Town of Ajax Report

Report To: General Government Committee

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Subject: **2020 Financial Sustainability Plan Update**

Ward(s): All

Date of Meeting: December 14, 2020

Reference: Financial Sustainability Plan Policies 120-124 & 127

Recommendation:

1. That Council approve the following updated policies:
   - #120 – Financial Sustainability Plan
   - #122 – Discretionary Stabilization Reserves
   - #123 – Discretionary Capital Reserves
   - #124 – Debt Management (previously Long Term Debt Management)
   - #127 – Capital Expenditure Control

2. That Council adopt Policy #125 – Federal Gas Tax, a policy to guide the administration and use of funds received by the Town of Ajax under the Federal Gas Tax program.

Background:

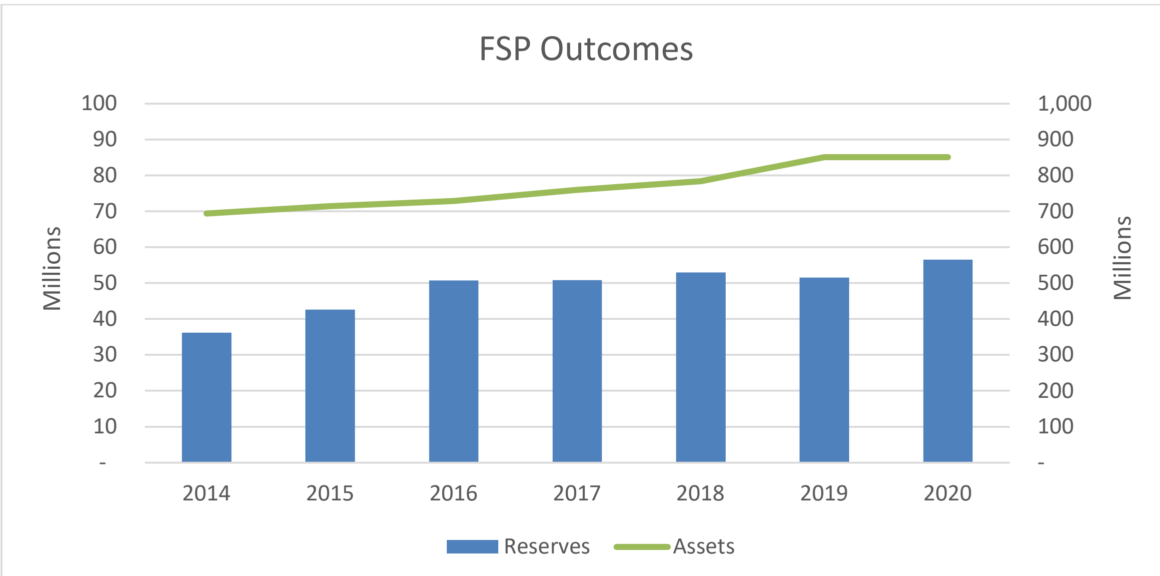
In 2013, Council approved a Financial Sustainability Plan (FSP). The stated goals and principles of the plan are:

- Align with the objectives and strategies contained within the Community Action Plan
- Enhance the Town's short and long term financial strength and sustainability
- Provide a comprehensive framework to guide and assist priority setting and decision making by Council
- Protect and maintain the Town's infrastructure and other capital assets
- Maintain programs and services at their desired levels
- Provide the financial flexibility necessary to leverage future opportunities
- Minimize financial vulnerability during economic downturns
- Maintain a reasonable sharing of the tax burden between current and future taxpayers

In 2015, several updates to the plan's underlying policies were made to reflect the changing needs of the Town. Since 2015, the environment in which the Town operates has continued to evolve. Strong financial leadership continues to be essential in maintaining the positive trajectory established by the original FSP.

Chart 1 shows how the Town's discretionary capital reserves have increased since the inception of the FSP in 2014, growing at a similar pace to the increase in Town-owned assets. At the highest level, this demonstrates that goals of the FSP are in fact being realized, slowly and over time.

Chart 1 – FSP Outcomes



Discussion:

This report explores some of the results of the 2020 benchmarking and FSP review undertaken by staff, examining various metrics that measure the Town's financial health. It also updates and recommends actions that will help to maintain a sustainable financial policy framework, guide decision making and support the achievement of Council's goal of a thriving community. This report and phase one of the FSP review recommend high level administrative adjustments to various financial policies to provide additional flexibility as the Town continues to evolve.

The first step in the FSP review process was completing a SWOT analysis, considering the Strengths, Weaknesses, Opportunities and Threats currently facing the Town. Table 1 summarizes the findings.

Table 1 – SWOT Analysis

Strengths	**Weaknesses**
• External funds are not used to support the operating budget which allows more time and flexibility to respond to changes in funding levels • FSP policies have supported growth in Town reserves • Taxes are relatively affordable in Ajax • Debt levels are low due to prudent use of Slots revenues and Elexicon dividends	• The tax burden rests largely on residential tax payers and is increasing • The Asset Management Plan (AMP) is still in its infancy and the long term cost of asset maintenance is only broadly understood. The AMP is based on asset age, not condition which impacts the timing of funding needs. • The Capital Contingency Reserve has been depleted and Stabilization Reserve remains below target increasing vulnerability to financial shocks • Reliance on external funding sources to support the capital plan puts priority projects at risk • The Town under-contributes to capital as compared to peers and best practices • Significant future financial obligations exist related to CIP commitments
Opportunities	**Threats**
• Reserves can be optimized to achieve certain financial objectives • Federal & Provincial grants may assist with the COVID shortfalls • Reinvigorated economic development strategy could lead to new partnerships/sponsorships • Changes in DC legislation removed the 10% statutory reduction and decrease the Town's required contributions to growth projects • Healthy reserves have enabled the Town to use internal borrowing to balance needs in short term, minimizing financing costs	• Erosion of Casino Ajax revenues, a key funding source for the capital program • Impact of COVID on the Town's Casino revenues, Elexicon dividends, operating revenues and stabilization reserves as well as the financial stress facing many of our taxpayers • As the Town moves closer to buildout the time horizon to recover costs through DCs is shrinking • An uncertain development future impacts the timing and recovery of infrastructure investments • A prolonged low interest rate environment creates a gap between construction inflation and reserve growth through investment income • Recent major investments in new community facilities, parks and roads must be maintained over time, creating pressure on the operating budget • Climate change impacts infrastructure cost and maintenance requirements

Benchmarking Results

There are several key indicators that measure a municipality's financial health. Reviewing these indicators alongside historical and comparator information allow management, Council and the public to determine how the Town compares to similar municipalities, analyze the Town's performance over time, assess trends, and identify risk areas for priority attention.

The Town has a number of strengths as well as several areas where additional actions are needed to improve the Town's overall financial condition. Recent economic shocks including the 2020 pandemic and related Slots and Elexicon revenues shortfalls, have impacted the Town's long term financial sustainability and will necessitate a disciplined approach to policy development and the budget process.

The analysis in this report is based on the information contained in the 2017 and 2018 Financial Information Returns (FIR), as posted on the Association of Municipalities of Ontario's MIDAS FIR portal, for the Town of Ajax and it's comparators as well as the Town's historical budget and financial reporting information. 2019 data was not yet available for the comparator group at the time this report was prepared.

MUNICIPAL COMPARATORS

Staff selected a comparator group correlated to the Town of Ajax based on population and density. Where comparative data is available from the municipal FIR returns, the median of this comparator group is presented.

Table 1 – Municipal Comparators

Municipality	Population	Households	Land Area	Density
Pickering	91,771	31,630	232	396
Clarington	92,013	33,384	611	151
Waterloo	104,986	46,096	64	1,640
Milton	110,128	35,537	363	303
Ajax	**119,677**	**38,105**	**67**	**1,788**
Whitby	128,377	44,195	147	875
Cambridge	129,920	49,388	113	1,150
Oshawa	159,458	64,883	146	1,095
Oakville	193,832	68,617	139	1,396

A. SOCIO-ECONOMIC INDICATORS

Socio-economic indicators describe the Town's overall economic condition and provide insight into the community's ability to pay for public services. Monitoring demographic and social changes over time can help Council and staff to identify when to shift priorities or propose changes in service delivery. Finance staff have not replicated the work previously presented to Council in the Economic Development Action Plan prepared by MDB Insights, but complement it by focusing on metrics that contribute to understanding the financial health and capacity of the Town.

Table 2 – Socio-Economic Indicators

Indicator	**2018 Ajax**	**2018 Median**
Density	1,901	1,095
Household Income	$104,000	$106,080
Median House Value	$456,000	$414,000

Growth & Density – Population density indicates the number of residents living in a square kilometer. This indicator has been increasing over time (2016: 1.857) in Ajax and this trend, as well as our density compared to the median group, is a positive indicator, as the Town is able to serve a growing population using infrastructure and resources more effectively. It is also an indicator that the Town is reducing its overall carbon footprint. Density will increase as the Town moves closer toward build out.

The Town's 2018 Development Charge Background Study (DCBS) forecasts the Town's population growth to continue on this trajectory:

Table 3 - Growth Projections

	Low Density	**Medium Density**	**High Density**
2007-2016 Actual	63%	27%	10%
2018-2031 Forecast	15%	26%	59%

These density trends signal changing community needs related to planning, transportation, and housing that are already being reflected in the Town's capital plan and program offerings.

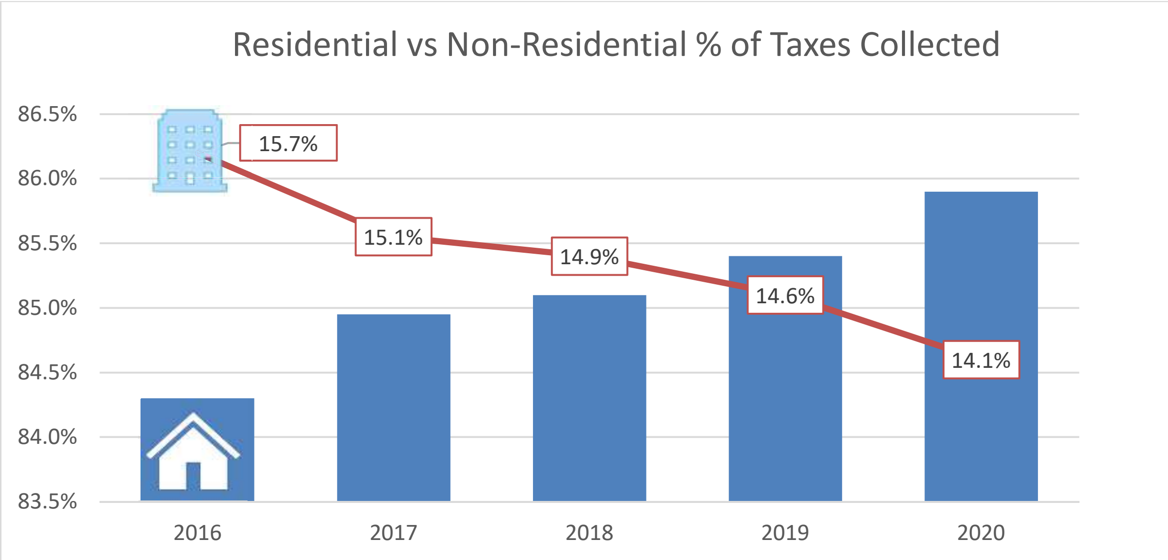
The DCBS also forecasts the expected cost of servicing future development. The total cost of growth-related capital is estimated at $257.6 million. $152.1 million will be recovered through development charge revenues, and the Town must contribute $105.5 million. Some of these costs have already been incurred, such as Audley Recreation Centre Phase 2 construction but much remains to be funded in the future. The Town makes annual reserve contributions to the Development Reserve to fund these growth-related costs (2018: $2.7 million). However as will be discussed further in Section 3, most of this funding comes from external sources (Casino Ajax and Elexicon revenues). Declining revenues will limit the available funding to support growth projects and may necessitate deferral of projects or debt financing.

Household income – The average household income is slightly below the average of our comparator group. Supporting economic development and prosperity for residents is an important focus of the strategic plan and should remain a key action area.

Median House Value – Property values indicate the strength of the Town's assessment base and are critical to the municipality's ability to raise revenues from taxation. It is the basis on which property taxes are levied. The Town of Ajax's median home value is higher than its comparators. This is a positive measure for the municipality.

