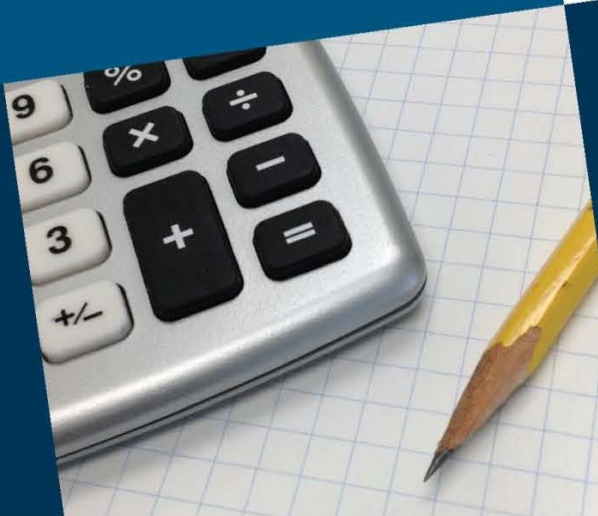




# Financial Policies

## 2014-2016 Business Plan Update and 2014 Budget

City of Mississauga, Ontario, Canada



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## **1.0 The City of Mississauga Business Plan and Budget Process**

process provides the 2014 Budget plus a two year operating forecast as well as a 10 years capital forecast.

Mississauga's business planning and budgeting process is an integrated process which balances the delivery of our Strategic Plan objectives with sound financial planning and prudent fiscal management practices. The City prepares detailed Business Plans every two years, for the following four years, with an update to the Plan undertaken in the second year.

The staff process begins with the identification of the focus of the Business Plan and Budget by the City's Leadership Team, based on the City's major priorities. The Leadership Team includes the City Manager and Commissioners. The Priorities for preparation of the Business Plan are:

- Deliver the Right Services;
- Implement Cost Containment Strategies;
- Maintain our Infrastructure; and
- Advance on our Strategic Vision.

The City uses a collaborative process to prepare its business plans and budget in cooperation with all the Service Areas. Each Commissioner leads the development of their service areas' Business Plans and Budgets with the four priorities as the foundation of all budget proposals. Human resource, financial, technological requirements and external factors are considered as the multi-year Business Plan is created. The year 2014 marks the second year of Mississauga's 2013-2016 Business Plan and Budget. The 2014 to 2016 Business Plan Update and 2014 Budget

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## 1.1 Business Plan and Budget Timelines

Business Planning and Finance prepare and co-ordinate procedures for the business plan and budget process.

The process considers identification of the costs to maintain current service levels, operationalize prior decisions and propose new initiatives and new revenues. The following provides the two phases in the preparation of the detailed business plan and budget. The timing may vary due to municipal elections:

### February to June – Business Planning

In February the City Manager provides direction to staff for the Business Planning process. Based on this direction Service Areas develop their four year Business Plans. Each service area considers its strengths, weakness, opportunities and threats as well as the resources to deliver existing services. New initiatives to deliver the City's Strategic Plan are identified and evaluated, Service area plans are presented to the City's Leadership Team in May for approval of new initiatives to be considered in the Budget in the next four years

The Leadership Team provides direction for the Service Areas to prepare proposed budgets. New initiatives and new revenues are balanced with City costs pressures and opportunities relative to current service levels. The results of the current year are considered in providing this direction.

### July to December – Budget

Detailed Budget preparation takes place through July to September, considering LT's directions from the spring Business Planning process. Costs and revenues are refined based on actuals to date, and any new circumstances.

Corporate Finance consolidates the City Wide Business Plan and Budget through early September. In late September and October the Leadership team reviews the detailed Budget and develops a recommended Business Plan and Budget for Council consideration.

New and discontinued fees and charges and changes to existing fees and charges are presented to Council for their consideration in the fall.

The Business Plan and Budget is considered by Budget Committee through a series of meetings in November and early December. The Business Plan and Budget document and Service Area presentations are distributed in advance of the Budget Committee meetings. At the first Budget deliberation meeting the Director of Finance and Treasurer presents the City wide overview followed by presentations from each Service Area Director(s).

All Budget Committee meetings are communicated in advance through the City's website and advertising in local media where the members of the public are invited to attend. Interested members of the public are notified of upcoming meetings by email.

