

Business Plan 2012 Strathcona County & Budget

“Responsibly Delivering Quality Service while Preparing for Transition to Sustainability”

**Council Meeting
November 15, 2011**

Your County

Your Budget

Your Input

2012 – 2014 Business Plan & 2012 Budget

1. Introduction
2. Executive Summary
3. Business Plan & Budget Framework
4. Building the Foundation
5. Key Recommendations
6. Next Steps

2011 Timeline

- Feb 22 Approval of Timeline
- May 27 Financial Projections
- May 31 Council Guidance & Direction
- Oct 4 1st Look at Business Plan Initiatives & Councillor Budget Requests
- • **Nov 15** ***Overview of Recommended Business Plan & Budget (no decisions required today)***
- Nov 25, 28, 30 Recommended Business Plan & Budget Presentations
- Dec 2, 5
- Dec 13 Approval of Business Plan & Budget

Business Plan 2012 Strathcona County & Budget

1. Introduction

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Council Direction

On May 31, 2011, Council provided the following direction:

1. Regarding the 2012 Operating Budget
 - Look at opportunities to modify service levels using a projected tax dollar increase of less than 7.4%
2. Regarding Franchise Fees
 - Investigate franchise fees with a view to increasing the natural gas franchise fee and potentially implementing an electricity franchise fee
3. Regarding the 2012 Capital Budget
 - Explore using \$4 million to leverage \$50 million in new debt
 - Explore implementing a 1% dedicated infrastructure tax to leverage \$20 million in new debt

Council Direction

On October 4, 2011, Council provided direction to remove the following proposed Business Plan Initiatives from further consideration:

- 2012 BPI – 17 “Removal of Community Hall Grant Funding”
- 2012 BPI – 27 “Reduce rural sports field maintenance”
- 2012 BPI – 31 “Reduce service level on 230 kilometres of Class IV road from fully bound surface to loose float”

The 2012 – 2014 Business Plan & 2012 Budget

- Identifies the costs and resources required to continue with the provision of quality Municipal, Utility and Library service delivery generally at approved 2011 levels
- Is balanced and fiscally responsible in the short-term

However,

- In the long-term, the current business plan may not be sustainable due to:
 - Revenues not keeping pace with increasing costs to meet high resident service demands
 - Significant non-residential property tax subsidy
 - Internal capacity

Transition to Sustainability

- Complete “In Pursuit of Excellence” organization review
- Review and update strategic plan; confirm Community Vision
- Review and confirm program and service delivery
- Implement Sustainability Platform; strong link to strategic plan and key performance indicators
- Accelerate the implementation of the Economic Sustainability Framework recommendations

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2. *Executive Summary*

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Business Plan 2012

Strathcona County & Budget

2. Executive Summary

Operating Budget*	2012	2011
Municipal Operations	\$239.8M	\$224.2M
Utility Operations	51.6M	49.3M
Strathcona County Library	<u>9.0M</u>	<u>8.3M</u>
County	<u>\$300.4M</u>	<u>\$281.8M</u>

**expenses and non-operating expenditures*

Capital Budget

2012

2011*

Municipal Operations	\$ 89.3M	\$42.4M
Utility Operations	17.1M	22.6M
Strathcona County Library	<u>0.6M</u>	<u>0.5M</u>
County	<u>\$107.0M</u>	<u>\$65.5M</u>

Note: \$710M capital projects identified for 2012 – 2016

**as amended at September 30, 2011*

Additional revenues required to deliver quality service levels

- \$8.2M additional Municipal property taxes required
= **\$86** increase / year (5.03%) *for the average residential property assessed at \$424,050*
- \$866k additional Municipal user fees & charges required
= **2.3%** average increase
- \$155k additional Library property taxes required
= **\$1.32** increase / year (2.02%) *for the average residential property assessed at \$424,050*

Additional revenues required to deliver quality service levels

- \$1.7M additional revenue from Utility user rates required
 - = **\$3.23** increase / month (2.96%) *for the average Urban residential customer consuming 18.5 cubic meters of water*
 - = **\$0.25** increase / month (0.26%) *for the average Rural residential customer consuming 18.5 cubic meters of water*

Business Plan 2012 Strathcona County & Budget

3. *Business Plan & Budget Framework*

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Fundamental Principles

- Guided by/ linked to Council's Strategic Plan & Community Vision
- Budget is balanced and fiscally responsible
- Strives to achieve balance between environmental, social & economic sustainability
- Meets federal and provincial legislative requirements, Council approved bylaws, policies and plans (key service drivers)
- Continues to identify economies & efficiencies

