

**TOWN OF
AMHERSTBURG**



POLICY NO.: COO – Capital Budget & Finance

SOURCE: Supervisor of Budget Services

SECTION:

DATE ENACTED: September 1, 2008

DATE OF AMENDMENT:

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0.0 SUBJECT:

Capital Budget & Capital Finance Policy

1.0 INTENT:

The capital budget is an important planning tool, it allows the Town to provide for the necessary infrastructure to maintain or enhance future service levels. Through capital budgeting, the Town can plan future operating budget expenditures, debt repayment and potential reserve fund needs in order to manage the financial position of the Town over a five to ten year period. In addition, the capital budget provides the basis for the implementation of the official plans, master plans and strategic plans and also provides the financial mechanism to implement Council's planning and fiscal policies.

2.0 SCOPE:

This policy applies to all Town departments, boards and commissions, agencies and other organizations falling within the reporting entity of the Town. Also included in the scope of this policy are all capital activities, projects and programs performed by the Town of Amherstburg.

3.0 CAPITAL BUDGET:

The capital budget is a multi-year financial plan, forecasted over a five year timeline. The budget provides for the planning of future financial resources required to finance the capital expenditure. The Capital budget should also identify the future financial resources to be allocated from the operating (revenue fund) budget to use and maintain the capital asset.

This policy supports a disciplined approach that reflects the Town's strategic plan of reducing its debt servicing. The capital budget will be reviewed by management and

council to ensure the Town has the financial capability to cover the costs over the long term, through its various sources of funding.

3.1 Timelines

1. Preliminary review of Capital issue papers by the Chief Administrative Officer, Treasurer and Supervisor of Budget Services.
2. Approval of Capital Issue Papers by Management Review Team.
3. 1st review of the Capital Budget by the Management Review Team.
4. 2nd review of Capital Budget by Management Review Team.
5. 1st review of Capital Budget by Council.
6. 2nd review of Capital Budget by Council.
7. Public Information Session for Operating and Capital Budgets.
8. Final Approval of Operating and Capital budgets.

Preliminary Review of Capital Issue Papers

The initial phase of the budget cycle involves the collection of information on the future capital requirements of the Town. The preliminary review would identify all projected new capital projects and the related expenditure requirements and a review and evaluation of current ongoing projects to confirm or amend their future expenditure requirements.

The capital budget preparation requires extensive communication and a co-ordinated effort with staff responsible for budget allocations. To be successful teamwork is required from all department managers.

User department managers are required to identify new capital needs for maintaining and enhancing their service objectives (**See Appendices 1 & 2**). Identification of these needs can arise from many different sources, some examples are:

- Master plans
- Strategic plans
- Official plans
- Community committee input
- Service development or enhancement objectives
- Council requests
- Review of asset inventory (for replacement)
- Provincial or Federal Government initiatives
- Emergency issues (Health & Safety)
- Joint initiatives with other local municipalities, the County or community groups

Approval of Capital Issue Papers by Management Review Team

The Management Review Team (Team) represents all user departments and assists with the evaluation of timelines for carrying out the process. The Team consists of the Chief Administrative Officer, Treasurer, Supervisor of Budget Services plus one to three members of management. The one to three members are selected by the Chief Administrative Officer. The Team will consider the need for additional policies related to the capital budget. Lastly the Management Review Team will review the information submitted i.e. issue papers regarding capital requests.

As resources are not available to finance all capital issue papers submitted the Team will rank and prioritize the various capital projects a H(igh), M(edium) or L(ow) based on the Town's strategic objectives. A comment will be provided to substantiate or explain the rationale as to why a particular priority has been assigned to a respective project.

The CAO, Treasurer and Supervisor of Budget Services will have the responsibility for assigning internal sources of financing (reserves, tax levy etc.) and for recommending which projects should be debentured financed. The operating budget impact of the

capital project (net of associated revenue) is to be projected for each year of the forecasted period.

In addition to new projects, existing projects, which have been previously approved by council that are not complete, will also have to be reviewed. The status of the emerging costs versus the approved budget and the timing of the remaining expenditures will have to be documented and reviewed (**See the Work-in-Progress sheet – Appendix 3**).

The Work-in-Progress is a key review for the capital budgeting process since delayed projects or projects coming in under budget may free up financial resources. Alternatively, projects that experience cost overruns, if approved by council, will call on financial resources. The expenditures to date and financing applied to the approved project to date are new elements to be included on the Work-in-Progress sheet. Therefore it is important to distinguish between previously committed projects from new projects since previously committed financing will reduce funds available for the new budget cycle.

Review of Capital Budget by Council

It is essential that staff and Council are committed to working together. Two-way communication is critical to sustain and direct energies towards incorporating the Town's strategic focus into the budget. Council's input to the process is imperative as it will establish the direction the Town will take over the short to medium term. The capital budget affects future operating expenditures, therefore guidance should be sought to ensure that the desired service levels and tax levels are managed and planned. Council remains legally responsible for all budget decisions.

