CANADIAN FINANCE MATTERS

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Committee on Canadian Issues (CCI) Highlights

Toronto, Ontario | Saturday, May 21, 2016

Co-chairs Cathy Brubacher and Suzanne Fillion welcomed the committee to Toronto for the thirty-sixth meeting since the committee's inception in San Francisco in 1998.

Special Thanks to John Martin

The Committee on Canadian Issues would like to thank John Martin for his outstanding contributions to the committee. His final term expired during the year. John is the Chief Financial Officer for the City of Moncton. He joined the committee in 2008 and served nine years on the committee. For three of those years, John was also the co-chair for the CCI and a member of GFOA's Executive Board.

New Committee Members and Advisor

We would like to welcome the following new members to the committee: Kevin Fudge, Stacey Padbury, June Schultz, and Nancy Yates. Also, we would like to welcome Donna Herridge as an advisor on the committee. Kevin Fudge is the Commissioner of Finance & Administration (CFO) for the City of Saint John. Stacey Padbury is the Deputy City Treasurer & Branch Manager of Financial Services for the City of Edmonton. June Schultz is the Director of Finance for the City of Regina. Nancy Yates is the Accounting Manager for the City of Vaughan. Donna Herridge is the President for DonCan Consulting.

INSIDE THIS ISSUE

ARTICLES

The theme of the articles in this edition of Canadian Finance Matters *is "Economics of Energy and Environment".*

EVENTS & OPPORTUNITIES

COMMITTEE ON CANADIAN ISSUES (CCI)

Members

Suzanne Fillion, Co-Chair, City of Surrey, BC

Update to the Committee

Suzanne Fillion and Cathy Brubacher provided an update on some of the activities of the GFOA Executive Board and noted the following key items:

- The total conference attendees for the GFOA Annual Conference in Toronto was 4,419, and 388 of the attendees were from Canada. Approximately 200 individuals attended the Canada Day presentations at the conference.
- The Canadian Award for Financial Reporting Program continues to grow. In 2016, a total of sixty-nine governments participated in the program.
- The GFOA is in the process of revising/updating its strategic plan.
- GFOA consulting services continue to grow.

Professional Development Task Force
GFOA Annual Conference in Toronto – Canada Day

The Professional Development Task Force coordinated with the committee the Canada Day presentations at the GFOA annual conference. Tina Tapley, co-chair of the Professional Development Task Force, reviewed the agenda for the Canada Day presentations, which took place on Sunday, May 22, at the GFOA annual conference. She thanked the committee members and staff for their work in coordinating the sessions. Canada Day was a full day of topics that were specifically relevant to Canadian finance officers.

Professional Development Task Force
Selection of the Canadian sessions for the next annual conference in Denver

The Professional Development Task Force coordinates the Canadian Update and the Canadian session at the GFOA annual conference. Tina Tapley led the discussion in selecting potential topics for the two Canadian-specific sessions for the next GFOA annual conference in Denver in 2017. The committee recommended the following five topics for those two Canadian sessions:

- Strategic Plans – communicating them, coordinating sub-plans, measuring outcomes (KPIs), adhering to them
- Asset management / Infrastructure replacement / Deficit
- Technology – changes to, wondering better/smarter
- Long-term relationships / funding between provinces and municipalities

Catherine Brubacher, Co-Chair, City of Brantford, ON

Kevin Bertles, City of Vernon, BC

Jeffrey Dalley, City of Yellowknife, ON

Bruce Fisher, Halifax Regional Municipality, NS

Kevin Fudge, City of Saint John, NB

Clae Hack, City of Saskatoon, SK

Patrice Impey, City of Vancouver, BC

Glen Jarbeau, City of Spruce Grove, AB

Josie La Vita, City of Toronto, ON

Rick Masters, City of Calgary, AB

Paul Olafson, City of Winnipeg, MB

Stacey Padbury, City of Edmonton, AB

June Schultz, City of Regina, SK

Tina Tapley, The City of Fredericton, NB

Yves Prosper Tedom, Town of Hampstead, QC

Valentina Todoran, Montreal-West, QC

Fuwing Wong, Town of Caledon, ON

Nancy Yates, City of Vaughan, ON

Committee Advisors

Mark Gilbert, Dalhousie University, Halifax, NS

Donna Herridge, DonCan Consulting, Mississauga, ON

GFOA Staff Members

Stephen Gauthier, Jim Phillips

- Managing taxpayer expectations

The committee will make a final decision on the topics for the two Canadian sessions at its next winter meeting.

