

2019 CAPITAL BUDGET OVERVIEW

Presented April 9, 2019

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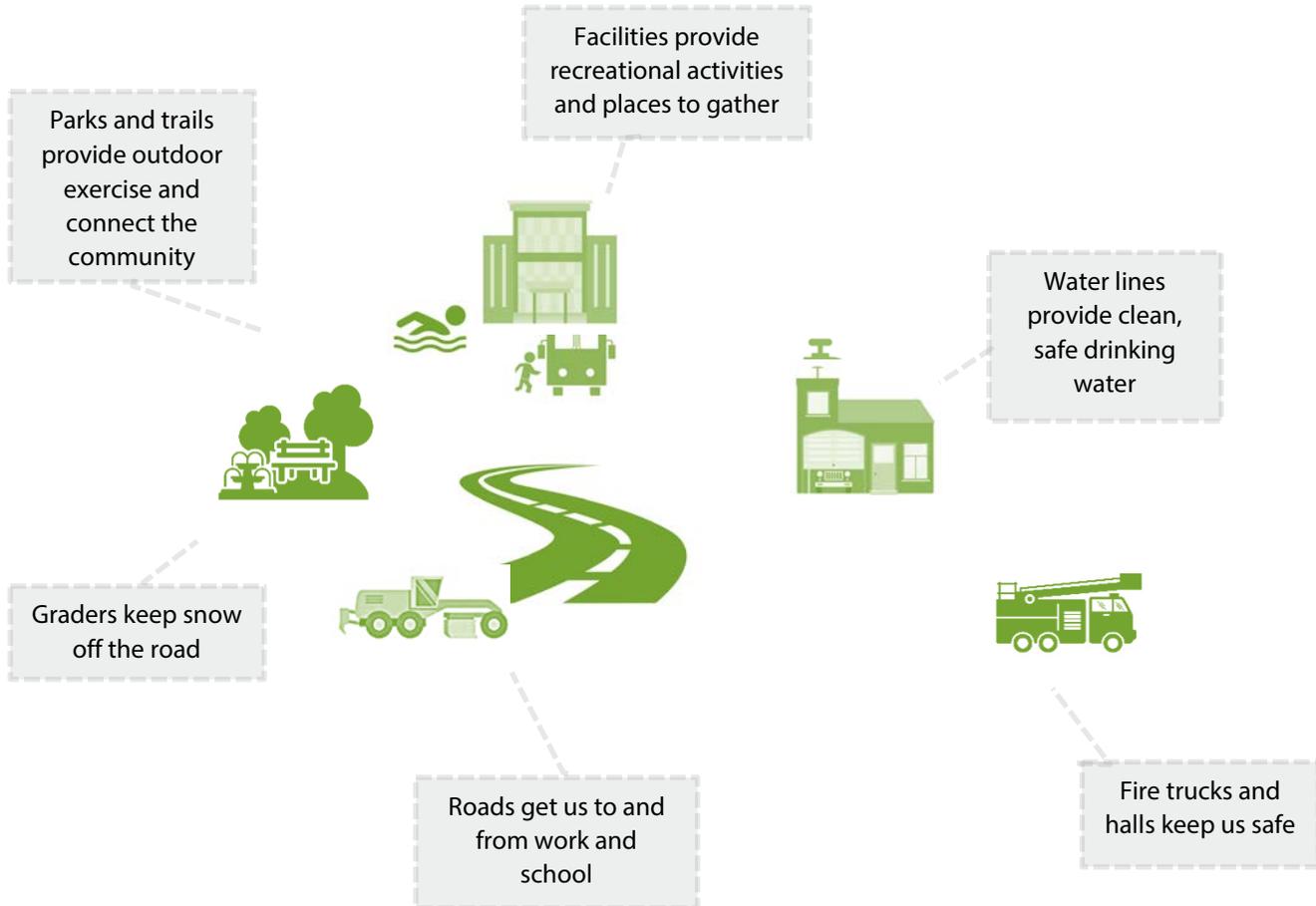
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 **Capital Budget Philosophy**