Guidelines

- Maintain municipal service levels while searching for efficiencies in operations to lessen the tax requisition to residents
- Increase selected user fees to keep pace with market conditions and to offset increased costs on fee-based services
- Maintain utility service levels while searching for efficiencies in operations to lessen the impact on utility bills
- Continue to provide annual operating funding for annual capital programs
- Utilize debt as a potential financing source for capital projects

Business Plan

- Business Plan Initiatives are new programs, projects or initiatives that:
 - align with our strategic plan and help us achieve our goals
 - represent a change in the way we do business – increase, decrease or modify services or service levels
- 4E Reviews are function (cross-department) reviews or department operational reviews that:
 - identify opportunities to improve efficiency, effectiveness, economy & equity

The Operating Budget Equation

Expenses

- Cost of delivering services
- Cost of inflation
- Cost of growth
- Cost of changes in service levels



Revenues

- Existing tax base
- New tax base due to growth
- User fees & charges
- Operating grants
- Other & own sources

Budget Target: **Expenses = Revenues**

The Capital Budget Equation

Capital Projects

- Annual Projects
- Rehab & Replacement
- Growth Capital - Direct
- Growth Capital - Indirect
- Value Added Capital
- Investment Capital

Funding

- Operating Budget
(taxes, rates & user fees)
- Reserves
- Grants
- Development Levies
- Other Sources

Budget Target: **Project Costs = Funding Sources**

- Debt is not a funding source, it is a financing tool that is funded from the above
- Direct capital includes roads & utility infrastructure; indirect includes facilities, vehicles & equipment

Business Plan 2012 Strathcona County & Budget

4. *Building the Foundation*

Your County

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Constantly Changing Environment

Year	Events	Ave US\$/ BBL Oil	Cdn \$
2007	Labour shortages; inflation pressures; stock markets hit record highs <i>“Providing Quality Services & Investing in our Future”</i>	\$64	\$99.82
2008	Lehman Bros bankruptcy triggers global recession; credit markets freeze; stock market crash; world governments bail out banks <i>“Providing Quality of Life in Challenging Times”</i>	\$91	\$82.36
2009	\$800B economic stimulus package; global consumer and industrial demand collapses; bank rate drops <i>“Responding to Challenges in Uncertain Times”</i>	\$53	\$95.52

Constantly Changing Environment

Year	Events	Ave US\$/ BBL Oil	Cdn \$
2010	Global economy rebounds; debt problems in Europe; commodity demand drives up C\$ <i>“Staying the Course in Extraordinary Times”</i>	\$71	\$100.26
2011	Long-term interest rates fall to historic lows; European debt crisis worsens; C\$ fall as US\$ rises <i>“Responsibly Delivering Quality Service while Preparing for Transition to Sustainability”</i>	\$87	\$98.96

4. Building the Foundation

Municipal Price Inflation	2012	2011
Municipal Operations	3.5%	2.7%
Utility Operations	2.7%	3.7%
Strathcona County Library	4.7%	3.4%
Alberta CPI (at Oct 21, 2011)	2.8%	

