

**BUDGET STABILIZATION POLICY**  
**Council Policy No. 115/14**

**OBJECTIVES:**

The Stabilization Policy is intended to provide guidelines during the preparation of and deliberations on the annual budget on sizing the Stabilization Fund to ensure that sufficient funds are maintained: 1) for unanticipated expenditures or revenue shortfalls; 2) to ensure adequate funding for future capital projects and 3) to stabilize the tax rates from significant changes in expenditures. The objective is for the City to be in a strong fiscal position that will ensure that it will be able to adequately fund large capital projects; to weather any negative economic trends and protect taxpayers from sharp fluctuations in the annual property tax rate. Factors for maintaining sufficient funds include the ability to:

1. Mitigate Provincial/Federal Budget actions that may reduce City revenue;
2. Mitigate economic downturns that the City may face in the future;
3. Absorb escalating operating costs;
4. Make contingency provision for unplanned events that do not occur on an annual event such as elections, heavy snowfall season and employee retirement or termination settlements;
5. Fund the City's operating expenditures during the first six months to ensure that the City does not require entering into any short term borrowing arrangement;
6. Absorb large assessment adjustments or potential liability settlements;
7. Purchase capital assets without the need to fully finance the purchase of those assets;
8. Make substantial contribution to any new public facility or infrastructure; and
9. Front-end or completely fund, if necessary disaster costs associated with any unforeseen event.

**BACKGROUND:**

All municipalities face both emergency events as well as one-time large capital expenditure outlays that if not adequately planned for may place a fiscal hardship on its residents. The City of Fort St. John recognizes the importance of establishing funds to ensure that the City has adequate resources to meet its future needs. In addition, the City is committed to sound financial management and fiscal integrity by establishing policies that will improve the City's fiscal stability by helping City officials plan its fiscal strategy with a consistent approach.

**STABILIZATION ACCOUNTS:**

The Government Finance Officers Association indicates that all municipalities should establish Stabilization Accounts that provides it with available resources in the event of unforeseeable occurrences as well as funds that distribute costs for foreseen but unplanned events (such as heavy snowfalls, elections). The GFOA recommends that Cities should establish Contingency and Emergency Accounts of no less than 5% of its revenues as a prudent level to allow for a reasonable degree of error in budget forecasting as well to mitigation for emergency situations or unforeseen changes in the economy.

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STABILIZATION ACCOUNTS: (continued)

This financial cushion gives local government greater flexibility in dealing with unforeseen events such as an unexpected shortfall in revenues or a rise in expenditures.

In addition, it is important that the City provide sufficient resources so that it can reasonably respond to significant unplanned but probable events without creating drastic changes in the tax rate. These funds will minimize the negative impact of drastic changes in the tax rate that would otherwise be required to offset these expenses. Finally, it is important that the City recognize the lifecycle of its capital assets and plan to spread the cost of replacing those assets over an extended period of time.

The City's Stabilizations Policy shall include the following funds:

**1. Contingency Account:**

In the event that during the year there are unanticipated expenses or revenue shortfalls impacting programs already approved in conjunction with the current year budget, the Contingency Account will be the source of any additional funding for those programs. The Contingency Account shall not be used to fund new programs or positions added outside of the current year budget.

The Contingency Account shall be sized at approximately three (3%) percent of the General Fund budget less revenues collected for other agencies.

In years where it becomes necessary for the City to utilize monies in the Contingency Account on an interim basis or to offset a significant negative economic event wherein the Contingency Account balance drops below the three (3) percent level, the City will initiate action in the subsequent year to replenish the Stabilization Fund to the level of three (3) percent of General Revenues. If utilization of Contingency Account monies is less than one (1) percent of General Revenues, the City shall attempt to replenish the three (3) percent balance in the subsequent fiscal year. If utilization of Contingency Account monies is more than one (1) percent of General Revenue, the City shall attempt to replenish the three (3) percent balance by one (1) percent over a period of years as necessary to restore the Contingency Fund balance to the level of three (3) percent of General Revenues.

**2. Emergency Account:**

To utilize funds from the Emergency Account, a finding by the Mayor, with confirmation by the Council, of "urgent economic necessity" will be required, as well as a determination that no other viable sources of funds are available. A finding of urgent economic necessity would be based on a significant economic downturn after the budget is completed or a natural disaster.

The Emergency Account shall be set at a minimum of two (2) percent of the General Fund budget.

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**STABILIZATION ACCOUNTS:**

**2. Emergency Account: (continued)**

In years where it becomes necessary for the City to utilize monies in the Emergency Account on an interim basis or to offset a significant negative economic event wherein the Emergency Account balance drops below the two (2) percent level, the City will initiate action in the subsequent year to replenish the Emergency Account to the level of two (2) percent of General Revenues. If utilization of Emergency Account monies is less than one (1) percent of General Revenues, the City shall attempt to replenish the two (2) percent balance in the subsequent fiscal year. If utilization of Emergency Account monies is more than one (1) percent of General Revenue, the City shall attempt to replenish the two (2) percent balance by one (1) percent per year to restore the Emergency Account balance to the level of two (2) percent of General Revenues.

