

# Corporate Policy and Procedure

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Policy	<b>Revenue Budgeting Policy</b>
Category	Corporate
Authority	Finance
Related Policies	Long-term Financial Framework Budget Policy Reserve and Reserve Fund Policy Budget Monitoring Policy Development Charges Policy
Approved By	Council
Effective Date	<a href="#">Tuesday, March-28-2023</a>
Revision Date	As required

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## Policy Statement

It is the Policy of the City of Guelph to:

- Manage all revenue sources sustainably and responsibly.
- Ensure adequate long-term funding by using specific revenue sources to fund related programs and services at Council-approved levels.
- Integrate the Revenue Budgeting Policy with other long-term planning, financial and management objectives of the City.
- Take a consistent approach to subsidies for partially tax-supported services, ensure one-time funding is used to fund one-time expenditures and encourage innovation in revenue sources.
- Seek out and apply for all applicable grant funding opportunities available to the City, while giving consideration to constraints such as availability of resources required to obtain or manage grants, alignment with strategy, and project timing, while managing risks associated with relying on funding from outside sources.

## Purpose

The purpose of this Policy is to:

- Recognize that revenue is a foundational financial driver and critical to the success of the City of Guelph reaching its long-term financial outcomes of increased sustainability, reduced vulnerability, and increased flexibility.

- Ensure consistency in how revenue is applied through the corporate budgeting process.
- Assist with ensuring that the municipality maintains a sound financial position, long-term financial stability, and protecting the City's credit rating.
- Promote the ongoing review of User Fees and Charges to ensure that they are reflective of the City's Strategic Plan or other policy objectives (e.g., considers affordability and uses an equity lens) and maintain approved cost recovery ratios.
- Provide a framework for Departmental assessment of User Fee/Charge cost-recovery ratios and recommendations to Council.
- Promote an understanding of the full cost of services for which User Fees and Charges are charged and the extent to which User Fees and Charges contribute to funding these services.

## Scope

The types of revenue in the scope of this Policy are:

- Property taxation assessment growth
- User Fees, Rates and Charges
- Grants
- Donations and fundraising
- Sales of equipment, publications
- External recoveries
- Licenses and permits
- Sponsorships
- Advertising sales

Any forms of revenue not listed here such as Development Charges and Community Benefit Charges are outside the scope of this Policy.

## Definitions

**Advertising Sales:** the selling or leasing of advertising space on corporate materials (printed and electronic), and signage on city-owned properties and buses; whereby the advertiser is not entitled to any additional benefits beyond access to the space purchased. Advertising is a straightforward purchase of space based on pre-established rates and a defined time period.

**Amenity-Based Pricing:** the practice of setting prices on the amenities contained within each facility rather than setting a uniform price for all facilities.

**Annual Sustainable Capital Transfer:** the annual contribution to the Infrastructure Renewal Reserve Fund required to fully fund the City's Infrastructure Renewal Strategy in accordance with the City's Asset Management Plan.

**Assessment Growth:** the sum of all the changes that happen to the City's tax base during a year, including new construction, major renovations, demolitions, and property value appeals. Assessment Growth equals the tax base at the end of the year minus the tax base at the beginning of the year.

**Assessment Growth Revenue:** the year-over-year change in property tax revenue from Assessment Growth in the City. Assessment Growth Revenue can be negative.

**Base Revenue:** revenue currently budgeted to be received, which can be reasonably assured of being received.

**Cost Recovery Ratio:** the ratio of total revenues to total costs applicable to the provision of a good or service.

**Convenience Pricing:** the practice of setting prices that considers the convenience of the customer's payment for a particular good or service, such as rounding to the nearest dollar.

**Current Value Assessment:** a property's dollar value as assessed by the Municipal Property Assessment Corporation (MPAC) for purposes of levying applicable taxes.

**Customer Class:** the categorization of customers based on an identifiable characteristic common to all customers in the class. Some examples include youth, adult, family, senior, student, non-profit, and low-income.

