LONG-TERM FINANCIAL SUSTAINABILITY FRAMEWORK

Prepared by Corporate Finance and Corporate Planning
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STRATHCONA COUNTY

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EXECUTIVE SUMMARY

Overview

Strathcona County's vision is to become "Canada's most livable community". Prioritized strategic goals have been identified in the strategic plan 2013-2030 to help facilitate this vision. To achieve the strategic vision, the County must have the financial capability to do so. This capability is referred to as financial sustainability: the long-term ability to deliver the level and types of services expected by the community, as well as meet financial commitments at acceptable levels of taxation in relation to the environment in which we operate.

Numerous financial challenges and pressures can threaten the County's financial sustainability. These issues include, but are not limited to expenditure pressures, new growth, inflation, securing sustainable revenues and funding sources, and pressure to keep municipal taxes affordable.

The Long-Term Financial Sustainability Framework (LTFSF) has been created to consider future financial challenges through agreed upon principles, strategies and process. The implementation of the framework will guide the organization in making decisions necessary to plan for financial sustainability, while maintaining a level of adaptability, in order to help achieve the strategic plan's vision.

Outcomes

There are three primary outcomes that arise from the development of the framework:

- The framework will be used as a **REFERENCE** in all financial decision-making in the organization. This includes informing master-planning, capital planning, budgeting processes, as well as other emergent financial issues.

  The framework:

  - Identifies financial sustainability principles and the considerations and impacts to be deliberated in financial decision-making.
  - Outlines significant financial planning areas and associated financial strategies to be followed.

- The framework identifies **FUTURE STRATEGY AREAS** based on current knowledge, where further work may be warranted to refine current financial strategies and/or create new financial strategies.

- The framework establishes a collaborative **LONG-TERM FINANCIAL SUSTAINABILTY PROCESS** that will be repeated on a four-year cyclical basis to complement the strategic plan.

  The process will:

  - Create long-term financial forecasts and scenarios to illustrate future financial challenges and facilitate a long-range perspective for decision-makers.
  - Use the long-term financial forecasts and scenarios to help illustrate the need for financial strategies, guide which current strategy areas may need to be refined and/or identify the need for the creation of new strategies.

Strategic Linkages

The strategic plan is the County's highest level and principal guiding document for governance, community development, infrastructure and service delivery. It is reviewed annually and updated every four years, and shows how County activities align to achieve its vision for the year 2030. The strategic plan directs the long-term planning for the County and serves as a foundation on which the corporate business plan, department business plans, master plans and budgets are developed.

The County must be financially sustainable to have the capability to achieve long-term strategic goals. The framework serves as a complement to the strategic plan by communicating financial strategies and principles to be referenced in decision-making. These strategies and considerations help lead to the financial sustainability of the County. As well, the long-term financial planning process launched subsequent to the framework's approval will help provide awareness of financial capacity, and will further refine/create new financial strategies to help navigate the challenges identified.

Long-Term Financial Sustainability Principles

Financial sustainability principles have been established as the guiding considerations against which financial strategies and decisions will be deliberated. The principles are to be applied in all financial decision-making.

The overarching financial sustainability principles are as follows:

Foundational Principles

The foundational principles are **SUSTAINABILITY**, **FLEXIBILITY**, and **MINIMIZE VULNERABILITY**. These are the most significant indicators of a government's financial condition as communicated in the Public Sector Statements of Recommended Practice (SORP-4).

- To be financially **SUSTAINABLE** now and in the future by providing and maintaining programs at acceptable levels of taxation.
- To maintain a degree of financial **FLEXIBILITY** to be able to adapt to changing circumstances.
- To **MINIMIZE VULNERABILITY** by considering the reliance on sources of funding outside County control or influence, and by strategically allocating funding sources in a sustainable manner.

Supplemental Principles

- To make financial decisions that are aligned with the **STRATEGIC PLAN AND CORPORATE PRIORITIES**.
- To provide services in an **EFFICIENT** manner with the resources available.
- To provide services at an **EQUITABLE** (fair) amount:
  - Services are provided at a rate that reflects the value and level of services provided.
  - To the greatest extent possible, those who benefit from the services pay for the services (supporting the notion of intergenerational equity).
- To be **TRANSPARENT** with key stakeholders by clearly communicating key challenges and considerations in financial decisions.

Long-Term Financial Sustainability Strategies

Long-term financial sustainability strategies are conscious practices and methods used to achieve a specific purpose and/or goal, and ensure the financial health of the County. Current financial strategies are consolidated and communicated in the framework and will be used as a reference in financial decision-making. As well, the relevant financial sustainability principles and considerations are applied to each financial sustainability strategy.

Long-Term Financial Sustainability Process

The County currently engages in numerous long-term financial planning practices and applies several financial strategies, however, a formal long-term financial sustainability process is required. As there are many financial planning strategies, a collaborative process will help determine which strategies should be developed and/or refined first to align with priorities and assist in navigating challenges.

The process will involve the creation of longer term financial forecasts and scenarios to illustrate future financial realities and a long-range perspective for decision-makers. The long-term forecasts and scenarios, in conjunction with collaboration with key stakeholders, will guide which strategy areas may need to be developed and/or refined. In addition, the process will occur every four years to identify and address changing priorities and circumstances, new issues and potential threats, and their impacts on forecasts, plans, strategies and practices. Once a cycle of the process has been completed, the framework will be reviewed to incorporate changes to principles, strategies, and process where applicable.

Conclusion

The Long-Term Financial Sustainability Framework (LTFSF) has been developed to consider future financial capacity through agreed upon principles, strategies and process. The implementation of the framework will guide the organization in making decisions necessary to help realize the County's long-term goals and objectives. The creation of the framework is a key step in planning for financial sustainability, in order to help achieve the strategic plan's vision of becoming "Canada's most livable community".

Long-Term Financial Sustainability Framework

Introduction

Strathcona County

Strathcona County, located in the heart of Alberta, is an energetic and thriving community. A leader in North America's petroleum industry and a champion for advancing diverse agricultural business, we use our energy to power our new tomorrow.

We are a specialized municipality, and work cooperatively with urban and rural residents to govern as a single municipality. Proud of our distinct governance model, we promote and demonstrate our achievements.

The County is a welcoming place to live and attract people of all ages, cultures and walks of life to join us. Families thrive in our dynamic, caring and safe community.

We strive to be a model of ecological integrity, protecting our environment and preserving our agricultural heritage. Investment in infrastructure, quality services, cultural and recreational programs and facilities is a priority and sets us apart.

To meet the strategic vision of becoming "Canada's most livable community" and to deliver the level and types of services expected by the community, the County must have the financial capability to do so. This capability is referred to as financial sustainability, the long-term ability to deliver the level and types of services expected by the community as well as meet financial commitments at acceptable levels of taxation in relation to the environment in which we operate.

Purpose of the Long-Term Financial Sustainability Framework

Numerous factors can threaten the County's financial sustainability. Issues such as securing sustainable revenues and funding sources, expenditure pressures, new growth, inflation, among others, combined with the objective to keep municipal taxes affordable contribute to financial challenges that the County faces.

The Long-Term Financial Sustainability Framework has been created to take action to consider future financial challenges through agreed upon principles, strategies and process. The implementation of the framework will guide the organization in making decisions necessary to plan for financial sustainability, while maintaining a level of adaptability, to help achieve the strategic plan's vision of becoming "Canada's most livable community".

Outcomes of the Framework

There are three primary outcomes that arise from the development of the framework:

- The framework will be used as a **REFERENCE** in all financial decision-making in the organization. This includes informing master-planning, capital planning, budgeting processes, as well as other emergent financial issues.