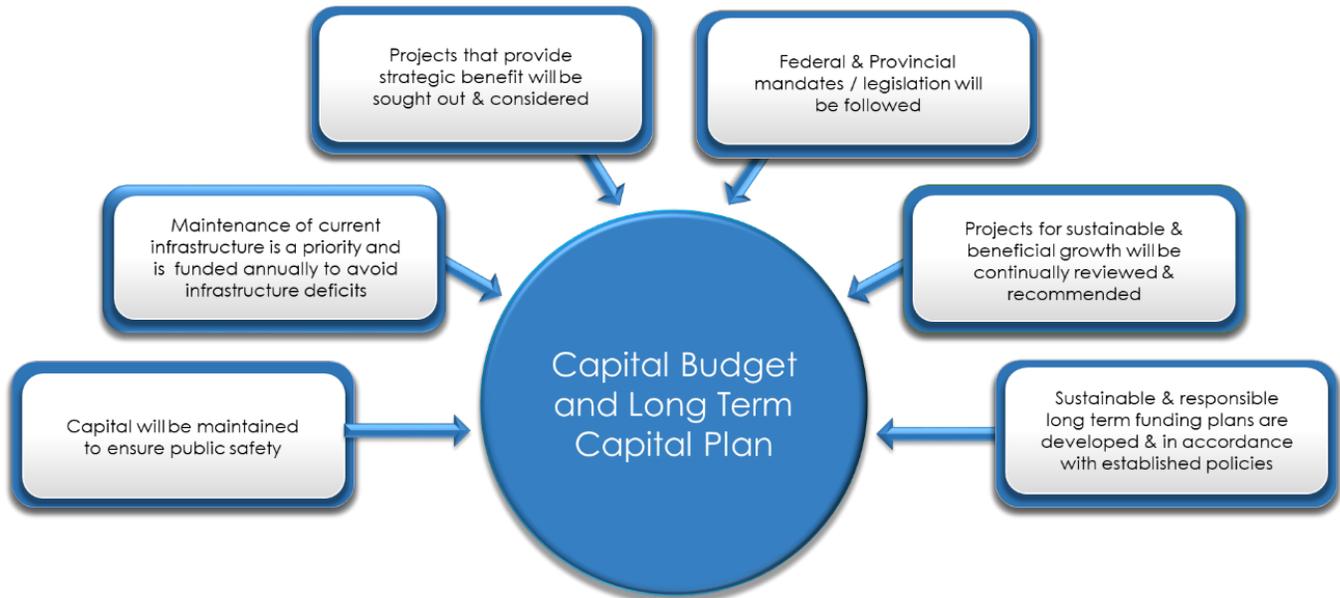
Municipal capital is infrastructure such as roads, utilities, equipment, etc. used to provide municipal services to residents in Parkland County. Some of the many ways that capital serves Parkland County are depicted below.

**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 have been added to the 2019 final capital 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.

