

# 2018-2022 DISTRICT OF HOUSTON COUNCIL ORIENTATION

**Follow the Money!**

**Budgeting, Taxation & Financial Affairs**

October 30, 2018

Session #6



# Council Orientation Agenda

| TIME          | MONDAY                                  | TUESDAY   | WEDNESDAY                            |
|---------------|---|---|--------------------------------------|
| 8:30 – 10:00  | Local Government 101                    | Municipal Service Delivery & Planning             | Asset Management                     |
| 10:00 – 10:15 | Refreshment Break                       | Refreshment Break                                 | Refreshment Break                    |
| 10:15 – 11:45 | Governance & Ethics                     | <b>Budgeting, Taxation, and Financial Affairs</b> | Risk Management & Dispute Resolution |
| 11:45 – 12:45 | Lunch (Provided)                        | Lunch (Provided)                                  | Lunch (Provided)                     |
| 12:45 – 2:15  | Setting Priorities, Delivering Outcomes | Community Planning & Development                  | Human Resource Management            |
| 2:15 – 2:30   | Refreshment Break                       | Refreshment Break                                 | Refreshment Break                    |
| 2:30 – 4:00   | Council Meeting Simulation              | Municipal Facility Tour (Will Run to 5pm)         | Public Relations                     |





# Outline

- Key Concepts / Terms
- Responsible Spending
- Revenue Sources
- The Big Crunch(es)
- The Busiest Q&A!!!





# Councils & Financial Governance

## Key Terms

- Assets & Liabilities, Surplus & Deficit
- Tangible Capital Asset
- Resourcing & Capacity of Public Body
- Maintenance (Preventative or Reactionary)
- Budget v. Financial Plan
- Reserves & Surplus
- Conditional & Unconditional Grants
- Financial Audit & Financial Statements



# Councils & Financial Management

## Key Terms

- Statement of Financial Position, Income Statement, Cash Flow Statement
- Mill Rate & Assessed Value of Property
- Assessment Classes
- Constitutional, Statutory, Permissive & Revitalization Tax Exemptions
- Grants in Lieu of Taxes
- Fund Accounting





# Councils & Financial Management

## Key Terms

- Inflation v. Inflationary Pressures
- Service Levels
- Revenues & Expenses





# Spending Responsibly Financial Planning

- Financial Plans must be adopted by bylaw annually, and for a 5-year basis
- Must be **BALANCED** (Revenues - Expenses = 0)
  - If Actual Surplus: Transfer to Accumulated Surplus
  - If Actual Deficit: Include as expense in next year's plan
  - May transfer funds to reserve and accumulated surplus.
- Must identify sources of funding and the distribution of property tax revenues.





# Spending Responsibly Financial Planning

- Must say where money is going (operating expenditures, capital expenditures, debt servicing, prior year's deficit, transfers to reserves/surplus)
- Compared against annual Income Statement from Financial Plan.
- Local Government cannot spend more than it has budgeted for, but can receive more revenues than it planned for without consequence.





# Spending Responsibly Budget Process

- Year Round Process!
- Council sets general guidelines (ie. Targeted tax increase, revenue objectives, expenditure goals)
- Staff review budgets for sections/functions and departments before presenting to Council
- Staff determine financial obligations for planning period (i.e. contract expenses, debt servicing, wages, etc.)



# Spending Responsibly Budget Process

- Staff present preliminary budget to Council (i.e. the Base Budget) which shows required funding to meet *current operational* obligations
  - Increases based on increases in utility charges, wage/salary increases already agreed on, increases in contract costs, and other inflationary pressures
  - Senior Management refines and presents the preliminary budget to Council
  - Council decides whether to fund the base budget requests or cut expenses / service levels



# Spending Responsibly Budget Process

- Staff present project funding requests to Council
- Operating v. Capital
- Must identify source of funding
- Grants, Reserves, Loans, & Surplus Dollars are treated as having “net-zero” budget effect
- Relying on General Revenues creates risk for project deferral





# Spending Responsibly

## Other Budget Methods

- Line Budgeting
- Performance Budgeting
- Program Budgeting
- Base Budgeting
- Mixed-Method Budgeting





# Spending Responsibly Assessing Outcomes

- Quarterly Financial Reporting
- Reporting on individual items as needed
- Annual Audit & Audit Report
- Interim Audits
- Performance Audits
- Informal reporting





# Spending Responsibly

## Best Practices

- Start from a Base Level of Funding – “What keeps the Lights On”
- Set Tax Revenue Target as percentage
- Add on Projects (operating and capital)
- Identify *Realistic* Alternate Funding Sources
- Decide what to complete in year 1, what to defer to years 2-5, then cut what is not reasonable or feasible



# Revenue Sources Taxation

- What is taxable?
  - Land & Land Features
  - Buildings (with foundations)
  - Fixed Improvements
- Assessment of Property
  - June – BC Assessment assesses property province wide
  - December – Assessment Roll released; appeal period begins
  - April – After appeals are heard, final roll released.



# Revenue Sources

## Taxation

- Local Government sets mill rates
  - Challenge: Keeping taxes low / consistent while funding rising costs with limited revenue sources
  - When to set the mill rate
  - Methods for setting the mill rate
- **Mill Rate set only once** – cannot revise the mill rate to cover deficiencies after the fact!





# Revenue Sources

## Fees

- Can be raised/changed at any time (by bylaw)
- Collected for services, regulatory powers (i.e. licences) and property use
- Must be based on cost of service – cannot generate a profit!
- Good mechanism for reducing property tax constraints



# Revenue Sources

## Grants

- Mostly Conditional
- Must be applied for! (And not always granted)
- Reporting requirements
- Terms and Conditions of Funding
- “Project” based versus Operational



# Revenue Sources

## Debt

- Taken through MFA, approved by RDBN
- Can do Short Term and Long Term loans
  - Short Term – Bylaw authorization
  - Long Term – Bylaw with elector assent
- Comes with interest costs over numerous years (which impacts operating funds available)



# The Big Crunch(es)

## Common Issues of the \$\$\$ Kind

“Municipal Government is based on the principle of ensuring that residents have a voice in the affairs of their community that impact their well-being. This requires the election of people who are prepared to serve in leadership positions, and who are willing to exercise their best judgments on issues impacting the lives of other.”

- George Cuff

*Cuff's Guide for Municipal Leaders – A Survival Guide for Elected Officials*



# Questions?

These won't be the first or last!!!