Prior to final budget deliberations, and once the Business Plan and Budget Book has been distributed to Council, it is accessible through the City's website or at any public library. City staff hold an open house to educate the public and provide a Business Plan and Budget Overview. An ad is prepared and published in the local newspaper to notify the public of the commencement of final Budget Deliberations.

Valuable taxpayers' input is obtained as a result of these processes to provide feedback relating to service needs and delivery.

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After thorough deliberation of the budget, it is approved by Council. Historically the Tax Rate By-law is prepared in the spring when property assessments and tax policies are provided.

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## 2.0 Expenditures and Revenues

### 2.1 Operating Budget Assumptions and Trends

The City's Budget is required to be balanced under the *Municipal Act*, wherein Ontario municipalities are prohibited from budgeting for an operating deficit. The basis of the property tax calculation and the associated tax rate increase is based on the net funding requirements of the City's budget.

The operating budget is prepared incorporating a number of assumptions related to revenues and expenses and are updated throughout the budget process as more accurate and up to date information becomes available. In advance of the budget, revenue and expenditures are monitored as follows:

- Twice a year, a detailed analysis is prepared comparing the forecasted revenues and expenditures for the year relative to the approved budget for both capital projects and operating which identifies trends and year-end budget variances; and
- In preparation for the upcoming budget, operational staff review the financial performance of their services to assist in the preparation of estimates for upcoming pressures and opportunities for the next three years or four years.

The information gathered through these reviews forms the basis of the funding requirements for the upcoming year and provides insights into future issues that may need to be monitored more closely for their impacts on related tax rate increases.

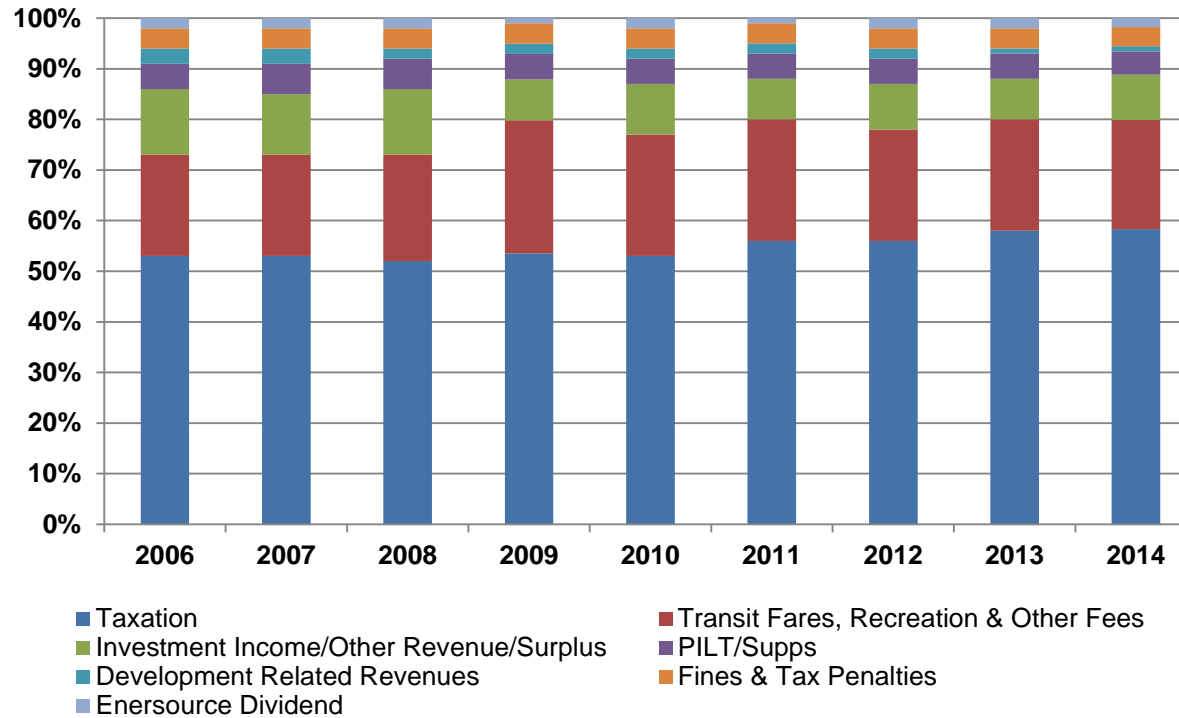
### 2.2 Summary of Revenue Assumptions and Sensitivity Analysis