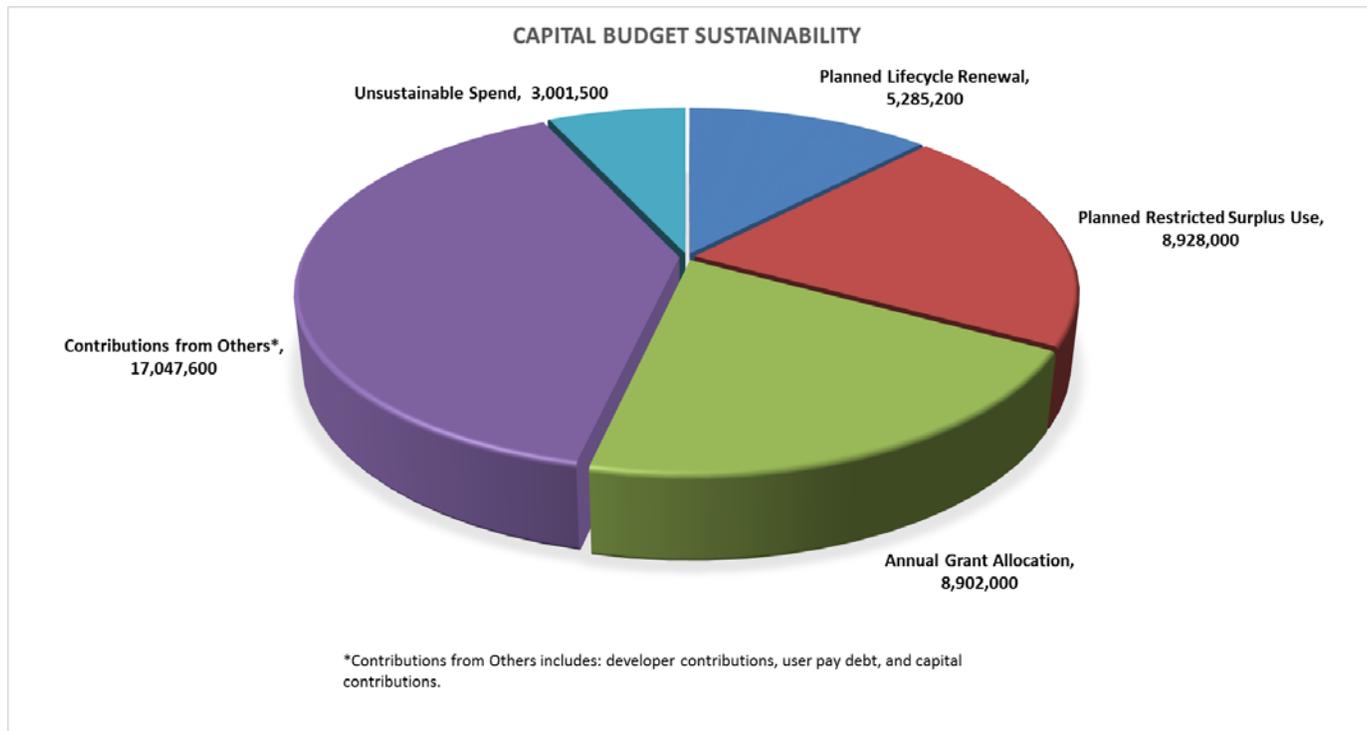
Taxation – taxation funding is utilized to support: annual programs, projects where other funding sources are not available, or projects not eligible for other funding sources.



Sustainable Capital Spending

2019 SUSTAINABLE SPENDING CALCULATION

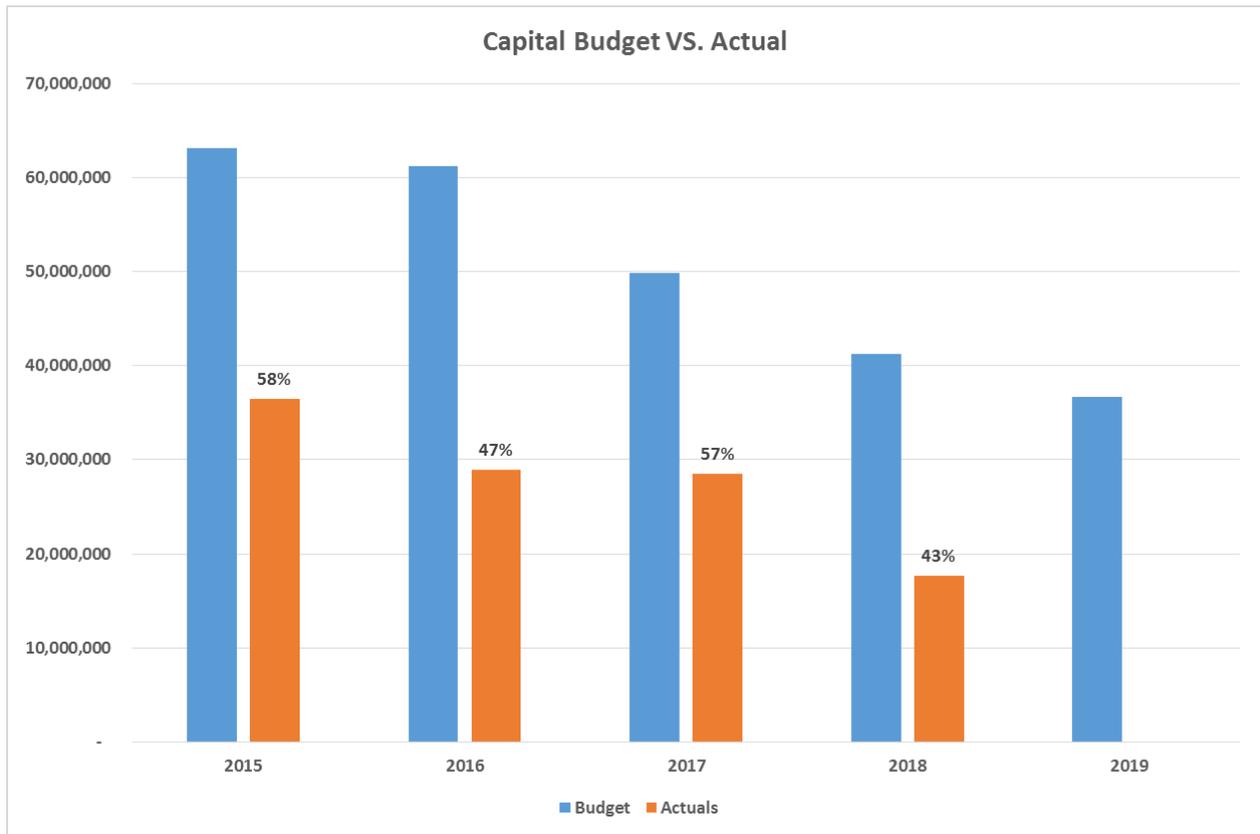
Sustainable spending practices are essential to the long term viability of any organization and governments are no different. The figure below is a snapshot of the sustainability of the 2019 Capital Budget.



