

COUNCIL POLICY NUMBER C-17 (R-2)

APPROVED BY THE COUNCIL OF THE  
TOWN OF BEAUMONT

ON THE 8<sup>TH</sup> DAY OF MAY, 2001

TOWN OF BEAUMONT  
COUNCIL POLICY NUMBER C-17 (R2)  
**CAPITAL FINANCING POLICY**

**Approved this 8<sup>th</sup> day of May, 2001.**

**Resolution # 01/05/07**

**PURPOSE:**

To provide guidelines when determining the appropriate source of funding for a capital project.

**PROCEDURE:**

This policy contemplates guidelines which the Council will work within in determining the most appropriate source of funding for a capital project. This policy considers three methods of financing of capital projects; debt, reserves and current taxes. Each of these areas will be considered separately within this policy.

**ASSUMPTIONS:**

1. Generally it is preferable to match the funding for a project with its economic life so that the users pay over the life of the project.
2. There may be advantages to a "pay as you go" philosophy which include less interest cost, greater flexibility for the future and the desire to leave a legacy of "paid for infrastructure" to the next generation of users.
3. The magnitude of major maintenance costs may generally be determined, however the time of occurrence of these expenditures is more difficult to predict.
4. For certain projects it may be advantageous to establish a pool of savings in reserve in advance of undertaking the project.
5. There are a number of factors which drive the decision for a capital expenditure. These include safety considerations, maintenance of plant and equipment, efficiencies to be gained and public demand. Once the decision has been made, funding becomes the issue.
6. There are ultimately 4 sources of funds to pay for capital projects:
  - a) Property taxes
  - b) Grants
  - c) User fees
  - d) Special Assessments (example frontage/local benefit taxes)

Whatever portion is not paid directly by grants or by users must be paid by property taxes.

7. Where the Council commits funds to a capital project and the commitment carries over to the next year, the source of funds for the project must be identified, and those funds must be designated for that project.

## **I. Capital Paid by Current Taxes**

The Town may expect an annual expenditure for "smaller" capital items. Minor capital might be defined as a capital expense of \$5,000 or less and which has a useful life expectancy of two years or more. These minor capital expenditures should be provided for from current property taxes.

***Minor capital, capital expenditures \$5,000 and less, should be paid from current year property taxes.***

The amounts the Town will spend on minor capital each year will vary resulting in undesirable millrate fluctuations. These fluctuations will be minimized by providing an annual budget for "minor capital". The budget for minor capital should be based on an amount determinable by formula and which is attainable. An annual budget for minor capital might be established at the 5 year rolling average.

***There should be an annual budget to fund minor capital; this budget to be the 5 year rolling average capital expenditure.***

The amounts actually spent on minor capital will vary from year to year. The budget is established at a fixed level. A reserve should be set up to receive any un-allocated budgeted amounts for minor capital and used to fund any annual shortfall in minor capital expenditures.

This should not be used to accumulate excess funds. The reserve should be capped at an amount equal to 1 year's minor capital budgets.

***Un-allocated minor capital budget should be allocated to a "minor capital reserve". Over-allocated minor capital budget may be funded from the "minor capital reserve".***

***The minor capital reserve is not to exceed an amount representing 1 year's budgeted minor capital.***

There is another type of capital expenditure characterized as being part of a "capital program". A capital program may be characterized as annual capital expenditures of over \$5,000, to be incurred as part of a program occurring over a specific number of years. An example would be a specific set of renovations being undertaken at the BRAC (exceeding \$5,000 per annum) over a period of 5 years. The annual expenditure may be large, as in the case of a road overlay program or may be smaller. This type of capital expenditure should form part of the annual millrate and be paid from current taxes.

***A capital expenditure, when part of a capital program, should be funded out of current years taxes.***

## II. Reserves

Reserves are accumulated savings which are set aside for specific future purposes. Reserves may be created for various types of capital or operating expenditures. Each reserve when established by the Council should have its criteria defined including its specific purpose, its source of funding and any limitations which are to be placed on transfers to or from the reserve.

