

# **TOWN OF AJAX REPORT**



**REPORT TO:** General Government Committee

**SUBMITTED BY:** Rob Ford, CMA, AMCT  
Director of Finance/Treasurer

**SUBJECT:** **Financial Sustainability Plan – Draft Recommendations**

**WARD(S):** All

**DATE OF MEETING:** May 9, 2013

**REFERENCE:** July 5, 2012 GGC Report; Financial Sustainability Plan - Project Scope  
January 17, 2013 Special Council Meeting; Community Action Plan - Mid  
Term Update Presentation  
Community Action Plan Strategies

- Ensure tax rates remain reasonable and competitive
- Rebuild and further strengthen financial reserves

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## **RECOMMENDATION:**

1. That the report titled, **Financial Sustainability Plan – Draft Recommendations**, be received for information.
2. That Council endorse the draft recommendations for the development of the **Financial Sustainability Plan**.
3. That the **Financial Sustainability Plan** and related policies be presented to **General Government Committee** for approval at the meeting of **June 20, 2013**.

## **BACKGROUND:**

Council endorsed the project scope for the Financial Sustainability Plan on July 5, 2012. Since that date, staff have undertaken the extensive research and financial analysis required to develop the draft recommendations. At the January 17, 2013 special Council Meeting on the Mid Term Update of the Community Action Plan, staff presented some preliminary recommendations for Council's information and input.

The three review areas that form the basis for the development of the plan are:

- 1) Capital Project Funding
- 2) Discretionary Reserves and Reserve Funds
- 3) Long Term Debt

**BACKGROUND: (cont'd)**

The core principles approved by Council in July 2012 are:

- 1) Operating Budget Surplus      100% allocated to reserves
- 2) Veridian Revenues            100% allocated to reserves
- 3) Slots Revenues                100% allocated to reserves (net of grants and social infrastructure funding)

**DISCUSSION:****Capital Project Funding****a) General Levy Capital - Conversion to Capital Reserve Allocations or Operating Budget**

This change, which was the catalyst for the majority of the other plan recommendations, also proved to be the most challenging. This type of funding approach has become the standard in municipal budgeting in recent years. ATT-1 details the reserves that will provide the capital funding under the new methodology, as well as the expenditures that will move to the operating budget.

**b) Emerald Ash Borer Capital Project Moved to Operating Budget**

For 2014 and beyond, these expenditures will be included in the operating budget. This project is unique and could fit into the capital budget (as was done for 2013) or the operating budget (as is being recommended). The decision to move to operating is based on the number of years that this project will span and the fact that the budget amount remains relatively consistent from year to year.

**c) Crack Sealing Moved from Operating Budget to Capital Budget**

Crack sealing is one of the four maintenance methods (others are slurry treatment, resurfacing and reconstruction) used for roads. Having all four methods within the same budget area will provide the flexibility needed to more effectively manage the budget dollars.

All of the above changes to the funding of capital projects are budget neutral (i.e. no budget or tax rate impact).

**Discretionary Reserves & Reserve Funds****a) General Background**

- Classification - will be categorized as Capital or Stabilization
- Types - for consistency and administrative efficiency, only Reserves will be established

## **Discretionary Reserves & Reserve Funds (cont'd)**

### **b) Capital Reserves**

Currently there are a total of thirteen capital reserves. Seven of the existing reserves will be maintained, six will be eliminated and five new capital reserves will be established, resulting in a total of twelve capital reserves under the plan. ATT-2 provides the full details on the existing, new and eliminated reserves.

Establishing target balances for each of the capital reserves was an original objective in the development of the plan recommendations. However, due to the need to grow the existing balances in the reserves, and the asset condition work that will be completed over the next two to three years, it was decided to defer this objective.

### **c) Stabilization Reserves**

The Election Reserve will be maintained, with no change in how the reserve is funded or used in the budget. Staff are recommending that the remaining three stabilization reserves, Tax Rate Stabilization, Working Funds and Insurance (see ATT-3) be merged into a new single Stabilization Reserve.

The uses of the new reserve will mirror the existing uses of Tax Rate Stabilization and Working Funds reserves. The use for insurance purposes will be eliminated.