The Town will formally present an Administration recommended capital works program to council. The following will be communicated:

- Identification and prioritization of capital projects

- Summary of Works in progress and financial commitments made to date
- Summary of Capital spending by service
- Summary of Funding Sources
- Summary of Debt amounts anticipated
- Long term impact on tax and user rates
- Listing of works that did not get included in the capital program

When the five year projection is presented it is noted that only the current year's projects are approved whereas year two and forward represent a forecast for consideration with approval in subsequent years.

Public Information Session

The community is given the opportunity to provide feedback on the draft capital budget. The timing, location and types of services the Town is planning to construct is presented along with a summary of the financial implications.

Final Approval of Budget by Council

The capital budget is developed and given final approval at the same time as the operating budget. The Town of Amherstburg recognizes the operating and capital budgets are inter-related, however the capital budget will be prepared and approved "in principal" in advance of the operating budget. Council will give final approval to the Capital budget once the financial impact on the operating budget is approved.

Approving the capital budget approved early in the fiscal cycle gives the Town several advantages. Projects can be tendered early in the construction season, thereby achieving optimal tender prices. It also helps spread the heavy workload associated with the budget process over a longer period of time, thereby achieving a more efficient use of staff and resources.

After final approval the capital plan is adjusted, subject to council approval, when the following circumstances occur:

1. Emergency capital requests are received,
2. There are changes to the Town's financial capacity (e.g. new grants),
3. There are changes in strategic priorities (e.g. mandated by higher levels of government).

4.0 SOURCES OF FINANCING

Sources of capital funding can be categorized into three main groups:

1. **External sources** of financing include other government subsidies and grants (both federal and provincial), fundraising or donations, third party contributions under public/private partnership arrangements, etc.
2. **Internal sources**, external sources, and debt or lease financing. Internal financing sources include to transfers from other town funds (i.e. operating or reserves) or sales of existing assets.
3. **Debt or lease financing** includes external borrowing and other long term repayment obligations.

4.1 EXTERNAL SOURCES OF FINANCING

Fundraising programs can be sources of financing for recreation or cultural projects which are of community interest. Common examples include construction of new arenas, community centres, pools, parks, libraries, etc. This funding source should not be ignored; however, realistic objectives should be established before initiating a project.

1. GRANTS

The form of external financing includes subsidies and grants from the federal and provincial governments.

2. DEVELOPMENT CHARGES

The Development Charges Act provides the statutory basis for the recovery of growth-related capital expenditures from new development to help municipalities pay for increased capital costs required because of increased needs for services arising from development. The Town will levy a charge per unit of new residential construction in order to fund this reserve which will be used to fund specific municipal services.

3. DEVELOPER FEES

This form of external financing is related to residential development contracts. The Town will enter into an agreement with a developer.

4. OTHER

From time to time additional sources of external fundraising become available that is not typical of municipal financing, e.g. a bequest from a will.

4.2 INTERNAL SOURCES OF FINANCING

Internal financing are the transfers of funds from the current year operating budgets or existing reserves to assist in financing capital works. These sources are a way of eliminating or reducing their reliance on debt issuance. Successful use of internal funding requires longer term planning to manage these resources in order to reduce fluctuations in budgeted financial requirements from year to year.

The Town provides for a portion of its total annual operating budget to be set aside each year exclusively for capital expenditures. These allocations are normally referred to as "transfers to capital" or "current contributions to capital." These allotments, which are set aside annually, may not be immediately required from one year to the next. The amounts not required are transferred to a reserve for future capital use. This pre-planning will smooth the impact on the operating budget over a period of years, so that erratic tax rate movements are not experienced.

4.2.1 RESERVES

Reserves and reserve funds are accumulated net reserves which are set aside for future Town expenditures. The future need does not have to be specific, and the reserve does not have to be segregated from other municipal assets. Reserve funds may be either obligatory or discretionary.

- An **obligatory** reserve fund is created whenever a statute requires that monies received be segregated from the general revenues of the Town. Examples are revenues received under certain provisions of the Development Charges Act, Planning Act, or Municipal Act., which include development charges, etc.
- Council may establish **discretionary** reserve funds to earmark revenue for particular purposes for any future expenditure for which it may spend money. If a specific purpose has been defined as a condition, the revenue must be set aside in special purpose reserve or trust funds to be used only for these purposes.

