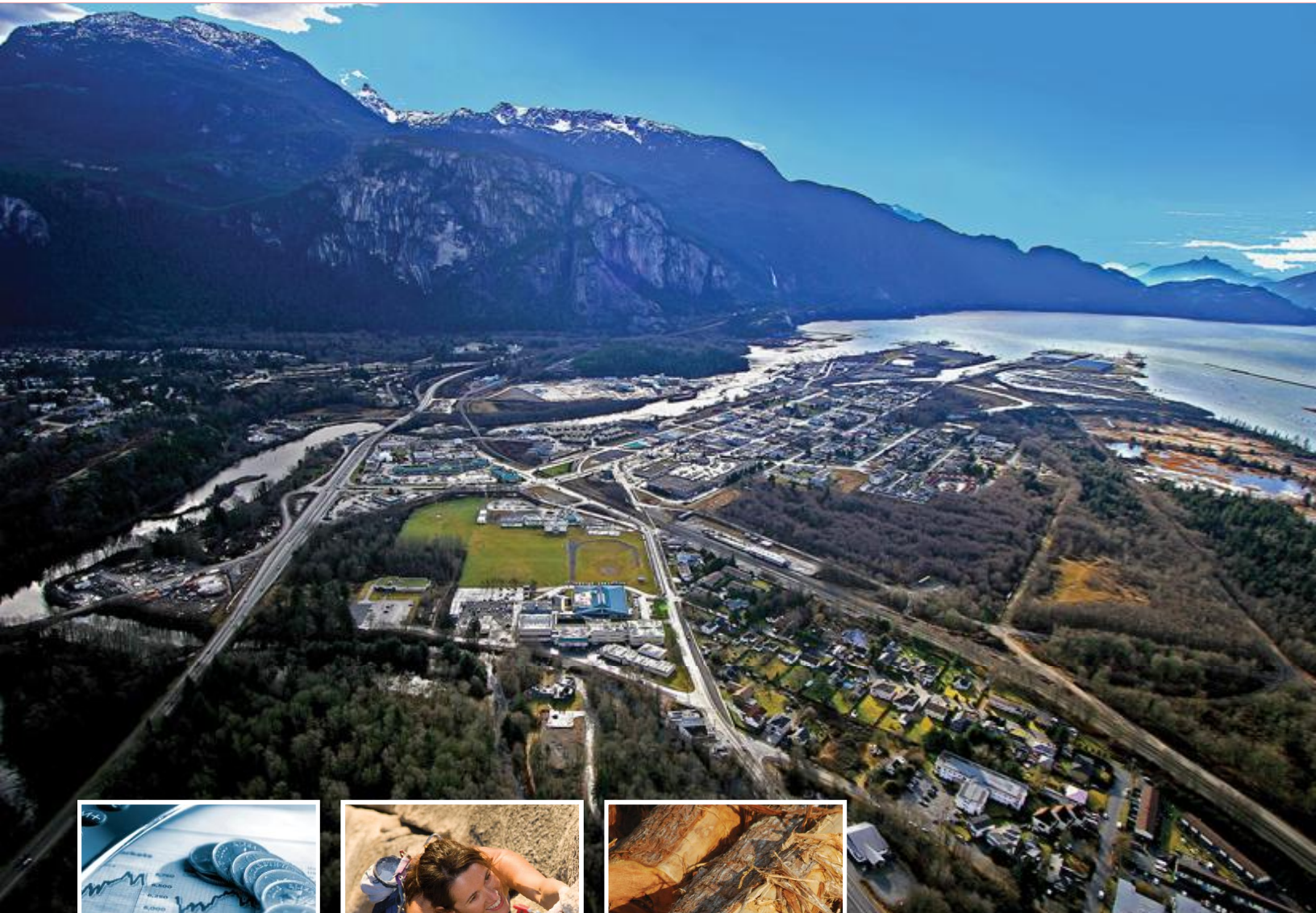


District of Squamish



LONG TERM FINANCIAL PLAN

Part A - Guiding Principles & Financial Policy



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District of Squamish

Long Term Financial Plan

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1. INTRODUCTION



The District of Squamish is taking important steps towards managing the long term financial sustainability of the community's assets and services. This is aligned with the Community Vision, described in the Official Community Plan, which touches on the importance of a diversified, self-sustaining economy. This is a powerful vision that will require investment and focus to become a reality.

