

# 2019 CAPITAL BUDGET OVERVIEW

*Presented November 6, 2018*

*One Parkland: Powerfully Connected.*



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 **Capital Budget Philosophy**

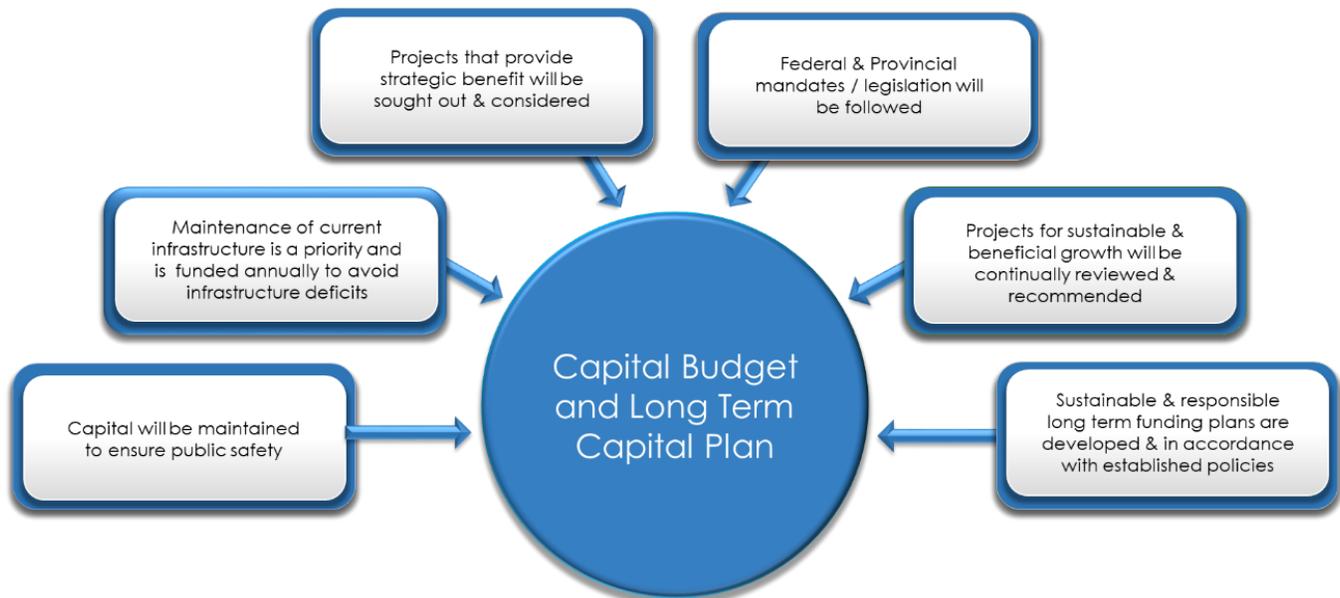
Municipal capital is infrastructure such as roads, utilities, equipment, etc. used to provide municipal services to residents in Parkland County. Some of the many ways that capital serves Parkland County are depicted below.

**2019 FOCUS**

In the 2019 Capital Budget, the focus is on supporting annual maintenance programs, hamlet sustainability, service growth, and to catch up on carry-forward projects. Once these projects are funded, new growth projects will be added back into the budget of future years.

## KEY BUDGET CONCEPTS & GUIDING PRINCIPLES

- The budgeted amount for capital should be the planned spend for the fiscal year.
- All carry forwards will be budgeted in the final budget (spring 2019).



## ALIGNING TO COUNCIL'S STRATEGIC PLAN

Council's strategic plan provides direction to administration. The 2019 Capital Budget has recommended projects that are in alignment with Council's strategic goals. The Capital Budget is developed in the context of the long-term plan and considers critical factors such as:

- 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

## CAPITAL BUDGETING PROCESS

The Capital Budget considers and balances all infrastructure pressures including, but not limited to:

- aging infrastructure and functional obsolescence
- growth
- safety
- policy standards
- strategic issues
- triple-bottom line sustainability (economic, environment, and social)
- funding constraints
- legislative requirements



## CAPITAL BUDGET PROJECT RANKING

To help determine which projects should be included in the budget, projects are ranked based on the following:

### 1. Imperative (Must Do)

- Initiatives that cannot be reasonably postponed in order to avoid harmful or otherwise undesirable consequences

### 2. Essential (Should Do)

- Initiatives that address clearly demonstrated needs or objectives

### 3. Important (Could Do)

- Initiatives that benefit the community but may be delayed without detrimental effect to basic services

### 4. Desirable (Other Year)

- Desirable initiatives that are not included within the current year budget because of funding limitations

The intention of the ranking process is to provide the Executive Team with a basis for prioritizing projects given funding constraints. For 2019, Departments were only asked to submit projects that were imperative or essential due to current economic factors affecting the County.

