



# TOWN OF INNISFIL

## CORPORATE POLICY

<b>POLICY:</b> Capital Budget Funding	<b>COUNCIL APPROVAL</b> <b>DATE: August 10, 2011</b> <b>RES. NO.: CR-191-08-11</b>
<b>POLICY NO.:</b> CP.04-11-05	<b>REVISED DATE:</b> <b>RES. NO.:</b>

### **Purpose:**

The purpose of this policy is to place the Town's finances on a path towards financial stability by setting out a funding strategy for capital initiatives that will ensure that service and infrastructure standards can be met with minimal/manageable increases in tax and user rates and avoid drastic cuts in service levels.

### **Background:**

Recent practice for capital expenditures has been to utilize a total cashflow projection from all capital funding sources (reserves, reserve funds, development charges, Ontario Lottery Gaming revenues etc.) to determine the financial viability of proposed project(s). This approach requires "internal borrowing" to occur such that positive balances in one set of reserve or reserve fund accounts are used to offset negative or overdrawn balances in another set of accounts. To be clear, although this is a common practise within the municipal sector it does create its own unique challenges.

Although financially possible it creates a situation where cashflow is not always available for projects where funds have been set aside as these have been borrowed to advance projects where the funds have not been collected or revenues realized. When projected revenue streams for the current year are not achieved, it can result in significant financial pressures since the work and expenditure has already commenced.

Predictable revenue streams for capital budget funding are those that the Town has direct control over such as contributions to reserves from tax rate operating budget and to a lesser degree contributions from water & wastewater user fees. Ontario Lottery Gaming revenues, Federal Gas Tax grants and to a greater extent development charges have more uncertainty and volatility due to the economic fluctuations, regulatory changes and political (Federal/Provincial) uncertainty. This has the potential to create financial vulnerability if the projected revenues do not materialize and requires a more stable and sustainable approach to be used for capital budget formulation.

Situations will arise where developers agree to pre-pay development charges related to their sub-divisions in order that the required works can proceed and allow them to advance the construction of their site. In these instances the requirement to restrict the use of the funds would be contrary to the purpose of collecting them so would not be subject to this policy.

**Policy Requirements Statement:**

1. Not less than two months of regular general operating expenditures be maintained as unrestricted funds as recommended by the Government Finance Officers Association (GFOA).
2. Only fifty percent (50%) of the current year projected development charge revenues are to be used in determining the projects to be undertaken in the year to provide some assurance that funds are being collected prior to expenditures being incurred.
3. Not more than seventy-five percent (75%) of the current year contributions to capital reserves (water, wastewater etc.) are to be used as funding sources for capital projects.
4. Policy to be reviewed annually by Director of Finance with recommendations, as appropriate, to continue; further restrict or; relax restrictions based on current economic conditions and the ability of the Town to meet financial stability goals and objectives.

That a recommendation arising from the annual review (re: #4 above) be presented to Council for consideration/adoption as part of the annual capital budget development process.