CITY OF PORT MOODY

Long-Term Strategic Financial Framework

ENSURING A HEALTHY AND SUSTAINABLE FINANCIAL FUTURE

September 2014

PORT MOODY
CITY OF THE ARTS

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Long Term Strategic Financial Principles

Table of Contents

Planning for our financial future

The City of Port Moody's current finances are on solid ground and have been for many years. The City is proud of its solid financial position and would like future generations to enjoy the same level of financial stability and prosperity as its current citizens. Financial stability is fundamental to the health of the community – only with stable and sufficient revenues, and careful planning of expenditures, is the City in a position to provide important services its residents need and enjoy.

Although, the City is in solid financial shape, revenue opportunities, expense pressures, and service demands will not be the same in the future as it has been in the past. The scope and level of service demanded by citizens from their local government is greater than ever as residents and businesses struggle in the ever changing and competitive world we now live in. The City cannot be certain of the same level of financial support from senior levels of government enjoyed in the past as the provincial and federal governments have their own budget challenges. Development and development revenues, while helpful in the short term, need to be carefully considered against the cost of delivering services to new residents and businesses over the long term.

Now is the right time to step back and reflect on how the City can best manage its finances for the future financial health of the community. As we move forward, it will be critical that the City start to plan to live within its means, and determine what it can and cannot afford given the new realities. Future revenue opportunities, changes, and patterns will need to be carefully weighed against the level and variety of services delivered, and the scope and range of assets obtained or constructed.

This document itemizes a number of financial management principles that will help guide the City towards a financially sustainable future.

What is financial sustainability?

For some households, financial sustainability is thought of in the context of whether we can sustain our current day-to-day lifestyle. Can we afford our rent, food, entertainment, clothing, travel, medical, etc.? For those who own homes or businesses, the thinking can be more long term, and the planning more in the range of 20 to 25 years when mortgages are paid off, or businesses sold to finance retirements.

Local governments need to think long term as well, as the investments in infrastructure are significant and longer term in nature (25 to 100 years). While individuals come and go, local governments need to continue in perpetuity to acquire and manage a stock of financial and physical assets that are critical for the provision of services to current and future generations. City Councils provide a legal means by which the community acts as a collective body to own, operate and finance services, infrastructure, and assets.

In its 2012 Council Strategic Plan, Council defined sustainability as:

In Port Moody, sustainability means we are working to allow future generations to reach their potential by defining how we live today.

Financial sustainability is about being mindful of the financial well-being of future generations. More specifically, a community knows it is financially sustainable when its finances are:

- *Stable* - Taxes and user fees do not fluctuate greatly from year to year.
- *Sufficient* - Revenues are sufficient to support the long term goals of the community.
- *Prudent* - Financial decisions minimize risk and maximize the utilization of assets and resources.
- *Flexible* - Financial decisions ensure future flexibility to adapt to opportunities and changing circumstances.
- *Reliable* - Revenues have a high level of certainty to support the desired service level indefinitely.
- *Fair* - Everyone pays a fair amount for the services they receive, services are reasonably accessible by all citizens, and the burden is spread evenly amongst all generations.
- *Soundly Administered* - Sound financial administration and reporting includes annual external audits and preparation of financial statements; periodic internal audits and process reviews; preparation of annual reports that set and measure goals and objectives; development and alignment of long-term strategic plans; ongoing cash flow analysis; sound internal controls; a modern computerized system to record, track and monitor financial transactions; development of, and adherence to, sound financial principles and practices.
- *Transparent* – City Council needs to involve the community in decisions and check in periodically to ensure the vision of Council is consistent with the needs and wants of the community. The City recognizes that the community has a wealth of knowledge and experience that should not go untapped for ideas and innovations. The City utilizes a variety of civic engagement tools (website, social media, surveys) and annual Town Hall meetings that allow public input on strategic plans and other issues prior to approval or final decisions.

Measuring financial sustainability

While the list above defines the accepted attributes of financial sustainability, there is no accepted or easy way to measure the extent to which a City Council has achieved, or is moving towards, financial sustainability. In the absence of these criteria, the community has historically focused on the following three elements to gauge financial performance and stewardship demonstrated by a City Council:

1. The growth/size of a city's revenues, expenditures, and debt levels.
2. Is the city's budget balanced (cash basis – enough cash to meet the expenditures)?
3. Reasonableness of the annual tax increase.

While the measures above need to be considered, they are short term in nature and do not evaluate the long term financial health of the community. For example, revenues growing or being utilized to fund costs in the short term may not be there in the future; a budget balanced using finite resources, such as reserves, may keep tax increases down in the short term but are not sustainable over the long term; and minimal tax increases may be popular but not reflective of cost increases and service demands. The measures above do not contemplate:

- the burden being passed onto future generations;
- sustainability of revenues being utilized today;
- sustainability of service levels;
- the state or condition of physical assets;
- the size of the infrastructure deficit (is the level of funding directed towards assets equal to the amount of assets being consumed annually?);
- whether users of services are paying a fair share of the cost of a service, and;
- whether debt levels are sustainable.