In June, 2011 the District began the development of a Long Term Financial Plan to guide the District of Squamish into a future of financial health, based on sound fiscal policy which incorporates current best practices. Development of this Plan is an action item in the Service Squamish Initiative, which is supported by previous asset management work that forms the foundation for this project. The Long Term Financial Plan was created in consultation with Council and senior staff, and it is evident that there is a strong commitment to achieving the vision for financial sustainability.

"We are a model complete community with a diversified, self-sustaining economy...Our economy is resilient and provides...opportunities to prosper and flourish over the long-term."

~ Official Community Plan Bylaw 2010, 2009

This Long Term Financial Plan helps answer questions such as:

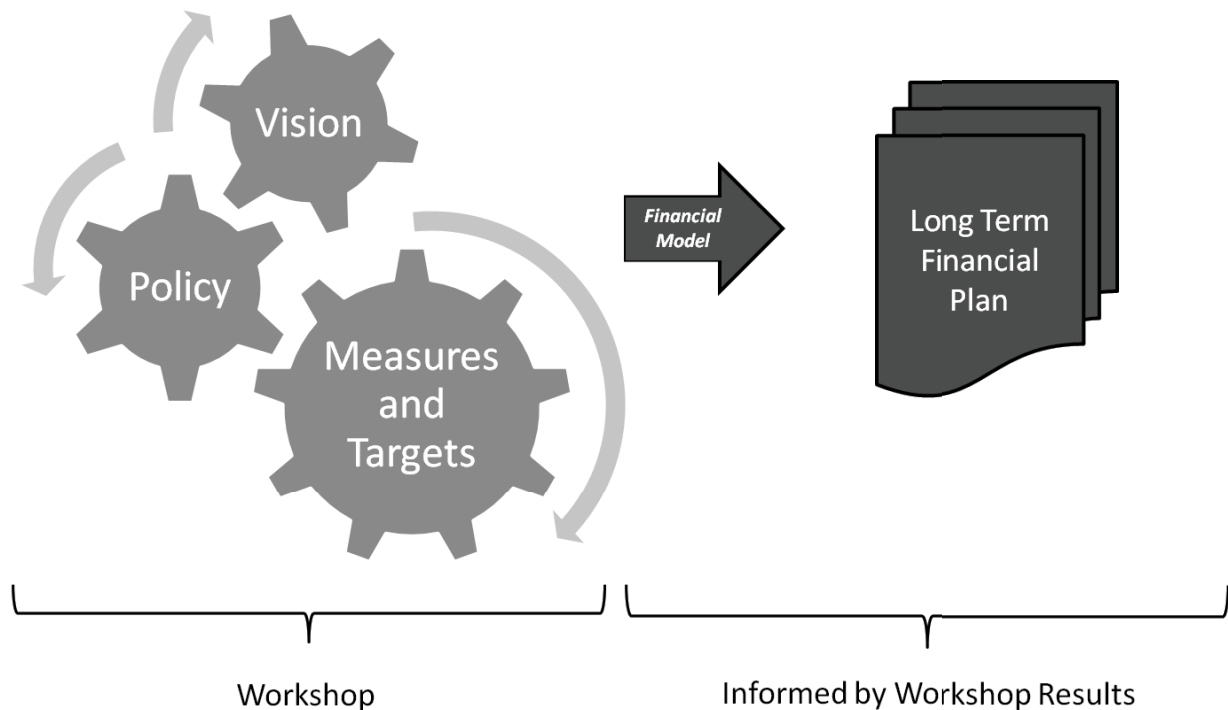
- How can we operate within our means and statutory obligations;
- How can we provide fundamental services to our community;
- How can we be resilient and responsive to growth opportunities; and,
- How can we, at the same time, make adequate provision for funding new assets and the replacement of essential infrastructure in the future?

The Long Term Financial Plan is also intended for use as a communication tool with the public.

A successful Long Term Financial Plan includes a clear understanding of what financial sustainability looks like in Squamish (a vision), specific direction (policies) on how to achieve the vision, and a method for knowing if the vision has been achieved (measures and targets). Through the development of a Long Term Financial Plan and Financial Policy, the District will be among the leaders of the Province in sustainable finance.