The Government Finance Officers Association of the United States & Canada (GFOA), recommends that the balance in general stabilization reserves be set at 5% to 15% of own source revenues. Initially, staff were looking to recommend a target balance of 7.5%. However, due to the financial impact, the recommendation has been revised to set the fixed balance of this new reserve at 5%. The longer term goal remains to achieve the 7.5% target. Based on the most recent unaudited financial statements for 2012, the new reserve will require an additional \$920,000 in funds to meet the \$4,259,600 target balance.

### **d) Administrative Policies/Matters**

#### **i) Approval of General Levy Reserve Allocations**

- will be approved in December, as part of the approval of the subsequent year's capital budget/LRCF

#### **ii) Allocation of Interest to Reserves**

- currently, interest is only allocated to Post Build Out Capital; the remainder of interest is included in the operating budget as a general levy revenue
- effective 2014, it is recommended that all investment income above the 2013 budget of \$781,100, be allocated proportionately to the capital reserves
- this strategy for sustainability also eliminates the continuing current risk of including all investment income in the operating budget

d) Administrative Policies/Matters (cont'd)

## iii) Annual Increase in General Levy Reserve Allocations

- existing practice, when fundable, is to increase only two reserves by a fixed total of \$75,000 (Building Repair \$50,000 and Capital Projects Reserve \$25,000)
- the 10% allocation to Post Build Out Capital fluctuates up and down with the changes in assessment growth
- in reality, it is not uncommon to have an overall net reduction in the allocations due to lower assessment growth
- recommended new policy is that the total annual general levy allocations to all discretionary reserves increase by a minimum of 25% of assessment growth
- additional increases above the minimum may be recommended in the annual budget

## iv) Allocation of Operating Budget Surplus

- no change to current practice of allocating the first portion of surplus to the Stabilization Reserve, to meet the target balance
- however, the current practice of allocating the remainder based on fixed percentages to predetermined reserves, does not provide the flexibility required to meet the demands of changing financial priorities and pressures
- beginning in 2014, staff will recommend for Council's approval, the allocation of the remaining operating budget surplus to reserves

## v) Assessment Growth Allocated to Post Growth Reserve

- recommended to increase from 10% to 15%

## vi) "Spending Cap" Guideline on Capital Reserves

- using a spending cap as a guideline, based on a percentage of a reserve's total annual revenues, achieves a good balance between two competing demands:
  - providing budget dollars necessary to fund current capital projects
  - growing the balance in the reserve to meet future funding needs
- this methodology, which has been applied to the Building Repair Reserve since 2005 (currently 60%), has been very successful
- a standard funding cap guideline of 65% will be applied to specific reserves

## vii) Supplementary Tax Revenue

- budgeting for supplementary taxes is challenging for a number of reasons:
  - timing and amounts are completely beyond our control
  - time lag between occupancy and issuance of the supplementary assessment, ranges from a few months to as long as three years
  - there is no direct link between annual assessment growth and the annual revenue from supplementary revenue
  - overly aggressive budgeting can have catastrophic budget and tax rate consequences should these revenues unexpectedly drop in any given year
- for the past few years, the practice has been to maintain the budget at \$500,000; the surplus generated, which is allocated to the same reserves as the operating budget surplus, has been gradually shrinking
- staff are recommending that the budget be formally capped at \$500,000 and that any surplus revenues from supplementary taxes be allocated directly to the Post Growth Reserve

**d) Administrative Policies/Matters (cont'd)****viii) Reallocation of Reserve Balances/Jan. 1, 2014 Opening Balances**

- the merging, eliminating and creating of new reserves will result in funds being reallocated among and between all of the reserves
- the exact amount of the reallocations cannot be calculated until both of the following processes have been completed:
  - 2014 Capital Budget/2015-2018 Long Range Capital Forecast
  - 2013 year end has been closed and the external audit has been finalized
- normally, each individual reserve transfer requires a separate Council resolution; the June 20, 2013 GGC report will request that the authority to complete the reallocations be temporarily delegated to the Director of Finance/Treasurer, with full reporting back to Council
- the methodology planned for calculating the January 1, 2014 opening balances for the reserves is detailed in ATT-5

**Long Term Debt**

The Town's current practices around managing long term debt form the basis for the majority of the new policies. ATT-4 details the recommended policies in this area.

