

CAPITAL BUDGET POLICIES

Capital Budget Amendments - In-year amendments / adjustments to the approved Capital Budget and Plan that defer, accelerate or change the scope of an approved capital project, or add a new capital project require Council approval. A separate report requesting approval to adjust the approved capital budget and / or capital plan must be submitted to City Council. At a minimum, the report must include details of projects being added, accelerated, requiring increased funding along with details of projects being decelerated as well as the associated change in total project costs, or otherwise adjusted in order to ensure that the Council approved 10-year capital budget and plan for the requesting City Program or Agency remain unchanged.

Technical in-year budget adjustments will be reported as part of the quarterly capital variance reports. Technical in-year capital budget adjustments must have no incremental debt impact on the approved 10-year capital budget and plan.

Division Heads are responsible for ensuring that capital budgets under their respective authority are not over expended and that expenditures are substantially in accordance with the Capital Budget and Plan approved by Council. In-year budget adjustments will generally be permitted in situations of emergencies, significant unforeseen events, or where a need can be demonstrated.

The Financial Control By-law (Chapter 71) establishes the responsibility and authority levels required for in-year capital budget change as follows:

The capital budget approved by Council establishes the spending authority for a capital project.

Division heads shall ensure that expenditures do not exceed the approved budget for a capital project.

Division heads shall report any anticipated over expenditure to the Chief Financial Officer, City Manager, and the Budget Committee as soon as the potential over expenditure is known.

Capital Expenditures – Capital expenditures generally include any expenditure on an asset acquired, constructed or developed with the intention of being used beyond the current budget year. Capital expenditures also include major improvements, which alter or modernize an asset in order to substantially prolong its useful life or improve its physical output or service capacity.

Carry Forward of Previously Approved Project Funding – A capital project with carry forward funding is a previously approved project for which the associated cash flow budget was not fully spent and/or committed in the year of approval. Consequently, City Programs and Agencies may request that the unspent amount be ‘carried forward’ into the future to complete the project. The City’s carry forward policy stipulates that unspent cash flow funding for capital projects/sub-projects may only be carried forward one year subsequent to the year of approval, and that the carry forward cash flow amount cannot exceed the difference between actual expenditures and the approved cash flow.

Carry forward funding funded by debt will not be granted, if a project/sub-project requires carry forward funding beyond one year, or a change in cash flows and/or project costs change the scope of a project. Alternatively, such requests will be treated as new funding requests for the upcoming budget.

Debt Financing – Debt will be used for the acquisition, construction, renovation, repair or remodelling of capital assets where the project cannot be funded from current operating revenues or other funding sources, and the Chief Financial Officer considers it prudent to use debt to finance the project. As a general rule, projects funded with debt must have a useful life that is at least equal to the term of the debenture.

Debt Service Ratio – Council affirmed that the maximum limit of debt service charges as a percentage of total property tax be established at 15% as a benchmark for evaluating capital expenditure levels. The debt charges incurred due to debt issuance will be included in the annual operating budget.

Financing Sources – Financing sources of a particular project will be explored and properly identified to considering debenture financing. Typical funding sources includes reserves and reserve funds, Provincial and Federal grants, development charges, capital from current funding (or pay-as-you-go financing), debt, and other funding sources such as donations.

Land Acquisition Costs – Every proposed capital project requiring the acquisition of land shall be accompanied by a cost estimate for the real estate acquisition portion of the project. Every proposed capital project requiring the assignment of City-owned lands shall be accompanied by a valuation of the opportunity cost of that land according to procedures of the Property Management Committee.

Reserves/Reserve Funds – A reserve is an allocation of accumulated net revenue that is a part of the revenue fund and, thus, does not earn interest on its own. In addition, reserves make no reference to any specific asset and do not require the physical segregation of money or assets. It is distinct from a reserve fund, which earns interest, and is segregated and restricted to meet a specified purpose. The use and funding sources of reserves/reserve funds are determined by the City's CFO, in consultation with beneficiary programs. Moreover, the CFO shall report to the Policy and Finance Committee on the inflows to and outflows from each reserve/reserve fund on a quarterly basis.

Project Funded by Capital from Current Funding (CFC) – CFC is a provision of tax funding that is transferred from the Current/Operating Fund to the Capital Fund in order to finance capital projects on a pay-as-you-go basis. This financing option reduces reliance on debt issuance and provides a financing mechanism for ongoing capital needs of assets that have a shorter life cycle. The Financial Planning Division allocates CFC funding for capital projects that satisfy one or more of the following eligibility criteria:

- studies, structure audits and planning related to capital projects;
- one year stand-alone state of good repair projects;
- IT projects including equipment and software; and/or

- capital projects to acquire, develop or better capital assets that are not directly owned by the City. This includes capital projects under certain community development arrangement including BIA projects, Commercial Façade programs and GO Transit.
- allocated to capital projects to offset the City's debt requirements.

Capital projects funded from CFC must be scheduled for completion within the budget year in which they are approved.