

November 24, 2014

2015 – 2024 Capital plan and 2015 Capital budget

1. What is the capital budget?

The capital budget indicates the funds needed for the first year of the 10 year capital plan and multi-year projects beginning in 2015. It is how we pay for major projects such as reconstructing streets; building and improving public facilities such as recreation facilities, community centres, and parks; dealing with growth pressures such as new streets; and new initiatives. The only projects approved by Council are those planned for 2015, multi-year projects beginning in 2015, or projects in need of additional funding in 2015. These costs are similar to adding an addition to your home this year.

2. What is the capital plan?

Most of The City's capital costs are planned on a long term basis to make them more manageable. The estimates included in the 10 year capital plan are placeholder values for the funding expected to be required in each of the 10 years. Longer term planning allows The City to tailor projects to the changing needs of the community and better manage finances. Our capital plan is similar to your plan to purchase a new vehicle in two years or start home renovations in three years.

3. What types of items does the capital budget deal with?

The capital budget deals with assets that are generally valued over \$10,000 and have a life span greater than one year. This includes things like major equipment, buildings and roads.

Since these are usually large expenditure items, funding sources are extremely important.

Funding generally comes from four sources: customer contributions, reserves, grants and debt.

4. How is The City investing for the future of Red Deer?

The 2015-2024 capital plan is about balancing the need for growth in Red Deer with the community amenities that Red Deerians want and need. It balances the need for necessary infrastructure and development projects while at the same time investing in projects that provide quality services and facilities for Red Deerians.

Keeping this vision in mind is the key to The City's budget process. Some projects have been deferred in the capital plan, which enables The City to address immediate needs of the community and continued planning for multi-year projects.

5. What are the biggest challenges in the capital budget for 2015?

The 2015 – 2024 capital plan is designed to invest in core services that enhance our community today and for the future. There are several key drivers of the 2015 – 2024 capital plan, some of which include the simultaneous expansion of the water and wastewater treatment plants and the development and redevelopment of additional community amenities. One significant challenge is developing new infrastructure to meet community needs and expectations while maintaining an existing infrastructure continuously stressed by high levels of increased use.

6. Why does The City fund projects through debt?

The provincial government limits the amount of debt for municipalities. Our estimated allowable debt limit for 2015 is about \$580 million. For 2014, The City is estimated to be at 43.2 per cent of our allowable debt limit, a total of \$250 million. In addition to a limit on the amount of actual debt,

the province also prescribes a Debt-Servicing Limit. This is the amount the province feels The City can afford to pay in interest and principal costs based on current revenue.

Using debt to finance capital spending is a practice most businesses and home owners use. Debt financing is just like mortgages, equipment loans, and other borrowing tools, that provide the financial capacity to allow borrowers to pay for significant investments over time, as use occurs, instead of saving to pay the entire amount up front. The City of Red Deer, like many other municipalities, has identified debt financing as a viable and financially responsible method of funding projects.

In the current economy, debt is a low-cost alternative to help us maintain existing critical services and emerging needs. Unlike personal or business loans, interest rates charged to The City are fixed for the full life of the loan.

The Conference Board of Canada has recommended that cities should be more willing to take on debt, particularly to finance infrastructure. In the report *Implement Sustainable Funding for Canada's Cities*, the Board states that "borrowing makes sense for capital expenditures because it ensures that future beneficiaries are also paying the cost of infrastructure."

7. Why are some projects deferred in the capital budget process?

The City's capital plan shows the estimated capital expenditures for the next 10 years. Throughout the budget process these expenditures – which are estimates and placeholders for future work – need to be examined in light of the current economic situation. In some cases the capital costs for projects exceed the identified funds available and need to be deferred to future years. Projects that are deferred are not cancelled; this is one way The City can manage its long term finances and have the flexibility to respond to emerging issues.

8. How is the capital budget structured?

The budget shows the total capital expenditures for 2015; the capital plan shows the estimated capital expenditures for the next 10 years. The capital budget also outlines the funding sources for proposed capital projects including customer contributions, reserves, grants and debt.

9. Why is the capital budget presented before the operating budget?

Administration is presenting the capital budget before the operating budget to allow The City to incorporate impacts from the capital budget into the operating budget (e.g. insurance requirements). It also allows The City to prepare any required bylaws, contracts or requests for proposal in advance of projects starting and provide staff more lead time to plan projects and take advantage of Alberta's short construction season.

10. When is the capital budget debated?

The capital budget goes to open Council on Tuesday, November 25, 2014 from 9 a.m. to 8 p.m. All Council sessions are held in Council Chambers, City Hall, second floor. Citizens are invited to attend Council's capital budget meeting to listen to the discussion, or watch online at www.reddeer.ca.

11. What are the largest capital projects for 2015?

During budget discussions this year, Council will consider approval of both current and multi-year capital projects totaling \$173 million. The capital plan for the next 10 years totals \$1.73 billion based on current projections.

The largest capital projects for 2015 are as follows:

- Red Deer Arena replacement - \$21,593,000
- Timberlands residential development - \$12,491,000

- North Red Deer Regional Community Centre - \$8,843,000
- Pavement Rehabilitation Program (Crown Paving) - \$8,256,000
- Emergency Services Station #3 Relocation - \$7,960,000
- Emergency Services Station #4 - \$7,016,000

12. What is the approval process for capital budget and plan?

Each year in November, City Council reviews the expenditure requirements for projects expected to start in the 10 year plan. They consider three options for these projects:

- approve the expenditure, which is a commitment to follow through with the project until completion;
- defer the project to another year in the forecast; or,
- remove the project from the forecast entirely.

Council does not approve funding for projects that begin in the second or subsequent years of the plan.

13. If Council approves the capital budget in November, does that mean all projects listed are automatically approved?

Council will debate and approve a capital budget for 2015 that gives the go ahead to one year and multi-year projects that are planned to start in 2015. The 10 year projections are intended as estimated placeholders and are not approved as part of the capital budget. These amounts are very preliminary and are used as a planning tool that shows order of magnitude, not budget specifics.

14. What is an operating budget?

The operating budget shows the day-to-day costs of delivering programs and services for the next year. These costs are similar to your everyday household expenses such as mortgage payments, utilities or groceries.

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