**Allocation of Slots Revenue**

The existing allocations, which have remained unchanged since first established in 2005, were based on financial pressures and challenges facing the Town at that time, specifically:

- a) pending construction of three major facilities: Fire Headquarters, Operations Centre and Audley Recreation Centre - Phase 1
- b) demand for new growth-related infrastructure (primarily roads, and to a lesser extent, trails) and the major reconstruction of existing roads due to growth
- c) need for a dedicated revenue source for Economic Development infrastructure and related capital development initiatives

The existing allocations and uses, net of the grandfathered grants program and Town-managed Social Infrastructure Funds, are:

Reserve	%	Use
Debt Reduction	50%	1) Reduce the debt required for new buildings 2) Offset the budget impact of payments on existing debt
Infrastructure	50%	1) Roads and related structures; new and renewal of existing 2) Trails; new and renewal of existing 3) Economic Growth/Development infrastructure initiatives 4) Town's share (i.e. ineligible, benefit to existing) of roads and trails Development Charge Projects

**Allocation of Slots Revenue (cont'd)**

While pressures remain in all areas of the budget, the financial demands have changed over the last eight years.

- requirement for long term debt is significantly lower; for the first time in many years, there are no debt requirements in the capital budget/long range capital forecast
- spending on infrastructure maintenance, renewal and rehabilitation, for both recently developed and older infrastructure throughout the Town, must be increased
- funding for the Town's share of Development Charge projects has remained constant

Based on the Town's current and future financial priorities, staff are recommending that the allocation of the slots revenue be revised, as set out below. The net impact of the changes is a reduction in the amount allocated to the Debt Reduction Reserve and the elimination of the Infrastructure Reserve, by merging it into the new reserve structure. The use of all capital reserves is detailed in ATT-2.

Revised Reserve Allocation	%
Debt Reduction	25
Development	25
Roads Maintenance	10
Building Maintenance	10
General Infrastructure Maintenance	10
Vehicle/Equipment Replacement	15
Strategic Initiatives	5
Total	100%

**Allocation of Veridian Revenue**

The current allocation has been in place since 2005, when it was revised as part of the Interim Reserve Strategy. Prior to 2005, all of the Veridian revenue was allocated to the Capital Projects Reserve.

Existing Reserve Allocation	%
Capital Projects	75%
Building Repair	15%
Post Build Out Capital	10%
Total	100%

Similar to the Slots revenue, the revised allocation of the Veridian revenues focuses on the maintenance of existing infrastructure, while still providing funds for growth-related capital expenditures.

Revised Reserve Allocation	%
Development	20
Roads Maintenance	15
Building Maintenance	20
General Infrastructure Maintenance	15
Vehicle/Equipment Replacement	25
Strategic Initiatives	5
Total	100%

**Format of Financial Sustainability Plan**

The Financial Sustainability Plan will be a high level document that:

- articulates the goals, objectives and principles of the plan
- identifies the policies that make up or support the plan
- includes the financial planning tools and processes used by the Town

Existing Policies (No Changes)	New Policies
Capital Expenditure Control	Discretionary Reserve Administration
Operating Budget Management	Discretionary Capital Reserves
Annual Review of User Fees & Charges	Discretionary Stabilization Reserves
Investments	Long Term Debt Management
Commodity Price Hedging	
Leasing	

**Existing Financial Planning Tools**

- General Levy Forecast
- Long Range Capital Forecast
- Operating Budget Forecasting & Reporting

**Implementation Timing**

The recommended policies, new reserves, capital funding changes, etc. will all take effect January 1, 2014. The new plan will form the basis for the completion of the 2014-2017 General Levy Forecast. The 2014 Capital Budget/2015-2018 Long Range Capital Forecast, with approval moved forward to December 16, 2013, will also follow the new plan.

The following by-laws will remain in effect until December 31, 2013, at which time they will be repealed:

- 108-2005 Vehicle/Equipment Replacement Reserve Fund
- 109-2005 Post Build Out Capital Reserve
- 110-2005 Capital Fund
- 109-2007 Tax Rate Stabilization Reserve

**FINANCIAL IMPLICATIONS:**

It was originally anticipated that approximately \$10,000 would be required for external consulting expertise. However, all of the background research, analysis, development of recommendations, etc. on the Financial Sustainability Plan has been completed in-house by staff in the Budgets & Accounting Section and by Management Committee.