## CAPITAL BUDGET FUNDING SOURCES

The Capital Budget indicates how projects are to be funded. The following funding sources are available:

**Debt**— 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. Debt financing is not a funding source; instead, it is a financing vehicle that requires scheduled repayment in the future by various other sources, such as developer levy payments, residential taxes, or utility rates.

**Restricted Surplus**— funding for the County’s future capital needs is set aside through appropriate restricted surplus transfers. Use of restricted surplus is planned and is not considered as an alternate funding source in place of good financial practice.

**Grant**— when funding for infrastructure comes by way of grants, reasonable assurance that the project is eligible for grant funding is required. Grant funds are used prior to municipal funding sources, except in relation to annual programs, which require continued and sustained funding.

**Developer Levy**—eligible capital projects may be funded, in whole or in part, by specific developer levy accounts. In the event that there are insufficient funds in the appropriate levy account, the County may choose to use levy serviced debt to fund the project.

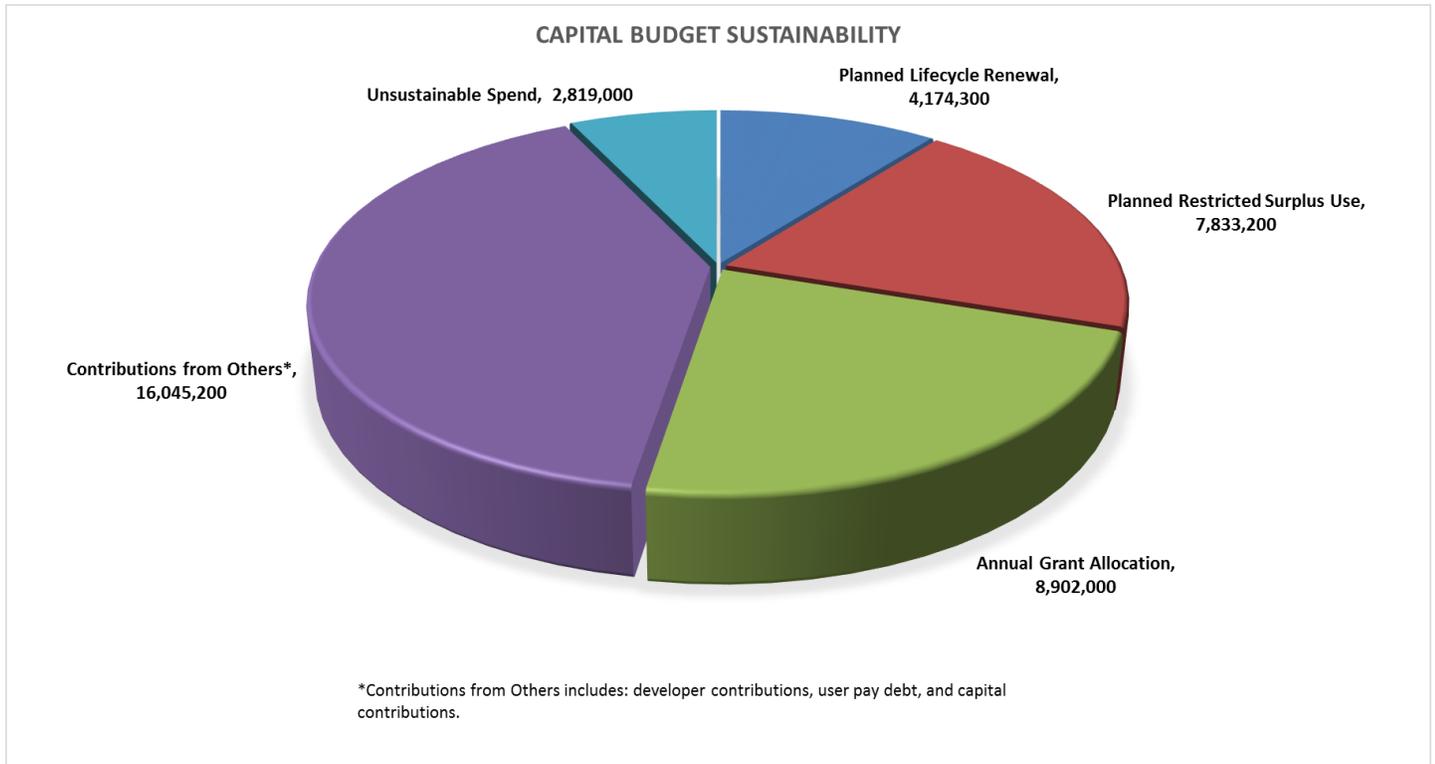
**Taxation** – taxation funding is utilized to support: annual programs, projects where other funding sources are not available, or projects not eligible for other funding sources.