Reserves include capital reserves for the purpose of:

- a) saving funds for future specific capital projects,
- b) accumulated funds from capital contributions for growth related expenditures,
- c) replacement of existing assets,
- d) providing for future major renovations/repairs to existing capital assets,
- e) providing a sinking fund for recovery of capital costs for significant projects provided by grants,

and operating reserves for the purpose of:

- a) providing for anticipated future repairs to existing assets,
- b) smoothing the impact of uncontrollable expenditure fluctuations.

Each project and/or reserve must be evaluated individually to determine its appropriateness giving consideration to the conflicting principals of "user pay" versus "pay as you go".

### **Reserves for saving funds for future capital projects**

Generally the principal of user pay is not consistent with saving now for a future capital project. There may be circumstances however where the community feels there is a benefit to saving in advance for a particular project. Where there is such a commitment, contributions, not to exceed a specified cap, may be allocated to a reserve for this purpose. The annual allocation to the reserve should be determined by the cost and nature of the project and not exceed 10% of the estimated capital cost of the project.

***Where there is general taxpayer support for a future project, an annual amount may be set aside in reserve for that purpose. The annual allocation to each reserve should not exceed 10% of the estimated capital cost of the project.***

Grants may be received or users may pay a surcharge now for a designated future project. These funds signify a commitment to undertaking the project in the future. These funds should be saved in a reserve for the specific purpose.

***Revenue received in advance for specific future projects should be allocated to a reserve for that purpose.***

### **Reserves for the replacement of existing assets**

Capital assets which the Town uses have a limited useful life. It may be appropriate to provide for replacement over their normal useful lives. Capital to which this may apply include moveable equipment. This will minimize the impact of related capital acquisition on the mill rate.

***A charge to current taxes should be made annually for the replacement of moveable equipment. The charge should be calculated as the annual depreciation based on expected normal life less salvage value.***



***Replacement of equipment which is included in this reserve will be funded from this reserve.***

Consistent with the objective of not accumulating excess funds in advance from ratepayers, once a piece of equipment has been fully funded, no further allocation to reserve should be made with respect to it.

***Once a piece of equipment has been fully funded, no further allocation will be made with respect to it.***

**Capital Reserves for future major renovations or repairs**

There are capital assets which the Town owns for which significant repairs and/or renovations will be required in the future. Frequently the value of these future repairs/renovations may reasonably be determined. Difficulty arises in predicting the time of occurrence.

As a capital asset is used, the cost of the future renovation/repair is accruing. This cost should be charged to the current users.

***Where costs of future renovations/repairs may be significant and reasonably estimated, these costs should become an annual charge to the current property taxes or user fee where appropriate and the funds allocated to a specific reserve for this purpose.***

**Capital Reserves to recover capital costs of facilities**

The Town may benefit from time to time from "windfall" grants which may be used to fund significant portions of facilities. These windfall gains should not obviate adherence to the "user pay" principle. Current taxpayers are receiving a benefit for which a cost should be associated. A charge against current property taxes representing the annual cost of depreciation for that portion of the facility funded by grants will properly reflect the cost to the ratepayers of the facility. These funds when allocated to a reserve will provide for a portion of the replacement or renovation. The net impact to the ratepayer should be negligible, as they have historically been bearing the cost of the facility.

***Where grant funds are used to fund a significant portion of a facility, a charge to current property taxes should be calculated to reflect the amortization of the grant over the estimated useful life of the facility.***

***Current tax charges so raised shall be allocated to a reserve specifically for renovation/ replacement of the facility.***

**Operating Reserves for levelling expenditure fluctuations**

There are services provided by the Town which may be budgeted on an "average year" basis which are subject to significant variances due to uncontrollable factors. The snow removal program is an example. The large variations which occur from time to time would result in undesirable fluctuations in the tax rate. These variations may be effectively minimized by allocating any positive budget variance to a reserve established for that purpose. Negative budget variances may be funded from this reserve.

***Operating reserves should be established for the purpose of averaging the annual cost for those functions which are subject to significant variances from the average.***

The purpose of the reserve is to level the effect of budget variances beyond management's control. It is not to accumulate surplus funds for general purposes.

Any reserve set up for such a purpose should have a reasonable cap on allocations. This cap should be established relative to the magnitude of the potential variance over a specified period of time.