**FINANCIAL IMPLICATIONS: (cont'd)**

The changes to the capital funding methodology, revised allocations for the Veridian and Slots revenues and the new funding “cap” on discretionary capital reserves have two significant financial benefits:

- 1) Increase in Capital Spending
  - average annual expenditures on new capital, the maintenance and rehabilitation of existing infrastructure, replacement vehicles/equipment, etc. could increase by as much as \$750,000 per year
- 2) Growth in Discretionary Capital Reserve Balances
  - at the same time capital spending is increasing, the total balance of the discretionary capital reserves could increase by just over \$4.1M per year

**COMMUNICATION ISSUES:**

The July 5, 2012 GGC Report and Presentation and this report were posted on the Town's website under a special link in the Finance Department. Included was a brief overview of the plan and contact information for questions and comments. In addition, the Winter 2013 edition of Ajax Today highlighted the work being done on the plan.

Comments on the draft recommendations in this report will be requested directly from the business community through the Ajax-Pickering Board of Trade and both Business Improvement Areas. In addition, the public will be able to comment through an online feedback form on the Town's website.

Once the plan is approved by Council, staff will develop an online citizen tutorial of the FSP to educate the public on the plan. The online tool will highlight key strategic areas and include graphics.

**CONCLUSION:**

Council's input and endorsement of the draft recommendations will allow staff to develop the final Financial Sustainability Plan for consideration by Council at the June 20, 2013 GGC meeting.

**ATTACHMENTS:**

- ATT - 1: General Levy Capital - Converted to Capital Reserve Allocations or Operating Budget
- ATT - 2: Recommended Changes to Discretionary Capital Reserve Structure
- ATT - 3: Recommended Changes to Discretionary Stabilization Reserve Structure
- ATT - 4: Long Term Debt
- ATT - 5: Calculation of Opening Reserve Balances

**ATT-1: General Levy Capital - Converted to Capital Reserve Allocations or Operating Budget**

To Operating Budget	To Capital Reserves		Strategic Initiatives (New)
	To Veh./Eqp. Replacement (Existing)	Development (New)	
Ajax History Book	Hardware Upgrades/Replacement	Shoreline Improvements	Customer Polling
Software Licensing	Workstation Replacement	Ajax Waterfront Park	Electronic Info. Signs
Sustainable Forest Cover	Software Upgrades	Carruthers Marsh Splashpad	Comprehensive Wayfinding Strategy
Holiday Decorations	Server Upgrades	Paradise Park Improvements	Rec. Seniors Services Strategy
	Crisys Comm. Hardware Replacement	Arbor Park Design	Ajax Tourism Attraction Plan
	Bunker Gear Replacement	By-Law Vehicle	Traffic Calming
	SCBA Cylinder Replacement	Fire Prevention Vehicle	Dev. Permitting Implementation Study
	Auto Extraction Equipment Replacement		Transportation Demand Mgmt Plan
	Hazard House Replacement		Green Dev. & Env. Design Guidelines
	AED Replacement		Harwood Ave. Midtown Imp. Plan
	Fire Hose Replacement		Lower Duffins Creek Policy Review
	Fitness Centre Equipment Replacement		
	Floor Care Machine Replacement		

Notes:

- (1) The above chart excludes straightforward movements to the three new Infrastructure Reserves (e.g. Road Resurfacing to Roads Maintenance Reserve) and the expansion in scope of Building Repair Reserve (to include the entire campus and interior renovations).
- (2) (Existing) is an existing reserve, while (New) denotes a new reserve being established under the Financial Sustainability Plan
- (3) Based on 2013 Capital Budget/2014-2017 LRCF