**3. Assessment Appeals Account:**

The City Manager will periodically recommend to the City Council that the City set funds aside for assessment appeals that the City is aware of. The Assessment Appeals Account shall be budgeted in an amount reasonably expected to be impacting the City for the ensuring fiscal year.

**4. Water and Sewer Account:**

The Water and Sewer functions are self-funded by user fees and charges and not from tax revenue. Any surplus or deficit generate in a fiscal year will be applied to this fund. Unallocated Surpluses would be used to offset any over-expenditure in the City's utility functions attributable to unforeseen operating expenses.

All surplus funds in excess of \$500,000 per fund will be transferred to the fund's appropriated surplus fund. Major and capital water and sewer projects will be funded from the fund's appropriated surplus.

**5. Heavy Snowfall/Ice Event Account:**

The Heavy Snowfall/Ice Event fund will offset any over-expenditure in the City's snow and ice management budget attributable to variations in normal winter weather conditions, thereby stabilizing the effect of weather variations on the tax rate.

The Heavy Snowfall/Ice Event fund shall maintain a fund balance of \$500,000 per year.

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STABILIZATION ACCOUNTS: (continued)

**6. Election Account:**

The Election Account will ensure that adequate funds are maintained to offset the cost of general elections, by-elections and referendums and to distribute these costs over several years.

The Election Account shall maintain a fund balance of \$50,000 per year.

**7. RCMP Personnel Account:**

The City, through the Province of BC, contracts for police services with the Royal Canadian Mounted Police and is one of the City's largest cost centers. Under these contractual obligations, the City is responsible for 90% of costs of each RCMP member and associated costs. However due to difficulties in maintaining its force at 100% of its compliment throughout the year the City has historically only paid anywhere from 82% to 93.5% with the average being approximately 90% of its contractual obligations. It creates undue hardship on the taxpayer for funds to be raised however not utilized.

The RCMP Account shall maintain 10% of the annual contractual obligations. The Operating budget will recognize this reserve as an offsetting revenue source to the contract.

**8. Human Resources Account:**

The Human Resources Account will ensure that adequate funds are maintained to offset the cost of one employee termination settlement, one early retirement payout and one dealt benefit (sick leave) based on the City's most expensive employee as the highest costs associated with each of these events.

The Human Resources Account shall maintain a fund balance of 2.5% of the salary, wages and benefits budget.

**9. Tax Rate Stabilization Account:**

In order to ensure that the taxpayers are not impacted by significant increases in their tax rates due to increased assessments or increase in tax levies, the City would establish a Tax Rate Stabilization Account that would act as the City's truly "rainy day fund" and would protect the taxpayers from sharp fluctuations in the annual property tax rate. The creation of a tax stabilization fund during our current economic downturn would provide a strong signal that the City is committed to keeping its tax levy in check without impacting on the services levels that the community has grown to expect.

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**STABILIZATION ACCOUNTS:**

**9. Tax Rate Stabilization Account:** (continued)

It is recommended that, as part of the budget process, where the City total tax rate is projected to increase by more than 5% in the current year, that funds may be transferred from the Tax Rate Stabilization Account to the General Revenue account to offset the need to raise the tax rate higher. This fund would also be used to fund operating project, such as master plans or studies, thereby offsetting the necessity to raise taxes. It is recommended that this fund be capped at \$3 million.

**10. Facility Expansion and Upgrade Account:**

The construction of a new facility makes a significant impact on both the capital and operating budget. In order to minimize the impact by spreading its impact over a number of years, it is recommended that the City establish a Facility Expansion and Upgrade Account to ensure that a portion of the resources required to fund new facilities is available. The remaining funds would come through grants and borrowing. In a year where an operational surplus occurs 5% of the unallocated surplus shall be allocated to this fund.

**11. Energy Literacy Account**

Fort St. John is the “Energy Capital of BC” and is committed to continuing to be an energy leader in British Columbia. Taking responsibility for our brand, the Energy Literacy Fund will be used to create, enhance, or promote programs that focus on building knowledge about conventional and emerging energy sources and the discovery, use and impact of these energies on the environment, economy, and society. Consideration will be given to initiatives that shares relevant and timely information about the discovery, production, shipping and delivery of energy, creates awareness about potential careers in local industry or helps to grow our future workforce, or promotes efficiency and conservation.

The Energy Literacy Fund shall have a fund maximum of \$75,000 and shall be funded from the City’s unallocated surplus, if any. As this fund is established or replenished, a maximum of \$25,000 per year be allocated to the Fund until it reaches its limit, to come from the City’s unallocated surplus after all other stabilization funds have been addressed.

**USE OF FUNDS:**

Use of these funds would require a majority vote of all members of Council. In the event that these funds are used, they would be replenished on an annual basis from either unallocated surpluses or through the budget process. Council will determine over what period of time these funds would be replenished.

**INTEREST ACCRUED:**

Interest accrued on these funds would be transferred in to the operating revenues.