

# **Finances and Funding**

***Municipal Orientation 2021***  
***Monday, June 28, 2021***

# Presentation Overview

- Part 1: Financial Reporting and Budgeting  
Break
- Part 2: Asset Management
- Part 3: Capital Borrowing and Long-Term Financing
- Part 4: Recap and Questions

# Definition

## **Municipality or Local Government (LG)**

- For the purposes of this presentation, the word municipality and local government includes city, town, village, rural community or regional municipality

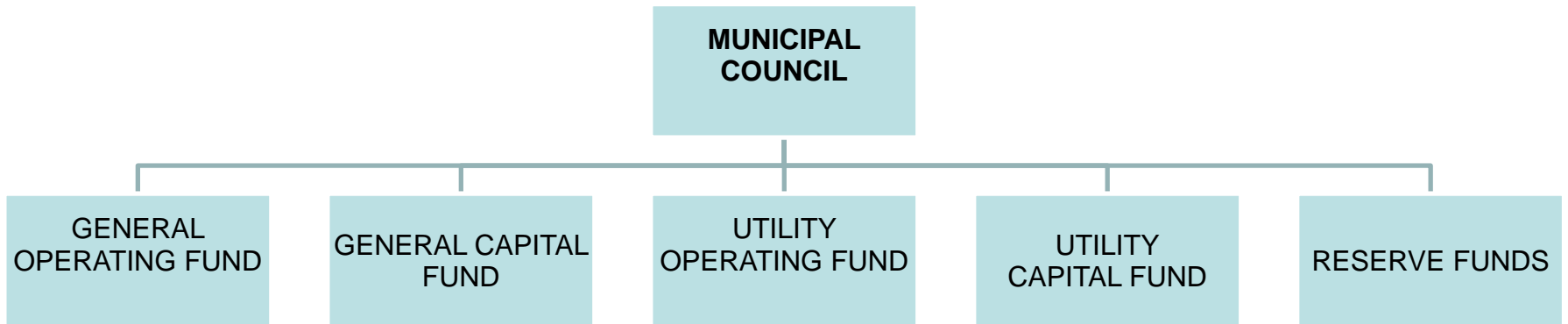
# Provincial Accounting and Reporting Standards

- Reporting in conformity with Generally Accepted Accounting Principles (GAAP) / Public Sector Accounting Standards (PSAS), the *Local Governance Act*, the *Control of Municipalities Act* & the Municipal Financial Reporting Manual
- Fulfilling the Local Government's duty to be publicly accountable
- Evaluating the operating results of the Local Government
- Internal controls