***An operating reserve established for the purpose of averaging annual budget variances should be capped at a level specifically determined by the Council.***

### **III. Debt**

Debt allows the municipality to acquire capital assets which benefit the community though the funds have not been accumulated. The use of debt to fund capital projects will match the cost with the expected useful life, supporting the "user pay" principle.

Debt, places a commitment on the future to repay. There is a cost of debt reducing the amount of current tax dollars available for current projects. There are limits on the amount of debt which may be extended. Once these limits are reached, the organization will be at risk should unanticipated expenditures be required.

***Each capital project, when included in the 5 Year Forecast, will be evaluated to determine the appropriate balance of "pay as you go" and "user pay" in planning its funding.***

Debt Limit Regulation 255/2000 of the Municipal Government Act allows municipalities to borrow money without obtaining provincial approval, provided that the amount to be borrowed is within the prescribed debt and debt service limits. The Regulation does not preclude borrowing in excess of the limits, but requires Ministerial approval to do so.

The debt limit is:

- (1) in respect of the municipality's total debt, 1.5 times the revenue of the municipality, and
- (2) in respect of its debt service, 0.25 times the revenue of the municipality.

## **SCHEDULE "A"**

### **CAPITAL FINANCING POLICY SUMMARY**

The purpose of this summary is to bring together all of the specific recommendations of the Capital Financing Policy. The recommendations are included in the main body of the policy and indicated by italics.

#### **I. Capital Paid by Current Taxes**

- Minor Capital Expenditures \$5,000 and less should be paid from current property taxes.
- There should be an annual budget to fund minor capital; this budget to be the 5 year rolling average capital expenditure (normalized).
- Un-allocated minor capital budget should be allocated to a "minor capital reserve" Over-allocated minor capital budget may be funded from the "minor capital reserve".
- The minor capital reserve is not to exceed an amount representing 1 year's budgeted minor capital.
- A capital expenditure, when part of a capital program, should be funded out of current year's taxes.

#### **II. Reserves**

##### **Reserves for saving funds for future capital projects**

- Where there is general taxpayer support for a future project, an annual amount may be set aside in reserve for that purpose. The annual allocation to each reserve should not exceed 10% of the estimated capital cost of the project.
- Capital contributions received from Developers for growth related capital expenditures will be allocated to a reserve(s) specifically for this purpose.
- Revenue received in advance for specific future projects should be allocated to a reserve for that purpose.

##### **Reserves for the replacement of existing assets**

- A charge to current taxes should be made annually for the replacement of moveable equipment. The charge should be calculated as the annual depreciation based on expected normal life less salvage value.

- Replacement of equipment, which is included in this reserve, will be funded from this reserve.

#### **Capital Reserves for future major renovations or repairs.**

- Where costs of future renovations/repairs may be significant and reasonably estimated, these costs should become an annual charge to the current property taxes or user fee where appropriate and the funds allocated to a specific reserve for this purpose.

#### **Capital Reserves to recover capital costs of facilities**

- Where grant funds are used to fund a significant portion of a facility, a charge to current property taxes should be calculated to reflect the amortization of the grant over the estimated useful life of the facility.
- Current tax charges so raised shall be allocated to a reserve specifically for renovation/replacement of the facility.

#### **Operating Reserves for levelling expenditure fluctuations**

- Operating reserves should be established for the purpose of averaging the annual cost for those functions which are subject to significant variances from the average.
- An operating reserve established for the purpose of averaging annual budget variances should be capped at a level specifically determined by the Council.

### **III. Debt**

- Each capital project, when included in the 5 Year Forecast, will be evaluated to determine the appropriate balance of "pay as you go" and "user pay" in planning its funding.
- The Town will stay within the debt and debt service limits as prescribed in the Municipal Government Act.



**SCHEDULE "B"**  
**CAPITAL FINANCING POLICY**  
**CURRENT RESERVES**

**I. CAPITAL RESERVES**

**A. Reserves for Saving Funds for Future Capital Projects**

**1. General Capital Growth Reserve**

- For general capital requirements which the Town has to provide due to the growth of the municipality.
- Funded by 90% of capital contributions from Developers.
- Optimum level - N/ A.