Residential Tax Burden

Chart 1 – Residential Tax Burden



Residential assessment weighting has been declining relative to non-residential assessment. This may be due in part to a shift in the number of businesses relative to homes, but also reflects the faster escalation in residential property values relative to commercial and industrial values (common throughout the GTA). The high reliance on the residential tax base increases financial pressures on the Town's residents who must bear a higher share of the costs of running the Town.

Recommended Actions: While the overall socio-economic position of the Town is positive, the Town should continue to monitor levels of non-residential development and take steps to decrease dependence on residential tax base where possible. Growth levels should continue to be tracked against targets, particularly for employment-related development as this has lagged expectations and forecasts. The Town should also continue to work with the Region of Durham and other levels of government to ensure key lands are serviced in a timely manner and accelerated where possible to facilitate industrial and commercial development.

Changes to the Debt Management policy, summarized in Attachment 1 and detailed in the revised policy in Attachment 5, expand the allowable uses and terms for debt issuance, and are being recommended to create the additional financial flexibility needed to fund growth-related projects in the face of declining Slots revenues.

B. FINANICAL INDICATORS

The financial indicators selected for benchmarking evaluate the Town's financial health. Regularly monitoring key metrics can provide early indications of changing conditions and point to areas where remedial actions may be required to protect the organization's long-term fiscal sustainability.

1. FLEXIBILITY INDICATORS

Flexibility indicators assess a municipality's ability to absorb shocks that arise outside its control, such as mandates from other levels of government and adverse economic conditions, and to respond effectively to shifts within its control such as changing demographics and community priorities.

Recent examples of external impacts include: Planning Act changes which create tighter deadlines for approvals and strains the existing staff complement, changes to the Development Charge Act which impact the timing and collection of development charge revenues, and the introduction of a Traffic Signal Head Replacement policy by the Region of Durham creating new capital funding requirements. In addition to impacts from other levels of government, fiscal challenges within our community have resulted in the upload of facilities from community groups to the Town, including the Quaker Meeting House, Hartrick House and the Ajax Cricket clubhouse. Sound financial policies and practices have enabled the Town to respond effectively to these developments, but will continue to put pressure on future operating budgets.

(a) Financial Policies & Cost Structure

Table 4 – Financial Policies & Cost Structure Indicators

Indicator	2017	2018	2019	2018 Median
User Fees as % of Total Income	13.8%	13.3%	11.3%	17%
External Revenues as % of Total Income	16.7%	17.5%	21.2%	9.4%
Reserves per Capita	$665	$642	$664	$650

Analysis:
As noted in the SWOT analysis, the Town has both strengths and weaknesses in this area.

User Fees
Well-designed user fees are an important part of a balanced funding model for any municipality. User fees allow the municipality to allocate the cost of services to the direct beneficiaries of the service where a clear nexus exists and shift costs to the general tax base when the benefits are shared by the community at large. User fees as a percentage of total income is a metric that can illustrate if the right balance is being struck. As can be seen above, the Town trails the median of our comparator group in terms of User Fees as a % of Total Income. Several fee adjustments were introduced in the 2020 budget to address this shortfall. As noted in the User Fees report to Council on June 15, 2020, user fees increases have not kept pace with inflation and recommendations will continue to be brought forward to address this gap over time.

External Revenues Support Capital Budget
The decision to direct external revenues from the Casino Ajax gaming operations and the Town's investment in Elexicon to the capital reserves has been a distinct advantage in 2020. The Town has been able to absorb much of the shock of the pandemic through management directed mitigation strategies across Town operations, avoiding non-essential service cuts.

Total external revenues, which includes all revenues that are not from taxation, has increased year over year and is well over our comparators, primarily due to the income from Casino Ajax. This has been a positive indicator. In addition, salaries and benefits have remained consistent relative to total costs and revenues have kept pace with total costs, signaling that costs are being well controlled.

Reserves per Capita
Reserves provide the foundation of financial flexibility, acting as a buffer against unexpected events such as a sudden funding change from an upper tier of government, infrastructure failures from erosion (sinkholes, trail and culvert washouts), as well as extreme weather events. Reserves can also reduce the cost of financing capital projects, allowing the municipalities to avoid costly interest payments on debt. Credit rating agencies consider municipalities with higher reserves to be more financially stable and of lower risk.

The use of reserves to fund the capital budget affords the municipality time to deploy temporary solutions to mitigate the impact of significant shocks while a permanent solution can be identified. The lost gaming revenues and Elexicon dividends significantly reduced expected capital revenues, but the 2020 capital program was not cut as the projects were funded from capital reserve balances in the short term. The FSP policy of capping the capital program spending at 65% of the expected revenues also creates a natural alignment between income and expenditures for the 2021-2025 capital plan.

In addition, the availability of reserves has allowed the Town to take advantage of grant opportunities that require municipal-matching. For example, $1.5M in improvements to the Town's stormwater network were completed with the Town contributing $0.4M. Similarly a $500,000 multi-use trail along Bayly from Harwood to Salem was possible because the Town had reserves from which to contribute its percentage share.

Recommended Actions:
In uncertain times, it is essential to safeguard the financial health of the organization so that it can continue to support and service the community. Staff's response to date has prioritized cost containment, high staff internal utilization and prudent financial management.

- Staff support Council in recommending that the MPI model be applied to user fees.
- Recommendations related to reserves are included in the Sustainability section below.

(b) Liquidity & Debt

Table 5 – Liquidity & Debt Indicators

Indicator	2017	2018	2019
Working Capital	3.1	3.1	3.1
Stabilization Reserves	5.2%	5.0%	5.1%
Capital Contingency	$1.4 million	$1.7 million	$1.0 million
Debt Per Capita	$113	$122	$152
External Debt Servicing Costs	0.6%	0.5%	0.3%
Debt to Reserves	0.17	0.19	0.23

Analysis:

Working Capital
The working capital position of Ajax is strong due to its overall reserve health. A ratio of greater than 1.5 is considered very low risk and Finance staff manage cash flows to ensure that the ratio is always above the target of 1.5. Recent development applications have corrected a projected shortfall in Development Charge reserve funds further stabilizing cash flows.

Unfunded obligations related to the Town's Community Improvement Areas may exist and work is ongoing to quantify these and establish appropriate long-term funding strategies. Staff continue to work on this portfolio and will report back to Council as information is finalized in the next phase of the FSP update.

Stabilization Reserves
Stabilization reserves are funds that are set aside to ease the financial impact of temporary economic conditions or exceptional events that would otherwise require a significant tax rate increase or cause a deficit. These reserves also provide funds to assist with short-term cash flow pressures that may arise due to uncollected taxes or other revenue shortfalls or delays. Recent examples where the reserves have helped the Town maintain its financial health in the face of extraordinary events include the current pandemic, the 2015 ice-storm and the cash flow challenges that occurred throughout 2019 and 2020 due to slower than expected development charge revenues.

The Town has two such stabilization reserves:
- The Stabilization Reserve - used to stabilize the operating budget and working capital needs as described above.
- The Capital Contingency Reserve - used for in-year emergency or unbudgeted capital requirements.

As outlined in policy #122 – Discretionary Stabilization Reserves, the reserves should be replenished to their target balances from the operating budget surplus, if it occurs.

The Town's Stabilization Reserve target is set at 5% of the prior year's net revenues per the annual Financial Information Return. The Government Finance Officers Association, who represent public finance officials throughout the United States and Canada, provide guidance on stabilization reserves as follows:
- Low risk is great than 15%
- Moderate risk is between 5% and 15%
- High risk is less than 5%

For Ajax, 5% represents is approximately $5 million. $744,400 was drawn from this reserve in 2020 to ease in the tax impact of expanded operations at the Audley Recreation Centre and Library, leaving a balance of $4.3 million. Due to Covid, there is unlikely to be a surplus in 2020 to replenish this reserve which will leave this reserve in the high risk band in 2021.

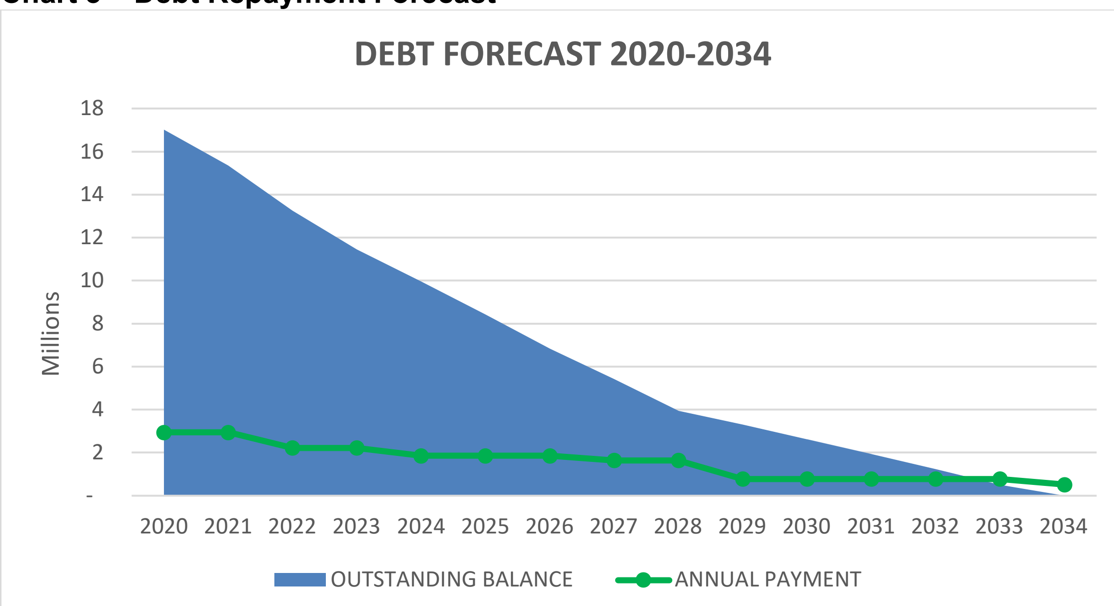
Capital Contingency
Similarly, the Capital Contingency Reserve is below its target of $2.5 million and is unlikely to receive any additional funds in 2020. Emergency and unbudgeted projects continue to deplete this reserve and in 2020, the forecast year-end balance has declined to approximately $400,000. Operating with such a depleted reserve level will impair the Town's ability to respond to grant matching opportunities and emergencies in the future.

Debt Indicators
Strong debt management practices balance the need to finance longer life infrastructure and infrastructure related to growth that is not fully recovered through development charges with the need to minimize interest costs and maintain future financial flexibility.

The Ministry of Municipal Affairs & Housing recognizes the 3 debt metrics in Table 5 as important in assessing a municipality's financial risk associated with debt. Ajax's Debt per Capita, Debt Servicing Cost and Debt to Reserves metrics are all considered to be in the very low risk range, indicating capacity to finance a broader range of high priority capital projects if required. The low interest rate environment and inflationary trends on construction projects also suggest that this policy change could provide a net-benefit to the community by accelerating projects that otherwise could not be funded with available and projected revenues and reserves.

Chart 3 shows the current debt retirement forecast. No new debt is projected in the current long range capital plan and all outstanding debentures will be repaid by 2034.

Chart 3 – Debt Repayment Forecast



Using debt strategically can provide capital funding flexibility by allowing essential infrastructure to be built before the related revenue has accumulated to offset the needed investment. Debt financing also achieves inter-generational equity by spreading the cost of new projects over a longer period, sharing the cost between current and future beneficiaries of the assets. In determining debenture terms, debt financing should not extend beyond the life of the underlying assets.

Recommended Actions:
There are a number of recommendations arising from this area of the benchmarking analysis set out below:

- The uncertain economic environment ahead of us brings into focus the need for strong stabilization reserves. Staff recommend revisions to Policy 122 – Discretionary Stabilization Reserves to allow for an increase in the Stabilization reserve to a maximum of 15% of revenues. The minimum of 5% would remain unchanged. As noted above, range of 5-15% is considered a best practice by the GFOA.

- The pressures on the Capital Contingency Reserve are beyond the available funding and changes are necessary. Staff recommend revising Policy 127 – Capital Expenditure Control to allow unbudgeted or emergency projects to be funded from the source that would have been used had the project been included in the capital budget. This will relieve pressure on the Capital Contingency reserve and provide the Town with the flexibility to pursue grant funding opportunities where Town-matching is required.
- Staff recommend broadening the eligible uses and financing terms set out in Policy 124 - Debt Management to create more opportunities for strategic use of debt where it is considered to be beneficial to the community. Community consultation processes should continue to be employed to ensure that taxpayers support the recommended timing and scope of proposed investments.

