

2004 DRAFT CAPITAL BUDGET**Recommendation**

The City Manager, the Commissioner of Finance & Corporate Services and the Director of Reserves & Investments in consultation with the Senior Management Team recommend:

That the capital projects identified above the funding line for the following funding sources in the Draft 2004 Capital Budget be approved (Attachment 1);

Development Charges	\$44,502,000
Various Reserves	\$9,329,000
Other Miscellaneous Revenues	<u>\$8,146,000</u>
	\$61,977,000

That those capital projects identified above the funding line in the Draft 2004 Capital Budget funded from Long Term Debt totaling \$9,783,000 be approved (Attachment 2);

That the capital projects identified above the funding line in the Draft 2004 Capital Budget funded from Taxation totaling \$6,617,000 be approved (Attachment 3); and

That the Capital Budget as recommended by the Budget Committee be forwarded to a future public meeting with the draft Operating Budget for consultation with the public.

Purpose

The purpose of this report is to provide Members of the Budget Committee with the 2004 Draft Capital Budget of \$78,377,000 for discussion and consideration.

Background - Analysis and Options

During the process of preparing the draft Capital Budget a number of issues were identified. The continued pressures of growth, maintaining existing infrastructure and the provision of new servicing are balanced against available funding, the impact on the Operating Budget and the staff resources to undertake and properly manage the projects.

A significant amount of capital work has been approved through the annual capital budget process in recent years (2003 \$57.7M, 2002 \$60.2M, 2001 \$60.5M). As of December 31, 2003 there remains approximately \$87.4M in approved capital works outstanding from these previous years. The total amount of capital requests in 2004 is \$122,758,000. The Draft 2004 Capital Budget for consideration and approval is \$78,377,000.

Capital Budget requests can be received from departments, the public and Members of Council. A project detail sheet is prepared for each capital request/project. Project detail sheets are filed alphabetically by Department. Departments have prioritized the projects within each funding source. Finance staff have assessed the availability of funding and established a funding limit within each funding source. The Financial policies previously approved by Council have been considered in establishing the funding limit. The following list summarizes these key financial policy areas:

- 1) Level of Discretionary Reserves;
- 2) Level of Working Capital;
- 3) Level of Debt;
- 4) Level of Funding from Taxation; and
- 5) Requirement for Funds to be on hand prior to Project Approval.

Over the years these policies have had a positive impact and improved the overall financial stability of the municipality. The following is a summary of key financial information/ratios compared to targets set by Council.

	Preliminary 12/31/2003	Projected 12/31/2004	Approved Target
Net Development Charge Balance ⁽¹⁾	\$57.8M	\$46.9M	N/A
Discretionary Reserves ⁽²⁾	57.7%	49.3%	50%
Working Capital ⁽²⁾	12.3%	11.6%	10%
Debt Level ⁽³⁾	9.7%	9.6%	10%

⁽¹⁾ See additional guidelines below for DC Accounts.

⁽²⁾ Based on an operating budget of \$140M. The draft budget is currently \$145M.

⁽³⁾ Includes loan guarantees for OSA and Vaughan Sports Complex

Long-Term Debt Funding

Capital projects identified for long-term debt are larger projects that have a useful life generally in excess of 10 years and typically have no other source of funding other than taxation. The 2004 request for long-term debt financing totals \$9,783,000 (Attachment 2). The impact on the operating budget due to the annual debt repayment is approximately \$1.3M once the debt is issued. The actual repayment will be impacted by the debt term and interest rates at the time of issuance.

A municipality may borrow or undertake financial obligations provided that the annual repayment related to the debt and financial obligations does not exceed 25% of own source revenue fund revenues. It is recommended that the capital projects identified above the funding line from long term debt totaling \$9,783,000 be approved. With this approval the City of Vaughan debt charges will be within the Provincial requirements and within the 10% policy set by Council.

Development Charge and Reserve Funding

In reviewing the projects submitted to be funded from Development Charges, the following guidelines were previously endorsed by Council.