Revenue figures included in the budget are based on a number of factors. By combining forecasted performance to date, prior years' trends, estimated rate increases for the upcoming year and market indicators, realistic budgets are developed for the numerous revenue sources. Major revenue-related assumptions used in the 2014 Operating Program are as follows:

- Fees and charges provide revenue to support services which provide benefits to specific individuals and organizations, rather than to all residents. Ensuring that fees and charges are set to maintain cost recovery ratios and cover cost increases reduces pressures on the City's tax levy requirements. If fees are not set to cover costs, tax support for the program or service must increase and is paid by all residents rather than those who benefit from the service. From a policy perspective, all services in the City that are youth and senior focused have lower cost recovery ratios while most other fees and charges are based on higher recovery ratios;
- The 2014 assessment growth is estimated at 0.3 per cent. Final confirmation of this number will not be available until after this document has been printed;
- The 2013 Operating program will receive a \$14.5 million contribution from investments, on an overall investment portfolio return of approximately 3.7 per cent. For the 2014 budget. Investments is forecasting a similar performance; and
- The investment in Enersource, a jointly owned company with OMERS, is forecasted to generate \$12 million in dividends for the 2014 Budget which is \$1.7 million higher than the 2013 Budget.

This chart shows the revenues generated by the City broken down by source from 2006 to 2014.

**History of Various Operating Budget Revenue Sources**

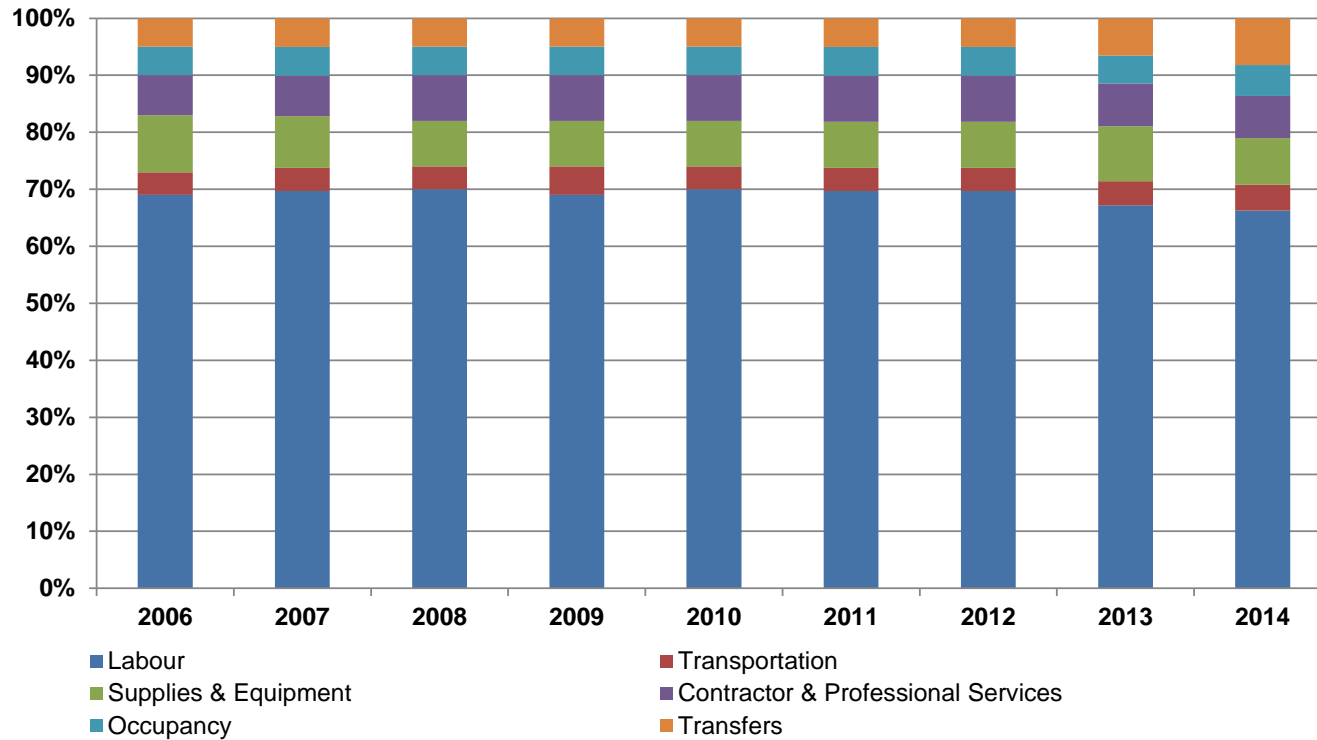


### 2.3 Summary of Expenditure Assumptions and Sensitivity Analysis

Major expenditure assumptions used in the 2014 Operating Program are as follows:

- Labour increases include estimates for all labour groups including negotiated union settlements where ever possible;
- No general inflationary increases or deflationary decreases have been provided for the operating program. Inflationary and deflationary impacts have been assessed on a case by case basis;
- The 2014 Budget includes a provision for a diesel fuel purchase price that averages about \$1.04 cents per litre which is \$0.10 higher than that used in the 2013 Budget; and
- Utility rate and usage changes in addition to increased costs for third party contractors which have been estimated at various rates based on the type of service delivery being performed.

**History of Various Operating Budget Expenses**





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## 3.0 Capital Program

### 3.1 Assumptions

Assumptions included as part of the capital program are as follows:

- All project costs are estimated in 2014 dollars. Capital financing and the debt issuance associated tax impacts have been calculated using costs adjusted for inflation from 2017 onwards for modeling purposes only. No inflation adjustments have been made for 2015 and 2016 due to funding restrictions. The rate of inflation is assumed at 3.4 per cent for 2017 onwards;
- For the purposes of modelling debt issuance, projections have been adjusted to incorporate cash flowing of capital projects;
- Tax based reserve funds will be used to finance capital infrastructure needs. It is recommended in this budget that the City maintain a minimum threshold cash balance in the Capital Reserve Fund, equivalent to one year's worth of the 10 year average of the tax-supported capital expenditure requirements. This ensures that one year of tax based funding is available in reserves to maintain liquidity.
- Longer term investment returns on the City's Reserve Funds are estimated at 2.75 per cent except for Development Charges which are 1.5 per cent;
- Debt financing has been modeled using various forecasted interest rates with debt being issued for a number of different terms;
- Development Charges revenues, for the entire 10 year period, have been estimated using the rates in effect per the new by-law passed on November 11, 2009. The DC

rates may change as the City's By-law is under appeal at the Ontario Municipal Board (OMB);

- Federal and provincial gas tax revenues have been incorporated into the capital plan; and
- Capital maintenance projects are based on the estimated lifecycle replacement when sufficient funding is available.

### 3.2 Tangible Capital Assets

The City has calculated the value of its Tangible Capital Assets (TCA) at \$8 billion.

Mississauga uses the following criteria for estimating long term capital maintenance requirements:

1. Facilities maintenance is based on life cycle replacement as follows:
  - Buildings – 40 years; and
  - Furniture – 15 years;
2. Information Technology (IT) lifecycle replacements as follows:
  - Replacement of major applications – 10 years;
  - Replacement of major IT hardware – 10 years; and
  - Personal computer replacements – four years.
3. Roads are evaluated based on an inventory condition and criteria established through a pavement management system with resurfacing every 15 to 25 years and total reconstruction every 70 years;
4. Major equipment – eight to 10 years;
5. Program equipment – 12 to 15 years;
6. Licensed vehicles – 10 to 18 years;
7. Streetlights – 25 to 50 years;
8. Bridges – 30 to 50 years;
9. Watermains – 25 years;
10. Storm water ponds – 25 to 50 years; and

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11. Stormsewers – 100 years.

The City conducts asset condition assessments every five to six years on its major assets. This information is used to determine timing of required capital maintenance.

### **3.3 Capital Prioritization**

The City employed a capital prioritization model to assist in the decision making process for allocating limited capital funds. The tax supported capital program was prioritized while funding from Gas Tax, Cash in Lieu, Development Charges and other sources were prioritized in a similar way for projects eligible from the various funding sources in an effort to minimize the tax funding requirements. The Federal Gas Tax funded projects for transit, roads and bridges, Cash-In-Lieu funded recreation facilities and equipment and Development Charges funded projects due to growth. The prioritization results were reviewed by the Leadership Team through a variety of filters and adjustments were made to ensure a balance of lifecycle projects, enhancements and high priority new services were included in the capital program. The five capital prioritization categories are defined below:

#### **Mandatory**

These projects have locked in commitments or vital components associated with cash flowed projects approved by Council in prior years. These projects have prior legally binding commitments where contracts are signed or have a minimum legal, safety, regulatory or other mandated minimum requirements where not achieving these requirements will lead to legal action, fines, penalties or the high risk of liability against the City. These projects cannot be deferred or stopped.

