



2019 MUNICIPAL BUDGET PHILOSOPHY

Purpose

The purpose of this report is to establish guidelines that, once agreed upon, provide the framework upon which Administration will prepare the County's 2019 budget.

Budget Link to the Strategic Plan

The Municipal Budget will serve as the financial plan for Parkland County. The Municipal Budget will provide Administration with the resources and authorization necessary to operationalize the program and service levels set by Council as well as operationalize the Broad Objectives in the Long-Term Strategic Plan. Department Administration will complete Budget Initiative forms which detail proposed initiatives for any Broad Objectives identified on the 2019 Project List and the 2019-2023 Capital Plan.

Economic Climate

Challenges continue into the 2019 fiscal year with the potential loss of linear assessment. Trans Alta's coal to gas transition plan will result in a decrease in Parkland County's assessment base as equipment, buildings and the mine are shut down. Although there are many unknowns administration anticipates that as much as \$41 million in tax revenue over the next 20 years is at risk. Parkland County has also received a linear and designated industrial property tax appeal from Trans Alta that could impact the County's 2019 tax base by a further \$8.6 million. The County will therefore develop a budget that recognizes the reduction of linear revenue by implementing a 5% decrease in non-core expenses as directed by Council at the March 13, 2018 Council meeting. This will be accomplished through a review of programs and service levels. The tax rate ratio will also be reviewed. Any funds required to balance the budget after this review will be accumulated through a tax rate increase.

Future Municipal Financial Planning/Budget Changes

In order to promote responsible financial management, revisions were made to the *Municipal Government Act* (MGA) to include requirements for long-term financial planning.

Municipalities will be required to adopt, at a minimum, three-year operating plans and five-year capital plans for year 2020.

Administration will be producing a one year operating budget for 2019 and a five year capital plan (2019-2023) identifying major County initiatives.

Administration will also be moving toward a priority based budget process where resources are allocated to programs according to how effectively they achieves the goals and objectives that are of greatest value to the community. The Priority Based Budget Process is captured on the 2019 Project List.

Balancing the Budget

Administration will prepare a balanced budget where expenses, both operating and capital, are equal to revenues with the exception of non-cash items such as amortization. Administration will also endeavor to implement a Structurally Balanced Budget as recommended by the Government Finance Officers Association (GFOA) to ensure that recurring expenditures are covered by recurring revenues and that non-recurring (one-time) revenues are used to fund non-recurring (one-time) expenditures. Increases to property taxation rates will be the last resort relative to balancing expenses with revenues. All sources of revenues will be clearly presented for Council's consideration.

Assessment, Tax Rates & Requisitions

When feasible, tax revenue generated from new growth will be used to maintain current levels of service in all areas of the budget. Also, when feasible, tax revenue generated from an increase in existing market values, not required to maintain current levels of service, will be utilized to increase restricted surplus balances in areas identified as being high priority by Council in the Strategic Plan.

A tax rate ratio is a way of distributing the taxes paid by residential versus non-residential properties. Currently Parkland County has a 2:1 tax rate ratio. When setting the tax rate ratio the County wants to ensure that the residential and non-residential taxation in the County remains competitive within the region and the tax burden remains fairly distributed. Based on economic realities, Administration will be considering adjustments to the tax rate ratio to ensure residential and non-residential tax rates remain competitive should the County suffer a substantial loss of revenue.

All requisition costs (Alberta School Foundation, Seniors Foundation, and Linear) will be recovered directly from applicable tax revenues. The County's operating budget will not be used to subsidize or cushion other requisition increases. Requisition increases will stand alone on their own merits.

The Interim Budget will be approved in December while the Final Budget, used to set the tax rate, will be approved in the spring.

Budget Process

Council approval of the Interim Budget occurs in December of each year. This approval acts as authorization for the County's business units to utilize available resources to administer key programs and services. Preparation of the County's Interim Budget is a significant undertaking involving detailed fiscal analysis and substantial planning efforts. Therefore, it is critical that all planned initiatives are included in the budget at this time.

