
HALDIMAND COUNTY

Report CS-FI-09-2018 Capital Project Update – December 31, 2017

For Consideration by Council in Committee on April 24, 2018



OBJECTIVE:

To provide Council with an update on all approved Capital Projects, as at December 31, 2017, including recommendations for changes to project budgets, revised financing and/or the closure of projects.

RECOMMENDATIONS:

1. THAT Report CS-FI-09-2018 Capital Project Update – December 31, 2017 be received;
2. AND THAT the recommendations for individual capital projects, as outlined in Attachment #2 to Report CS-FI-09-2018 be approved.

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Respectfully submitted: Karen General, CPA, CGA, General Manager of Corporate Services

Approved: Donald G. Boyle, Chief Administrative Officer

EXECUTIVE SUMMARY:

Staff propose that the recommendations provided in Attachment #2 to this report (provided under separate cover), 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 – 20 projects)
- Projects complete within revised budget and recommended to close (included in Attachment #2 – 222 projects)
- Projects requiring financing amendments – mainly administrative in nature, except for Sanitary Lateral Replacements project C.453.0044 (included in Attachment #2 – page 262) which requires a small budget transfer. All projects requiring financing amendments are included in Attachment #2 (10 projects total)
- Re-opening of the Caledonia Wastewater Treatment Plant Upgrades project C.452.0075 – due to unexpected engineering work still to be completed (included in Attachment #2 – page 253)

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, 2017. 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 September 12, 2017, was presented at the October 24th, 2017 Council in Committee meeting.

Active capital projects will be recommended to be closed out 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 2018, 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 2018 Tax Supported or Rate Supported Capital Budgets, with the exception of the noted two arena hot water heaters (Attachment #1), which, due to timing, will be included in the 2019 Tax Supported Capital Budget.

In previous Capital Status Reports, Council had requested further streamlining to reduce the amount of detail. The reporting of the status of these projects has been summarized 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. Although the amount of information has not been reduced, the action required by Council is significant as it affects 255 of the 606 active projects, with the vast majority of recommendations (222) related to the closing of projects that are completed within budget, unless otherwise explicitly noted.

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). All capital financing sources are reflected in the attached report, with no direct funding from the annual operating budget. 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 requiring approval from the Ontario Municipal Board;
- 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.

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 underlying 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, 2017, 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 within the Finance Status notes where required.

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.

Required Action as per Attachments

Attachment #2 (under separate cover) provides the detailed status updates for all active projects as at December 31, 2017, as well as all of the required individual recommendations needing Council approval that affect current capital projects. It should be noted that the 606 active capital projects have committed expenditures of approximately \$133 million.

FINANCIAL/LEGAL IMPLICATIONS:

Legislation requires that Council approve all transfers to or from Reserves and Reserve Funds. The recommendations outlined in Attachment #2 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 606 active capital projects as at December 31, 2017, with budgeted expenditures of \$133.7 million. This is compared to 749 active projects as of September, 2017. About 69% of the budgeted capital funds relate to tax supported projects, with the remaining 31% for water and wastewater services. The following table provides a high level summary of active capital projects as at December 31, 2017, by recommendation category.