  The framework:

  - Identifies financial sustainability principles and the considerations and impacts to be deliberated in financial decision-making.
  - Outlines significant financial planning areas and associated financial strategies to be followed.

- The framework identifies **FUTURE STRATEGY AREAS** based on current knowledge, where further work may be warranted to refine current financial strategies and/or create new financial strategies.

- The framework establishes a collaborative **LONG-TERM FINANCIAL SUSTAINABILITY PROCESS** that will be repeated on a four-year cyclical basis to complement the strategic plan.

  The process will:

  - Create long-term financial forecasts and scenarios to illustrate future financial challenges and facilitate a long-range perspective for decision-makers.
  - Use the long-term financial forecasts and scenarios to help illustrate the need for financial strategies, guide which current strategy areas may need to be refined and/or identify the need for the creation of new strategies.

Expectations and Collaboration

The framework is to be used and referenced in all financial decision-making, including when financial decisions are brought forward to Executive-Team and Council (and other key stakeholders). At a minimum, the principles will be discussed in relation to the financial matter at hand; and where relevant, the associated strategies addressed in the framework will be referenced.

The framework also launches a new and highly collaborative process that requires participation from the Executive Team and Council when applicable. Direction and discussion will be required on certain issues, strategies, and analysis. Involvement from other key stakeholders such as the public may also be required. This process is discussed further in the framework.

Strathcona County Background

Operations

The County is comprised of 19 departments that provide a large array of services to our community.

We serve the community directly through a variety of services including:

- Police, ambulance and fire service
- Delivery of safe drinking water
- Road and parks maintenance
- Recreation and social programs
- Snow removal
- Waste collection and recycling
- Wastewater collection
- Planning long-term infrastructure needs
- Transit
- Business attraction and retention
- Development and planning
- Public engagement and communication
- And more

We also serve the community indirectly through the following services:

- Maintenance of facilities and fleet
- Stewardship and sustainability of financial assets
- Secure information technology
- Legal and legislative support
- Payroll and human resources
- Procurement of commodities
- And more

The County's operations are funded through property taxes (residential, commercial and industrial), user fees and rates, government grants, penalties and fines, investment income, and other revenues.

Capital Costs

In addition to the day-to day services provided, the County deals with the costs to develop new infrastructure and amenities, and invests in long-term fixed assets required for service delivery. Such costs may include investments in new water lines or roads, new facilities and technology, land and vehicles. In addition, the County must consider the costs of maintaining existing and future infrastructure.

External Compliance

Various external bodies create legislation, plans, or other guidance to which the County must adhere. External bodies with significant impact on the County include, but are not limited to:

- Alberta Municipal Affairs – the Municipal Government Act (MGA)
- Edmonton Metropolitan Region Board (EMRB, originally known as the Capital Region Board) – the Edmonton Metropolitan Region Growth Plan
- Public Sector Accounting Board (PSAB) – Public Sector Accounting Standards (PSAS)

The MGA is the legislative framework under which Strathcona County operates. As at January 1, 2018, the MGA contains 18 parts and more than 650 sections. The three major themes in the MGA are governance, planning and development, and assessment and taxation.

The EMRB was established under the newly defined MGA Edmonton Metropolitan Region Regulation 189/2017. It plans for and manages growth of the Edmonton Metropolitan Region. The regulation gives the EMRB a mandate to do two things: implement the Edmonton Metropolitan Region Growth Plan and create a Metro Servicing Plan. The Board has been granted the authority to approve Municipal Statutory plans and ensure the compliance with the Growth Plan, in accordance with the Regional Evaluation Framework (REF).

The relevant financial guidance the County must adhere to is the Public Sector Accounting Standards (PSAS). The Public Sector Accounting Board (PSAB) issues standards and guidance with respect to matters of accounting in the public sector. PSAB issues such standards and guidance to service the public interest by strengthening accountability in the public sector through development, and recommending and gaining acceptance of accounting and financial reporting standards of good practice. The standards apply to all public sector entities that issue general purpose financial statements.

Legislation and other externally mandated guidelines may be modified or reformed over time, and the County must have the ability to adapt to such changes.

Strategic Linkages

There are several overarching documents that guide the County in high level decision-making. This section outlines these documents and how this framework fits in.

These overarching documents provide guidance and plans for the County without consideration to the financial feasibility or implications of achieving such plans. The Long-Term Financial Sustainability Framework, as well as the long-term financial sustainability process that is discussed further in this document, will provide the longer-term financial picture and guidance required for decision-making in the organization. Please see below for discussion, as well as Appendix I for a diagram of the strategic linkages between the overarching documents in the County and the framework.

Strategic Plan

The strategic plan is the County's highest level planning document and is the principal guiding document for governance, community development, infrastructure and service delivery. It is reviewed annually and updated every four years, and shows how Strathcona County activities align to achieve its vision for the year 2030. The strategic plan directs the long-term planning for the County and serves as a foundation on which the County's corporate business plan, department business plans, master plans and budgets are developed.

This framework serves as a complement to the strategic plan. The framework outlines financial strategies to be followed, as well as financial sustainability principles and considerations to be referenced in financial decision-making. These strategies and considerations are to help lead to financial sustainability of the County. As well, the long-term financial sustainability planning process helps provide awareness of financial challenges, and further refines and creates new financial strategies to help navigate the challenges identified. The County must ensure financial sustainability, while maintaining a level of adaptability, to have the capability to achieve long-term strategic goals.

Corporate Business Plan

The corporate business plan is the "bridging document" that interprets the vision provided in the strategic plan and provides four-year focused direction for department business plans. The corporate business plan identifies goals that align department activities to meeting Council's prioritized strategic goals. The corporate business plan also identifies the corporate values: Integrity, Respect, Safety, Fairness, and Cooperation.

The first goal outlined in the 2015-2018 Corporate Business Plan was to plan for long-term financial sustainability in support of service delivery and infrastructure asset management. This included the objective of establishing a long-range financial plan to facilitate decision-making on appropriate growth, balance and timing of operating and capital costs.

Department Business Plans

Department business plans are created by Strathcona County's departments. Within these plans, department activities are built to support corporate direction provided by the corporate business plan and the goals within it.

Department Master Plans

Strathcona County has several master plans that have been created by specific areas within the organization. The purpose of these plans is typically to provide an in-depth analysis and plan for a specific area or topic. Strathcona County master plans include:

- Agriculture Master Plan
- Integrated Transportation Master Plan
- Transit Master Plan
- Sustainable Rural Roads Master Plan
- Ardrossan Community Recreation Master Plan
- Trails Master Plan
- Emergency Services Master Plan

Other Sustainability Frameworks

Strathcona County has established other frameworks designed to sustainably manage the growth of our communities and help guide decision-making.

In the Municipal Development Plan, sustainability is defined as developing in a manner that meets the needs of the present without compromising the ability of future generations to meet their own needs, while striking a balance between economic prosperity, social responsibility and environmental stewardship. This definition is related more to growth and development specifically, versus the definition of financial sustainability previously discussed.

The **Economic Sustainability Framework** was approved in 2011 and guides our approach to encouraging economic prosperity. This document discusses the definition of 'sustainability' and four science-based sustainability principles consistent with those outlined in the Municipal Development Plan. As well, long-term financial sustainability is one of the four themes discussed in the document, and the corresponding strategy identified is to develop a long range financial plan. This Long-Term Financial Sustainability Framework is the first requirement in developing the long range financial plan.

