

2023 Municipal Budget Philosophy

Presented June 14, 2022



Contents

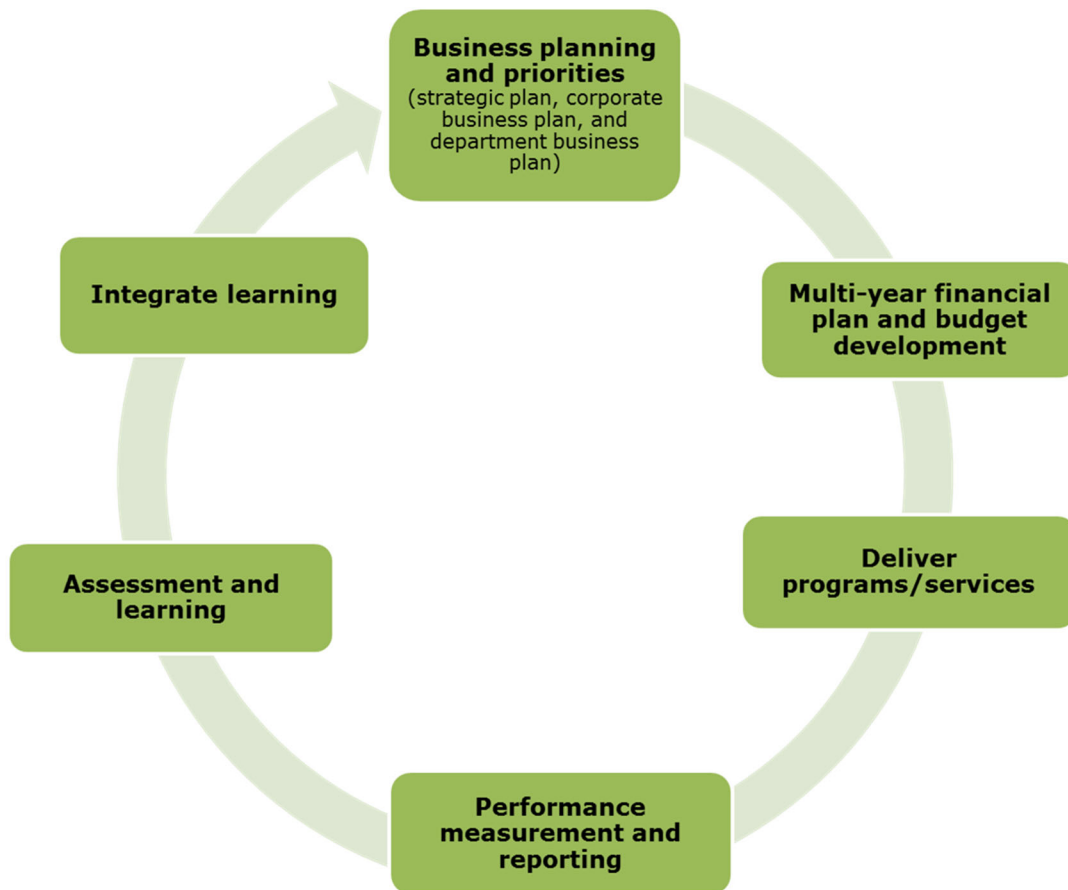
Budget Philosophy.....	3
Budget Link to the Strategic Plan	3
Economic Challenges.....	4
Municipal Financial Planning	6
Balancing the Budget.....	7
Assessment, Tax Rates & Requisitions.....	7
Budget Process.....	7
Variances.....	8
Service Levels.....	8
Priority Based Budgeting (PBB).....	9
User Fees.....	10
Conservative Budget Estimates.....	10
Capital/Infrastructure.....	11
Key Budget Concepts & Guiding Principles	12
Capital Budgeting Process	13
Budget Initiative Form	15
Equipment Lifecycle Plans.....	16
Restricted Surplus.....	17
Staffing	17
Debt.....	18
Inflation Adjustment	19
Tax Increase	20
Contact Information	20

Budget Philosophy

The budget philosophy is used to establish guidelines that, once agreed upon, provide the framework upon which Administration will prepare the County's 2023 budget.