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 \$23.1M 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.

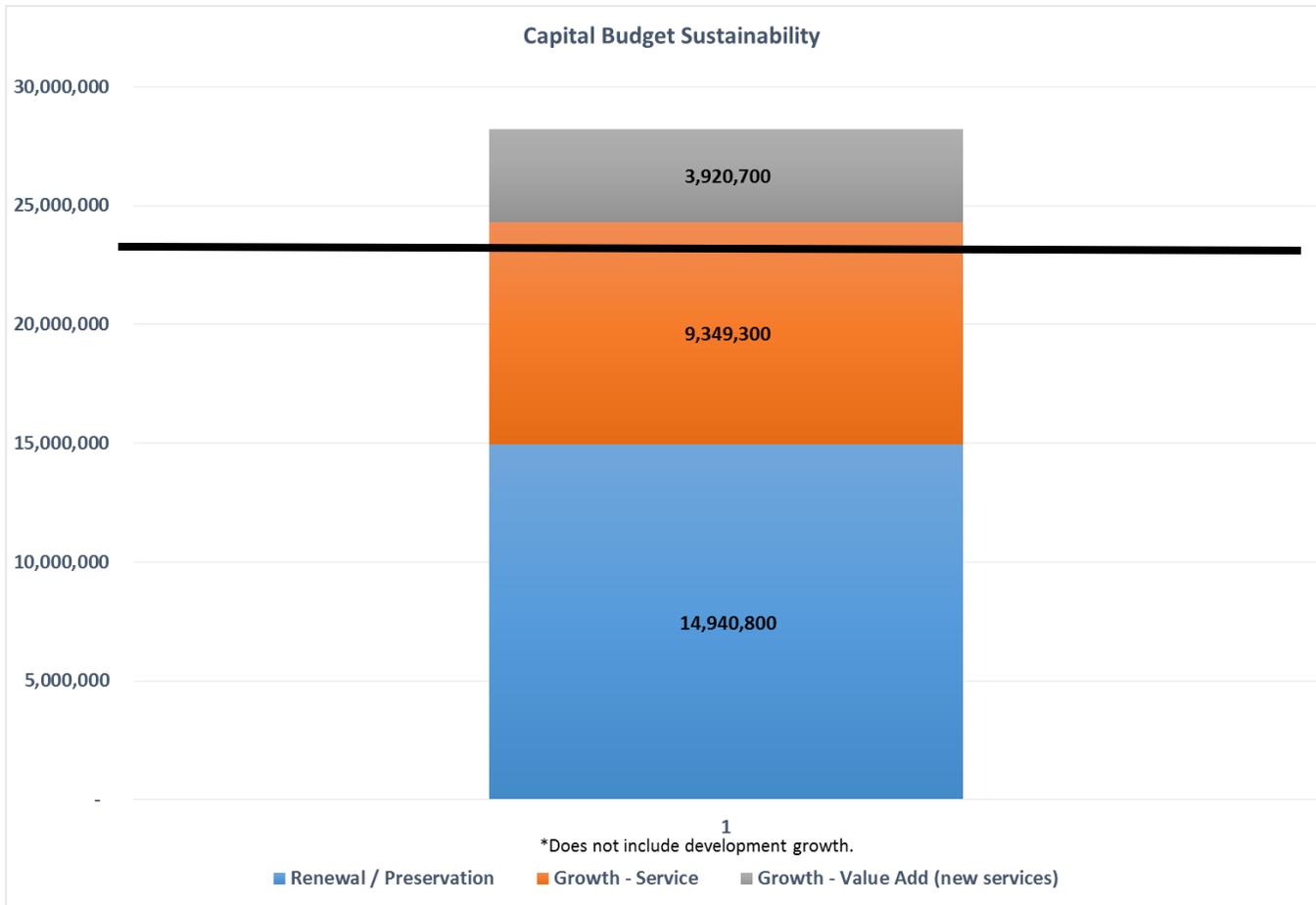
The County has taken significant steps in the 2019 Capital Budget process to resolve these historical issues. Steps taken included: focusing on allocating project cash flows between the current budget and future budget years and deferring new construction projects to ensure that outstanding 2018 projects can be completed.