Table 1

	# Of Projects	Approved Capital Budget	Actuals as of December 31, 2017	Recommended Budget	Amended Surplus/(Deficit)
Projects Not Started and Recommended to Close (see Attachment #1)					
Tax Supported	14	\$ 595,000	\$ -	\$ -	\$ 595,000
Rate Supported	6	\$ 118,350	\$ -	\$ -	\$ 118,350
Sub-Total	20	\$ 713,350	\$ -	\$ -	\$ 713,350
Projects Requiring Budget Transfer Outside of Procurement Policy					
Tax Supported					\$ -
Rate Supported	2	\$ 175,000	\$ 103,342	\$ 175,000	\$ -
Sub-Total	2	\$ 175,000	\$ 103,342	\$ 175,000	\$ -
Projects Re-Opened from Previous Capital Status					
Tax Supported				\$ -	\$ -
Rate Supported	1	\$ 2,460,770	\$ 1,612,856	\$ 2,460,770	\$ -
Sub-Total	1	\$ 2,460,770	\$ 1,612,856	\$ 2,460,770	\$ -
Projects Requiring Funding Amendment					
Tax Supported	5	\$ 2,144,230	\$ 1,337,524	\$ 2,144,230	\$ -
Rate Supported	5	\$ 2,490,460	\$ 968,486	\$ 2,490,460	\$ -
Sub-Total	10	\$ 4,634,690	\$ 2,306,010	\$ 4,634,690	\$ -
Projects Complete within Revised Budget and Recommended to Close (*)					
Tax Supported	181	\$ 11,293,390	\$ 10,354,322	\$ 11,293,390	\$ 939,068
Rate Supported	41	\$ 4,487,780	\$ 4,137,621	\$ 4,487,780	\$ 350,159
Sub-Total	222	\$ 15,781,170	\$ 14,491,943	\$ 15,781,170	\$ 1,289,227
Projects Ongoing within Revised Budget					
Tax Supported	269	\$ 77,696,560	\$ 40,864,460	\$ 77,696,560	\$ -
Rate Supported	82	\$ 32,203,620	\$ 15,050,320	\$ 32,203,620	\$ -
Sub-Total	351	\$ 109,900,180	\$ 55,914,780	\$ 109,900,180	\$ -
Summary of Projects					
Tax Supported	469	\$ 91,729,180	\$ 52,556,306	\$ 91,134,180	\$ 595,000
Rate Supported	137	\$ 41,935,980	\$ 21,872,625	\$ 41,817,630	\$ 118,350
TOTAL	606	\$ 133,665,160	\$ 74,428,931	\$ 132,951,810	\$ 713,350

(*) Note: See Attachment #2. 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 606 active capital projects, project managers have not identified any 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, 2017, there are 20 projects which had not been started. As a result, these projects are recommended to be closed and re-budgeted as necessary in future years.

Projects Requiring a Budget Transfer Outside of the Procurement Policy

The Sanitary Lateral Replacements project (C.453.0044) is currently over budget by more than 20% and contains a recommendation within this report to transfer \$15,600 in savings from the Filter Building Ventilation (C.452.0057) project (the net budget impact is \$0). These types of transfers are normally outside of the procurement policy, however, given that the transfer is only \$3,500 outside of the procurement policy, in lieu of writing a separate report to Council, staff are proposing that the transfer be approved through this capital status update. This project is over budget due to a higher quantity of sanitary laterals that were to be replaced than originally anticipated, resulting in higher costs. This project can be found on page 262 of Attachment #2. Both of these projects are included in the “Projects Requiring a Budget Transfer Outside of the Procurement Policy” section of Table 1 above. The Sanitary Lateral Replacement project is to remain open until a final reconciliation of the project can be completed, while the Filter Building Ventilation project (page 257 of Attachment #2) is recommended to be closed.

Projects Re-opened from Previous Capital Status Reports

Caledonia Wastewater Treatment Plant Upgrades (C.452.0075). This project was believed to be completed in its entirety and was closed in a previous capital status report. Subsequent to the closure of this project, it was discovered that additional project reconciliation costs were outstanding (engineering costs estimated at \$40,000). It should be noted that this project was closed significantly under budget. However, given that this project was debt financed, the funding sources required to fund these additional expenditures will be CRRF-Water and DCRF-Sewer. This project can be found on page 259 of Attachment #2 and is also the only project within the “Projects Re-Opened from Previous Capital Status” section of Table 1 above. This project will be open and on-going until these final outstanding costs are reconciled.

Projects Requiring Funding Amendments

In addition to the two projects noted above requiring budget amendments, there are 10 projects contained within Attachment #2 that require minor funding amendments. The recommended financing changes are administrative in nature and do not impact the approved budget or overall scope/presentation of the projects themselves (i.e. small unbudgeted recoveries, slight changes to funding splits, etc.). Of these projects, four are recommended to be closed, while six are to remain open.

Projects Completed within Revised Budget and Recommended to Close

There are 222 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 \$1.3 million. Of the \$1.3 million surplus, approximately \$939,000 relates to Tax Supported capital projects with the remaining \$350,000 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 #2.

Projects Ongoing within Revised Budgets

All other projects (351 projects in total) are to remain open and active and are within their approved budgets. The details of all projects can be found in Attachment #2 of this report.

Debt Related Capital Projects:

Any capital project that is to be fully or partially funded from debt proceeds will incur both temporary financing charges as well as legal fees as a result of the actual debt issuance. Both of 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, 2017, 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. 2017 Capital Projects Details (under separate cover)