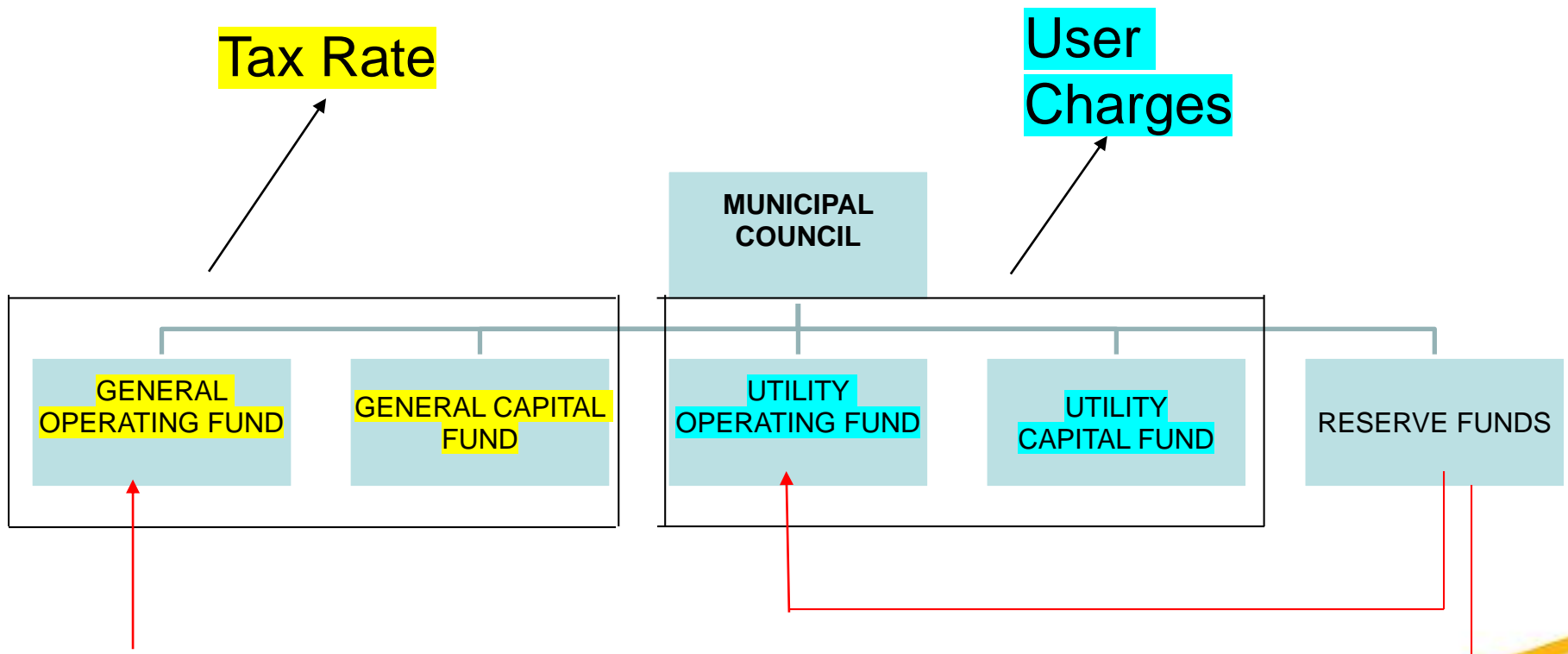
# Part 1

## Financial Reporting and Budgeting

# Types of Funds



# Types of Funds



# Accounting and Reporting



# Local Government Financial Statements

## 1. Internal Financial Statements

- Simple and easy to understand
- Revenue and expenses actual to budget comparison by services
- Monthly or quarterly reporting

## 2. Consolidated Public Sector Accounting Standards (PSAS)

- More complex, combines all funds and controlled entities
- Audited and consolidated
- Required by Local Government and Local Governance Reform

# Internal Statements (Example)

	<b>YEAR-TO-DATE RESULTS</b>		
	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
<b>REVENUE</b>			
PROTECTIVE SERVICES	254,077	254,078	1
BY-LAW SERVICES	67,540	29,812	(37,728)
LEGAL	334	0	(334)
PARKING AND PERMITS (DESIGNATED HIGHWAYS)	621,032	650,235	29,203
CODIAC TRANSPORATIONS (SNOW DUMP)	462,828	449,900	(12,928)
OPERATIONS (SNOW DUMP)	14,800	9,104	(5,696)
RECREATION, CULTURE AND EVENTS SERVICES	199,892	258,734	58,842
FINANCE SERVICES	90,426	139,306	48,880
MUNICIPAL LEVY	23,958,598	23,958,598	0
<b>TOTAL REVENUE</b>	<b>\$25,669,527</b>	<b>\$25,749,767</b>	<b>\$80,240</b>
<b>EXPENDITURES</b>			
GOVERNANCE AND CORPORATE MANAGEMENT	7,525,278	7,522,900	2,378
CORPORATE SERVICES	1,257,835	1,306,873	(49,038)
LEGAL AND LEGISLATIVE SERVICES	154,437	148,640	5,797
FINANCE SERVICES	7,450,989	7,616,832	(165,843)
OPERATIONS	11,309,532	10,665,408	644,124
RECREATION, CULTURE AND EVENTS SERVICES	4,614,037	4,693,929	(79,892)
SUSTAINABLE GROWTH & DEVELOPMENT	2,844,057	2,829,204	14,853
GRANTS	1,704,722	1,713,730	(9,008)
<b>TOTAL EXPENDITURES</b>	<b>\$36,860,887</b>	<b>\$36,497,516</b>	<b>\$363,371</b>
<b>SURPLUS / (DEFICIT)</b>	<b>(\$11,191,360)</b>	<b>(\$10,747,749)</b>	<b>\$443,611</b>