Recruiting Canadian reviewers for the GFOA Canadian Award for Financial Reporting Program

The committee discussed ways to recruit additional reviewers for the GFOA Canadian Award for Financial Reporting Program. Some of the committee members discussed the positive impact of having a staff member volunteer as a reviewer, which increases the awareness of the requirements for a government to achieve the Canadian Award for Financial Reporting. The committee members brought forward names of individuals that would be a good fit to serve as reviewers for the Award Program.

Standards Task Force
Review of Best Practices and Advisories for their applicability in Canada

The Standards Task Force is responsible for bringing forward GFOA best practices and advisories to the committee for the CCI to determine if they would be applicable in Canada. Patrice Impey and Bruce Fisher, the co-chairs for the Standards Task Force, discussed potential GFOA best practices and advisories that will be reviewed by the committee at the next winter meeting.

The committee will also examine at a future date how best to present the best practices and advisories that are applicable in Canada on GFOA’s website. The GFOA best practices and advisories that the committee has decided are applicable in Canada can currently be viewed in the Canadian Finance section on GFOA’s website.

Advocacy & Communications Task Force
Canadian Newsletter

The Advocacy & Communications Task Force coordinates the GFOA Canadian Newsletter, *Canadian Finance Matters*. The committee thanked Fuwing Wong, co-chair of this task force, for his outstanding work in editing the newsletter. The theme for this newsletter is “Economics of Energy and Environment”.

Roundtable discussion on major issues

The committee members each discussed important finance issues, which included some of the following topics:

- Strategic Plans – communicating them, coordinating sub-plans, measuring outcomes (KPIs), adhering to them
- Technology – changes to, wondering better/smarter
- Multi-year budgeting
- Open data
- Affordable Housig Issues
- Long-term relationships / funding between provinces and municipalities
- Asset management / Infrastructure replacement / Deficit
- Transit
- Social Issues

- Downtown revitalization
- DC's / Master plans / Growth
- Human Resources plan – succession planning
- Managing taxpayer expectations

Other business

A letter was presented to GFOA President Marc Gonzales thanking him for participating in the Western Canada GFOA conference last year.

Recognition of committee members whose final term is ended

A letter was presented by the CCI to John Martin thanking him for the outstanding work on the committee as co-chair of the committee and for hosting a winter meeting in Moncton. A letter was also provided to Greg Kliparchuk, the Executive Director and Senior Financial Officer with the Government of Alberta, for his outstanding work as co-chair of the Professional Development Task Force in working with staff to coordinate the Canadian sessions at the GFOA annual conferences.

Date of the next meeting

The next CCI meeting will be in Winnipeg on Friday, January 13th, and Saturday, January 14th.

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Highlighted Best Practice

A section of the GFOA website is dedicated to the GFOA's best practices that are applicable in Canada. One of the best practices that the Committee on Canadian Issues would like to highlight is Long-Term Financial Planning. This best practice recommends that all governments regularly engage in long-term financial planning that encompasses the elements and essential steps listed in this best practice.

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The theme of the articles in this edition of Canadian Finance Matters *is "Economics of Energy and Environment". If you have ideas for themes that could be addressed in future editions of this newsletter, please email those ideas to Fuwing Wong.*

City of Mississauga LED Street Lighting Conversion Project Saves Over 34 Million Kilowatt Hours from 2013–2016

Eric Menezes, C.E.T., Street Lighting Supervisor, City of Mississauga, eric.menezes@mississauga.ca

In 2013, The City of Mississauga started converting 50,000 street lights from High Pressure Sodium (HPS) street lights to Light Emitting Diode (LED) lights to reduce energy consumption, save on maintenance and hydro costs and reduce the City's carbon footprint. By using LED technology, Mississauga is a leader in promoting technology for a greener environment, in conserving energy and reducing harmful greenhouse gas emissions. The City substantially completed the LED Street Lighting Project in mid-2016.

