

For Information Only

2012 Capital Budget Overview

Presented To:	Finance Committee
Presented:	Wednesday, Oct 05, 2011
Report Date	Wednesday, Sep 28, 2011
Type:	Presentations

Recommendation

For information only. (Resolution to be approved by the Finance Committee at the conclusion of 2012 Budget deliberations.)

BACKGROUND

The purpose of this report is to provide the Finance Committee with an overview of the 2012 Capital Budget, excluding Police and Water and Wastewater. The Police and Water and Wastewater budgets will be presented in November.

In addition, staff have prepared the 2013 to 2016 Capital Budget Outlook for the Committee's review. Staff will use this 4 year "outlook" to commence any necessary preparatory work on upcoming capital projects.

The 2012 Capital Budget does not include any capital budget options as explained below under the heading "Capital Budget – Timing in Budget Process".

The 2012 Capital Budget Binder has been provided under separate cover and attached to this report on AgendasOnline.

Signed By

Report Prepared By

Apryl Lukezic
Co-ordinator of Capital
Digitally Signed Sep 28, 11

Recommended by the Department

Lorella Hayes
Chief Financial Officer/Treasurer
Digitally Signed Sep 28, 11

Recommended by the C.A.O.

Doug Nadorozny
Chief Administrative Officer
Digitally Signed Sep 28, 11

Capital Budget – Timing in Budget Process

The timing for the review of the Capital Budget is earlier than in prior budgets due to changes in the process as approved by Council. The Finance Committee at a working meeting on May 14, 2011 approved changes to the 2012 Budget Option Process, which were reaffirmed by Council on May 25, 2011.

At the September 28, 2011 Council meeting, staff tabled a report “Update on 2012 Budget Public Input Options” which recapped for Council of the process for Budget options. This report included a summary of capital related public input submissions along with staff comments. Staff reviewed and prioritized the submissions within the “base” capital funding envelopes. These requests were either funded within the 5 year capital budget or reflected as unfunded.

At this meeting and consistent with prior years, the Finance Committee has the opportunity to provide direction to increase the City’s investment in capital or alter the capital priorities during review of the entire list of capital priorities. Any capital budget enhancement options will be brought forward during the operating budget deliberations.

Capital Envelope System and Long Term Financial Plan

Council adopted a Capital Policy in 2001 which recommended that the Capital Budget to be approved in the fall of each year. The Capital Policy also established the Capital Envelope system funded from the tax levy which specifies capital allocations to the operating departments by specific function, such as Roads, Buildings, Information Technology, etc. In addition, capital envelopes are established for Water and Wastewater and are funded from user fees.

A Long Term Financial Plan (LTFP) was adopted in principle by Council in November of 2002. One of the assumptions in this Plan was that the contributions to the Capital Envelopes would increase by an inflation factor annually. A 2% inflation factor was first applied to the 2004 envelopes, and has been maintained since then. LTFP also recommended a 2.3% capital levy per year. Council approved a 2.3% capital levy increase in 2005, 2006 and 2008 and 0.5% capital levy increase in 2007. The increase to total envelope funding (including W/WW and Police) provided through the base operating budget since 2003 is as follows:

2003 Capital Envelopes -	\$32.0 million	
2004 Capital Envelopes -	\$34.1 million	
2005 Capital Envelopes -	\$39.6 million	- includes capital levy increase of \$3.2M
2006 Capital Envelopes -	\$44.5 million	- includes capital levy increase of \$3.3M
2007 Capital Envelopes -	\$47.4 million	- includes capital levy increase of \$0.8M
2008 Capital Envelopes -	\$52.4 million	- includes capital levy increase of \$3.7M
2009 Capital Envelopes -	\$54.8 million	- includes capital levy increase of \$0.0M
2010 Capital Envelopes -	\$51.7 million	- includes prior year permanent reduction of \$5.0M
2011 Capital Envelopes -	\$55.1 million	
2012 Capital Envelopes -	\$57.5 million	

2012 Capital Budget

The 2012 Capital Budget, excluding Water, Wastewater and Police Services, is \$56.6 million. Please refer to Appendix A for a summary of the 2012 Capital Budget as well as the recommended funding sources. The Water Wastewater Services and Police Services Capital will be presented in conjunction with the Operating Budget deliberations in November.