The **Social Framework** was approved in 2007 and renewed in 2017 and guides Strathcona County's approach to supporting a caring and connected community. This framework was designed to help decision-makers at the governance and service delivery levels in Strathcona County determine the impact of their decisions on social sustainability.

The **Environmental Sustainability Framework** was approved in 2009 and guides our approach to protecting and conserving our natural environment. This framework is designed to help decision-makers at the governance and service delivery levels in Strathcona County determine the impact of their decisions on environmental sustainability.

Municipal Development Plan

The Municipal Development Plan (MDP) is the County's plan for future development. It sets out a clear vision for how Strathcona County will grow and develop over the next 20 years and beyond. It provides a comprehensive long-term land use policy framework within which current and projected growth and development may take place. The primary function of the MDP is to provide direction for long-term development contained in both statutory and non-statutory documents, such as area structure plans, area redevelopment plans, and conceptual schemes. The MDP has to be consistent with the Edmonton Metropolitan Region Growth Plan. In addition, it presents not only a vision of what the landscape could look like in the future, but also the means by which the long-term goals can be achieved through the day-to-day decision-making process.

Budgeting Process

The operating and capital budgets are the mechanisms to allocate resources to the prioritized strategic goals identified in the strategic plan, corporate business plan, department business plans, and master plans. Budgets are primarily where long-term financial strategies from the framework are implemented.

The County also uses the priority-based budgeting (PBB) approach as a tool for decision-making – in which all of our actions and budget decisions are driven by community priorities. When translating the various plans into action through the budgeting process, competing demands are considered organizationally and decisions are made based on strategic priorities.

Long-Term Financial Sustainability Framework

The framework is the highest level financial document in the organization. The framework helps enable the County to achieve long-term goals through agreement and communication of financial principles, strategies and process.

Long-Term Financial Sustainability Process

This process is where the financial implications of the various plans discussed above will be analyzed through forecasting. Creation of long-term financial forecasts and scenarios will illustrate future financial impacts of operating and capital activities, and future financial challenges. The financial forecasts and scenarios are used to help illustrate the need for financial strategies, and guide which strategy areas may need to be refined and/or created. The process is described in more detail later in the framework.

Please see **Appendix I** for a diagram of how the overarching plans and guiding documents are related to each other.

Long-Term Financial Sustainability Principles

Financial sustainability principles have been established as the guiding considerations against which financial strategies and decisions will be deliberated. The principles are to be applied to all financial decision-making. The objective is to strike a balance among the principles to foster the future financial health of the organization.

The principles generate questions to be asked in financial decision-making. The general questions associated with the principles are outlined in this section and will be used for more consistent and informed decision-making. In addition, within each financial strategy area discussed in the long-term financial sustainability strategies section of the framework, the primary related principles and some specific questions generated are discussed to demonstrate how they are applied.

If there is an emergent financial matter not yet discussed in the long-term financial sustainability strategies section, the general considerations and concepts of the principles as outlined on the next page should be applied.

Foundational Principles

The foundational principles are **SUSTAINABILITY**, **FLEXIBILITY**, and **MINIMIZE VULNERABILITY** as these are the most significant indicators of a government's financial condition as communicated in the Public Sector Statements of Recommended Practice (SORP-4).

- To be financially **SUSTAINABLE** now and in the future by providing and maintaining programs at acceptable levels of taxation.
- To maintain a degree of financial **FLEXIBILITY** to be able to adapt to changing circumstances.
- To **MINIMIZE VULNERABILITY** by considering the reliance on sources of funding outside County control or influence, and by strategically allocating funding sources in a sustainable manner.

Supplemental Principles

- To make financial decisions that are aligned with the **STRATEGIC PLAN AND CORPORATE PRIORITIES**.
- To provide services in an **EFFICIENT** manner with the resources available.
- To provide services at an **EQUITABLE** (fair) amount:
  - Services are provided at a rate that reflects the value and level of services provided.
  - To the greatest extent possible, those who benefit from the services pay for the services (supporting the notion of intergenerational equity).
- To be **TRANSPARENT** with key stakeholders by clearly communicating key challenges and considerations in financial decisions.

When emergent financial matters arise, financial strategies are developed, and when decisions are contemplated, the impact on each of the principles should be considered:

Foundational Principle	Considerations
Sustainability	■ What is the immediate financial impact? • Upfront costs • Impacts on debt, reserves, rates, other balances ■ What is the future financial impact? • Operating costs • Maintenance costs • Replacement costs ■ What is the immediate and future tax rate and/or user rate impact? • Tax rate impact from all required costs ■ What is the impact on other organizational services provided? • Are there sufficient resources to provide service? • Will other service levels have to decrease or increase? ■ Is it feasible/practical to maintain in the future?
Flexibility	■ What is the impact on debt capacity? • Debt financing required • Debt term required ■ What is the impact on reserve balances? • Reserve funding required • Impact on reserve optimal balance where applicable ■ What is the impact on the immediate and future tax rate (or other rates)? • Upfront costs and future operating costs • Debt servicing costs • What impact does this have on the remaining ability to increase taxes or other rates?

Supplemental Principle	Considerations
Minimize Vulnerability	■ What type of funding is available? • Grants, third party, taxes, user rates/fees, reserves, other ■ What type of expenditure is required? • One time, or ongoing into the future? ■ Is the funding source guaranteed? ◦ Is there a risk funding will not be received? ◦ Will the funding source be available in time for the intended purpose? ■ Is the funding source sustainable or unsustainable? • Is funding required in the future, and will the funding source still be available? ■ What are other relevant risks to the County? • If the funding source is deferred or no longer available, what other options are available? • Any other factors that may put the County at risk (timing, other situational factors, etc.)? • What is the risk of not taking action (such as infrastructure failure, etc.)?
Strategic Plan and Corporate Priorities	■ Does the decision support the strategic plan? ■ Is the decision an organizational priority? • Based on the strategic plan, corporate business plan, and priority-based budgeting ■ What impact does the decision have on other organization priorities? • What would have to be sacrificed (if applicable) by proceeding with x (decision, service, etc.)? ◦ Other types of programs, services, other service levels, other capital projects, maintenance, etc.
Efficiency	■ How many resources are required (financial, time, human capital)? ■ Are there other means to achieve the goal? ■ What other services are impacted? • Financially (resources available for other services, cost of new decision) • Qualitatively (quality of service provided, other advantages/disadvantages)
Equitability	■ Is the perceived value in line with the financial impact? ■ Are those who benefit from the service the ones paying for the service?
Transparency	■ Was there appropriate communication with decision-makers and/or key stakeholders (residents, staff, Executive Team, Council, other relevant groups as applicable, etc.)? ■ Were all significant challenges and considerations communicated to decision-makers?

Long-Term Financial Sustainability Strategies

As previously discussed, the framework develops a common understanding of the County's financial future by communicating agreed upon existing strategies to be adhered to, creating and applying agreed upon financial sustainability principles, and through the creation of a long-term financial sustainability process.

This section identifies the current financial strategies in place, as well as potential future strategies, and the relevant financial sustainability principles and considerations for each strategy area.

For the purposes of the framework, financial strategies are the conscious practices and methods used to achieve a specific financial purpose and/or goal. Financial strategies should foster the financial health and sustainability of the organization. Typically, financial policies should be created to enable the financial strategies.