**Demand Analysis:** an analysis of the market demand for a good or service that relates the impact of price changes to changes in total revenues and costs.

**Donation:** a cash and/or in-kind contribution made to the City with no reciprocal commercial benefit expected or required from the City. Donations do not involve a business relationship and are distinct from sponsorship and/or advertising initiatives.

**Financial Pillars:** the City's financial pillars, sustainability, vulnerability, and flexibility, are defined in the [Long-term Financial Framework](#).

**Fundraising:** any activity to raise money or other resources in the name of the City, or for any program or service operated by the City.

**Grants:** grants are assistance by government or non-government entities in the form of transfers of resources to the City in return for past or future compliance with certain conditions relating to the activities of the City. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

**Inflation Rate:** the annualized percentage change in the general price level of goods and services as measured by a general price index, such as the Consumer Price Index (CPI) prepared by Statistics Canada.

**Local Boards and Shared Services:** an external entity which is either under the authority of Council and/or legislatively required to provide services, which are funded by the City.

**Market Price/Value:** the price of a good or service that is based on competition in the open market. Where there is substantial, competitive demand, market price is determined using commercial practices such as competitive bidding or by reference to prevailing prices in competitive markets. In the absence of competitive demand, market price is determined by considering prevailing prices for products or services that are the same or substantially similar to those provided by the City.

**New Revenue:** revenue that is over and above the Base Revenue currently budgeted to be received, which can be reasonably assured of being received. Examples of new revenue include additional revenue from government grants or

grant programs, new sources of revenue such as new User Fees and Charges, and new contracts. New Revenue under this policy excludes property tax increases, revenue from Assessment Growth in excess of the amount budgeted, and additional revenue growth from existing User Fees and Charges.

**One-time Revenue:** non-recurring revenue (no guarantee that it will be received again). Some examples of one-time revenue include excess revenue from a project or program that is not expected to reoccur, one-time grants, sale of City land or equipment, and funds from fundraising or donations.

**Ongoing Revenue:** ongoing revenue can be reasonably assured of being received on a reoccurring basis.

**Peak-Load Pricing:** the practice of setting a price higher during periods of high demand and lower during periods of low demand to regulate the demand for a good or service within a manageable level of what can be supplied.

**Revenue:** has the meaning defined in subsection PS 3400.02 of the Chartered Professional Accountant (CPA) Handbook: "revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from operations, transactions and events of the accounting period".

**Societal Benefit:** a benefit to society at large that is derived from an individual's consumption of a good or service, which may include economic, environmental, or social benefits.

**Sponsorship:** a mutually beneficial business arrangement between the City and an external party. An agreement is made for the external party to provide cash and/or in-kind goods and/or services to the City in return for access to the commercial marketing potential associated with a city facility, program, service, or event.

**Tax Subsidy:** the portion of the cost to produce a good or service that is recovered through property taxes rather than by the sale of the good or service, to keep the price of the good or service at a desired level, as approved by Council.

**User Fees and Charges:** a payment charged in exchange for a good or service provided by the City.

## **Revenue Budgeting Policy Principles**

The following principles and guidelines apply across all revenue sources that are applicable in the Revenue Budgeting Policy (Policy).

### **Increases in Revenue**

When there is an increase in a revenue source, the new funds will be used to offset the full cost of the service or program. Any funds beyond those which are required to cover the full cost of the service or program will be used to reduce property taxes in other areas unless dictated otherwise by regulation or Council policy.

### **Sustainable Funding Sources**

By their nature, one-time revenues are not a sustainable source of funding to support ongoing costs. One-time revenue will only be used to support temporary or one-time costs. One-time revenues will not support ongoing costs.