A summary of different capital reserves often used by municipalities is provided below:

1. **Equipment Replacement Reserve** - This reserve provides for the future replacement of vehicles and equipment. A sum of money is provided in the operating budget and is transferred annually to this reserve to provide for the future replacement of these assets. The calculation is based on 1% of the tax rate plus 1% of the future value of the equipment inventory (fleet).
2. **Computer Reserve** – This reserve is established to assist the financing of future computer hardware needs of the Town. The allocation by department is based on a dollar per computing device. The dollar amount is 25% of the market value of the computer device.
3. **Building Reserve** – This is a special reserve for the future acquisition of buildings and facilities. On an annual basis monies are set aside in the

operating budget to contribute to this fund. There are three ways to fund the reserve:

- a. 1% of the tax rate for major building renovations.
 - b. An annualized amount for a specific building where the cost and timing are reasonably estimated (For example, Fire Hall, Public Works, Town Hall)
 - c. Contributions from the sale of land & building assets
4. **Capital Reserve** -Also referred to as a contingency reserve, this account provides for money to be set aside for either emergency purposes or to fund unexpected overruns in capital project expenditures. The allocation is 1% of the capital budget and annual capital surpluses from the previous year.
5. **Deferred Capital Reserve** – a reserve for approved projects that have not been started but have a funding source (e.g. operating revenue) related to the year of approval. The Work-in-progress sheet (Appendix 3) will be used to indicate the reason for the deferral.

5 DEBT MANAGEMENT STRATEGY

Debt management is defined as the process of providing for payment of interest and principal payments on existing debt, and the planning for incurrence of new debt at a level which will optimize borrowing costs and not impair the financial position of the municipality.

A policy on debt management should strike an appropriate balance between establishing limits on the debt program and providing sufficient flexibility to respond to unforeseen circumstances and new opportunities.

5.1 DEBT PRINCIPLES:

The following principal will apply for debt when issued for the needs of the Town:

5.1.1 Operating Expenditures

Operating expenditures will not be debt financed beyond the current fiscal year.

5.1.2 Capital Expenditures

1. Capital expenditures for the purchase of land and buildings, recreational and public works facilities, libraries and fire stations may be debt financed if other more effective sources of financing are not available;
2. Capital replacement expenditures will not be debt financed unless the replacement value is more than 50% greater than the replacement financing available;
3. Capital expenditures related to growth will not be debt financed unless the new costs exceeds the growth financing available and then only the overage may be debt financed;

5.1.3 Local Improvements

A request for debenture financing may not be made until either:

1. The work undertaken has been completed, or
2. A firm contract has been entered into whereby the cost of completing the undertaking has been established and construction of the work has commenced.

5.2 TYPES OF CAPITAL FINANCING

5.2.1 SHORT TERM - TEMPORARY LOANS (Under 1 Year)

The Town may borrow from any one or combination of the following sources:

- a. Own reserves at market rates
- b. Bank line of credit
- c. Short-term promissory notes
- d. Bankers' Acceptances
- e. Any other form of short-term indebtedness

To fund operational needs for periods of less than one year provided that the combined limit of borrowing from the above sources is subject to the limits set in the annual borrowing internal rules and restrictions.

5.2.2 MEDIUM DEBT – 1 TO 5 YEARS

Medium term financing requirements for periods greater than one year but less than five years will be financed through any one or combination of:

- a. Operating and capital leases
- b. Term loans
- c. Promissory notes

5.2.3 DEBENTURES

Long-term debt consists of debentures or other forms of debt issued on behalf of the Town of Amherstburg to finance assets over a period of not less than 5 years and not more than 30 years.

5.3 INTERNAL RULES & RESTRICTIONS

The debt position of the Town is of interest to the provincial government and potential purchasers of the Town's debentures. The Ministry of Municipal Affairs and Housing regulates that a municipality should not commit to more than 25% of total own purpose revenue to service debt and other long term obligations without obtaining prior OMB approval. Information on the Town's long-term liabilities and debt charges is submitted to the province on an annual basis through the Financial Information Return.

The Town's annual debt servicing limit including short, medium and long-term debt is not to exceed 15% of the Town's previous year's net own source revenues, each application to issue debt subject to Council approval.

6 DEFINITIONS:

- 6.1 Annual Budget:** A budget applicable to a single fiscal year for the Town.
- 6.2 Budget:** A plan of financial operations embodying an estimate of proposed expenditures for a given period and the proposed means of financing them.
- 6.3 Current Budget:** The annual budget prepared for and effective during the present year for the Revenue Fund.
- 6.4 Capital Budget:** A plan of proposed capital fund expenditures and the means of financing them from the current fiscal period and over a longer term planning horizon.
- 6.5 Capital Fund:** The capital fund is used to accumulate the revenues and expenditures for the acquisition of or repair and replacement of the capital assets of the municipality. In general, capital assets refer to the building, equipment and infrastructure of the municipality. Included are municipal buildings, arenas, trucks, graders, roads, water/sewer systems and the like.
- 6.6 Capital Activity:** A capital activity relates to a capital expenditure that is part of a capital project. Or the capital activity is a stand alone purchase or service with a specific time and budget.
- 6.7 Capital Expenditure:** A capital expenditure is one that results in the acquisition, construction, development or betterment of a tangible asset.
- 6.8 Capital Project:** A sequence of connected capital activities have on goal or purpose that must be completed by a specific time, within budget and according to specification.
- 6.9 Capital Program:** A collection of capital projects to be incurred each year over a fixed period of years to meet the needs of a long term program.
- 6.10 Debenture:** A written promise to pay a specified sum of money called the face value or principal amount at a specified date or dates in future, called maturity dates, together with periodic interest at a specified rate.
- 6.11 Debt:** An obligation resulting from the borrowing of money or for the purchase of goods and services.
- 6.12 Debt Limit:** Maximum amount of gross or net municipal debt permitted with OMB approval as regulated by the province.