# Consolidated PSAS Statement (Example)

	PSA Budget (Schedule 5)	2020 <u>Actual</u>	2019 <u>Actual</u>
<b>Revenue</b>			
Property Tax Warrant	\$ 143,724,760	\$ 143,724,755	\$ 138,099,112
Community Funding and Equalization Grant from Provincial Government	3,108,999	3,109,004	3,919,686
Federals grant in lieu	17	17	(56,897)
Government transfers for operating (Schedule 1)	1,643,974	5,134,703	1,692,830
Other revenue from own sources (Schedule 1)	14,659,597	12,764,851	17,665,235
Water and wastewater revenue (Schedule 1)	35,825,183	36,707,446	35,262,254
Interest	762,000	2,795,982	3,503,598
	<u>199,724,530</u>	<u>204,236,758</u>	<u>200,085,818</u>
<b>Expenses (Schedule 2)</b>			
General government services	54,599,654	56,192,057	56,390,159
Protection services	42,815,454	42,227,306	40,782,336
Transportation services	30,010,900	28,068,649	30,116,946
Environmental health and development services	10,872,948	11,811,501	11,282,263
Recreation and cultural services	17,063,132	16,105,777	16,134,780
Water and wastewater	26,115,993	24,868,392	27,163,687
	<u>181,478,081</u>	<u>179,273,682</u>	<u>181,870,171</u>
Annual surplus before capital contributions	18,246,449	24,963,076	18,215,647
Other contributed assets for capital (Schedule 1)	-	7,901,906	5,866,839
Government transfers for capital (Schedule 1)	21,040,414	<u>16,204,000</u>	<u>17,109,380</u>
Annual surplus	39,286,863	49,068,982	41,191,866
Accumulated surplus, beginning of year	<u>735,119,766</u>	<u>735,119,766</u>	<u>693,927,900</u>
Accumulated surplus, end of year	<u>\$ 774,406,629</u>	<u>\$ 784,188,748</u>	<u>\$ 735,119,766</u>

# Annual Audited Financial Statements

- Fiscal year is calendar year
- Must be PSAS compliant
- Must be audited – General Accepted Auditing Standards (GAAS)
- Notes are an integral part
- Formally approved by council
- Public document
- Fund accounting

# Role of Treasurer

From the *Local Governance Act (LGA)*:

## **76. The chief financial and accounting officer of the Local Government (LG)**

- Collect and receive all money
- Open bank accounts
- Maintain accurate accounts and records
- Be the custodian of all accounts and records
- Prepare year end statements for audit
- Prepare and submit periodic statements to the council as it requires
- Ensure that the LG is protected by insurance
- Advise council and committees on all financial matters
- Perform other duties as assigned

## **77. Mayor or council appointee approves payments with Treasurer**

# Role of the Auditor

## From section 79 of the *Local Governance Act (LGA)*:

- Must be a Chartered Professional Accountant (CPA)
- Perform any duties that are prescribed by the LGA and its regulations and the *Control of Municipalities Act*, as well as any duties prescribed by council through by-law or resolution
- Complete audit by March 1st
- Send copies to the Department within 10 days
- Minister may appoint an auditor, if council fails to do so

# Budget

Revenues

Expenditures



# What is a budget?

- **Financial plan with targets**
- **Various budgets**
  - Personal
  - Corporate
  - Special events
  - Government (including LG)
  - Multi-year



# Local Government Budgeting

# Budget Overview

- Prepared annually
- Approved by council resolution at a regular meeting
- Establish tax rate for General Operating Fund
- Establish user charges for Utility Operating Fund
- Balanced budgets
- Submitted to the Minister of Local Government and Local Governance Reform (LGLGR) on prescribed forms

# Who is Involved?

- Staff, Department Heads, Supervisors
- Treasurer / Finance Staff
- Management Team
- Finance Committee (if applicable)
- Citizens (if applicable)
- Council