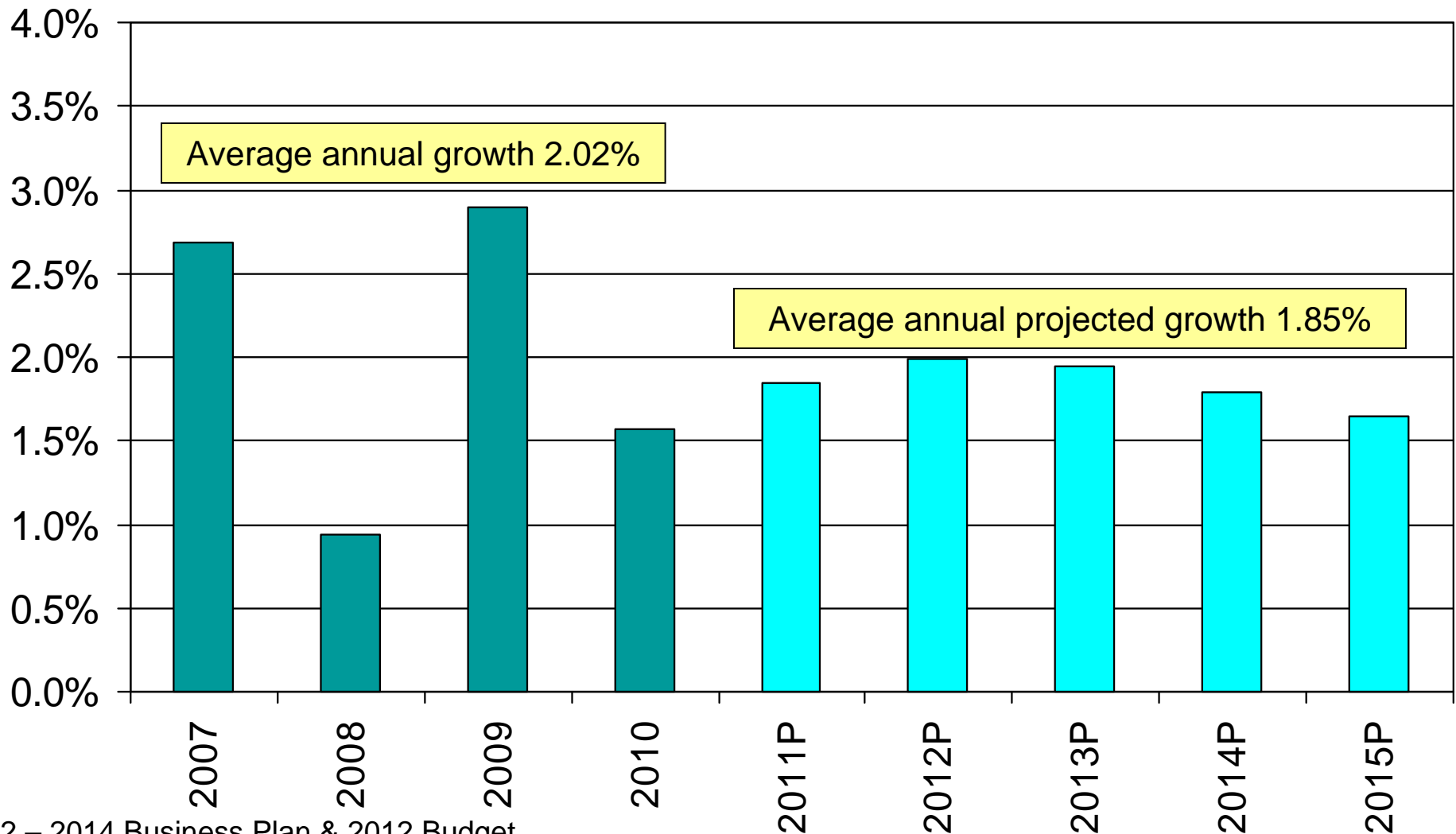
- Municipal price inflation exceeds the consumer price index due to the higher cost of the County's "basket of goods", which includes commodities related to the provision of services for Fire, Ambulance & Police, Transit, Recreation, Parks, Roads, Utilities and the Library
- MPI has had a 48% cumulative effect since 2005 (Municipal Operations)

Municipal Price Inflation

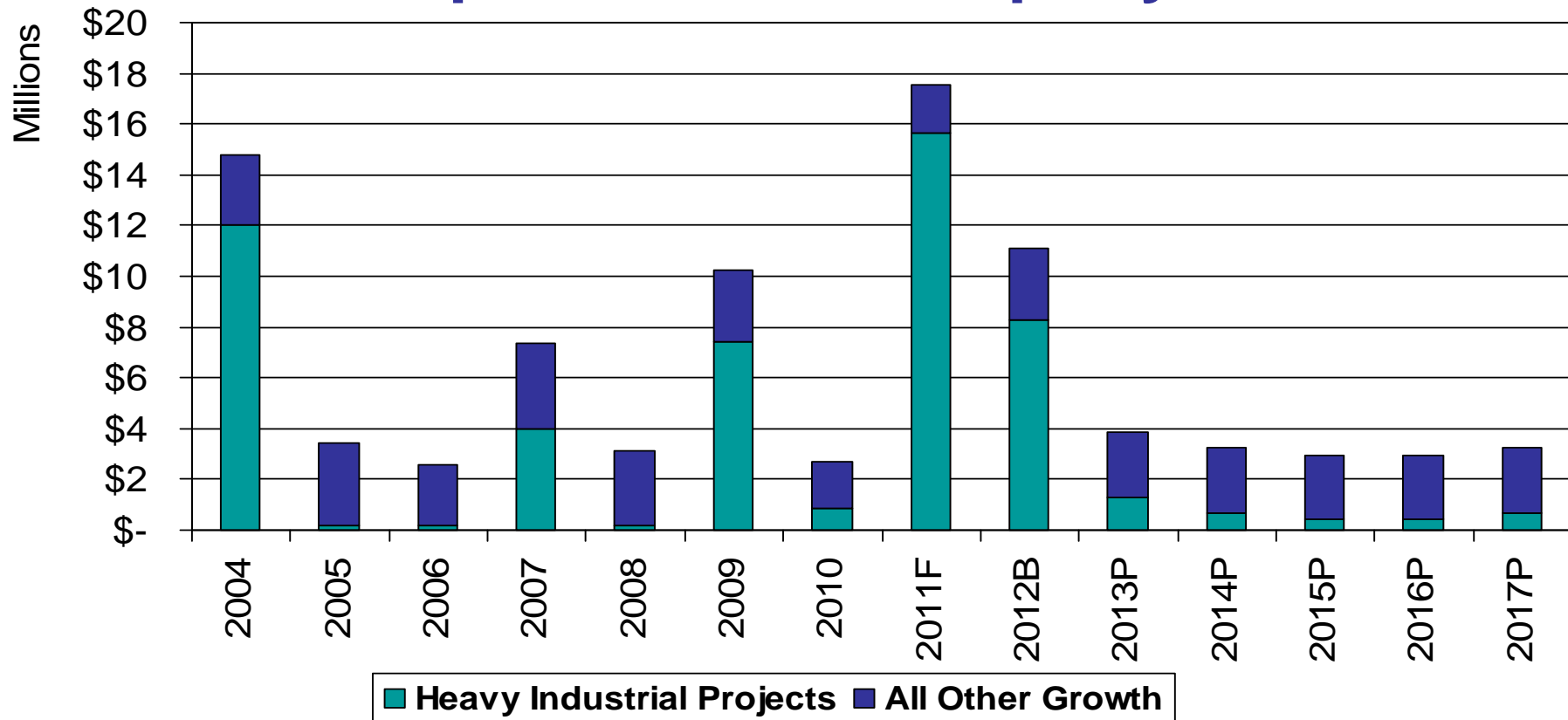
A few 2012 examples:

✓ Diesel	up	28.9%
✓ Gasoline	up	23.1%
✓ Road oil	up	15.0%
✓ Wastewater treatment	up	8.0%
✓ Cold mix	up	6.0%
✓ Electricity	up	3.7%
✓ Various contracts	up	3.3%
✓ Postage	up	2.0%
✓ Natural gas	up	1.9%
✓ Water for resale	up	0.0%
✓ Insurance	down	5.2%

Annual Population Growth



Municipal Growth – Property Taxes



We cannot count on significant 'new money' every year....after 2012, the next industrial expansion is a long way off !!

Business Plan 2012 Strathcona County & Budget

5. *Key Recommendations*

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Business Plan

- 12 Business Plan Initiatives (BPIs) recommended for inclusion in the 2012 – 2014 Business Plan:
 - Municipal Operations
 - 6 BPIs that increase service levels such as Compiling a Community Greenhouse Gas Inventory and funding a Youth Intervention Program
 - 5 BPIs that modify service levels such as reducing the shrub bed maintenance cycles, reviewing the strategic plan and phased implementation of SCAT restructuring
 - 1 BPI that reduces service levels in relation to backsloping
 - No BPIs for Utility Operations or Strathcona County Library

Business Plan

- Two 4E Reviews recommended for inclusion in the 2012 – 2014 Business Plan:
 - Business Plan & Budget Process Review
 - Development Process Review

Strathcona County delivers a “balanced budget”

\$M	Municipal Operations	Utility Operations	Strathcona County Library	2012 Strathcona County
Revenues	228.6	47.0	9.0	284.6
Expenses	234.4	48.9	9.2	292.5
Net Revenues	(5.8)	(1.9)	(0.2)	(7.9)
Non-Operating Items*	5.8	1.9	0.2	7.9
Net Impact for Budget	(0.0)	0.0	0.0	0.0

*Non-operating items includes transfers to/from reserves, debt repayment and offset for TCA amortization

