



2016 Municipal Budget Philosophy

Introduction

The development of the County's budget is one of the most critical functions undertaken by Council and Administration. The Municipal Budget provides the fiscal plan to support the County's Strategic and Business plans. The Municipal Budget also provides the authority for the business units to utilize available County resources on programs and services as outlined by Council. The purpose of this report is to establish guidelines that, once agreed upon, provide the framework upon which Administration will prepare the County's 2016 budget.

To facilitate the implementation of new Enterprise Resource Planning (financial) software in 2016, Administration has modified historical practice and will present a one year Budget to Council for approval and adoption.

Revisions to Municipal Financial Planning Requirements

In order to promote responsible financial management, revisions are being made to the *Municipal Government Act* (MGA) to include provisions for long-term financial planning. In future years, municipalities will be required to adopt, at a minimum, three-year operating plans and five-year capital plans.

Administration will establish financial planning practices to ensure compliance with the new requirements as more information becomes available.

Strategic Plan

The Municipal Budget will serve as the financial plan for Parkland County. The Municipal Budget will provide Administration with the resources necessary to operationalize the program and service levels set by Council in accordance with the Strategic Plan.

Department Administration will also complete Business Plans which summarize significant proposed changes in each department and Budget Initiative forms which detail proposed changes to programs or service levels required to operationalize Council's approved Strategic Plan. Budget Initiative forms will be completed for changes to programs and service levels anticipated for each of the 2016-2019 budget years. 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.

Balancing the Budget

Administration will prepare a balanced budget where expenses, both operating and capital, are equal to revenues with the exception of amortization. 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 split tax rate is a way of distributing the taxes paid by residential versus non-residential properties. The 2016 budget will provide the final adjustment to achieve a 50% split tax rate in accordance with Council's direction. This will help to ensure that the residential and non-residential taxation in the County remain competitive within the region.

All requisition costs 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 December budget will be approved as an interim budget while the Spring Budget will be approved as the final budget used to set the tax rate.

Variances

The initial variance review will be completed upon submission to Financial Services. Financial Services will review budget 2016 figures in comparison to budget 2015 and 2014 figures. Where significant variances exist, budget numbers will be compared to actual historical values from the previous 5 years to ensure an adjustment is prudent.

As part of the presentation to both the Executive Committee and Council, Department Managers will need to explain significant variances between 2016 budget figures and the approved 2015 budget figures. With the exception of changes to salaries and benefits and changes supported

by budget initiatives, variances greater than 10% and \$10,000 will be explained in the department Business Plans under the Other Significant Operating Budget Changes section.

Service Levels

Administration prepares a one-year operating budget on the basis of maintaining consistent service levels over the course of that period. However, as result of inflation and population growth, the cost of maintaining consistent service levels over the budget period will surely increase. These increases will be offset by additional tax revenue from appreciation in the value of existing properties, new growth and/or increases in municipal property taxes. As part of the budget process, all user fees are reviewed in relation to other municipalities in the region and adjusted as needed.

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 four-year Long-Term Capital Plan is prepared to ensure Parkland County's resources are used for investments in Parkland County's infrastructure. Investments are ranked based on their ability to sustain current services and meet future growth. When funding for infrastructure comes by way of grants, reasonable assurance that the program or project will be eligible for grant funding will be required. Infrastructure requirements not supported by grants will need to be funded either through debenture borrowing (typically utility related and supported by rates), lifecycle plans, taxation or planned restricted surplus funds.

The determination of capital will follow the guidelines that are defined in Capital Policy FI-011. 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.)

The 2016 budget process, will include the budget initiative form and the year-end carry forward request form. The budget initiative form will provide all the necessary information senior administration and Council needs to enable them to evaluate proposed changes to programs and service levels. This form must be completed for years 2016 through to 2019 and submitted to Finance with the initial budget submission. 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 the project that they were assigned to or placed in a restricted surplus account for future use. The carry forward request form will be reviewed by Senior Management and submitted to Council for approval as a part of the spring budget process.

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 2016 budget cycle will include equipment life cycle plans for the following:

- Fire Equipment Lifecycle
- Mobile Equipment Lifecycle
- Office Equipment Lifecycle
- Protective Services Lifecycle
- Survey Instruments Lifecycle
- Intelligent Community Tower & Equipment Lifecycle Plan

Administration will continue to standardize all equipment life cycle plans and include inflation rates applicable to the assets within the lifecycle plan.

Furniture/Computers

In order to consistently budget for furniture and computers across all line departments, department managers are asked to budget for these items as follows:

- Complete office furniture (desk) \$3,500
- Storage cabinet \$1,000
- Hutch \$1,500
- Office Chairs \$ 900

Please discuss, with IT, your needs to determine the most suitable workstation:

- Desktop workstation \$600
- Monitor \$300
- iPad/w LTE internet \$700
- Ruggedized laptop \$4,000
- Standard laptop \$1,500

Standard workstation deployment is a desktop with two monitors, totalling \$1,200.

All of these items would be considered non-capital.

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 2016 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.

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- Use of restricted surplus is planned and is not considered as an alternate funding source in place of good financial practice.
- It is important not to rely on restricted surplus to fund regular operations as it is unsustainable.

It should be noted that only those capital items identified in restricted surplus can be funded from restricted surplus. New capital purchases must be funded through general taxation until such time that a corresponding restricted surplus is established unless approved by the Executive Committee and Council.

Staffing

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

For all new positions, an FTE Justification form and a Job Description must be completed and submitted to Human Resources. This will allow them to accurately determine the rate of pay for the position. This template must be completed by Human Resources and accompany the budget along with the New Staffing Justification report when submitted to the Supervisor, Payroll Services by the due date outlined in the Budget Calendar. A summary of new positions, outlining the impact on taxation, will be prepared by the Supervisor, Payroll Services and included in the first draft of the budget for the Executive Committee's review.

Where union negotiations have set future year wage costs, those costs will be reflected in the corresponding budget. In years where settlements have not been negotiated, Administration will include an estimate based on the forecasted rate of inflation. For the 2016 budget process, cost of living allowance (COLA) will be determined following the ratification of the union contracts by the Union and Council.

Debt

Debt guidelines are necessary for the responsible management of the County's financial resources. Debt Policy FI-009 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

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County has acquired most of its debt, either internal or external, to fund utility and storm water infrastructure which is supported through offsite levy and utility rates.

The 2016 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 increases 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. The County uses published index rates to provide a recommendation for the inflation 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 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.

In order to maintain stability in tax rates year over year, administration recommends an inflation adjustment equal to the average forecasted MPI rate over the next 4 years. For 2016-2019, the average forecasted MPI is 2.80%.

	Forecast				
Year	2016	2017	2018	2019	Average
MPI*	2.82%	2.51%	2.86%	2.99%	2.80%
CPI*	2.05%	2.06%	2.06%	2.06%	2.06%

*Source: Municipal Price Index 2015 Economic Insights, City of Edmonton

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MPI product and service specific rates that can be used by departments when completing their itemized budget are as follows¹:

- Equipment and Vehicles + 2.29%
- Fuel + 2.83%*
- Materials + 2.29%
- Natural Gas + 7.78%
- Utilities + 2.18%
- Land Costs + 2.05%
- Travel and Training + 2.05%
- Contract and Professional Services + 2.30%

¹: Source: Municipal Price Index 2015 Economic Insights, City of Edmonton

* Source: Internal, Parkland County

Contact Information

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

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