## Sustainable Capital Spending

### 2019 SUSTAINABLE SPENDING CALCULATION

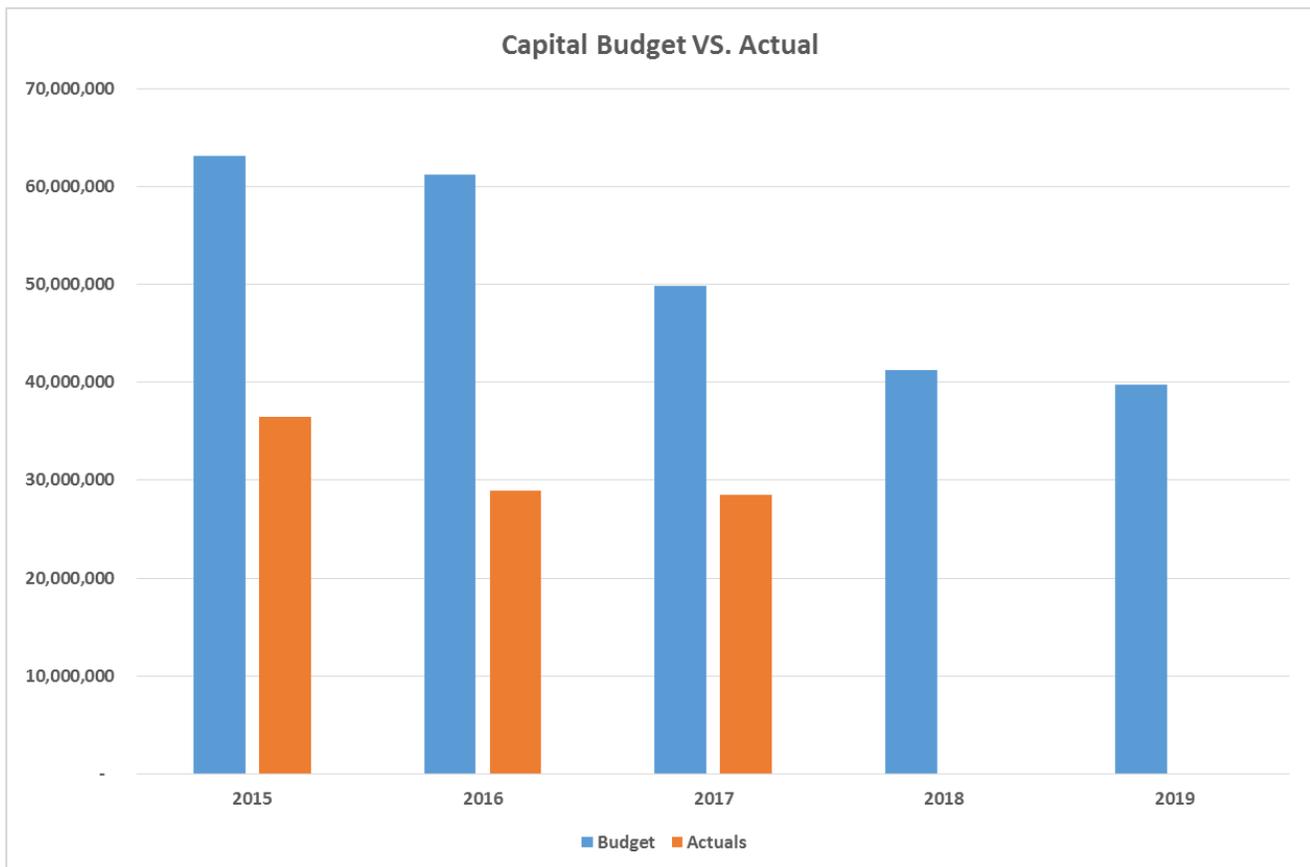
Sustainable spending practices are essential to the long term viability of any organization and governments are no different. The figure below is a snapshot of the sustainability of the 2019 Capital Budget.