In order to include the finalized assessment and school requisition values, the Interim Budget is adjusted in the spring and then becomes the Final Budget. Adjustments to the budget are also made at this time to include any carry forward projects that were not completed in the previous year, final investment income, restricted surplus transfers and other miscellaneous financial/treasury adjustments. New to the 2019 budget process is no departmental changes or initiatives will be accepted.

Variances

It is the responsibility of the department to review the programs and revenue and expenditure trends and variances prior to submitting their final budget documents to Financial Services. Where significant variances exist, budget numbers will need to be compared to actual historical values from the previous three years to ensure a budget adjustment is required.

As part of the presentation to both the Executive Committee and Council, Departments will need to explain significant variances between 2019 budget figures and the approved 2018 budget figures. With the exception of changes to salaries and benefits, fees and charges, and changes supported by budget initiatives, variances will be explained as notes to the budget reports. The focus will be at the program level unless this information isn't available.

Service Levels

The Municipal Budget will be comprised of projects and programs which balance the expectations of citizens, in regards to, service levels with their ability and willingness to pay for those services.

Historically, Administration has prepared an operating budget on the basis of maintaining service levels that are consistent with the prior period unless otherwise requested by Council. In order to maintain consistent service standards from year to year, the County must have a level of predictability in annual expenses with a corresponding dependability in revenue streams. Any deviation from this financial expectation must be addressed through taxation adjustments, service level adjustments or through a combination of the two.

During the 2018 fiscal year, Trans Alta submitted an assessment appeal to the Province of Alberta requesting additional depreciation on Sundance 1 to 6, Keephills 1 to 3 and associated machinery & equipment (ex. dragline). Trans Alta is shutting down Sundance 1 and “mothballing” Sundance 2, 3, and 5. This could have a significant impact on the County, reducing revenues by approximately \$8.6 million with no equivalent reduction in expenditures. As a result, Administration will be preparing a budget for Council that will consider reductions in programs and/or service levels provided to residents in order to keep the tax rate increase minimal. This change will establish the new level of service provided to residents going forward into future budget years.

Consistent with prior years, inflation and population growth also present challenges in maintaining consistent services levels as the cost of goods and services continues to increase over time. These increases will be mitigated through changes in property assessment values and adjustments to the municipal tax rates.

User Fees

As part of the budget process, all user fees are reviewed and updated on an annual basis by the department responsible for administering the fee. This annual review ensures that fees are consistent with changes to services levels, delivery methodology and all costs associated with delivering a particular service. A user fee review is guided by the following principles:

- Benefit Principle – those who receive benefits from a particular County-provided good or service should pay for that good or service according to the level of value received.
- Cost Recovery Principle – the total cost of providing a good or service, including operating expenses should be the starting point when calculating user fees
- Management of Demand Principle – Fees have a role in managing the level of demand for a service. Too high a fee can discourage use of a service that benefits the community. In these cases Council may direct that a fee be subsidized or waived.
- Comparability Principle - an analysis of fees charged for similar services provided by the County’s neighboring municipalities ensures fees are comparable to other providers.

Utility rates should be set at levels adequate to cover operating costs, meet debt obligations and provide funding for capital improvements. The County is working towards elimination of subsidization between utility systems.

Conservative Budget Estimates

The budget should reflect estimates for both revenues and expenses through an objective, analytical process utilizing historical trends, judgemental and statistical analysis as appropriate. Since estimates are sensitive to both local and regional economic conditions, such estimates adopted through the budget process must be conservative, particularly on the revenue side. Estimates are reviewed at each stage of the budget process to ensure that they are still valid in relation to ever changing social and economic factors.

Capital/Infrastructure

The five-year Long-Term Capital Plan is prepared to ensure Parkland County's resources are used for investments in Parkland County's infrastructure. Administration's objective for 2019 is to ensure the plan is financially sustainable. The sustainable spending level for 2019 is estimated at \$17M. To ensure this objective is reached investments will be ranked based on their: impact on health and safety, support of Council's Strategic Plan, ability to sustain current services, and meet future growth.