A financial model can be used to test today's assumptions and determine what level of future investment can be confidently sustained into the future. The process used to develop this Plan is illustrated in Figure 1.1.

Figure 1.1 - Process Framework



The output of this process is presented in two parts. Part A (this document) lays out the guiding principles and the financial policies. Part B is the outcome of the financial model that is used to produce the long term financial plan.

This report is arranged into the following five sections:

1. Introduction
2. The Squamish Reality
3. Guiding Principles for Financial Sustainability
4. Policy Objectives
5. Implementation



2. THE SQUAMISH REALITY



Historically, the Squamish economy was based on natural resource development. The decline in the forest industry in recent years, however, has seen Squamish shift to an economy based primarily on tourism, hospitality, and the service sector. The education sector has also grown in recent years with the arrival of Quest University. Squamish is becoming more diversified as it moves away from a dependence on the resource sector, meaning stronger opportunities for economic stability.

"We will be strategic in planning for and facilitating a healthy business climate in Squamish that capitalizes, but respects, our community values."

~ Service Squamish Initiative

The District of Squamish owns almost \$440 million in public works assets, and has a cash flow of approximately \$40 million annually. Similar to many municipalities throughout British Columbia and Canada, a significant portion of infrastructure in Squamish is older and may be nearing the end of its service life. Although the District is currently providing adequate levels of service and meets minimum service requirements in most areas, significant investment is needed in the short term (maintaining and replacing existing infrastructure) to continue providing current levels of service.

Some important items for consideration, given the current financial climate of Squamish, include:

- An immediate need to invest in asset renewal for the District's water, sanitary, roads, drainage, parks, facilities, and fleet. This is based on the work completed to determine current state of assets and sustainable funding levels.
- Implications of the loan guarantee to the Squamish Oceanfront Development Corporation (SODC), which is disproportionately consuming borrowing capacity. Given current conditions, the District is expected to be out of borrowing capacity by 2014.
- A significant increase in operating costs, specifically an additional \$1 million required for RCMP services in 2012.
- Cost implications associated with future needed wastewater treatment plant upgrades.
- A need to explore current reserve funds and levels, specifically the adequacy of reserves in supporting the long term objectives of the District.
- Aging municipal facilities and the trade-offs between replacing and continuing to operate and maintain them.

3. GUIDING PRINCIPLES FOR FINANCIAL SUSTAINABILITY



Guiding Principles for financial sustainability were developed with staff and Council and are broadly supported to guide the development of financial policy in Squamish.

Guiding Principles

Stable and Sufficient

- Taxes do not fluctuate greatly from year to year
- Revenues are sufficient to support long term goals of the community

Sustainable and Equitable

- Investment is sufficient to sustain the desired service level indefinitely
- Everyone pays an equitable amount for the services they receive
- Cost recovery model is equitable

Prudent and Flexible

- Financial decisions aim to minimize risk
- Financial decisions ensure future flexibility to adapt to opportunities and/or changing circumstances

