

The following financial policies establish the framework for the overall fiscal planning and management of the City of Cambridge. Below are excerpts from the main sections of the financial policies:

Budget Control By-Law

The Operating and Capital Budgets approved by Council set the operating service levels and capital priorities together with the related funding sources. Since requirements, conditions and estimates may change, the City Manager or Deputy City Managers have the authority to reallocate funds for which they are responsible while ensuring that the gross and net expenditures remain within the budget.

General Provisions

1. These policies are to be applied to the approved Current Operating and Capital Budget and the Water and Wastewater Rate Budgets.
2. If the Operating Budget for the year has not yet been adopted, the Accounts of the City may be paid on the basis of the previous year's Operating Budget extended pro rata.
3. Council shall consider the operating budget estimates and determine the sums required for the operating purposes of the City and adopt the Operating Budget and provide funding to the programs and services.
4. Council shall consider the capital budget estimates and determine the sums required for each Capital Project of the City and adopt the Capital Budget and provide funding to the Capital Projects as well as a capital forecast.
5. All Departments must annually prepare an Operating and Capital Budget and submit them to the Chief Financial Officer.
6. The proposed Operating and Capital Budget shall be submitted annually to Council by the Chief Financial Officer, after all proposed operating budget programs and capital projects have been submitted by Departments and reviewed by the Chief Financial Officer and the City Manager.
7. The Chief Financial Officer shall certify that funding for the Capital Projects in the Capital Budget is within the City's updated debt and financial obligation limit.
8. Departmental reports with financial implications submitted to Council for approval in regards to the Operating or Capital Budget must first be reviewed by the Chief Financial Officer to ensure availability of financing sources and compliance with financial bylaws and policies.
9. These policies are to be applied only to budget appropriations and do not supersede the Procurement By-Law which applies to actual expenditures.

Operating Budget Financial Controls

The City Manager and Deputy City Managers have the responsibility to provide the budgeted level of service approved by Council using the corresponding spending authority within the Council approved net levy for the Program.

1. The City Manager and Deputy City Managers do not have the authority to exceed their net total budget of the Department without Council approval.

2. The City Manager or Deputy City Managers may approve overspending of any particular budget line by making the necessary balancing decisions with other operating budgets within their respective Programs.
3. The City Manager or Deputy City Managers must report any anticipated net total over-expenditures on a Program to the Chief Financial Officer as soon as the over-expenditure is known.
4. Reallocations and Transfers Between Programs:
 - a. The City Manager or Deputy City Managers may authorize expenditures which exceed the adopted budget funding available in a Program by an amount not exceeding the lesser of 10% or \$100,000, and the Chief Financial Officer is authorized to pay such excess, provided that:
 - i. This Budget Control By-law is otherwise complied with;
 - ii. The transfer is not between tax supported and water and wastewater Programs or other recoveries; and
 - iii. The total expenditures of the Department do not exceed the Net Operating Budget approved by Council for the Department.
 - b. Expenditures that would result in total gross expenditures exceeding the funding available in a Program by an amount greater than the lesser of 10% or \$100,000 requires Council approval, except for purchases made in accordance with the emergency provisions of the Procurement By-law.
 - c. If Council approval must be obtained under subsection (2) or 5(b), a report to Council must be prepared by a Deputy City Manager and the Chief Financial Officer and reviewed by the City Manager identifying suggested sources of funding for the over expenditure.
5. Operating Status Report to Council - Finance will consolidate the information received from the Departments and report to Council on the status of operating budget variance based on the statements for June, September and December.