When funding for infrastructure comes by way of grants, reasonable assurance that the project is eligible for grant funding is required. Infrastructure requirements not supported by grants will be funded either through debenture borrowing (typically related to infrastructure paid for by user rates/fees such as utilities), lifecycle plans, taxation, off-site levies, or planned restricted surplus funds.

Capital projects that are similar in nature will be "bundled" together and presented to Council as one line item on the budget. For example, asphalt surfacing projects is presented to Council as a single line item.

Capital projects will be separated into the following categories:

- Renewal/Preservation - work on existing infrastructure such as major maintenance that does not increase the service level of the infrastructure
- Value Add Growth - new infrastructure
- Service Growth - significant upgrade of an existing asset due to population growth

- Development Growth - new infrastructure contributed from new development or new infrastructure that will encourage development

The determination of capital will follow the guidelines that are defined in Tangible Capital Assets Directive A-FI01. The capitalization threshold will be \$5,000 for all categories except buildings and engineered structures (i.e. roads, utilities etc.) which will be \$50,000. The determination of a capital item will be based upon the value of one unit. (i.e. one unit at \$6,000 is capital; 10 units at \$600 totalling \$6,000 is non-capital). A unit is defined as all items required for the new item to function. (i.e. a unit for a computer would include a monitor, mouse, keyboard, and the operating system.)

Budget Initiative Form

The budget initiative form has been developed so that it has a clear link to the Strategic Plan. The budget initiative form will provide all the necessary information Senior Administration and Council need to enable them to evaluate proposed changes to programs and/or service levels as well as any new initiatives.

Initiatives will be run through vigorous rating criteria to assess whether they are:

- Imperative (Must Do) – cannot be reasonably postponed in order to avoid harmful or otherwise undesirable consequences
- Essential (Should Do) – address clearly demonstrated needs or objectives
- Important (Could Do) – benefit the community but may be delayed without detrimental effect to basic services
- Desirable. (Other Year) – not included within the current year budget because of funding limitations

A budget initiative form must be completed for all operating initiatives for the year 2019 and for all capital items for the years 2019 through to 2023.

The carry forward request form will be completed as part of the year-end process which identifies any budgeted funds that were not spent in the current year. Departments may request that these funds be carried forward to complete any programs or projects that are not completed by year-end. Funds are placed in a restricted surplus account for future use. The carry forward request form will be reviewed and approved by Senior Management with the respective carry-forward amounts added to the Final Budget.

Equipment Lifecycle Plans

Equipment Lifecycle Plans provide a method for the County to set aside funds for the future replacement of existing equipment. New equipment purchases are placed on the appropriate equipment replacement plan in the year following that of their purchase. The 2019 budget cycle will include equipment life cycle plans for the following:

- Fire Services Lifecycle
- Facility Maintenance
- Mobile Equipment Lifecycle
- Office Lifecycle
- Protective Services Lifecycle
- Survey Instruments Lifecycle
- Rural Communications Network Lifecycle

Administration will continue to review equipment life cycle plans in 2018 to ensure that they are supporting the County's needs and are economically viable.

Restricted Surplus

Administration will continue to set aside funding for the County's future capital needs through appropriate restricted surplus transfers and will continue to utilize restricted surplus as a financial strategy in preparing the 2019 budget. The utilization of restricted surplus enables a municipality to rely less on debenture borrowing and to maintain stability in tax rates by avoiding spikes in years where major one time expenditures are incurred (Policy C-FI05).

In regards to restricted surplus, the budget will be prepared based on the following:

- Parkland County will maintain appropriate restricted surplus balances as determined by Council through its restricted surplus policy and planning.
- The budget will allocate an appropriate level of funds to restricted surplus in order to maintain services throughout economic cycles.
- Use of restricted surplus is planned and is not considered as an alternate funding source in place of good financial practice.
- It is essential not to rely on restricted surplus to fund regular operations as it is unsustainable.