To be sustainable

To be financially sustainable, local governments need to be strategic thinkers and planners, and City Councils need to provide direction in the form of approved long term strategic plans. When an entity embraces strategic planning it gives the community confidence that decisions are well thought out and sustainable over the long term. These plans should provide the community a clear understanding of the direction Council is moving in, and enough information to form and voice an opinion.

Typically, the City's process starts with Council's Strategic Plan that sets the priorities in the form of Goals and Objectives, and ties together other strategic plans, including:

- **Official Community Plan (OCP)** – strategically plans the development of the community. The document usually looks out 30 years (revised every 5 years).
- **Master Transportation Plan** – strategically plans the transportation network and desired modes of transportation to meet the development needs identified in the City and surrounding cities' OCP's.
- **Parks & Recreation Master Plan** – strategically plans sustainable recreation opportunities, fees, and services for identified current and future user groups.

- **Asset Management Plan** – strategically plans for the maintenance, upgrade, and replacement of the critical assets needed to deliver services. This Plan will be contingent on condition assessments of assets and sub plans (*e.g.* water, sewer replacement plans). The Plan should also identify when new or additional assets are needed and affordable.
- **Other master plans** (*e.g.* Police, Fire, Library, and Arts and Culture) need to be contemplated and aligned.

Long Term Strategic Financial Framework (LTSFF)

While the Strategic Plan sets out the goals and objectives of Council, Council acknowledges they cannot be achieved at all costs. Financial sustainability is a primary goal of City Council, and City Council recognizes that its goals and objectives must be balanced with its ability to pay, and the impact they will have on the long term financial sustainability of the City.

The City's LTSFF is a document that ensures the City of Port Moody is well managed, affordable, and sustainable. It is the responsibility of Council and management to assure the community that the City is in, and remains in, sound financial condition for current and future generations. To that end, a sound administrative and financial framework of principles and guidelines needs to be developed to provide stewardship over critical assets and resources.

The LTSFF identifies the principles, strategies, and models that Council has determined the City will need to keep on track towards financial sustainability. The LTSFF is a dynamic document that will be reviewed on a periodic basis to make sure the principles are consistent with current best practices.

These principles are outlined in the remainder of this document.

Financial Management Principles

The principles contained in this document are intended to guide the City's future decision-making around finances. While each of these principles focuses on a particular financial decision, they are all interrelated and work together to provide a broad framework for managing the City's overall finances. The principles are intended to be referenced widely and often. These principles should be used to guide not only the creation of financial plans, but should also influence other plans such as land use, operations, and parks plans.

Principles have been organized under the following topics:

Revenues

- Property Taxes and User Fees
- Reserves
- Debt
- Grants
- Development Finance

Costs

- Asset Renewal
- New Capital Projects
- Service Delivery

1 – Property Taxes and User Fees

In order to be financially sustainable, the City endeavours to diversify its revenues and reduce its reliance on any one source of revenue as much as possible. The City diversifies its revenue base between property tax, utility fees, development levies, program fees, permits & licence fees, investment income, and fines & penalties.

Another critical aspect of financial sustainability, with respect to revenues, is the degree to which an entity generates revenues from its own sources. To be financially sustainable, an entity must have autonomy to set revenues, and have unrestricted access over a certain portion of those revenues. Reliance on other levels of governments and agencies reduces the City's ability to be financially sustainable.

Municipalities rely on two major sources of revenue: property taxes and user fees (including utility fees). User fees are generally levied by local governments for services that are direct to a user or household (programs, utilities), whereas property taxes are levied to finance services that are provided broadly to the whole community (roads, police, fire, storm drainage). Currently, 58% of Port Moody's revenues come from property taxes and 32% comes from fees and charges. Port Moody's tax and utility charges per household are in the upper end for the region. In setting taxes and user fees, the City must strike a balance between reasonable access to services for all residents, while ensuring users of the programs and services pay a reasonable share of the costs.

In planning for the future, Port Moody will need to be mindful of two key factors that could impact its need for and ability to raise tax revenues. First, changes in the use of properties (e.g. major industrial properties) could have a significant impact on Port Moody's tax base. Secondly, there is increased uncertainty around the future availability and level of funding from senior levels of government. Ensuring property tax rates as well as fees are sufficient and relatively stable year over year will be fundamental to Port Moody's financial sustainability.

Property Tax

Property tax is an “ad valorem” (*Latin: "according to value*") tax system based on the assessed value of real property (land and improvement/ building). Property owners have their property assessed on an annual basis by BC Assessment, and the assessed value of the property is then used to compute an annual property tax, which is levied on the owner by the City to collect the amount of tax revenue needed to provide services to the community. Ad valorem taxes are incurred through ownership of an asset in contrast to transactional taxes, such as sales taxes, which are incurred only at the time of the transaction.