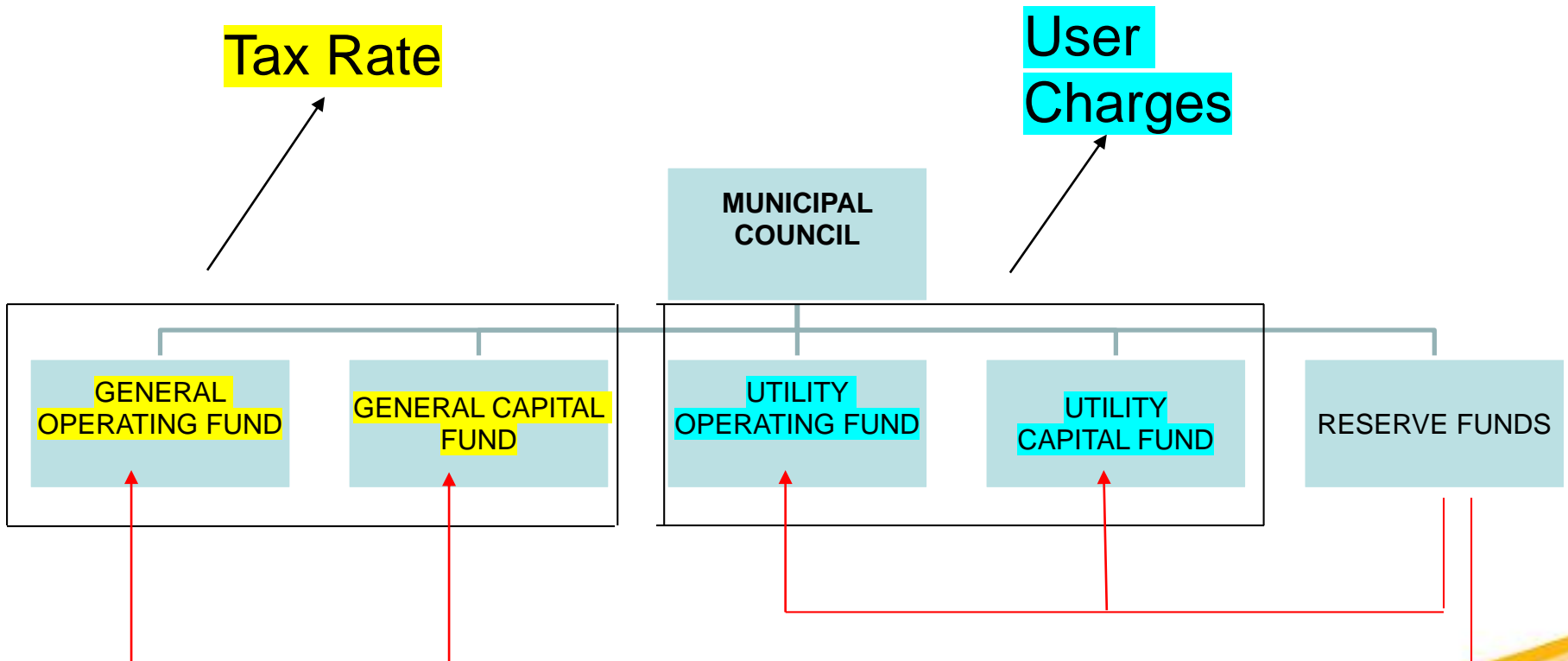
# Steps in Budget Process

1. Establish a budget calendar
2. Establish corporate guidelines of LG budgets
3. Review long-term financial plans and strategic plans (if applicable)
4. Request input from others including council
5. Review information and prepare draft budget
6. Receipt of tax base for rate, and Community Funding and Equalization Grant from LGLGR
7. Finalize the budget
8. Approval by council and submission to LGLGR
9. Approval by Department (Minister of LGLGR)

# Types of Local Government Budgets

1. General Operating
2. Utility Operating (water, wastewater (sewer) and electricity)
3. Capital Budgets
  - General
  - Utility

# Types of Funds



# **General Operating Budget**

## **Local Governments**

# General Operating Budget

## Highlights:

- The most visible budget in your community
- Supported by the municipal levy (tax rate)
- Includes all revenues and expenses not related to utility services
- Approved by council through resolution at a regular meeting



# Revenues Summary

- Property tax revenues (warrant)
  - Residential property taxes
  - Non-residential property taxes
- Community Funding and Equalization Grant (CFEG)
- Own-source revenues

# Property Tax Revenues

# Definitions



Municipal Assessment Base = Value of residential and non-residential properties in your municipality. The evaluation and numbers are provided by Service New Brunswick (SNB)



Tax Rate = Rate applied to the assessment of a property that is used to calculate the property tax paid by the property owner.