One-time revenues can be used to support:

- Capital projects
- Contract staffing positions for a specific period or a specific project
- Other one-time initiatives

Ongoing revenues must be used to support:

- Base, on-going operating expenses
- Permanent staffing positions
- Other ongoing costs for programs/services

## **Benefits Received**

Many services offered by the City are provided for the benefit of the general public (e.g., parks and trails, road maintenance) or to households generally (e.g., emergency services); however, some services are provided to individuals and groups which represent a direct benefit to identifiable individuals, groups of individuals or businesses beyond those that accrue to the general public (e.g. water and wastewater services, transit, parking). The City will promote equity by recovering the cost of services from those who receive direct benefits from a service when it is possible to discern those who receive a benefit, while being cognizant of the need to apply an equity lens to developing subsidies to protect citizens who, through inability to pay, would be denied access to services.

## **Tax Supported Services**

The cost of providing goods and services that benefit citizens as a whole should be recovered through property taxes. These services are often fully funded by property taxes because the end user cannot be easily identified, which makes setting an equitable and fair User Fee/Charge difficult or because they provide a Societal Benefit. User Fees and Charges will be applied wherever appropriate to fairly distribute the cost-of-service provision.

## **Pricing Model**

The City may choose to subsidize goods and services provided to specific individuals and/or groups for purposes of achieving a desired result; recommended subsidies should be linked to strategy or policy. Targeted subsidies or discounts may be ongoing or one-time in nature and should be developed with an equity lens to support the City's equity, diversity and inclusion goals.

## **User Fees, Rates and Charges – Schedule A**

### **User Fees, Rates and Charges Policy Statement**

User Fees, Rates and Charges are charged to individuals and groups for the provision of a good or service or the use of City facilities or resources when such provision or use provides direct benefits to identifiable individuals, groups of individuals or businesses beyond those that accrue to the general public. These fees help offset the costs associated with providing the goods or services.

The City of Guelph will set User Fees, Rates and Charges to recover the full cost of providing the applicable service, except where:

- Council has approved a pricing model for all users or for certain groups when deemed beneficial based on City strategy, policy, or application of an equity lens;
- The goods or services are offered competitively in the open market; or
- Fee amounts are legislated by a higher order of government.

## **Purpose**

To provide guidance to City departments determining User Fees, Rates and Charges on the following:

- A framework to assess the extent to which the general public and identifiable individuals or groups benefit from the service;
- Who should be charged and how much to charge;
- The extent to which the full cost of providing a service should be recovered from User Fees, Rates and Charges;
- Principles and guidelines toward the development of subsidy recommendations; and
- Factors to consider in determining the pricing strategy that would best achieve the objective of the service or program.

## **Determination of Who Benefits**

Services delivered by the City are generally classified into the following three categories:

- General Service (fully tax supported): benefits the general public and it is not reasonably possible (legislatively or otherwise) to prevent access to or enjoying the benefits of the service.
- Private Service (non-tax supported): benefits specific individuals, groups, or businesses; it is possible to prevent access to the service.
- Mixed Service (partially tax supported): benefits the general public as well as the specific individual, group or business using the service.

Where it is determined that a service or activity provided by the City confers a direct benefit on individuals, identifiable groups or businesses, a User Fee, Rate or Charge will be set to recover the cost of providing the service.

The table below represents a decision matrix that should guide the determination of whether a service should be funded by User Fees, Rates and Charges, property tax revenues, or a combination of user fees and property tax revenues:

<b>Funding Category</b>	<b>Who Benefits</b>	<b>Type of Service</b>	<b>Cost Recovery Ratio Guidance</b>
General service / fully tax supported	Community	General	0% to 5% (primarily taxes)
Mixed service / partially tax supported	Primarily the community	General/Individual	5% to 50% (primarily taxes, some user fees)
Mixed service / partially tax supported	Primarily the individual	Individual/General	50% to 95% (primarily user fees, some taxes)
Private service / non-tax supported	Individual benefit only	Individual	95% to 100% (primarily user fees)

**Licenses and Permits**

Licenses, permits, and approvals are used by the City to regulate the use of private property in a specified manner for the health, well-being and protection of the community in general, or are required by higher orders of government; in some cases, users can be fined for non-compliance. These types of services are typically considered fully tax supported; however, the licencing, permit and other similar revenues are presented through the budget as a reduction to the cost-of-service provision. In some cases, Provincial legislation provides for certain types of these revenues to be treated in a non-tax supported model. Some examples include building permits, development permits, business licenses, and pet licenses.