Budget Link to the Strategic Plan

The Municipal Budget will serve as the financial framework 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 provide proposed program changes and new projects for the 2024 - 2028 Operating Plan and the 2024 - 2028 Capital Plan.



Economic Challenges

Taxation Revenue

Over the past number of years, Federal and Provincial regulatory changes have impacted the power generation industry, as well as the oil and gas industry. These impacts, as well as other outside costs, have affected Parkland County and its ability to keep taxation at a reasonable level.

For the last few years, Parkland County has been vocal that a large portion of taxation revenue, nearly 17%, was tied to coalmines and coal generation facilities. The impacts from losing this revenue continue to negatively impact our region and Parkland County directly. Furthermore, a large percentage of the County's taxation revenue is derived from oil and gas support services situated in the Acheson Industrial Park.

The County has strongly advocated for a just transition for coal communities and has put forward what was required to both the provincial and federal governments.

High Inflationary Environment

The COVID-19 pandemic has had a pervasive impact on the economy. Over the past couple of years, the resulting public health measures and policy decisions have translated into disruptions to supply chains, an accumulation of discretionary household income, and pent-up consumer demand. In combination, these factors have given rise to a high inflationary environment which leads the County to reason the following for 2023:

- **Significant increases to the cost of materials, supplies, and equipment**
 - Production volumes were impaired as a result of COVID-19 which translates into fewer products being available than pre-COVID-19;
 - Demand is currently outpacing supply which results in higher prices;
 - Higher prices are likely to persist until production backlogs are cleared and supply chains are fully restored.
- **Higher labor costs**
 - As businesses continue to recover from COVID-19, they're looking to re-engage staff that were previously laid off;
 - Strong demand for qualified staff has resulted in a labor shortage;
 - More competitive salaries/wages are now required to attract new staff.

- **Higher interest rates on new debt**
 - In March 2022, the Bank of Canada's raised its key interest rate for the first time in two years;
 - The Bank of Canada has affirmed their commitment to curbing inflation by way of interest rate increases with a subsequent interest rate increase in April 2022 and June 2022;
 - As many as six additional interest rate increases are anticipated before the end of 2022 which will directly impact borrowing costs.

Changes at the Provincial Level

Several changes at the Provincial level have and are anticipated to continue to impact Parkland County's budget. Recent changes include:

- Uncertainty surrounding the allocation formula used to determine capital grant funding provided to municipalities through the Local Government Fiscal Framework;
- Increased costs for rural crime prevention as a result of phasing in the new Provincial Police Service Agreement;
- Volatility in non-renewable resource revenue resulting from an unexpected surge in the demand for oil and gas;
- Potential changes in provincial leadership resulting from the election scheduled in 2023 may impact policy direction and/or overarching legislation resulting in amendments to funding sources which the County is reliant upon.

In response to these economic impacts, Parkland County will continue to review its current operations and make necessary adjustments. These adjustments will be guided by the principles of Priority Based Budgeting. The County will continue to forecast possible scenarios as assumptions are refined. These forecasts will be used to inform the 2023 Budget and five-year plan.

Municipal Financial Planning

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 are required to adopt, at a minimum, three-year operating plans and five-year capital plans.

Parkland County has implemented a five-year operating and five-year capital plan. This process will be continued in the 2023 budget year.

Municipal Government Act	GFOA	Parkland County
<ul style="list-style-type: none"> • Duration - 3 years operating 5 years capital • Scope - Expense and revenue by major categories • Updates - Annually • Content - Include values • Communication - Council Presentation 	<ul style="list-style-type: none"> • Duration - 5+ year • Scope - Expense and revenue by major categories • Updates - As Needed • Content - Include values and narrative • Communication - Public Presentation 	<ul style="list-style-type: none"> • Duration - 5 years • Scope - Expense and revenue by major categories • Updates - Annually • Content - Include values and narrative • Communication - Council Presentation

Balancing the Budget

Administration will prepare a balanced budget where expenses, both operating and capital, are equal to revenues except for 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 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.