Ad valorem property taxes are a “wealth tax”, based on the value of what you own but do not consider the property owners ability to pay, or the benefits received. Wealth taxes were derived to re-distribute the “wealth”, and are a fundamental basis of a caring and benevolent society. Problems around the ability to pay has been mostly addressed by the Province with the property tax deferment program that allows property owners to defer their taxes until the “wealth” is realized at the time of the sale of the property. With respect to the benefits received, it has been justified that benefits accrue to the property owner through the actions of their local government in providing the services that sustain or drive the property value. When assessing the value we receive for our tax dollars, we must look broader than the direct services we receive, and value the benefits to society in general when the wealth is redistributed.

To be effective and accepted, the property tax system should be:

- fair and equitable
- simple and easy to understand
- as stable as possible
- behaviour neutral (should not encourage taxpayers to behave in a certain way to avoid taxes)

Tax shifts or redistributions come up periodically in communities when one class of taxpayers feel they are paying more than their fair share of the tax burden. These requests need to be carefully considered as the City will need to maintain the total amount of revenue if the City wanted to maintain the same scope and level of service. Providing tax relief to one class will increase the financial tax burden to others, who will also have their share of financial challenges. For example, businesses will contend that they account for a disproportionate amount of property tax dollars than residents when the amount of services consumed is considered. The questions are, what should the proportion be, and is the property tax a “user pay” tax?

A common viewpoint is that business and residential buildings with the same value should be taxed very differently as the former is a revenue generating asset, and the latter is not. The main argument being that business properties not only create income to assist with the tax burden but their property taxes can be deducted from income tax. The second point is that the property tax is essentially a “wealth tax” and not a user fee based on service consumption.

While it is generally accepted that businesses should pay more property tax than residents, the question is how much more. A commonly accepted ratio between Class 1 Residential and Class 6 Business is 3 to 1. While this ratio may work for residential to business, it may not be an easy analysis with other classes. Tax mill rates viewed on their own can be misleading without looking at the assessed value trends. For example, in one class, assessed values could be declining, which means the City would need to increase the mill rate to generate the same amount of tax; whereas, with another class it may be the opposite. The tax dollars would not have changed but the ratio between the mill rates would have changed, creating an incorrect assumption that one class is paying relatively more than the other.

User Fees

Local governments impose user fees to finance programs and services that are provided directly to a user or a household. Municipal user fees for utilities (water, sewer, and garbage & recycling) are self-balancing funds in that the fees collected are all spent to deliver those services (operating and capital costs). Fees for programs (*e.g*. recreation) are not full cost recovery fees and mostly only cover the operating cost of providing the program (staff, heat, light, supplies, etc.). The capital cost of the building for example, is usually funded through separate capital funds. Councils are always mindful when setting program fees to ensure programs are accessible to the community at large. Fees are restricted to the actual cost of providing the service, and how the fee was determined must be made available to the public if requested under Section 194 of the Community Charter. For a user fee to be widely accepted there should be:

- a clear link between the benefit received and the fee paid
- fairness in that those who use the service pay for it
- easily implemented and administered
- simple and easy to understand

Objective: To ensure property taxes and user fees are sufficient to meet the community's short and long-term needs and are relatively stable year over year.

PRINCIPLES

1.1 Property taxes and user fees will be kept as stable as possible over time

To keep taxes and user fees as well as service levels relatively stable across time, community long-range forecasts and plans need to be considered when setting annual increases.

1.2 Periodic comprehensive reviews of user fees and tax classes will be conducted

To ensure an appropriate and acceptable balance exists between accessibility, tax burden and users paying their fair share for programs and services, periodic reviews of taxes paid by individual classes and user fees needs to be conducted. Tax rates should be kept as competitive as possible to ensure continued investment both in the community and in the property itself; user fees will need to be competitive in the market.

1.3 Property taxes and user fees will not be supplemented by transfers from reserves

The City will refrain from supplementing tax increases by drawing from reserves for core services. Transfers from reserves for operational purposes should only be used for one-time or temporary costs as the transfer will have to be made up from taxation when the transfers are discontinued. The practice of using reserves to supplement taxation passes the cost or the burden onto future years, and therefore does not meet the best practice of intergenerational equity.

1.4 Proposed property tax shifts will be carefully analyzed before implementation

Recognizing that all tax classes have their financial challenges, tax shifts or tax redistributions will only be considered where a full comprehensive analysis and impact is undertaken. Where a tax shift is required, a gradual phase in will be considered to allow the properties in the class to adjust their budgets accordingly.

1.5 Property taxes and user fees will be transparent and easy to understand

Every effort should be made to make property taxes and user fees as transparent and easy to understand as possible. The community is always more supportive when they understand how their tax dollars are being spent. User fees should be established from actual costs incurred to provide the service, and special tax levies used to fund debt or other initiatives should be identified separately on the tax bill.

1.6 Non-recurring revenues will only be matched to non-recurring expenditures

The City will not budget for non-recurring revenues or revenues that cannot be reasonably relied on in the future unless they are matched to one-time or non-recurring expenditures. This practice will ensure that current budgets balanced from revenues of this nature do not impose a challenge to balancing budgets in the future when these revenues are no longer available.