#### **Critical**

These projects maintain critical components in a state of good repair and at current service levels. If not undertaken, there would be a high risk of breakdown or service disruption.

#### **Efficiency or Cost Savings**

Projects that have a break even or positive return business case over the life of the capital due to operational cost savings or cost avoidance.

#### **State of Good Repair**

The funding for these projects are needed to maintain targeted service levels and reflects life cycle costing.

#### **Improve**

These projects provide for service enhancements that increase current service levels or provide for new capital initiatives.

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## 4.0 Financial Policies

The City of Mississauga has a long tradition of strong and stable financial management. Some of these guidelines are Council approved via by-laws or policies whereas others are long-standing practices.

The following list provides a summary of various financial guidelines as well as the source of the authority indicated in parenthesis.

### **Financial Planning Policies:**

- 4.1 Fiscal Policy (Council approved)
- 4.2 Reserve and Reserve Fund (By-law 0298-2000 and long standing practices)
- 4.3 Budget Control (By-law 0262-1997)
- 4.4 Cash-in-Lieu of Parkland Dedication (By-law 0400-2006)
- 4.5 Development Charges (By-law 0342-2009)
- 4.6 Surplus Management (long standing practice)

### **Other Financial Policies:**

- 4.7 Accounting Policies
- 4.8 Accounts Payable
- 4.9 Accounts Receivable
- 4.10 Purchasing Policies and Procedures
- 4.11 Cash Management
- 4.12 Debt Management

Details of each of the Financial Planning policies are discussed in the following sections.

### **4.1 Fiscal Policy**

In 1996, Council approved a fiscal policy that forms the basic framework for the overall fiscal management of the City of Mississauga. Most of the following points represent long-standing principles, traditions and practices that have guided the City in the past and have been of assistance in maintaining our financial stability. As the City evolves, this fiscal policy will need to be continually reviewed to coincide with Mississauga's transition from a rapidly growing to a maturing urban centre.

#### ***New Development:***

Existing taxpayers should not bear the financing of growth-related infrastructure costs except to the extent that city wide facilities are required in response to new services or as a result of service expectations from a city of larger size. Growth related infrastructure is funded primarily through development charges in accordance with the *Development Charges Act, 1997*. Funding for non-growth infrastructure is funded through tax based revenues.

#### ***Capital Projects:***

The City prepares a multi-year operating forecast to identify the impact of new facilities and infrastructure. Unless the City has the ability to afford the new facility, the project will not proceed.

#### ***Operating Like a Business:***

Core services will be identified and funded. Non-core services will be maintained only if they are financially viable, reductions of costs occur elsewhere in the Corporation, or if there is sufficient community use to justify the cost of providing the service. The City will identify which programs are to be funded through general revenues, those that are to be self-funded and those programs that require a subsidy from general revenues. Emphasis will be placed upon

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reducing the reliance on funding from tax revenues. Methods of service delivery are continually reviewed to control costs.

**Capital Financing from Operating Revenues:**

The City has had a long standing practice of incorporating a transfer of money from the Operating budget to the capital tax reserve funds. Over the years the value of this transfer has fluctuated based on economic conditions. The City has incorporated an annual infrastructure levy, subject to annual approval by Council, in order to address the City's ongoing infrastructure deficit.

**Do Not Exhaust Reserves:**

In addition to its capital reserve funds, the City has established reserves to fund large, long term liabilities; eliminate tax rate fluctuations due to unanticipated expenditures and revenue shortfalls; smooth expenditures; and fund multiple year special projects. Use of reserves is planned and is not considered as an alternate funding source in place of good financial practice. Long term liabilities are reviewed on an annual basis. Reserves and Reserve Funds will be established as required and are monitored at regular intervals.

**One Time Revenues:**

Major one-time revenues and operating surpluses are transferred to capital and other reserves or reserve funds. The use of one time revenues to fund ongoing expenditures results in annual expenditure obligations which may be unfunded in future years and is avoided.

