

## **Capital Envelope System and Long Term Financial Plan**

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 also 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 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 (proposed)

During the 2010 Capital Budget process, Council approved a permanent reduction to the Capital Envelopes of \$5.0 million. The tax levy was reduced by \$2.7 million and Water and Wastewater user fees were decreased by \$2.3 million.

## **2011 Capital Budget**

For the 2011 Capital Budget, staff has reallocated the capital envelopes between operating departments based on previous Council approvals and priorities, need and review of tangible capital asset replacement values.

Please refer to Appendix A that summarizes the total 2011 Capital Budget as well as the recommended funding sources.

See the Capital Budget tab within the 2011 Budget binder for the detailed list of proposed capital expenditures for 2011.

## Key Highlights of 2011 to 2015 Capital Budget

The base capital funding has increased by the following:

- The 2% annual inflation, in accordance with the long term financial plan. It should be noted that 2% is less than Dec 2010 Consumer Price Index of 2.4%
- \$285,000 required for the debt financing for the replacement of the Communications Infrastructure as explained during the Greater Sudbury Police Services Board budget presentation. (an additional \$285,000 is also required for 2012 Budget)
- The estimated HST savings of \$300,000 transferred from operating budget to capital envelopes
- The Sustainable Capital Asset management Program for Water Wastewater has been added (\$400,000 for Water and \$440,000 for Wastewater) per Council policy and by-law

## Maley Drive

The 2011 to 2015 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.

## 1160 Lorne Street

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. The total budget less approved funding has resulted in the remaining balance of \$13.58 million, which will be funded as follows:

Remaining amount as of December 31, 2010	\$13.58 M
Capital Envelope/Reserves Contribution – 2011	\$1.0 M
Capital Envelope/Reserves Contribution – 2012	\$1.0 M
Remaining amount to be debt financed	\$11.58 M
Annual debt repayments starting in 2013 over 20 years	\$890,226

In 2013, the funding for the annual debt repayment for the facility located at 1160 Lorne Street is estimated as follows: (a) 40% funded from Provincial Gas Tax Reserve Fund and (b) 60% funded from combination of Capital Envelope, and an annual contribution from the Development Charges Reserve Fund.

The total capital envelope funding for Transit is in the amount of \$516,347 in 2011 which will increase annually by 2%. The 2011 capital envelope includes an increase of \$276,935 which is to cover the portion of the building used by Fleet Services as 1160 Lorne Street will be shared by Transit and Fleet Services. This increase was reallocated from the existing capital envelopes.

## **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. As a result, staff recommends that Federal Gas Tax revenues of \$8.1 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 2012 to 2015 for both areas.

## **Approval for Internal Financing**

Inclusive of the 2011 budget, it is being recommended that expenditures totalling \$24.3 million be approved for spending in 2011 and 2012. These funds will be internally financed by borrowing from the capital and reserve funds and repaid through contributions from the 2011 through 2035 capital envelopes, Provincial Gas Tax and development charges. Please refer to Appendix B for a detailed listing of these internally financing projects which includes the Transit/Fleet Garage, Communications Infrastructure and New Valley Wells.

## **Previously Approved Internal Financing**

As of February 2011, there is approximately \$17.9M of projects that have been approved by borrowing from the Capital Fund. The projects include Levack Water Supply, Countryside Arena, South Branch Library and Centre Lionel E. Lalonde Centre.

These projects have been financed internally and funds will be repaid from future capital envelopes and/or development charges.

During 2011, staff will be monitoring external borrowing rates to determine the most cost effective balance of internal and external debt financing.

## **SUMMARY**

In conclusion, City staff is seeking approval of the 2011 Capital Budget of \$89.0 million (inclusive of capital envelopes, grants, reserve amounts and internal financing).

Lastly, that Council accepts the remaining 2012 – 2015 estimates for information only. This information will be used by City staff in planning for and developing future capital budgets.

The following resolution is recommended for the Finance's committee's approval at the conclusion of the budget deliberations:

**THAT** Council approve the 2011 Capital Budget and the report dated March 3, 2011 from the CFO/Treasurer, including acceptance of the 2011 Police Services Capital Budget; and

**THAT** total internal financing from capital and reserve funds of \$24.3 million be approved for projects to be completed in 2011 and 2012 and be repaid from future capital envelopes, Provincial Gas Tax and development charges in 2011 to 2035; and

**THAT** the remainder of the 2012 - 2015 Capital Budgets be accepted for information for staff to use as a planning tool.