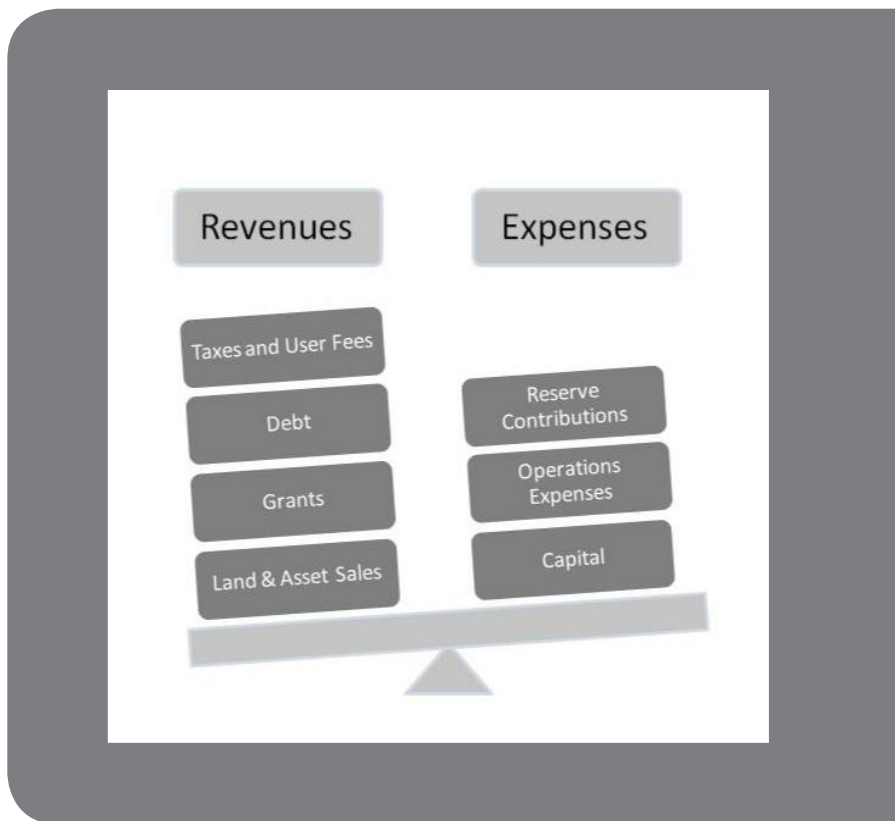
Efficient and Measureable

- Services are provided in an efficient manner
- Successes are measured using indicators/benchmarks

4. POLICY OBJECTIVES



Financial sustainability is a function of how much money comes in (revenue) as compared to how much goes out (expenses). To be sustainable, a community's expenses cannot exceed its revenues over the long term. Although there will inevitably be years where cash flows necessitate lower revenues than expenses, the opposite should also be true. Ultimately, achieving equilibrium between revenue and expenses over a longer period (i.e. 20 years) will ensure sustainable financing while still allowing a community to operate effectively on an annual basis. The policy objectives contained within this document were developed in consultation with Council and staff to provide the desired approach for achieving Squamish's Vision for Fiscal Health. Background information and benchmarks have also been included to provide context.



4.1 Revenue

Revenue has been considered from three focus areas: Tax and User Fee Growth, Debt, and Grants. Generally, on a per capital basis, the average Squamish resident pays about 8% more on taxes and user fees than the average British Columbian (\$1,760/year versus \$1,625/year respectively). This is reflective of the decrease in the industrial tax base over the past decade, which has put upward pressure on residential and business tax classes.

.1 Tax and User Fee Growth

Context

Taxes and user fees are a primary source of revenue for Squamish. Taxes are general charges imposed on a parcel, including a local improvement levy, while user fees are consumption/connection-based, according to use.

The District has an obligation to provide infrastructure to the community, and both tax and user fee growth are needed to support the continued operation of this infrastructure. It is important that money is spent efficiently, which can be demonstrated by tying the need for increases to specific community expenditures.

Taxes: general charges imposed on a parcel, including a local improvement levy

User fees: charges imposed on a consumption/connection basis according to use

Squamish is a community in transition from an economy based on industry to one based on the service sector. The community's strategic location can offer a quality of life that is attractive to a younger and knowledge-based workforce. As the District continues to transition, investment in the community will be needed in order to meet changing needs. As such, new infrastructure and services are required to support this transition, which will likely put upward pressure on the taxes and user fees that residents pay.

Best Practices

Although increases in taxes and user fees should be expected, residents and business owners typically desire certainty with respect to future costs and their affordability. It is important for revenues to be sufficient to support the long term goals of the community. It is considered a best practice for taxes to remain fairly consistent and predictable from year to year.

The existing infrastructure in Squamish is also aging and some components (eg. water mains) are failing regularly. There is a need to address the backlog of infrastructure renewal and rehabilitation (i.e. taking care of and replacing assets) that is affecting current service levels. It is a best practice to adequately invest in renewal and rehabilitation of existing infrastructure. This will prolong the life of these assets and maximize the use of public funds. To address the backlog, additional investment is anticipated in the near future before levelling off to a more stable level.

Furthermore, there is a recognition that taxes and user fees should grow annually to reflect standard cost of business changes, but unexpected changes (eg. increased RCMP

operational costs, and senior government downloading) could necessitate additional one-time adjustments.

Council and staff identified three key themes with respect to taxes and user fees: addressing infrastructure rehabilitation needs; appropriate justification for increases (i.e. a business case for new spending); and levelling off to predictable annual increases (aligned with standard cost of business changes), over the long term.