**ATT-2: Recommended Changes to Discretionary Capital Reserve Structure**

**Existing Reserves - Kept**

Reserve Name	Capital Budget/LRCF Funding	Revenue Source
Public Art	<ul style="list-style-type: none"> <li>Acquisition and installation of art in public spaces</li> </ul>	<ul style="list-style-type: none"> <li>General Levy budget allocation</li> </ul>
Building Maintenance (formerly Building Repair)	<ol style="list-style-type: none"> <li>Maintenance/repair/rehabilitation of existing buildings and related facilities, including:               <ul style="list-style-type: none"> <li>the building itself and all components</li> <li>surrounding campus (e.g. parking lot, front entrance, grounds, etc.) <b>** New **</b></li> </ul> </li> <li>Renovations to existing buildings <b>** New **</b></li> </ol>	<ol style="list-style-type: none"> <li>General Levy budget allocation</li> <li>10% of Slots revenue</li> <li>20% of Veridian revenue</li> <li>Tax room from the annual debt payments on retired (paid off) long term debt</li> </ol>
Post Growth Capital (formerly Post Build Out)	<ul style="list-style-type: none"> <li>Not an active/current funding source</li> </ul>	<ol style="list-style-type: none"> <li>15% of assessment growth</li> <li>Annual Surplus from Supplementary Tax revenue</li> </ol>
Vehicle/Equipment Replacement	<ol style="list-style-type: none"> <li>Operations - Vehicles and Equipment</li> <li>Fire - SCBA, Bunker Gear, Hose, Auto Extrication, AED <b>** New **</b></li> <li>Recreation - Fitness, Floor Care Machines <b>** New **</b></li> <li>Information Technology – Workstations, Hardware, Servers, Software <b>** New*</b></li> </ol>	<ol style="list-style-type: none"> <li>General Levy budget allocation</li> <li>Sale of used and surplus vehicles/equipment</li> <li>15% of Slots revenue</li> <li>25% of Veridian revenue</li> </ol>
CIP Development Improvement	<ul style="list-style-type: none"> <li>Capital projects within Downtown CIP area</li> </ul>	<ol style="list-style-type: none"> <li>Disposal/sale of land</li> <li>20% of building permit fees for projects in Downtown CIP area (0% from priority sites)</li> </ol>
Debt Reduction (Slots)	<ol style="list-style-type: none"> <li>Reduce the amount of long term debt issued</li> <li>Offset the operating budget impact of existing debt payment</li> </ol>	<ul style="list-style-type: none"> <li>25% of Slots revenue</li> </ul>
Debt Repayment Reserve	<ul style="list-style-type: none"> <li>Reduce the amount of long term debt issued</li> </ul>	<ul style="list-style-type: none"> <li>Tax room from the annual debt payments on retired (paid off) long term debt</li> </ul>

**ATT-2: Recommended Changes to Discretionary Capital Reserve Structure**

**New Reserves**

Reserve Name	Capital Budget/LRCF Funding	Revenue Source
Development	<ol style="list-style-type: none"> <li>1) Town's share (Ineligible &amp; Benefit to Existing) of Development Charge projects</li> <li>2) New Infrastructure not eligible for Development Charge funding</li> <li>3) Waterfront and Shoreline Improvements</li> </ol>	<ol style="list-style-type: none"> <li>1) General Levy budget allocation</li> <li>2) 25% of Slots revenue (net of grants)</li> <li>3) 20% of Veridian revenue</li> </ol>
Capital Contingency	<ol style="list-style-type: none"> <li>1) Town's portion of cost shared Federal/Provincial capital grant programs</li> <li>2) Unbudgeted capital expenditures not fundable from any other source</li> </ol>	<ul style="list-style-type: none"> <li>• If required, portion of Operating Budget Surplus to "top up" to \$2.5M target balance</li> </ul>
Strategic Initiatives	<ol style="list-style-type: none"> <li>1) Master Plan, Studies, Strategies, EA's not fundable from another source</li> <li>2) Traffic Calming</li> <li>3) Capital projects resulting from Community Action Plan (e.g. Customer Polling)</li> <li>4) New Software</li> </ol>	<ol style="list-style-type: none"> <li>1) General Levy Budget Allocation</li> <li>2) 5% of Slots revenue</li> <li>3) 5% of Veridian revenue</li> </ol>
Roads Maintenance	<ul style="list-style-type: none"> <li>• Repair/Maintenance/Rehabilitation of roads and related infrastructure, including but not limited to bridges, streetlights, sidewalks, curbs &amp; gutters, traffic signals and multi-use trails within the road allowance</li> </ul>	<ol style="list-style-type: none"> <li>1) General Levy budget allocation</li> <li>2) 10% of Slots revenue</li> <li>3) 15% of Veridian revenue</li> </ol>
General Infrastructure	<ul style="list-style-type: none"> <li>• Repair/Maintenance/Rehabilitation of all other infrastructure not fundable from Building Maintenance Reserve or Roads Maintenance Reserve</li> </ul>	<ol style="list-style-type: none"> <li>1) General Levy budget allocation</li> <li>2) 10% of Slots revenue</li> <li>3) 15% of Veridian revenue</li> </ol>