Strategy: Asset Management

The ability to balance the need to deliver services expected by the community in an affordable manner, and to provide adequate funding for asset maintenance is integral to the long-term sustainability of the County. Capital assets include facilities, roads and utilities infrastructure, equipment and networks that help enable the delivery of County services. The performance and ongoing use of these assets is vital to the health, safety, economic development and quality of life of those who receive the services. If assets are not properly maintained, the public health, safety and quality of life can be threatened. If maintenance and replacement costs are deferred or put off, the physical condition of assets decline, and the costs to maintain or replace assets will likely increase over time.

Current Strategies

The County has a decentralized approach to asset management (AM). Departments are responsible to identify and prioritize infrastructure renewal needs that exist within their area. On an ongoing basis, departments manage, review, and forecast their infrastructure requirements for the effective delivery of operations and maintenance needs.

In addition, there is an 'Annual Program Philosophy' in place to help deal with the annual investments required to avoid infrastructure deficits. Annual programs identify assets in long-term capital plans that require continued rehabilitation and replacement by asset type and prompts planning for continued and sustainable funding. Specific, dedicated reserves have been built over time to ensure secure, sustainable funding for the annual programs. These reserves are the primary funding source for annual capital projects, and are supported by other funding sources when projects exceed the reserve balance. Grants, when available and eligible, are the secondary funding source.

Note: When recognizing revenue for costs incurred, the order is reversed. Grants (or whatever is the most restricted funding) are used first, followed by the use of reserve funds. However, when there are projects planned with 10% of funding from municipal sources to cover ineligible costs, the funding recognized is prorated 90/10 between the restricted source and municipal source, respectively.

Annual programs with specific dedicated reserves at the County include the following:

Buildings

- Annual Facility Capital Lifecycle
- Annual Parking Lot Rehab Program

Electronic Hardware/Software

- IT Infrastructure Replacement Program

Machinery & Equipment

- Annual Water Meter / Radio Frequency Program

Roadway Infrastructure

- Annual Rural Road Rehab Program
- Annual Traffic & Pedestrian Safety Program
- Annual Traffic Signal / Intersection Replacement Program
- Annual Asphalt Trail Rehab Program
- Annual Residential Rehabilitation Program

- Annual Arterial Rehabilitation Program
- Annual Bridge Replacement Program

Utilities

- Annual Corrosion Control Program
- Annual Hydrant / Valve Replacement Program

Vehicles

- Annual Fleet Replacement Program
- Annual Transit Vehicle Replacement Program

Future Strategies

The County has not had any significant issues with regard to the condition of assets historically, however as the County grows there are competing priorities and a centralized or updated approach in the future may be necessary to assist in ensuring the most important needs are addressed.

In 2017, the County developed a Corporate Asset Management Framework that established an AM steering team and a five-year roadmap for developing the County's AM program. This team is responsible for the successful implementation of a comprehensive and sustainable AM program and will provide overall ownership and guidance of the program. As well, the team will ensure that the defined AM program measures of success are achieved.

AM development at the County is continuous and will be sustained into the future to provide the appropriate levels of service, at the appropriate level of affordability, for customers and stakeholders through:

- Preservation of assets
- Financial sustainability
- Protection of the environment
- Consideration of health and safety implications
- Sustainable growth
- Training and capacity building

Through the Corporate Asset Management Framework, AM networks will continue to be formed to provide a forum for AM practitioners to standardize and establish consistency in AM practices, strategies, planning, and integrated project coordination across the County's asset classes. The networks are:

- AM Strategy & Planning Network
- AM Productivity Network
- AM Project Management Network
- AM Knowledge & Performance Management Network

Although the County has established the annual program philosophy, there needs to be guidance to outline and prioritize infrastructure requirements. As County administration continues to strengthen AM practices and philosophies, they will need to be incorporated into future versions of the LTFSF. Policy development for AM practices and philosophies may also be required.

Principles

The primary financial sustainability principles that are relevant to asset management and some of the questions they generate are as follows:

- Sustainability
  - What are the costs to maintain current assets now *and* in the future?
    - What is the tax rate impact?
  - Can we afford to maintain and/or replace current assets in the future?
  - What new assets are required in the future?
    - What will they cost?
    - How much will they cost to maintain?
    - How much will they cost to replace?
    - Can we afford these costs?
- Flexibility
  - What funding sources are available for asset maintenance and what impact would there be on the organization if they are utilized?
    - What is the impact on debt capacity, reserve balances, and the tax rate?
- Minimize Vulnerability
  - To what degree are funding sources used for asset maintenance sustainable/controllable?

Strategy: Reserves & Reserve Fund Management

Reserves are a key component of financial management and are established to:

- Provide funds for future needs
- Provide stabilization for fluctuations in operating and capital activities – i.e. allow financial flexibility for potentially changing or uncertain circumstances

Current Strategies

A reserve policy FIN-001-024 outlines the types and purpose of reserves in place. Optimal balance formulas for applicable reserves are also outlined in the policy. The policy also creates consistent standards and guidelines for the management of reserves and execution of reserve transactions, and ensures that all reserve transactions are approved by Council and carried out in accordance with this approval.

The County has the following categories of reserves:

- **Stabilization and Contingency Reserves** – aid in stabilizing and smoothing the temporary impact of unforeseen events, or fluctuations planned in activity.

  Reserves in place:

  - Stabilization
  - Contingency

- **Project Reserves** – provide funding for non-cyclical needs of departments including onetime operating items and tangible capital asset projects.

  Reserves in place:

  - Year-End Carry Forwards – Municipal
  - Municipal Projects

- **Infrastructure Lifecycle, Maintenance and Replacement Reserves** - provide funding for infrastructure lifecycle, maintenance and replacement projects.

  Reserves in place:

  - Municipal infrastructure Lifecycle, Maintenance and Replacement

- **Special Purpose Reserves** - provide funding for unique purposes that have a one-to-one relationship with the reserve description.

  Reserves in place:

  - Council Priority Funds
  - Strathcona Community Investment Program
  - Public Reserve Trust
  - General Land
  - Municipal Levy Debt Repayment
  - Major Recreation Facility Debt Repayment
  - Cultural Development Fund
  - Internal Financing
  - Secondary Approaches
  - Broadmoor Golf Course

- **Library Reserves** - are maintained by the Library administration and approved by the Strathcona County Library Board in accordance with the Library Reserve Policy FI02.

  Reserves in place:

  - Library

- **Utilities Reserves** – separate utilities reserves are maintained to provide funding for: utility rate stabilization and contingency, utilities projects, utilities infrastructure lifecycle, maintenance and replacement, as well as utility levy debt repayment.

Future Strategies

Future work will include:

- Continual review of optimal balance formulas for all reserves as deemed necessary
- Investigating the need for and clarifying minimum required balances on an individual and aggregate basis
- Determining a target percentage of committed to designated reserves
    - i.e. Determining how much real flexibility there should be
- Determining a target rate of optimal reserve balances to total reserves per year
    - i.e. Determining an acceptable range between actual balances and optimal balances
- Researching and benchmarking with other municipalities

Principles

The primary financial sustainability principles that are relevant to reserves and reserve management and some of the questions they generate are:

- Flexibility
    - Are there suitable reserve types and balances to respond to unforeseen circumstances?
    - What balance of reserves is uncommitted?
    - Are there sufficient reserves to deal with future needs?
    - What are current reserve balances compared to optimal or minimum required balances?
- Sustainability
    - Are optimal reserve balances maintainable in the future, where applicable?
- Minimize Vulnerability
    - Are there appropriate types of reserves for future needs that help reduce reliance on uncertain sources of funding in the future?