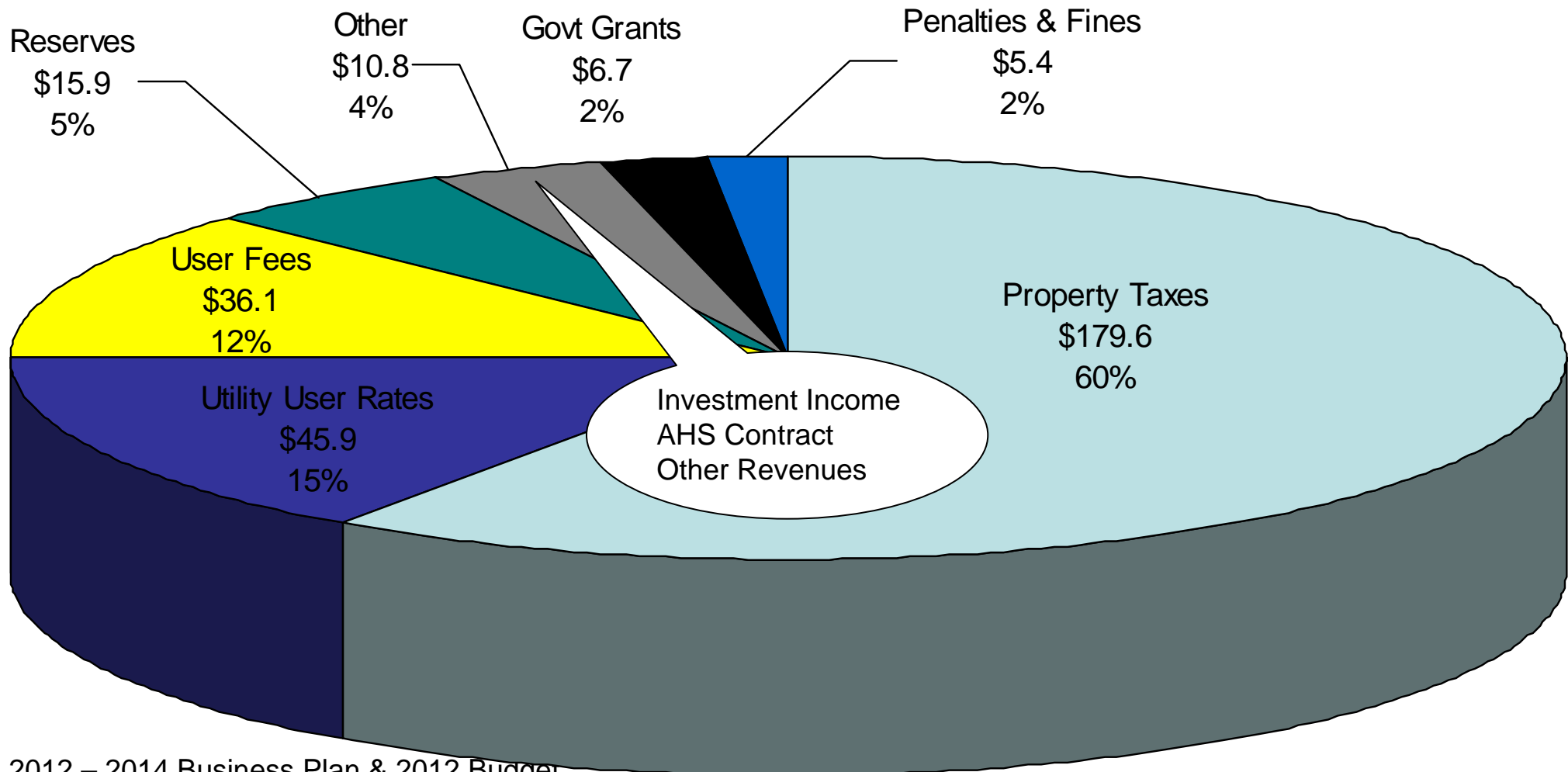
Strathcona County delivers a “balanced budget”

\$M	2010 Actual	2011 Budget	2011 Forecast**	2012 Budget
Revenues	264.7	267.0	270.3	284.6
Expenses	236.6	269.1	266.2	292.5
Net Revenues	28.1	(2.1)	4.1	(7.9)
Non-Operating Items*	(16.4)	2.1	2.1	7.9
Net Impact for Budget	11.7	(0.0)	6.2	0.0

*Non-operating items includes transfers to/from reserves, debt repayment and offset for TCA amortization

