


POLICY

	Policy:	Capital Budget Financing		
	Department:	Corporate Services		
	Division:	Financial Services	By-Law No.:	2024-083
	Administered By:	Treasurer	Approval Date:	Dec. 16, 2024
	Replaces:	Capital Budget & Finance – September 1, 2008		
	Attachment(s):			

1. POLICY STATEMENT

The Corporation of the Town of Amherstburg is committed to creating a long-term Capital Budget to plan for future infrastructure expenditures and to inform fiscally responsible long-term infrastructure expenditures.

2. PURPOSE

- 2.1. This policy establishes the Capital Budget as an important planning tool that allows the Town to provide for the necessary infrastructure to maintain or enhance future service levels.
- 2.2. This policy will ensure that 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.
- 2.3. This policy 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.

3. SCOPE

- 3.1. This policy applies to all Town departments, boards and commissions, agencies and other organizations falling within the reporting entity of the Town as well as all capital activities, projects, and programs performed by the Town.
- 3.2. This policy shall be reviewed every five (5) years from the date it becomes effective, and/or sooner at the discretion of the CAO or designate.

4. DEFINITIONS

- 4.1. **Current Budget**: The annual budget prepared for and effective during the present year for the Revenue Fund.
- 4.2. Included are municipal buildings, arenas, trucks, graders, roads, water/sewer systems and the like.
- 4.3. **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.
- 4.4. **Capital Expenditure**: A capital expenditure is one that results in the acquisition, construction, development or betterment of a tangible asset.

- 4.5. **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.
- 4.6. **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.
- 4.7. **Debt Retirement:** Long-term debt is retired at final maturity through serial retirements.

Common definitions, acronyms, and terms are available in the Glossary located on the Town's Policies webpage.

5. **INTERPRETATIONS**

Any reference in this policy to any statute or any section of a statute shall, unless expressly stated, be deemed to be reference to the statute as amended, restated or re-enacted from time to time. Any references to a by-law or Town policy shall be deemed to be a reference to the most recent passed policy or by-law and any replacements thereto.

6. **GENERAL CONDITIONS**

6.1. **Capital Budget**

- 6.1.1. The capital budget is a multi-year financial plan, forecasted over a five to ten-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 budget to use and maintain the capital asset.
- 6.1.2. 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 sources of funding available.

6.1.2.1.

6.2. **Preliminary Review of Capital Issue Papers**

- 6.2.1. 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.
- 6.2.2. The capital budget preparation requires extensive communication and a coordinated effort with staff responsible for budget allocations. To be successful teamwork is required from all department managers.
- 6.2.3. Management is required to identify new capital needs for maintaining and enhancing their service objectives. Identification of these needs can arise from many different sources, some examples are:

6.2.3.1. Master plans

6.2.3.2. Strategic plans

- 6.2.3.3. Official plans
- 6.2.3.4. Asset Management Plan
- 6.2.3.5. Community committee input
- 6.2.3.6. Service development or enhancement objectives
- 6.2.3.7. Council requests
- 6.2.3.8. Review of asset inventory (for replacement)
- 6.2.3.9. Provincial or Federal Government initiatives
- 6.2.3.10. Emergency issues (Health & Safety)
- 6.2.3.11. Joint initiatives with other local municipalities, the County or community groups

6.3. Approval of Capital Issue Papers by Senior Management Team (SMT)

- 6.3.1. The SMT represents all departments and assists with the evaluation of timelines for carrying out the process through review of information submitted (i.e. issue papers regarding capital requests).
- 6.3.1. As resources are not available to finance all capital issue papers submitted, the SMT will rank and prioritize the various capital projects based on Asset Condition, Funding and Alignment to Strategic Priorities. The CAO, Deputy CAO, and Treasurer 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.
- 6.3.2. 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 by Management.

6.4. Review of Capital Budget by Council

- 6.4.1. 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.
- 6.4.2. The Town will formally present an Administration recommended long-term Capital Budget to Council. The following will be communicated:
 - 6.4.2.1. Identification and prioritization of capital projects;

6.4.2.2. Summary of capital spending by department;

6.4.2.3. Summary of funding sources; and

6.4.2.4. Listing of works that did not get included in the capital program.

6.4.3. When the five to ten-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 and will be approved in principle with a commitment to fund a maximum amount of capital.

6.4.3.1. This excludes circumstances where Council has made a pre-commitment to fund a project in incremental portions to attain the funds to finalize a project in a future year.