The City has attained a **50 per cent reduction** in maintenance costs and has realized an average reduction of **63 percent** in energy consumption to date. This has led to significant cost savings in annual street lighting maintenance and hydro costs. The City has saved over **$5 million** in hydro costs (over 34 million kWh of energy) from January 2013 to May 2016 through the use of LED street lights. This is equivalent to the total electricity consumed by all of the City's arenas and community centres in 2015.

The City of Mississauga financed the LED Conversion project through debt financing with an expected payback of five to six years after completion of the project. The business case was based on energy savings expected from the use of LED luminaires, additional savings from the use of adaptive controls and a 50% reduction in annual maintenance costs.

The LED Street Lighting Conversion Project includes a state-of-the-art street light monitoring system with the ability to detect malfunctioning street lights multiple times daily and transmit this information wirelessly. The new monitoring system checks the status of street lights, power loss, malfunctions, and energy consumption in real time. The system is programmed so that if a luminaire loses communication to the central controller, it will automatically turn itself "ON" to ensure night illumination.

The system also provides dimming capabilities and automatic lumen output adjustment based on the luminaires lumen depreciation curves. It allows the City to regulate the light output to design values based on L70 data and then automatically regulate lumen output to compensate for the luminaires lumen depreciation over the life of the luminaire.

LED street lights, being dark sky compliant, reduce the amount of light pollution into the sky, and the white light of LED provides a light source with better visibility to both pedestrians and motorists, as LED lighting offers better clarity and an improvement in the ability to identify colours at night over the old High Pressure Sodium (HPS) light source.

A detailed asset of poles, luminaires and wiring was input by City staff during the LED conversion. The data was incorporated into the adaptive controls software to create a one-stop point for all information on any specific light standard.

The City of Mississauga was the first in Canada to implement LED street lighting city wide and a lot was learned "on the job". LED and adaptive control technologies have advanced tremendously since the start of the LED street light conversion. It is highly recommended that LED luminaires and adaptive controls are installed at the same time, thus avoiding separate installations and additional costs. Most reputable adaptive control manufactures have now adopted the 7-pin NEMA base as a standard for their adaptive control nodes, which makes installation extremely simple onto the LED fixture. A comprehensive warranty on both the LED luminaires and adaptive controls is essential and should be for the same length of time.

The LED Street Lighting Conversion Project has been a success for the City of Mississauga. LED lights improve visibility to pedestrians and motorists, and reduce light pollution during the night. The new lights illustrate the City's commitment to the living green pillar, part of the City's Strategic Plan. For more information on the project, visit www.mississauga.ca/streetlighting.

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Leveraging Provincial Programs and Innovative Finance Models to Target Climate Change Action: The Richmond BC Experience

Levi Higgs, Corporate Energy Manager, City of Richmond, lhiggs@richmond.ca; Peter Russell, Senior Manager, Sustainability and District Energy, City of Richmond, prussell2@richmond.ca; Alen Postolka, District Energy Manager, City of Richmond, apostolka@richmond.ca

In light of recent adoptions of provincial climate action plans and announcements regarding the introduction of carbon taxes or cap and trade systems across Canada, this article aims to highlight how the City of Richmond has capitalized on opportunities created by its greenhouse gas (GHG) reduction commitments.

Richmond, BC is a culturally diverse and geographically unique community situated on Canada's west coast in Metro Vancouver. The city is 20 minutes from Downtown Vancouver, 25 minutes from the US border, and is home to the Vancouver International Airport. Richmond is a growing community with over 209,000 residents, with a vibrant arts and culture community and strong economic business sector.

Guided by the City's 2041 Official Community Plan and the BC Climate Action Charter, the City of Richmond is working to reduce community energy use and greenhouse gas (GHG) emissions. As a signatory to the BC Climate Action Charter, the City receives the Provincial carbon tax (currently \$30/ton of CO_2e) it pays on fuels and natural gas returned as a grant to support corporate and community GHG emissions reduction projects. Since 2008 the City has segregated this annual grant funding into a provisional account to be used for initiatives, such as EnergySave Richmond and other programs highlighted later in this article.