**Forecast includes Municipal Operations, Utility Operations & Strathcona County Library

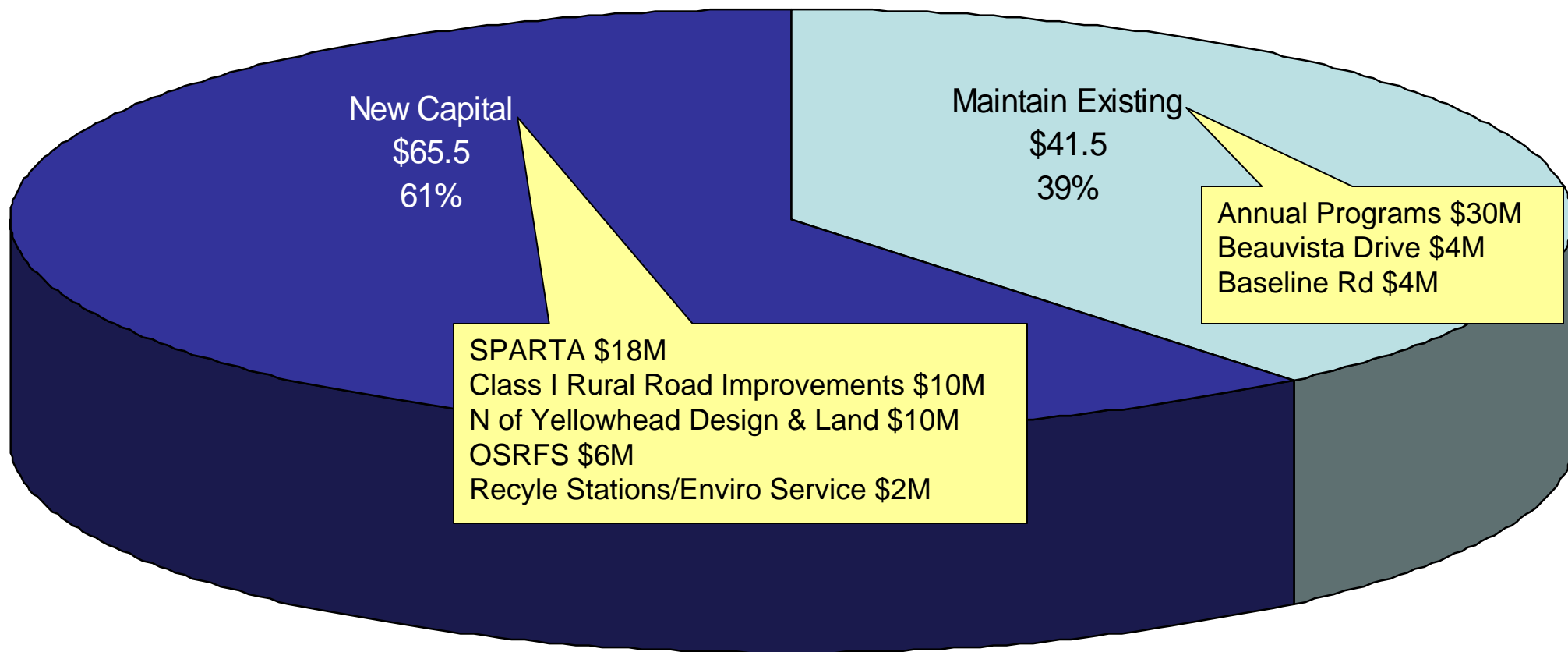
\$300.4M Operating Budget – Source of Funds