Proposed revisions to the various policies are summarized in **Attachment 1 – Summary of Recommended Policy Changes**. The revised policies are included in **Attachments 2 – 7**.

2. SUSTAINABILITY INDICATORS

Sustainability indicators describe the Town's ability to support its financial obligations both in respect of its service commitments to the public and financial commitments to suppliers, employees and others, without issuing debt or increasing the tax burden.

Strong capital reserves ensure that funds are available when they are needed to maintain infrastructure, and support the vitality of the Town. Well maintained roads, buildings and parks are a large part of what makes Ajax an amazing place to live, work and play.

Using reserves, instead of a pay-as-you-go approach also smooths tax rates by establishing stable, predictable contributions each year. This provides a buffer when major projects such the ARC, Pat Bayly square and the widening of Rossland Road are undertaken; the spike in capital funding needs is drawn from reserves and does not immediately necessitate a corresponding increase in the tax rate in the year of construction.

Table 6 - Sustainability Indicators

Indicator	**2017**	**2018**	**2019**	**2018 Median**
Discretionary Reserves to Own Source Revenues	93%	86%	87%	74%
Total Capital Contributions as a % of Amortization	72%	70%	71%	NA
*Own Source Capital contributions	25%	25%	20%	
Asset Consumption	38%	39%	39%	40%

Discretionary Reserves & Stabilization Reserves to Own-Source Revenues
Discretionary reserves provide funding for future capital requirements and can be used to stabilize the tax rate in the face of uncontrollable external factors.

The Town's reserves have been used to minimize debt levels, lowering the overall cost of significant community projects such as Audley Recreation Centre. Reserves also help staff to effectively manage cash flow requirements and provide a measure of protection against unknown future liabilities such as:

- Climate changes impacts due to extreme weather events like the ice storm
- Public health emergencies such as the current Covid pandemic
- Environmental damage or unidentified site contamination on Town owned properties
- Unforeseen infrastructure repairs or rehabilitation such as the recent culvert and trail washouts along the waterfront trail and various smaller sink holes throughout the Town

The ratio of Discretionary Reserves to Own Source Revenues is a key sustainability indicator that measures the organization's long-term financial capacity. Overall the Town's discretionary reserves are healthy and above the median group. This is due in large part to the FSP policies which allow 65% of annual capital funding to be spent and 35% to be saved for future capital needs. The splits are guidelines only and over the last 5 years, the actual split has been approximately 88% for spending and 12% to savings. Essential capital projects such as roof and fire vehicle replacements have necessitated approvals beyond the spending guidelines.

The reserves have grown above the median as a result of these policies. For Ajax, this is the right place to be because of the Town's high reliance on external funding for the capital program. These reserves provide the Town with additional time to respond to fluctuations in revenues. To illustrate, in 2020, the Town is facing a combined shortfall in capital funding of approximately $6 million. That represents almost 10% of the Town's total discretionary capital reserves. In the absence of well-funded reserves, immediate cuts would have been required to the 2020 capital program, jeopardizing essential infrastructure projects in the Town. In this economic environment, such cuts would not only pose challenges for Ajax itself, but it would cut off jobs and income for the businesses that undertake capital works for the Town.

- **Casino Ajax**
    - Revenues were $8.33 million in 2019. In planning for 2020, because of the projected opening of Durham Live and the limits to the number of slot machines allowed to be operated in Ajax under the new agreement, staff projected revenue of $6 million in 2020 and $4 million annually from 2021-2024. This decline in funding was not replaced by tax-funded contributions. Instead, the 5-year capital program was curtailed through the mechanism of the spending caps to the new funding levels. Projects that would otherwise have been brought forward were deferred or cancelled.

      The current agreement for Casino Ajax ends in 2025 at which time the Provincial government may or may not renew it. If Council determines that the level of service that can be offered with a lower level of funding does not meet the needs of the community, tax-based contributions will be required to offset the lost revenues. By 2026, the loss could be $8 million per year. If not mitigated, a tax increase of almost 12% would be required to fill this gap at that time.

    - In March of 2020, the pandemic closed the Casino and no revenues are expected to be received after the first quarter payment of $1.2 million. Since the 2020 capital program was already approved and in progress, no projects were cut. The $4.7 million shortfall in revenues would have directly reduced the reserve balances. The receipt of the Safe Restart Grant funding will help to mitigate the revenue shortfall.

- **Elexicon**
  - Dividends and interest from Elexicon also support the capital program. In 2020, dividends of $2.5 million were expected. Covid put economic pressures on Elexicon's operations and only $617,000 is expected. As with the slots revenue shortfall above, in the absence of grants or other funding, this shortfall would be directly absorbed by Town reserve balances, allowing the capital program to remain stable for 2020.

Capital Reserve Contributions as a Percentage of Amortization

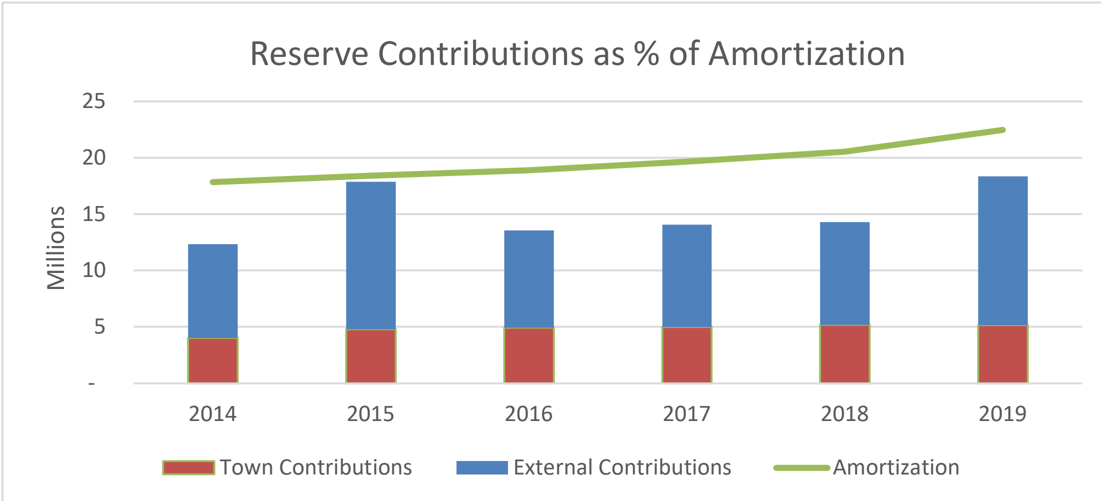
This ratio calculates the extent to which the Town's contributions to reserves are keeping pace with the wear and tear on assets over time. Since this metric is calculated by reference to the historical cost and age of the assets, it does not take into account the impact of inflation, nor does it accurately reflect the specific timing of required cash flows. Asset conditions are a more accurate predictor of reinvestment needs and staff continue to develop condition-based asset inventories to guide capital planning. However, amortization is a recognized proxy for the detailed information and a common metric used for assessing sustainability.

The Town is responsible for maintaining assets with a historical cost of over $700 million and a replacement cost that exceeds $1.3 billion. Discretionary capital reserves are healthy at $56 million, representing about 4% of replacement cost.

Although the contribution rates have been relatively stable, even including both internal and external revenues, the Town is only contributing 70% of the indicated annual requirement. A significant shortfall in required funding exists. The Town's 2017 Asset Management Plan (AMP) showed similar findings to the benchmark analysis. The AMP financing analysis, which was based on funding at 2015 levels, identified an annual infrastructure funding gap of $3.6 million annually. Inflation, new assets and the loss of future gaming revenues, if not replaced with a new funding stream, will continue to widen this gap. Using the most conservative estimates based on amortization, the annual deficit grew to over $6 million by 2018. It is clear from both measures, that sufficient funds are not likely to be available to replace assets when required at current contribution rates.

Chart 4 extends the review of the Town's investment rate back to 2014. While increases in capital contributions occurred in years when the Town received additional external funding in the form of additional Federal Gas Tax or higher slots revenues, the Town is not funding its capital program sufficiently to meet the future replacement and rehabilitation requirements. This chart also illustrates the Town's reliance on external funding to support the capital program. If no external funding were received, the Town's contributions would be only 25% of the requirement.

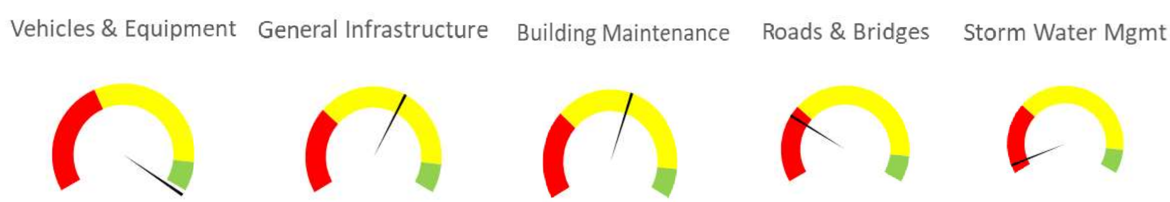
Chart 4 – Reserve Contributions as a % of Amortization



Ideally, the annual contribution amount should be higher than amortization to mitigate the impact of inflation, since assets are replaced at current cost. The asset management plan work currently under way will further inform this analysis and provide reinvestment rates based on condition and expected replacement and rehabilitation needs.

The chart below illustrates the relative sufficiency of the current reserve contributions as compared to annual funding requirements indicated by the annual amortization of the assets funded by each reserve. .

Chart 5 – Reserve Contributions as a Percentage of Amortization by Reserve



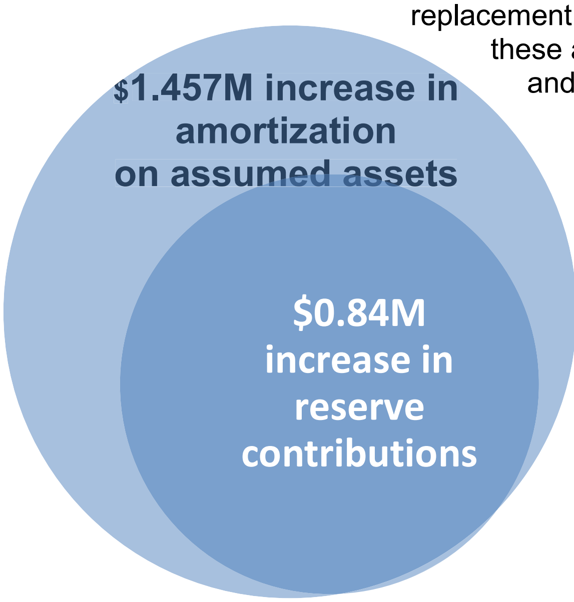
The Vehicle & Equipment Reserve is the only reserve currently being funded at target levels. This allocation strategy was embedded in the original FSP and prioritized funding to reserves supporting assets with the short lifecycles. Where funding was not as time-sensitive – such as with longer lived assets such as roads, bridges and the storm sewer network, the contribution levels are significantly less than is required. While the current funding allocation strategically prioritizes contributions by urgency, it is simply deferring a known future funding shortfall. Many of the long term assets are relatively new and in good condition. If the contributions to those reserves are not increased, repairs and rehabilitation will fall behind and worsen the condition of those assets.

Stormwater management reserves do not currently receive any annual reserve contributions and the reserve is almost depleted. Long term funding strategies for funding stormwater maintenance and rehabilitation is the subject of a current user fee feasibility study being led by Planning & Development

Inflationary forces will worsen the funding pressures that the Slots revenue shortfall can be expected to produce. Over the past 5 years, the Non-Residential Building Construction Price Index, a measure of inflation on the Town's capital program, has averaged 3.4%. The Town has not applied an inflation increase to its annual reserve contributions over this time and as a result, the purchasing power has declined. If not addressed, inflation will erode the value of the Town's current contributions by over $1 million in the next 5 years.

Additionally, challenges will soon emerge due to a gap between that rate at which the Town increases its reserve contributions and the annual acquisition and assumption of new assets.