- 1) No service category with a positive balance should be placed into a pre-financing position (Requirements for Funds to be on Hand Prior to Approval);
- 2) No service category pre-financing should be increased;
- 3) Commit no more than 50% of anticipated revenues for any service category that is already pre-financed.

Funding in three (3) development charge service categories should be noted - Fire, General Government and Park Development.

Fire - Notwithstanding the Council guideline referred to above, Fire Services will be placed in a deficit position of \$132,496, including commitments. This is warranted given the need to proceed with the fire station in West Woodbridge;

General Government – This service category was in a deficit position at the beginning of the year. The additional capital expenditure in 2004 of \$27,000 for a study is expected to be less than 50% of the revenue forecasted in 2004;

Park Development – Prior approvals exceeded revenue in 2003. As a result there is a deficit balance of \$297,682. Since there are no funds on hand no new projects are recommended.

Overall net development charge balances have been decreasing since 2001 as project approvals have exceeded revenues collected.

The availability of Reserve funding for capital projects is guided by three (3) factors: the balance in individual reserve accounts, the purpose for which the reserve was created and the overall level of Discretionary Reserves relative to the Council approved target of 50%. Based on the Draft 2004 Capital Budget, Discretionary Reserves would be 49.3% based on a \$140M operating budget. The final percentage will depend on the operating budget which is yet to be approved. The Discretionary Reserve ratio has been decreasing since 2001. This is a reflection of reserve balances not keeping pace with the growth of the operating budget.

The departments have prioritized the projects within each Development Charges and Reserve funding source. Finance staff have assessed the funding availability and established a proposed funding line. The specific projects under each development charge funding category are identified in Attachment 1.

Attachment 4 is a Preliminary Continuity Schedule of Capital Reserves and Development Charges. As noted earlier in the report, one of the policies is that the funds be on hand prior to project approval. In addition there are further specific requirements relating to development charge accounts. The Continuity Schedule identifies Preliminary reserve balances at December 31, 2003 prior to funding any 2004 capital projects and the impact on those balances assuming approval of the 2004 draft Capital Budget.

Taxation Funding

Projects identified for taxation funding are non-growth projects that have no other source of funding. These include for example, maintenance, repairs, safety issues, technology etc. In addition, included in the funding request from taxation is the 10% co-funding requirement under the Development Charges Act for certain growth related services (Libraries, Recreational Complexes, Parks and Vehicles).

The amount of funding available for taxation funded projects is \$6,572,000 from the 2004 Operating Budget. The projects submitted for taxation funding total \$27.4M. Staff have also reviewed previously approved projects and have identified \$45,000 in additional taxation funds

Given that there are insufficient funds to fund all taxation funded project requests, staff have prioritized projects within the limits available (\$6,617,000) (Attachment 3). Any approval of the taxation requests beyond the \$6,617,000 would have an additional significant impact on the 2004 Operating Budget.

Operating Budget Implication

There will be an impact on future operating budgets with the approval of the Draft 2004 Capital Budget. The annual operating budgets implication is estimated at \$3,270,000 of which \$1,330,000 reflects the annual debenture repayment of principal and interest on projects funded from long-term debt.

Relationship to Vaughan Vision 2007

The Capital Budget process links the Vaughan Vision 2007 through the setting of priorities and allocation of resources.

Conclusion

The City Manager, Senior Management and Finance staff have reviewed all the capital budget submissions. Projects were first ranked in priority within a department by department staff then projects were ranked by priority on a Corporate wide basis.

Some funding sources were very limited. In these cases ranking projects in priority was very difficult; however the list of projects represents those that staff have identified as a priority for the corporation.

Attachments

Attachment 1 – Draft 2004 Capital Budget Funded other than Taxation and Long Term Debt

Attachment 2 – Draft 2004 Capital Budget Funded from Long Term Debt

Attachment 3 – Draft 2004 Capital Budget Funded from Taxation

Attachment 4 – Preliminary Continuity Schedule of Capital Reserves and Development Charge
for 2003

(Available in the Clerk's Department for review)

Respectfully submitted,

Michael DeAngelis, City Manager

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Commissioner of Finance & Corporate Services

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