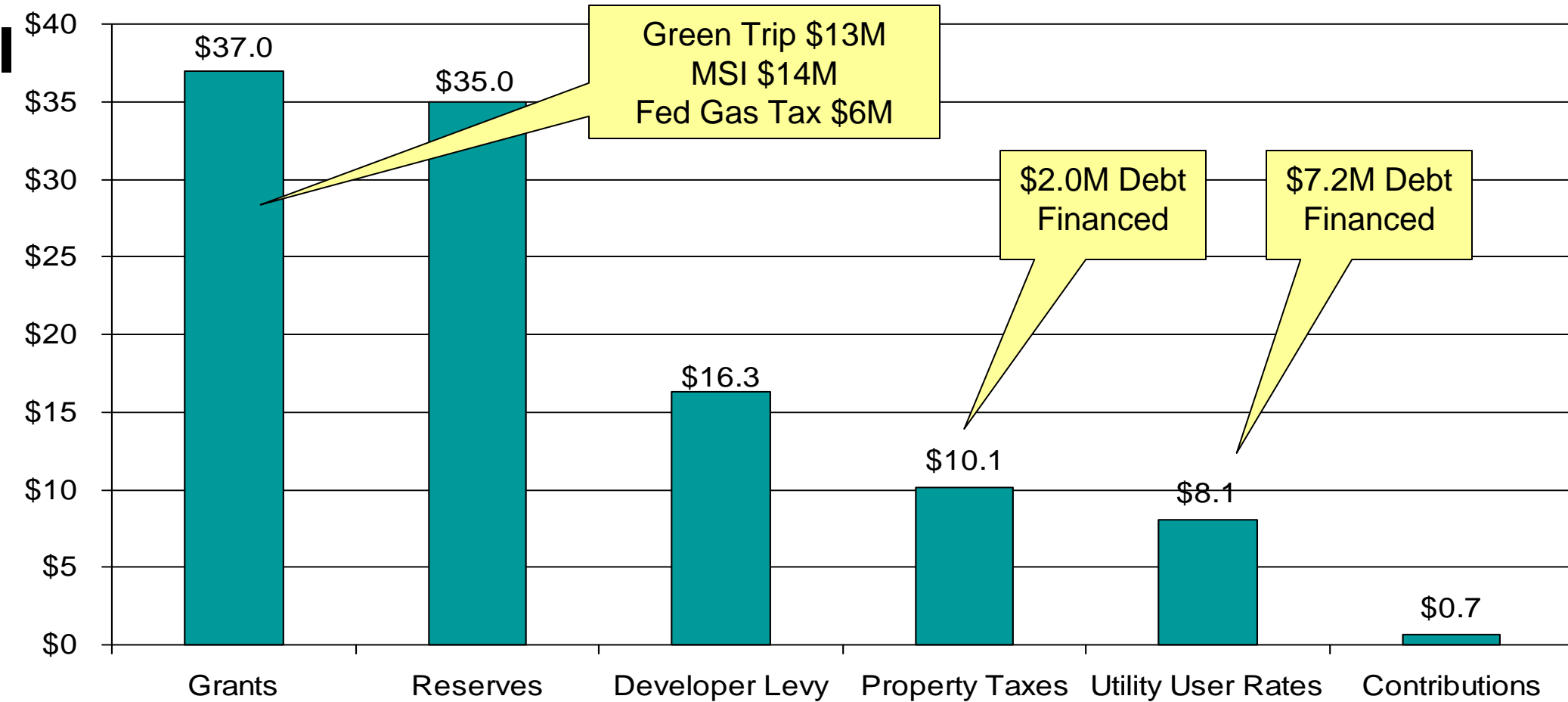
Selective Municipal User Fee Increases

- Consistent with budget guidelines, all user fees are reviewed annually to ensure that
 - prices keep pace with market conditions while balancing what the community will bear, and
 - increased costs are offset on fee-based services
- A few examples:
 - U-Pass increased from \$125 to \$140
 - Millennium Card increased from \$39 to \$40 / month
 - Natural Gas Franchise Fee increased from 22% to 25%

\$107.0M Capital Budget Required to Deliver Services



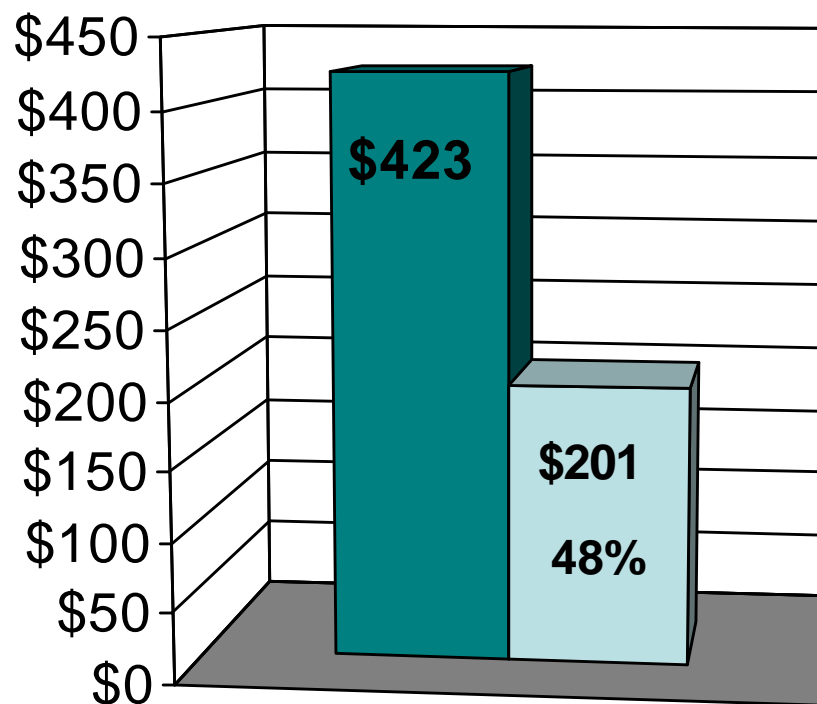
\$107.0M Capital Budget Required to Deliver Services