To illustrate these growth pressures, from 2015 to 2019 the Town has assumed over $45 million in new assets. These are the roads, bridges, sidewalks, streetlights and storm water management ponds constructed by developers in new subdivisions and contributed to the Town at the time of assumption. The FSP policies provide for an increase in annual contributions to capital reserves and one-time allocations to the Post-Growth Capital reserve for the future replacement and rehabilitation of these assets. Unfortunately, these allocations are not sufficient to fund the lifecycle costs and as a result the infrastructure gaps continues to grow.



The FSP directs staff to use 25% of Assessment Growth to increase annual reserve contributions and to allocate 15% of Assessment Growth as a one-time contribution to the Post Growth Capital Reserve.

In the past 5 years this has only covered about 57% of the amortization expense on these assets.

These 3 factors: declining Slots, inflation and growth, will inevitably combine to create significant funding gaps on the Town's capital program in the next few years.

Table 7 illustrates the areas where shortfalls are expected. Minimum and target reserve balances are not currently part of the Town's FSP, but have been calculated to provide some insight into staff's assessment of the adequacy of the reserves. The minimum balance is estimated at 1 year's amortization based on the average age of assets in the class. The target is 2 year's amortization. As previously noted, staff believe that it is prudent to carry higher reserves where financing is primarily from external sources and income levels cannot be controlled. Establishing higher reserve target balances, and strong capital reserves in general is a prime goal of the FSP, and enables the Town to respond to changing funding levels without immediate service cuts or sudden tax increases.

Table 7 – Asset Management Reserve Analysis (in millions)

	2019 Asset Costs	2019 Reserve Balance	Minimum Reserve Balance	Target Reserve Balance	Diff. to Minimum	Diff. to Target
Vehicles & Equipment	$44.47	$16.60	$5.26	$10.51	$11.34	$6.09
Building Maintenance	$162.95	$8.80	$9.90	$19.80	($1.10)	($11.00)
Roads & Bridges	$403.84	$10.20	$18.63	$37.26	($8.43)	($27.06)
General Infrastructure	$80.70	$10.50	$5.64	$11.27	$4.86	($0.77)
SWM Ponds	$12.40	$0.50	$0.87	$1.73	($0.37)	($1.23)
Post Growth Reserve	-	$10.30	-	-	$10.30	$10.30
TOTAL	**$704.37**	**$56.90**	**$40.29**	**$80.58**	**$16.61**	**($23.68)**

To help safeguard reserve balances, the Town's FSP contains provisions for an annual budget guideline that caps capital spending at 65% of projected revenues and allocates the remaining 35% to the reserve balances. The aim of this policy is to grow the reserves to target balances using the annual reserve allocations from the operating budget and the forecast external revenues. By staying within this spending cap, departments prioritize projects based on immediate need.

In addition, the FSP reserve allocations anticipate future rehabilitation needs arising from development, allocating a portion of assessment growth as one-time contributions to the Post Growth Reserve. This reserve was created to fund maintenance and rehabilitation needs after the major growth period of the Town was over (build-out projection at that time was 2021). As noted in Table 7, this is a core asset management capital reserve and when the level of service update for the Asset Management Plan is completed, this reserve will be included in the funding analysis.

Despite these pressures, the 65% spending cap guideline forces the Town to live within its means. In response to the projected loss of revenues from Casino Ajax over the next 5 year, the capital program has already been curtailed by almost $4 million per year. In the absence of new tax-based reserve allocations, the capital program is unlikely to deliver the level of service which residents and businesses have historically been accustomed.

Asset Consumption Ratio

This ratio shows the value of the tangible capital assets that have been 'consumed' through operational use based on depreciation and the related age of the assets. It highlights the aged condition of the assets and the extent of potential asset replacement needs. The Ministry of Municipal Affairs and Housing considers a ratio of 25% or under to reflect assets that are relatively new; 26%-50% to be moderately new; 51%-75% to be moderately old and over 75% to be old. If assets are replaced on a timely basis, the ratio will stay consistent or decrease over time.

Analysis: At 40%, the asset consumption rate is in line with our comparator group reflecting the relatively new asset pool owned by the Town. This is due to the high growth activity in the Town from 2000-2010, such that most of the Town's assets are relatively new and in good condition. However, these assets are now nearing the middle or end of their lifecycle and ongoing investments are required to maintain a good state of repair.

Recommended Actions:
In order to close this funding gap, a number of strategies and tactics can be considered:

- A reserve optimization review should be conducted at the completion of the Asset Management Plan Level of Service study, to rebalance the Town's capital reserves and re-align them with the funding requirements set out in the plan. The Post Growth Capital reserve should also be included in this review and consideration given to dissolving this reserve into the other capital reserves.
- Reserve targets should be established and approved by Council.
- A policy for the use of Federal Gas Tax should be adopted by Council. (Attachment 6)
- A dedicated annual capital levy of 1% could provide new capital funding of approximately $700,000 per year just to replace the lost Slots revenues. If added annually, this levy will compound to steadily fill the gap. This is a long-term commitment as it would take 10 years of increased levies to replace the projected total lost revenues of $8 million per year. Higher or longer-term increases will be needed to bridge the structural funding gap related to inflation, underfunding and growth. Several municipalities, including Oshawa, Mississauga, Oakville, Milton, Newmarket, Waterloo and Cambridge have introduced a capital levy to address their infrastructure gaps.
- The federal and provincial governments often offer grant opportunities for projects that are "shovel-ready". The Town should continue to identify priority projects and complete the related design preparation in order to take advantage of these opportunities when they arise. Healthy reserve balances will also ensure that the Town has sufficient capital available to contribute its share where the funding requires local contributions.
- A municipal best practice is to apply inflation, typically at CPI or Non-residential Construction Price Index rates to capital contributions. This helps to ensure that reserve balances will be sufficient to fund the future replacement cost of the Town's assets. This recommendation will be brought forward for consideration through future budget processes.
- Staff recommend that assessment growth allocations to capital reserves be continued. This creates a partial funding source for future rehabilitation on assets assumed through subdivisions.

2020 Workplan – FSP Review Phase 1
Despite the challenges presented by Covid, Town staff throughout the organization have undertaken a number of initiatives to inform and strengthen the Town's financial position in 2020:

- Updated User Fees & Charges policy to incorporate the Town's internal Municipal Price Index and ensure the Town continues to recover fees from direct users to the extent possible
- Level of Service assessment and update to the Town's Asset Management Plan (ongoing)
- Stormwater Fee Feasibility Study (ongoing)

- Benchmarking review of the Town's financial position and FSP policy review and update

Future Workplan – FSP Review Phase 2
The Town's financial plan must continue to grow and evolve to address emerging issues. Continually monitoring our policies and practices will ensure that the Town will thrive for generations to come. Over the next 12-18 months, Town staff plan to continue work on the following priority areas:

- Complete the Asset Management Plan and related Level of Service review. Outcomes from this work will include:
    - Assessment of contribution levels, development of funding strategies and review of FSP policies related to reserves and spending caps to address the findings of the AMP Level of Service study.
    - Complete a reserve optimization strategy to rebalance the Town's reserves, pool risk where possible, and allocate funds where they are most needed.
    - Establish target reserve balances and integrate these targets into the FSP policies.
    - Continue work toward condition-based asset inventories for Asset Management purposes
    - Risk based capital prioritization methodology to support evidence based decision making for all rehabilitation and replacement investments.
- Develop funding strategy and reporting model for CIP obligations based on the outcomes of the CAIST study and related financial implications review.

Financial Implications:

There are no direct financial costs associated with the updating of the Financial Sustainability Plan. Implementation of the recommendations contained in this report will enhance the Town's financial sustainability and provide flexibility to meet our future needs.

Communication Issues:

The updated policies will be posted on the Town's internal Document Management System.

Relationship to the Strategic Plan:

Investing in our Community - 5. Undertaking key Corporate Reviews and Strategies.

Conclusion:

The policy updates and recommendations contained in this report will ensure that Council's financial decisions retain a long-term focus and continue to meet the changing needs of our community.

Attachments:

ATT-1:	Summary of Policy Changes
ATT-2:	Policy #120 – Financial Sustainability Plan
ATT-3:	Policy #122 – Discretionary Stabilization Reserves
ATT-4:	Policy #123 – Discretionary Capital Reserves
ATT-5:	Policy #124 – Debt Management
ATT-6:	Policy #125 – Federal Gas Tax
ATT-7:	Policy #127 – Capital Expenditure Control

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Submitted by:

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Approved by:

Shane Baker – Chief Administrative Officer

SUMMARY OF FSP POLICY RECOMMENDATIONS

The significant proposed updates to the FSP's underlying policies are outlined below. Minor housekeeping changes have also been made for clarity, to follow current style guidelines and ensure consistency between policies.

SECTION	PROPOSED CHANGE
120 – Financial Sustainability Plan (ATT-2) *Housekeeping changes to reflect changes in other policies and updated format.*	
121 – Discretionary Reserve Administration *No changes are recommended at this time*	
122 – Discretionary Stabilization Reserves(ATT-3) *There was a lack of clarity about target amount, acceptable uses and repayment strategies associated with the Stabilization Reserve.*	
Section 1 & 2 -	Added Policy Objective and Scope sections for clarity
Section 3.4 -	Clarified the eligible uses of the Stabilization Reserve
Section 3.6 -	Added a maximum target balance of 15% based on GFOA best practices
Section 3.7 -	Added language to clarify how a shortfall in the reserve balance would be addressed
123 – Discretionary Capital Reserves(ATT-4) *The new Risk Mitigation reserve was added to the list of capital reserves in accordance with the recommendations of the October 13, 2020 GGC report "Insurance Renewal – 2020-2021". No other changes are recommended until the updated Asset Management Plan and CAIST study are completed.*	
Section 1 & 2 -	Added Policy Objective and Scope sections for clarity
Section 3.1 -	New Risk Mitigation reserve added as recommended by
Section 3.2 -	No change the 65% spending caps guidelines are recommended
124 – Debt Management (previously Long Term Debt Management) (ATT-5) *Based on the benchmarking results, the Town's debt capacity was determined to be sufficient to warrant expansion of the eligible uses, term and overall amount of debt. A set of metrics was also introduced to ensure that any expansion in debt usage is to the benefit of the taxpayers.*	
Section 1 & 2	Added Policy Objective and Scope sections for clarity

SECTION	PROPOSED CHANGE
Section 3.1	Amended to allow for 100% funding for internal debt project and to expand from only buildings to include all projects with a useful life greater than 10 years
Section 3.2 – 3.6	Added to clarify acceptable uses of debt given the broadening in Section 3.1
Section 3.7 – 3.10	Extended allowable term from 15 years to 20 years to match potential longer useful lives of the underlying assets being financed Added new provisions to guide the amortization period when projects are funded from external sources such as Development Charges
Section 3.11 -	Increased cap from 30% to 50%
Sections 3.18 – 3.24	Added to include the provisions of the Town's Temporary Borrowing Bylaw # 013-2003 in the Debt policy for clarity
125 – Federal Gas Tax (new) (ATT-6) *New policy to formalize the Town's practices relating to administration and use of Federal Gas Tax funds. This meets the FGT reporting requirement outlined in the AMO funding agreement.*	
127 – Capital Expenditure Control (ATT-7) *To increase the Town's flexibility and resources to access grant funding the Capital Contingency Reserve would not be used to fund grant-funded, unbudgeted or emergency projects that would otherwise be funded from another asset management related capital reserve.*	
Section 3.4.5	Previously all unbudgeted projects were funded from the capital contingency reserve. The change would instruct the Treasurer to fund these projects from the asset management related capital reserve where the project would have been funded in the normal course of business.

CORPORATION OF THE TOWN OF AJAX

CORPORATE POLICIES AND PROCEDURES

*SUBJECT: **FINANCIAL SUSTAINABILITY PLAN***

COUNCIL ISSUED: 13 / 06 / 20	COUNCIL REVISED: 20 / 12 / 14	AUTHORED BY: DIANNE VALENTIM	REVISION #: 4	Page 1 of 3	POLICY #: 120

1. POLICY OBJECTIVE

1.1. This document outlines the goals and objectives of the Financial Sustainability Plan (the "Plan"), and summarizes the policies, financial planning tools and reporting that comprise the Plan.