**How Much to Charge**

The key factors to consider when establishing new User Fees, Rates and Charges, and for reviewing existing User Fees, Rates and Charges, are as follows:

1. Assessment of funding category
 

Review and assessment of who benefits from the good or service. If a good or service is a Private Service or Mixed Service, a User Fee/Charge should be set within the Cost Recovery Ratio ranges as provided. Move on to step 2, evaluating the pricing methodology.
2. Pricing Methodology
 

The first step in determining how much to charge is calculating the full cost of providing a service. Full cost incorporates direct and indirect operating costs and capital costs. Examples of overhead costs include payroll processing, accounting services, computer/technology usage, and other central administrative services. The City uses the Ontario Municipal Benchmarking Initiative (OMBI) methodology for overhead cross charges.

When calculating capital costs, full life-cycle costs must be considered. The initial cost of purchasing or constructing the assets as well as the costs to repair, maintain, and replace the asset should be included. The City must properly manage these assets and ensure that they are maintained in a state of good repair in order to ensure sustainable levels of service. Incorporating full life cycle costs when determining User Fees, Rates and Charges will help ensure that adequate funds are available to meet the City's future asset repair, maintenance, and replacement needs.

If there is a competitive market for the product or service, the next step is to obtain information on the Market Price/Value. Consideration shall be given to User Fees, Rates and Charges established and collected by comparator municipalities and/or other entities operating in the existing market, for the provision of similar goods and services to assess the applicability, scope, and reasonableness of existing User Fees, Rates and Charges, and for proposing new User Fees, Rates and Charges.

If there is a Market Price/Value, the City's price for its product or service offering should be priced comparably as the City operates in an environment of limited resources and an ever-increasing public demand for municipal goods and services. Assessment of Market Price/Value is one factor to be considered in determining price point in addition to the full cost of providing the service and any relevant legislation.

The pricing and types of User Fees, Rates and Charges established shall conform to any relevant legislation.

Target Subsidy (discounts) - subsidies are contrary to the principle of full cost recovery but may have Societal Benefit as assessed through application of an equity lens and/or align with Council strategy or policy. Prices should generally not be increased for other users to offer discounts (discounts should be tax supported). However, it is important to be aware of how targeted subsidies will affect cost recovery ratios.

### 3. Pricing Strategy

Consideration shall be given to differential pricing strategies, which include the following:

- Peak-load Pricing;
- Amenity-Based Pricing;
- Pricing based on Customer Class; and
- Pricing based on location.

Other considerations for the development of a pricing strategy include:

- Demand Analysis for the good or service.
- Estimation of the value of the good or service to consumers.
- Estimation of the Societal Benefit associated with the consumption of the good or service.

- Analysis of the existing market price and market competitiveness, if applicable.
- Analysis of the potential use of Convenience Pricing for the good or service.
- Identification of whether taxes (e.g., HST) is included or excluded in the published price.
- Standard business practices; and affordability of the service.
- Equity impacts as identified through use of an equity lens or consistent with other equity, diversity and inclusion goals.

#### 4. Inflation Rates

Consideration shall be given to inflation rates when estimating the full cost of producing a particular good or service, and for reviewing and setting the prices of User Fees, Rates and Charges. There are many inflation indices available and an index that is applicable to the particular business under review should be selected. The two most common inflation indexes used by the City are the Consumer Price Index and Non-residential Construction Price Index.

#### 5. Public Engagement

Public engagement promotes openness and transparency by allowing the City to clearly communicate the expectations, goals, and outcomes to the public, and ensures that stakeholders have been granted reasonable opportunity to express their concerns, needs, and priorities.

Wherever practical, the City shall endeavour to engage members of the public and provide them the opportunity to be part of the discussion for the introduction of new User Fees, Rates and Charges, or proposed changes to existing User Fees, Rates and Charges. Public engagement on overall user fee reviews should be done in advance of the budget process.