ATT-2: Recommended Changes to Discretionary Capital Reserve Structure

Existing Reserves - Eliminated

Reserve Name	Rationale	Balance Transferred To
Entrance Gate Maintenance	<ul style="list-style-type: none"> <li>Small balance and little to no revenue from developers</li> </ul>	<ul style="list-style-type: none"> <li>General Infrastructure Maintenance Reserve</li> </ul>
Infrastructure (Slots)	<ul style="list-style-type: none"> <li>Core element of overall FSP changes</li> </ul>	<ul style="list-style-type: none"> <li>Various Capital reserves</li> </ul>
Property Acquisition	<ul style="list-style-type: none"> <li>Small balance and no current funding source</li> </ul>	<ul style="list-style-type: none"> <li>Strategic Initiatives Reserve</li> </ul>
Storm Water Maintenance	<ul style="list-style-type: none"> <li>Only revenue source is inconsistent developer contributions</li> <li>No clear use of reserve under current funding methodology</li> </ul>	<ul style="list-style-type: none"> <li>General Infrastructure Maintenance Reserve</li> </ul>
Town Promotion	<ul style="list-style-type: none"> <li>No revenue source and balance only \$2,000</li> </ul>	<ul style="list-style-type: none"> <li>Strategic Initiatives Reserve</li> </ul>
Capital Projects	<ul style="list-style-type: none"> <li>Core element of overall FSP changes</li> </ul>	<ul style="list-style-type: none"> <li>Various Capital reserves and the Stabilization Reserve</li> </ul>

**ATT-3: Recommended Changes to Discretionary Stabilization Reserve Structure**

**Existing Reserves - Kept**

Reserve Name	Revenue Source	Use of Funds
Election	<ul style="list-style-type: none"> <li>General Levy budget allocation</li> </ul>	<ul style="list-style-type: none"> <li>every four years to fully offset cost of election</li> </ul>

**Existing Reserves - To Merge into New Stabilization Reserve**

Reserve Name	Revenue Source	Use of Funds
Tax Rate Stabilization	<ul style="list-style-type: none"> <li>operating budget surplus, if the balance in the reserve is below its "capped" balance of \$1,600,000</li> </ul>	<ul style="list-style-type: none"> <li>as stated in section 4. of By-law 109-2007: "The "Tax Rate Stabilization Reserve shall only be used during the Town's annual budget process and the Reserve shall only be used to offset a potential tax rate increase due to unforeseen economic conditions or other circumstances/events that would require an excessive tax rate increase in order to continue the delivery of existing and/or new municipal services approved by Council"</li> </ul>
Working Funds	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>to fully or partially offset an overall annual operating deficit which would otherwise require a tax rate increase in the following year</li> <li>source of interim or long term capital project financing</li> <li>temporary borrowing pending the issuance of interim or final tax bills</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>operating budget surpluses from insurance activities</li> </ul>	<ul style="list-style-type: none"> <li>to fully or partially offset the budget impact of extraordinarily high premium increases</li> <li>to mitigate the operating surplus/deficit impact where deductible payments significantly exceed budget</li> <li>cover the cost of "insurance type" claims not covered under the Town's policy</li> </ul>

ATT-4: Long Term Debt

Existing Practices - Formalized

Policy Item	Details
Purposes for Which Debt Can Be Issued	1) Construction of New Buildings 2) Existing Buildings <ul style="list-style-type: none"> <li>• major repurposing</li> <li>• expansion</li> </ul>
Use of Internal & External Debt	<ul style="list-style-type: none"> <li>• based on staff recommendation for Council approval</li> <li>• exact percentage mix will vary for each debt issuance</li> </ul>
Borrowing Pending Debt Issuance	<ul style="list-style-type: none"> <li>• internal borrowing using promissory notes will remain primary method</li> <li>• borrowing from bank will be an option, if required and/or more cost effective</li> </ul>