#### 4.2 Reserve and Reserve Fund

By-law 0298-2000 and any amendments thereto, defines each Reserve and Reserve Fund as well as the reporting requirements including the necessary authority levels for opening, closing, or reorganizing Reserve or Reserve funds. Significant work has been undertaken to evaluate the appropriate minimum balances to be kept in reserves or reserve funds in order to maintain fiscal health. The following provides an example of targets and/or minimum balances that have been established but is not an all-inclusive listing:

- The City will maintain a minimum threshold cash balance in the Capital Reserve Fund, equivalent to one year's worth of the 10 year average of the tax-supported capital expenditure requirements;
- The collective Development Charge Reserve Funds must maintain a positive balance while individual account balances may not;
- Reserve for Commodities: 25 per cent of current year's budget to hedge against price fluctuations; and
- Winter Maintenance Reserve: 50 per cent of current year's budget.

Details related to the balances are included in the Reserve and Reserve Fund section.

#### 4.3 Budget Control

By-law 0262-1997 provides general guidelines related to the preparation and subsequent variance reporting for both the Capital and Operating Budget, including staff complement control. All policies and procedures are in compliance with the *Municipal Act, 2001*.

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#### **4.4 Cash In Lieu of Parkland Dedication**

By-law 0400-2006 and any amendments thereto is administered under the authority of the *Planning Act, 1990*. The By-law identifies the policies and procedures under which the funds are collected regarding the development of property in the City of Mississauga and identifies any fees that are applicable. Details related to the balances are included in the Reserve and Reserve Fund section.

#### **4.5 Development Charges**

By-law 0342-2009 provides guidelines on the collection, administration and payment of development charges. *The Development Charges Act, 1997* on which this policy is based, enables municipalities to recover the capital costs of residential, commercial and industrial growth from developers. The current development charges by-law was approved by Council on November 11, 2009 which is currently under appeal at the OMB. Details related to the balances are included in the Reserve and Reserve Fund section.

#### **4.6 Surplus/Deficit Management**

The City's surplus/deficit management is a long standing practice which is closely tied to both the fiscal policies as well as the City's infrastructure deficit concerns. Each year, the city prepares a year end forecast. Surpluses are transferred to Reserves, including the Capital Reserve Fund to provide for future infrastructure needs, as approved by Council.

#### **Other Financial Policies**

#### **4.7 Accounting Policies**

The Accounting area within the Finance Division prepares and monitors these policies. All policies are created in

consultation with the Internal Audit Division and are reviewed on a regular basis to ensure they are up to date and in alignment with the city's current practices. Policies of this nature are included the in *Corporate Policies and Procedure Manual*. Examples of the accounting policies included are: preparation of journal entries and authorization requirements, preparation of the Council Remuneration Statements and Council expense statements. In compliance with the Public Sector Accounting Board (PSAB), the City has implemented Tangible Capital Asset accounting and related policies and procedures. Financial Statements are fully compliant with PSAB requirements.

#### **4.8 Accounts Payable Policies**

These policies provide guidance for the processing of all vendor and employee expenses for the corporation. All accounts payable policies are prepared with the approval of the Internal Audit Division. Each policy outlines the levels of authority required in order to process an expense for payment.

#### **4.9 Accounts Receivable Policies**

These policies govern the issuance of invoices to various individuals, businesses or corporations for services rendered by the city. Procedures are provided to guide staff in submitting the information required for the preparation of an invoice by the Revenue Division.

#### **4.10 Purchasing Policies and Procedures**

By-law 0374-2006 provides extensive information concerning the procurement of goods and services for the city. It details standard levels of authorization required and the different purchasing methods endorsed for procuring goods and services at all monetary values.

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#### **4.11 Cash Management**

These policies are contained within the Corporate Policies and Procedures manual which provides for the administration of handling cash floats and petty cash, corporate credit card policy, and an investments policy.

#### **4.12 Debt Management**

The City of Mississauga has operated for many years under a pay as you go philosophy. As the City was being developed, prudent fiscal management policies built significant reserves and infrastructure was emplaced with development related revenues. Now that the City is transitioning to an urban centre, with little green field development and an aging infrastructure base, the types of infrastructure demands are beyond the scope, or ineligible, for funding from development related revenues.