Key Highlights of 2012 to 2016 Capital Budget

Base Capital Envelopes

There are continued capital funding pressures due to the age and condition of the City's infrastructure assets that require replacements and/or improvements in addition to residential, commercial and industrial growth demands.

Historically and in accordance with the Long Term Financial Plan capital envelopes have increased annually by a 2% inflationary factor. For 2012, this equates to an overall increase to the tax levy of approximately \$670,000, and has been applied on a prorate share to each capital envelope. In addition, the 2% has historically been applied to the Water and Wastewater Envelopes and equates to approximately \$430,000 increase to the W/WW user fees.

This 2% provision for inflation, is not sufficient when compared to non-residential building construction price index of 4.4% (2nd Quarter of 2011) or compared to the Consumer Price Index of 3.1% (August 2011).

Roads and Drains Capital Budget

The Roads and Drains 2012 Capital budget is approximately \$37 million and represents almost 65% of the capital budget outlined in Appendix A. Almost \$11.9 million relates for road expansions and intersection improvements (including annual funding for Maley Drive project), \$5.8 million for replacement of existing arterial and collector roads, \$5.1 million for replacement of existing local roads and \$3.9 million for various bridges and culverts.

Maley Drive

The 2012 to 2016 Capital budget includes an allocation of \$2.6 million per year, for the Maley Drive project. Until 2014, the funds will be expended on completion of the engineering, property acquisitions, and utility relocations. This allocation of \$2.6 million would closely approximate the annual debt repayments for 1/3 of the total project costs, should the Federal and Provincial governments approve 2/3 capital funding.

Federal Gas Tax

The annual Federal Gas Tax revenues are intended to fund environmentally sustainable municipal infrastructure projects that promote clean air, clean water, and reduced greenhouse gas emissions within eligible categories (transit, roads & bridges, water, wastewater, solid waste, capacity building and community energy systems).

Roads were identified as the largest unfunded area and consistently garnered public input to provide a better transportation network. In addition, Water and Wastewater is another significant unfunded area that requires additional funding based on the presentation of the Water and Wastewater Long Term Financial Plan. Consistent with prior year, staff continues to recommend that Federal Gas Tax revenues of approximately \$8.0 million be allocated to Roads with another \$2.0 million allocated to Water and Wastewater. This allocation is also reflected in the Capital Budget from 2013 to 2016 for both areas.

Transit and Fleet Garage

As approved by Council, the City of Greater Sudbury has acquired the facility located at 1160 Lorne Street for use by Transit and Fleet Services departments. It is anticipated that construction will be completed by 2013 and the funding of the annual debt repayment for the facility located is estimated as follows: (a) 40% funded from Provincial Gas Tax revenues and (b) 60% funded from combination of Capital Envelope, and an annual contribution from the Development Charges Reserve Fund.

Provincial Gas Tax

Provincial Gas Tax revenues received by the City is determined from the total provincial gas tax funding available which is allocated to each municipality based on ridership and population growth and are to be used for public transit expenditures. This funding has not been identified by the Provincial Government to be a permanent funding source for municipalities, however, has been on-going since 2004. Within the 2012-2016 Capital Budget, these funds have been forecasted to remain stable and are used towards bus replacements and debt repayments for the acquisition/renovation of the facility located at 1160 Lorne Street.

Countryside Arena

Construction of the second ice pad at Countryside Arena will be completed and available for public use during 2011. An additional \$116,000 has been contributed to Capital for debt repayments, in accordance with the financial plan approved by Council. The Capital budget includes debt repayments through to 2035 which includes \$288,732 from Capital Envelopes and \$115,000 from Development Charges to be collected.

South End Library

Construction of the South Branch Library has commenced during 2011 and is expected to be completed for public use during 2012. The Capital budget includes debt repayments through to 2031 which includes \$168,000 from Capital Envelopes and \$110,000 from Development Charges collected.

Civic Memorial Cemetery Mausoleum - Phase 5

The 2012 Capital budget includes the completion of Phase 5 at the Civic Memorial Cemetery Mausoleum. This project will be funded with a \$500,000 contribution from Cemetery reserve fund and \$500,000 internal borrowing from the capital fund. This internal borrowing will be repaid over 10 years, including interest. The debt will be repaid from annual cemetery surpluses which are contributed to the cemetery reserve fund.

