

This document can be made available in other accessible formats as soon as practicable and upon request

## STAFF REPORT: Finance and IT Services



**REPORT TO:** Committee of the Whole  
**MEETING DATE:** June 27, 2016  
**REPORT NO.:** FAF.16.58  
**SUBJECT:** 2016 Capital Asset Replacement Levy Allocation  
**PREPARED BY:** Sam Dinsmore, Deputy Treasurer/Manager of Accounting and Budgets

### A. Recommendations

THAT Council receive Staff Report FAF.16.58, entitled “2016 Capital Asset Replacement Levy Allocation”;

AND THAT Council approve the creation of a Capital Asset Replacement Levy Reserve;

AND THAT Council approve Policy POL.COR.16.XX, entitled “Capital Asset Replacement Levy.”

### B. Background

During the 2016 Budget Council approved a 2% Capital Levy of \$271,000 to be transferred into reserves for future year capital purchases. At the same time Council requested a report for how the levy would be allocated and a policy around the Capital Asset Replacement Levy (Attachment 1). This report looks at the appropriate way to allocate this levy as well as outlines the expenditures that is can be used towards.

Staff examined a number of possible ways to allocate this levy among the taxation supported departments, such as equal percentage per division, percentage based on tangible capital assets and percentage based on operating budgets. After examining each option staff recommends, at this point, the best option is to create a Capital Asset Replacement Levy Reserve. By creating one reserve staff will be able to easily track the transfers in and out of the reserve and report this back to Council.

As staff implement and mature the Town’s Asset Management Plan, an annual capital spending recommendation (this will include current year spending and transfers to reserves) will be generated for each division (such as Fire, Parks, and Roads). When the Town has reached this point further options around the Capital Asset Replacement Reserve and annual levy will be presented to Council for direction.

The following criteria will be used when selecting projects to fund from the Capital Asset Replacement Levy Reserve:

1. The reserve will only be used to fund taxation supported projects
  - o The levy is coming from current year taxation and therefore will only be used on taxation funded projects.
2. The reserve will not be used to off-set funding that was scheduled to come from another reserve or reserve fund

- Other reserve/reserve funds have been created to fund specific types of projects and forecasted to fund projects and this funding source should remain in place.
- 3. The reserve will not be used to off-set taxation that was scheduled to fund a project
  - This reserve should be used to fund incremental projects that would otherwise have to be delayed due to lack of funding and therefore, will not be used to off-set taxation that had been earmarked for a capital project.
- 4. The reserve will be used to off-set long-term debt requirements or when a project has a funding deficit
  - Using this reserve to mitigate long-term debt financing and/or unfinanced will free up future year taxation to fund future projects, rather than being spent on principal and interest payments.
- 5. The reserve cannot go into a negative position
  - Reserves are allowed to go into the negative but staff do not recommend this with this reserve or any other reserve.
- 6. The reserve will only be used for the replacement of capital assets and not for additional acquisitions
  - Development Charges are available for growth related additional acquisitions and therefore this reserve should fund replacement or rehabilitation costs only.

The intention of this reserve is not to off-set other sources of funding (such as taxation) but to aid the Town in funding projects that are not currently 100% funded or off-set the requirement for long-term debt.

A good use of this reserve is for a project in which the Town is submitting a proposal for a grant application. For almost every application the Town must be able to fund part of the project and it could be awarded last minute. Having a reserve not tied to a specific division or type of project would allow the Town more flexibility when it comes to applying for and accepting grants.

An additional option for Council is to create a reserve fund rather than a reserve. There are two main differences between a reserve fund and a reserve; first being reserves do not generate interest and are approved through a Council recommendation whereas a reserve fund does generate interest and is approved through a By-law. At this point staff are recommending a reserve until the Town has a more mature Asset Management Plan and long-term saving requirements. Once this information is known staff can re-allocate the annual transfer and the reserve balance to the appropriate reserve and reserve funds.

### **C. The Blue Mountains' Strategic Plan**

Goal #4: Promote a Culture of Organizational and Operational Excellence

Objective #4: To Be a Financially Responsible Organization

Goal #5: Ensure that our Infrastructure is Sustainable

**D. Environmental Impacts**

N/A

**E. Financial Impact**

Annual budget impact for the Capital Replacement Levy is based on 2% of the previous year's total taxation. For 2017 this represents a \$282,000 Capital Asset Replacement Levy.

**F. In Consultation With**

Senior Management Team  
Vicky Bouwman, Financial Analyst

**G. Attached**

1. Draft COR.POL.16.XX Capital Asset Replacement Levy

Respectfully submitted,

---

Sam Dinsmore  
Deputy Treasurer/Manager of Accounting and Budgets

---

Ruth Prince  
Director of Finance and IT Services

For more information, please contact:  
sdinsmore@thebluemountains.ca  
519-599-3131 extension 274

This document can be made available in other accessible formats as soon as practicable and upon request

# Town of The Blue Mountains

## Policy and Procedures

---

<b>Subject Title:</b>	<b>Capital Asset Replacement Levy Reserve</b>
Policy Type:	Corporate Policy (Approved by Council)
Date Approved:	Month, 00, 2016
Policy Reference Number:	PO.COR.16.XX
By-law Number:	N/A
Department Name:	Finance and IT Services
Staff Report:	FAF.16.58

---

### Policy Statement

The purpose of this policy is to establish the Capital Asset Replacement Levy Reserve.

### Purpose

The purpose of this policy is to create guidelines around the Capital Replacement Levy Reserve and establish the levy calculation, allocation method, and the uses of the levy.

### Application

This policy applies to all staff.

### Definitions

**Capital Assets** are non-financial assets having physical substance that:

- Are held for use by the government in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of their tangible capital assets
- have useful lives extended beyond a year and are intended to be used on a continuing basis; and
- are not intended for sale in the ordinary course of operations.

**Budget** means an estimate of expected income and expenses for a given time period in the future.

**Council** means the Council of The Corporation of the Town of the Blue Mountains.

**Levy** means the amount owed or collected.

**Reserve** means to retain for future use.

## DRAFT

This document can be made available in other accessible formats as soon as practicable and upon request

### Procedures

Annually the finance staff will calculate for the Capital Replacement Levy as 2% of the previous year's taxation levy. This funding will be transferred into the Capital Asset Replacement Reserve to be used for capital funding as outlined in the annual Capital Budget.

As per report FAF.16.58 the following criteria will be used when selecting eligible projects to be funded using this reserve:

1. The reserve will only be used to fund taxation support projects
2. The reserve will not be used to off-set funding that was scheduled to come from another reserve or reserve fund
3. The reserve will not be used to off-set taxation that was schedule to fund a project
4. The reserve will be used to off-set long-term debt requirements or when a project has a funding deficit
5. The reserve cannot go into a negative position
6. The reserve will only be used for the replacement of capital assets and not for additional acquisitions

### Exclusions

There are no exclusions to this policy and any deviations must be approved by Council.

### References and Related Policies

Individual Reserve and Reserve Fund Policies

### Consequences of Non-Compliance

Non-compliance with the Municipal Act, 2001 is subject to the remedies prescribed therein.

### Review Cycle

This policy will be reviewed annually during the budget process.

---

Signature