Property Tax Revenues (warrant) = Tax base for rate \* Tax Rate  
(divided by 100\$ of assessment)

# Municipal Tax Base For Rate

- Values of all properties provided by Service New Brunswick (SNB)
- 50% gross up for non-residential property
  - These properties are taxed at 1.5 times the residential rate
- Municipal Tax Base
  - Sum of assessment base + 50% gross up of non-residential
- Adjustment for Payment In Lieu of Taxes (PILT)
  - Federal Property Adjustment

# Municipal Tax Base for Rate Calculation

Municipal Assessment Base (SNB)

+

50% of non-residential assessment

=

Tax Base

-

Adjustment for federal payment in lieu of taxes

=

**Municipal Tax Base for Rate**

# Municipal Property Tax Revenue

**Tax Base For Rate \* Tax Rate / 100 = Property Tax Revenue**

\* The tax rate established on what is required to balance the operating budget

# Community Funding and Equalization Grant (CFEG)

# ***Community Funding Act : For Local Governments***

## **Grant has 2 components:**

- Core Funding (\$13M)
  - \$0.16 cent on non-residential assessment
- Equalization (\$53M)
  - Provides assistance to those that are less able to raise revenues
  - Groups of local governments
  - This funding allows local governments to provide a comparable level of service at a comparable tax rate, regardless of where they are located
- Newly incorporated and restructured communities are removed from the formula and receive the same amount as was received in the previous year and the previous form (\$1.8M)



# Own Source Revenues

# Own-Source Revenues

- **Services provided to other governments**
  - Protection services – fire
  - Transportation services – summer and winter maintenance
  - Dispatching services
  - Recreation agreement
- **Sale of Services**
  - Arena
  - Cultural centre and facilities
  - Pool and beaches
  - Market, public transit
  - Special events

# Own-Source Revenues (continued)

- **Revenue from own sources**
  - Licenses and permits, building permits
  - Fines
  - Parking
  - Leasing of buildings
  - Hotel levy
- **Other transfers**
  - Surplus from second previous year
  - Transfers from other funds (water and sewer for shared services)

# General Operating Expenses

# Expenses

- **General administration services**
  - Legislative services
  - General administration
- **Protection Services**
  - Police & fire
  - Animal control
  - Emergency measures
  - By-law (if applicable)

# Expenses

- **Transportation Services**

- Administration
- Road transportation, winter and summer
- Engineering
- Public transit

- **Cultural and Recreational**

- Administration
- Rinks, parks, playgrounds, beaches, historic sites
- Special events, festivals
- Historic sites, libraries

# Expenses

- **Environmental Development Services**
  - Community planning - Commission
  - Regional Development Commissions
  - Economic Development
  - Tourism
- **Environmental Health Services**
  - Solid waste removal
  - Solid waste disposal - Regional Service Commissions

# Expenses

- **Financial Services**
  - Administration
  - Debt services – interest and principal
  - Procurement
  - Deposit to reserves (savings account)
  - Capital from operation



# General Operating Budget Summary

**If after calculating all revenues and expenditures, and budget is unbalanced, council has a few options to balance it:**

## **If there is extra revenue**

- Reduce tax rate
- Increase service levels
- Transfer to reserves for future

## **If there is extra expenditures**

- Increase tax rate
- Reduce service levels
- Increase own source revenue
- Budget a transfer from the operational reserve if funds are available

# Property Tax Revenue (Warrant)

• Total expenditures	\$7,660,000
• Less: Own source revenues	\$1,500,000
• Less: CFEG	<u>\$625,000</u>
• Local tax requirement	<b>\$5,535,000</b>
• Warrant to be covered	\$5,535,000
• Divided by tax base for rate	\$374,300,000
• Tax rate	\$1.4784

# Utility Operating Budget

# Utility Operating Budget

## Highlights

- Water and sewer services
- Supported by user charges
  - Fixed and variable rates
- Approved by council resolution at a regular meeting.
- Balanced budget

# Components

## Revenues

- User charges
- Bulk water
- Revenues from general fund (fire costs)

## Expenses

- Administration
- Operations
- Fiscal services (debts)

# Utility Operating Budget Summary

**If after calculating all revenues and expenditures, and budget is unbalanced, council has a few options to balance it:**

## **If there is extra revenue**

- Reduce user charges
- Increase service levels
- Transfer to reserves for future

## **If there is extra expenditures**

- Increase user charges
- Reduce service levels
- Budget a transfer from the operational reserve if funds are available