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 as it is funded by offsite levies, but does include debt funded projects.



— Represents the sustainable capital spending level



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.

2019 Final Capital Budget by Infrastructure Class

| Infrastructure Class | Capital Cost | Government Transfers | Restricted Surplus | Contributions from Others | Debt | Taxation |
|------------------------------------|----------------------|----------------------|----------------------|---------------------------|----------------------|-------------------|
| Asphalt Surfacing | 2,087,300 | 1,862,300 | - | 225,000 | - | - |
| Bridges | 555,000 | 555,000 | - | - | - | - |
| County Facilities | 9,798,700 | 2,693,900 | 7,104,800 | - | - | - |
| Fire | 1,040,200 | - | 1,040,200 | - | - | - |
| Fleet | 4,144,200 | - | 4,135,000 | - | - | - |
| Information Technology | 1,839,800 | 1,074,100 | 765,700 | - | - | 9,200 |
| Parks & Recreation Facilities | 3,100,000 | - | 100,000 | - | - | - |
| Road Construction - New | 5,189,200 | 932,400 | 32,300 | - | 6,624,500 | - |
| Road Construction - Rehabilitation | 2,073,800 | 2,073,800 | - | - | - | 600,000 |
| Rural Internet | 902,800 | 850,000 | 52,800 | - | - | - |
| Storm Water | 537,700 | - | 537,700 | - | - | - |
| Subdivision Preservation | 533,200 | 533,200 | - | - | - | - |
| Wastewater | 546,200 | 200,000 | 240,000 | - | - | 106,200 |
| Water | 4,296,000 | 63,400 | 204,700 | 100,000 | 3,827,900 | 100,000 |
| Grand Total | \$ 36,644,100 | \$ 10,838,100 | \$ 14,213,200 | \$ 325,000 | \$ 10,452,400 | \$ 815,400 |
| Developer Contributed Assets | 6,520,200 | - | - | 6,520,200 | - | - |
| Total | \$ 43,164,300 | \$ 10,838,100 | \$ 14,213,200 | \$ 6,845,200 | \$ 10,452,400 | \$ 815,400 |