1.2. The goals and principles of the Plan are to:

- Align with the objectives and strategies contained within the strategic plan
- Enhance the Town's short and long term financial strength and sustainability
- Provide a comprehensive framework to guide and assist priority setting and decision making by Council
- Protect and maintain the Town's infrastructure and other capital assets
- Maintain programs and services at their desired levels
- Provide the financial flexibility necessary to leverage future opportunities
- Minimize financial vulnerability during economic downturns
- Maintain a reasonable sharing of the tax burden between current and future taxpayers
- Enable the Town to plan for its growth and intensification in a sustainable way

2. SCOPE

2.1. This policy applies to financial planning decisions recommended by the Town and those employees and Members of Council responsible for the control, administration or management of the Town's financial activities as applicable.

2.2. The following financial policies support the stated goals and objectives of the Plan.

- #121 Discretionary Reserve Administration
- #122 Discretionary Stabilization Reserves
- #123 Discretionary Capital Reserves
- #124 Debt Management
- #127 Capital Expenditure Control
- #128 Operating Budget Management
- #129 Annual Review of User Fees & Charges
- #130 Investments
- #131 Commodity Price Hedging
- #132 Leasing

3. PROCEDURE

3.1. The Town utilizes the following short and long term financial planning tools:

Annual Operating and Capital Budgets

- Subject to the requirements of the Municipal Act, 2001

Multi-Year Operating Budget Forecast

- A multi-year, forecast of items impacting the annual general tax levy requirement
- Includes, but is not limited to:
  - Base Operating Budget, adjusted for growth and annualization of prior year or in-year decisions
  - New Items: Full and Part Time staff plus new and expanded programs/initiatives
  - Other Financial Inputs: Reserve Allocations, Debt Payments, Specific Council Identified Items
  - Multi-year forecast information/data may be used by Council to inform, set or confirm the target tax rate for the upcoming budget year

Long Range Capital Forecast (LRCF)

- A multi-year, forecast of the Town's future capital requirements and projected capital funding, that complements the annual capital budget
- Best practices and certain legislation will require a minimum LRCF of 10 years (annual capital budget plus 9-year forecast)
- The LRCF is reviewed and revised each year as part of the annual budget process

Operating Budget Reforecast

- A detailed in-year reforecast of all operating budget revenues and expenditures
- Results in a calculation of the forecast surplus or deficit for the current budget year
- Identifies issues that may need to be addressed in the following year's budget
- The forecast surplus/deficit and details on major variances are reported to Council through a General Government Committee (GGC) report

Operating Budget Year-End Review

- A detailed review of the actual operating results as compared to the annual Operating Budget and to the Operating Budget Reforecast
- Quantifies the final surplus/deficit
- Provides details on major variances and recommended disposition of the surplus and/or funding of a deficit that are reported to Council through a General Government Committee (GGC) report

3.2. Reporting to Council on the Town’s financial activities, including the Plan, is accomplished through General Government Committee reports on:

- Financial Planning Tools identified in Section 4 of this policy
- Actual Operating Budget Surplus, including explanations of major variances from budget
- Capital Account Closing Reports
- Annual audited Financial Statements
- Various activities in the areas of financial planning and management, budgets, forecasts

CORPORATION OF THE TOWN OF AJAX

CORPORATE POLICIES AND PROCEDURES

SUBJECT: ***DISCRETIONARY STABILIZATION RESERVES***

ISSUED: 13 / 06 / 20	REVISED: 20 / 12 / 14	REVISION NO.: 2	Page 1 of 1	POLICY: 122

1. POLICY OBJECTIVE

1.1. Under the authority of Council, reserves and reserve funds are appropriations from the Town's net revenues designated for purposes that may extend beyond the current fiscal year. They are an integral part of the municipal budget planning process and long term financial sustainability plan that contributes to the municipality's overall financial health.

1.2. The primary purposes of the Town's Stabilization Reserves are to:

- Mitigate the impact of variable and uncontrollable factors (growth, interest rates, changes in subsidies) and to ensure adequate and sustainable cash flows
- To provide financing for periodic, one-time or short term requirements without permanently impacting tax and other rates
- Provide a source of internal financing for future liabilities

2. SCOPE

2.1. This policy applies to the Election Reserve and the Stabilization Reserve, being reserves maintained by the Town and those employees and Members of Council responsible for the control, administration or management of the Town's financial activities as applicable.

3. PROCEDURE

ELECTION RESERVE

3.1. The purpose of the Election Reserve is to fund all costs related to administration of the municipal election every four years, including any annual costs leading up to the election and the full cost of the election itself. In the event there is a by-election funds may also be drawn from this reserve if approved by Council.

3.2. The Elections Reserve receives an allocation from the operating budget, at an amount recommended by the Director of Finance, which is expected to be sufficient to fund the cost of administering the municipal election. If funds are used to administer a by-election, the annual contribution may be increased to achieve the target subject to annual budget deliberations.

3.3. The target reserve balance in the year of the election, shall be equal to the estimated total cost of the election.

STABILIZATION RESERVE

Uses of the Reserve

3.4. In the Annual Budget, the Stabilization Reserve may be used at the discretion of Council to:

- Offset, in full or in part, short-term (less than 2 years) decreased revenues or increased expenditures caused by temporary economic conditions while expenditure reductions or other strategies are being identified and implemented to offset the projected deficit;
- Provide funding for non-recurring emergency operating expenditures and/or uninsured losses arising from extreme weather events, natural disasters or public health emergencies; or
- Provide funding to offset a shortfall in property tax arising from assessment appeal losses expected in the year.

3.5. In Year Post-Budget Approval

- To fully offset an overall annual operating deficit, which would otherwise require a tax rate increase in the subsequent budget year.

Reserve Balance

3.6. The minimum year-end balance of the reserve shall be 5% of the prior year's Net Revenues (as defined and calculated in the Financial Information Return). The maximum balance shall be 15% of the prior year's Net Revenues (as defined and calculated in the Financial Information Return)

3.7. Changes to the reserve balance are subject to the following rules:

- Increases to the balance shall be funded from the annual operating budget surplus
- If the surplus is not sufficient to increase the reserve to its minimum year-end reserve balance, the shortfall will be made up from the following years' budget allocations and/ or following years' surpluses, over a period not exceeding 3 years.
- Should the Net Revenues decrease on a year over year basis, the minimum balance in the reserve shall not be reduced below its year-end reserve balance before the initial decrease.

CORPORATION OF THE TOWN OF AJAX

CORPORATE POLICIES AND PROCEDURES

*SUBJECT: **DISCRETIONARY CAPITAL RESERVES***

ISSUED: 13 / 07 / 04	REVISED: 20 / 12 / 14	REVISION NO.: 4	Page 1 of 2	POLICY: 123

1. POLICY OBJECTIVE

1.1. Under the authority of Council, reserves and reserve funds are appropriations from the Town's net revenues designated for purposes that may extend beyond the current fiscal year. They are an integral part of the municipal budget planning process and long term financial sustainability plan that contributes to the municipality's overall financial health.

1.2. The primary purposes of the Town's Capital Reserves are to:

- Provide full or partial funding for projects contained in the Capital Budget/Long Range Capital Forecast at the time the funds are required
- To fund unbudgeted and/or emergency capital projects that occur subsequent to the approval of the budget
- Minimize the cost of capital acquisitions by reducing the amount of debt financing required to execute the capital program

2. SCOPE

2.1. This policy applies to all of the Town's capital reserves, being reserves maintained by the Town and those employees and Members of Council responsible for the control, administration or management of the Town's financial activities as applicable.

3. PROCEDURE

RESERVES

3.1. The twelve (12) capital reserves are listed below. Details on the revenue sources and the use of each reserve in the Capital Budget/Long Range Capital Forecast are outlined in ATT-1.

- Building Maintenance
- Capital Contingency
- CIP Development Improvement
- Debt Reduction (Slots)
- Debt Repayment
- Development
- General Infrastructure Maintenance
- Post Growth Capital
- Roads Maintenance
- Strategic Initiatives
- Vehicle/Equipment Replacement
- Risk Mitigation

SPENDING CAP GUIDELINE

3.2. An annual spending cap guideline of 65% of a reserve's forecast total annual revenues, will be used by staff to guide the funding of the Capital Budget/Long Range Capital Forecast recommended to Council for approval.

- The annual spending cap only applies to the following reserves:
  - Building Maintenance
  - Development
  - General Infrastructure Maintenance
  - Roads Maintenance
  - Strategic Initiatives
  - Vehicle/Equipment Replacement

3.3. The annual spending cap is a guideline only. The actual expenditures in a given budget year may exceed or fall below the cap.

ALLOCATION OF SLOTS & VERIDIAN REVENUES

3.4. Background

- Slots Revenues - the Town's share of the slot and gaming revenue, as calculated according to the Municipality Contribution Agreement with Ontario Lottery and Gaming (OLG).

- Elexicon Revenues – the promissory note interest and dividend income the Town receives from its 21.8% ownership share of Elexicon Corporation.

3.5. Slots and Elexicon revenues shall not be included in the operating budget as revenue to reduce the general tax levy, but shall be allocated to specified Capital Reserves as summarized below:

Reserve Name	Slots**	Elexicon
Debt Reduction	25%	N/A
Building Maintenance	10%	20%
Development	25%	20%
General Infrastructure Maintenance	10%	15%
Roads Maintenance	10%	15%
Strategic Initiatives	5%	5%
Vehicle/Equipment Replacement	15%	25%

** Net of grandfathered grants program and social infrastructure funding

ATT-1 POLICY #123 DISCRETIONARY CAPITAL RESERVES
REVENUE SOURCES AND USE IN CAPITAL BUDGET/LONG RANGE CAPITAL FORECAST

Reserve Name	Capital Budget / LRCF Funding	Revenue Source
Building Maintenance*	1) Maintenance/repair/rehabilitation of existing buildings and related facilities, including: ▪ the building itself and all components ▪ surrounding campus (e.g. parking lot, front entrance, grounds, etc.) 2) Renovations to existing buildings	1) Annual budget allocation 2) 10% of Slots revenue 3) 20% of Elexicon revenue 4) Portion of the tax room from the annual debt payments on retired (paid off) long term debt
Capital Contingency	1) Town's portion of cost shared Federal/Provincial capital grant programs 2) Unbudgeted capital expenditures that would not otherwise be funded from one of the other capital reserves	If required, portion of Operating Budget Surplus to "top up" to $2.5M target balance
CIP Development Improvement	Capital projects within Downtown CIP area	1) Proceeds on disposal / sale of land 2) 20% of building permit fees for projects in Downtown CIP area (0% from priority sites)
Debt Reduction (Slots)	1) Reduce the amount of long term debt issued 2) Offset the operating budget impact of existing debt payment	25% of Slots revenue
Debt Repayment	Reduce the amount of long term debt issued	Portion of the tax room from the annual debt payments on retired (paid off) long term debt
Development	1) Town's share (Ineligible & Benefit to Existing) of Development Charge projects 2) New Infrastructure not eligible for Development Charge funding 3) Waterfront and Shoreline Improvements	1) Annual budget allocation 2) 25% of Slots revenue 3) 20% of Elexicon revenue
General Infrastructure*	Maintenance/repair/rehabilitation of all other infrastructure not fundable from Building Maintenance Reserve or Roads Maintenance Reserve	1) Annual budget allocation 2) 10% of Slots revenue 3) 15% of Elexicon revenue

ATT-1 POLICY #123 DISCRETIONARY CAPITAL RESERVES
REVENUE SOURCES AND USE IN CAPITAL BUDGET/LONG RANGE CAPITAL FORECAST

Reserve Name	Capital Budget / LRCF Funding	Revenue Source
Post Growth Capital*	Not an active/current funding source	1) Up to 15% of assessment growth 2) Annual surplus of Supplementary Tax revenue in excess of $500,000
Roads Maintenance*	Repair/Maintenance/Rehabilitation of roads and related infrastructure, including but not limited to bridges, streetlights, sidewalks, curbs & gutters, traffic signals, multi-use trails within the road allowance and storm water infrastructure	1) Annual budget allocation 2) 10% of Slots revenue 3) 15% of Elexicon revenue
Strategic Initiatives	1) Master Plan, Studies, Strategies, EA's not fundable from another source 2) Traffic Calming 3) Capital projects resulting from Community Action Plan (e.g. Customer Polling) 4) New Software 5) Acquisition and installation of art in public spaces	1) Annual budget allocation 2) 5% of Slots revenue 3) 5% of Elexicon revenue
Vehicle/Equipment Replacement*	1) Operations - Vehicles and Equipment 2) Fire - SCBA, Bunker Gear, Hose, Auto Extrication, AED 3) Recreation - Fitness, Floor Care Machines 4) Information Technology – Workstations, Hardware, Servers, Software	1) Annual budget allocation 2) Proceeds from sale of used and surplus vehicles / equipment 3) 15% of Slots revenue 4) 25% of Elexicon revenue
Risk Mitigation	Risk management initiatives intended to mitigate against future insurance claims. Such activities may include, but are not limited to infrastructure repairs, maintenance and inspections for slip and fall and general injury prevention, IT initiatives designed to detect and protect against cyber threats, administrative system to manage claims, third party insurance	Surplus payments, dividends, recoveries, or other payments received from the Durham Municipal Insurance Pool or other agency specifically related to risk mitigation or claim settlement

** Denotes an Asset Management reserve intended primarily for asset repair, rehabilitation and replacement*

CORPORATION OF THE TOWN OF AJAX

CORPORATE POLICIES AND PROCEDURES

*SUBJECT: **DEBT MANAGEMENT***

ISSUED: 13 / 06 / 20	REVISED: 20 / 12 / 14	REVISION NO.: 3	Page 1 of 6	POLICY: 124

1. POLICY OBJECTIVE

1.1. The issuance of debt may be in the best interest of the Town's taxpayers, if it:

- Is considered necessary to meet the needs of the community,
- Meets all statutory requirements,
- Minimizes the long-term cost of financing capital requirements,
- Matches the amortization period to the lesser of the useful life of the related asset or the period over which external funding for the retirement of the debt will be received, and
- Responds equitably to the needs of both current and future taxpayers.

