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# FHALDIMAND COUNTY

Report FIN-12-2022 Capital Status Report as at December 31, 2021

For Consideration by Council in Committee on August 23, 2022

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## OBJECTIVE:

To provide Council with an update on all approved Capital Projects, as at December 31, 2021, including recommendations for changes to project budgets, revised financing and/or the closure of projects.

## RECOMMENDATIONS:

1. THAT Report FIN-12-2022 Capital Project Update as at December 31, 2021, be received;
2. AND THAT the recommendations for individual capital projects, as outlined in Attachment #3 to Report FIN-12-2022, be approved.

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**Reviewed by:** Heather Love, CPA, CGA, Supervisor, Budgets & Financial Planning

**Respectfully submitted:** Mark Merritt, CPA, CA, General Manager of Financial & Data Services

**Approved:** Craig Manley, MCIP, RPP, Chief Administrative Officer

## EXECUTIVE SUMMARY:

Staff propose that the recommendations provided in Attachment #3 to this report, for amendments to funding and/or closure of completed Capital Projects, be approved. This comprehensive project summary includes all recommended revisions including the following specific amendments:

- Summary of projects not started and recommended to close (Attachment #1 – 47 projects)
- Projects requiring financing amendments – mainly administrative in nature. All projects requiring financing amendments are included in Attachment #2 (2 projects)
- Projects complete within revised budget and recommended to close (included in Attachment #3 – 257 projects)

Improved project management and budget monitoring, along with the implementation of Procurement Policy 2013-02, have led to limited reports on individual capital project budget amendments to be approved directly by Council. Accordingly, this report provides a status update on all active capital projects, as well as addresses many housekeeping matters related to budget amendments and/or closure of completed projects.

## BACKGROUND:

This report provides an update on the status of all approved capital projects, as at December 31, 2021. The status report includes year to date actuals and recommendations to close projects that are complete, as well as some revisions to existing financing. The previous capital project status report, as at December 31, 2020, was presented at the June 22<sup>nd</sup>, 2021 Council in Committee meeting.

Active capital projects will be recommended to be closed if any one of the following criteria are met:

- The project is completed at or under the approved budget; or
- The project is completed and over its original budget, and a subsequent budget revision was completed under the terms outlined in the Procurement Policy (2013-02).

As well, at year end, unless amounts are committed and carried forwarded into 2022, all annual capital projects will be closed out at December 31st since there is no current intent to activate such works under the approved parameters. Inactive capital projects, previously approved but not initiated, will be recommended to be closed and re-budgeted (as necessary) if any one of the following criteria is met:

- The projected cost of the project would materially exceed the original budget;
- There is a material change in the nature or scope of the project; or
- The following year's capital budget and forecast preparation has begun, the capital project has remained dormant and there are no immediate plans or formal commitments to initiate the project within the following six (6) months.

In the case where existing, inactive projects will be closed and re-budgeted, the ultimate decision to proceed with the project will be based on the project's new assumptions and its subsequent ranking as measured by Haldimand's current business plans and priorities (i.e. through subsequent budget deliberations with Council). Projects meeting these requirements have been evaluated during preparation and deliberation of the 2022 Tax Supported or Rate Supported Capital Budgets.

In previous Capital Status Reports, Council had requested further streamlining to reduce the amount of detail. Last year, staff began reporting of the status of these projects in a more summarized manner to the minimum level of detail staff feel is appropriate given the accountability and transparency requirements necessitated for this level of spending of public funds. The amount of information has been reduced to create a report that is easy to follow, and still provides all critical project details for Council review. Although the amount of information has been reduced, the action required by Council is significant as it affects 306 of the 780 active projects, with the vast majority of recommendations (257) related to the closing of projects that are completed within budget, unless otherwise explicitly noted. The approval of the 2022 Capital Budgets has resulted in an additional 447 projects being activated. These, in conjunction with the remaining active projects after the recommendations in this report are considered, totals 923 projects currently being administered by staff in 2022.

## **ANALYSIS:**

### **Accounting for Capital Projects**

All capital projects for Tax Supported and Rate Supported (Water and Wastewater) functions are accounted for and administered through the Capital Fund (irrespective of the size or funding source for the specific projects). This allows for monitoring of the actual costs of capital projects, in relation to the approved capital budget, on a regular basis.