Industrial Park Strategy

During 2011, Council provided direction to proceed with detailed design and environmental assessment for two Industrial Park areas, specifically Lasalle/Elisabella and Fielding Road. A future report to Council will be presented once detailed design and costing is complete, and when cost sharing between City of Greater Sudbury and benefitting landowners has been identified.

Furthermore, NOHFC has announced funding of \$1 million towards these two projects.

Fire

Like many other City departments, the capital funding envelopes are not sufficient to cover the annual replacement costs of the assets. In conjunction with the replacement of the Communication System, mobile and portable radios and pagers must be replaced. As previously reported to the Finance Committee, these capital additions will be funded by a \$2.3 million contribution from the Capital Financing Reserve Fund General.

2012 Capital Levy

The City's Long Term Financial Plan recommended that an annual increase in capital funding of 2.3% of the previous year's tax levy be adopted by Council in order to address the infrastructure deficit. For 2012, this would equate to an increase of the tax levy of approximately \$4.7 million.

Approval for Internal Financing

Inclusive of the 2012 budget, it is recommended that expenditures totalling \$1.2 million be approved for spending. These funds relate to projects within Cemetery Services and Drainage. These funds will be internally financed by borrowing from the capital and reserve funds and repaid through contributions from the 2013 through 2022 capital envelopes and reserves. Please refer to Appendix B for a detailed listing of these internally financing projects.

Previously Approved Internal Financing

As of September 2011, there is approximately \$40.3M of projects that have been approved and will require debt financing. The projects include Transit/Fleet Garage, Communications Infrastructure, Countryside Arena, Levack Water Supply, South Branch Library, Centre Lionel E. Lalonde Centre and New Valley Wells.

To date, these projects have been financed internally and funds will be repaid from future capital envelopes and/or development charges.

During the remainder of 2011 and as these projects proceed in 2012 and 2013, staff will be monitoring external borrowing rates to determine the most cost effective balance of internal and external debt financing.

SUMMARY

The Finance Committee's direction is being sought regarding the capital priorities presented in the 2012 Capital Budget binder (under separate cover). Should the committee recommend increasing capital funding, a budget option will be prepared.

A resolution will be prepared for the Finance's committee's approval at the conclusion of the budget deliberations (tentatively scheduled for January 2012), and after the review of the Water and Wastewater Capital Budget and the acceptance of the Police Services Capital Budget.



APPENDIX B: 2012 CAPITAL BUDGET - INTERNALLY FINANCED PROJECTS

Department	Project	Remaining Portion to be Financed	Remaining Repayment Period	Source of Funds
Projects to be Approved within 2012 Capital Budget				
Community Development - Cemeteries	Civic Cemetery Mausoleum - Phase 5	\$ 500,000	2013 - 2022	Cemetery Reserve Fund
Infrastructure - Drainage	Horizon Watershed Stormwater Management Facility	\$ 450,000	2013 - 2015	Capital Envelopes
	Countryside Stormwater Pond	\$ 250,000	2013 - 2015	Capital Envelopes
		\$ 1,200,000 ¹		
Previously Approved Projects				
Completed Projects				
Infrastructure - Water	Levack Water Supply	\$ 3,394,810	2012 - 2015	Capital Envelopes
Emergency Measures	Lionel E. Lalonde Centre	\$ 3,412,228	2012 - 2021	Operating
		\$ 6,807,038		
Projects In Progress				
Community Development	Countryside Arena	\$ 5,669,719	2012 - 2035	Capital Envelopes, Development Charges
Community Development	South Branch Library	\$ 3,500,000	2012 - 2031	Capital Envelopes, Development Charges
Infrastructure - Transit - Fleet	Transit/Fleet Garage	\$ 11,580,000	2013 - 2032	Capital Envelopes, Development Charges, Provincial Gas Tax
Police	Communications Infrastructure	\$ 9,200,000	2013 - 2027	Capital Envelopes
Infrastructure - Water	New Valley Wells	\$ 3,500,000	2013 - 2018	Capital Envelopes
		\$ 33,449,719		
TOTAL INTERNALLY FINANCED PROJECTS		\$ 41,456,757		

Note 1: Total of these projects represents the amount of \$1,200,000 for Financing - Future Years on 2012 Capital Budget.