

## **BUDGET COMMITTEE – DECEMBER 7, 2004**

### **2005 PROPOSED CAPITAL BUDGET**

(Referred from the Budget Committee meeting of November 23, 2004)

The Budget Committee at the meeting of November 23, 2004, recommended the following:

“The Budget Committee recommends that this matter be referred to the Budget Committee meeting of December 7, 2004.”

Report of the City Manger, the Commissioner of Finance & Corporate Services, the Senior Management Team and the Director of Reserves and Investments, dated November 23, 2004:

### **Recommendation**

The City Manager, the Commissioner of Finance & Corporate Services, the Senior Management Team and the Director of Reserves and Investments recommends:

- 1) That the capital projects identified above the funding line as Proposed 2005 Capital funded other than Taxation and Long-Term Debt totaling \$32,252,000 (excluding New City Hall) be approved (Attachment 2);
- 2) That the capital projects identified above the funding line as Proposed 2005 Capital funded from Long-Term Debt totaling \$12,711,000 be approved (Attachment 3);
- 3) That the capital projects identified above the funding line as Proposed 2005 Capital funded from Taxation be approved (Attachment 4); and,
- 4) That the 2005 Proposed Capital Budget be forwarded to a future Committee of the Whole at which time a date for a public meeting will be determined.

### **Purpose**

The purpose of this report is to afford the opportunity to provide members of the Budget Committee an opportunity to comment on the 2005 Proposed Capital Budget.

### **Background - Analysis and Options**

The process of preparing the Capital Budget reflects a balancing of a number of issues. The continued pressures maintaining existing infrastructure, growth and the provision of new servicing requirements are balanced against available funding, the impact on future operating budgets, and the staff resources to undertake and manage the projects.

Council has approved significant amounts of capital work through the annual capital budget process (2004 \$77.6m, 2003 \$57.7m, 2002 \$60.2m).

The proposed draft 2005 capital budget submission total \$201,353,000. As of October 31, 2004 there remains approximately \$85.7 million in approved capital works outstanding from previous years. Capital projects are funded from four main sources: Development Charges, Reserves, Taxation and Long-Term Debt. To assist staff in the development of the annual Capital Budget, Council approved a series of key financial fiscal policies and are listed as follows:

- 1) Level of discretionary reserves;
- 2) Level of working capital;

- 3) Level of debt;
- 4) Level of funding from taxation; and
- 5) The requirement of funds to be on hand prior to project approval.

These policies have had a positive impact on the financial stability of the municipality. Overall key financial information/ratios approved by Council are being met.

The following is a summary of the key financial information ratios compared to targets approved by Council.

	<u>Projected Dec. 31, 2004</u>	<u>Approved Target</u>
Net Development Charge Balance	\$53.0M	N/A
Discretionary Reserves	60%	50% of own source revenues
Working Capital	11.4%	10% of own source revenues
Debt Level *	1.4%	10% of own source revenues

\*Includes Commitments for OSA & Vaughan Sports Complex

The following capital budget report excludes further consideration of the City Hall project as it was dealt with a separate report to Council.

#### Development Charge Reserves

For the projects submitted to be funded from Development Charges, the following guidelines previously endorsed by Council were taken into consideration:

- 1) No service category with a positive balance should be placed into a pre-financing position (requirement of funds to be on hand);
- 2) No service category pre-financing should not be increased; and
- 3) Commit no more than 50% of anticipated revenue for any service category that is already pre-financed.

Capital projects have been prioritized by each department within each development charges funding source. Finance staff have assessed the funding availability and established a proposed funding line.

Within the exception of Fire Services and General Government (Planning Studies) the proposed draft 2005 capital budget is within these guidelines.

#### Long-Term Debt

Capital projects identified for long-term debt financing are large projects that have no other source of funding other than taxation. The 2005 request for long term debt financing total is \$12,711,000 mainly for road related construction.

A municipality may borrow or undertake financial obligations provided that the annual repayment related to the debt and financial obligations do not exceed 25% of our source revenues. It is recommended that the capital projects identified above the funding line from long term debt totaling \$12,711,000 be approved. With this approval, the City of Vaughan debt charges will be within the 10% debt policy approved by Council. The issuance of debt will have an estimated annual operating budget impact of \$1,537,000.

#### Taxation

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

The amount of funding provided for taxation funded projects from the 2005 Draft Operating Budget is \$6,522,000. The 2005 requests total \$36,031,000. Given that there are insufficient funds provided from the 2005 Draft Operating Budget to fund all the taxation funded capital projects, staff have reviewed previously approved projects and have identified \$400,000 in surplus funds. As a result the revised amount available for taxation funded capital projects is \$6,922,000.

As there are insufficient funds to fund all taxation funded project requests, staff have prioritized the capital projects and have set the proposed funding at \$6,649,000. Budget Committee input on the remaining \$273,000 is requested.

Any further approval of the taxation funded capital requests beyond the \$6,922,000 would have an additional impact on the 2005 Operating Budget and the property tax rate.

#### Operating Budget Implication

The proposed draft 2005 capital funding lines have been recommended. Should Council approve the capital projects identified above the proposed funding line, the City will experience future net operating costs that are associated with the projects, i.e. proposed parks, proposed community centre expansions, proposed fire halls and proposed equipment. The estimated future operating cost implication is estimated at \$3,491,000 or an estimated 5% increase in the property tax rate when the projects are complete.

#### Relationship to Vaughan Vision 2007

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

#### Conclusion

The City Manager with the Senior Management Team and finance staff have reviewed the capital budget submissions and have established priorities and appropriate funding lines. The operating budget implications for the proposed capital budget included in this report is \$3,491,000 or approximately a 5% property tax increase when the projects are complete.

#### Attachments - (Members of Council Only) Available in Clerks Dept.

- Attachment 1 – Proposed 2005 Capital Budget Funding Summary
- Attachment 2 – Proposed 2005 Capital Budget Funded other than Taxation and Long-Term Debt
- Attachment 3 – Proposed 2005 Capital Budget Funded from Long-Term Debt
- Attachment 4 – Proposed 2005 Capital Budget Funded from Taxation
- Attachment 5 – Preliminary Continuity Schedule of Capital Reserves and Development Charges for 2004

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