Whereas accounts in the General Operating Fund and Water/Wastewater Operating Funds are used for current year revenues and expenditures and are closed at year-end, accounts in the Capital Fund remain active beyond the current fiscal year and are carried forward from year to year. The "closing of a capital project" is based on the criteria noted above.

The Public Sector Accounting Board (PSAB) requires all municipalities to report tangible capital assets in their audited financial statements. The County's current budgeting principles for capital projects are premised on a "long range financing approach". As there is currently no direct relationship between the amortization of capital assets and the financing requirements associated with the replacement of existing infrastructure, there are limited impacts on annual capital budgeting. For annual audited

financial reporting purposes, the Capital Budget, as approved by Council, will be converted to meet the PSAB reporting requirements and details provided with the annual audited financial statements.

## **Capital Project Approvals**

A capital project receives Council approval to be initiated in a given year through the budget process or through a separate report to Council for exceptional situations. Once approval is given to initiate the project, staff proceed to get pricing from external parties. In accordance with Procurement Policy 2013-02, competitive bids/contracts must be awarded with a report to Council, under the following conditions:

- Any Contract prescribed by Statute to be awarded by Council;
- Any Contract where the awarded bid price is outside of the parameters set out in Section 3.03 or anticipated to be outside such parameters;
- Any Contract where the award is not being recommended to the lowest bidder or the lowest Price Per Point proposal;
- In the case of a revenue generating proposal, where the net revenue amount proposed for acceptance is lower than the Council approved budget and cannot be offset within the existing budget without changing the budgeted level of service;
- Any Contract anticipated to be financed by debentures; or
- Where Council direction has been provided to have Council make the Award directly. In all other cases, staff have the delegated authority to award contracts for capital works that have been approved in the annual budgets.

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## **Managing and Reporting on Capital Projects**

During the procurement process for a capital project (or components of an overall project), there may be shortfalls or surplus funding realized. For budget shortfalls, additional funding sources must be identified, which is typically accommodated by one of the following (or a combination thereof):

- deferral of other projects with similar funding sources;
- change in scope of original project or deferral of certain components;
- utilization of realized/anticipated savings from other projects; or
- alternative funding from available reserves/reserve funds.

As there are numerous projects ongoing at any given time, it is critical to manage and monitor these commitments in aggregate in relation to the funding sources to ensure the County's long range financial plan is maintained. Council has delegated the authority to reallocate budgets under specific circumstances. Budget amendments falling outside these parameters must be approved by Council.

Although there may be anticipated savings based on a specific tender result, there will inevitably be requirements for additional unforeseen expenditures on other projects funded from the same source(s); as a result, project savings should be left unspent. The exception to this practice is related to certain capital road programs where provisional projects can be awarded at the time of procurement to ensure the annual funding allocation for these programs is fully utilized. These exceptions, as outlined in the resolutions during deliberations on the 2012 and 2016 Tax Supported Capital Budget, relate to the following annual capital road programs: Urban Paving Program, Surface Treatment Program and Gravel Road Conversion Program. As such, on an annual basis, the intent is to complete all the approved projects within these programs and, if there are excess funds available (in excess of \$100,000), the surplus would be used to complete the provisional items. This provides the ability to accelerate the implementation of these programs. The individual project/road segments are processed and managed as one tender award for each program. As a result, the total annual funds allocated to

these programs are allocated between the individual projects to ensure any shortfalls/savings are utilized to complete the required projects, as well as any provisional projects as the case may be.

This report also contains projects that include a community funding financing component, most of which fall under the Community Partnership Program Policy 2011-01. Under this Policy a project cannot be initiated until funding has been received in full from the community group in order to ensure there is no risk to County resources or funding. As of December 31, 2021, there were no projects in violation of this Policy. Community Development and Partnership Division staff continue to work closely with community groups to ensure all applicable projects are in compliance with the Policy.

## **Budget Reallocations**

Prior to Procurement Policy 2013-02, most budget revisions to capital projects were completed through the Semi-annual Capital Project Update Report. Managers now have increased flexibility to manage their projects, including delegated authority for most budget reallocations, which has minimized the requirement for revised budget recommendations to be considered by Council.

With the revisions to the Procurement Policy in 2013, Managers have been delegated the authority to reallocate funds within certain parameters.