# Capital Budgets

# Capital Budget

## Highlights

- Annual and multi-year (5-10)
- Asset management
  - Recapitalization target
- Debt charges (fiscal services) form part of general and utility budgets
- Capital expenditures (GAAP)
- *Community Planning Act* requires a local government to submit a five-year capital budget with their municipal plan



# Capital Budget Expense Categories

- General Administration (land, town hall, IT)
- Protection Services (fire assets, police station)
- Transportation Services (roads, sewer, transit)
- Environmental Development Services (new market)
- Recreational and Cultural Services (field, park)
- Environmental Health Services (water, sewer)

# Capital Budget Source of Funding

- Gas Tax Fund (GTF)
- Provincial Government
- Federal Government
- Capital from Operation
- Reserves
- Community Groups
- Other

## 5 Year Capital Plan

General Administration	2019	2020	2021	2022	2023
Town Hall	\$ -	\$ 800,000	\$ -	\$ -	\$ -
Land	\$ 200,000	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ 200,000</b>	<b>\$ 800,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Protection Services	2019	2020	2021	2022	2023
Fire Truck	\$ -	\$ 400,000	\$ -	\$ -	\$ -
Breathing aparatus	\$ -	\$ -	\$ 200,000	\$ -	\$ -
<b>Total</b>	<b>\$ -</b>	<b>\$ 400,000</b>	<b>\$ 200,000</b>	<b>\$ -</b>	<b>\$ -</b>
Transportation Services	2019	2020	2021	2022	2023
Half tone truck	\$ -	\$ -	\$ 200,000	\$ -	\$ -
Sweeper	\$ -	\$ -	\$ -	\$ -	\$ 200,000
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 200,000</b>	<b>\$ -</b>	<b>\$ 200,000</b>
Environmental Development Services	2019	2020	2021	2022	2023
New Market	\$ -	\$ -	\$ -	\$ 400,000	\$ -
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 400,000</b>	<b>\$ -</b>
Recreation and Cultural Services	2019	2020	2021	2022	2023
Soccer Field	\$ -	\$ -	\$ 300,000	\$ -	\$ -
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 300,000</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Grand Total</b>	<b>\$ 200,000</b>	<b>\$ 1,200,000</b>	<b>\$ 700,000</b>	<b>\$ 400,000</b>	<b>\$ 200,000</b>
Sources of Funding					
Gax Tax	\$ -	\$ 500,000	\$ -	\$ -	\$ -
Provincial Government	\$ -	\$ -	\$ 100,000	\$ -	\$ -
Federal Government	\$ -	\$ -	\$ 100,000	\$ -	\$ -
Capital from Operation	\$ 50,000	\$ -	\$ 25,000	\$ -	\$ -
Reserves	\$ -	\$ -	\$ -	\$ -	\$ -
Other				\$ 150,000	
<b>Total Sources of Funding</b>	<b>\$ 50,000</b>	<b>\$ 500,000</b>	<b>\$ 225,000</b>	<b>\$ 150,000</b>	<b>\$ -</b>
<b>Borrowing</b>	<b>\$ 150,000</b>	<b>\$ 700,000</b>	<b>\$ 475,000</b>	<b>\$ 250,000</b>	<b>\$ 200,000</b>

# Capital Budget Best Practices

- Invest in your existing assets rather than growth assets (Asset Management)
- Consider operating impacts of the proposed capital budget
- Multi-year planning is key in being sustainable and strategic

# **Operating, Utility and Capital Budget Summary**

# Local Government Budget Challenges

## Revenues

- Major source comes from property taxes and utility charges
- Limited opportunities for own source revenues