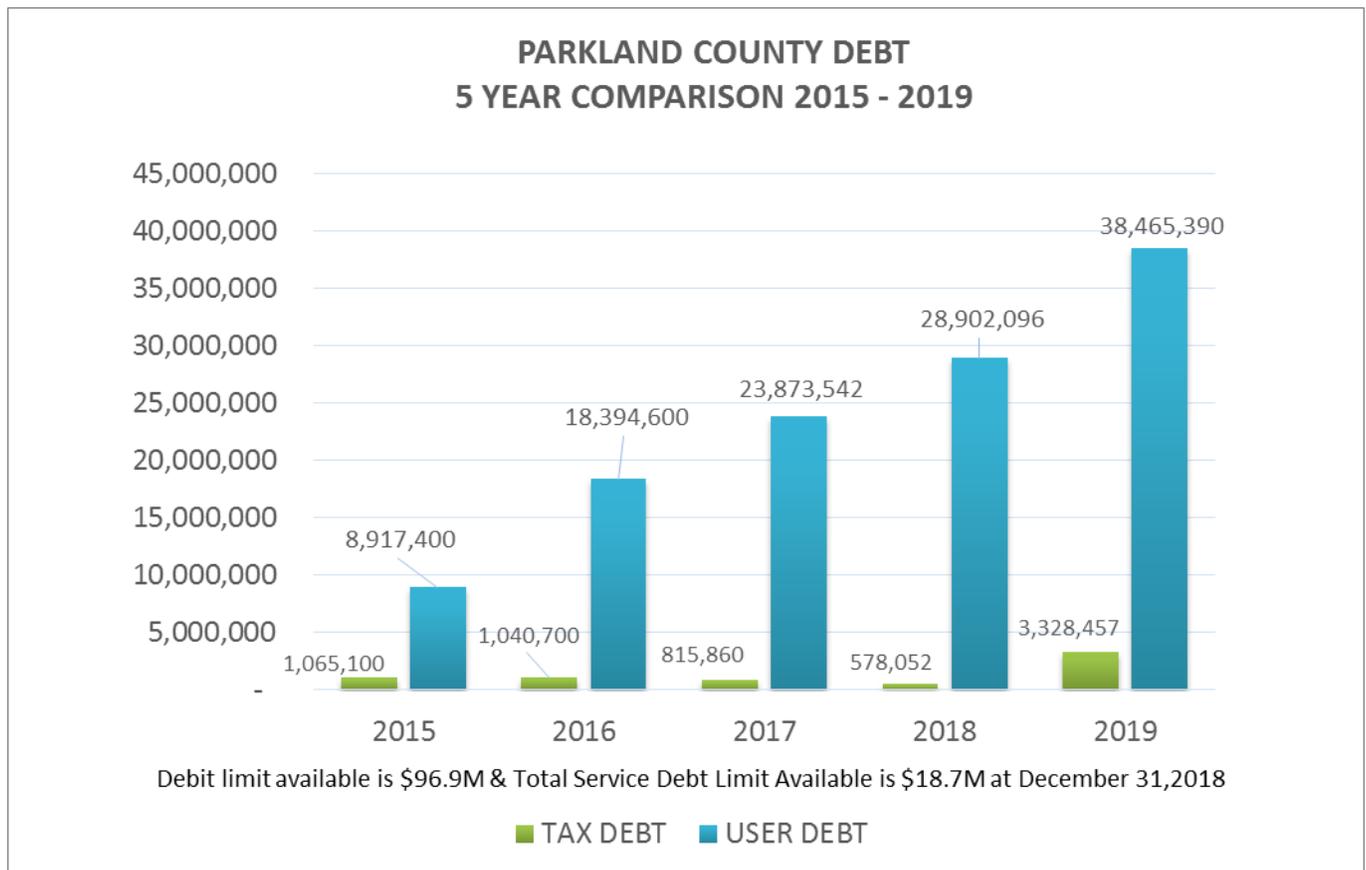
Funding Sources

DEBT

The 2019 Capital Budget has new debt planned for the Entwistle Community Hub, the Acheson Zone 4 Reservoir, and the Acheson Zone 5 Water Loop.

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 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 \$41.8M. 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.