Sustainability is defined as “the ability to be maintained at a certain rate” or maybe more appropriately “the avoidance of depletion.” For Parkland County’s purposes, sustainability of the 2019 Capital Budget has been calculated at \$20.9M based on consistent sources of funding including: grant allocations, our planned spending, and our contributions from others. The remaining capital spend is considered unsustainable.

## CAPITAL BUDGET VERSUS ACTUAL

The figure below is a historic look at the County's capital budget performance.



It illustrates clearly that there has been a misalignment between what the County plans to complete in a year and the County's ability to actually complete it. It also illustrates a steady reduction in the budgeted capital spend which is approaching a sustainable level. Two observations are clear from these illustrations.

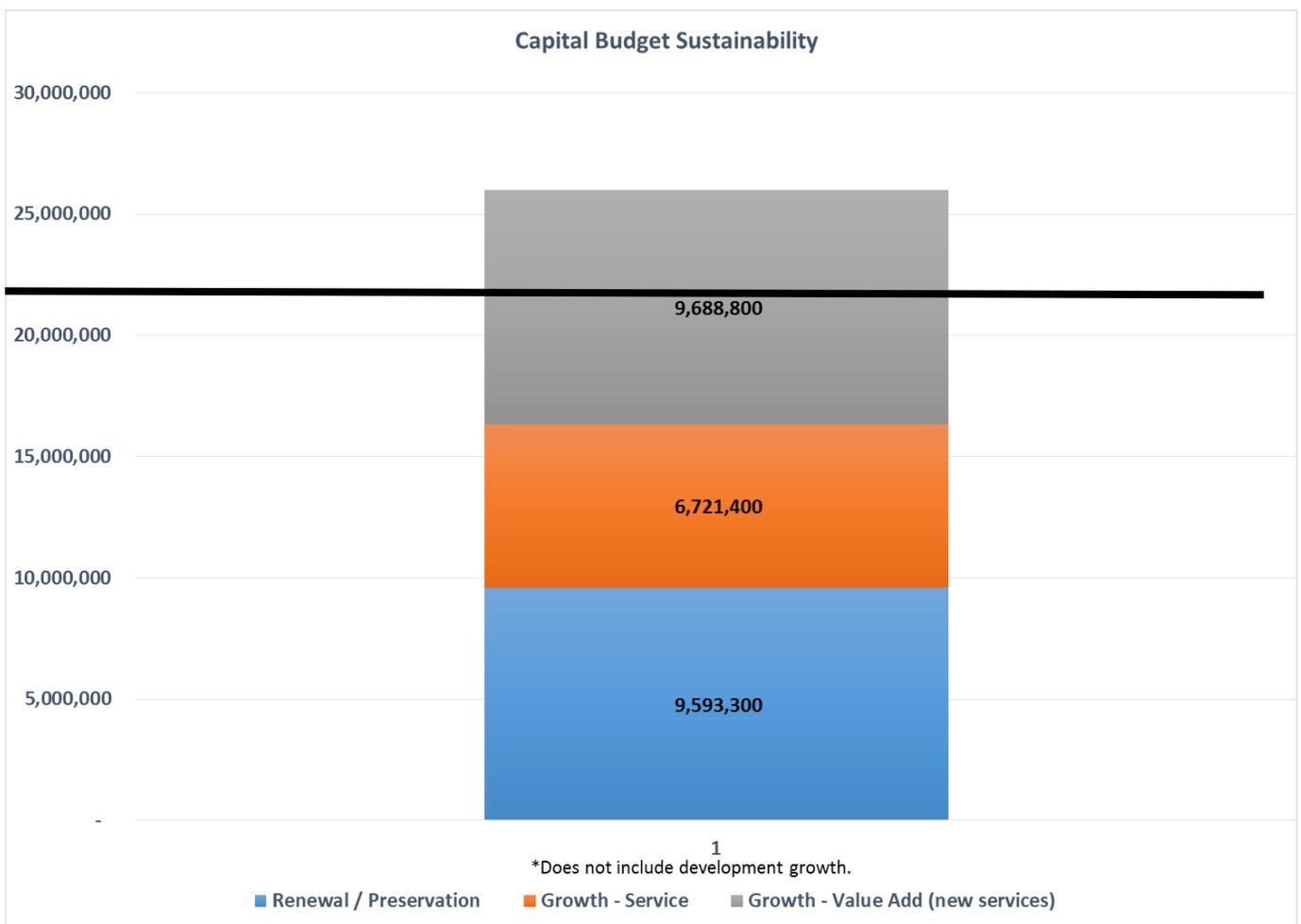
1. **Sustainability** - spending must continue to be reduced. The County has completed a number of large scale projects over the past 5 years. These projects were critical to the County's growth and development but spending at these levels is not sustainable year over year. To achieve long term sustainability, the County must continue to reduce capital spending.
2. **Actual Results** - capacity needs to be reevaluated. Historically the County is only able to complete approximately 50% of what it plans to accomplish. The budget needs to be reduced to levels that can be accomplished given existing resource constraints.