Debt Management

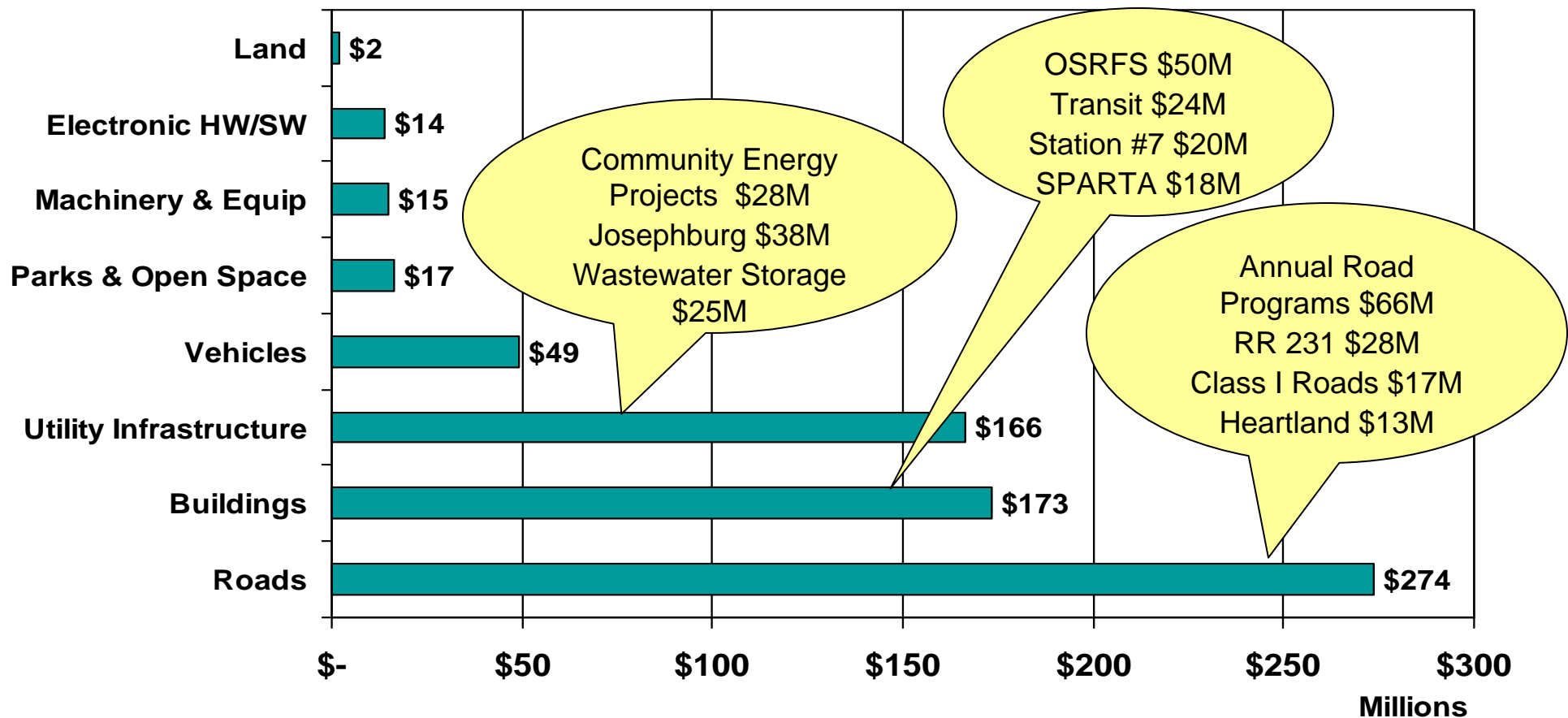
External debt (debentures & capital leases) is well-managed, within MGA guidelines and County Policy

Millions



- MGA & Policy Debt Limit
- Projected Debt Outstanding at December 31, 2012

\$710M Capital Required 2012 - 2016



NOTE: While all projects identified in the five-year window are important, a significant portion may be pushed into a ten-year horizon to accommodate financial and staff capacity constraints

Allocation of Year End Operating Surplus

- Policy FIN-001-008 Principles
 - Allocation of surplus will be sound and fiscally responsible
 - Surplus represents one-time funding that, by its nature cannot be relied on to recur and therefore should not be allocated to fund recurring expenses, but rather to fund one-time items
 - Surplus is allocated to reserves to facilitate service delivery in the future
- Municipal operating surplus
 - Broad parameter is to provide funding for future capital projects and to provide funding for emergent projects that arise in between budget cycles (such as strategic land acquisitions)
- Utility / Library operating surplus
 - allocated to reserves for the purpose of funding future capital projects

Allocation of Year End Operating Surplus

- The 2012 Municipal Budget assumes the following allocation of (projected) operating surplus to:
 - Replenish the Unforeseen Climatic Conditions Reserve \$1.46M
 - Establish an allowance to implement recommendations of “In Pursuit of Excellence” organization review \$1.00M
 - Fund 2012 BPI #38 Water Tanker \$0.67M
 - Fund 2012 capital project #343 Loader with blower \$0.57M
 - Establish an allowance to action the recommendations of the Economic Sustainability Framework \$0.25M
 - \$3.95M

Business Plan 2012

Strathcona County & Budget

5. Key Recommendations

Summary

	2012	5-Yr Ave*
Municipal Tax Dollar Increase	5.03%	5.24%
Utility Rate Increase – Typical Urban	2.96%	8.35%
Utility Rate Increase – Typical Rural	0.26%	6.18%
Library Tax Dollar Increase	2.02%	12.97%
Recommended Capital Budget	\$107M	\$127M

*2007 - 2011

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6. *Next Steps*

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Overview of Binder

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Overview of Binder

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E. Additional Information

- Councillor Budget Requests
- 2012 Staff Resources
- Flagged Items
 - When an issue raised by a Councillor during the business plan and budget presentations is deemed critical to making the final budget decision
 - If a majority of Council supports the flagged item, a response will be provided before the conclusion of the budget deliberations
- 2012 – 2016 Capital Requirements
- Deferred Items

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Recommendation

- THAT Council receive the 2012 – 2014 Business Plan & 2012 Budget Overview for information

***“Responsibly Delivering Quality Service while
Preparing for Transition to Sustainability”***