2 – Reserves and Reserve Funds

Reserves and Reserve Funds are sources of funding that have been set aside by Council to finance future expenditures, including unbudgeted or unforeseen events that may result in a budget deficit, and to also smooth out expenditures that tend to fluctuate year over year. Reserves and Reserve Funds receive annual contributions from the operating budget and other sources to assist with creating a solid and sustainable financial position. While balances can appear to be large sums available for unspecified spending, it should be noted that the majority of these funds are committed or designated for special purposes over the long term.

Typically, municipalities have separate and distinct operating and capital reserves, most of which have been established by bylaws or resolutions of Council in anticipation of funding requirements for the continued and uninterrupted delivery of programs and services. Reserves play an important financial role. They minimize risk and financial uncertainty for taxpayers by allowing local governments to cover expenses without making large annual increases to taxes or user fees. It is best practice that communities, at a minimum, set up reserves for emergency expenses, a capital reserve for future infrastructure replacement, and establish working capital to cover unforeseen operating expenses.

Operating reserves are essentially allocated from accumulated net revenues and are part of the General Revenue Fund, and therefore do not earn interest on their own. Any earnings derived from the investment of reserves' money are reported as revenue in the operating fund. While operating reserves can assist with smoothing out fluctuating expenditures, it is not best practice to use operating reserves to supplement taxation. The annual ongoing cost of providing services should be built into the base operating budget, or alternatively, services reduced accordingly. Operating reserves would assist where extraordinary expenses occur or are unavoidable but not expected to continue annually.

Reserve funds or statutory reserves are established by statute or bylaw and are restricted to meet the purpose of the reserve fund. Interest is allocated to Reserve Funds and forms part of the reserve fund. Reserve Funds are typically capital in nature (e.g. Land Sales Reserve Fund; Equipment Replacement Fund) or set up as self-balancing for Utility Funds (e.g. Water, Sewer).

Annual operating revenues in excess of expenses are accumulated over time in an unrestricted reserve titled, Accumulated Surplus. Many view the Accumulated Surplus as an emergency fund or a capital funding source when no other funding source is available. It is best practice to target a balance of approximately 10-15% of taxation revenue in order to meet emergency obligations.

Development levies (e.g. Development Cost Charges or DCCs), while historically referred to and included as part of a local government's reserve portfolio, are technically deferred revenue (liabilities) as they are revenues collected from developers in advance to construct specified infrastructure or community works. These funds, similar to reserves, are set aside and restricted for the purposes they were collected.

Objective: To ensure the City has adequate reserves to maintain or improve levels of service now and into the future, minimize financial risks to taxpayers, and ensure stability in tax rates/ user fees.

PRINCIPLES

2.1 *Comprehensive reviews of reserves will be conducted periodically*

Conduct periodic comprehensive review of City reserves every five years to ensure they continue to meet the community's fiscal needs. The review must, at a minimum, examine:

- the adequacy of reserve levels (over both the short- and long-terms)
- the purpose of each reserve.

2.2 *Accumulated Surplus will be utilized as an emergency funding source*

The City will only draw down accumulated surplus in emergency circumstances to fund unforeseen capital and operational needs.

2.3 *A document describing each reserve will be maintained*

The City will establish and maintain a reserve document (Reserve Booklet) that identifies the purpose, authorization and funding source for each City reserve so it is transparent to all stakeholders why funds have been designated and set aside.

2.4 *Reserves will be authorized as required*

Reserves will be authorized as one of the following four types of reserves:

- Statutory Reserves – enacted by bylaw under Section 188 of the Community Charter, subject to rules under Section 189
- Notional Reserves – established by Council resolution or set up as part of the five year financial plan process (from accumulated surplus, grants, gifts or certain contractual consideration)
- Legacy Reserves – reserves established under the previous Section 935 of the Local Government Act (*e.g.* utility funds; sinking funds)
- Development Levies – funds collected from developers and set aside for capital works are authorized under Section 904 (density bonusing) and Section 905.1(works, services and amenities under phased development agreements) of the Local Government Act, and not technically reserves but deferred revenues (liabilities to complete future works).

3 - Debt

Local governments rarely maintain or amass the cash surpluses required to pay the entire cost of major capital projects. In times when local governments do not have sufficient reserves of capital funding to finance the infrastructure needed to continue to deliver critical services to the community, access to external capital financing is crucial. Debt is a recognized and accepted financing strategy, and an effective way of smoothing infrastructure costs over time so that all benefitting generations share costs equitably (”pay as you go or pay as you use”). Using debt to finance large capital projects allows them to proceed sooner and sometimes allows the local government to leverage the dollars against federal or provincial grant programs. Being a “debt free” municipality is a lofty goal, and as good as it sounds, it is not good when viewed in the context of deteriorating infrastructure.