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.

Budget Process

In order to include the finalized assessment and school requisition values, the Budget is adjusted after the Provincial Budget is released and these figures are available. At the beginning of the next fiscal year, adjustments to the budget may also be made to include carry forward projects that were not completed, restricted surplus transfers, and accounting or regulatory adjustments. Departmental changes or initiatives will not be accepted.

Variances

It is the responsibility of the department to review the programs, revenue and expenditure trends and variances prior to submitting their final budget documents to the Chief Financial Office. Where significant variances exist, budget numbers will be compared to actual historical values 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 2023 budget figures and the approved 2022 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.

Service Levels

The Municipal Budget is 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.

Consistent with prior years, inflation and 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.

Priority Based Budgeting (PBB)

Priority Based Budgeting is a tool developed during the downturn in the United States economy when many municipalities lost large amounts of their tax revenue base. This tool was developed as a best practice in government finance. The focus of PBB is ensuring that the budget is accountable to the wants and needs of the residents. It accomplishes this by ensuring resources are allocated to the highest priority services first. In doing so, it focuses municipal operations on what matters most to residents.



Parkland County is in the final stages of PBB implementation. The County has defined PBB programs for each department, and the 2022 budget was prepared based on the new PBB programs.

In 2022, the County will engage residents and other stakeholders to solicit their feedback. This is a key step in the PBB process as it provides the opportunity for the County to communicate the defined programs to residents, establish priorities, and allocate resources to these programs to ensure we are meeting resident's needs. The feedback from the survey will be incorporated in the 2023 budget.

When PBB is fully implemented, the County will:

- Be more resilient during times of economic change;
- Focus on what is most important to residents, and do those things well;
- Question historical spending;
- Allocate resources to priority programs and services;
- Be fiscally prudent with resources; and
- Be transparent and accountable.

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 service levels, delivery methodology and all costs associated with delivering a service. A user fee review is guided by the following principles:

- **Benefit Principle** – those who receive benefits from a 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.

