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COUNCIL POLICY

Policy Title: Franchise Fee/MCAF Revenue Budgets and Variances
Policy Number: CFO003
Report Number: FCS2004-22
Approved by: City Council
Effective Date: 2004 December 5th
Business Unit: Finance and Supply

BACKGROUND

One of the revenue elements in The City's budget that is subject to the highest degree of volatility is franchise fee/Municipal Consent and Access Fee revenue. Currently there is no policy on how fluctuations from budgeted franchise fee revenue would be allocated between operating and capital budgets. There is a need to formalize the treatment of franchise fee budgets and variances.

PURPOSE

The policy will ensure that a consistent budget methodology is followed that will ensure that ongoing base revenue continues to fund ongoing expenditures, while any temporary changes in base revenue would be applied to capital projects.

POLICY

1. When actual franchise fee revenue exceeds the budgeted figure:
   (a) where The City pays a market-driven floating price for natural gas and/or electricity, the amount of additional franchise fees in excess of the increase in City costs for utilities and fuel will be contributed to the Reserve for Future Capital, and
   (b) where The City pays a fixed price for electricity and/or natural gas, all of the additional funds will be contributed to the Reserve for Future Capital.

2. When actual franchise fee revenues fall short of the budgeted figure:
   (a) where The City pays a market-driven floating price for natural gas and/or electricity, any budgeted contribution to the Reserve for Future Capital will be reduced by the shortfall less any City savings resulting from the lower commodity cost, and
   (b) where The City pays a fixed price for electricity and/or natural gas, any budgeted contribution to the Reserve for Future Capital will be reduced by the total amount of the shortfall.

PROCEDURE

1. City-wide Planning and Economics annually surveys the major forecasters of commodity prices (for natural gas and crude oil). From those figures, an arithmetic mean and the upper and lower bounds of the five-year forecasts are calculated, with the values rounded to the nearest dollar per barrel for crude oil, and to the nearest dollar per gigajoule for natural gas.

2. When each year's budget is prepared, Finance and Supply will review that five-year forecast of commodity prices (natural gas and electricity), and identify the lowest forecast price. This figure will be termed the "floor price".

3. The floor price, multiplied by expected annual consumption, will be used to calculate the estimated franchise fee revenue to be incorporated into that year's operating budget.

4. The calculation of any one-time expenditure for a given year will depend on the forecast of the commodity price for that year. If the forecast commodity price is higher than the five-year floor price, a one-time cost for higher utility charges will be calculated, based on City consumption estimates, and that amount will be included in the operating budget.

5. The calculation of any one-time contribution to capital will follow from step #3. The additional forecast revenue, based on higher commodity prices less the higher one-time operating cost for City utility and fuel charges, will constitute the one-time capital funding amount.

6. The actual one-time funding allocation to capital will be done by Finance and Supply at year-end

AMENDMENTS

None

2010 revision-policy number change from FCS004 to CFO003 due to department reorganization