

What is a capital budget?

The capital budget indicates the funds needed for first year and multi-year projects of the 10 year capital plan. It is how we pay for projects such as reconstructing streets; building and improving public facilities such as recreation facilities, community centres, parks and firehalls; dealing with growth pressures such as new streets; and new initiatives. These costs are similar to budgeting for an addition to your home this year.

What is a capital plan?

The capital plan is our investment plan for the next 10 years, with inclusion of items expected to be required over that time. This is similar to your plan to purchase a new vehicle in two years or start home renovations in three years. Long term planning allows The City to tailor projects to the changing needs of the community and manage finances.

What is an operating budget?

The annual operating budget shows the day-to-day costs of delivering programs and services. The operating budget maintains the services, programs and infrastructure that support 98,000 residents within our growing city.

2015 Capital Budget & 2015 - 2024 Capital Plan

Balancing Growth with Amenities

As our community continues to grow, The City must make choices that keep us on track in achieving our vision of a vibrant community. By investing in projects that benefit the city today and in the future, we can provide quality services and facilities for Red Deerians.

We recently came to Red Deerians and asked what you thought was missing as far as amenities, places for you to live, grow, play and enjoy your community. During this process, we were able to identify what was key for the residents of Red Deer, and plan for a future that is sustainable, and what Red Deerians really want.

Red Deer was also successful in our bid to host the 2019 Canada Winter Games, which requires construction of new facilities, and several facility upgrades and enhancements in Red Deer to ensure Red Deer is ready.

The 2015 – 2024 capital plan is really focused on developing the amenities that Red Deerians want and need to support the growth and future of our community.

The Strategic Plan, set by Red Deer City Council, and adopted September 15, 2014 is citizen focused service that combines an accessible and welcoming community with strategically orientated leadership. The Plan has three key theme areas, outlined below. The City's capital plan is one way we invest in our community, while working toward the themes in the Strategic Plan.

Dialogue

- Engaging our community and enhancing our relationships.

Community Amenities

- Planning great spaces and places for community living.

Financial Leadership

- Creating a sustainable financial foundation.

City Council capital budget approval process

The 2015 capital plan and budget will be presented to City Council at **9 a.m. on November 25, 2014** in Council Chambers, Red Deer City Hall.

Strategic Plan

Vision:

- Innovative thinking
- Inspired results
- Vibrant community

Mission:

The City of Red Deer works together to provide leadership and sustainable municipal services for our community.

Capital plan overview

The 2015-2024 capital plan is a plan for investment in long term assets that consists of two components: The 10 year capital plan and approval of 2015 and multi-year projects.

One of The City's responsibilities is to ensure city infrastructure meets the needs of the community. Capital expenditures are made to fund new infrastructure or improve existing infrastructure, and to deal with assets generally valued over \$10,000 and having a life span greater than one year, such as major equipment, buildings, community facilities and roads. Anticipated spending in these areas form The City's capital plan funding requirements.

The City's 10 year capital budgeting process is an important step in keeping us on track towards achieving our vision. It allows The City to tailor projects to the changing needs of the community and manage finances.

Total 2015 – 2024 capital plan

There are several key drivers of the 2015 – 2024 capital plan, some of which include the continued expansion of the water and wastewater treatment plants and the development and redevelopment of additional community amenities to accommodate growth and future events for our city.

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. Wear and tear on facilities, streets and bridges, changing standards and an evolving community vision have led to the need for new development and redevelopment of a number of facilities over the past few years.

The City of Red Deer is coping with significant capital challenges incurred over the past few years which has put us in a place where some current year and multi-year capital projects are required to be funded by debt.

The capital forecast for the next 10 years totals \$1.73 billion, based on current projections.

Council will only debate and approve expenditures scheduled for 2015, and multi-year projects planned to start in 2015.

Multi-year projects beginning after 2015 are not approved as part of the 2015 – 2024 capital budget process. The 10 year plan projections are intended as estimated placeholders and planning tools which show an order of magnitude of future needs.

A project's inclusion in the 10 year capital plan does not mean that it is going ahead. It simply means that The City is considering it, planning for it, and considering financing options for it.

