



Orientation - Strategic Financial Management

September 28, 2021



SAINT JOHN

Finance Committee - Terms of Reference

- 5 Voting Members, one being the Mayor (3 for Quorum)
- Governed by the City's Council Procedural Bylaw
- All decisions in the form of resolutions duly passed by a majority; recommendations of Committee brought forward to Common Council
- Chairperson will act as the liaison between the Committee and City Council

- Chair and Members selected by Nominating Committee
- Where a member fails to attend 3 consecutive meetings without approval of the Committee, the member can be struck from the membership and replaced by an appointment of Council
- Meetings are typically monthly or as required at the call of the Committee Chair

Mandate of the Finance Committee

- Mandate of the Finance Committee prior to 2015 had a limited mandate:
 - A few meetings a year to oversee financial reporting, internal controls, external audit and accounting systems.
- Common Council made Fiscal Responsibility a strategic priority in 2016.
- Common Council expanded the mandate in 2016 to include budget development, continuous improvement, fiscal management (policy), long term planning and resource allocation.



Council Approved Financial Policies

Policy #	Policy Title	Status
FAS-001	Asset Management Policy	Approved
FAS-002	Investment Management Policy	Approved
FAS-003	Operating & Capital Reserves Policy	Approved
FAS-004	Operating Budget Policy	Approved
FAS-005	Capital Budget Policy	Approved
FAS-006	Debt Management Policy	Approved
FAS-007	Wage Escalation Policy	Approved
FAS-020	Long Term Financial Plan Policy	Approved
FAS-021	Budget Monitoring Policy	Approved
FAS-022	ABC Reporting Policy	Approved