### GROWTH VERSUS RENEWAL/MAINTENANCE

Growth projects are split into two categories: service growth (growth required due to a population increase) and value added growth (new services provided). Service growth is prioritized over value added growth as this type of growth is required to maintain existing levels of service to residents.

Only growth projects deemed “imperative” or “essential” have been included in the 2019 Capital Budget. The graphic below illustrates how the County’s capital funds are being prioritized between growth and renewal projects. In the current year there is a significant increase in growth related projects including: the Entwistle Hub, and the County Transfer Station.

- Note that this graphic excludes development growth (Acheson reservoir and Acheson waste water upgrades), as it is funded by offsite levies, but does include debt funded projects.



— Represents the sustainable capital spending level

**CARRYFORWARDS**

While the 2019 Capital Budget is projected to be closer to the sustainable level, it still exceeds a sustainable spending level. Note also that this figure does not include carry forward projects which are expected to be significant in 2019. The chart below shows the extent of the carryforwards included in the 2018 Capital Budget. If this trend continues, the current 2019 Capital Budget will increase by over 50% to \$50M.

<b>Department</b>	<b>2018 Budget</b>	<b>2019 Budget</b>	<b>\$ Change</b>	<b>% Change</b>
Economic Diversification	60,800		(60,800)	-100%
Emergency Communications Centre	293,300	234,000	(59,300)	-20%
Engineering Services	17,471,200	12,695,000	(4,776,200)	-27%
Facility Services	749,200	299,400	(449,800)	-60%
Fire Services	130,100	485,400	355,300	273%
Fleet Services	2,980,300	3,334,700	354,400	12%
Human Resources	55,000		(55,000)	-100%
Information Services	1,702,300	278,900	(1,423,400)	-84%
Parks, Recreation & Culture	1,322,400	9,121,800	7,799,400	590%
Planning & Development	9,561,300		(9,561,300)	-100%
Road Maintenance	3,464,700		(3,464,700)	-100%
Smart Parkland	1,474,600	42,900	(1,431,700)	-97%
Solid Waste	1,478,600	6,521,400	5,042,800	341%
Strategic Planning & Intergovernmental Affairs	337,000		(337,000)	-100%
Water & Wastewater	142,700	240,000	97,300	68%
<b>Grand Total</b>	<b>\$ 41,223,500</b>	<b>\$ 33,253,500</b>	<b>\$ (7,970,000)</b>	
Total Carryforwards	17,178,100			
<b>Total Capital Budget</b>	<b>\$ 24,045,400</b>	<b>\$ 33,253,500</b>	<b>\$ 9,208,100</b>	



## Capital Purchases

### CAPITAL PURCHASES BY TYPE

The table below lists capital expenditures by infrastructure type. This illustrates the types of infrastructure the County has focused the capital program on for the 2019 budget year. Historically, the majority of the budget is spent on the Road Program. This year, the Capital Budget has changed significantly due to large projects occurring in other infrastructure types.

