



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
**Financial Planning and Policy Division**

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	May 12, 2014
<b>SUBJECT/REPORT NO:</b>	Capital Projects' Budget Appropriation and Work-in-Progress Transfer Policy (FCS14031)(City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Lindsay Gillies 905-546-2424 ext. 2790
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance & Corporate Services Department
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That the proposed Capital Projects' Budget Appropriation and Work-in-Progress Transfer Policy, as outlined in Appendix "A" attached to Report FCS14031, be approved;
- (b) That the Capital Projects' Monitoring Policy be amended as per Appendix "B" attached to Report FCS14031.

**EXECUTIVE SUMMARY**

The proposed Capital Projects' Budget Appropriation and Work-in-Progress Transfer Policy has been included as Appendix "A" to Report FCS14031 for committees consideration as a result of direction provided by Council during the 2014 Capital Budget process.

The proposed policy aims to increase transparency related to the City's Corporate Capital Project Policies and expands on funding sources in the existing Capital Project Monitoring Policy. The existing policy requires unfavourable project variances that are not in excess of \$250,000 to be funded through an appropriation of funds within the same program area. The proposed policy provides more detail surrounding the limitations of appropriating various sources of funding and improves the reporting to Council.

Additional reporting of capital budget appropriations and work-in-progress transfers has been initiated. General Issues Committee at its meeting on February 5<sup>th</sup>, 2014 approved

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Capital Projects' Closing Report as of September 30, 2013 (Report FCS13070(a)) and Appendix "B" to Report FCS13070(a) which provided details of the year to date appropriations.

The approval of the proposed Capital Projects' Budget Appropriation and Work-in-Progress Transfer Policy will impact the current Capital Projects Monitoring Policy. Accordingly, Appendix "B" to Report FCS14031 presents a proposed revised Capital Projects Monitoring Policy.

***Alternatives for Consideration –Not Applicable***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)**

Financial: N/A. The proposed Capital Projects' Budget Appropriation and Work-in-Progress Transfer Policy included as Appendix "A" to Report FCS14031 provides more detailed and directed guidance to a policy already in place.

Staffing: N/A. The proposed Capital Projects' Budget Appropriation and Work-in-Progress Transfer Policy included as Appendix "A" to Report FCS14031 provides more detailed and directed guidance to a policy already in place.

Legal: N/A. The proposed Capital Projects' Budget Appropriation and Work-in-Progress Transfer Policy included as Appendix "A" to Report FCS14031 requires that all appropriations be in conformance with any/all applicable legislative requirements.

**HISTORICAL BACKGROUND (Chronology of events)**

The City's Capital Project Policies have been approved and updated over the years. The base policy was approved in 2005 through Report FCS05044, Report FCS07081(b) in 2008 added the option within the Closing Policy to use surpluses to reduce Outstanding Debt, and Report FCS09083(a) in 2009 added a policy regarding Recurring Annual Projects.

During the 2014 Capital Budget Process and a recent review of the policies, a greater need for transparency, detail, and direction was identified with respect to the appropriations permitted within the Capital Project Monitoring Policy.

The City's Capital Project Monitoring Policy has been reviewed by the Financial Planning and Policy Division of the Corporate Services Department to establish a more transparent, detailed, and directed appropriation policy. The proposed policy continues to recommend the existing practice that any projected deficit of \$250,000 or more be approved by Council.

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The proposed policy "Capital Projects' Budget Appropriations and Work-in-Progress Transfer Policy" has been included as Appendix "A" to Report FCS14031.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

The City's **existing** Capital Project Monitoring Policy states:

- i) That a Capital Status report and Capital Projects' Closing report be submitted to City Council three times a year as of June 30<sup>th</sup>, September 30<sup>th</sup> and December 31<sup>st</sup>;
- ii) That unfavourable project variances that do not exceed \$250,000 be funded through a re-appropriation of funds within the same program. If funds are not available within the same program, a report explaining the variance and recommending a source of funding be submitted to the appropriate Committee of Council for approval;
- iii) Approval authority for the re-appropriation of funds in each financial year be at the same levels as the City's Purchasing Policy:
  - a) Council must approve re-appropriations of \$250,000 or greater
  - b) City Manager or designate must approve appropriations greater than \$100,000
  - c) General Managers or delegated staff be authorized to approve appropriations up to \$100,000.