Section 3.03 (c) of Procurement Policy 2013-02 states that:

In order to allow purchases to proceed which exceed the approved budget, a Manager shall have the authority to reallocate funds, without exceeding the aggregate budget within their control, under the following conditions:

### **Capital Budget**

- i. The shortfall cannot exceed 20% of the project budget to a maximum of \$75,000;
- ii. General Scope of work or service delivery method cannot be changed
- iii. If reallocating funds from a capital project/component, the capital project/component in which funds are being transferred from must already be an awarded project/component;
- iv. Revised Bid Award Form must be completed when funds are reallocated;
- v. The funding source must be the same for all accounts affected by the reallocation.

As well, Section 3.03 (e) states that:

Managers shall have the authority to accept grants or donations under the following conditions:

- i. The grant/donation has a \$0 impact on the net levy and gross expenditures do not exceed \$75,000;
- ii. The grant/donation is one-time and covers 100% of the cost of purchase;
- iii. There are no ongoing or future additional operating or replacement costs, or future operating or replacement costs have been previously approved by Council;
- iv. The grant does not increase staff hours or require the hiring of additional staff;
- v. The receipt of the grant/donation and the associated expenditure must be posted to the General Ledger

Through Report CS-FI-20-2014, Council approved amendments to the delegated authority provisions of the Procurement Policy, as follows:

- i. Where offsetting same source funding is available and the balance of the reallocation provisions within the Procurement Policy are met: if the funding shortfall is in excess of 20% of the project budget but less than \$10,000, the Manager is delegated the authority to reallocate funds, as long as the aggregate budget for projects within their control is not exceeded;
- ii. Where offsetting same source funding is not available and the balance of the reallocation provisions within the Procurement Policy are met: if the funding shortfall is less than \$5,000,

the Manager, with advice from the Treasurer or designate, is delegated the authority to approve budget amendments for projects within their control.

As a result, any of the above situations which resulted in budget changes have been incorporated in the Revised Budget for each project and have been detailed and reviewed within the budget system.

If a budget shortfall exists and falls outside of the delegated authority parameters outlined above, then the applicable Manager is required to obtain Council approval before the expenditure is incurred. The required report to Council will: outline the anticipated shortfall; suggest a plan of action to rectify the overrun if available; and identify additional funding sources to offset any remaining shortfall.

It should be noted that staff are currently undertaking a review of Procurement Policy 2013-02. This review is being done in an effort to update the policy for legislative changes that have occurred in recent years, as well as to streamline and modernize the procurement process. Any changes to the policy as a result of this review may impact future years' Capital Status report composition and recommendations.

### **Required Action as per Attachments**

Attachment #3 provides the status updates for all active projects as at December 31, 2021, as well as all of the required individual recommendations needing Council approval that affect current capital projects.

### **FINANCIAL/LEGAL IMPLICATIONS:**

Legislation requires that Council approve all transfers to or from Reserves and Reserve Funds. The recommendations outlined in Attachment #3 provide for the closure of projects and/or amendments to approved financing budgets of individual projects, where required.

As shown in the Attachments, the County has 780 active capital projects as at December 31, 2021, with budgeted expenditures of \$192.0 million. About 72% of the budgeted capital funds relate to tax supported projects, with the remaining 28% for water and wastewater services. The following table provides a high level summary of active capital projects as at December 31, 2021, by recommendation category.

**Table 1 - Projects Summary**

Project Status	# of Projects	LTD Actuals	Revised Budget	Variance
<b>Project Complete within Revised Budget and Recommended to Close</b>				
Rate Supported	48	15,558,927	16,394,140	835,213
Tax Supported	209	27,568,172	30,729,740	3,161,568
<b>Project Not Started and Recommended to Close</b>				
Rate Supported	4	-	795,800	795,800
Tax Supported	43	16,737	1,418,820	1,402,083
<b>Project Ongoing within Revised Budget</b>				
Rate Supported	119	9,940,982	33,883,940	23,942,958
Tax Supported	352	59,533,512	105,057,730	45,524,218
<b>Project Over Budget with Pending Report to Council</b>				
Rate Supported	1	2,329,487	2,194,630	(134,857)
Tax Supported	2	497,223	424,000	(73,223)
<b>Project Requiring Funding Amendment</b>				
Tax Supported	2	828,479	1,085,500	257,021
<b>Total</b>	<b>780</b>	<b>116,273,519</b>	<b>191,984,300</b>	<b>75,710,781</b>
<b>Summary of Projects</b>				
Rate Supported	172	27,829,396	53,268,510	25,439,114
Tax Supported	608	88,444,123	138,715,790	50,271,667
<b>Total</b>	<b>780</b>	<b>116,273,519</b>	<b>191,984,300</b>	<b>75,710,781</b>

(\* Note: See Attachment #3. Projects completed within budget and recommended to close have anticipated savings as indicated above. The total savings at time of project closure may change slightly as expenses are finalized and final payments are released. As these projects are within budget, the applicable approved budgets do not require amendment. Savings will be returned to the original funding sources for the projects.