Strategy: Debt Management

Debt can be an effective tool to help finance capital projects, as well as complement the sustainability of the organization, as it can help achieve growth and service provision objectives. The incurrence of long-term debt supports the notion of intergenerational equity as the beneficiaries of the capital infrastructure financed by the debt are responsible for the future payments. If managed appropriately and planned wisely, debt may be an effective way to meet organizational objectives. However, to ensure current and future services are not comprised as a result of debt issuance, debt levels and costs must be managed appropriately. There are MGA prescribed debt servicing (repayment) and limit regulations that the County must adhere to.

Current Strategies

The County's debt management policy (FIN-001-025) contains the following financial strategies:

- The County will only incur new debt when it is an organizational priority based on the strategic plan, corporate business plan, and priority-based budgeting to support priority capital projects pursuant to approved capital budgets.
- Long-term debt will not be incurred for operating purposes. This strategy is in line with the sustainability principle because financing operations through debt is not maintainable.
- Intergenerational equity is considered when determining capital projects that will proceed for debt approval. This strategy is to identify who the users are of the capital project, and help ensure the generations that enjoy the benefits of the capital assets help pay for the assets built today. This strategy is in line with the equitability principle because it helps ensure that services (capital projects are the conduit to provide services) are provided at a fair amount to those who enjoy the benefit.
- Internal debt limits have been established in addition to the MGA prescribed limits to help ensure sustainability by not over-committing future operating funds for debt repayments. However, the creation of internal debt limits reduces the amount of debt that can be issued, which can threaten the ability to achieve intergenerational equity. This contrast illustrates the need to strike a balance in the principles.

Future Strategies

Future work will include:

- Further defining goals to achieve intergenerational equity
- Creating a debt service ratio target
- Creating a detailed debt management plan

Principles

The primary financial sustainability principles that are relevant to debt management and some of the questions they generate are:

- Flexibility
  - Is there sufficient debt capacity to respond to unforeseen circumstances?
- Sustainability
  - Can we afford debt payments now and in the future?
  - **Note:** Debt will not be incurred to finance operations because this is not sustainable into the future
- Strategic Plan and Corporate Priorities
  - Is the debt incurred consistent with organizational priorities to support priority capital projects?
- Equitability
  - What source of funding will pay the debt servicing costs (taxes, reserves, other)?
    - Who benefits from the capital project(s) (and resulting services) for which the debt is being issued?
    - Are those who are benefitting, paying for the debt service costs?

Strategy: Capital Funding

Capital projects should be funded strategically. As capital projects vary in their nature and purpose, the type of project should be aligned with an appropriate funding source to foster financial sustainability. For example, it is appropriate to align one-time capital expenditures with a one-time or an unsustainable funding source (i.e. a grant that will not continue); whereas ongoing capital expenditures (i.e. rehabilitation, annual programs) are known expenses that perpetuate into the future and typically require a more sustainable funding source to ensure future projects can be completed.

Current Strategies

As discussed, specific dedicated reserves have been built over time, to ensure secure, sustainable funding for the annual programs, and are funded through operations. These reserves are the primary funding source for annual capital projects, and are subsidized by other funding sources when projects exceed the reserve balance. Grants, when available and the project is eligible, are typically the preferred secondary funding source, followed by other municipal funding options.

Note: When recognizing revenue for costs incurred, the order is reversed. Grants (or most restricted funding) are used first, followed by the use of reserve funds. However, when there are projects planned with 10% of funding from municipal sources to cover ineligible costs, the funding recognized is prorated 90/10 between the restricted source and municipal source, respectively.

The following sources of funding and financing may be used for capital projects:

- **Off-Site Levy Funding:** Off-site levies are used to fund applicable off-site leviable infrastructure projects in a development area. In the event there are insufficient funds in the appropriate levy account, either in total or a year by year basis, the County may choose to use levy serviced debt to "front-end" the project, or elect to defer the project. Detailed financial analysis is required for each development project to determine appropriate funding options, as well as associated risks with front-ending all or a portion of a project. Any portion of the project deemed not leviable must be funded through other municipal funding sources. Also see the off-site levy strategy section for further information on off-site levies.
- **Grant Funding:** Certain capital projects may be eligible to be funded through grants that the County receives, such as the Federal Gas Tax grant, Municipal Sustainability Initiative grant and others. Grants are mainly used to fund growth and one-time projects, rather than used for replacement and maintenance projects. This is because third party funding increases the vulnerability of the County. The funding is not completely reliable and secured in the long-term because it is from other levels of government that may change the types and amounts of grant funding allocated in the future. In order to be sustainable, the County should have the ability to maintain and replace infrastructure without the use of third party funding. As such, projects to be funded by the use of grants are strategically determined based on the nature of the project and other relevant factors.
- **Reserve Funding:** Projects may be funded from municipal reserves. However, other externally restricted funding options are to be explored for availability and eligibility prior to using this funding source. This is because reserves help maintain the flexibility of the County's financial position. Restricted sources of funding (such as levies and grants) should be utilized where there are eligible projects so that these sources are not 'lost' or have to be repaid. However, there may be circumstances where reserve funding is used, based on the nature of certain projects and planning strategies identified for the situation.
- **Third Party Contributions:** Externally restricted third party contributions fund the relevant expenditures they are intended for.
- **Debenture Financing:** Debt is a tool that may be used to *finance* capital projects, and should not be mistaken for a funding source. Debenture financing for capital projects is to be paid off by developer levy payments, residential taxes, or utility rates. As discussed previously, debt can be an effective tool that can help achieve intergenerational equity.

- **Internal Financing:** Internal financing may be considered as an alternative to debenture financing, and will be provided through the internal financing reserve. Internal financing is provided in accordance with the debt management policy FIN-001-0025.
- **Interim Financing:** From time to time there may be a requirement for interim financing because of a difference in the timing of fund recognition and expenditures. Examples of when interim financing may be required are when debenture financing is utilized or when the source of funding is third party revenues such as levies or contributions. Currently, cash-on-hand provides interim financing to address the timing of debentures. Also, there are a number of ad-hoc interim financing scenarios approved that utilize various sources of funds, including projects addressing growth infrastructure where off-site developer levy revenues have yet to be collected.
- **Capital Project Funding Contingency:** For capital projects that are funded with restricted funding sources (i.e. grants and developer levies), the County plans for 5-10% to be funded from the most flexible and least restricted municipal reserves to cover "non-eligible" costs that inevitably appear in the construction, purchase, or creation of capital assets.

Future Strategies

Future work will include:

- Creation of formal capital funding guidelines
- Development of a formal interim financing process
- Further refinement and policy creation for organizational grant strategies and process

Please also refer to the respective strategy sections for off-site levies, debt management, and reserves for other future strategies to pursue.

Principles

The primary financial sustainability principles that are relevant to capital funding strategies and some of the questions they generate are:

- Sustainability
  - Are capital projects that are part of ongoing programs, funded through maintainable funding sources?
  - Are non-annual program capital expenditures funded with one-time or unsustainable funding sources to the extent possible?
- Minimize Vulnerability
  - Are capital projects that are required on an ongoing, continuous or periodic basis funded through sources that are more controllable and/or certain?
- Flexibility
  - Are capital projects funded through the restricted funding sources prior to using unspecified reserves, to help maintain the flexibility of the County's financial position?
    - Are restricted sources of funding (such as off-site levies and grants) used where there are eligible projects so that these sources are not 'lost' or have to be repaid?

Strategy: Off-Site Levies

Off-site infrastructure is the infrastructure necessary to be put in place to allow for a residential, commercial, or industrial area to be developed. Such infrastructure may include water, wastewater, storm-water and arterial roads.