EnergySave Richmond

EnergySave Richmond (ESR), launched in 2013, includes a suite of programs to help residents and businesses act on energy savings opportunities, build capacity to undertake best practices, and access incentives to reduce greenhouse gas emissions. All of these programs have been funded through contribution agreements with regional utility companies and/or City funds received from the carbon tax grant program.

One of the more innovative programs of EnergySave is the Richmond Carbon Market. The program was envisioned as a means to help the City maintain its carbon neutral operations commitment, as part of the Climate Action Charter, while supporting local businesses to reduce GHG emissions in their operations. To achieve and maintain its carbon neutrality goal, the City has focused on reducing GHG emissions generated from its own operations first. Where corporate emissions currently can't be avoided, the City will look to develop internal credits and purchase carbon credits from local projects. Through its focused efforts, the City has achieved carbon neutral corporate operations since 2013, and plans to maintain this commitment into the future.

The City's carbon neutral commitment and Council's desire to see any funding used for the purchase of carbon credits remain in the community, led it to develop the Richmond Carbon Market. By directing investments back into the community, where they originate, it is expected that these investments will translate to a fourfold investment in capital projects and/or GHG emissions reduction measures. The program began through an expression of interest for community projects that met Provincial protocols and carbon credit funding criteria. During the initial call for projects, four proponents responded. The City has committed to spend up to \$80,000 in support funding for these community projects, which are estimated to achieve up to 3,200 tonnes of GHG emissions reductions annually once completed.

To ensure sufficient incentive to develop a local carbon market was available, a price of \$25 a tonne was offered for projects delivering between 75 to 2,000 tonnes of CO2e offsets. For projects over 2,000 tonnes, current market prices (currently approximately $15 a tonne) will be used as minimum value with added community benefits to be evaluated (e.g., improved ecosystem health, enhanced wildlife habitats, and renewable energy generation), potentially increasing the price for this size of project to $25 a tonne. The credits that the City will purchase, regulated by Provincial government protocol, are not transferable, and can only be used to reduce the City's own corporate carbon emissions footprint. Further project documentation and quantification costs would be required if proponents wish to sell their carbon credits in a national or international market.

Another pillar of the EnergySave Richmond initiative is the Richmond Building Energy Challenge. Launched in 2014, the Challenge is a friendly competition between businesses and multi-family buildings to reduce energy use. Through the program, the City of Richmond provides training, services and tools for building owners, managers and operators to reduce energy spending and emissions in their facilities. All commercial, industrial and multi-family buildings are eligible. The program is generously supported by regional utility providers and the City of Richmond. Thirty-four organizations with more than 50 buildings and 7 million square feet of property have participated in the Challenge to date. Through these businesses collectively, energy use has been reduced by 7.5% and GHG emissions by 13.5% over the last baseline year. Leaders in the program were recently recognized at a Council meeting for their successes achieved.

Other programs that are part of the ESR initiative include: climate smart training for local businesses, a smart thermostat incentive program for homes, and a smart water fixture replacement program for businesses.

District Energy

The City recently received international recognition for leadership in developing district energy systems that reduce carbon emissions, while delivering affordable and reliable heating and cooling. District energy is self-sustaining in Richmond; all capital and operating expenses are covered by fees paid by customers, ensuring funding availability for other community projects. Current systems in place include the Alexandra District Energy Utility, which uses geo-exchange technology to provide heating and cooling to connected buildings, and the Oval Village District Energy Utility, which at build out will use heat recovered from sewers to provide heating energy to connected buildings. The Oval Village system was delivered through a concession agreement with Corix Utilities whereby Corix funds, designs, builds and operates the system. Both utilities are owned by the City's recently established and wholly-owned municipal corporation, the Lulu Island Energy Company. Future expansion plans will be delivered under this model. In accordance with the BC Provincial utility regulations, the City, through the Lulu Island Energy Company, regulates customer rates and approves new services areas.

Taking direct climate action through a variety of means has a number of benefits, including reducing costs, developing local economic opportunities and helping to address climate change. Richmond's suite and variety of initiatives represent a comprehensive approach to help realize these benefits. Although the future holds a multitude of challenges associated with climate change, the City is committed to continuing to work to enhance Richmond's overall sustainability, to expand opportunities for energy savings, and to be a leader in municipal climate action.