**2. Marketing Reserve**

- For marketing initiatives as required to promote the Town and assist in its future growth.
- Funded by 10% of capital contributions from Developers.
- Optimum level - \$25,000.

**3. Cairns III Park Reserve – Lots 2R and 3W**

- For the development of the two park strips around the pie-shaped parcel on 52<sup>nd</sup> Avenue as it turns into 55<sup>th</sup> Street.
- Funded by a contribution from Cairns.
- Optimum Level - N/ A

**4. Technology Reserve**

- For upgrading office information and operational systems, and for introducing new technology to the Town.
- Funded by annual allocation from taxes.
- Optimum level - \$50,000

**5. Minor Capital Reserve**

- To minimize the impact of annual fluctuations on minor capital spending.

- Funded annually from taxes where the budgeted expenditure on minor capital is less than the rolling 5 year average.
- Capped at 1 year's average minor capital expenditure.

6. Range Road 243 Rebuilding Reserve

- To provide for future rebuilding of Range Road 243 arising from annexation of lands from Leduc County at January 1, 1999.
- Funded from monies received from landowners in the annexed area.
- Optimum level - N/A

B. Reserves for the Replacement of Existing Assets

1. Public Works Equipment Reserve

- For the replacement of specified moveable equipment.
- Annual funding from taxes is determined by a depreciated rate attached to each specified piece of equipment in the pool.
- Optimum level - N/A.

2. Office Equipment Reserve

- For the replacement of existing office equipment including photocopier, fax and computer.
- Funded by annual allocation from taxes.
- Optimum level - \$20,000

3. Recreation Reserve

- For the replacement of playground equipment at one site every three years.
- Funded by annual allocation from taxes.
- Optimum level - \$25,000

## C. Reserves for Future Major Renovations or Repairs

### 1. Infrastructure and Water Line Extension

- For repairs to our streets, sidewalks, and other infrastructure
- Funded from various grants associated with infrastructure and from local improvements.
- Optimum level - \$300,000

### 2. Town Office Maintenance Reserve

- To provide for future major repairs and renovations.
- Funded by annual allocation from taxes.
- Optimum level - \$50,000

### 3. Library Building Maintenance Reserve

- To provide for future renovations and repairs to the building used by the Library.
- Funded by annual allocation from taxes.
- Optimum level - \$20,000.

### 4. B.R.A.C. Facility Reserve

- For future major repairs of the B.R.A.C. facility.
- Funded by annual allocation from taxes.
- Optimum level \$75,000.

### 5. Protective Services Building Reserve

- To provide for future major repairs and maintenance.
- Funded by annual allocation from taxes.
- Optimum level - \$50,000.

#### D. Reserves to Recover Capital Costs of Facilities

##### 1. Four Seasons Concession

- To provide for future renovations and possible replacement of the concession in Four Seasons Park.
- Funded by annual allocation from taxes.
- Optimum level - \$50,000

#### E. Reserves for Levelling Operating Revenue/Expenditure Fluctuations

##### 1. Mill Rate Stabilization Reserve

- To reduce the impact of large fluctuations from year-to-year in municipal tax requirements.
- Funded from annual surpluses.
- Optimum level - \$250,000 (12 ½% of municipal tax requirements)

##### 2. Contingency Reserve

- To stabilize contingency allocations from year-to-year.
- Funded from unallocated contingency each year, and the allowance for the collection for non-taxes.
- Optimum level - \$50,000 (1 year's contingency budget)

##### 3. Snow Removal Reserve

- To mitigate the effect of a more severe than normal winter on the snow removal budget.
- Funded from un-allocated snow removal budget which may occur from year-to-year.
- Optimum level - current annual snow removal budget, including Town employee and outside contracted costs, but excluding Town vehicle costs.



4. Sidewalk Replacement Reserve

- To balance over or under expenditures in sidewalk replacement each year.
- Funded from unallocated sidewalk replacement operating budget.
- Optimum level - \$18,000 (approximate annual replacement budget)

5. Annexation Maintenance Costs Reserve

- To allow for future years' deficits when costs exceed revenues from the 1999 annexed properties.
- Funded from current year's "surplus" of monies received from the property owners in excess of maintenance costs of annexed roads, etc.
- Optimum level - N/A

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