Capital budget overview

The chart below represents a guide for future investment. Core services, in blue, include capital for infrastructure and replacement or rehabilitation, for current growth and to support our commitment to the 2019 Canada Winter Games. These items appear in the 2015 capital budget and are up for Council debate and approval.

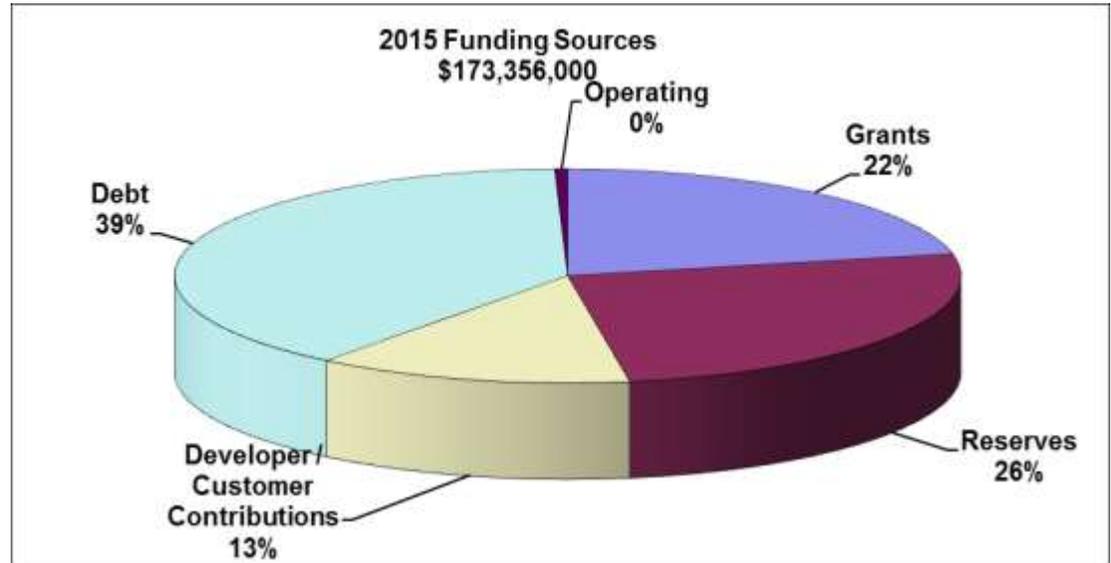
Items in red include things like capital for future growth and administration's interpretation of where community amenities should appear in the 10 year forecast. The City does this longer term planning to ensure projects can be tailored to the changing needs of the community and ensure financial sustainability.

Community Amenities	Amenity Study Interpretation	Core
	Games Commitment	
Capital For Future Growth Options	#4	Core
	#3	
	#2	
	#1	
Capital for Current Growth		Core
Capital for Infrastructure Replacement / Rehabilitation		Core

The 2015 capital budget indicates the funds needed for the first year or multi-year projects of the 10 year capital plan. During budget discussions this year, Council will consider both current year and multi-year capital projects totaling \$173 million.

The capital budget is how we pay for major projects, such as reconstructing streets; building and improving public facilities like recreation facilities, community centres, and parks; dealing with growth pressures such as new streets; and new initiatives.

Capital budget funding sources
2015 Funding Sources - \$173,356,000



Funding for capital projects comes from many sources including grants, customer contributions, reserves and debt. In the 2015 capital budget, funding for projects includes:

*Debt limit:
 The Provincial Government sets this rate at one and a half times revenue.*

*Debt-servicing limit:
 This is the limit the Province feels The City can afford to pay in interest and principal costs based on revenue.*

Developer and Customer contributions

The capital plan includes projects supported through fees. These projects do not have an impact on taxation.

Continued growth creates new demands leaving The City to fund some new capital costs. These costs include upgrades and expansions and the additional tax revenue generated from the increased number of properties is not sufficient to cover these additional costs, leaving The City to find other revenue sources to fund infrastructure projects.

Offsite levies

The City takes a role in front ending initial development costs for new neighbourhoods to finance water, sewers, storm sewers and roads required for growth and development. When a slowing economy leaves us with little or no development in serviced areas, there has been some delay in recovering these costs, but they eventually are recovered as offsite levies by The City from developers who build the costs into lot prices.