In B.C., all long-term capital financing is required to be financed through the Municipal Finance Authority (MFA). The MFA was created in 1970 by the Province to pool the borrowing needs of all local governments in B.C. to provide the most competitive rates as possible. The MFA’s continued AAA credit rating has provided lending rates that have not been matched by the private banking establishment.

However, even with the attractive borrowing rates obtained through the MFA, the use of debt needs to be carefully considered to maintain the City’s financial sustainability. Just like it would not be prudent for a common household to incur debt to pay for everyday items like groceries or clothing, it would be irresponsible for the City to borrow to pay its everyday operating costs. All local governments must ensure that they are living within their means, and their debt levels can be properly serviced within the operating budget. The best practice is for communities to establish a limit on borrowing in the range of 10-15% of sustainable revenues (Provincial legislation limits municipal debt to 25% of sustainable revenues). The City has been able to leverage its debt capacity to sustain current service levels for the community. For example, the City utilized debt to fund major capital projects such as the Recreation Centre and the new Inlet Centre Fire Hall.

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

PRINCIPLES

3.1 *Target a maximum debt level of 15% of sustainable revenues*
Adhere to a maximum debt servicing ratio of 15% of sustainable revenues (as defined by the Provincial Liability Servicing Limit). This limit will still allow borrowing capacity for emergencies and unexpected opportunities.

3.2 *Time new debt to coincide with the maturity of existing debt*
Where possible, time the incurring of new debt with the maturing of existing debt in order to stabilize annual debt service costs.

3.3 *Preserve the City's debt capacity by limiting the use of debt to fund major capital projects*
The City has limited debt capacity and will be reserved to finance single major projects that are considered key to realizing the community's vision. In the interest of intergenerational equity, the debt burden will be amortized over, but not exceed, the useful life of the asset (pay as you go/use). Borrowing for any proposed major capital project that is considered "desirable" (*e.g.* non-essential) will be referred to referendum as part of a transparent consultation process.

3.4 *Make major debt servicing transparent by using dedicated debt levies*
When using debt to fund major capital projects, use dedicated debt levies to provide transparency to the community (*e.g.* Fire Hall Debt Levy). These dedicated debt levies should be delineated on the tax bill and will be discontinued when the debt has been repaid.

3.5 *Consider paying down debt earlier when possible*
Where excess capital funds exist, the City will consider paying down debt early to minimize overall debt service costs.

4 - Grants

In Canada, federal and provincial governments are responsible to taxpayers to ensure local communities have modern and world class infrastructure. Those senior levels of government collect the majority of revenues from our communities, and therefore have a financial obligation to channel those funds back into the communities to fund the significant capital projects needed locally and regionally. Senior governments have recently committed to long-term infrastructure funding, and to work with local governments to address the infrastructure funding deficit through more reliable grant funding.

Although there are good reasons to leverage municipal funds against federal and provincial grant programs, there are some pitfalls to avoid. While grant offerings are sometimes attractive and viewed as “free money”, grants should not be pursued for projects that are not a priority for the community. More often than not, the funding is offered for projects that meet the priorities of the government providing the grant funding. Although it is very beneficial to local governments to receive funding for projects they do not have to use internally or raise themselves, it does not come without some risk of uncertainty.

In the past, Port Moody has received its fair share of grant funding from senior levels of government. In most cases, these grants have covered two-thirds of project costs, leaving the remaining third to be covered by the City. While the City has successfully secured grant funding in the past, future availability of grant funding is unclear. There is no assurance that the City will receive similar levels of grant funding in years to come. Consequently, it is best practice that communities plan to cover costs with their own revenues, and view grant funding as only supplemental.

Objective: To minimize reliance on grant funding.

PRINCIPLES

4.1 Reduce reliance on uncertain grant funding
In cases where the availability of grant funding is uncertain, ensure funding is sufficient to finance projects without relying on grants.

4.2 Grants will only be pursued for community priority projects
Where available grant funding is uncertain, pursue grant funding only for projects that are already identified in the Capital Plan and are an identified priority for the community.

5 – Development Finance

Cities have finite land inventories, including privately held developable land, and must maximize these scarce land assets for the long-term prosperity and sustainability of the community. Development levies can have a significant impact on the shape and look of communities, and are an important financing strategy to ensure new developments and taxpayers pay their fair share of the costs. If levies are set too high, then developers cannot make enough of a return on their investment and will look elsewhere or hold the land until real estate prices rise; set too low, and current taxpayers will supplement the infrastructure costs through tax increases. However, the single most important principle when reviewing development proposals should not be the level of development levies that can be leveraged from the developer, but whether the development proposal fits a city's vision of a sustainable community.

Provincial legislation enables local governments to collect development cost charges (DCCs) from developers to finance a portion of the off-site infrastructure. However, the legislation is very prescriptive in what is allowed as the legislation is there to protect the investor as well as community interests. The legislation was drafted to ensure those infrastructure costs are distributed between existing users and the new development. As growth also drives the demand for additional community amenities, local governments are increasingly relying on density bonusing and community amenity contributions (CACs) as part of the rezoning process to generate funding for those additional amenities.

