Corporation of the City of
NEW WESTMINSTER

Attachment 14

Budget 2025 Themed Memo

– Financial Strategy

NEW WESTMINSTER

Memorandum

To:	Lisa Spitale Chief Administrative Officer	Date:	November 25, 2024
From:	Shehzad Somji Chief Financial Officer	File:	

Subject: Financial Strategy

PURPOSE

This memo will provide Council with strategies that could be considered for building resilience and sustainability of City's financial position.

BACKGROUND

Based on recent research and statistics, municipal operating expenses have increased over time in response to demands and needs of communities for important local services. The increases are primarily attributed to recent population growth in the community, rising cost of key service inputs, additional resources required to service or adhere to new regulatory initiatives, and costs download from senior governments.

Across the nation, municipalities face similar issues, with many built assets operating well beyond their intended lifespans. Bridges, roadways, utility systems, recreational facilities and civic buildings require significant investment to prevent failures. Inadequate infrastructure investments and deferred maintenance have led to a backlog of repairs, replacements, upgrades, and modernization needs that most municipalities are currently facing.

Infrastructure funding gaps have been identified in almost all of the City's Asset Management Plans (AMP). Most of the City reserves are facing steady declines, an issue that poses significant challenges to the City's long-term financial stability, resilience and service delivery capability. Reserves play a pivotal role in maintaining the quality of public services, funding critical infrastructure projects, and providing a financial buffer against unforeseen events. As reserve balances dwindle, the City's ability to respond to emergencies, invest in necessary infrastructure, and support for community priorities are increasingly at risk.

The Finance team continuously reviews the organization's financial health to ensure alignment with the City's core financial principles which are sustainability, adaptability, stability and accountability. Today, a number of reserve balance are not meeting the City's Reserve Management Policy of 5% - 10% of asset Current Replacement Value. Staff will explore ways to progressively rebuild the balance of those Reserves to meet policy requirement.

OVERVIEW AND CONTEXT

Some of the strategies Finance will be exploring are as follows:

1. **Developing Resilient and Sustainable Reserves**

   Building resilient and sustainable city reserves is a forward-thinking approach that supports the City managing long-term growth and unforeseeable challenges, providing financial stability and flexibility in an ever-changing economic and political environment.

   The City currently builds or replenishes reserves through allocation of annual cash operating surpluses or a dedicated revenue source such as the Low Fuel Carbon Credits sale proceeds, to various Reserve Funds, which is not predictable or sustainable. A dedicated and predictable funding source should be available that will allow for increased resilience, which is a Foundation in Council's 2023-2026 Strategic Priorities.

   The City should consider diversifying the funding source beyond the traditional way of allocating annual operating surpluses to Reserves - introducing a temporary fee or levy dedicated to building a strong reserve for a period of time until the projected reserve balance reaches a policy target. When the reserve balance falls short of the predetermined target, the special fee or levy will be "automatically" re-instated.

   Having a predictable and stable annual property tax increase will alleviate some financial pressures (due to a higher than normal tax increase) to business owners and residents, particularly for those who live on fixed income.

   A Property Tax Stabilization Reserve will help the City achieve this goal. A portion of the annual cash operating surpluses (such as 10%) or a fixed dollar amount will be allocated to this Reserve Fund until a minimum balance is met. Through Council Resolution, the City can access these funds to stabilze annual property tax increases without possible service reductions. A City policy will be developed to provide clarity and govern access of this Reserve Fund.

2. Government Grant Funding

In recent years, the issue of downloading costs from senior governments to municipalities has been a significant expenditure cost driver to municipal finance. In many cases, costs were downloaded to municipalities through regulatory changes such as the new Housing legislation. Government grants or funding were typically provided at implementation phases and municipalities are left to cover operating and maintenance costs using their own resources. It is important for the City to continue pursuing government grants to cover the shortfalls.

To maximize the opportunity for government grants, Staff will adopt a proactive, comphrensive approach which includes the following strategies:

- Conduct a thorough assessment of the City current and future needs. Develop a longer term (10 years) Capital Plan and prioritize and align potential projects with available funding program objectives.
- Maintain a detailed and updated database of available government grant programs. Identify recurring and newly announced funding opportunities that align with the City's strategic goals.
- Engage the community in identifying funding priorities and gather support for projects. Community endorsements can enhance the appeal of grant applications.
- Establish systems to monitor grant performance and ensure compliance with funding requirements. Regular reporting and transparent use of funds strengthen relationships with grant providers and improve the chances of future funding.

3. Prudent Debt Management

Although using debt to fund capital projects is a widely used strategy, the *Municipal Liabilities Regulation* sets a liability service limit of 25% of specific municipal revenues. Carrying costs of debt are normally higher than building reserves over time and put undue financial pressure on taxpayers for the annual debt servicing cost.

If debt financing is unavoidable, such as the need to finance an infrastructure project before sufficient reserve funding is available or to preserve liquidity and maintian the Reserve balance at the target level, a detailed long-term (such as 10 years) financial analysis, including a clear and feasible plan for servicing debt payments (both interest expense and repayment of principal) and possible long-term impacts to property tax or utility rates, must be in place to avoid possible budget shortfalls.

The City should use debt financing cautiously. Finance staff will monitor City's debt level to ensure that the City stays within the allowable and sustainable limits as excessive borrowing can lead to financial instability and increased debt burdens. Finance staff will develop a Debt Financing policy to provide clarity and govern the use of debt for the City.

4. **Long-term Financial Planning**

Effective financial planning and forecasting beyond the 5-year financial plan horizon to determine long-term growth and capital infrastructure demands. This requires strategic investment, prudent fiscal and debt management, and contingency planning to ensure the city can sustainably fund major projects, adapt to changing economic conditions, and support future development**.**

Long-term financial planning helps the City anticipate potential operating budget shortfalls, avoiding sudden large property tax and utility rates increases, providing sufficient funding for routine infrastructure maintenance and upgrades, enhancing service delivery (avoiding possible service reductions or dissruptions), allowing better planning, ensuring financial stability, and demonstrating transparency and financial stewardship.

ALIGNMENT WITH STRATEGIC PLAN

In order to meet Council's 2023 – 2026 strategic priority of Asset Management and Infrastructure goal where the *City has resilient infrastructure that meets the community's needs today and in the future*, the City's financial health needs to be resilient and be able to support growth and *adapt to change and unforeseen challenges*.

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FINANCIAL IMPLICATIONS

Some of the significant benefits of building reserves over time are capacity to embark on capital projects to ensure assets are replaced prior to end of life, having the resilience to undertake emergency repairs, reduced borrowing for projects, and the ability to have stable and somewhat predictable tax and utility rate increases for residents. Through prudent financial planning and oversight, the City can minimize opportunity costs and further build resilience towards unforeseen challenges.