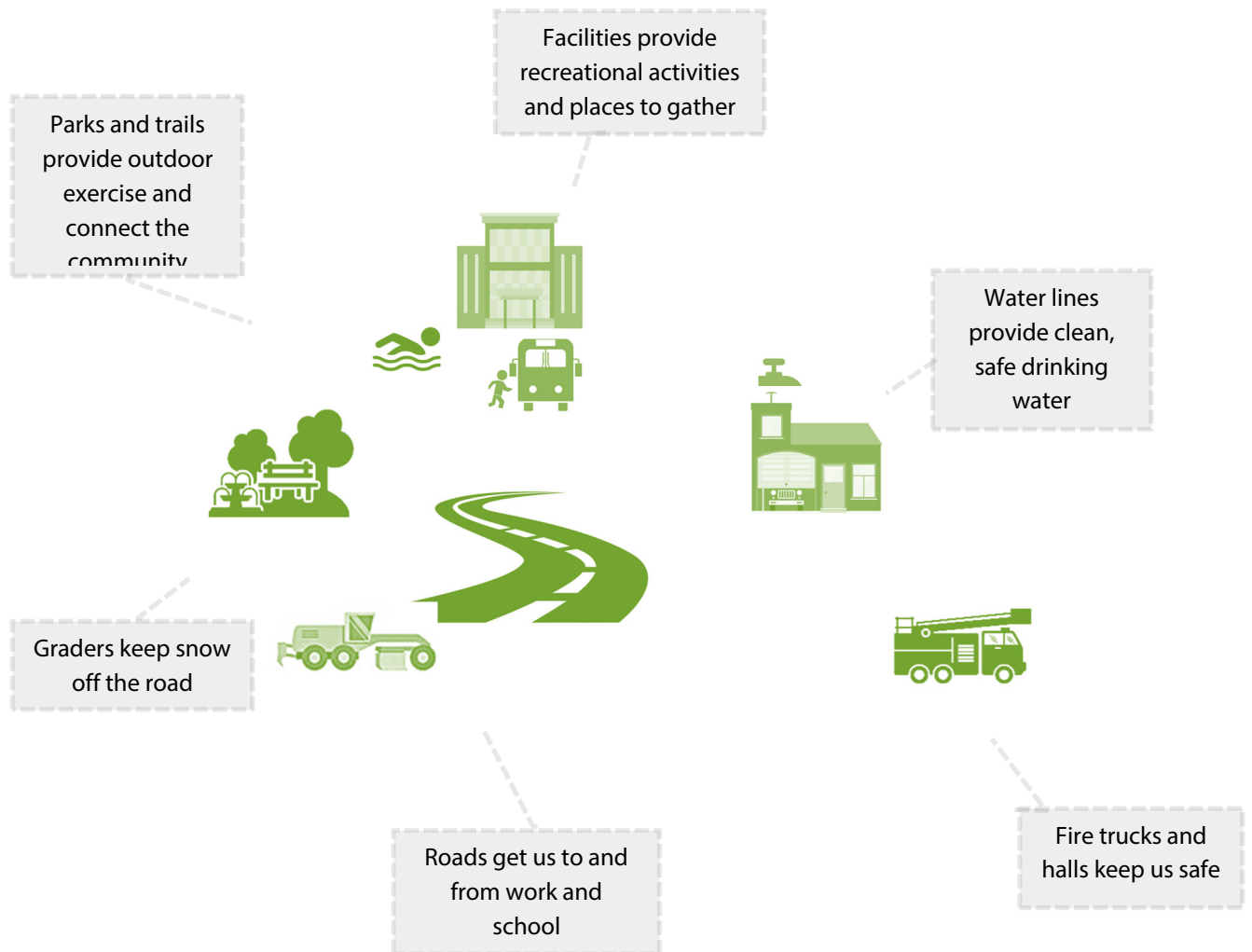
Utility rates should be set at levels adequate to cover operating costs, meet debt obligations and provide funding for capital improvements.

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.