The amenities or the amenity levies offered by the developer are generally reflective of the size and scope of the development they are seeking, and these negotiations are not only crucial to the success of the development project, but also the future prosperity and affordability of the community. The amount of development levies asked for by the municipality will have a direct impact on the amount a developer will pay for the land, as the level of taxes and development levies changes the value of holding vacant land or under-developed land (direct impact on return on investment). When land is already held by a developer, the amount of the development levy can also have an effect on the ultimate cost of the housing units as the developer will need to recover the investment.

Port Moody experienced significant growth over the last decade, growing in population by 20% from 2006 to 2011. The Evergreen Rapid Transit Line, as a transportation corridor, provides opportunities for growth and prosperity. Most future development in Port Moody will come in the form of densification. Future development will require additional City services, such as extended water lines and new roads.

Like most communities in the region, the City has adopted a “growth pays for growth” approach to financing these new services. This approach helps ensure that the costs associated with new development are born directly by those who benefit from those services and do not impose a financial burden on existing Port Moody residents. While these costs are initially borne by developers, this new infrastructure has an ongoing financial impact that is borne by tax payers. It is best practice to also consider the on-going full cycle costs associated with operating, maintaining, and replacing additional infrastructure (and services) needed to support the growth. Assessing and evaluating the impact of these on-going costs is therefore a part of the City’s assessment of whether or not proposed land uses are sustainable.

Objective: To ensure growth pays for growth and does not impose a financial burden on Port Moody taxpayers.

PRINCIPLES

5.1 New development pays for new servicing
The City will require the costs of servicing new development to be paid fully by new development (*e.g.* growth pays for growth) as much as possible.

5.2 Development cost charges will be utilized to ensure developers pay their fair share
Where appropriate, tools such as development cost charges, development levies and latecomer charges, will be utilized to help ensure costs of growth are allocated fairly across developers.

5.3 Leverage development to provide community amenities
Use, where appropriate, density bonusing and community amenity contributions to help fund important community amenities needed to support growth (see also Policy 7.1).

6 – Asset Renewal and Replacement

Thriving entities, public or private, need assets that are functioning and in good repair to generate ongoing revenues and deliver uninterrupted services. When assessing the financial health of those entities, one of the key indicators is the condition, and level of funding, of their critical assets. Given that the condition and financing of assets is a sound and accepted business consideration, it is imperative that proper asset management planning and renewal strategies and priorities be established to ensure the assets are managed properly over the long term.

To ensure the City of Port Moody maintains current service levels for future generations, the City needs to take care of its existing assets. Just as a homeowner needs to maintain and eventually replace their roof, so too must the City maintain and eventually replace its roads, water system, sewer system, parks, and civic buildings. Therefore, it is best practice for a community to develop a formal Asset Management Plan to guide infrastructure reinvestments. The City developed such a plan in 2014. The City's Asset Management Plan contains an inventory of all City assets and identifies which assets should be replaced, and when, based on an assessment of risk and desired level of service. This is a living document that is meant to be maintained by departments and updated as more information becomes available such as further risk and condition assessments.

Asset management is the process of gathering the most current and applicable information available to formulate the best possible informed decisions regarding the building, operating, maintenance, renewal, replacement, and disposal of infrastructure assets, over the long term. The objective is to:

- maximize benefits (extend asset life as long as possible)
- manage risk (determine the acceptable impact on service level from asset failure)
- provide satisfactory levels of service to the public in a sustainable manner (what can the local government afford over the long term)

Asset management requires a thorough understanding of the characteristics and condition of infrastructure assets, as well as the service levels expected from them. It also involves setting strategic priorities to optimize decision-making about what to invest in, when to invest and how to proceed with investments. Finally, it requires the development of a financial plan, which is the most critical step in putting the plan into action.

Also consistent with best practice, the City raises revenues specifically for asset reinvestment through an Asset Levy. Funds raised through the Asset Levy have allowed Port Moody to recently replace a number of major assets. Using Asset Levy funds as well as other revenue sources to proactively invest in, not only routine maintenance, but also the complete replacement of aging infrastructure will help ensure that quality City services continue to be provided well into the future. The Asset Levy strategy is not intended to outright fund new major capital projects such as a recreation centre facility, but will allow for the funding of debt servicing needed to cover the capital replacement cost of such project.

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

PRINCIPLES

6.1 Invest in infrastructure renewal/replacement according to the Asset Management Plan

The Asset Management Plan will prioritize investments in infrastructure renewal and replacement based on an assessment of:

- risk (likelihood of occurrence; consequence or impact; tolerance for service interruption)
- desired level of service
- affordability

6.2 Periodically review the Asset Management Plan and funding

Conduct periodic reviews of the Asset Management Plan and annual asset funding (*e.g.* Asset Levy) to ensure it continues to meet the long term infrastructure renewal needs of the community.