An off-site levy is a charge imposed on developers within an area to help pay for all or part of the capital cost for off-site infrastructure, which includes any or all of the following as per MGA 648(2) (Please note that the MGA is being modified to include additional infrastructure.):

a. New or expanded facilities for the storage, transmission, treatment or supplying of water

b. New or expanded facilities for the treatment, movement or disposal of sanitary sewage

c. New or expanded storm sewer drainage facilities

c.1 New or expanded roads required for or impacted by a subdivision or development

d. Land required for or in connection with any facilities described in clauses (a) to (c.1)

These charges that are imposed on developers will subsequently be passed on to the end user via the sale of a unit in the development area. Developers will want to recover costs they incur and still earn a profit. Therefore, the higher the charges imposed on developers, the higher the sales price of a unit.

There is an annual Strathcona County bylaw created in accordance with MGA 648(1) and 648 (6). The bylaw provides the following information:

- Levy rates for the year by area
- Information about legislative authority and process, capital cost funding allocations
- Other applicable information pertaining to specific levies

Current Strategies

The current off-site levy structure and strategies are:

- **Purpose:** To recover leviable off-site infrastructure costs from the developer.
- **Types:** Levy rates are charged to developers for water, wastewater, stormwater and arterial road improvements leviable infrastructure.
- **Rate:** In general, County levy rates are determined by taking the leviable area-specific costs and dividing by the leviable hectares in the area. The total leviable costs required to build out the specific area are based upon engineering cost estimates for proposed capital projects and actual costs of completed work (including financing costs).
- **Who does the work?:** The County typically performs the work (and/or hires contractors) to set up/develop the off-site infrastructure. However, there may be circumstances where a developer will perform the work.
- **Who front-ends the costs?:** Historically, the County has typically paid for the off-site infrastructure costs up front, and collected levies subsequent to this. The County is currently investigating other options and philosophies.
    - See most recent approved bylaw for more detailed information and exceptions.
- **Financing costs:** Currently the County includes debt servicing costs for infrastructure in new development areas in the levy rates when a debenture is taken out. The levy rate will be updated and therefore the charge to the remaining area will increase based on the revised total attributable costs at a point in time.
- **How are levies formalized?:** Levies are formalized with developers in a Development Agreement.

- **When are levies collected?:** Levies shall be paid by the developer no later than one year following the date of execution of the Development Agreement. Caveats protecting the County's financial interest shall be registered on all applicable titles at the developer's expense. Please also refer to the most current approved bylaw for more detail on default of payments.
- **Investment in development:** The County may choose to invest in leviable infrastructure, which will lower the development rate. Reasons for investment may include:
  - To encourage development to begin in certain areas
  - To create a 'fair' levy rate in different areas
  - To help encourage affordable housing
- **Other costs:** There may also be additional costs that are not leviable, for example:
  - Costs above externally regulated standards that are incurred to adhere to internal standards
    - As these aren't considered leviable, the County does not consider them an investment to reduce the levy rate.
  - Costs associated with new development that benefits existing areas that have already been levied in the past
    - These costs that are allocated to benefit previously levied areas are absorbed by the County.
  - Costs that are required for a specific area and/or piece of infrastructure and do not meet leviable cost criteria
    - These costs are typically paid by the developers through Contributions in Aid of Construction (CIACs).
- **Benefitting areas:** Internal experts determine the relevant benefitting areas from off-site infrastructure and the corresponding percentage of leviable costs to them.

Future Strategies

- Develop consensus on philosophical planning strategies related to off-site levies
  - Develop consensus on risk appetite
    - How much development is the County willing to front-end and finance, if any?

      - In what circumstances?

      - Why?

      - How?
  - Determine if there are circumstances where the County may want to invest in certain off-site leviable infrastructure
    - If so, what criteria will be used to make the decision to invest?
    - If so, what is the strategy for how the investments are funded (i.e. tax rates, grants etc.)?
    - Understand and communicate the implications/risks of investments, such as setting precedence, etc.
  - Revisit development levy model to ensure all risks are captured and dealt with appropriately
    - Ensure debt financing costs are appropriately accounted for
- Anticipate legislation changes and be ready for how these will impact the current model and strategies

Principles

The primary financial sustainability principles that relate to the off-site developer levies and some of the questions they generate are:

- Minimize Vulnerability
  - How much risk do our off-site levy strategies and practices pose to the County?
    - What is the level of risk of front-ending costs and development not proceeding (i.e. not collecting levies)?
    - What is the level of risk of front-ending costs and development not proceeding when anticipated (i.e. not collecting levies when expected)?
- Sustainability
  - Are levy strategies and practices sustainable for future developments?
- Equitability
  - Are those who benefit from the development the ones paying for the relevant costs?
- Flexibility
  - If the County invests in all or a portion of leviable development costs, what is the impact on other balances (reserves, grants, debt)?
- Strategic Plan and Corporate Priorities
  - If the County invests in all or a portion of leviable development costs, is this in line as an organizational priority?
    - What would have to be sacrificed by proceeding with the investment?
      - Other types of services, other service levels, other capital projects, etc.

Strategy: Fiscal Impact Analysis

The determination of current and future fiscal impacts that may arise from any project, initiative or decision is required. A fiscal impact analysis (FIA) demonstrates what the current and future financial effects of a project, initiative or decision may be on operating revenues and expenditures. It may also determine "hard" and "soft" capital infrastructure requirements to service the project, initiative or decision in question. Hard infrastructure refers to the physical networks required to service an area, such as roads, water and wastewater systems. Soft infrastructure refers to the assets desired to maintain the economic, health, cultural and social standards of our community. A FIA should not be confused with a financial feasibility analysis (see next section), as it does not determine how the new project, initiative or decision and associated costs will be funded, the availability of resources required to implement it, etc. A FIA is considered a financial strategy because the way in which it is completed and the information included may influence decisions that impact long-term operations.

Current Strategies

Although there is no formally communicated methodology, the County has utilized a FIA workbook through work with an external consultant for past analyses conducted. The FIA considers:

- All known types of operating and capital expenditures that will eventually be required
  - Such as buildings, utilities, roadways, and other services (including 'in facing' services such as IT requirements, staffing, etc.)
- Potential taxation and user fee revenues generated
- Primary drivers of costs (for example, population) and triggers for when certain costs would be required
- Potential debt financing costs

Future Strategies

- Refinement of FIA workbook and methodology to be used in future analyses

Principles

The primary financial sustainability principle that relates to the fiscal impact analysis and some of the questions it generates are:

- Sustainability
  - What are the total up-front costs of the project, initiative or decision?
  - What are the future costs of the project, initiative or decision?
  - What is the immediate and future annual tax rate impact?

Strategy: Financial Feasibility Analysis

A financial feasibility analysis will complement a fiscal impact analysis, to provide sufficient evidence for the decision-making process. A financial feasibility analysis differs from the FIA (see previous section) because it considers how the new project, initiative or decision and associated costs will be funded, the availability of resources required to implement it, as well as additional organizational considerations. This type of financial analysis is required not only for large projects such as entire growth areas, but also for small capital projects or other initiatives and decisions. As with the FIA, financial feasibility analysis is considered a financial strategy because the way in which it is completed and the type of information included in the analysis may influence decisions that impact long-term operations.

Current Strategies

There is no current organizational financial feasibility analysis methodology. Ad-hoc financial feasibility analyses are performed when warranted for various projects and decisions. These analyses vary by the type of project and certain circumstances.

Future Strategies

Consistent methodology is to be developed and followed to ensure all analyses contain the same considerations (where applicable).

