

 <b>M O N C T O N</b>	<b>POLICY</b>	<b>Owner Department:</b> Finance
	<b>Capital Asset Policy</b>	

<b>Effective Date:</b> August 17, 2009	<b>Last Reviewed Date:</b> June 9, 2021
<b>Approving Authority:</b> Moncton City Council	<b>Replaces No.:</b> Policy 0219

## 1. Purpose

The purpose of this policy is to provide a framework towards prioritizing projects and subsequent capital investment within the City of Moncton’s five-year Capital Works Plan. The Long-Term Financial Plan and related updates must be considered when developing the Capital Works Plan.

## 2. Policy Statement

The City of Moncton is constantly faced with extensive capital needs while having limited financial resources. The City will follow the prescribed policy to meet and manage the challenges involved in municipal infrastructure construction, as well as to balance the need for additional infrastructure versus the need to upgrade and maintain existing infrastructure. Considered in development of this policy were the following existing policies:

1. Accounting Policy - Tangible Capital Assets
2. Asset Management Policy

## 3. Benefits

The benefits of a prioritized multi-year Capital Works Plan include:

1. promote good infrastructure management where investment is needed to ensure basic health and safety for citizens;
2. carefully planned infrastructure investment can maximize the economic potential and attractiveness of the City;

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3. prudent management of facilities and investments today can reduce future operating costs and help avoid higher replacement costs and unforeseen infrastructure failures in the future;
4. improved financial planning and debt management;
5. effective management of required recapitalization of assets to meet targeted thresholds.

## 4. Accountability

Different areas of the organization have a responsibility for Capital decisions:

1. City Council provides strategic high-level direction towards the development of the Capital Works Plan and approves the Capital Works Plan during the yearly budget process. Council is also responsible for the approval of the Strategic Plan, which plays an important role in the prioritization of the Capital Budgets.
2. Leadership Team is responsible for ensuring legitimacy of the capital planning process and to submit a proposal to City Council. To achieve this, the Leadership Team will rank the different requests and prioritize based on the financial constraints and various corporate priorities.
3. Directors (or designates), in consideration of the Strategic Plan and direction set by the Leadership Team, submit proposals that ensure departmental business plans are reflected in their updated forecasts and projects are prioritized within their areas.
4. The Finance Services group ensures proposed strategies within the Capital Works Plan are based on best practices and following recommendations from the Long-Term Planning exercise. Finance Services continually monitors and reports on progress during the capital projects.

## 5. Prioritization Model

Capital project proposals come from a variety of sources, including Council priorities, Council-proposed initiatives, management priorities, citizen requests, consideration of the City's Strategic Plan, and recommendations from the Asset Management plan. These proposals are generally a mix of service improvements, enhancements, items to support growth and development, projects that enhance quality of life, and reinvestments in existing assets.

The Finance Services group has established criteria that should be used to assist with prioritizing capital projects during the preparation of the five-year Capital Works Plan and the annual review of capital priorities.

The following six criteria, in order of importance, shall apply for evaluation of all acquisitions:

### a. Legal Requirements (e.g. Sewer Systems and Potable Water Systems)

- i. These projects comply with legal, regulatory or judicial requirements set forth by the Federal and/or Provincial government.
- ii. These projects may be required as a result of binding settlements with other governmental agencies to meet current codes, ordinances, environmental or health and safety issues.

### b. Safety and Security (e.g. traffic light infrastructure)

- i. These projects enhance the safety and security of our buildings, streets, and communities.

### **c. Essential Improvements**

- i. These projects improve the functioning of facilities or infrastructure. This criterion measures the extent to which a facility or infrastructure has deteriorated and needs improvements relative to the overall condition of similar structures. Examples include storm water infrastructure improvements and repairs, roadway resurfacing, facility roof replacements and structural damage or anything essential for the health and safety of our citizens or employees.

### **d. Support Anticipated Growth**

- i. These projects demonstrate an increase in the City's capability to support future anticipated growth and enhance quality of life as well as contribute to the development of arts, culture, and heritage, leisure and the environment.
- ii. Examples include recreational facilities or a new water reservoir.

### **e. Efficiency Improvements**

- i. These projects will increase efficiency or result in overall cost savings to the City.
- ii. Such projects may benefit a greater number of people or more efficiently and effectively provide and support the defined functional requirements of the intended use.
- iii. Examples include new subdivision development within existing core city area where infrastructure already exists, or a new transit facility.

### **f. Revenue Producing**

- i. These projects generate additional revenues to the City.
- ii. Projects of this nature show an overall return on investments, and should be measured on the risk involved, the number of people who would benefit from the project and the associated costs versus revenues generated.
- iii. Examples include concert site enhancements or construction of other recreational facilities.

