

Capital Asset Maintenance Plan Proposal

Introduction

In addition to the Endowment Fund, the church's major capital assets are its property, building, and equipment. This document proposes a Capital Asset Maintenance Plan (CAMP) designed to ensure effective long-term stewardship of these valuable physical assets. Two key elements of the CAMP are:

- A Capital Asset Maintenance Schedule of the required maintenance for the church's capital assets including:
 - What maintenance is required
 - When it will be required
 - How much it will cost;
- A sustainable method for financing the costs identified in the Capital Asset Maintenance Schedule.

Background

The church moved into its current premises at 170 Dundurn St. S. and completed major renovations approximately 15 years ago. Since then, little in the way of capital maintenance of the property has been required and no formal capital asset maintenance plan or budget has existed.

In 2012, the church commissioned a building assessment by Brook Building Consultants. Subsequently, the Property and Finance Committees refined and extended Brook's assessment into a Capital Asset Maintenance Schedule. The 40-year schedule includes:

- Routine annual maintenance items – e.g. repairing the floors, fixing broken windows, maintaining the electrical and plumbing systems, keeping the paint updated, etc. The cost of this annual maintenance is smooth from year to year and is already reflected in the church's Operating Budget.
- Periodic maintenance items – e.g. repairing/replacing the HVAC system, re-shingling the roof, etc. The costs associated with these items are often large and are "lumpy". Some years, there is major expense and in other years there is very little.

The Capital Asset Maintenance Schedule does not include discretionary new capital expenditures (e.g. extensions to or reconfiguration of the building).

Capital Reserve Fund

A key objective of the CAMP is to smooth the maintenance costs from year to year and by doing so, to encourage the discipline associated with good financial stewardship.

The CAMP includes a new Capital Reserve Fund, similar in concept to a condominium reserve fund, as the smoothing mechanism for the "lumpy" periodic maintenance requirements. The church will make annual allocations to the Capital Reserve Fund, the balance in the Fund will be invested in low risk financial instruments (similar to the investment restrictions on condominium reserve funds and for the same reasons), and the "lumpy" periodic maintenance costs will be financed from the Fund. Investment management of the Capital Reserve Fund will be the responsibility of the Capital Funds Committee.

Based on the Capital Asset Maintenance Schedule, conservative assumptions about the long-term inflation rate and investment returns for both the Capital Reserve Fund and the Endowment Fund, we project that the Capital Reserve Fund can be financed by a combination of:

- Solar panel revenue – approximately \$7,000 each year from 2013 through to 2032 (the last year of the microFIT contract), and
- Endowment Fund income (expected to resume by 2015).

The early years will require careful management of the expenditures from the Capital Reserve Fund because it is starting with a zero balance and its balance is dependent on the timely recovery of the Endowment Fund. Annual expenditure decisions will be required during these years based on actual balance in the fund rather than on the predicted balance as shown in the model.

Emergency Minimum in the General Reserve Fund

Current church policy is to maintain a minimum \$30,000 balance in the existing General Reserve Fund to cover emergencies that cannot be paid for out of the annual Operating Budget. Emergencies are of two types:

- Major building expenses that cannot be covered by the annual Operating Budget
- Other non-building expenses such as budget deficits.

With the implementation of the Capital Asset Maintenance Plan, it should be possible to significantly lower the emergency minimum required in the General Reserve Fund as emergency costs associated with the building can be covered by the Capital Reserve Fund. We recommend reducing the emergency minimum in the General Reserve Fund to \$10,000.

Processes

Annual Property Budget Process

During the annual fall budget process, Property Committee and Finance Committee will jointly update the Capital Asset Maintenance Schedule. Based on the updated Schedule, the proposed budgets for the following year will be determined for:

- Operating expenses
 - Annual maintenance (non-capital maintenance done each and every year)
 - Periodic maintenance (non-capital maintenance done less frequently than annually)
 - Non-capital projects (discretionary improvements, new developments costing less than \$5,000)
- Capital expenditures
 - Periodic capital maintenance items identified in the Capital Asset Maintenance Schedule (items costing \$5,000 or more)
 - Capital Projects (improvements, new developments that are discretionary and cost \$5,000 or more and are not included in the Capital Asset Maintenance Schedule)
- Capital Reserve transfers
 - The transfer required from Capital Reserve Fund to the Operating Fund to cover the budgeted Periodic Maintenance expenses for the year
 - The transfer required from Capital Reserve Fund to the Property Fund to cover the budgeted Periodic Maintenance Capital expenditures for the year.

Year End Accounting

The transfer of funds from the Capital Reserve to the:

- Operating Fund to cover the actual costs of the approved Periodic Maintenance expenses for the year
- Property Fund to cover the actual capital additions of the approved Periodic Maintenance for the year.

The transfer of funds to the Capital Reserve from:

- Solar Panel revenue
- Endowment Fund net real income.

Review of the Capital Reserve Fund – at five years

Periodically – every five years or earlier if economic conditions warrant it – the Finance Committee with the support of the Capital Funds Committee will review the adequacy of the Capital Reserve Fund to pay for future Capital Asset Maintenance requirements. The review will be based on:

- Actual balance of the Capital Reserve Fund
- Projected future rate of return on the Capital Reserve Fund investments
- Capital Asset Maintenance Schedule
- Recent and projected income from the solar panels and the Endowment Fund that can be used to supply the Capital Reserve Fund.

The Finance Committee will:

- Provide an update on the adequacy of the Capital Reserve Fund to address future Capital Asset Maintenance requirements, and
- Recommend any changes to the funding of the Capital Reserve Fund necessary to ensure funding security.