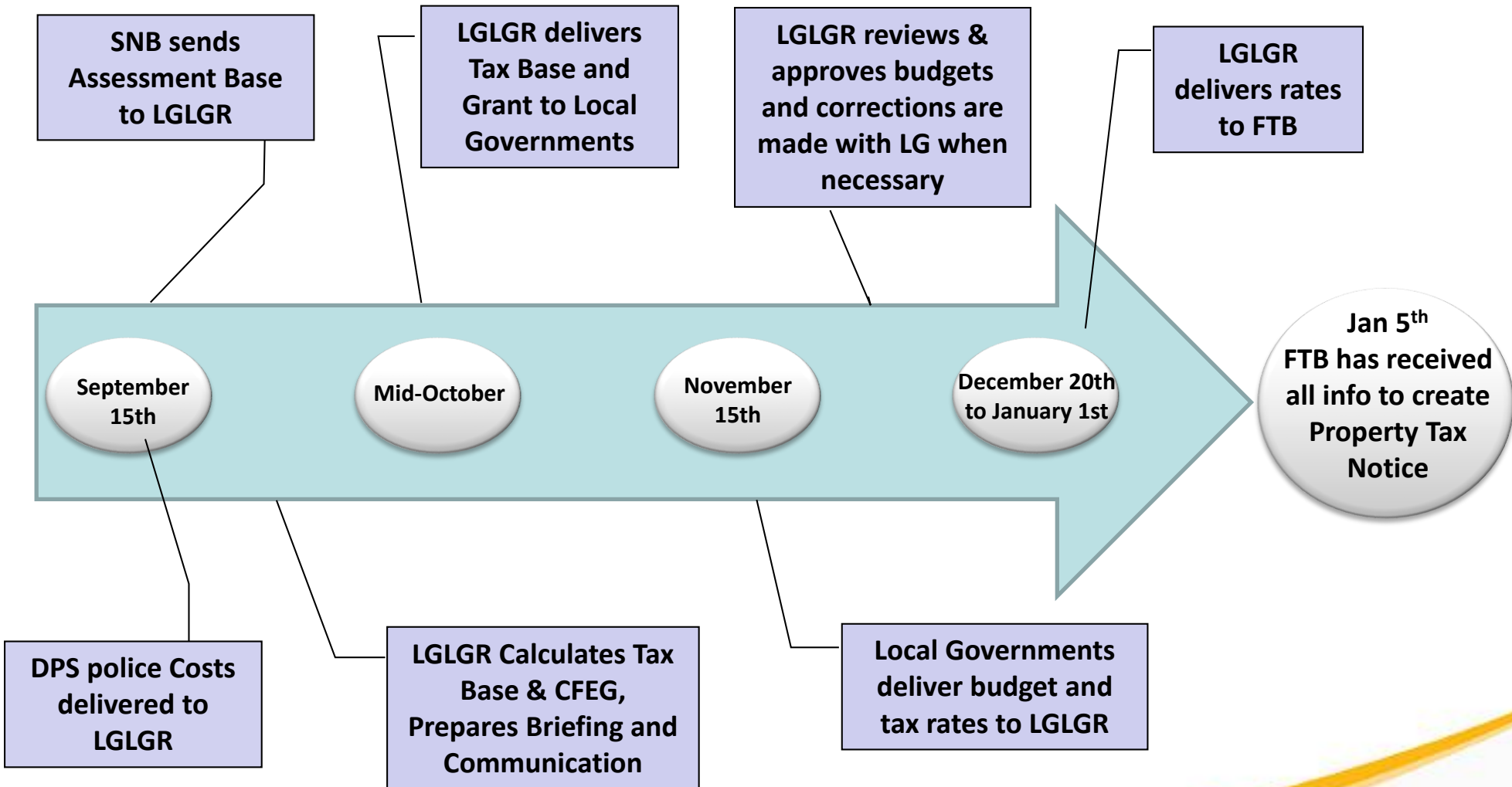
## Expenses

- Majority of expenses are fixed, limited variable expenses
- Difficult to adjust if revenues are lower than anticipated
- Taxpayers and ratepayers want more services without raising rates
- Impacts of unplanned decisions

# Best Practices

- Year-round planning
- Multi-year budgeting linked to a strategic plan
- Long-term financial planning
- Prioritization is key
- Citizenship engagement
- Control decisions through the budget process if at all possible
- Continue to update budget position throughout the year

# Budget Timeline





# Questions

- Your administrator / treasurer
- Other local governments
- Community Finances Branch at LGLGR
- Your auditors

# Part 2

# Asset Management

# Why?

- Best practice
- Provincial requirement
  - Gas Tax Funding
- Significant investment in capital assets

# Asset Management Objective

- “The set of planned actions that will enable the assets to provide the desired level of service in a sustainable way, while managing risk, at the lowest lifecycle cost”
- Balancing lifecycle costs and levels of service