1.2. The goal of this policy is to establish guidelines for use and administration of the debt of the Town of Ajax.

2. SCOPE

2.1. This policy applies to all long term financial obligations including related agreements and capital financing leases that are entered into by the Town and those employees and Members of Council responsible for the control, administration or management of the Town's debt and financing activities as applicable.

Definitions

2.2. **Long Term Debt** is debt with a term of greater than 5 years, which may only be issued for capital financial purposes.

2.3. **Short Term Debt** is debt with a term of more than 1 year but less than 5 years.

2.4. **Interim or Temporary Debt** is debt with a term of less than 12 months that is required for cash-flow or operating purposes.

2.5. **Lease Financing** is a long term agreement for the use of property or equipment for a period of time in exchange for a periodic fee. The property covered in a lease is usually real estate or equipment such as an automobiles, photocopiers or other machinery. The lease may be a capital lease in which ownership of the asset transfers to the Town at the end of the lease, or an operating lease, which is short-term and under which the lessor retains all rights of ownership.

2.6. **Internal Debt** is where funds are borrowed from the Town's discretionary reserves. This does not require this issuance of a debenture.

2.7. **External Debt** is debt that is issued through a debenture issued by the Region of Durham in accordance with Section 401 of the Municipal Act, or other financing, including Lease Financing agreements obtained through another financial institution, where permissible.

2.8. The **Municipal Act** is the statute governing the powers, duties, internal organization, and structure of Ontario municipalities.

2.9. **Annual Repayment Limit (ARL)** is a calculation provided annually to the municipality by the Ministry of Municipal Affairs and Housing that determines the maximum amount of new annual debt servicing costs that a municipality can undertake or guarantee without seeking the approval of the Ontario Municipal Board. It serves as a legislated limit that caps principal and interest payments for municipalities based on net operating revenues.

2.10. For the purpose of this policy, **Municipal Infrastructure** includes roads (including the road base, surface, sidewalk, curbs, drainage facilities, retaining walls or other elements in the road allowance), bridges, storm sewers, storm water management facilities and buildings used in the delivery of public programs and services in the Town of Ajax.

2.11. **Rolling Stock** is equipment that moves on wheels used for transportation and/or transit purposes. Examples include fire trucks, snow plows, and other trucks and trailers.

2.12. The **Total Cost of Construction** includes design, contract administration, and all costs required to bring the asset(s) into condition for service. The Cost of Construction may also include land acquisition costs and ancillary costs such as:

- For buildings, furniture, fixtures and equipment integral to the building operation may be included in the total cost of construction.
- For linear assets such as roads, bridges and stormwater management facilities, costs such as retaining walls, sidewalks, paths, landscaping, site furniture and signage may be included in the total cost of construction.

3. PROCEDURE

Principles for the Use of Long Term Debt

3.1. Long term debt shall only be used to fund capital projects with a useful life of at least 10 years. Long term debt shall not be used to fund rolling stock.

3.2. Prior to issuance, consideration must be given to the impact on future taxpayers in order to achieve an appropriate balance between the cost of the financing and the overall benefit to the community. Circumstance where debt may be beneficial include:

- Favourable market conditions – periods of low interest rates and/or rapidly rising construction costs may indicate that projects should be advanced

  - Project characteristics support use of debt – a one-time critical infrastructure project with net benefits to the community would be a more appropriate use of debt than ongoing maintenance requirements which should be supported by the tax base.
  - Community need – the project is required to meet or relieve a capacity constraint
- Adequate financial resources are expected to be available – new debt shall not be issued if it is expected to cause financial distress to the Town at any point over the life of the debt issuance. Examples of financial distress may include:
  - Total debt to reserves ratio is greater than 1.0
  - Total debt servicing costs are greater than 7.5% of the Town's own-source revenues
  - For externally funded debt, annual forecast revenues over the proposed term are less than 1.5 times the annual principle and interest payments (coverage rate is less than 1.5)

3.3. The term of the debt should be the shortest period possible to provide a fair allocation of the cost of debt-financed assets to both current and future beneficiaries and/or users.

3.4. To the extent practicable, preference shall be given to financing capital expenditures through tax levies, user fees, grants, donations and reserve or reserve fund contributions.

3.5. To provide maximum flexibility over the long term, adequate reserves should be maintained to fund the acquisition, repair and replacement of the Town's capital assets. Financing asset acquisitions without the issuance of debt typically results in the lowest total cost of acquisition.

3.6. Where long-term financing determined to be necessary or beneficial, consideration may be given to all forms of financing, including Internal Debt, External Debt, Construction Financing, and Lease Financing agreements.

Maximum Term

3.7. To minimize the cost of financing, and notwithstanding the maximum permissible term under the Municipal Act of 40 years, the maximum amortization period for debt where repayment is planned to be funded from the Town's own-source revenues is twenty (20) years.

3.8. The amortization period may not exceed the expected useful service life of the asset as set out in the Town's Tangible Capital Asset policy.

3.9. The Director of Finance/Treasurer may recommend, and Council may approve a shorter term giving consideration to factors such as:

- current and forecasted interest rates and inflationary environment
- the total current and forecasted amount of debt of the Town
- future debt retirements and requirements
- useful life of the asset(s)
- long term revenue and expenditure forecasts

3.10. The maximum recommended amortization period for debt where repayment is planned to be funded from external revenue sources (including Development Charges) is ten (10 years). In these cases, the amortization period should coincide with expected timing of the external cash flow projections associated with project. For example, projects listed in the approved Development Charges By-law, that have anticipated debenture financing recoverable through Development Charges should be financed over a period not exceeding 10 years to coincide with the cash flow projection that underlies the Town's Development Charge calculations.

Maximum Debt per Project

3.11. The total debt issued shall not exceed 50% of the Total Cost of Construction.

Total Debt Limits

3.12. The Annual Debt Repayment Limit (ARL) established by the Province, requires that a municipality's total annual debt payments (excluding internal debt), and cannot exceed 25% of its annual Net Revenues.

3.13. Notwithstanding the ARL, the Town's Debt Limit shall be 7.5% of Net Revenues, as determined in the annual ARL calculation, including both External and Internal debt.

External and Internal Borrowing

3.14. Debt issued by the Town of Ajax may be Internal Debt or External Debt. The decision on the preferred method of borrowing will vary for each debt issuance.

3.15. Director of Finance/Treasurer will recommend the type of debt and terms to Council for their approval.

Use of Tax Room from Retired Debt

3.16. Tax room created from the elimination of the annual principal and interest payments on retired (paid off) debt, shall be converted to General Levy Reserve Allocations to the:

- Debt Repayment Reserve and/or
- A capital asset maintenance reserve designated for the future repair, rehabilitation and replacement of the related asset for which the debt was issued.
- The recommended reserve allocation(s) arising from debt retirement will be included in the annual capital and operating budgets.

Short Term Debt

3.17. Short-term financing for a term of one to five years may be obtained from one or more of the following sources:

- Reserves and reserve funds - An inter-fund loan from reserves and/or reserve funds to finance capital projects. This must be approved and authorized by Council.
- A line of credit or loan agreement from a bank
- Short-term promissory notes

Interim or Temporary Borrowing

3.18. Section 407(1) of the Municipal Act 2001 provides that at any time during a fiscal year, a municipality may authorize interim or temporary borrowing, until the taxes are collected and other revenues received, of the amount Council considers necessary to meet the current expenditures for the year.

3.19. Section 407(2) of the Municipal Act 2001 provides that except with the approval of the Municipal Board, the amount borrowed at any one time plus any outstanding amounts of principal borrowed and accrued interest shall not exceed,

- from January 1st to September 30th in the year, 50% of the total estimated revenues of the municipality as set out in the budget adopted for the current year; and;
- from October 1st to December 31st in the year, 25% of the total estimated revenues of the municipality as set out in the budget adopted for the current year

3.20. Council must authorize the issuance of interim or temporary borrowing through a Council resolution and By-law. At the time of the issuance of this policy, the prevailing By-law is By-law 013-2003.

3.21. The Director of Finance/Treasurer and Mayor may execute the documentation required for all interim borrowing arrangements.

3.22. Interim borrowing may be undertaken by:

a) Temporary use of Internal Debt from the revenue fund. The terms and conditions will be

CORPORATION OF THE TOWN OF AJAX

CORPORATE POLICIES AND PROCEDURES

SUBJECT: ***DEBT MANAGEMENT***

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determined by the Director of Finance/Treasurer and evidenced by a signed and sealed promissory note.

b) Temporary use of External Debt from the Region of Durham, Infrastructure Ontario, or another financial institution. A formal agreement is required for all External Debt.

3.23. The Director of Finance/Treasurer may undertake temporary inter-fund transfers from reserves for cash-flow or other purposes without approval from Council whenever the shortfall is expected to be resolved within 60 days provided that interest is paid at prevailing market rates.

CORPORATION OF THE TOWN OF AJAX

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Third Party Debt & External Revenues

3.24. The Town shall not:

a) Issue debt on behalf of any external agency or organization.

b) Guarantee or otherwise secure debt issued directly by an external agency or organization.

c) Issue debt where all or a portion of the principal/interest payments are reliant on the receipt of future revenues from external third parties if there is a high degree of uncertainty as to future collections.

CORPORATION OF THE TOWN OF AJAX

CORPORATE POLICIES AND PROCEDURES

*SUBJECT: **FEDERAL GAS TAX***

COUNCIL ISSUED: 20 / 12 / 14	COUNCIL REVISED:	AUTHORED BY: DIANNE VALENTIM	REVISION #:1	Page 1 of 9	POLICY #: 125

1. POLICY OBJECTIVE

1.1. The objective of this policy is to provide guidance on the administration and use of Federal Gas Tax funds received under the terms of the Municipal Funding Agreement for the Transfer of Federal Gas Tax Funds.

1.2. This policy will also direct the use and administration of the Town's Federal Gas Tax reserve fund, an obligatory reserve fund established in accordance with the terms of the Agreement.

2. SCOPE

2.1. This policy governs the administration and use of all funds received from the Association of Municipalities of Ontario on behalf of the Federal Government of Canada in respect of the Federal Gas Tax.

Definitions

2.2. The **Agreement** refers to the Municipal Funding Agreement for the Transfer of Federal Gas Tax Funds (or replacement) which is the signed agreement between the Association of Municipalities of Ontario (AMO) and the Town of Ajax containing a framework for the transfer of Federal Gas Tax (FGT) funds to provide stable, reliable and predictable funding for municipal infrastructure programs.

2.3. **Capital Budget Control Policy** is an approved policy that stipulates *the authorization levels for any in-year capital budget.*

2.4. The **Gas Tax Allocation** refers to the Town of Ajax's allocation of Federal Gas Tax Funds from the Federal Government of Canada (Canada) and transferred to the Town by AMO.