6.3 Supplement asset funding with additional funding where possible

Seek additional funding (*e.g.* grants) to fund asset renewal and supplement the Asset Levy. As the additional funding will mostly be from uncertain sources, it is not intended to replace the certain funding established in the annual base budget.

7 – New Capital Projects

The City makes considerable investments in new capital projects each year. Some projects may be urgent (e.g. mandated by legislation), while others may be considered "nice to haves". For Port Moody, most new major capital projects fall into the category of "desirable amenity projects". In the past, Port Moody has been able to build new amenity projects through contributions from development. With the anticipated completion of the Evergreen Rapid Transit Line, the City may once again be in a position to capitalize on development activity for the benefit of the broader community.

Interest will remain among Port Moody residents to construct new amenity projects. However, each of these comes with significant costs. It is best practice to carefully assess the costs and benefits of these projects, over both the short- and long-terms, prior to proceeding.

Objective: To ensure the provision of new capital projects is financially sustainable.

PRINCIPLES

7.1 Leverage development to provide community amenities

Where appropriate, use a density bonusing approach and/or levy community amenity contributions to generate revenues to pay for community amenities. As the Official Community Plan (OCP) is an evolving document and vision, variances to the OCP should only be considered if they align with the community's vision, and meet current trends and sustainable best practices in development.

7.2 Partner with other entities to deliver community amenities

Evaluate, where appropriate, the potential use of partnerships as a means to deliver community amenities and infrastructure.

7.3 Develop a long term community amenity needs plan

Base amenity funding decisions on a long term community amenity needs plan based on projected growth and desired levels of service. Proceed with funding a "desirable amenity project" only if the amenity project is identified in an adopted plan and a business case shows that it is in the best long-term interest of the community. The business case, must, at a minimum, consider the proposed project's impact on:

- risk
- service levels
- the City's short- and long-term finances
- the City's vision

7.4 Prioritize capital projects based on necessity and urgency

On an annual basis, there are generally more projects than funding. To prioritize the funding, projects will be categorized as either mandatory (high priority), essential (medium priority), or desirable, based on the following criteria listed in priority order:

1. Life safety and health
2. Legislation and regulation
3. Council strategic plan
4. Existing assets
5. New assets

8 – Service Delivery

The City of Port Moody's mandate is to provide quality service to its residents. The biggest drivers of the City's costs are the range and level of services delivered to the community. Residents are accustomed to a certain service level and usually want it maintained, however no two people are going to agree on the same level for every service. Citizens generally expect the same services and service levels delivered in neighboring communities. This is particularly challenging for Port Moody given the size and proximity to larger neighbouring municipalities.

Demand for service must be balanced with the ability to pay, and between the conflicting goals of minimizing tax increases, maintaining existing services and infrastructure, and the cost of adding new services. As pressures on operating budgets rise, the City will need to work closely with its residents to identify financially sustainable service levels.

Services delivered must be within the legislated mandate of the City. The City delivers its services in alignment with Section 7 of the Community Charter. When a new service is contemplated, the City process considers full life cycle costing. This includes the operating cost (including labour), and the long term capital cost, including asset depreciation, replacement, and maintenance.

It is best practice to not only define appropriate levels of service, but to also consider all forms of service delivery in order to ensure City resources are being used efficiently. The City must be able to demonstrate to the community value for services provided. Services need to be delivered in an effective and efficient manner, and shared with neighbouring municipalities or other agencies where possible. The most efficient and effective delivery of service must be considered, including in house delivery, privately contracted services, and partnerships.

Objective: To ensure services are provided cost effectively to meet community expectations.

PRINCIPLES

8.1 Examine and consider all service delivery options

Examine all options when considering new services or reviewing current services to ensure the best value ➊ for taxpayers over both the short and long terms, including contracting in, contracting out and partnerships.