Capital Budget Financial Controls

1. The Capital Budget approved by Council will establish the funding and spending authority for a Capital Project.
2. The City Manager or Deputy City Managers will ensure that expenditures do not exceed the approved budget for a Capital Project.
3. Over-expenditure on Capital Projects:
 - a. The City Manager or Deputy City Managers may authorize additional gross expenditures for a Capital Project by an amount not exceeding the lesser of 10% or \$250,000. The Chief Financial Officer must be notified of the over-expenditure and is authorized to pay such excess, provided that:
 - i. The Budget Control By-law is otherwise complied with;
 - ii. Funding is available to fund the over-expenditure; and
 - iii. The over-expenditure and Capital Budget Transfer is reported to Council in the next Capital Budget Variance Report.
 - b. If there are no funds available from other Capital Projects in the Program or from a capital reserve fund, any over-expenditure would require Council

- approval, except for purchases made in accordance with the emergency provisions of the Procurement By-law.
4. If Council approval must be obtained under section 3(b), a report to Council shall be prepared by a Deputy City Manager and reviewed by the City Manager and the Chief Financial Officer recommending sources of funding for the over-expenditure.
 5. Any Capital Budget Transfer between Capital Projects in excess of the lesser of 10% or \$250,000 for which expenditures exceed the funding available requires Council approval.
 6. No Capital Budget Transfer is permitted between any non-tax and tax supported Capital Projects and also must be in accordance with Reserve Fund By-laws.
 7. Emergency Projects as defined in the City's Procurement By-law:
 - a. Where an emergency situation requires a capital expenditure and there is no Capital Project in the approved Capital Budget, a Deputy City Manager may authorize the gross expenditures to be reviewed by the City Manager,
 - b. The Chief Financial Officer may create a new Capital Project, and is authorized to pay the expenditures incurred, and
 - c. A report to Council must be prepared by a Deputy City Manager and the Chief Financial Officer and submitted to the City Manager identifying suggested sources of funding for the expenditures.
 8. Project Closures
 - a. A project is to be closed and any surplus funds returned to the original source of funding if any of the following criteria are met:
 - i. Project completed at or under budget as determined by the City Manager or Deputy City Manager
 - ii. Project completed over budget and report recommending funding source for over expenditure has been approved by Council
 - iii. Project deleted or deferred in order to finance new project or to fund over expenditures in other projects and such deletion or deferral which has been approved by Council
 - iv. The project has not commenced within two years after budget approval and cannot be completed within a three-year timeframe after commencement.
 - v. There has been no account activity on the project for the last 18 months
 - b. Exceptions to the above conditions:
 - i. There is a need for funding to be rolled to future years, to be utilized in projects that have a similar scope and require additional funding
 - ii. Project has not commenced within two years but an extension has been requested
 - iii. Projects with no account activity for the last 18 months but an extension has been requested by the City Manager or Deputy City Managers and approved by the Chief Financial Officer
 - c. Any projects three years or older must be approved Chief Financial Officer to remain open.

9. Capital Status Updates to Council – Departments will be required to forward status updates to Finance three times a year for all projects owned or managed by them. The status must include a description of the work in progress, the percentage of work complete and a projected forecast for completion. A semi-annual staff report will be prepared in each year to provide Council with an update on the status of Capital Projects.

Cash Management

The City of Cambridge manages and controls cash flows to ensure maximum benefit to the municipality. This is accomplished through generally accepted business practices, keeping in mind the Corporation's public image.

Corporate Sustainable Procurement

When evaluating quotations, proposals and tenders in determining the successful bidder/manufacture, the City of Cambridge will ensure that all evaluations will include applicable environmental and accessibility criteria. Environmental cost benefits must be considered regarding the product/service life-cycles, including the costs associated with operating, maintaining and disposing of the products. The accessibility, equitability and adaptability of products must also be considered when acquiring goods and services.

Use of Surplus

Any surplus greater or less than the carry-over used for budget purposes will be allocated in the following order:

1. The Rate Stabilization Reserve to be adjusted provided the balance remains between zero and \$5,000,000.
2. The balance after the above item, if any, to be allocated to the Capital Works Reserve Fund.
3. Any surplus resulting from sanitary sewer operations in excess of \$500,000 be transferred to the Wastewater Rate Stabilization Reserve.
4. Any surplus in the water operations which exceed debt outstanding plus \$500,000 be transferred to the Water Rate Stabilization Reserve.

Debt Management

The amount of debt the City of Cambridge can issue is limited to an annual repayment of 25% of their own source revenues as per the Ministry of Municipal Affairs and Housing regulations. Under the City of Cambridge's more conservative policy, this is further reduced to 10% of own source revenues for tax supported debt charges and 15% of the City's rate supported revenues for rate supported debt. Debt financing from tax revenues will not be approved unless a project exceeds \$10 million. The term of debt will not exceed the useful life of the underlying asset, with preferred terms being 10-15 years.