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Understanding the Complexities, Influences and Approaches to Municipal Energy Budgeting

Ian Chalmers, Senior Account Representative, WattsWorth Analysis Inc. (London, Ontario), ichalmers@wattsworth.com

With energy costs on the rise and budgets facing increasing scrutiny, it has never been more important to forecast accurate municipal energy budgets. Provincial downloading of costs to municipalities has raised the awareness of all budget components, and energy costs are no exception. Ian Chalmers from WattsWorth Analysis Inc., a long established boutique consultancy based in London, Ontario specializing in advising municipalities and large industrial users on energy procurement and billing, discusses the various approaches involved and some of the market influences.

Energy Procurement Approaches

What options do you have and what considerations should be borne in mind for municipalities when budgeting future energy (electricity and natural gas) costs? Hedging electricity and natural gas has been an option open to most provincial municipalities for many years. It can and often does play a role in responsible procurement strategies, but knowing if and when to hedge is the key, along with how much. All of these considerations must be taken into account and balanced by a municipality's appetite (or lack of) for risk. Hedging should be viewed as a risk management tool to secure cost certainty for all, or a portion, of your energy needs and not necessarily as a means to strictly "beat the market". Natural gas pricing has been less predictable over the past several years. While natural gas costs typically range from 20-30% of electricity costs for many municipalities, hedges may provide these accounts with an opportunity to reduce annual volatility.

With demand peaks being a concern in several provinces, there are opportunities to save by shifting load. For example, Quebec has interruptible electricity options that allow Quebec Hydro to curtail loads when required, and Ontario has introduced Time of Use (TOU) rate structures with a growing gap between on and off peak prices. Accounts on TOU plans should be analyzed against alternative rates, and the possibility of shifting or eliminating loads to reduce overall costs should be examined. Many municipalities are utilizing recognized energy auditing firms to first target their largest consuming accounts looking to improve energy efficiency, control usage and garner savings.

Energy Utility Budgeting and Market Influences

The breakdown of market prices for both energy sources varies from province to province, but it is their relentless rise that is the main cause for concern. This makes it vital for municipalities to ensure they are adequately covered for every contingency in their budgets. This approach to municipal budgeting is influenced by various factors requiring consideration when setting the coming year's operating utility budget.

Electricity prices are driven primarily by factors within each province. However, natural gas prices are influenced by North American prices and increasingly by world prices. Natural gas commodity pricing has decreased due to fracking and horizontal drilling technologies for oil and natural gas, thus increasing North American supplies. This price decrease may be jeopardized with the introduction of LNG (liquefied natural gas) export terminals which are eliminating a previously land locked natural gas market in North America and exposing it to global pricing.

The weather and its relative unpredictability is a very significant influence and driver of market prices.

Summer heat contributes to air conditioning load peaks and cold winter weather contributes to heating load peaks. Extreme temperatures only exacerbate the peaks, increasing supply costs. Match this with either an abundance or scarcity of supply of either electricity or natural gas and you have the complicated mix that is the Canadian energy market. The varied temperatures seen year over year in recent times does not allow for simply taking the previous year's consumption values and building in a simple price adder. Therefore, normalized weather patterns should be taken into account when establishing forward-looking energy budgets, and facility manager expertise should be utilized to gain insight into potential load fluctuations (e.g., reduced electricity consumption from an LED lighting retrofit).

Accurately forecasting future commodity market prices and doing this efficiently is an art in itself and nobody has a crystal ball. Pulling all factors into the equation including past trends, future forecasts, likely variances and unpredictable influences is a skilled and very key part of the process. Getting this right is vital; getting it wrong can be costly.

The markets themselves vary between provinces but they are all driven by market forces both global and local and the push and pull of supply and demand. Their unpredictability and the ability for commodity prices to rise and fall present a real challenge for municipalities seeking to create budgets that are achievable but take into account every contingency.

2017 Energy Market Trends

As for what is on the horizon for 2017, market trends indicate a steady rise in prices to the consumer, making tight estimating and control of budgets an absolute must. As has been seen recently in Ontario, any changes which financially benefit large consumers ultimately have to be borne by smaller consumers, which include most municipal accounts. The growing concern for greenhouse gases has resulted in many carbon tax or cap and trade programs which could lead to increased costs.