2.5. An **Obligatory Reserve Fund** is a reserve fund created when senior government statute or agreement requires that revenue received for special purposes is segregated from the general revenues of the municipality. Obligatory reserve funds are to be used solely for the purpose prescribed for them by statue or agreement. Amounts collected in obligatory reserve funds are considered to be deferred revenue, as services have yet to be performed. These amounts will be recognized as revenue in the fiscal year the services are performed. Reserve Funds also earn interest.

2.6. A **Tangible Capital Asset (TCA)** is a tangible capital asset as defined by Generally Accepted Accounting Principles.

2.7. An **Eligible Project** is a project that meets the eligibility criteria set out by Infrastructure Canada. As summary of the eligible project categories and criteria are set out in Appendix A.

3. PROCEDURE

Responsibilities

3.1. The Treasurer or delegate will deposit the Funds on behalf of the Corporation in a dedicated reserve fund or other identified approved account/program as per the Agreement.

3.2. The Treasurer or delegate has the authority to utilize the reserve fund as proposed under Section 3 of this policy.

3.3. The Treasurer or delegate has the responsibility for meeting all reporting and deadlines in the Agreement, including, but not limited to the Annual Report on Federal Gas Tax.

3.4. The Treasurer or delegate has the responsibility for maintaining all accounting principles and separate records as identified in the Agreement.

3.5. The Treasurer has the responsibility for maintaining where appropriate and without limitation all insurance requirements as identified in the Agreement for all Eligible Projects.

3.6. The Town of Ajax has the responsibility of developing and implementing an Asset Management Plan and Outcomes Report demonstrating that Asset Management Plans are being used to guide infrastructure planning and investment decisions and how the funds are being used to address priority projects as per Section 8 in the Agreement.

Administration Funds

3.7. Gas Tax Allocations received from AMO on behalf of the Government of Canada will be deposited into a segregated bank account in accordance with the Section 6.6 of the Agreement.

3.8. All Gas Tax Allocations will be retained in this segregated bank account until such time as the funds are expended or transferred in accordance with Application of Funds guidance below and the terms of Agreement.

3.9. All income and expenditures related to Federal Gas Tax funds will be tracked in the Town's financial system in a segregated reserve fund.

3.10. Interest (or other investment income as applicable) earned in respect of funds held in the reserve fund will be retained in the reserve fund for use on eligible expenditures as permitted by the Agreement.

3.11. The reserve fund may not be overdrawn.

3.12. The Treasurer will ensure that the annual Gas Tax Allocation is spent on eligible municipal infrastructure projects within five years following the year in which the money was received.

3.13. The Town will prepare and submit the annual Financial Reporting and reporting on Project Outcomes and Project Outputs as required by the Agreement to AMO by March 31 each year, or as otherwise directed by AMO in response to unforeseen/ special circumstances. This reporting will be submitted through the AMO website.

3.14. An Annual Treasurer's Report to Council on the receipt and use of FGT funds will be prepared.

Application of Funds

3.15. The reserve fund shall only be used for costs identified as eligible expenditures in respect of eligible project categories in the Agreement.

3.16. Assets purchased or constructed using the Gas Tax Allocation must be for public use and benefit. If the asset is disposed of within five years, AMO will be notified and any revenue that is generated from the sale, lease, or other disposal of an asset shall be re-invested in another eligible infrastructure project and reported as per the Agreement.

3.17. Usage of FGT reserve funds must be identified in the annual Council-approved capital budget or other Council report, and authorized in accordance with the terms of the Town's Capital Expenditure Control Policy, Purchasing Policy and Purchasing By-law.

3.18. As per the Agreement, the FGT Reserve Fund can be used in conjunction with other funding sources, including:

- federal infrastructure programs, subject to the maximum allowable federal contribution limitations set out in any other federal infrastructure program agreement, and
- Development Charges, however, gas tax funds must not be used to displace or reduce funding provided by development charges, or
- to partner with other municipalities on a project. The best way to do this is to designate a lead partner. The lead is responsible for reporting project details, expenditures and results to AMO. Other partners are responsible for transferring Federal Gas Tax funds to the lead. Transfers must be approved by By-law. Copies of this By-law must be submitted to AMO. All partners must report the transfer or receipt of funds in their annual report.

Project Eligibility

3.19. A project is eligible for funding from Federal Gas Tax (FGT) funds if the project meets the following eligibility criteria:

The project must meet the internal eligibility criteria established by the Town of Ajax:

- To minimize the administrative burden for all Town staff, the project should require at least $100,000 of FGT funding in a single year. Exceptions to that threshold are for design costs preceding the construction of such a project, and eligible expenditures under the capacity building category, typically composed of, but not limited to, studies related to Asset Management Planning.
- Design costs associated with eligible projects can be funded by FGT as long as the design is followed by construction within 2 years of the completion of design.

The project must also meet the eligibility criteria established by the terms of the Agreement:

- The project meets the eligible Project Category criteria as set out in the Agreement. See Appendix A for a summary of those criteria.
- The expenditures must be capitalized as a Tangible Capital Asset (TCA) as per PSAB 3150, or if the project is an environmental/naturalization (non-TCA) project, the project must achieve clean environment objectives of improved water treatment, drainage, and/or water quality.
- The project must have an identifiable output and outcome indicator relevant to the project category as required by the Agreement.

3.20. For projects meeting the eligibility criteria in 3.19, **eligible project expenditures**[1] are limited to:

- Expenditures associated with acquiring, planning, designing, constructing or renovating a tangible capital asset and any related debt financing charges specifically identified with that asset;
- For projects qualifying under the capacity building category, the expenditures relate to strengthening the ability of the Town to improve local and regional planning including capital investment plans, integrated community sustainability plans, life-cycle cost assessments, and Asset Management Plans. The expenditures may include developing and implementing:
    - studies, strategies, or systems related to asset management, which may include software acquisition and implementation
    - training directly related to asset management planning
    - long-term infrastructure plans

[1] Refer to Schedule C of the Municipal Funding Agreement for terms governing the Transfer of Federal Gas Tax Funds between The Association of Municipalities of Ontario and The Town of Ajax

- The expenditures directly associated with joint federal communication activities and with federal project signage.
- Employee and equipment costs are generally not eligible. Incremental costs of employees or leasing of equipment may be included as Eligible Expenditures under the following conditions:
  - the Town is able to demonstrate that it is not economically feasible to tender a contract;
  - the employee or equipment is engaged directly in respect of the work that would have been the subject of the contract; and
  - the arrangement is approved in advance and in writing by Canada and AMO's Executive Leads or Canada and Toronto's Executive Leads, as appropriate.

3.21. Notwithstanding the project eligibility criteria in 3.19, the following expenditures remain **ineligible**[1] **for FGT funding** under the terms of the Agreement, including:

- The cost of leasing of equipment by the Town of Ajax
- Overhead costs, including salaries and other employment benefits of any employees of the Town of Ajax, direct or indirect operating or administrative costs of the Town of Ajax, and more specifically costs related to planning, engineering, architecture, supervision, management and other activities normally carried out by Town of Ajax staff, except in accordance with Eligible Expenditures above
- Taxes for which the Town of Ajax is eligible for a tax rebate and all other costs eligible for rebates
- The purchase of land or any interest therein, and any related costs
- Legal fees
- Routine repair and maintenance costs. Under the terms of the Agreement, maintenance projects are not eligible for FGT funding unless they meet the requirements to be capitalized as a betterment to or full replacement of an existing Tangible Capital Asset.

3.22. Any Gas Tax Funds that are received from Canada are not intended to replace or displace existing sources of funding for the Town's tangible capital assets. The Town will ensure that its total annual expenditures on tangible capital assets over the life of the Agreement, on average, will not be less than the Base Amount.

The Base amount is the total municipally-funded capital spending on Infrastructure between January 1, 2000 and December 31, 2004 less: (i) monies raised (during that period) under the Development Charges Act, 1997 S.O, 1997, c.27; and (ii) monies received (during that period) by Municipalities under federal and provincial infrastructure programs against which investments of Funds will be measured to ensure that investments of Funds are incremental.

3.23. Municipalities are encourage to install a sign at project sites and/or post digital signage for all gas tax funded projects, except where it is impractical or inappropriate to do so.

- Physical signage is not necessarily appropriate if your project is:
  - Located in a remote area that is not visible to the public
  - Short (i.e. under seven days); or
  - Receiving a modest federal contribution (i.e. less than $100,000).
- In lieu of installing a physical exterior sign, the Town may, where appropriate, install an interior sign (e.g., in the lobby of the building affected by your project), or use digital signage (e.g., on a project web site or on a social media platform).
- A single sign may be installed for a cluster of similar projects (i.e., a group of projects within the same investment category that are located in close proximity to one another).
- Signs should be posted 30 days before construction begins and should be removed 30 days after construction has been completed. Costs incurred to post signs can be financed by the federal Gas Tax Fund within the respective capital project.
- Signage templates, guidelines and specifications are available on Infrastructure Canada's signage page

APPENDIX A - FGT Eligible / Ineligible Projects

The following table outlines the eligible project categories that apply to the Town of Ajax. Categories and criteria can change over time. Consult the Infrastructure Canada website for the most up-to-date information.

	Eligible expenditures	Ineligible expenditures
National Objective: Productivity and Economic Growth		
Local Roads and Bridges (including active transportation)	• Full road reconstruction • Mill and Overlay (as long as top layer is replaced) • Bridges and Tunnels • Sidewalks, Multi-use trails • New turning lanes, cycling lanes • As part of a capital project: ○ Fixed bicycle racks, signage, lighting, fixed benches/water fountains along trail systems, median dividers, or signal lights ○ Landscape work such as trees, plantings, grass/sod (to return work site to pre-existing state and environmental benefits such as water drainage, etc.)	Parking lots, public works vehicles and snow plows
Broadband Connectivity	Infrastructure that provides internet access to residents, businesses, and/or institutions in Canadian communities such as: • laying fiber optic cable • tower installation • servers	Purchase of computers for internet access at public access points

	Eligible expenditures	Ineligible expenditures
National Objective: Clean Environment		
Community Energy Systems	Building efficiency projects: • HVAC systems • Refrigeration controls • Improvements to water in buildings • Green roofs/energy efficient materials • Electric vehicle charging stations	
	Lighting: • LED streetlights • LED building/parking lot lighting	Lighting not being replaced with LED bulbs on sportsfields
Wastewater	Infrastructure that supports wastewater and stormwater collection, treatment and management systems: • Rain gardens • Stormwater pond rehabilitation	Natural assets without any impact on water treatment, drainage, water quality
Brownfield Development	Remediation or decontamination and redevelopment of a brownfield site within municipal boundaries, where the redevelopment includes: • Construction of public infrastructure as identified in the context of any other category under the Gas Tax Fund, and/or; • Construction of municipal use public parks and publicly-owned social housing	
Solid Waste Management	• New assets used to support waste management systems including the collection, diversion and disposal of recyclables, compostable materials and garbage if able to demonstrate incremental waste/recycling related results.	

	Eligible expenditures	Ineligible expenditures
National Objective: Strong Cities and Communities		
Capacity Building	• Studies, strategies, or systems related to asset management, which may include software acquisition and implementation; • Training directly related to asset management planning; and, long-term infrastructure plans	
Sport Infrastructure	• Sport infrastructure for organized, competitive amateur activities	Home of professional sports teams or major junior hockey teams
Recreational Infrastructure	• Multi-purpose community facilities – not always sports focused (e.g. fitness facilities, public swimming pools, sports fields, playground structures, picnic shelters, comfort stations in parks, beach areas, etc.)	
Cultural sites	• Infrastructure that supports arts, humanities, and heritage (e.g. libraries, museums, theatres, concert halls, heritage sites, memorial buildings or structures, monuments and sculptures)	
Tourism Infrastructure	• Infrastructure that attract travelers for recreation, leisure, business or other purposes	
Disaster mitigation	• Infrastructure that reduces/eliminates long-term impacts and risks associated with natural disasters (e.g. construction of a dike, berm, foreshore)	disaster response (i.e. fire halls, fire trucks, ambulance stations)

Other eligible gas tax categories that the Town will not use include:

- Public Transit,
- Drinking Water,
- Regional and local airports,
- Short-line rail,
- Short-sea shipping

CORPORATION OF THE TOWN OF AJAX

CORPORATE POLICIES AND PROCEDURES

*SUBJECT: **Capital Expenditure Control***

COUNCIL ISSUED: 04 / 06 / 26	COUNCIL REVISED: 14 / 12 / 20	AUTHORED BY: Dianne Valentim	REVISION #: 16	Page 1 of 8	POLICY #: 127

1. POLICY OBJECTIVE

1.1. The purpose of the Capital Expenditure Control Policy is to ensure that appropriate approvals are acquired and funding sources identified for:

a. Capital expenditures exceeding the approved budget or approved spending limit, as awarded by Staff or Council
b. Unbudgeted capital projects
c. Emergency capital expenditures
d. A material change in the scope of a capital project

1.2. This policy is subject to the guidelines outlined in the Town of Ajax Purchasing By-law, and the following corporate purchasing work instructions:

- FIN-WI-304 – Emergency Purchases
- FIN-WI-306 – Purchase of Goods and Services
- FIN-WI-302 – Single/Sole Purchase
- FIN-WI-303 – Bid Document Administration
- FIN-WI-305 – Request for Proposal (RFP) Administration
- FIN-WI-307 – Purchase Order Amendment Process

2. SCOPE

2.1. The requirements of this policy apply to all capital project contract awards, including contract awards where the capital project is funded in full or in part by third parties.