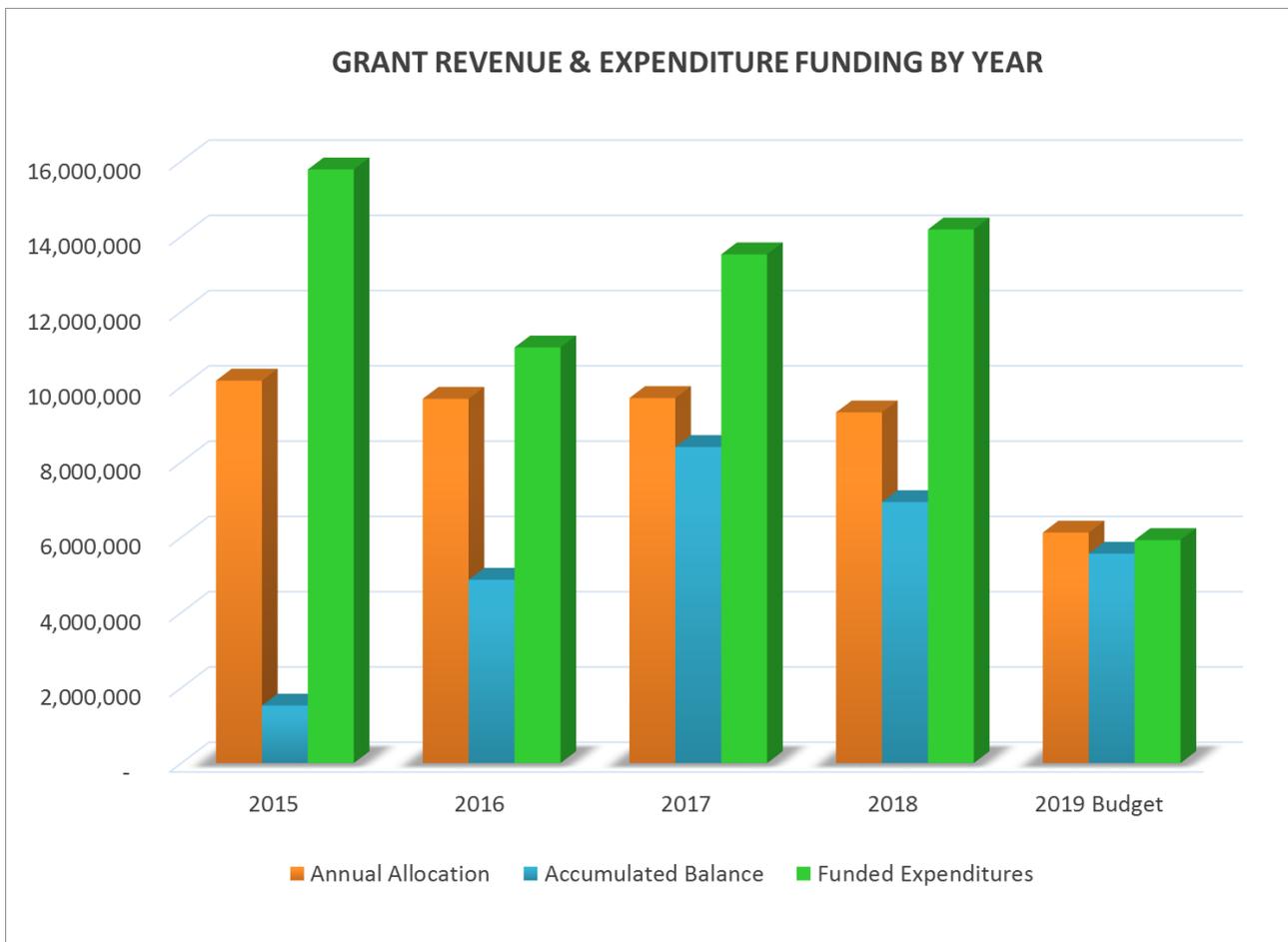
It should be noted that only those operating or capital items identified on the restricted surplus authorization forms can be funded from restricted surplus. Unless otherwise approved by the Executive Committee and Council, new capital purchases must be funded through general taxation or debenture debt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

| Infrastructure Class | Planned Restricted Surplus | Planned Lifecycle Renewal | Unplanned Restricted Surplus |
|------------------------------------|----------------------------|---------------------------|------------------------------|
| Fire | 437,000 | 603,200 | - |
| Fleet | - | 4,135,000 | - |
| Information Technology | 381,500 | 384,200 | - |
| Parks & Recreation Facilities | 100,000 | - | - |
| Road Construction - New | 32,300 | - | - |
| Road Construction - Rehabilitation | - | - | - |
| Subdivision Preservation | - | - | - |
| Water | 204,700 | - | - |
| Rural Internet | 10,000 | 42,800 | - |
| Total | \$ 8,928,000 | \$ 5,285,200 | \$ - |

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 \$ 5.7M 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 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.