



## 11-24 Capital Financing Policy

### **PURPOSE:**

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

### **PROCEDURE:**

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

### **ASSUMPTION:**

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 four sources of funds to pay for capital project:
  - 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.

### **I. CAPITAL PAID BY CURRENT TAXES**

The Town may expect an annual expenditure for "smaller" capital items. Minor capital might be defined as an operational expense *if the total expense below the threshold, attached as Schedule A*, and which has a useful life expectancy of two years or more. These minor capital expenditures should be provided for from current property taxes.



The amounts the Town will spend on minor capital each year will vary resulting in undesirable mill rate. Fluctuation 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 unallocated 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 2 years minor capital budgets.

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

There is another type of capital expenditures characterized as being a part of a "capital program". A capital program may be characterized as annual capital expenditures of *over the threshold, attached as Schedule A*, 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 Recreation Complex over a period of 5 years. The annual expenditures 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 mill rate and be paid from the current taxes.

A capital expenditure, when part of a capital program, should be funded out of current year's 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.

Refer to Policy# 11-23, Reserve Policy, for details.

## 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.



# Town Of Lamont Policy Manual

Capital Financing Policy  
 Policy # 11-24  
 Feb 22, 2022

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


The Municipal Government Act has published the following regulations with respect to debt.

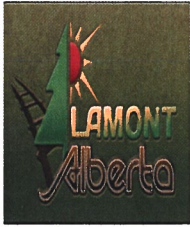
	<b>MGA Guidelines</b>	<b>MGA Maximum</b>	<b>Town 2020</b>	<b>Remaining Amount</b>	<b>Actual</b>
<b>Debt Limit</b>	1.5 times revenue	\$5,324,825	\$1,143,022	\$4,181,803	.32 times rev
<b>Service on Debt Limit</b>	.25 times revenue	\$887,471	\$145,102	\$742,369	.04 times rev

The Municipal Government Act provides upper limits related to debt. A municipality at these limits would be seriously constrained in their financial flexibility.

Debt limit is a measure used to control the maximum amount of debt a municipality is entitled to before Ministerial approval is required to exceed the limit.

Service on Debt Limit provides guidelines on the municipalities' ability to service its current debt.

<b>Adopted by Council:</b>	February 22, 2022	<b>Initials:</b> 
<b>Motion Number:</b>	53/22	
<b>Supersedes:</b>	11-11 (Renumbered)	



# Town Of Lamont Policy Manual

Capital Financing Policy  
Policy # 11-24  
Feb 22, 2022

## Policy Review

Name (Please Print)	Signature	Date
Rick Baston	<i>RB</i>	Feb 22/2022



## APPENDIX "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.

### ➤ **Capital Paid by Current Taxes**

- ❖ Minor Capital Expenditures *which is below threshold* 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 expenditures.
- ❖ Unallocated minor capital budget should be allocated to reserve. Over-allocated minor budget may be funded from the reserve.
- ❖ A capital expenditure, when part of a capital program, should be funded out of current years taxes.

### ➤ **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 maximum debt limit which the Town will consider depends on the ability to service that debt limit.



# Town Of Lamont Policy Manual

Capital Financing Policy  
Policy # 11-24  
Feb 22, 2022

## Schedule A

Major Asset Class	Minor Asset Class	Capitalization Threshold
Land		All land will be recorded.
Land improvements		\$10,000
Buildings		\$50,000
Engineer Structures	Roadway System	\$50,000
	Water System	\$50,000
	Wastewater System	\$50,000
	Storm Sewer System	\$50,000
	Sidewalks & Curbs	\$50,000
Machinery & Equipment		\$10,000
Vehicles		\$10,000
Fire Vehicles		\$10,000
Fire Equipment		\$10,000
Playground Equipment		\$10,000
Cultural & Historical		N/A