Infrastructure Class	Capital Cost	Government Transfers	Restricted Surplus	Contributions from Others	Debt	Taxation
Asphalt Surfacing	1,890,000	1,665,000		225,000		
Bridges	555,000	500,000				55,000
County Facilities	6,820,800		6,820,800			
Fire Services	485,400		485,400			
Fleet	3,334,700		3,334,700			
Information Technology	512,900	475,000	11,900			26,000
Parks & Recreation Facilities	9,121,800	2,750,000	1,071,800		5,300,000	
Road Construction - New	1,000,000		600,000			400,000
Smart Parkland	42,900		42,900			
Subdivision Preservation	2,200,000	2,200,000				
Wastewater	2,290,000	200,000	240,000		1,850,000	
Water	5,000,000			100,000	4,600,000	300,000
<b>Grand Total</b>	<b>\$ 33,253,500</b>	<b>\$ 7,790,000</b>	<b>\$ 12,607,500</b>	<b>\$ 325,000</b>	<b>\$ 11,750,000</b>	<b>\$ 781,000</b>
Developer Contributed Assets	6,520,200			6,520,200		
<b>Total</b>	<b>\$ 39,773,700</b>	<b>\$ 7,790,000</b>	<b>\$ 12,607,500</b>	<b>\$ 6,845,200</b>	<b>\$ 11,750,000</b>	<b>\$ 781,000</b>

