Agenda – Council – April 30, 2014

Report – Standing Policy Committee on Property and Development – April 15, 2014

Item No. 21 Corporate Interest Overhead Charges Associated with Building Communities Initiative II (Phases One, Two, & Three)

STANDING COMMITTEE RECOMMENDATION:

On April 23, 2014, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Property and Development and submitted the following to Council:

1. That the overhead interest charges being applied to projects funded under the Building Communities Initiative II Agreement, be waived, as they are ineligible program costs.

2. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Report – Standing Policy Committee on Property and Development – April 15, 2014

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On April 23, 2014, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Property and Development and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On April 15, 2014, the Standing Policy Committee on Property and Development concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

Issue: **Corporate Interest Overhead Charges Associated with Building Communities Initiative II (Phases One, Two, & Three)**

Critical Path: **Standing Policy Committee on Property and Development – Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
J. Kiernan	B. Thorgrimson	M. Ruta	M. Jack A/CAO

RECOMMENDATION:

1. That Council waives overhead interest charges being applied to projects funded under the Building Communities Initiative II Agreement as they are ineligible program costs.

REASON FOR THE REPORT

- It is Council policy that overhead interest charges be included as a cost of the capital project. Any variation thereto requires the approval of Council.

IMPLICATIONS OF THE RECOMMENDATIONS

- The Building Communities Initiative II Agreement specifies that *"borrowing or carrying costs including Manitoba's or Winnipeg's finance and administration charges"* are ineligible costs under the program.
- If interest overhead charges are applied to the BCI projects up to $240,784 will need to be absorbed by the remaining projects; or a similar additional contribution would be required to meet current program commitments. Note: approximately 42 of 98 approved projects have already been completed and fully cash flowed.
- Council's waiving the interest overhead charges to the BCI II program is consistent with the intent of the program agreement, and aligns the current program with the previous funding contributions and agreements.

HISTORY

On October 3, 1979, Council approved *"that overhead be included in capital costs as part of City policy."* The City's practice with respect to interest and administrative overhead charges that

are assessed against capital expenditures made during the year are described in Appendix C of Administrative Standard FM-004. Briefly, the practice is as follows:

- Interest is charged as a means of reimbursing the operating budget for the cost of funding advanced in the year of expenditure. The City charges 2% only on the City's share of funding, including debt, and not on external funding such as grants.
- The City charges 1% on certain expenditures including those financed by Provincial & Federal grants. This overhead is meant to recoup the costs incurred by the City for preparing such things as: contracts, tender awards and legal documents etc. Administrative overhead charges can only be made to a maximum of $100,000 per program.

On January 27, 2010, Council approved the $20,000,000 Building Communities Initiative II (BCI II) Agreement. BCI II has been established by the Province of Manitoba and the City of Winnipeg to provide capital support for upgrading community facilities and municipal infrastructure, enhancing public safety and strengthening neighbourhood commercial areas in targeted areas of Winnipeg.

The Building Communities Initiative II Agreement, (as per previous BCI Agreements) specifically specifies that borrowing or carrying costs including Manitoba's or Winnipeg's finance and administration charges are ineligible costs under the program. However, Council policy requires that overhead, specifically interest overhead, be charged to all capital programs despite the specific exclusion in the Council-approved BCI II agreement with the Province. The recommendation contained in this report addresses this apparent conflicting direction.

BCI II projects have been identified, scoped and approved with the understanding that the full project budget will be applied toward capital expenditures and eligible professional consulting fees. Reducing approved project budgets at this point in the program will reduce the scope of improvements already committed to community groups and elected officials and in some cases make projects unviable.

The Province does not cost-share applied City overheads; therefore, application of interest overhead charges on BCI II (Phase One and Phase Two which has a funding total of $20 million) will reduce the amount available for capital improvements by as much as $196,078. Since the Province will not fund 50% of this amount, the City will have to fund an additional $98,039 of the total program budget as well as delete committed project funding.

To date, the required overheads applied to the BCI II program budget have been charged to the Program's administration budget. This was intended for contract staff, community consultations, program evaluation and communications expenses, and currently has less than $100,000 available for use over the term of the Agreement. Waiving of the interest overhead will allow the full amount of the remaining of the Program administration budget to be used for its intended purposes.

Interest overhead charges on BCI II- Phase Three funding ($3.8 million) *could* reduce the amount available for capital improvements by $44,706 and increase the required City funding by 50% of this amount or $22,353.

Note: FM-004 includes a "waiver mechanism" whereby Departments may, in writing, request of the Chief Financial Officer (CFO) a waiver of the 1% administrative overhead charge.

On February 19, 2014, pursuant to Appendix C of FM-004, the CFO approved a written request to waive the 1% administrative overhead charge on Building Communities Initiative II (Phases One, Two, & Three) capital program budgets.

FINANCIAL IMPACT

Financial Impact Statement

Date: March 27, 2014

Project Name:

Corporate Overhead Charges Associated with Building Communities Initiative II (Phases One, Two, & Three)

First Year of Program **2014**

	2014	2015	2016	2017	2018
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	80,261	80,261	80,261	-	-
Net Budget Adjustment Required	$ (80,261)	$ (80,261)	$ (80,261)	$ -	$ -

Additional Comments: If interest overhead charges are waived, there will be a revenue shortfall in the operating budget of the Corporate Finance Department *of up* to $240,784. There will be no impact on the capital budget as funds that would otherwise be used to pay overheads will instead be used for actual capital improvements. For the purposes of this FIS, the maximum operating budget impact on the Corporate Finance Department is assumed to be applicable equally from 2014 to 2016.

"Original signed by"
Mike McGinn, CA
Manager of Finance

CONSULTATION

In preparing this report there was consultation with:

Corporate Finance Department

Corporate Support Services

SUBMITTED BY

Department	Planning, Property and Development
Division	Urban Design
Prepared by:	Ken McKim
Date:	March 31, 2014
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