It is a best practice for taxes to remain fairly consistent and predictable from year to year, and for revenues to be sufficient to support the long term goals of the community.

Policies

The policies below are provided to guide decisions about the level of future tax increases that are appropriate for the District of Squamish.

It is a policy of Council to:

- Ensure adequate tax and user fee revenue to sustain existing service levels, including:
 - price changes resulting from the cost of doing business; and,
 - adequate renewal/rehabilitation of existing infrastructure (as identified in the respective Asset Management Plans).
- Support any additional increase to tax and user fees, beyond sustaining existing service levels, by a business case which considers on-going operating costs and alignment with the community vision.
- Maintain relatively stable tax and user fee increases that are aligned with standard cost of business changes. *(It is acknowledged that the CPI may not be an appropriate indicator of the District's cost increases and that a more reflective "municipal index" be investigated)*
- Phase in any future increases, where future costs are identified in advance, so as to minimize spikes in taxes and/or user fees.

.2 Tax Allocation

Context

Squamish's tax allocation is the ratio of tax paid by residential customers compared to other classifications such as business. In 2010, the Business Tax Multiplier was 2.76 meaning that businesses paid 2.76 times as much in property taxes as residents on the same value of property. This is slightly lower than the Provincial average. Also of note is that a decrease in the industrial tax base over the last decade has resulted in business and residential customers paying a larger share of the total tax bill than was historically the case. This shift in tax burden is a direct result of the transition to a service-oriented economy.

To prosper, Squamish will need to continue attracting new business investment. This will require a careful balance between the equitable allocation of taxes and the desire for economic development.

Best Practices

It is a best practice that everyone pays a fair amount for the services they receive. To achieve this, the cost recovery model should be equitable, thus maintaining a balance between encouraging economic development and ensuring the allocation of taxes across classes remains equitable.

Council and staff indicated support for a tax allocation ratio between business and residential customers that meets the objectives of the District's Long Term Financial Plan. A Business Tax Multiplier in the range of 2.5 – 2.8 is felt to be competitive given current circumstances, which is aligned with the current ratio in Squamish. Attracting new business investment into Squamish is important to achieve the long term vision of the community.

Policies

The policies below are provided to guide decisions about maintaining equitable cost recovery while supporting economic development.

It is a policy of Council to:

- Ensure the allocation of taxes is equitable and reflects the value of services provided.
- Maintain a Business Tax Multiplier that encourages new business investment in the District of Squamish. *(Target a business multiplier in the range of 2.5 – 2.8)*

.3 Debt

Context

Debt is borrowing to finance projects up-front prior to the full cash value of the project being available. In British Columbia, up to 25% of total allowable revenues can be used to service debt. This approach means that communities can 'build today,' smooth infrastructure investments by spreading out costs over time, and promote inter-generational equity. Debt can, however, be more expensive due to interest, and may result in increased risks to a municipality if the debt load gets too high.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Can build "today" • Smooths infrastructure investments by spreading out costs over time • Promotes a measure of inter-generational equity 	<ul style="list-style-type: none"> • More expensive than pay-as-you-go due to interest costs • Increased risk if the debt load gets too high

Loan guarantees to the Squamish Oceanfront Development Corporation (SODC) currently consume 1/3 of the allowable borrowing capacity. Excluding the loan guarantees, Squamish's current debt load is modest, with a debt servicing ratio of less than 9% (of a maximum 25%). Factoring in the SODC, debt service recommended by the guarantee brings Squamish to more than double the provincial average. If restructuring of the SODC financing does not take place, current conditions dictate that the District is expected to be out of borrowing capacity by 2014. This means that no new borrowing may be possible unless revenue increases sufficiently or the SODC loan guarantee is changed.

Debt will be required to fund key investments which are necessary to meet the changing needs of the community.

Best Practices

Debt is a commonly used approach for spreading the costs of capital projects over the lifecycle of the asset. It allows those who benefit from the use of the asset throughout its useful life to be the ones contributing to its costs. In Squamish, debt is sometimes incurred for relatively minor investments, which could otherwise be funded from reserves if such a mechanism was available. It is a best practice for debt to be used for large assets with high up-front costs; assets with long lifespans (eg. a new library), and one-time strategic investments (non-recurring).