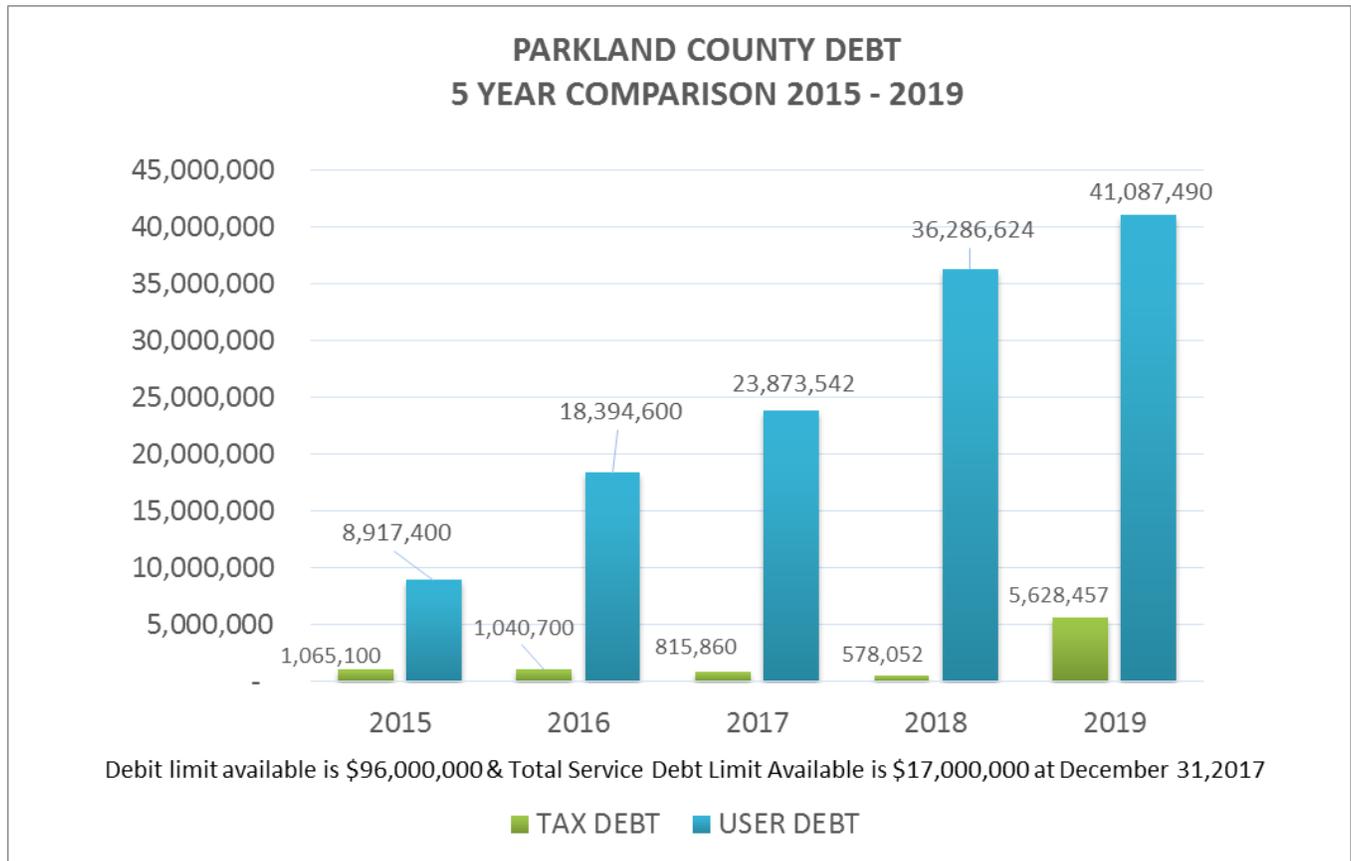
## Funding Sources

### DEBT

The 2019 Capital Budget has new debt planned for the Entwistle Community Hub, the Acheson Zone 4 Reservoir, and the Acheson Zone 1 & 2 Wastewater Upgrade.

As presented to Council, the County has explored other funding options for the Entwistle Community Hub. To date the County has secured a capital cost share (\$2.75M) and has applied for the Investing in Canada Infrastructure Plan (ICIP). Until all alternative funding sources are secured, the full amount of debt will remain in the budget to ensure that the County meets regulatory requirements for debt borrowing. Administration will present the final funding strategy to Council once all other sources are secured.

The County's debt is illustrated in the next figure. Note that 2018 and 2019 figures are based on budgeted values. For 2019, we have an increase in both user pay and tax supported debt. The total debt projected at the end of 2019 is \$46.7M. Debt servicing costs in 2019 are anticipated to be \$2.8M which is equivalent to a 4% tax rate adjustment.



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.

**RESTRICTED SURPLUS**

Restricted Surplus funds are used by the County to stabilize the tax rate and to reduce reliance on debt borrowing. This is accomplished by setting aside funds for large one time projects and for replacement of existing capital. This process is governed by the restricted surplus policy C-FI105.