Reserves

A significant portion of the funding sources in the capital plan include a mixture of fee-supported and tax-supported resources. The City uses reserves to fund some capital projects which includes utility-supported reserves specifically allocated for water, wastewater, solid waste and electricity infrastructure; the Capital Project Reserve, which in recent years, has been steadily declining due to

the number of expenditures exceeding the funds available; and, other capital reserves which are used for special purposes to repair and/or replace some of The City's infrastructure.

Grants

Grants received from the federal and provincial governments are neither municipal tax-supported nor fee-supported. Only revenue sources announced to date have been included in the capital budget.

Red Deer continues to deal with municipal infrastructure shortfalls as there is a lack of revenue to meet our city's needs. The capital demands exceed available government funding sources including recent federal and provincial investments in municipal infrastructure.

Debt

The City's use of the Capital Projects Reserve over the years has allowed us to delay borrowing. This delay has put us in a sound financial position to manage future debt. However, the magnitude of capital work required and a lack of funds in the Capital Projects Reserve have led The City to use debt financing as a tool to handle Red Deer's significant capital needs.

Debt financing

Debt is one financial tool cities use to finance large capital expenditures. This option allows The City to deal with growth pressures and some of the accumulation of aging infrastructure rehabilitation work.

Debt financing is a responsible method of funding projects

The City of Red Deer, like many other municipalities, has identified debt financing as a viable and financially responsible method of funding projects. Unlike personal or business loans, interest rates for The City are fixed for the full life of the loan.

Delaying projects could cost The City more

Investments needed to support capital development are significant, and failing to do so at critical times can be more costly to The City in the long run. Deferring work can result in deteriorating service levels if facilities and other infrastructure are not maintained. Putting off maintenance also increases overall project costs as it often leads to more significant work in the future and rising costs due to inflation. The City carefully analyzes each project and determines whether or not it is feasible to defer or delay.

The City's level of debt is controlled by the provincial government

The provincial government limits the amount of debt for municipalities. Our estimated allowable debt limit for 2015 is about \$580 million. At the end of 2015, we anticipate our overall debt to be \$250 million, which is 43.24 per cent of our debt limit.

How do we spend capital funds?

The City has a long list of projects for maintaining, upgrading and adding to our facilities and services. Developing the capital plan includes a long and detailed process requiring difficult choices between what we need to do and what we can afford.

Key decisions for City Council

Because of The City's 10 year capital plan includes approximately \$1.73 billion in projects between 2015 and 2024, it's important for Council to balance Red Deer's immediate capital projects with future community needs.

As well, when considering whether or not to move forward with a particular capital project, Council will need to not only consider the expected project cost, but also the cost of deferral. Alternatives will need to be implemented to maintain the usefulness and value of our capital assets.

Decisions made this year will have lasting impacts on The City's future capacity to finance capital projects. Council needs to consider the total 10 year capital plan rather than just the 2015 capital budget to help ensure debt and other capital financing is available in the future, and that the operating budget is not unduly impacted by debt-servicing and increased operating costs of new facilities.

With increasing challenges and lower revenue, Red Deer City Council has the complex role of striking a balance between meeting our immediate needs and putting the resources in place to achieve the community's vision.

Budget development process

The capital plan development is comprehensive and extensive

The City plans years ahead to determine its capital needs. Studies and community consultation, such as the Budget Open House, Ipsos Reid Citizen Satisfaction Survey, Community Amenities Project, Community Culture Vision and the Greater Downtown Action Plan help to determine community needs and wants.

Each year, City departments analyze their specific capital requirements for the next 10 years. Department managers then submit 10 year capital plans to be consolidated into one capital plan.

On an annual basis, The City Manager, Enterprise Business Planning team and departments meet to review department budget requirements, ongoing service levels and new initiatives including capital projects. From these initial meetings a draft capital and operating plan are developed and discussed by the Corporate Leadership Team. The capital and operations plans are developed considering overall sustainability, risk mitigation and alignment with overall strategy.

As soon as the operating and capital process is completed, the process repeats and departments begin work on the next year's capital plan. Continually looking ten years ahead helps ensure The City has time to consider its options.