Due to the shifting economic base and demographics, there is a high demand for the

capital works associated with providing necessary community services. Debt is an ideal, and often necessary, method for financing these projects when the full cash value to pay for such work may not be immediately accessible.

It is a best practice to be prudent and flexible by minimizing the risk to tax payers, while ensuring debt levels allow for the flexibility to adapt to new opportunities and changing circumstances.

Council and staff indicated support for borrowing when necessary to leverage needed capital works. There is also support to remain flexible in case of emergencies and unexpected opportunities.

Policies

The policies below are provided to guide decisions about the level of debt that is most suitable for the District of Squamish.

It is a policy of Council to:

- Reserve the issuance of debt for larger projects where reserves and current revenues will not be sufficient. A project value threshold of \$300,000 in the short term, increasing up to \$1,000,000 (over a 5 year period), is proposed.
- Plan for and finance smaller projects (less than \$1,000,000) through reserves and current revenues.
- Maintain a debt servicing ratio that allows some borrowing room for emergencies and unexpected opportunities. A debt servicing ratio to a maximum of 20% is proposed.



.4 Grants

Context

Recent grant programs have included the Building Canada Fund, Gas Tax Fund, and Towns for Tomorrow. In Squamish, transfers from senior governments have averaged 8% of revenues from 2005-2009.

The Ministry of Community Development is responsible for developing and administering most of the capital funding programs available through British Columbia. The Province has identified that the focus of upcoming grants will generally relate to addressing public/environmental health issues, and supporting sound and sustainable management practices.

In terms of operating grants, the District currently receives approximately \$500,000 annually.

Best Practices

Higher levels of government are under pressure to reduce deficits. As such, there is no assurance that the District will receive capital grants, or continue to receive annual funding from all operational grants currently being collected.

It is a best practice that revenues be sufficient to cover regular capital and operating costs in a municipality. Grants, therefore, would provide additional funds that can be used to supplement regular activities and enhance basic service provision.

Council and staff indicated support for only preparing grant applications related to projects identified for implementation in the next 20 years. Grant opportunities should align with the community's vision and be viable after considering up-front, administrative, and long term operational costs. Advancing projects to the point of being "shelf-ready" will maximize the potential for grant opportunities.

Policies

The policies below are provided to guide decisions about grants, including how much they should be relied upon and in what situations.

It is a policy of Council to:

- Ensure revenues are adequate to cover regular capital and operating costs assuming no grants are available. Senior government operational grants will not be relied upon for providing necessary community services. If operational grants are received, the

funds can be allocated to reserves and/or debt reduction.

- Limit grant applications to projects identified as part of the District's Long Term (20 year) Plan, and review grant opportunities by considering:
 - If the community's vision is supported by proposed projects; and
 - If the up-front, administrative, and long term operational costs are acceptable and affordable given the benefits of the project.
- Be proactive by advancing projects identified as part of the District's Long Term (20 year) Plan to the point of being 'shelf-ready' in anticipation of future grant opportunities.

.5 Land and Asset Sales

Context

The District currently possesses a portfolio of saleable land assets. There may be opportunities to supplement revenues with municipal land and asset sales (e.g. the Business Park). The District is currently marketing some land, and estimates an increase in revenue of approximately \$20 Million over a 20 year period, which will most likely occur in phases.

Council and staff indicated support for designating proceeds from municipal land and asset sales towards debt reduction associated with capital works. This will provide clarity to the public around the purpose of using such funds, and ensures that the protocol for a electoral consent for large projects is never circumvented by the direct application of land or asset sale revenues.

Best Practices

Land development and speculating are not part of the District's core business. It requires specific expertise and a willingness to assume some level of risk. Transitioning out of this role will maximize the long term revenue for the community while lowering risks associated with such activities. It is a best practice for the District to move away from purchasing or holding land for development and speculating. The intention is for any undesignated District land to be sold, recognizing that land held for a designated municipal service will continue to be held/used by the District for such a purpose.

Policies

The policies below are provided to guide decisions about the proceeds from municipal land and/or asset sales.

It is a policy of Council to:

- Apply all proceeds from municipal land and/or asset sales directly to debt reduction or reserves, with the first priority to debt reduction.
- Avoid holding land solely for future development. The District shall only hold land where there is a potential municipal purpose.