Asset Management

Asset management is a systematic process of maintaining, upgrading, and operating physical assets in a cost-effective manner. It encompasses a balanced approach to capital funding so that the needs related to maintaining current assets and funding new initiatives are both considered. The City of Cambridge has adopted the following procedures under its Asset Management Policy to facilitate a more organized and logical approach to decision

making for the replacement/refurbishment of tangible capital assets in their short and long-term financial plans.

1. To determine capital priorities, all future capital budgets will be categorized as one of the following: Growth, Replacement, Rehabilitation, or Enhancements.
2. All infrastructure and assets will be subject to a cost benefit analysis that considers lifecycle and operating costs.
3. All assets will be maintained at a level that protects the capital investment and minimizes future maintenance and replacement costs.
4. The City will maintain all infrastructure in a state of good repair by implementing life cycle costing and contributing annually to the replacement reserves.
5. At minimum, the City will set aside the annual amortization of the asset based on historical costing.
6. Regular reviews of the remaining life and condition of the asset will be completed.
7. The City will undertake a risk assessment of all major capital infrastructure.
8. Information on the assets will be brought up to date and thereafter kept up-to-date.
9. The Chief Financial Officer will provide reports annually on the status of infrastructure and the adequacy of the annual budget and forecast to meet state-of-good repair requirements and manage related risks.
10. Other activities as required.

Capital Reserves and Reserve Funds

Capital Reserves and Reserve Funds are used to assist in financing the capital program. They provide flexibility and liquidity as well as enhance the City's capacity to handle current and future capital infrastructure needs while reducing their reliance on external financing. Capital assets are supported by calculated annual contributions to reserves/reserve funds from the Operating Budget to address their eventual rehabilitation and/or replacement. Budgeted projects which are funded from Reserve funds can only proceed if the funding is available from the appropriate reserve fund. If a new asset is acquired by the City and funded through debt, annual contributions to the Capital Reserve and Reserve Funds will be made once the debt repayments have been completed.

Stabilization Reserves

Stabilization Reserves and Reserve Funds provide a contingency for unforeseen events and stabilize fluctuations caused by one-time expenditures or revenue shortfalls. By maintaining a prudent level of Stabilization Reserve Funds, it protects the City against reducing service levels or raising taxes/rates because of temporary revenue shortfalls or unanticipated expenditures. The City currently has Stabilization Reserve Funds for Tax, Water, Wastewater, Winter Maintenance, and Building Permit Stabilization. These Stabilization Reserve Funds are funded from annual operating surpluses in the respective areas. Minimum balances, ceilings and targets have been established to provide a guideline for these Stabilization Reserve balances.

Program Specific Reserves and Reserve Funds

Program Specific Reserves and Reserve Funds are set aside for specific purposes. These reserves are restricted funds only to be used for their identified purpose. They may also include special one-time purchases or activities approved by Council. Financial plans are prepared and reviewed annually for all Program Specific Reserves/Reserve funds to ensure that there are adequate funds to sustain the program requirements. Upon conclusion of program specific projects, any remaining balance will be transferred to a Reserve with the greatest need or as permitted by legislation.

User Fees

User fees are charged to consumers of a specific service in order to recover the full cost of providing the service. By only charging the consumers of the service rather than the community as a whole, it reduces the pressure on the overall tax levy to fund the operating budget. The City will review and update user fees annually in order to ensure that the fees continue to cover the related annual costs and volume increases. A comprehensive review is also done every five years to reflect changes in the cost and demand for the services as well as the service offerings.

Revenue Diversity

The City of Cambridge is committed to finding innovative and alternative sources of funding to help the City fund new strategic initiatives and reduce the reliance on property taxes. These opportunities include:

- New revenue generating opportunities
- Maximizing grants from other levels of government
- Sale of surplus lands and properties
- User fees
- Development charges
- Public-private partnerships, sponsorships, naming rights

Non-recurring revenues will only be used for non-recurring expenditures or to replenish any reserve or reserve fund.