General considerations in a financial feasibility analysis include:

- Initial cost identification and analysis
    - Initial capital investment required for the project, initiative or decision
    - Short-term operational impacts
    - Sensitivity and scenario analysis for any estimates/assumptions to show a range of financial impacts and implications on the County
        - The types of implications and changes in assumptions will vary by analysis
- Funding and financing options
    - Funding options for all components/stages of project, initiative or decision
    - Financing options and costs
        - Associated risks with timing and collections for repayment
- Resource considerations
    - How many resources are required to complete the project, initiative or decision?
        - Are the resources available?
- Other organizational impacts
    - What other potential projects, initiatives or decisions or services would be compromised, given up, and/or impacted?
    - How does the project align as an organizational priority?
    - What areas are at risk and to what degree – for example, safety, mandate, replacement, sustainability, funding, and/or operations. Risk level may be high, medium or low
- Future impacts
    - Annual tax rate impacts over the life of the project, strategic initiative or decision
        - Future operational costs to maintain and provide services
        - Future capital replacement costs
        - Future “soft” and “hard” capital requirements, if applicable
        - Projected revenues generated, if applicable

Other relevant considerations not listed may arise depending on the specific project, initiative or decision, or circumstances.

Principles

Financial feasibility analyses should consider all of the financial sustainability principles. Some of the questions generated include:

- Sustainability
  - What are the total up-front costs of the project, initiative or decision?
  - What are the future costs of the project, initiative or decision?
  - What is the immediate and future annual tax rate impact?
  - What resources are required to implement and maintain the project, initiative or decision?
  - Is it feasible/practical to maintain in the future?
- Flexibility
  - What is the impact of the project, initiative or decision on debt capacity?
  - In consideration of other organizational priorities, what is the total impact on the tax rate?
  - What is the impact on reserve balances?
- Minimize Vulnerability
  - What type of funding sources are available for both up-front costs and ongoing/future costs?
  - Is the funding source guaranteed?
  - Are the funding sources sustainable or unsustainable?
  - Are the funding sources in line with the capital funding strategies?
- Strategic Plan and Corporate Priorities
  - Does the project, initiative or decision support an organizational priority?
  - What impact would pursuing the project have on other priorities, projects or services?
- Efficiency
  - How many resources (financial, time, human capital) are required to maintain the project/service?
  - What other services are impacted financially?
  - Is the quality of other services impacted?
- Transparency
  - Was there appropriate communication with stakeholders where relevant?

Strategy: Investments

The ability to effectively manage funds and investments helps demonstrate fiduciary care of municipal funds, and returns yielded can be used to help achieve certain organizational objectives.

Current Strategies

The County's Investment Policy (FIN-001-007) outlines investment objectives and guidelines. The County invests public funds in a prudent manner that will provide optimum investment returns with the maximum security. The County must meet cash flow requirements and conform to the Municipal Government Act and all other provincial statutes and regulations governing the investment of municipal funds.

Future Strategies

There are no significant changes to investment strategies at this time. The County is to ensure continual review of and compliance with the investment policy.

Principles

The primary financial sustainability principles related to investments and some of the questions they generate are as follows:

- Sustainability
    - Are investments that provide returns to help fund operations of the County maintainable?
- Minimize Vulnerability
    - Are investments made in a prudent manner and monitored on an ongoing basis with maximum security to minimize risk?

Strategy: Utilities Self-Sustaining Strategy

Strathcona County provides utility services to residents that include water & wastewater services, solid waste management services, as well as the related utilities infrastructure.

Current Strategies

The Utilities department is financially self-sufficient through the use of a utility rate model and does not use municipal property taxes to support operational or capital requirements, except for recycling stations and enviroservices. Utilities operate as a self-sufficient entity because of the nature and magnitude of services provided.

Future Strategies

The County will continue to apply the current utilities self-sustaining strategy through the utility rate model. Future policy is to be developed to support components of this methodology. In 2016, Strathcona County contracted an external party, FCS GROUP, to perform a review of financial policies for the County's five utilities: Water, Wastewater, Stormwater, Waste Management, and Community Energy. In 2017, FCS GROUP developed a report with suggested financial policies on utility debt limits, utility financial reserves, and utility return on equity. This report will be used to inform modifications to, or affirm current financial policies (i.e. debt limits, reserves); or to support the development of new financial policies (i.e. return on equity).

Principles

The primary financial sustainability principles related to this strategy are:

- Sustainability
  - Are utilities services and infrastructure maintainable now and in the future through the utility user rate model?
- Flexibility
  - Ensuring utilities is financially self-sufficient enables the County to utilize municipal property tax dollars to fund other operations, and creates more flexibility with the municipal property tax rate for other services.

Strategy: Library Operating Tax-Rate Strategy

The Strathcona County Library (SCL) provides municipal services under the direction of a community Library Board, appointed by Strathcona County Council and is governed by the Libraries Act.

Current Strategies

The SCL operations are primarily funded through library operating tax revenues, which are separate from municipal operating tax revenues. However, the process of raising and collecting the library operating taxes is conducted through the municipal operating tax process, and the tax will appear on all property tax bills in the County as a distinct item (note there are separate library tax rates for residential/farmland and non-residential properties). The separate library operating tax increases transparency (versus consolidating SCL operations into municipal operations and tax rates).

The SCL may also receive operating grants, user fees and charges, penalties and fines, and other revenues. As with municipal operations, if budgeted revenues (with consideration of anticipated changes in the tax base) are not sufficient to fund budgeted operating expenses, an increase to the library operating-tax rate may be approved by the Library Board and Council.

Future Strategies

There are no significant changes to this strategy known at this time. SCL operations will continue to be funded primarily through library operating tax revenues.

Principles

The primary financial sustainability principles related to this strategy are:

- Sustainability
    - Are library services maintainable now and in the future through the Library operating tax?
- Flexibility
    - Ensuring the SCL is financially self-sufficient enables the County to utilize municipal property tax dollars to fund other operations, and creates more flexibility with the municipal property tax rate for other services.
- Transparency
    - Creating and showing the library operating tax-rate separate from the municipal operating tax-rate increases visibility of operations and tax-rates.

Strategy: Service Levels

Service levels refer to the performance of programs provided by the County. They include the measure of outputs from a program, identification of who the primary customers are and what standards are to be delivered. Service levels impact the long-term financial sustainability of the County because of the cost implications of maintaining services and standards, while also dealing with increasing population, changing demographics, inflation and other factors.

Current Strategies

There are no formal corporate financial strategies in relation to service levels. The latest service level review was conducted in 2008 as part of the 2009-2011 Business Plan and 2009 Budget planning process. However, an inventory of programs has been identified and associated budgeted costing is completed on an annual basis after the budget is approved. In addition, some service levels are defined in policy, such as winter maintenance in policy SER-009-026.

Future Strategies

Service level reviews at the department level will be required to identify service outputs, customers, current and future cost implications, and if service standard changes are necessary and/or desirable. Documentation of these service levels should be made available to the organization and public. Service level information is required to help inform budgeting and planning decisions at the program level. In addition, to assist in making informed program and service level decisions, program costing methodology and guidelines will need to be created.

Future strategies also include developing a service level review for major assets as part of the Asset Management Framework Roadmap (discussed in the Asset Management Strategy).

Other relevant considerations may include comparisons to other municipalities, industry standards, etc.