### **Adherence to Strategic Plan Pillars**

- i. Additional criteria will be considered in accordance with adherence to the Strategic Plan of the capital projects proposed in each year's Capital Works Plan.

### **Other Criteria**

- i. Other criteria to be considered should be in relation to funding available from other funding parties (federal or provincial government and other supporting organizations), from programs supported by Moncton City Council, as well as where a funding commitment has already been provided for specific capital projects.

The City of Moncton has standard capital programs which include road reconstruction program, sustainable street resurfacing, Recreation Master plan, and trail upgrades. A business case is required for all proposed projects over \$50,000 that are not part of a normal City of Moncton approved capital program. The business case should reflect the benefits of a particular project compared to the total

costs, both initial and ongoing. When a capital project is authorized, the project lead must ensure that all ongoing operating costs – including lifecycle cost – are considered.

All proposed projects are subsequently divided in two categories: category (A and B). Category A projects have a higher priority and thus are most likely included in the Capital Works Plan. A business case is required for all key projects included in Category A. Category B includes items that were proposed but did not make Category A. These projects may be considered in the following years based on identified priorities.

## **6. Unforeseen Projects**

Periodically within a fiscal year, unforeseen projects may arise which require a re-evaluation of current capital projects. It is our intention that unforeseen projects will not increase approved capital spend, and will result only in a redistribution of approved funds. For an unforeseen project to be considered over an existing approved capital project, it will need to meet the ranking test above and must be supported with a business case. Reallocation must be approved by City Council, unless it is within the spending authority of the City Manager.

## **7. Operating Budget Impact**

The undertaking of a capital project can have a significant impact on subsequent operating budgets. This impact should be considered as part of any multi-year Capital Works Plan. When assessing the budgetary impacts, areas to consider include future operating revenue, operating expenditures, and debt. Such costs will be included in future budgets representing operating costs resulting from Capital projects. These must be represented within the project summary provided for each project put forth in the five-year Capital Works Program.

## **8. Project Costs**

The full extent of project costs shall be determined when developing the five-year Capital Works Plan. Cost issues to consider include the following:

1. The scope and timing of a planned project should be well defined in the early stages of the planning process.
2. For projects planned beyond the first year of the Capital Works Plan, cost projections are adjusted based on anticipated inflation or other cost factors.
3. A clear estimate of all major components required to implement a project, including land acquisition needs, design, construction, contingency and post-construction costs, and legal and appraisal costs.
4. Funding and other cost recoveries should be identified and quantified for specific projects that attract funding opportunities.

5. The ongoing operating costs associated with each project (including provincial property taxes on relevant City-owned assets), along with the sources of funding for those costs.

## 9. Recapitalization

Asset recapitalization should be managed in accordance with the Asset Management Policy, with a targeted goal of 75% of the total annual capital program being focused on asset recapitalization.

## 10. Fiscal Capacity

The City recognizes the importance of establishing a viable financing approach for prioritizing projects outlined in the five-year Capital Works Plan. The Plan will follow the recommendations of the Long-Term Financial Planning exercise that sets out the City's debt affordability threshold. Financing strategies should align with expected project requirements while sustaining the financial health of the organization. Therefore, the City shall:

1. anticipate expected revenue and expenditure trends, including their relationship to the five-year Capital Works Plan;
2. prepare cash flow projections of the amount and timing of the capital financing;
3. consider and estimate funding amounts from all appropriate funding alternatives;
4. ensure reliability and stability of identified funding sources;
5. evaluate the affordability of the financing strategy, including the impact on debt ratios, taxpayers, and ratepayers;
6. establish a maximum net debt affordability threshold on an annual basis for each of the years in the five-year Capital Works Plan.

## 11. Capital Funding

The guiding principles related to capital project funding should be as follows:

1. Capital from Operating should be utilized before debt incurrence and completely used within the year it is approved.
2. The Federal Gas Tax Fund funding should also be used before debt incurrence and applied to projects in that year.
3. Debt limits should be managed in accordance with fiscal capacity as highlighted above.

## 12. Unused Authority Guidance

1. Borrowing authority is to be managed and returned in accordance with provincial guidelines.
2. Returned unused authority will be either added to a following year Capital Budget or incrementally added to the fiscal reserves in future years to assist with fiscal affordability.

## 13. Financial Reporting

Quarterly Capital Budget reports will be provided to the Leadership Team and City Council, focusing mainly on the cost of the projects.

Guiding Principles for reporting:

1. Budget Authority will not be transferred from one account to the other unless approved by City Council based on a change of direction.
2. When a project is over-budget and where the scope of project has not changed, it will be the responsibility of the user department to fund this overspend with savings from better pricing on another project or reducing the scope of another project.
3. From a reporting perspective, Finance will report the overspends and the underspends of all projects.

## **14. Administration and Contact**

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