The City shall make a schedule of all User Fees, Rates and Charges available to the public.

### **User Fees, Rates and Charges Review**

User Fees and Charges will be reviewed annually. This review will involve reassessing the key factors mentioned above to maintain the Council-approved User Fees, Rates and Charges and, where required, to recommend appropriate adjustments. The impact of approved changes to User Fees, Rates and Charges will be incorporated into the budget in accordance with the Budget Policy.

User Fees, Rates and Charges are impacted by growth in the community, and it is intended that revenue from growth services should support expenses associated with growth.

For each budget year, an estimate of the increase in revenue attributable to rate growth should be made and aligned with growth-related expenses. If growth-related revenue exceeds growth-related expenses, the difference should be transferred to the corresponding capital reserve fund for the service. In years where growth-related expenses exceed growth revenue, the transfer to reserve should be reduced accordingly.

## **Responsibilities**

### **Provider of a Service**

The provider of a service is responsible for assessing who should be charged and how much to charge as outlined in this Policy. This will form the justification for the User Fee/Charge price, any recommended subsidies, and the Cost Recovery Ratio that will be presented to Council for approval. The provider of the service is responsible for compliance with this Policy.

## **Property Taxation Assessment Growth – Schedule B**

### **Budgeting for Property Taxation Assessment Growth**

Assessment Growth may not always be positive and does not immediately result in more income for the City. New or changing home values in a community may redistribute how much each homeowner must pay, but no new money is collected; the only time more money is collected through property taxes is when the budget increases in size.

Using Assessment Growth to offset the cost of providing non-growth-related services artificially lowers the cost of providing these services and will result in tax rate increases related to servicing that growth in future years. Assessment Growth Revenue should therefore be used to fund growth-related expenses.

### **Assessment Growth Estimate**

The following factors are considered when estimating Assessment Growth:

- Historical average Assessment Growth for the previous ten (10) years
- Past data patterns and rates of change
- Provincial and municipal growth plans and legislation
- Outside factors, such as economic conditions and forecasts
- Impacts of reassessment and assessment appeals

### **Assessment Growth Revenue Allocation**

Assessment Growth Revenue is estimated annually by multiplying the estimated Assessment Growth percentage by the prior year's property tax levy and payment in lieu requirement; any revisions to the Multi-Year Budget are made in accordance with the Budget Policy. Revenue from Assessment Growth should support expenses associated with growth.

Assessment Growth Revenue shall be allocated in three focuses:

1. Local Boards and Shared Services

The allocation of Assessment Growth Revenue to Local Boards and Shared Services is based on the percentage of the City's tax levy that is allocated to local boards and shared services for each given year. The formula for allocating Assessment Growth Revenue to local boards and shared services is:

- $(\text{Sum of the net tax levy allocated to the local boards and shared services (including capital)} / \text{total annual tax levy}) \times \text{estimated Assessment Growth Revenue}$

## 2. Infrastructure Renewal Strategy

The allocation of Assessment Growth Revenue to the Infrastructure Renewal Reserve Fund is in accordance with the City's Infrastructure Renewal Strategy. After accounting for grants such as the Canada Community Building Fund and the Dedicated Gas Tax Funds for Public Transportation Program, the Annual Sustainable Capital Transfer as determined by our Asset Management Plan is calculated as a percentage of the total tax levy. As the City grows and builds more infrastructure, there becomes a growing capital replacement cost to maintain this infrastructure and, therefore, it is appropriate to allocate a portion of Assessment Growth Revenue towards capital renewal. The formula for allocating the Assessment Growth Revenue to the Infrastructure Renewal Strategy is:

- $(\text{transfer to capital reserves} / \text{total annual tax levy}) \times \text{estimated assessment growth}$

## 3. The remaining amount is allocated directly to the operating budget

The Assessment Growth Revenue estimate allocated to the operating budget is compared with the growth-related operating budget requests for the year. If estimated Assessment Growth Revenue exceeds the growth-related operating budget requests, the net amount is transferred to the Growth Reserve Fund so that there is no net impact on the net tax levy from budgeted growth-related revenue and expenses. If growth-related operating budget requests exceed estimated Assessment Growth Revenue allocated to the operating budget for the year, the difference results in a reduction in that year's transfer to the Growth Reserve Fund; until the point that this reduction would create a carrying deficit in the Growth Reserve Fund. In this case, taxes would be increased for excess of growth costs in that year.