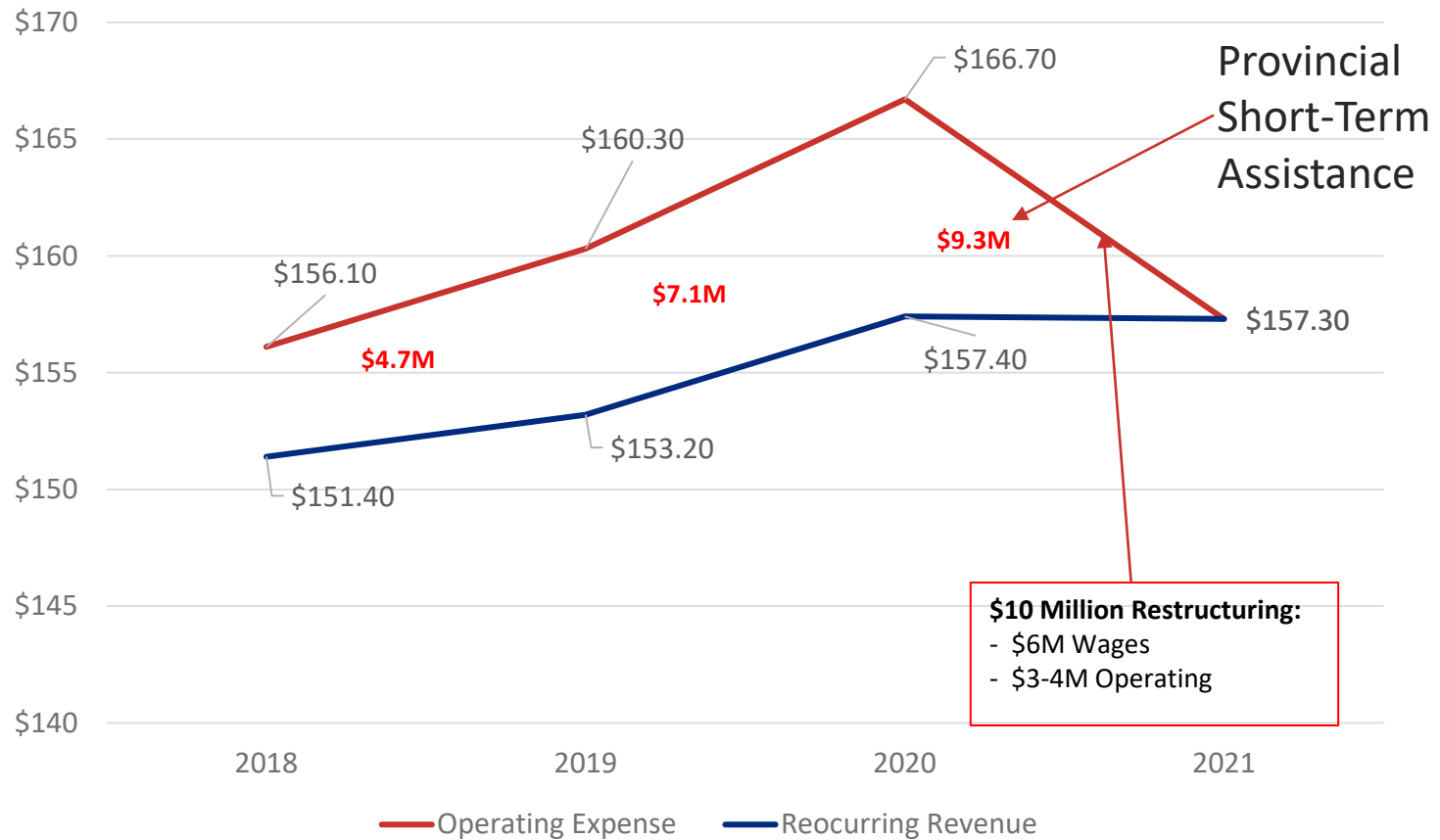


Financial Policies

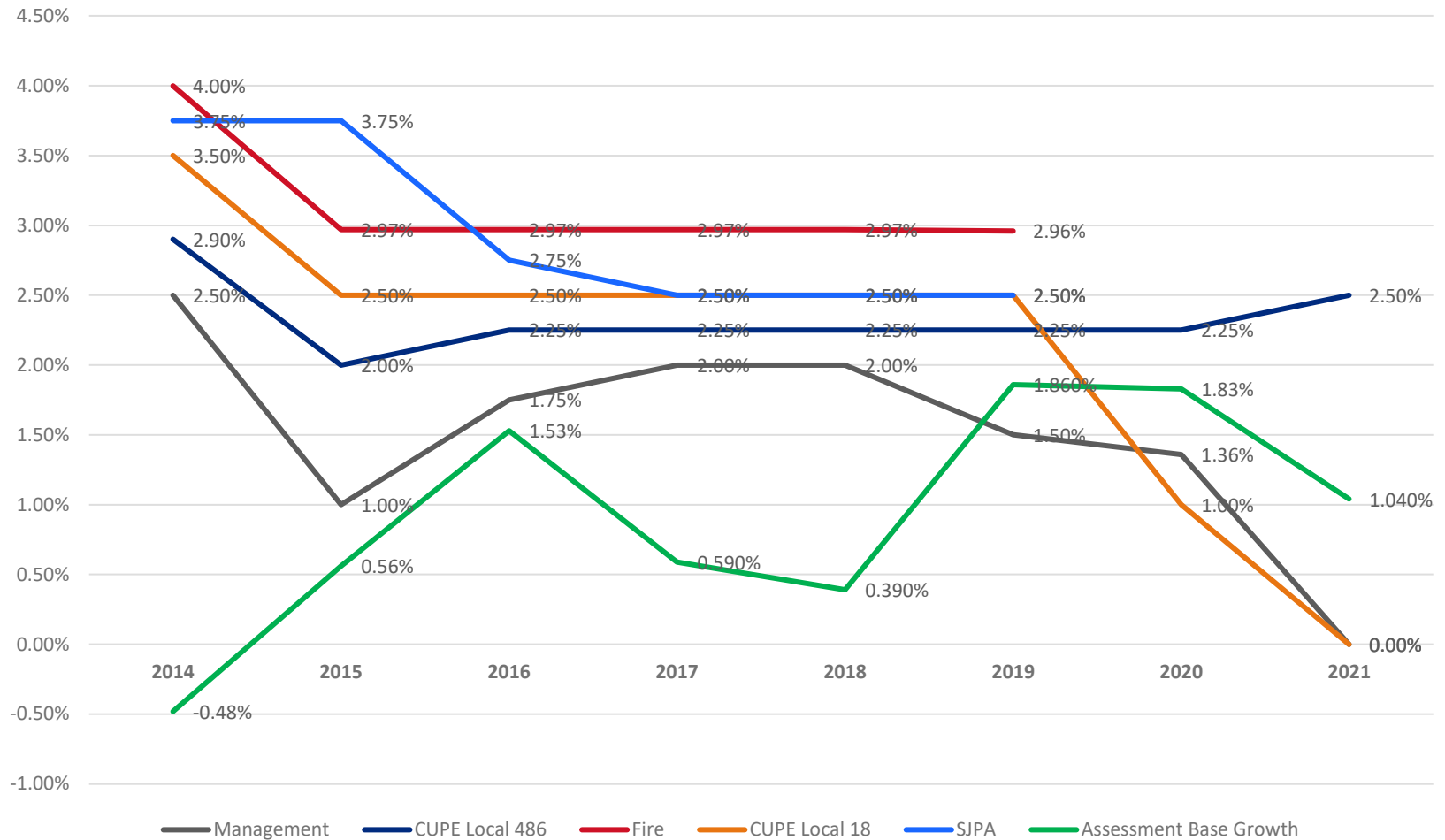
1. Structural Deficit
2. Significant Debt Load
3. Infrastructure Deficit
4. Vulnerable to Unforeseen Risk and Lack of Flexibility
5. Commitment to Financial Excellent

