



**City of  
Lloydminster**

***Policy***

<b>Policy Title:</b>	Capital Asset Replacement Policy		<b>Policy Number:</b>	013-2017	
<b>Date of Council Approval:</b>	January 16, 2017	<b>Motion No.:</b>	13-2017	<b>Year of Review:</b>	2018
<b>Department Sponsored by:</b>	Finance				

**Purpose:** To provide necessary funds for the betterment, rehabilitation and/or replacement of existing capital assets.

**Objective:** This policy will assist the City in ensuring funds are available to address infrastructure needs. Maintaining and replacing aging infrastructure is imperative to meeting the expected service levels of our community.

**Definitions:**

<b>Capital Assets</b>	Assets with a physical substance that have a useful life of more than one year, will be used on a continuing basis, and are not for sale in the ordinary course of operation. Capital Assets include roads, water and sewer system, land, buildings, machinery, equipment and other items that provide benefits for several years. To be considered a capital asset, the capital expenditure must meet the individual or group purchase capitalization threshold of \$1,000.
<b>Capital Reserves</b>	Capital reserves are those reserves that are generally established to fund betterments (upgrades)/rehabilitations or replacement of existing capital assets; or the construction or purchase of new assets.
<b>Reserve</b>	Reserve is an appropriation from net revenue at the discretion of the Council, after provision for all known expenditures.

**Scope:** This policy applies to all departments within the City of Lloydminster that are responsible for the acquisition and ongoing maintenance of Capital Assets.

### **Policy Instructions:**

The City's Capital Asset Replacement funding strategy will consist of a pay-as-you-go approach, a Capital Asset Replacement Reserve and other reserves as deemed necessary by council.

The City shall allocate 15%-25% of operating revenues to fund the current year capital asset replacement program. The amount allocated to the capital asset replacement program will be equivalent to depreciation for the current year. The City shall also maintain an account known as the Capital Asset Replacement Reserve.

- A minimum of 2% of the above funds are to be transferred to the Capital Asset Replacement Reserve
- The maximum annual transfer to the Capital Asset Replacement Reserve is determined by Council.

Current year operating funds and funds that are transferred from the Capital Asset Replacement Reserve shall be used to fund Capital Asset betterments, rehabilitations and replacements for small and medium sized projects not exceeding \$5,000,000 dollars.

Current year operating funds and funds transferred from the Capital Asset Replacement Reserve will be distributed proportionately to all capital projects in the annual capital replacement program. Managers shall create detailed Capital Asset Replacement plans and submit them to the Director of Business Services by the budgeting deadline each year. These plans will be approved as part of the budgeting process.

Funds transferred from the Capital Asset Replacement Reserve cannot exceed the reserve's opening balance plus the current year's provision of funds in any given year.

Council may earmark funds for specific capital asset replacement projects or programs. A separate reserve account will be established for each specific project or program. Annual funds allocated to and withdrawn from each specific reserve will be determined by council.

This policy applies only to betterments, rehabilitations and replacements of existing Capital Assets and does not apply to net new Capital Assets. This policy also excludes large capital replacement projects over \$5,000,000. To fund net new Capital Assets or replacement projects over \$5,000,000, the City would use operating revenues above what is described in this policy, grants, borrowing, etc.

### **Source of Funding:**

Capital asset replacements can be funded from either internal or external sources such as:

- Current year operating revenues

- Annual transfers from operating revenues to the Capital Asset Replacement Reserve as approved by Council
- Interest on the Reserve
- Proceeds on sale of tangible capital assets
- Donations
- Corporate investment
- Unconditional and conditional grants as approved by Council

The funds shall be appropriately invested by the City of Lloydminster through the Director of Business Services and interest earned on the investment shall remain in the Capital Asset Replacement Reserve.

**Application:**

The allocation and the use of current year operating funds and funds from the Capital Asset Replacement Reserve will be reviewed annually as part of the annual budgeting process and approved by Council. Meticulous planning is in place to ensure utilization of current year operating funds and funds transferred from the Capital Asset Replacement Reserve are maximized.

**Responsibility:**

*City Council will review and approve all policies.*

*City Administration will administer the policy through the use of a supporting procedure.*

*Finance Department is responsible for creating and amending a supporting procedure.*