This necessitates the need to move from a pay-as-you-go philosophy to a policy which incorporates debenture financing as an additional means of funding infrastructure in the City. The City began issuing debt for capital projects in 2013. A debt management policy for the City Of Mississauga was approved on December 7, 2011.

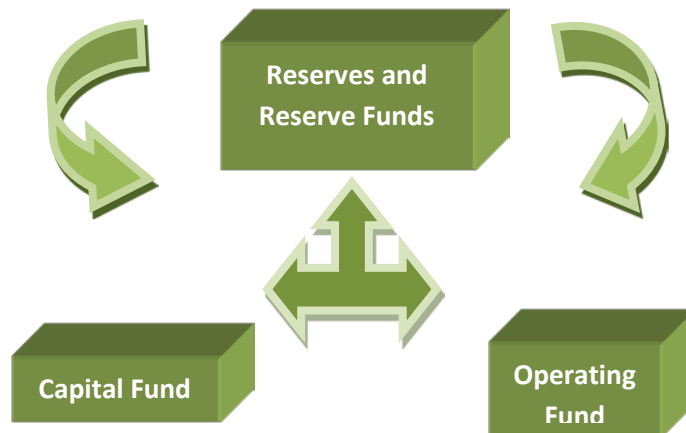
#### **4.12 Ongoing Policy Review**

The City is in the process of updating several policies including the Budget Control and Reserve and Reserve Fund By-laws. The City will also be focussing on the creation of a long term financial plan and related principles, which will provide a sustainable financial plan for 10 to 20 years in the future to ensure the achievement of the city's strategic objectives.

## 5.0 Fund Structure and Overview

In municipal financial operations, money raised or supplied for a particular purpose must be used for that particular purpose as legislated under the *Municipal Act, 2001*. Legal restrictions and contractual agreements prevent it from being diverted to any other use. Fund accounting shows that money has been used for the purpose for which it was obtained. The funds used by the City of Mississauga stem from the General Revenue (Operating) Fund, the Capital Fund, Reserve Funds and Trust Funds. The Business Plan and Budget pertains to programs, services, and activities within the General Revenue (Operating) and the Capital Fund. Transfers are made to and from reserves and reserve funds and these financial transactions are summarized in the Reserves and Reserve Funds section.

The following diagram provides an example of the relationships between the funds:



The Business Plan and Budget is comprised of the revenue and expenses for the Operating and Capital Funds for the City of Mississauga including the City of Mississauga Public Library Board. All financial information is prepared in accordance with Generally Accepted Accounting Principles (GAAP) for local governments as recommended by the PSAB.

In 2009 accounting standards and reporting requirements changed dramatically, including the introduction of Tangible Capital Asset Accounting. The new accounting standards however do not require that budgets be prepared on the same basis. In 2009 the Province also introduced Ontario Regulation 284/09 that allows municipalities to exclude from their budget costs related to amortization expense, post employment benefit expense and solid waste landfill closure and post closure expense. The City continues to prepare budgets on the traditional basis and excludes these expenses from its budget but will transfer to reserve and reserve funds from a budgeting perspective. The regulation also requires as part of the budget a report to Council identifying the impact of excluding these expenses on the municipality's accumulated deficit or surplus and future tangible capital asset funding.

### Operating Fund

The Operating Fund or Budget provides for the normal operating expenditures and revenues associated with the day to day provision of services.

### Capital Fund

The Capital Fund or Budget provides for significant expenditures to acquire, construct or improve land, buildings, engineering structures, or machinery and equipment used in providing municipal services. Capital

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expenditures confer benefits lasting beyond one year and result in the acquisition of, enhancement to or extension of the normal useful life of a fixed asset. The capital budget is set on a project-commitment basis (versus cash flow), with actual budget spending often occurring over one or more fiscal years. However, several large projects spanning several years to complete have been budgeted over multiple years, using a cash flow basis. Cash flowed projects are listed in the budget recommendations.

### **Reserve and Reserve Funds**

The Budget also provides information related to the Reserve and Reserve Fund balances. The City does not formally budget for the Reserves and Reserve Funds except to the extent that it is affected by contributions to and from either the operating or capital funds. For example, in a municipal election year, election expenditures are financed by a transfer from the Reserve for Elections. Both the election expenditures and the revenue from the Reserve are budgeted for within the Operating Budget. The Reserves and Reserve Fund section of this budget book provides additional information on reserves and reserve funds.