Ontario has eliminated its coal generation and Alberta has announced its intention to do the same over the coming years. This has not come without a cost, as Ontario has experienced significant rate increases as a result of introducing various programs to incentivize green energy. Alberta, which has operated primarily under a merchant generator model, is looking to incentivize green generation economically while reducing its reliance on fossil fuels.

The decision whether to go ahead with additional green energy projects is always going to provoke strong opinions from opposing camps, as seen recently in Ontario. The success of such projects can only be gauged down the line, but while ethically a good idea, the economics, particularly concerning who is paid what for how long, has raised concerns in many quarters. The supply mix which makes up the utilities load is varied and will continue to be so going forward.

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Become a Reviewer for the Canadian Award for Financial Reporting

What is the Canadian Award for Financial Reporting Program? The Government Finance Officers Association's Canadian Award for Financial Reporting Program (CAnFR Program) has been promoting the preparation of high quality financial reports since 1986. Sixty-nine governments currently participate in the program. All participants are Canadian municipal governments that follow the standards promulgated by the Public Sector Accounting Board.

Volunteer to Serve as a Reviewer

If you are an accountant, auditor, or academic with experience in governmental accounting and financial reporting, you are invited to become a volunteer reviewer for the Canadian Award for Financial Reporting Program.

What are the benefits of serving as a volunteer reviewer?

Volunteer reviewers can:

- Be at the forefront of the most recent changes in accounting and financial reporting for local governments,
- Get exposure to a variety of reports from around the country,
- Access a practical way of providing training and development for junior staff without an incremental cost,
- Gain insight into how to improve their own annual financial reports, and
- Achieve professional recognition.

How much time does it take to serve as a reviewer? Reviewers enjoy considerable flexibility regarding the number and type of reports they wish to review. The GFOA has developed a checklist to streamline reviews and save valuable time. The reviewer’s checklist is available at the GFOA’s website in the CAnFR Program section. GFOA staff is available during normal business hours to answer questions you may have during the review process.

What are the requirements for serving as a reviewer? An individual does not have to be upper management or have significant experience with external financial reporting to serve as a reviewer. The GFOA encourages those with any experience in local government accounting and financial reporting to join in the review process. You are encouraged to use your time as a reviewer as a tool for professional development and educational purposes. In order to become a reviewer, one should possess a solid understanding of GAAP as established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

For more information on the CAnFR Program, visit the CAnFR Program page on GFOA's website. To become a CAnFR Reviewer, complete the Reviewer's Application Form and forward it to Jim Phillips at CAnFR@gfoa.org. Any questions about the program or becoming a reviewer can also be addressed to Jim Phillips.

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2017 GFOAWC Annual Conference

The Government Finance Officers Association of Western Canada's annual conference will be held in Regina from September 13 thru September 15. For more information, visit the GFOAWC's website.

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2017 GFOA Annual Conference

Registration for GFOA's 111th annual conference, which will be held in Denver, Colorado, from May 21 thru May 24, is now open. A discounted early registration fee is availalbe for those who register by January 26.

As part of the conference, once again a Canadian-specific session will be held that will focus on one of the key topics currently impacting Canadian government finance officers. A Canadian Update will also cover a wide range of informative topics and provide delegates the opportunity to share information with members of GFOA's Standing Committee on Canadian Issues.

Additional CPE credits can be earned by signing up for GFOA's preconference seminars on Friday, May 19, and Saturday, May 20.

For more information about the conference, and to register, visit GFOA's conference page. Please note that those who have not previously attended a GFOA annual conference are eligible for GFOA's First-time Annual Conference Attendee Scholarship. These scholarships cover the amount of the conference registration fee and will be awarded to up to 50 people per province who are GFOA active government members. For more information, click here.

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Scholarships

The GFOA currently offers three annual scholarship programs to students enrolled in full-time courses of study preparing for careers in state, provincial, and local governments, and one annual scholarship program to employees of a state, provincial, or local government enrolled in part-time graduate study preparing for a career in state, provincial, or local government finance. For more information about these scholarships, please visit GFOA's Scholarship Page. Please note, applications must be postmarked by **February 10, 2017**, to be considered, and recipients of the scholarships will be announced by April 21.

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