3. PROCEDURE

3.1. RESPONSIBILITY

3.1.1. It is the responsibility of each Director to ensure that the financial status of capital projects is reviewed on an ongoing basis and to implement the requirements of this policy.

3.1.2. It is the responsibility of Council to award contracts for:

- All capital project contracts over $500,000 (inclusive of taxes)
- Unbudgeted capital projects, with a total project cost over $100,000
- Projects projected to be Over Budget in excess of $100,000 or 20% of approved budget, whichever is greater
- Projects where there has been a material change in scope or where another project has been cancelled in order to free up budget funding

3.2. APPROVED SPENDING LIMIT & CONTINGENCY

3.2.1. Approved Individual Spending Limit is defined as the total amount that can be spent on an individual contract and is calculated as:

Contract Award (net of HST rebate) Plus Contingency

Example: Contract with 13% HST = $113,000.00
Contingency recommended at 10%

Contract (net of HST rebate): $101,760.00 (113,000 / 1.13 X 1.0176)
Contingency: $ 10,200.00 (101,760 x .10)

Approved Spending Limit = $111,960.00

3.2.2. Where, due to the type of capital project, there exists the potential for uncontrollable circumstances or events to occur, departments may recommend that a contingency amount be included in the project estimates to recognize the specific risks.

3.2.3. Contingency amounts shall be calculated as a percentage of the Contract Award, net of the HST rebate.

3.2.4. A contingency is an amount of funds added to the base cost estimate/awarded amount to address uncertainty and identified risks that may increase the final cost of the project. The contingency percentage typically ranges from 0% to 15%. Higher contingencies may be appropriate for complex projects such as infrastructure projects where there are many risks that may be encountered throughout the life of the project.

3.2.5. A contingency amount in excess of 15% may be recommended by the Department Head together with the Director of Finance. The Staff Contract Award Report (SCAR) or General Government Committee (GGC) Report must include the rationale for the contingency.

3.2.6. Use of contingency is subject to the following general rules:

a. Contingencies cannot be used to expand the scope of a project or to fund an item excluded at the time of the original contract award.

b. The contingency percentage shall not be lowered in order to keep a project within budget at the time the contract is awarded.

c. Contingency amounts must not be included in any bid document or awarded to a vendor.

d. Contingency amounts are not mandatory and their use is based on an evaluation of the risks associated with each capital project and contract.

e. The report should contain a description on the use of contingency tied to the specific risks of a project.

3.3. ADMINISTRATION

3.3.1 To ensure the correct allocation of costs and budget management, all bid documents must be written in a format which corresponds to the individual projects listed in the capital budget.

3.3.2 Under no circumstances shall expenditures related to a capital project be charged to the operating budget.

3.3.3 Under budget balances from awarded capital projects and/or the operating budget, cannot be used to fund unbudgeted or over budget capital expenditures.

3.3.4 Under budget balances cannot be used to complete works outside the original project scope and/or contract award.

3.3.5 Material Change in Scope

- Defined as a change that alters the outcome or end result of a project as originally approved by Council in the Capital Budget, or at the time of the original contract award
- Scope change must be reviewed and approved by CAO, Director of Finance/Treasurer and responsible Director, before a bid document or change order is issued
- A report to General Government Committee or Council must be completed to award the contract or authorize the change order

3.3.6 Where Council/General Government Committee (GGC) has approved a contract award on a capital project, additional reporting to Council/GGC will be required where the:

- Approved spending limit on the Council/GGC award was exceeded by more than $5,000; or
- The cumulative approved spending limit on the Council/GGC awards were exceeded by more than $5,000

3.3.7 The Finance Department will complete Capital Project Closing Reports for General Government Committee, usually twice annually. The closing report indicates, on a project by project basis, the final balances of capital project accounts which have been completed or cancelled and identifies projects separately by funding. The report provides for Council's approval for all transfers to/from reserve and reserve funds required to close the projects.

3.4. UNBUDGETED CAPITAL PROJECTS (see Section 3.8 for Emergency Capital Expenditures)

3.4.1 Unbudgeted capital projects can be driven by new grant opportunities or other in year needs (Emergency expenditures are excluded - see Section 3.8)

3.4.2 Grant Opportunities

- Typically an initial report is completed to General Government Committee on any grant application as the submission will require a supporting Council Resolution

- This initial report should include a recommendation for funding approval of the Town's estimated portion of the project, funded from Capital Contingency Reserve or other appropriate funding source as recommended by the Director of Finance/Treasurer

3.4.3 Unbudgeted Capital Projects, in year

- The project scope and estimated project costs must be reviewed and approved by the responsible Director before any action is taken

- With the support of the responsible Director, through email, the CAO and Director of Finance/Treasurer are provided all pertinent information (scope, need, estimated cost, etc.) to allow for a decision on proceeding. The CAO or Director of Finance/Treasurer will respond with direction.

3.4.4 Total Estimated Project Cost $10,000 to $100,000

- Once the direction to proceed is received (see 3.4.3 above) bid documents and SCAR (Staff Contract Award Report) are undertaken

- The SCAR should include details on the project, scope, need, etc. as there is no capital detail sheet to support it

- The unbudgeted project will be reported to Council through the capital closing report – it will be clearly identified as unbudgeted and details of the project will be disclosed in the report

3.4.5 Total Estimated Project Cost over $100,000

- Once the direction to proceed is received (see 3.4.3 above), a report on the total estimated project costs must be presented to GGC, for approval, prior to bid documents being issued

- Once approved by GGC, individual contracts within a single project must be awarded as follows:

Unbudgeted Amount	Authority	Award Method
$0 - $100,000	CAO, Director of Finance/Treasurer, Responsible Director	SCAR
Over $100,000	General Government Committee	GGC Report

- All unbudgeted projects awarded under Section 3.4 will be reported to GGC through the Capital Account Closing Reports, as identified in the Financial Sustainability Plan Policy #120, unless a separate final capital project GGC report is presented. Reporting shall include all necessary funding approvals.

Unbudgeted projects will be funded from the Capital Contingency Reserve unless eligible for Reserve Fund funding such as Development Charges or Federal Gas Tax or if the project would otherwise have been funded from one of the Town's capital reserves (i.e. Building Maintenance, General Infrastructure, Roads Maintenance, Stormwater Maintenance, Vehicle/Equipment Replacement, or Risk Mitigation) had it not arisen as an in-year unbudgeted project.

3.5 OVER BUDGET – Prior to Award

3.5.1 To determine if a project is over budget, the project manager must consider the current contract award as well as past and future contract awards and expenditures. If the anticipated total of all of the costs, the Total Estimated Project Costs (see 3.5.2), exceeds the approved budget, the project is considered over budget prior to award.

3.5.2 Total Estimated Project Costs is calculated as the sum of:

- Approved Spending Limit of current award (see Section 3.2); and
- Previous Awards/Expenditures (use actuals where expenditures are complete, otherwise use approved spending limit of award); and
- Estimated Future Awards/Expenditures (if any)

3.5.3 Departments must take the following steps to mitigate or eliminate the over budget amount:

- Scale back the scope of the project to come within budget, or
- Cancel another current or prior year capital project from the same funding source that has not yet been started, or
- Cancel the project, close the capital account and resubmit the project for the subsequent year's capital budget/long range capital forecast.

3.5.4 With the support of the responsible Director, through email, the CAO and Director of Finance/Treasurer are provided the Total Estimated Project Costs, over budget amount, reasons, etc. and if any mitigation (see 3.5.3) can be achieved or if not, why not. The CAO or Director of Finance/Treasurer will respond with direction.

3.5.5 Approvals:

Over Budget Amount	Other Projects Affected **	Authority	Award Method
$0 - $100,000	No	CAO, Director of Finance/Treasurer & Director	SCAR
$0 - $100,000	Yes	GGC/Council	GGC Report

Over $100,000	N/A	GGC/Council	GGC Report

** Means the current project has been materially reduced in scope and/or another capital project has been cancelled or materially reduced in scope to free up the required budget funding (see 3.5.3)

3.5.6 All projects over budget up to $100,000 will be reported to GGC through the Capital Account Closing Reports, as identified in the Financial Sustainability Plan Policy #120.

3.6 EXPENDITURES EXCEED APPROVED SPENDING LIMIT – Subsequent to Award

Notes:

i. Applies to individual contract awards over $5,000

ii. Approved Individual Spending Limit (see section 3.2) is defined as:
Contract Award (net of HST rebate)
Plus: Contingency

iii. If the combined amount to be approved under Section 3.5 and Section 3.6 exceed $100,000, follow the GGC reporting requirements as per section 3.6.2

3.6.1 Spending Limit Exceeded by Less than $100,000 – Staff Approval/Reporting

a. The following approvals and reporting are required:

Amount	Authority	Internal Memo
$0 - $5,000	Project Manager	No
$5,001 - $100,000	Director/CAO	Yes

b. The original, signed memo (see Section 6.1 of the Standardized Wording Template) must be submitted to the Director of Finance/Treasurer.

c. All contract awards that exceed the approved spending limit up to $100,000 will be reported to GGC through the Capital Account Closing Reports, as identified in the Financial Sustainability Plan Policy #120.

3.6.2 Spending Limit Exceeded by Over $100,000 – GGC Approval/Reporting

a. Preliminary Information Report – where practical, the report should be completed and presented to GGC prior to incurring the over expenditure, or at the earliest opportunity subsequent to the over expenditure.

b. Final Report – once the project is complete, a final detailed report must be presented to GGC.

3.7 WITHIN APPROVED SPENDING LIMIT – TOTAL EXPENDITURES EXCEED BUDGET

3.7.1 Over Budget Less Than $100,000

a. Assumes all expenditures have proper approval. Over budget is a result of purchases under $5,000

b. The following approvals and reporting are required:

Amount	Authority	Internal Memo
$0 - $5,000	Project Manager	No
$5,001 - $25,000	Director	Yes
$25,001 - $100,000	CAO	Yes

c. The original, signed memo (see Section 6.2 of the Standardized Wording Template) must be submitted to the Budget Contact.

d. The over budget amount will be reported to GGC through the Capital Account Closing Reports, as identified in the Financial Sustainability Plan Policy #120.

3.8 EMERGENCY CAPITAL EXPENDITURES OVER $10,000

3.8.1 Total Expenditures $10,001 to $100,000

a. Reporting requirements are outlined in FIN-WI-304 Section 5 Instructions in Emergency Purchases.

b. The completed SCAR should be approved and signed by the responsible Director, Director of Finance/Treasurer and CAO.

c. The total expenditures will be reported to GGC through the Capital Account Closing Reports, as identified in the Financial Sustainability Plan Policy #120. Emergency projects will be funded from the Capital Contingency Reserve unless the project would otherwise have been funded from one of the Town's capital reserves (i.e. Building Maintenance, General Infrastructure, Roads Maintenance, Stormwater Maintenance, Vehicle/Equipment Replacement or Risk Mitigation reserve) had it not arisen as an emergency project.

3.8.2 Total Expenditures Over $100,000

a. Once the emergency expenditure(s) are complete, a report on the total expenditures, including the allocation of required funding from the Town's various capital reserves, must be presented to General Government Committee.

b. The GGC report is signed by the author and responsible Director.