1. Structural Deficit

2018-2021 Budget



Wages and Benefits (Approximately 55% of Budget)



Operating Budget Policy – FAS 004

Don't spend more money than you make:

- The Operating Budget Policy (FAS-004)
 - Compliance is critical to prevent the City from falling back into structural deficits
- Policy does not allow the City to balance reoccurring operating expenses with one time or short-term revenue.
- One-time revenues shall be directed away from funding services and directed to one time uses (pay as you go, reserve funding, debt servicing, capital funding).
- Policy calls for decreasing City reliance on sources of revenue outside its control such as grants from other levels of government
- Policy states budget must be affordable (the City can bear the budgeted costs without incurring financial difficulty or risking other undesirable outcomes)
- Service areas should develop cost recovery policies as the basis for setting user fees
- Government grants will be pursued for initiatives that are in line with Council priorities (Long Term Financial Plan, approved budgets, etc..)



Wage Escalation Policy

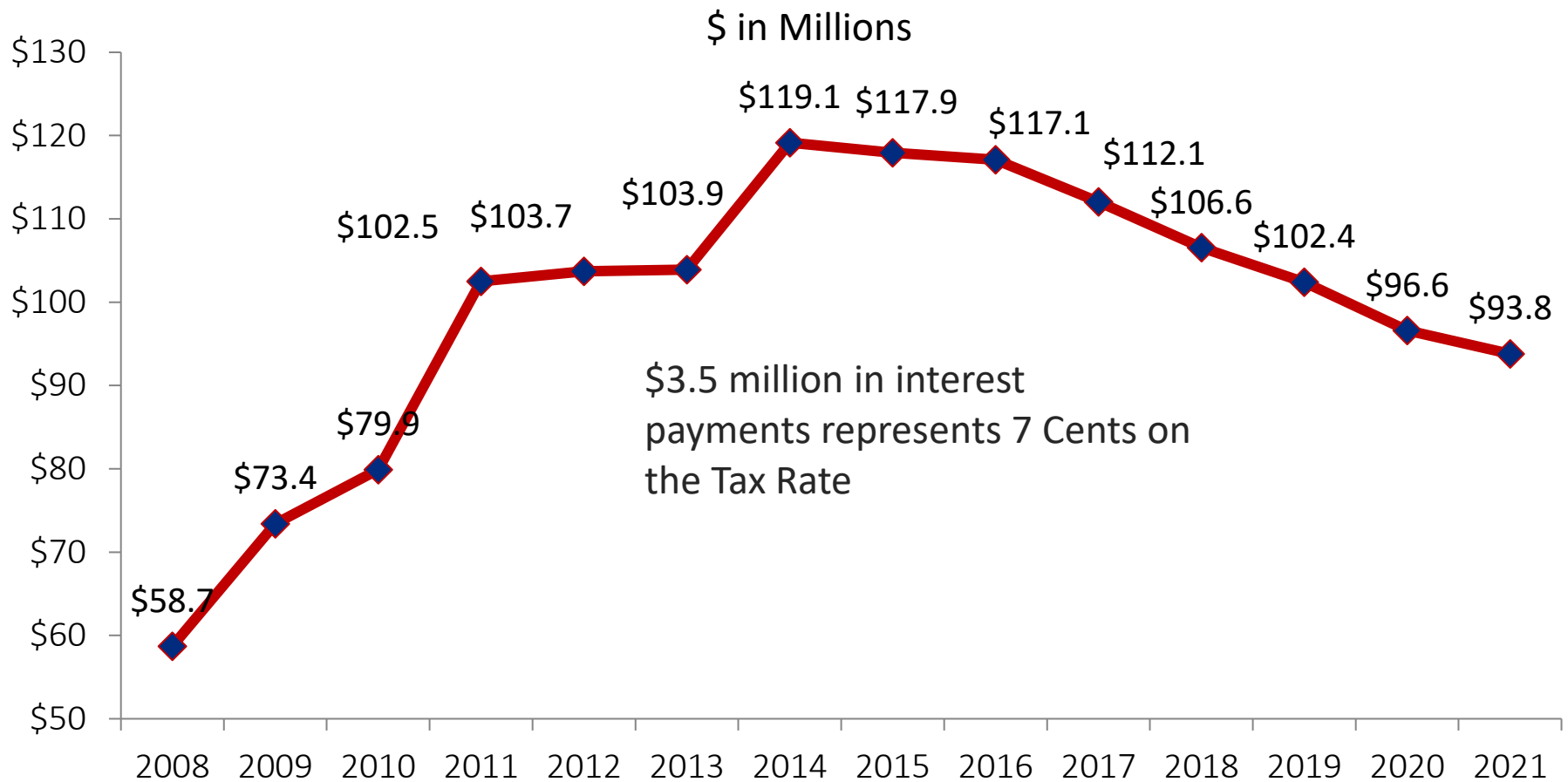
Take control of your expenses before they take control of you:

- Wage Escalation Policy (FAS-007)
 - Compliance is critical to prevent the City from falling back into structural deficits
- To be sustainable, the City must control costs that escalate faster than its revenue
- Wage escalation policy ensures the City spends within its means
- Wages escalation does not cause a tax rate increase
- Wage escalation does not cause a reduction in service levels to balance the budget (maintains and protects service to the community)
- Equitable – share in prosperity – as tax base grows so does wage escalation
- Wage & Benefit budgets shall be based on a three-year rolling average of tax base growth
 - Rolling average smooths fluctuations, reliable data that can be validated, is predictable, affordable and equitable
- Wage and Benefit budgets shall not exceed CPI plus 1% unless supported by a business case



2. Significant Debt load

Taxpayer Debt



Debt Management Policy – FAS 006

Borrow wisely:

- The Debt Management Policy (FAS-006)
 - **Compliance is critical to reducing the City's reliance on debt**
- Best Practice – the Government Finance Officer Association strongly encourage the development of a formal debt policy
- Debt financing is obtained only when necessary and is strategic (in accordance with the Long-Term Financial Plan Debt Reduction Targets and Capital Plans)
- Long-term debt shall not be used to fund operating or maintenance costs or used as a tool to balance the operating budget
- The Long-term Debt amortization period shall not exceed the life of the asset it is financing

Debt Management Policy

Debt Limits

The City's capacity to issue debt is directly related to Taxpayer's ability to service the payments required on the debt.

Debt per Capita: Each citizen's share of debt **Limit - \$1600; Target - \$1175 by 2030**

Debt Service Ratio: % of operating budget that is devoted to servicing debt. **Limit – 12%; Target – 9% by 2030**

Total Debt Outstanding as a Percentage of Operating Budget: Percentage of operating revenue required to extinguish the Debt. **Limit – 70%; Target – 50% by 2030**

Additional debt is only permissible when existing debt is within this parameter.

Pay As you Go

Funding Capital through Operating Budget rather than through Debt





Justified on the grounds of keeping the community's debt burden down (thereby preserving future flexibility);

Factors which favor pay-go financing include:

- Asset Renewal Projects; (Aspirational goal – Debt only for new projects)
- Assets with a useful life that is less than 10 years – for example, IT equipment and road maintenance;
- Situations where market conditions favour the use of cash rather than debt (high interest rates).