4.2 Expenses

Expenses have been considered from three focus areas: Reserve Contributions, Operations Expenses, and Capital.

.1 Reserve Contributions

Context

Generally, there are two types of municipal reserves, restricted and unrestricted. Restricted reserves, such as statutory reserves, are to be used for the specific purposes established by bylaw, in accordance with Provincial legislation.

Squamish currently has virtually no reserves for use towards capital projects, with the exception of Development Cost Charges and non-statutory reserves. These are minimal and not deemed to be sufficient. Furthermore, working capital which is partially funded through deferred revenue, is not sustainable as deferred revenue will decrease through its intended use.

Best Practices

It is a best practice that investment and financing decisions aim to minimize risk and financial uncertainty for tax payers. Reserves provide an excellent buffer which can achieve both best practices. They allow municipalities to make financial decisions that have the flexibility to adapt to opportunities and changing circumstances. Reserves also help to smooth out increases to taxes and user rates that might result from year to year fluctuations in spending.

Council and staff indicated support for establishing a baseline/emergency reserve for unexpected critical infrastructure work. This is expected to be in the form of working capital and an emergency infrastructure reserve. Asset replacement reserves are also supported with the expectation that renewal funds required for future asset renewal be set aside in a reserve fund until they are needed. The desired long term approach is to fund renewal projects through a combination of current revenues and reserves, and to fund larger capital projects through a combination of reserves and debt. In the short term (transition period) a balance between reserves and borrowing will likely be required, with paying off debt as a priority. The reserve levels for asset renewal will “float” as funds flow into and out of the reserves depending on the

“We will balance the costs of providing exceptional service with the responsibility of internal costs and respect for our tax base.”

~ Service Squamish Initiative

need in the current year.

The American Water and Wastewater Association recommends that working capital (for operations) be in the order of 1/8th of a year's operating expenses. This is in the order of \$3,000,000 for the District of Squamish.

Policies

The policies below are provided to guide decisions about the desired approach for managing reserves.

It is a policy of Council to:

- Establish an emergency reserve to be accessed when unexpected events result in an immediate need for funds. The level of reserve should be aligned with the results of the NRCAN criticality and risk assessment and other risk assessment reports currently underway.
- Establish and maintain working capital (accumulated operating surplus) using annual surplus to a target value of 1/8th of annual operating expenses.
- Build up capital reserves to fund future infrastructure rehabilitation as outlined in the respective asset management plans. A minimum balance of 1 year average capital contribution from revenue should be targeted.

.2 Operations

Context

Operating costs in Squamish have increased by 13% since 2005, which is an average of approximately 3% per year.

Best Practices

It is a best practice for operational expenses that decisions aim to minimize risk to customers.

Council and staff indicated support for examining a variety of service delivery options (i.e. public, private, public-private partnerships) to ensure the best value for the community.

Policies

The policies below are provided to guide the desired direction for operating expenses into the future.

It is a policy of Council to:

- Ensure efficient solutions to service delivery are being implemented through municipal operations.
- Examine all options for project delivery when considering new facilities and services to ensure the best value for the tax payers.

.3 Capital

Context

There are a variety of reasons for undertaking capital works, each of which can affect the approach taken for funding such projects. The District's capital works can be categorized as follows:

- Rehabilitation/Replacement (eg. a water main replacement)
- Risk Mitigation (eg. a Wastewater Treatment Plant)
- Regulatory Requirement (eg. meeting a new water quality standard)
- Growth/Economic Development (eg. a streetscape enhancement program)
- Level of Service Increase (eg. paving a gravel road, or building a new library)

Of immediate concern is rehabilitation/replacement of existing assets. In Squamish, some assets are seeing accelerating failure rates (eg. weekly water main breaks). The District has undertaken Asset Management Plans for a range of areas which indicate the investment levels required for continuing to operate, maintain, and replace these assets.

Best Practices

Given that the District has \$440 million in public works assets, it is important to ensure enough is being invested to take care of these assets. They provide the current, and almost certainly expected, level of service for the community. Over time, risks may also become apparent that require immediate, and often very costly, solutions to address (i.e. wastewater treatment plant redundancies). Similarly, senior governments may identify new regulatory requirements that must be met as part of the District's regular service provision (i.e. effluent discharge).