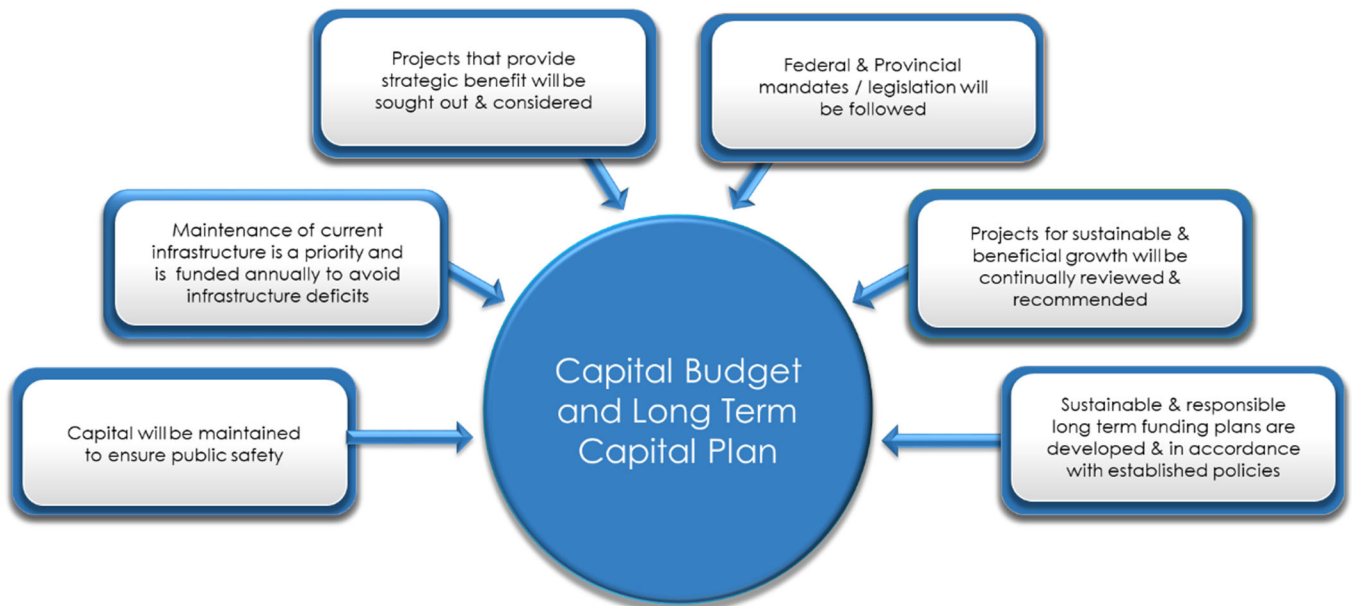
Capital/Infrastructure

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.



Key Budget Concepts & Guiding Principles

- The budgeted amount for capital should be the planned spend for the fiscal year.
- All carry forwards will be added to the 2023 budget after year end close.



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



The Long-Term Capital Plan is prepared to ensure Parkland County's resources are used for investment in Parkland County's infrastructure. Administration's objective for 2023 is to ensure the plan is financially sustainable.

Municipal capital is used as a conduit to provide services and as such, capital projects will be ranked based on their ability to: support key services as determined by Council's Strategic Plan, improve health and safety, keep up with anticipated growth.

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.

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.)

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.

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 the Executive Committee 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:

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

A budget initiative form must be completed for all Operating and Capital initiatives for the year 2023.

Carry forwards 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. Carry forwards will be reviewed and approved by the Executive Committee 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.

Administration will continue to consider new lifecycle plans and review existing life cycle plans to ensure that they are supporting the County's needs and are economically viable.

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-F1105.

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.

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 2023 budget.

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.

Staffing

Salaries and wages will be budgeted based upon the current year's Full Time Equivalent (FTE) staff complement unless a compelling business case can be made to Executive Committee and Council. Employee benefits will be estimated based on the previous year's financial statements.

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 2023 budget will be prepared utilizing the same pay as you go philosophy. Any deviation in this philosophy will be made in consultation with Council. Total debt servicing costs in 2023 are anticipated to be over \$4.8M which is equivalent to a 7.37% tax rate adjustment.

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.

Historically, the County has relied on the Municipal Price Index (MPI) to determine the rate of inflation/deflation to apply during the budget process. The MPI is calculated using items commonly utilized by municipalities rather than consumers and is more indicative of the County's operations.

However, the MPI forecast is updated infrequently (on an annual basis) and given the rapidly changing market conditions, the County felt it would be more appropriate to use the most recent quarterly CPI forecast to inform inflation for the upcoming budget year.

	Forecast				
Year	2022	2023	2024	2025	2026- 2028
MPI ¹	2.61%	0.95%	1.51%	2.06%	2.14%
CPI ²	5.60%	4.00%	2.00%	2.00%	2.00%

¹Source: City of Edmonton's 2021 Municipal Price Index Forecast

²Source: Bank of Montreal's May 27, 2022 Inflation Monitor Update/ Internal estimate

For the 2023 budget, the Budget Team will work with departments to minimize the impacts of inflation while ensuring future budgets are not constrained by decisions made today.

Tax Increase

Administration is recommending a tax increase of 2.8% as a target, to address the inflationary pressures, maintain existing service levels, and to allow for Council initiatives. With the 2.8% tax increase, a median residential taxpayer will see a 4.8% increase in municipal taxes, assuming assessment increase of 2%.

While this will not fully address the potential changes 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 target throughout the budget process.

Contact Information

If you have any questions or require clarification, please contact Jeff Dyck, General Manager Corporate Services and Chief Financial Officer.