- 6.13 Debt Charges:** Annual charges required to service the long term debt of the Town including the amount for principal repayments, interest due within the year, and required sinking fund contributions.
- 6.14 Debt Term:** The borrowing term of all long-term debt incurred by the Town equal to or less than the estimated life of the assets being financed.
- 6.15 Debt Retirement:** Long-term debt is retired at final maturity through serial retirements.
- 6.16 Fund:** An independent fiscal and accounting entity with a self balancing set of accounts segregated for the purpose of carrying on specific activities. There are three funds; the Revenue Fund, Capital Fund and the Reserve Fund.
- 6.17 Pay-As-You-Go:** The term is used to describe the financial policy whereby capital outlays are financed from current revenues and/or reserves rather than debt.
- 6.18 Reserve Fund:** Reserve funds are those funds that have been set aside either by a by-law of the council or by a requirement of provincial legislation to meet a future event. As a result, reserve funds are either “permissive” being those set up by council or “regulatory” being those set up by virtue of a requirement of a provincial statute.
- 6.19 Revenue Fund (Current or Operating Fund):** The revenue fund is the principal fund, found in all municipalities. This is the fund into which the main sources of financing available to the municipality are recorded. Taxation revenue, grants, interest earned on investments, service charges, licenses and permits are all recorded in this fund. It is also the fund that records disbursements for the everyday operating expenditures of the Town.

7 APPENDICES:

- 7.1 Capital Issue Paper
- 7.2 Five-Year Capital Projection
- 7.3 Work-in-Progress

APPENDIX 1

TOWN OF AMHERSTBURG
ISSUE PAPER FOR CAPITAL PROPOSAL

DESCRIPTION: REQUESTED BY:

DATE OF REQUEST: DEPARTMENT:

PART 1 - ESTIMATED COSTS OF PROPOSED PROJECT

INITIAL COSTS

SUBSEQUENT COSTS

DATE	DATES	AMOUNTS	DESCRIPTION	DATES	AMOUNTS

PART 2 - ESTIMATED SAVINGS OR BENEFITS FROM THE PROPOSAL

DATE	DESCRIPTION	AMOUNTS

PART 3 - ACCOUNTING/FINANCIAL ANALYSIS OF PROPOSAL

RESULTS OF ANALYSIS	EXPLANATION

PART 4 - RECOMMENDATION/DECISION

Signature	Date	Approval (Y or N)	Comments
Department Head			
Budget Committee Representative			

CAO

**APPENDIX 2
TOWN OF AMHERSTBURG
FIVE-YEAR CAPITAL BUDGET**

PREPARED BY: DEPARTMENT:

DATE: STATUS :

Approved Unapproved

DESCRIPTION	2009	2010	2011	2012	2013	JUSTIFICATION & SOURCES OF FINANCING
Major Repairs						
Vehicles						
Equipment						
Other						

Signature	Date	Approval (Y or N)	Comments
Department Head			
Budget Committee Representative			

CAO

THE CORPORATION OF THE TOWN OF AMHERSTBURG *Capital Budget & Finance Policy*

APPENDIX 3

TOWN OF AMHERSTBURG
APPROVED WORK-IN-PROGRESS INFORMATION SHEET

DESCRIPTION: REQUESTED BY:

DATE OF REQUEST: DEPARTMENT:

PROJECT DESCRIPTION / NEED FOR WORK

PROJECT PRIORITY (Health & safety, Cost savings, asset replacement, growth related etc.)

PROJECT BUDGET

REVISED CASHFLOW (\$ OR %)

EXPENDITURES	PRIOR APPROVAL BUDGET	EXPENDED TO DATE	PROJECTED EXPENDITURES	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TOTAL								

PROJECT FINANCING

SOURCES	PRIOR APPROVAL BUDGET	FINANCED TO DATE	PROJECTED FINANCING	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TOTAL								

PART 4 - RECOMMENDATION/DECISION

Signature	Date	(Y or N)	Comments
Department Head			
Budget Committee Representative			

CAO