It should be noted that only those operating or capital items identified in the restricted surplus authorization forms can be funded from restricted surplus. Unless otherwise approved by the Executive Committee and Council, new capital purchases must be funded through general taxation or debenture debt until such time that a corresponding restricted surplus is established.

Staffing

Salaries and wages will be budgeted based upon the current year's Full Time Equivalent (FTE) staff complement. Employee benefits will be estimated based on the average cost per employee as determined from the previous year's financial statements.

Due to the current economic climate Council passed a motion on March 13, 2018 that Administration introduce a hiring freeze for the 2019 budget therefore no new staff initiatives will be accepted. In conjunction with this all attrition losses will be reviewed and all positions may not be replaced.

Where union negotiations have set future year wage costs, those costs will be reflected in the corresponding budget which will ensure that all programs will be reflective of the true costs of running them. In years where settlements have not been negotiated, Administration will include an estimate based on the current state of the local economy. Although inflation may be coming back into the market, administration will need to rationalize this as part of the overall budget constraints.

Debt

Debt guidelines are necessary for the responsible management of the County's financial resources. Debt Policy C-FI09 has been established to maintain a strong financial position through limiting tax supported debt, effectively, a pay as you go philosophy. The ability to ensure sufficient funding for capital intensive projects has been achieved with both orderly planning through restricted surplus and maximizing granting opportunities. In the past, the County has acquired most of its debt, either internal or external, to fund utility and other public infrastructure which is supported through utility rates and or off-site levies. The 2019 budget will be prepared utilizing the same pay as you go philosophy. Any deviation in this philosophy will be made in consultation with Council.

Inflation Adjustment

The cost of goods and services typically change year over year, therefore, in order for the County to maintain a consistent level of service, corresponding adjustments must be made to the Municipal Budget to account for inflation/deflation. The County uses published index rates to provide a recommendation for the rate applied to the budget. The most commonly referenced index is the Consumer Price Index (CPI) which is based on the goods and services used by the average consumer. The County, however; purchases a different range of goods and services than the average consumer therefore the CPI is not the most appropriate measure of inflation for the County. As a result, the County relies on the Municipal Price Index (MPI) to determine the rate of inflation/deflation to apply to its budget. The MPI is calculated using items commonly utilized by municipalities rather than consumers and is more indicative of the County's operations.

Historically, administration would recommend an inflation adjustment equal to the 2019 forecasted MPI rate of 2.70%.

| | Forecast | | | | |
|------|----------|-------|-------|-------|---------|
| Year | 2018 | 2019 | 2020 | 2021 | Average |
| MPI* | 2.63% | 2.70% | 2.96% | 2.86% | 2.79% |
| CPI* | 1.77% | 2.18% | 2.02% | 2.04% | 2.00% |

**Source: Municipal Price Index 2018 Economic Insights, City of Edmonton.*

In previous years Administration would also use forecasted MPI product and service specific rates that would be used by departments when completing their itemized budget are as follows¹:

- Equipment and Vehicles + 1.95%
- Fuel + 2.21%
- Materials + 1.95%
- Natural Gas + 4.48%
- Utilities + 2.06%
- Land Costs + 2.18%
- Travel and Training + 2.18%
- Contract and Professional Services + 2.71%

¹. Source: Municipal Price Index 2018 Economic Insights, City of Edmonton.

For the 2019 budget year, Administration is recommending that departments hold to 0% inflation on all services. If an increase is required a compelling case will need to be prepared by the department to provide evidence that the existing service levels cannot be met without a base budget adjustment.

Tax Increase

Administration is recommending a tax increase of 5% or less as a target due to the Council decisions made to date, impact of the Climate Change Policy of the Provincial and Federal governments, the linear appeal, and planning for the anticipated reduction in Municipal Sustainability Initiative (MSI) capital in 2020. While this will not fully address the potential revenue loss projected in the budget, it is a key step in the plan to meet the needs of our residents while ensuring the County remains sustainable in the future. Administration will re-evaluate the 5% target during the Final Budget process in the spring if TransAlta is unsuccessful in its appeal.

Contact Information

If you have any questions or require clarification, please contact one of the following staff:

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