6.5. **Public Information Session**

6.5.1. The community is given opportunities through public surveys and open houses to provide feedback on the draft capital budget during budget deliberations. The timing, location, and types of services the Town is planning to construct is presented along with a summary of the financial implications.

6.6. **Final Approval of Budget by Council**

6.6.1. The capital budget is developed and given final approval around the same time as the operating budget. The Town recognizes the operating and capital budgets are inter-related. Council will give final approval to the Capital budget once the financial impact on the operating budget is approved.

6.6.2. Approving the capital budget 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.

6.6.3. After final approval the capital plan may need to be adjusted, subject to Council approval, when the following circumstances occur:

6.6.3.1. Emergency capital requests are received;

6.6.3.2. There are changes to the Town's financial capacity (e.g. new grants);

6.6.3.3. There are changes in strategic priorities (e.g. mandated by higher levels of government).

6.7. **Sources of Financing**

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

6.7.1.1. **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.

6.7.1.2. **Internal sources** include transfers from other Town funds (i.e. operating or reserves) or sales of existing assets.

6.7.1.3. **Debt or lease financing includes** external borrowing and other long-term repayment obligations.

6.8. External Sources of Financing

6.8.1. 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.

6.8.2. **Grants.** This form of external financing includes subsidies and grants from the federal and provincial governments.

6.8.3. **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.

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

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

6.9. Internal Sources of Financing

6.9.1. Internal financing is the transfer of funds from the operating budgets or existing reserves to assist in financing capital works. These sources are a way of eliminating or reducing 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.

6.9.2. 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.

6.9.3. **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.

- 6.9.3.1. 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, 2001, which include development charges, etc.
- 6.9.3.2. 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.

6.10. Debt Management Strategy

- 6.10.1. 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. The Province of Ontario has established debt limits with regards to the amount of debt which can be taken on by a municipality at any time, and the Town of Amherstburg has established a policy with regards to its loans and borrowing that aligns with these provincial requirements.

6.11. Debt Principles

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

- 6.11.1.1. **Operating Expenditures.** Operating expenditures will not be debt-financed beyond the current fiscal year.

- 6.11.1.2. **Capital Expenditures**

- a. 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;
 - b. Capital replacement expenditures will not be debt financed unless the replacement value is more than 50% greater than the replacement financing available;
 - c. Capital expenditures related to growth will not be debt financed unless the new costs exceed the growth financing available and then only the overage may be debt financed;

- 6.11.1.3. **Local Improvements_**A request for debenture financing may not be made until either:

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

6.12. Types of Capital Financing

6.12.1. Short Term – Temporary Loans (Under 1 Year)

6.12.1.1. 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

6.12.1.2. 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.

6.12.2. Medium Debt – 1 To 5 Years

6.12.2.1. 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

6.12.3. Debentures

6.12.3.1. 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.

6.13. Internal Rules & Restrictions

6.13.1. The debt position of the Town is of interest to the provincial government and potential purchasers of the Town's debentures. Ontario Regulation 403/02 Debt and Financial Obligations Limit, under the Municipal Act, 2001 states 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 approval of the Ontario Land Tribunal. 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.

6.13.2. The Town's annual debt servicing limit including short, medium and long-term debt is not to exceed 20% of the Town's previous year's net own source revenues for Tax Funded Infrastructure and 25% of Fee-Funded Infrastructure (water and waste water), with each application to issue debt subject to Council approval as per the Loans and Borrowing Policy.

7. RESPONSIBILITIES

- 7.1. **Council** has the authority and responsibility to:
 - 7.1.1. Adopt the Capital Budget Financing Policy;
 - 7.1.2. Approve the Operating and Capital Budgets.
- 7.2. The **CAO** has the authority and responsibility to:
 - 7.2.1. Ensure compliance with the Capital Budget Financing Policy.
- 7.3. The **Treasurer** has the authority and responsibility to:
 - 7.3.1. Ensure appropriate departmental oversight to administer and comply with the Capital Budget Financing Policy.
- 7.4. **Staff** have the responsibility to:
 - 7.4.1. Ensure their understanding and compliance with the Capital Budget Financing Policy and seek clarification where needed to follow the policy expectations.

8. LEGISLATIVE REFERENCES

- 8.1. Development Charges Act, 1997
- 8.2. Municipal Act, 2001
- 8.3. Ontario Regulation 403/02 Debt and Financial Obligations Limit

