



2015-2018 Municipal Operating & Capital Budget Underlying 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 County available resources on programs and services as outlined by Council. The purpose of this report is to establish budget guidelines that, once agreed upon, provide the frame work that will enable Administration to prepare and present a budget to Council.

Parkland County will engage in a four-year operating and capital budgeting cycle. Four-year budgeting provides Administration and Council with a long-term view of the County's service levels, their related costs, and their impact on the taxpayer.

Administration will prepare operating and capital budgets for 2016, 2017 and 2018 which Council can receive as information. It is intended to present to Council, an operating and capital budget for 2015.

Strategic Plan

The Operating and Capital Budget will serve as the financial plan for Parkland County. It will also serve as the financial foundation of County Council for implementing the goals and strategies as set out in the Strategic Plan. The Municipal Budget will provide Administration with the resources necessary to accomplish Council's determined program and service levels.

In addition to outlining the financial requirements over the next four years, the department Business Plans will be prepared detailing the operating and capital projects and programs which are consistent with Council's approved Strategic Plan. The Municipal Operating and Capital Budget will be comprised of projects and programs which balance the expectations of citizens for 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 depreciation. Increases to property taxation will be the “last resort” relative to balancing expenses with revenues. All sources of revenues will be clearly presented for Council’s consideration.

The 2015 Budget that will be presented to Council in November 2014 will be based on the tax levy target set by Council in June 2014.

Assessment, Tax Rates & Requisitions

All new tax revenue obtained from new growth in assessment shall be used to maintain current levels of service in all areas of the budget. Any new tax revenue received due to growth in assessment market values, not required to maintain current levels of service, will be utilized to increase restricted surplus balances in those areas identified by Council through their Strategic Plan as the highest priority.

The tax rate will continue to be adjusted to provide a reasonable split of taxation between residential and non-residential taxation to allow Parkland County to be competitive in the Edmonton 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.

Variances

Variances for 2015 will need to be explained. Initial variance review will be completed upon submission to Financial Services. Financial Services will review budget 2015 as comparison to budget 2014 and 2013. Additionally, budget numbers will be compared to actual historical values for the previous 5 years.

Department Managers, as part of the presentation to both the Executive Committee and Council, will need to advise on the significant variances for 2015 as compared to the approved

2014 budget. With the exception of salaries and benefits, variances with a change of more than 10%, that are greater than \$10,000 will be reviewed and identified in their Business Plans under Section 2: Major Challenges and Budget Highlights.

Service levels

It is suggested that Administration prepare a four-year budget on the basis of maintaining existing service levels over the four-year period. As can be expected, cost increases to maintain service levels will occur due to inflation and population growth over the budget period and will need to be offset by additional tax revenue from new growth, increases in user fees, or increases in municipal property taxes. All user fees are to be reviewed and adjusted as needed as part of the budget process. It will be important, particularly in years three and four of the Municipal Budget, to use conservative estimates when predicting new growth.

Levels of service are to be reviewed in all areas and the budgets set are to be based on outputs versus results produced for the dollars provided.

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. In addition to conservative estimates, the budget will reflect a cause and effect philosophy, effectively implementing changes immediately due to a particular condition or event that causes changes to revenues or expenses.

Capital\Infrastructure

Capital budgets are prepared to ensure Parkland County's resources are targeted toward the necessary critical investments in Parkland County's infrastructure to sustain current services and meet future growth. Where 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 item. (i.e. one item at >\$5,000 is capital; 10 items at \$600 totalling \$6,000 is non-capital).

Any developer contributed assets that are turned over to the County in the budget year will also have to be included in the budget. These would include subdivision roads, utilities, land, etc.

New for the 2015 budget process, is the inclusion of a capital purchases justification. In the 2014 budget, capital expenditures made up 36% or \$42,509,400 of the budgeted expenditures which is considered significant. The capital purchases justification will provide information necessary for Senior Management and Council to evaluate which projects will be approved. The capital purchases justification must be completed and accompany the budget when submitted.

Equipment Lifecycle Plans

The year following a capital or non-capital equipment purchase, the amount of the purchase is added to an equipment life cycle plan. The purpose of the plan is to provide funds for the scheduled replacement of existing equipment. The equipment life cycle plans currently in use are:

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

For 2015, all equipment life cycle plans will be standardized with built in inflation rates applicable to the lifecycle plan.

Furniture/Computers

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

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|------------------------------------|---------|
| ▪ 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 develop 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 2015-2018 budgets. 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 onetime items are expended (Policy FI-005).

Relative 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 important for to not 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. Any new capital must come from general taxation until such time as “restricted surplus” is identified. As part of the Executive Committee’s review, new capital may be considered for funding from restricted surplus.

Staffing

Salaries and wages will be budgeted based upon the current year’s Full Time Equivalent (FTE) staff complement. Employee benefits will be calculated at an average percentage as determined from the previous year’s financial statements.

For all new positions, a New Position Template must be completed and submitted to Human Resources which 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 for the Executive Committee’s review of the first draft of the budget.

Where union negotiations have set future year wage costs, those costs will be reflected in the future budget. In years where settlements have not been negotiated, Administration will endeavour to allocate reasonable increases representative of what the negotiations might reflect. For purposes of preparing the 2015-2018 budgets, Administration is suggesting a 3.0% increase to salaries for all years to maintain consistencies with the increases negotiated with the unions which occurred in 2012 for 2013-2015 and maintaining the same 3% rate for 2016, 2017 and 2018. This will ensure that all programs will be reflective of the true costs to running them.

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 plan 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 infrastructure which is supported through utility rates. The balance of the debt has been for County infrastructure and the TransAlta Tri Leisure Centre.

The 2015-2018 budgets will be prepared utilizing the same pay as you go philosophy. Any deviation in this philosophy would be discussed in consultation with Council.

Other Indicators

Parkland County's cost of municipal service provision also faces inflation. From year to year, a larger amount of expenditure is required in the County's operating budget to purchase the same mix of goods and services. However because the County purchases a considerable different range of goods and services than the average consumer does, the Consumer Price Index (CPI) is not an adequate measurement of inflation rate it experiences. Moreover, municipal costs tend to experience a higher level of inflation than average consumer costs do. Where a suitable fit cannot be identified the CPI will be used as a default inflation factor.

Indicators that can be used by all departments as a reference in calculating their budgets are as follows:

Indicators based on Statistics Canada costs of industrial product price indexes (IPPI) are as follows (change from March 2013 to March 2014):

- Lumber & other wood products -6.3%
- Primary ferrous metal products +7.0%
- Fabricated metal products +3.1%
- Machinery & equipment +1.1%
- Motor vehicles & other transport equipment +4.9%
- Electrical & communications products +1.2%
- Petroleum & coal products +5.1%
- Chemicals & chemical products +5.6%

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Indicators based on City of Edmonton 2014 forecasted MPI (will be updated if newer data becomes available):

- Travel & Training +2.20%
- Contract Services & Professional Fees +3.26%

The Consumer Price Index for Canada as of March 31, 2014 shows an increase of 1.5% to the cost of living; Alberta is 3.9%.

Contact Information

The 2015-2018 budget years will continue to reflect the Public Sector Accounting Board standards and requirements.

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

General Manager, Corporate Services	Tracy Kibblewhite
Manager, Financial Services	Jeff Dyck
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