# 7 Questions to Asset Management

- What do you own and where is it? (inventory)
- What is it worth? (valuation – replacement cost)
- What is its condition / remaining service life?
- What needs to be done? (maintain, rehabilitate, replace)
- When do you need to do it? (useful life analysis)
- How much will it cost? (investment requirements)
- How do you ensure sustainability? (long-term financial plan)

# Components

## Most Local Governments now have:

1. Tangible Capital Asset (TCA) Listings (what we own)
2. TCA valuation (what is it worth)
3. Long-term financial plan

## What is needed to finalize:

4. State of the local infrastructure
5. Expected Levels of Service (LOS)
6. Asset management strategy
7. Financing strategy

# Best practices

- Set-up an internal team with expertise from finance and infrastructure areas
- Simplify the process, set a recapitalization process where you guarantee a minimum investment towards existing assets

# Benefits

- Provincially compliant
- Know funding requirements to maintain your assets
- Asset condition improvement
- Assist council with decision-making



# Part 3

## Capital Borrowing and Long-term Financing

# 3 Part Process

1. Capital borrowing approval
2. Procurement and completion of capital project(s)
3. Long-term financing

# Capital Borrowing

# Capital Borrowing Summary

1. Preparation of capital budget
2. Council resolution
3. Application to Municipal Capital Borrowing Board (MCBB) (documents required)
4. Notice of public hearing (advertised in newspaper)
5. Application analysis
6. Public hearing
7. Ministerial approval

# Municipal Capital Borrowing Board

## Mandate

- The mandate of the Municipal Capital Borrowing Board (MCBB) is to monitor and authorize long-term capital borrowing of municipalities and commissions

## Members

- Six senior civil servants are appointed to the Board by the Lieutenant-Governor in Council under authority of the *Municipal Capital Borrowing Act*

# Application by Borrower

- Resolution of council to request to borrow (amount, purpose and term)
- Authorization to borrow from MCBB
  - Board hearing
  - Ministerial approval

# Board Hearing

- Borrowing for legitimate capital expenses
- Amount within legislated limits
- Policies must be respected
- Must be financially able to undertake borrowing
- Notice of hearing complies with legislation
- Objections may be provided by the public

# Ministerial Approval

- Must have approval from LGLGR (Ministerial Order) before a project can begin or before committing to expenditures requiring a loan (ex: awarding a tender)
- Interim financing can be obtained for capital expenditures that will be repaid within three years by Federal or Provincial grants



# Procurement and Construction Completed



# Long-term Financing

# Authority for Long-term Financing

- Once project (or phase of a larger project) is completed and final cost are known, arrangements for long-term financing can be made (debentures)
- Local governments can only borrow long-term funds from their own reserve funds, the Provincial or Federal Government, or the New Brunswick Municipal Finance Corporation (NBMFC) (debentures)
- Resolution of council for long-term financing – Application Form
- Debentures are issued semi-annually (spring and fall)

# Authority for Long-term Financing

- Completion of “Application for Financing” form
- “Application for Financing” form signed and sealed by Clerk and forward to LGLGR

# Resources

- Guide to Municipal Capital Borrowing
  - <http://www2.gnb.ca/content/dam/gnb/Departments/lg-gl/pdf/GuideToMunicipalCapitalBorrowing.pdf>
- New Brunswick Municipal Financial Reporting Manual
  - <https://www2.gnb.ca/content/dam/gnb/Departments/lg-gl/pdf/PSAB-CCSP/MunicipalFinancialReportingManual.pdf>

# Questions

- Your administrator / treasurer
- Community Finances Branch - Local Government and Local Governance Reform

[www.gnb.ca](http://www.gnb.ca)

# Capital Planning, Borrowing and Financing Best Practices

- Planning ... planning ... planning
  - Have a capital plan
  - Start your budgeting process early
  - Borrowing authority is valid for two years. You can come to the Board once for all projects planned for the year
- Don't commit to projects without approval from the Municipal Capital Borrowing Board (MCBB)
- Take into consideration inflation rates and future needs when looking at tax rate and user fees
- Be informed! and be transparent!

# Presentation Recap



# Summary of Council - Overview

- Approval of yearly budget
- Approval of five-year capital plan
- Approve the audited financial statements
- Approve borrowing
- Transfer to and from reserves
- Awarding contracts following procurement policies and legislation
- Ask questions!!
- Accountable to citizens!!