## **Actual Assessment Growth Revenue in Excess or Deficiency of Budget**

If actual Assessment Growth Revenue varies from Budgeted Assessment Growth Revenue, the difference is transferred to or from the Growth Reserve Fund.

## **Grants – Schedule C**

### **Applying for Grants**

The first step is identifying grants available for projects, programs and services being considered.

Criteria for Grants:

- Applications for grants must be linked to a specific program or service (operating and capital). Funding that does not have a specific link to a

program or service (all or in part), will be discussed at Council with direction provided to staff.

- Grant funding must be assessed in consideration with the long-term financial implications of receiving it and a risk mitigation strategy must be identified to outline the approach to be taken if grant funding is discontinued.
- Programs or services considered for grant funding must be linked to the City of Guelph's Strategic Plan.
- In the event the grant requires a matching contribution from the City and it is not in the approved budget, ET approval is required at the application stage and Council approval is required to execute the contribution grant agreement.

Grant applications less than \$50,000 require lead Manager approval. For Grant applications between \$50,000 and \$250,000, General Manager approval is required. Grant applications for over \$250,000 require Deputy Chief Administrative Officer and Treasurer approval.

For more information about applying for grants review "tools and resources": [applying for grants](#) on the Infonet or the grant application form.

### **Strategic use of Grants**

Grants with more specific conditions that must be met should be applied to an initiative as a first priority. Grants that have very few or no conditions attached to them should be used last to minimize the risk of having to return unused grant funds.

Any staff hired with grant funding should be in alignment with the Policy guidance for one-time and ongoing funding.

### **Reallocation of Displaced Funds**

If grant funds displace previously allocated funds for a capital project or operating costs, the funds that were displaced can be reallocated in the following priority order:

1. Reallocation priority is first given to reducing debt service costs. If the project was funded using debt and a grant is received, the funds will be used to displace the debt, which will reduce debt service costs.
2. Reallocation priority is then given to expanding the scope of the project. If the grant received allows for an expanded scope for the project, the displaced funds would not need to be reallocated because they will be used to expand the scope of the project.

If the first two reallocation priorities do not apply, the displaced funds will be returned to the originating reserves/reserve funds for future budget priority consideration. In the case the grant is displacing operating tax or user fee revenues, variance will be managed in year with surplus recommendations following standard City process.

## **Other Forms of New Revenue – Schedule D**

### **Fundraising and Donation Revenues**

Fundraising and donation revenues will be held in an appropriate program-specific reserve and applied towards the expenditure purpose for which they were collected/received. Fundraising planning and campaigns shall be funded through the future funds expected to be recovered unless another source of revenue is available. If the cost of fundraising efforts is not recoverable through the campaign/effort, then the fundraising program shall be halted.

Funds can be allocated in advance to develop a fundraising strategy and plan. The funds provided for this planning stage of fundraising will be recovered through the first funds that are raised. A minimum of 70 per cent of pledges must be received as cash before any money can be spent on the fundraising cause. A large multi-year campaign may need to seek special Council approval based on the project uniqueness.

### **Sponsorships and Advertising Sales Revenues**

Expenditures funded with sponsorship and/or advertising revenues must be aligned with the duration of the sponsorship or advertising agreement. Any staff hired with sponsorship or advertising revenue should be in alignment with the policy guidance for one-time and ongoing funding.

Sponsorship or advertising sales revenue shall not replace existing or future sources of operating funds for the business unit.

100 per cent of the sponsorship revenue will be allocated to the operating budget of the appropriate facility, program, or special event in connection with the sponsorship received.