In contrast, there are numerous situations where development is partially or solely in response to new growth. These opportunities can be quite attractive, as they stimulate economic development. It's important to recognize that such situations rarely provide any direct benefit to existing customers, and can be quite a burden financially to a municipality over the long term. Typically, these projects are funded directly by the developer or through Development Cost Charges. An important question to consider is what priority is given to these types of projects compared to other capital infrastructure investments.

Finally, there may be additional services, or higher levels of service, than those currently being funded which the District would like to provide. Again, it's important to consider the priority of these projects compared to other capital infrastructure investments, so

that 'needs' are addressed before 'nice-to-have' projects.

The following are best practices for financing capital works:

- Rehabilitation/Replacement – take a pay-as-you-go (user fees and taxes) approach to fund linear and smaller discrete projects; take a combination of borrowing and pay-as-you-go approach to fund larger projects
- Risk Mitigation – take a combination of borrowing, pay-as-you-go, and grant approach to fund projects, recognizing that larger projects will require more significant portions to be funded by debt
- Regulatory Requirement – take a combination of borrowing, pay-as-you-go, and grant approach to fund projects, recognizing that larger projects will require more significant portions to be funded by debt
- Growth/Economic Development – take a 'growth pays for itself' approach which recognizes that these projects are only needed to meet demands of new growth. In exceptional cases, a community may choose to front-end certain 'shared benefit' costs.
- Level of Service Increase – take a combination of borrowing, pay-as-you-go, and grant approach to fund projects, recognizing that larger projects will require more significant portions to be funded by debt

Council and staff indicated support for defined approaches to funding capital infrastructure investments depending on the type of work. A defensible rationale for each new investment, including replacement of existing infrastructure, is desired to ensure funds are being used appropriately. This will also provide solid rationale for communicating decisions to the public, ensuring transparency.

Policies

The policies below are provided to guide decisions about funding capital infrastructure investments.

It is a policy of Council to:

- Base replacement of existing assets on the actual condition of the asset and not the theoretical lifespan. *(for example a vehicle should be operated until it no longer is able to serve its purpose and not replaced solely because the money is available).*
- Fund ongoing rehabilitation/replacement out of current revenue, except for projects over the defined threshold which can be funded through a combination of current revenue, reserves and debt.

- For new assets, fund small capital projects (below the defined threshold) through current revenue and reserves, and larger projects through a combination of current revenue, reserves and debt. Larger projects shall require a business case which considers on-going operating costs and alignment with the community vision.
- Ensure growth pays for itself, recognizing that in certain situations the District may choose to front-end a project where there is a specific advantage to the community.

4.3 Project Delivery: Public-Private Partnerships (P3s)

There are three ways to deliver services/projects:

1. Public
2. Private
3. Public-Private Partnerships (P3s)

Public delivery would be the District taking on all responsibilities, for example a self-contained utility (i.e. Squamish Water Works) or a decentralized, arm's-length agency (i.e. SODC). Private delivery would be a 'for profit' company taking on all responsibilities. The third alternative is becoming more common, and that is P3s. P3s are most appropriate when:

- The asset is 'stand alone' and not part of a highly integrated system;
- The asset is not soft/social in nature; and
- There is a well understood need/demand but the District lacks the financial resources or expertise.



Policies

The policies below are provided to guide decisions about service delivery.

It is a policy of Council to:

- Consider Public-Private Partnerships (P3s) as a method of service delivery for new capital works and services.
- Evaluate potential P3 projects when they are sufficiently large and there is a business case for private involvement. In such cases, the decision should be focused on:
 - expertise that may be accessible from such a partnership; and
 - financing options that would otherwise be unavailable.



5. IMPLEMENTATION



The policies presented in this document shall form the basis from which staff will operate and make decisions, or alternatively make recommendations to Council. The policies will inform the annual budgeting process as well as longer term capital and financial planning. These policies should be reviewed annually with Council to confirm that they are functioning as intended.

The District's Long Term Financial Plan is based on a clear vision, backed by policy, and will be tested by a robust financial model. It is an outcome that District of Squamish can feel proud of, with confidence that it has been built on a solid foundation.

It is recommended that a renewal of the Long Term Financial Plan be budgeted for and scheduled every three years to ensure that the policy and model remain relevant and that data is updated to reflect the most current management plans and policies endorsed by the District of Squamish.