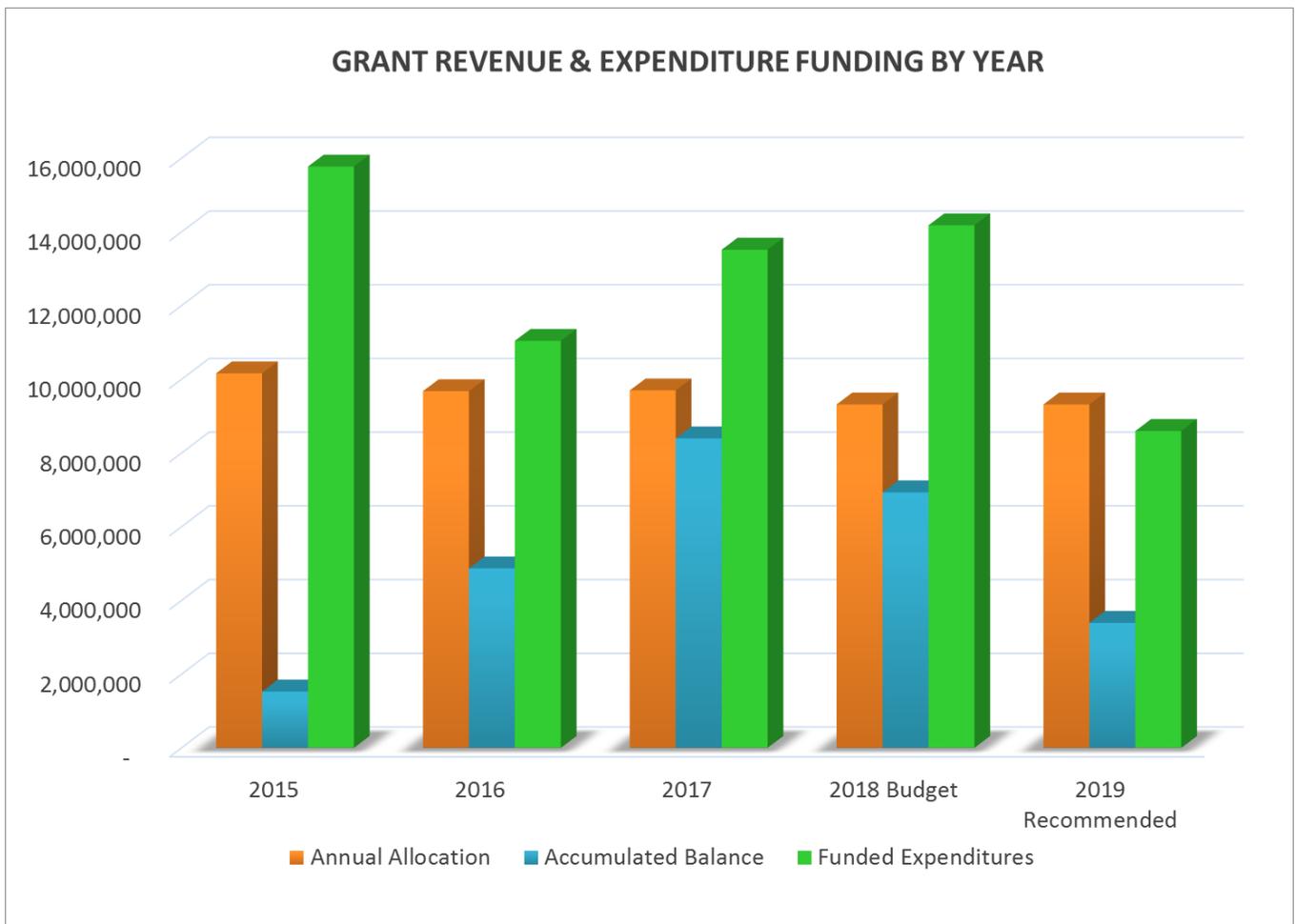
It should be noted that only those operating or capital items identified on the restricted surplus authorization forms can be funded from restricted surplus. Unless otherwise approved by the Executive Committee and Council, new capital purchases must be funded through general taxation or debenture debt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

<b>Infrastructure Class</b>	<b>Planned Restricted Surplus</b>	<b>Planned Lifecycle Renewal</b>	<b>Unplanned Restricted Surplus</b>
Fire Services		485,400	
Information Technology		11,900	
Parks & Recreation Facilities	1,071,800		
Smart Parkland		42,900	
Road Construction - New			600,000
Fleet		3,334,700	
County Facilities	6,521,400	299,400	
Wastewater	240,000		
	<b>\$ 7,833,200</b>	<b>\$ 4,174,300</b>	<b>\$ 600,000</b>

### GRANT FUNDING

In 2018, the Alberta Government changed the timing of the cash flow of Municipal Sustainability Initiative Capital (MSIC) dollars to municipalities. This resulted in a portion of the 2019 and 2020 grant allocations being paid to municipalities in advance. Parkland County has made the prudent decision to save these funds and utilize them in the year they were originally intended for to ensure that there are no service level decreases or large tax rate increases in the coming years. As a result, the 2019 Capital Budget has \$3.4M of unallocated grant funds remaining that will be carried forward to 2020.

- Any funds that remain unallocated in the budget process will be held as deferred revenue and will be available for future initiatives through Council request for decision (RFD) or the 2020 budget process.
- It is a prudent practice to consider grant funding as one time money and therefore use it to fund one time expenditures. The figure below illustrates how grant funds have been utilized over the past 3 years and projects how they will be used in 2018 and 2019.



We can also see from the illustration that our total available grant funds year over year have remained relatively consistent. This is a positive indicator and the result of prudent financial management and the long term strategic approach employed by senior management and Council.