2021 Finance Committee Update

Measure	Direction	LTFP Base	LTFP Stretch	2021F	Result
Debt per Capita	Lower is better	\$1,427	\$1,427	\$1,394	
Debt Service Ratio	Lower is better	10.5%	10.5%	10.1%	
Total Debt as a % of Operating Budget	Lower is better	60%	59%	59.9%	
Cumulative Debt Reduction	Higher is better	\$5.1M	\$5.1M	\$7.4M	



3. Infrastructure Deficit

- RV Anderson prepared the “State of the Infrastructure” report that indicated the City has infrastructure deficits of approximately **\$100M** in the General Fund and **\$300M** in Saint John Water
- Infrastructure Deficit are assets that are beyond their useful life that require reinvestment
- Sustainable funding required to address the deficit



Asset Management Policy – FAS 001

Take good care of your property:

- Asset Management Policy (FAS-001)
 - Compliance is critical to reducing Infrastructure Deficit
- Improves Customer Service by maintaining clearly defined level of service and asset condition standards
- Evidence based information to improve the City's decisions as it relates to the management of the City's assets
- Improves the transparency and accountability of community investments
- Evaluates risks of asset failure, including the threat of climate change
- Maintenance and Lifecycle costs must be considered when making asset investment decisions
- Quality of Life amendment proposed



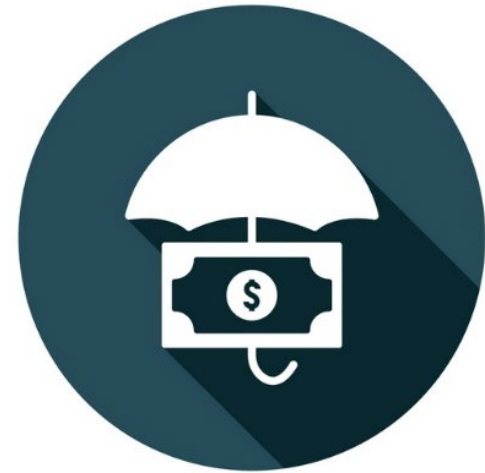
Capital Budget Policy – FAS 005

Fix the roof before you buy new living room furniture

- Capital Budget Policy (FAS-005)
 - Critical for reducing infrastructure deficit
 - 85% of City funded capital must be Renewal and 15% for New Assets
- Prioritizes how capital money is spent – mandatory, risk, priority of Council
- Only City owned assets shall be funded in the Capital Budget.
- Inter -Governmental capital grants shall only be pursued for the approved Capital Budget
- Capital Budget Surpluses shall be, with Council approval: a) Realized as savings resulting in reduced debt financing; b) Used to offset deficit in other approved Capital Budget shortfalls; c) Leveraged to address the infrastructure deficit approved in long term capital plans

4. Vulnerable to Unforeseen Risk and No Flexibility

- City had no reserves to protect itself from unanticipated weather events (Ex: 2015 Severe Snow Events put Saint John in \$3.5M deficit by the end of July)
- Almost the entirety of the Capital Budget was debt financed and no contingency plan
- Exposed to risks outside of City's control (Covid-19)
- Very little financial flexibility to restructure



NO RAINY DAY FUND



Reserve Policy – FAS 003

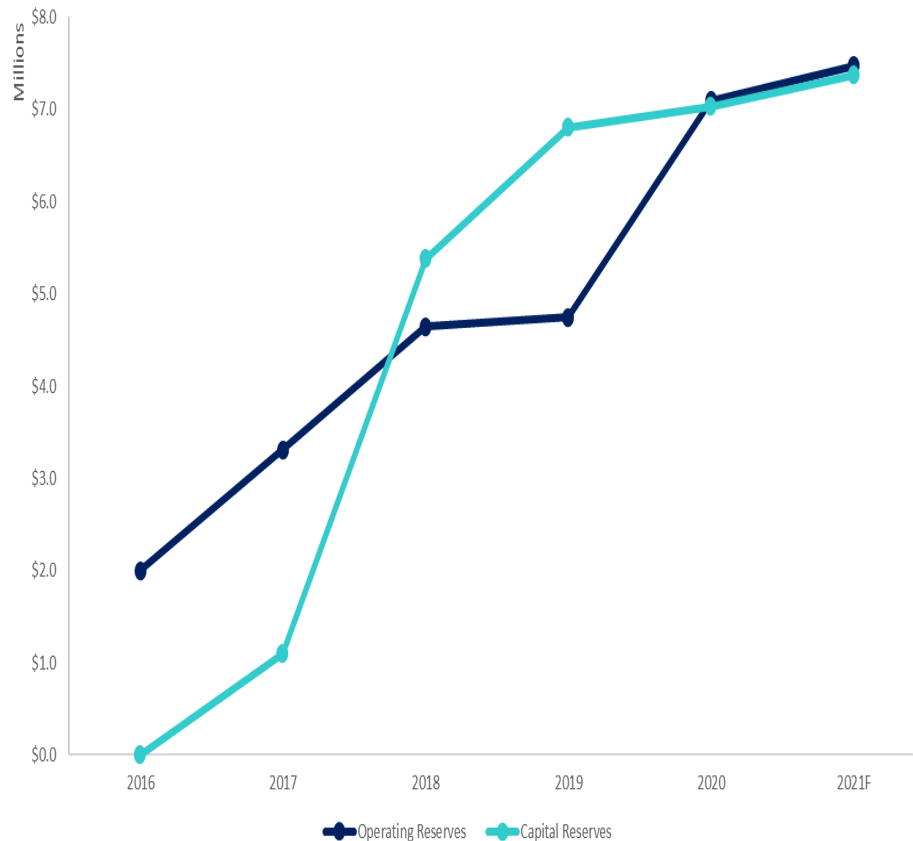
Save your money for a rainy day:

- Operating and Capital Reserves Policy (FAS-003)
 - Policy is critical to mitigate risk and changing mindset from spend (borrow) first to save first
- Ability to fund unforeseen events enables the City to meet other financial targets (debt, tax rate, infrastructure, etc.)
- Policy stipulates Reserve Funding shall be for:
 - Unforeseen events
 - Planning for Capital Renewal
 - Funding Future Liabilities
 - One-time operating expenditures that are not part of the approved budget
 - Infrastructure deficit
 - Investment or Growth Opportunities
- All Reserves transfers in and out must be approved by Council



Reserves

- How are we doing on saving our money for a rainy day?



1. Unexpected Severe Weather - Winter Weather Reserve
2. Unexpected Infrastructure Failures - Capital Reserve
3. Covid-19 Risk – Safe Restart Reserve
4. Unanticipated Employee Liabilities – Benefit Fluctuation Reserve
5. Restructuring Needs – Restructuring Reserve
6. Growth Opportunities – Growth Reserve
7. Debt Strategy - Vehicle & Computer Replacement Reserves in place

Budget Monitoring Policy – FAS 021

Don't spend your grocery money on Netflix:

- Budget Monitoring Policy (FAS-021)
 - Policy is critical to reserve fund strategy and to drive costs down to support tax reduction and service delivery
- Enhances budget accuracy, flexibility, accountability and cost control by ensuring budget allocations are managed and adhered to
- Integrates budget monitoring practices with the City's Reserve fund and Debt Management strategies
- In principle, all budget surplus and deficits are non-recurring
 - Personnel and non-personnel budgets shall be managed separately
 - Personnel surpluses and deficits should not subsidize goods and services & vice versa
 - Budget surplus and deficits shall be analyzed annually to determine if permanent budget are required
 - If required, permanent budget adjustments will be applied to the Operating Reserve until it is fully funded and thereafter applied 50/50 to the Capital Reserve and debt reduction

5. Commitment to Financial Excellence

Long-Term Financial Plan Policy (FAS-020)

- Embeds and institutionalizes financial best practice into the culture of the organization
 - Common Council's commitment to financial sustainability
 - Common Council's commitment to long term financial planning
 - Common Council's commitment to adherence to financial policy
 - Common Council's commitment to accountability to the taxpayer
 - Common Council's commitment to the efficient use of taxpayer funds
- Changes to the Policy require 2/3 vote of the total membership of Council
- The City's performance will be monitored and regularly measured in the Financial Health Scorecard to demonstrate accountability to the public.



GFOA – Why Financial Governance is Important

1. Institutionalize good financial management practices.
2. Clarify and crystallize strategic intent for financial management to taxpayers.
3. Define boundaries.
4. Promote long-term and strategic thinking.
5. Manage risks to financial health of organization.
6. Comply with established public management best practices.




Strategic Financial Management

City's First Long Term Financial Plan

- Established 10 Year Financial Targets
- Tax reduction plan – \$1.57 by 2030
- Debt Reduction Targets – 25% by 2030
- Operating Budgets Structurally Balanced
- Strategic Reserve Fund Targets to achieve our long-term goals and to reduce vulnerability and improve flexibility
- Sustainable wage and benefit budgets
- Asset Management Plans (prioritize needs over wants)
- Improved budget monitoring
- Strengthened Financial Governance
- Accountable Agencies, Boards, and Commissions





“A budget is telling your money where to go instead of wondering where it went”

Dave Ramsey

Conclusion