Existing Practices - Modified

Policy Item	Details
Use of Tax Room from Retired Debt	<ul style="list-style-type: none"> <li>• principle of allocating to reserves will be maintained</li> <li>• option to allocate to Building Maintenance Reserve will be added to current practice of allocating to Debt Repayment Reserve</li> </ul>
Term	<ul style="list-style-type: none"> <li>• goal will be a 15 year term, which is current practice</li> <li>• option to move to 10 or 20 years, based on staff recommendation that takes into account factors such as:                             <ul style="list-style-type: none"> <li>▪ current and forecasted interest rates</li> <li>▪ useful life of the building</li> <li>▪ amount of long term debt required</li> <li>▪ future debt retirements and requirements</li> </ul> </li> </ul>

ATT-4: Long Term Debt

New Policies

Policy Item	Details
Maximum Debt Per Project	<ul style="list-style-type: none"> <li>• common municipal best practice</li> <li>• recommended 30% is higher than the percentage on recent debt issued</li> </ul>
Third Party Debt & External Revenues	<ul style="list-style-type: none"> <li>• the Town should not:               <ul style="list-style-type: none"> <li>▪ issue debt on behalf of external agencies or organizations</li> <li>▪ guarantee or otherwise secure debt issued directly by third parties</li> </ul> </li> <li>• debt should not be issued where all or a portion of the principal/interest payments are reliant on the receipt of future revenues; includes but is not limited to user fees, use surcharges, development charges</li> </ul>
Limit on Total Debt Outstanding	<ul style="list-style-type: none"> <li>• Annual Repayment Limit (ARL) established by the Province, requires that annual debt payments not exceed 25% of Own Source Revenue</li> <li>• it is generally recognized that the ARL's 25% is on the extreme high side</li> <li>• also, the ARL does not take into account internal borrowing or Development Charge Front Ending payments</li> <li>• policy will use ARL methodology, but a limit of 7.5% that includes both internal and external debt will be used (current amount is 3.9%)</li> </ul>

## ATT-5: Calculation of Opening Reserve Balances

### Notes:

- (1) As a minimum, the amount required to fully fund all 2014 capital budget items, plus outstanding commitments for prior years' capital projects that are still in progress, will be transferred to each capital reserve
- (2) The following reserves do not require any additional funding or changes to their opening balance
  - Public Art, Post Growth, CIP Development Improvement, Debt Reduction (Slots), Debt Repayment, Election

Reserve	Source(s) of Funds
Stabilization	<ol style="list-style-type: none"> <li>1) Full balances transferred from Insurance Reserve and Working Funds Reserve</li> <li>2) Capital Projects Reserve will provide the additional funding needed to reach target balance</li> </ol>
Capital Contingency	<ul style="list-style-type: none"> <li>• Recommended balance of \$2,500,000, funded from Capital Projects Reserve</li> </ul>
General Infrastructure Maintenance	<ol style="list-style-type: none"> <li>1) Full balances transferred from Entrance Gate and Storm Water Maintenance Reserves</li> <li>2) Portion of balance available from Infrastructure Reserve (Slots) and Capital Projects Reserve</li> <li>3) Partial reallocation of unadjusted balance in Building Maintenance Reserve</li> </ol>
Roads Maintenance	<ol style="list-style-type: none"> <li>1) Portion of balance available from Infrastructure Reserve (Slots) and Capital Projects Reserve</li> <li>2) Partial reallocation of unadjusted balance in Building Maintenance Reserve</li> </ol>
Building Maintenance	<ul style="list-style-type: none"> <li>• Portion to be reallocated to Roads Maintenance and General Infrastructure Reserves</li> </ul>
Development	<ol style="list-style-type: none"> <li>1) Portion of Capital Projects Reserve to increase balance to what will be the highest use reserve</li> <li>2) Full funding for new Carruthers Marsh Splashpad to be constructed in 2015; in current LRCF</li> </ol>
Strategic Initiatives	<ol style="list-style-type: none"> <li>1) Full balances transferred from Property Acquisition and Town Promotion Reserves</li> <li>2) Portion of Capital Projects Reserve to increase balance; receives no other opening funding</li> </ol>
Vehicle/Equipment Replacement	<ul style="list-style-type: none"> <li>• Portion of Capital Projects Reserve; reserve remains significantly under funded</li> </ul>