



2018 Municipal Budget Philosophy

Introduction

The development of the County's budget is one of the most important 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 2018 budget.

Economic Climate

The 2018 fiscal year is anticipated to bring new challenges to the County with the potential loss of linear assessment revenue related to TransAlta power generation. This is the start of the impact of the Climate Change Policy of the Province and the wind up of coal generation. The County will develop a budget that recognizes the reduction of linear revenue by \$5.7 million. This will be accomplished first through a review of service levels. Any funds required to balance the budget after this review will be accumulated through a tax rate increase.

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 requirements for long-term financial planning. Municipalities will be required to adopt, at a minimum, three-year operating plans and five-year capital plans in future years.

Administration will be producing a one year operating budget for 2018 and a five year capital plan (2018-2022). 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 as well as operationalize the Broad Objectives in the Long-Term Strategic Plan. Department Administration will complete Budget Initiative forms which detail proposed initiatives for any Broad Objectives identified in the 2017-2021 Long-Term Strategic Plan.

Balancing the Budget

Administration will prepare a balanced budget where expenses, both operating and capital, are equal to revenues with the exception of 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 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 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. Based on economic realities, Administration may consider adjustments to the tax rate ratio to ensure residential and non-residential tax rates remain competitive should the County suffer a substantial loss of revenue.

All requisition costs (Alberta School Foundation, Seniors Foundation) 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 Interim Budget will be approved in December while the Final Budget, used to set the tax rate, will be approved in the spring.

Budget Process

Council approval of the Interim Budget occurs in December of each year. This approval acts as authorization for the County's business units to utilize available resources to administer key programs and services until the Final Budget is approved in the spring. Preparation of the County's Interim Budget is a significant undertaking involving detailed fiscal analysis and

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substantial planning efforts. Therefore, it is critical that all planned initiatives are included in the budget at this time.

In order to include the finalized assessment and school requisition values, the Interim Budget is adjusted in the spring and then becomes the Final Budget. Adjustments to the budget are also made at this time to include any carry forward projects that were not completed in the previous year and for emergent budget items that were not foreseen during the Interim Budget process.

New for 2018, budgets will be presented at a divisional level rather than at a departmental level. Although departmental business plans will still be prepared, they will serve as a tool in corporate planning activities.

Variances

It is the responsibility of the department to review the revenue and expenditure trends and variances prior to submitting their final budget documents to Financial Services. Where significant variances exist, budget numbers will need to be compared to actual historical values from the previous five years to ensure a base budget adjustment is required.

As part of the presentation to both the Executive Committee and Council, Departments will need to explain significant variances between 2018 budget figures and the approved 2017 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 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.

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.

During the 2017 fiscal year, TransAlta submitted an assessment appeal to the Province of Alberta requesting additional depreciation on Keephills 3. TransAlta also announced that it

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will shut down Sundance 1 and “mothball” Sundance 2. This could have a significant impact on the County, reducing revenues by approximately \$5.7 million with no equivalent reduction in expenditures. As a result, Administration will be preparing a budget for Council that will consider reductions in service levels provided to residents in order to keep the tax rate increase minimal. This change will establish the new level of service provided to residents going forward into future budget years.

Consistent with prior years, inflation and population 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.

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

- Benefit Principle – those who receive benefits from a particular 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. The County is working towards elimination of subsidization between utility systems.

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 five-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: support of Council's Strategic Plan, ability to sustain current services, and meet future growth. 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.

Changes in the capital budget for 2018 from prior years include:

- Capital and Operating will be split to ensure transparency, a clearer link to financial reporting requirements, and greater ease in monitoring and reporting.
- Capital projects that are similar in nature can be "bundled" together and presented to Council as one line item on the budget. For example, asphalt surfacing projects will now be presented to Council as a single line item.
- Capital projects will be separated into two categories being either "growth", referring to new infrastructure, or "renewal", referring to work on existing infrastructure. Renewal projects will not be subject to the same scrutiny as growth projects in the budget approval process.

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.)

Budget Initiative Form

The budget initiative form has been revised for the 2018 budget cycle so that it has a clear link to the Strategic Plan. The budget initiative form will provide all the necessary information Senior Administration and Council need to enable them to evaluate proposed changes to service levels (programs) as well as any new initiatives. Initiatives will be run through vigorous rating criteria to assess whether they are: "Imperative," "Essential," "Important," or "Desirable." A budget initiative form must be completed for all operating initiatives for the year 2018 and for all capital items for the years 2018 through to 2022.

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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 any programs or projects that are not completed by year-end. Funds are placed in a restricted surplus account for future use. The carry forward request form will be reviewed and approved by Senior Management 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. The 2018 budget cycle will include equipment life cycle plans for the following:

- Fire Equipment Lifecycle
- Facilities Lifecycle
- Mobile Equipment Lifecycle
- Office Equipment Lifecycle
- Protective Services Lifecycle
- Survey Instruments Lifecycle
- Smart Parkland Tower & Equipment Lifecycle Plan

Administration will review select equipment life cycle plans in 2017 to ensure that they are supporting the County's needs.

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 2018 budget. Administration will start to incorporate the recommendations provided by the Government Finance Officers Association on Restricted Surplus in the 2018 budget. The recommendations will be phased in to ensure that the implementation does not create a significant taxation impact on residents. 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.

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- 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 not to rely on restricted surplus to fund regular operations as it is unsustainable.

It should be noted that only those operating or capital items identified in 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.

Staffing

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

Due to the current economic climate, the 2018 budget will be produced based on the County instituting a hire freeze; where only positions required to sustain essential services already provided or required by legislation will be considered for approval. If there are positions that meet this criteria the process for approval remains the same as the prior year.

All requests for new positions and requests to change temporary positions to permanent require a completed Job Description and Budget Staff Initiative. A summary of new positions, outlining the impact on taxation, will be prepared by Payroll and included in the first draft of the budget for Executive Committee's deliberation.

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 current state of the local economy. 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 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

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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 2018 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 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. 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/deflation 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.

Historically, administration would recommend an inflation adjustment equal to the 2018 forecasted MPI rate of 2.78%.

	Forecast				
Year	2017	2018	2019	2020	Average
MPI*	2.55%	2.78%	2.89%	3.06%	2.82%
CPI*	2.09%	2.11%	2.48%	2.06%	2.19%

Source: Municipal Price Index 2016 Economic Insights, City of Edmonton March 2016. **This data will be updated once the Municipal Price Index 2017 Economic Insights is released by the City of Edmonton.*

In previous years Administration would also use MPI product and service specific rates that would be used by departments when completing their itemized budget are as follows¹:

- Equipment and Vehicles + 2.13%
- Fuel + 7.02%
- Materials + 2.13%
- Natural Gas + 9.39%
- Utilities + 1.95%
- Land Costs + 2.11%
- Travel and Training + 2.11%
- Contract and Professional Services + 2.43%

¹. Source: Municipal Price Index 2016 Economic Insights, City of Edmonton. **This data will be updated once the Municipal Price Index 2017 Economic Insights is released by the City of Edmonton.**

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For the 2018 budget year, Administration is recommending that departments hold to 0% inflation on all services. If an increase is required a compelling case will need to be prepared by the department to provide evidence that the existing service levels cannot be met without a base budget adjustment.

Due to the complexities and Climate Change Policy adjustments, administration is recommending a 4% tax increase as a target due to the potential loss of linear assessment revenue. While this will not fully address the potential revenue loss 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 4% target during the Final Budget process in spring if TransAlta is unsuccessful in its appeal.

Contact Information

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

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