The City's Capital Project Monitoring Policy has been reviewed by the Financial Planning and Policy Division of the Corporate Services Department to establish a more transparent, detailed, and directed appropriation policy. This proposed policy "Capital Projects' Budget Appropriations and Work-in-Progress Transfer Policy" has been included as Appendix "A" to Report FCS14031.

The proposed policy respects the existing approval limit of \$250,000, ties that limit directly to the City's existing Procurement Policy, outlines the limitations on transferring funds from restricted funding sources, and calls for a heightened level reporting by means of requiring transfers to be reported to Council in a transparent manner through the Capital Projects' Closing Reports and Capital Budget Process.

Subject to the approval of the proposed policy the Capital Project Monitoring Policy will need to be amended accordingly.

Original wording of the Capital Project Monitoring Policy:

- ii) That unfavourable project variances that do not exceed \$250,000 be funded through a re-appropriation of funds within the same program. If funds are not

available within the same program, a report explaining the variance and recommending a source of funding be submitted to the appropriate Committee of Council for approval;

Proposed wording of the Capital Project Monitoring Policy:

- ii) That unfavourable project variances be funded according to the Capital Projects' Budget Appropriation and Work-in-Progress Transfer Policy. If available funding cannot be found within the limits of the Capital Projects' Budget Appropriation and Work-in-Progress Transfer policy, a report explaining the variance and recommending a source of funding be submitted to the appropriate Committee of Council for approval.

In addition, section iii) of the Capital Project Monitoring Policy that provided approval authority will be deleted in its entirety as it has been addressed in the proposed policy.

Further, with the goal of increased transparency and more detailed Capital Project Policies, it is recommended that the wording of section i) be edited to reflect the current practice approved through Report FCS12074(b) which moved the status reporting to the responsibility of standing committee of Council. This amendment clarifies the roles and responsibilities contained within the proposed policy.

Original wording of the Capital Project Monitoring Policy:

- i) That a Capital Status report and Capital Projects' Closing report be submitted to City Council three times a year as of June 30<sup>th</sup>, September 30<sup>th</sup> and December 31<sup>st</sup>;

Proposed wording of the Capital Project Monitoring Policy:

- i) That a Capital Projects' Status report be submitted by departments to their respective Committee of Council three times a year as of June 30<sup>th</sup>, September 30<sup>th</sup>, and December 31<sup>st</sup>. In addition, a Capital Projects' Closing report be compiled by Corporate Services Department and submitted to the General Issues Committee three times a year as of June 30<sup>th</sup>, September 30<sup>th</sup>, and December 31<sup>st</sup>.

Appendix "B" attached to Report FCS14031, entitled Capital Projects Monitoring Policy, reflects these proposed edits and presents the proposed policy in a format consistent with the proposed Capital Projects' Budget Appropriation and Work-in-Progress Transfer Policy.

## **RELEVANT CONSULTATION**

Staff from the Corporate Services Department and Public Works Department have been consulted during the preparation of the proposed policy.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION  
(Include Performance Measurement/Benchmarking Data if applicable)**

The City's Capital Projects Monitoring Policy has been reviewed by the Financial Planning and Policy Division of the Corporate Services Department to establish a more transparent, detailed, and directed appropriation transfer policy. This proposed policy "Capital Projects' Budget Appropriations and Work-in-Progress Transfer Policy" has been included as Appendix "A" to Report FCS14031.

An appropriation policy allows anticipated deficits from over budget contract pricing from tenders to be handled in an efficient and timely manner utilizing anticipated surpluses from under budget contract pricing from tenders rather than requiring a report to council for approval of reallocation of funding.

The proposed policy respects the existing approval limit of \$250,000, ties that limit directly to the City's procurement Policy, outlines the limitations on transferring funds from restricted funding sources, and calls for a heightened level reporting by means of requiring transfers to be reported to Council in a transparent manner through the Capital Projects' Closing Reports and Capital Budget Process.

In 2013 there were two (2) capital project appropriations approved by Council through the following reports:

- Report PED13026 approved the reallocation of \$400K of a Future Fund Grant from Heritage Curatorial Centre to Burlington St Artifact Storage;
- GIC Report 13-008 approved the use of the surplus in the Olde Stoney Creek Urban Design of \$925K to fund land purchases on King St. Details were kept confidential until the land transaction was completed in November 2013.