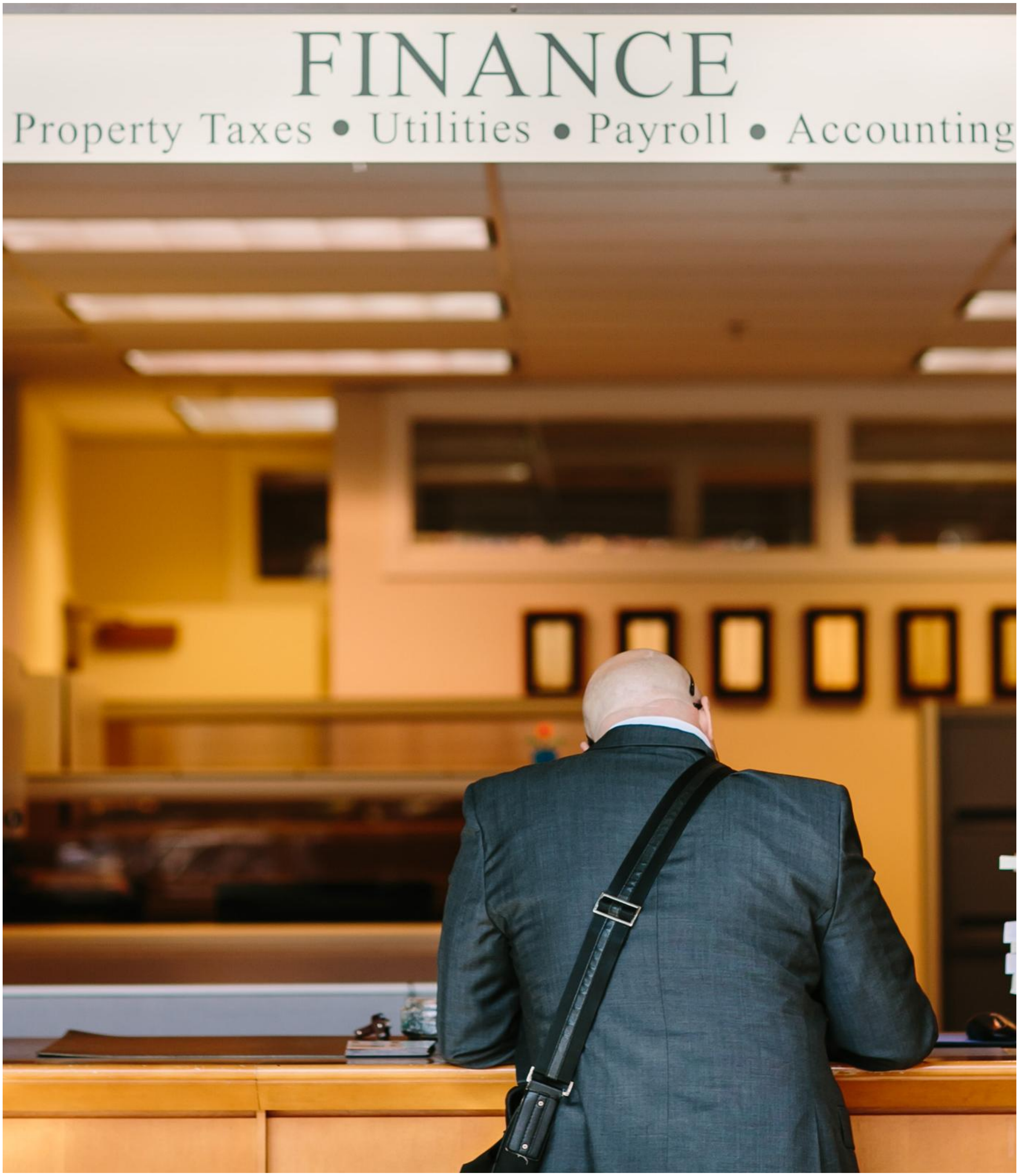
8.2 Measure and track service levels

Measure and track service levels to ensure service delivery reflects the community's priorities and meets citizens' expectations (*e.g.* conduct annual Ipsos Reid service satisfaction survey).

8.3 Factor all costs in when considering new services

When considering the provision of a new service, assess all costs associated with the delivery of the service including labour, operational and capital costs.

➊ *Value does not necessarily mean lowest cost. The City considers many factors that are important to the community in addition to price when determining the value of a service provider, including but not limited to experience, convenience, investment, responsiveness, sustainability and goodwill.*


FINANCE
Property Taxes • Utilities • Payroll • Accounting

Long Term Strategic Financial Framework Principle Overview

REVENUES			
Property Taxes & User Fees	*Reserves & Reserve Funds*	*Debt*	*Grants*
Property taxes and user fees will be kept as stable as possible over time	Comprehensive reviews of reserves will be conducted periodically	Target a maximum debt level of 15% of sustainable revenues	Reduce reliance on uncertain grant funding
Periodic comprehensive reviews of user fees and tax classes will be conducted	Accumulated Surplus will be utilized as an emergency funding source	Time new debt to coincide with the maturity of existing debt	Grants will only be pursued for community priority projects
Property taxes and user fees will not be supplemented by transfers from reserves	A document describing each reserve will be maintained	Preserve the City's debt capacity by limiting the use of debt to fund major capital projects	
Proposed property tax shifts will be carefully analyzed before implementation		Make major debt servicing transparent by using dedicated debt levies	
Property taxes and user fees will be transparent and easy to understand		Consider paying down debt earlier when possible	
Non-recurring revenues will only be matched to non-recurring expenditures			

	COSTS		
Development Finance	*Asset Renewal*	*New Capital Projects*	*Service Delivery*
New development pays for new servicing	Invest in infrastructure renewal/replacement according to the Asset Management Plan	Leverage development to provide community amenities	Examine and consider all service delivery options
Development cost charges will be utilized to ensure developers pay their fair share	Periodically review the Asset Management Plan and funding	Partner with other entities to deliver community amenities	Measure and track service levels
Leverage development to provide community amenities	Supplement asset funding with additional funding where possible	Develop a long term community amenity needs plan	Factor all costs in when considering new services
		Prioritize capital projects based on necessity and urgency	