As noted above, of the 780 active capital projects, project managers have identified three projects that are anticipated to be over budget, thus requiring a future Council report.

**Projects Not Started and Recommended to Close (Attachment #1)**

As of December 31, 2021, there are 47 projects which had not been started. As a result, these projects are recommended to be closed and re-budgeted as necessary in future years. It should be noted that four of these projects have actual expenditures at December 31, 2021. Project 705002 Rotary Riverside Trail Pavilion – Seneca Park was approved in 2015 and has had no activity in recent years. Project 725005 Cayuga Ball Park Fence & Netting Replacement had initial design costs that recommended enlarging the scope of the project far above the initial budget. Project 743008 Hagersville Arena Evaporator Condenser, Brine Pump and Header Replacement was re-identified in the 2022 Tax-Supported Operating Budget after initial engineering costs in 2020. Finally, project 136036 Broadband Project Manager has IT costs related to new devices, and with the cancellation of this project, the devices will be retained and redistributed amongst existing staff. All other projects noted in this attachment have not incurred any costs.

**Projects Requiring Funding Amendments (Attachment #2)**

There are two (2) projects identified that require a funding amendment. The recommended financing changes are administrative in nature and do not impact the approved budgets or overall scope/presentation of the projects themselves (i.e. unbudgeted recoveries, slight changes to funding splits, etc.). These project are recommended to remain open.

## **Projects Completed within Revised Budget and Recommended to Close**

There are 257 projects that have been completed, within budget, and are recommended to close, that, based on actual expenditures to date, will have a projected surplus of approximately \$4 million. Of the \$4 million surplus, approximately \$3.16 million relates to Tax Supported capital projects with the remaining \$835,000 being Rate Supported. The surplus is retained within the original funding source, if internally financed by reserves/reserve funds. A number of the current open projects are considered annual projects in that they have a budget each year in the 10 year forecast. For these projects, only funds committed at the end of the year are to be carried forward. Given the annual nature of these projects, it is implied with the projects themselves that they will also close on an annual basis, therefore, recommendations to close have not been included in the detailed project notes for these specific projects in Attachment #3.

## **Projects Over Budget with Pending Report to Council**

There are 3 projects, noted below, that are currently over budget and will require a report to Council to amend the budgets. The details of these projects can be found in Attachment #3 (page numbers noted below) of this report.

- 705013 Fisherville Lions – Love Be’in Me Committee Track Install (Attachment #3 - page 1)
- 744015 HCCC – Office Renovation (Attachment #3 - page 11)
- 476006 Pt Maitland Low Lift Facility Capital Repairs (Attachment #3 - page 19)

At this time, the budget amendment requirements for project 744015 have been identified as part of Report FCA-01-2022, which was presented at the February 8, 2022 Council in Committee meeting. Budget amendment requirements have not been identified for the other two projects as of this report. The additional funds will be detailed in the individual reports being prepared by the applicable Divisions. A report for project 476006 is expected to be presented to Council before the end of 2022.

## **Projects Ongoing within Revised Budgets**

All other projects (471 in total) are to remain open and active and are within their approved budgets. The details of all projects can be found in Attachment #3 of this report.

## **Debt Related Capital Projects:**

Any capital project that is to be fully or partially funded from debt proceeds will incur fees as a result of the actual debt issuance. These debt related expenses are to form an integral part of the overall budget for any projects with approved debt financing. Though these items are budgeted for during the capital budgeting process, they are estimated based on the total project value and the anticipated timing of project construction. Given these are estimates, from time to time budget amendments to these components may be required and will form a part of the semi-annual capital status update, as required. As of December 31, 2021, no such budget amendments are necessary.

## **STAKEHOLDER IMPACTS:**

All Divisions that manage Capital Projects are involved with monitoring the actual spending on an ongoing basis, and have provided input for this report to Council.

## **REPORT IMPACTS:**

Agreement: No

By-law: No

Budget Amendment: Yes

Policy: No

## **ATTACHMENTS:**

1. Summary of Projects Not Started and Recommended to Close
2. Projects Requiring Funding Amendments
3. 2021 Capital Projects Details