It is notable that appropriations or work-in-progress transfers are between two active, approved capital projects. Additional funding requests from reserves (for example) are not classified as appropriations or work-in-progress transfers and must be approved by Council in every case. The City's Procurement Policy (By-Law No. 13-317) permits tenders for capital projects to be accepted where the bid does not exceed 10% or \$250,000 of the budget, whichever is less. The proposed policy aligns with this limit by allowing funding transfers under \$250,000 to be covered from internal existing approved funding.

Commencing with the September 30, 2013 Capital Projects' Closing Report (FCS13070(a)), which was presented to the General Issues Committee on February 5<sup>th</sup>, 2014, the initial improved reporting of appropriation transfers was presented and received for information as Appendix "B" to Report FCS13070(a). Further, the transfers utilized in the City's 2014 Capital Budget Financing Plan were detailed during the 2014 Capital Budget Process. The proposed policy formalizes both of these practices.

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The limitations surrounding the transfer of funds have evolved as the complexity of the City's Financing plan has expanded by virtue of new funding sources, addition of reserves, etc. The limitations are not new, they are a result of legal/external/board/ or other restrictions which have been dealt with on a case by case basis as needed. The proposed policy highlights these limitations.

Appropriation transfers will be permitted from surpluses in capital projects to fund unfavourable variances of other capital projects from another program area with the approval of both Directors and General Managers, as appropriate, based on approved signing authorities.

The policy outlines some basic guidance as to the type of funding that can be appropriated from surpluses in capital projects to fund unfavourable variances of capital projects. The general rules are summarized in the following table.

<b>Surplus funded by:</b>	<b>General Rule:</b>
	Transfer of funds from a capital project with a surplus to a capital project with unfavourable variance is:
Contribution from Current / Operating Budget	Permitted.
Debt Financed	Permitted
Reserve Financed	Limited <sup>[1]</sup>
Federal Gas Tax	Limited <sup>[1]</sup>
Development Charges	Not permitted <sup>[2]</sup>
Reserve Borrowing	Not permitted <sup>[2]</sup>
Future Fund	Not permitted <sup>[2]</sup>
External Financing	Not permitted <sup>[2]</sup>
<p><i>[1] Transfers from these funding sources require the recipient project to meet eligibility criteria. With respect to Federal Gas Tax Funding, the recipient project must have received appropriate approval from the Federal Government or its' program delivery agent (Association of Municipalities of Ontario).</i></p> <p><i>[2] While the general rule does not permit appropriation from these funding sources there are exceptions listed within the policy.</i></p>	

Capital projects' budget appropriation transfers and work-in-progress transfers are permitted to provide funding for approved projects which are overspent or forecasted to be overspent from approved projects which are forecasted to generate a surplus, have unspent funding, or are cancelled, within the following authority approval limits:

- Council                                 \$250,000 or greater
- City Manager                         \$100,000 to \$249,999.99
- General Manager                     \$60,000.01 to \$99,999.99
- Director                                 \$0 to \$60,000

## **ALTERNATIVES FOR CONSIDERATION**

**(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)**

N/A. The proposed policy provides more detailed and directed guidance to a process already in place. All foreseeable scenarios have been addressed.

## **ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN**

### **Strategic Priority #1**

A Prosperous & Healthy Community

*WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.*

#### **Strategic Objective**

- 1.2 Continue to prioritize capital infrastructure projects to support managed growth and optimize community benefit.
- 1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

### **Strategic Priority #2**

Valued & Sustainable Services

*WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.*

#### **Strategic Objective**

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.
- 2.2 Improve the City's approach to engaging and informing citizens and stakeholders.
- 2.3 Enhance customer service satisfaction.

### **Strategic Priority #3**

Leadership & Governance

*WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.*

#### **Strategic Objective**

- 3.4 Enhance opportunities for administrative and operational efficiencies.

## **APPENDICES AND SCHEDULES ATTACHED**

Appendix "A" to Report FCS14031 - Capital Projects' Budget Appropriation and Work-in-Progress Transfer Policy

Appendix "B" to Report FCS14031 – Capital Projects' Monitoring Policy