded by a mix of fees and general taxation. Recreation facilities are a good example; user fees pay for some of the cost, but taxation covers the balance.

CONCLUSIONS

Local government finance leaders can develop their own unique principles and strategies for financial strength and stability, and integrate these tools into their daily language and processes. They should be used to guide the development of policies, which will set the boundaries for budgeting and planning decisions.

Strong financial management is one of Kelowna's primary goals. The city faces economic realities that require its elected officials and financial officers to think about the big picture over the long term to ensure a financially sustainable future for its citizens.

Pragmatic financial decisions require that appropriate service levels are protected when measured risks are taken.

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