Principles

The financial sustainability principles related to service levels and the questions they generate are:

- Sustainability
  - Are current service levels maintainable in the future?
- Efficiency
  - Are service levels provided in an efficient manner with the resources available?
- Minimize Vulnerability
  - Are there any core services funded through sources outside the County's control?
- Strategic Plan and Corporate Priorities
  - Do the services and service levels provided support an organizational priority?

Strategy: Business Planning and Budget Methodology

The budget is the key mechanism and process through which financial strategies are implemented to achieve strategic, corporate, and department business planning goals. Although a budget is prepared for a short-term window, the strategies integrated within it have long-term financial impacts. The budget methodology also contributes to the decision-making process and perspective. For example, a multi-year budget will help illustrate a longer-term view of financial information for scrutiny, compared to a single-year budget which may lead to shorter-term thinking and decision-making. As well, providing forecasting data along with budgets can provide context to a current year budget to inform decisions.

Current Strategies

The following are current strategies in the organization:

- The organization integrates current strategies as previously discussed within the budget process (funding strategies, debt strategies, investment strategies, etc.)
- Priority-based budgeting (PBB) is used as a "lens" to help guide decision-making in the budget process. This has involved developing an inventory of all of the County's programs and scoring them against the prioritized strategic goals. This helps bring a more strategic planning aspect to the budget process.
- 3-year operating and 5-year capital outlooks are presented with budget.
- An environmental analysis is conducted during the budget process to provide context to decisions in the upcoming year.

Future Strategies

- Strathcona County is shifting towards a multi-year budgeting process to integrate mid-term term thinking and decision-making into the budget process and to ensure compliance with changing MGA requirements.
- Creation of updated and consistent forecasting techniques and revised models (please also refer to Forecasting Methodology section).
- Creation of program costing methodology to budget and report on program costs.

Principles

The budget process should consider all financial sustainability principles and general questions previously discussed through its implementation.

Strategy: Forecasting Methodology

A financial forecast is a prediction of the organization's future financial conditions. A forecast identifies trends in historical data and considers other information to project future operations. It is used to inform decision-makers about what the financial status of the organization is likely to be at some point in the future.

For the purposes of the framework, the following terminology will be used:

Projection: Short and mid-term (1-10 years) estimation of the organization's future financial condition, that includes expected initiatives, capital projects, and relevant assumptions.

Forecast: Long-term (11-30 years) estimation of the organization's future financial condition. A base case forecast will be created, along with scenario and sensitivity analysis and relevant assumptions (Appendix II). See below for further details.

Current Strategies

There are projection tools in place that are used to predict operations five years into the future. The three year projection is provided in the annual budget document for public information and to ensure compliance with MGA requirements.

There is a 10-year capital plan updated annually as part of the budget process, however the purpose is to identify all potential projects within this time frame, and is not yet scrutinized or prioritized from a corporate perspective. In addition, not all capital costs for future development areas are necessarily included.

Future Strategies

Further refinement of the operating and capital projections is required to create a more consistent approach for projection information. The refinement of the current projections will also lead into the creation of long-term forecasts.

Operating and Capital forecasts will be created based on the following methods:

Timelines: In order to provide a meaningful look into our financial future, capital and operating forecasts will be developed over a 30 year timeline. This period will help to uncover long-term financial impacts of current operations and decisions, as well as future development and growth costs. This period of time will help uncover significant issues or gaps in operations, or show significant new capital requirements and maintenance cycles. Any point in time up to 30 years can be examined (i.e. 10 years, 15 years etc.).

For the annual budget process, a five year projection will still be created to be scrutinized and analyzed along with the budget.

Level of detail: The level of detail in which the long-term projections and forecasts are created will be at the municipal level by budget expense category.

Assumptions – Base Case Projections: A base case operating forecast will be the first created. The purpose of creating a base case is to identify potential future financial challenges that exist within current operations. Therefore, a base case forecast is estimating operations into the future if operations continued as they do now, with consideration of growth, inflation and other assumptions in order to create a meaningful long range financial picture (see Appendix II).

A base case capital forecast will also be created. To be consistent with the base case operating forecasts, a new base case capital forecasting methodology will be utilized. The base case will include necessary capital projects for annual costs, rehabilitation and replacement costs. Separate scenarios will be developed with varying capital costs projected.

Please refer to Appendix II for a list of assumptions used in operating and capital base case forecasts.

The base case assumptions will also be applied to the short-term projections.

Sensitivity Analysis: Sensitivity analysis refers to the modification of certain variables within the base case projections to demonstrate the magnitude of impact on the long-term financial picture. Various sensitivities will be considered throughout the long-term financial sustainability process. Examples of sensitivities may include:

- Varying degree of capital costs in capital projections
  - For example: Adding 'growth' related capital; including only a percentage of capital costs; determining needs versus nice to have capital costs
- Varying degree of operating impacts of capital included in projections
  - To be correlated with sensitivity variables changed in capital projection
- Varying degree of new operating initiatives in operating projections
  - For example: including all or only a percentage of initiatives
- Varying the magnitude and types of other assumptions.
  - For example: varying the rate of inflation/growth

Scenario Analysis: Scenario analysis refers to identifying situations that the County may face and forecasting financial implications of these. Scenario forecasts will be created as part of the long-term financial sustainability process described further in this document. Scenarios may include situations such as:

- Changes to revenue or expenses arising from significant challenges or threats in the environment such as changes to legislation
  - Such challenges or threats will be identified in the STEEP analysis (refer to next section)
- Changing/removing/adding assumptions and/or certain revenue and expenses based on discussions/decisions through the long-term financial sustainability process
  - Such as decisions to limit property tax rate increases over time, remove/add certain services
- Separate projections/fiscal impact analysis/financial feasibility analysis on growth areas
  - Scenario and sensitivity analysis may be interrelated, because changing the magnitude of a certain variable (sensitivity) may also be considered a scenario in some instances.

Frequency: Operating and capital baseline projections will be updated on an annual basis to be scrutinized with the budget process. Sensitivity and scenarios will be created as a result of the process (discussed further in this document) which will be conducted every four years.

Principles

Forecasts and projections are used to help inform current decisions. They will be analyzed by using the financial sustainability principles to identify areas of potential concern or those that present financial challenges, for example:

- Sustainability
  - What do the results of the forecast suggest regarding sustainability – do we have the financial ability to continue to provide services citizens expect and value?
  - What is the future tax rate impact of continuing to provide current services?
- Flexibility
  - What financing may be required for future capital?
    - What impact will this have on debt capacity and the tax rate?
  - Can reserve optimum balances be maintained in the future to respond to emergent or unforeseen circumstances?
- Minimize Vulnerability
  - What funding sources are considered in the forecasts?
  - What assumptions are included for sources outside County control?
- Strategic Plan and Corporate Priorities
  - What strategic goals can be achieved and in what time frame?
- Equitability
  - Are those benefitting from the services the ones paying over time?

Strategy: Environmental Scan Analysis

For the purpose of the framework, an environmental scan refers to examination of both internal and external factors that may present significant risks and opportunities to the County. These risks or opportunities may come from legislation, other levels of government, economic and social trends, internal pressures, and more. It is important to identify these environmental factors and their associated organizational implications.

Current Strategies

Various departments conduct analysis of some form in order to be aware of legislative changes and other potential impacts. In 2017, Corporate Planning has taken steps to develop a new analysis that will identify significant Social, Technological, Economic, Environmental, and Political (STEEP) factors and influences at a corporate perspective.

Future Strategies

Corporate Planning is going to refine and execute the STEEP analysis. The analysis will include examination of high level Social, Technological, Economic, Environmental, and Political influences that may have significant organizational impacts, and will be conducted on an annual basis.

The STEEP analysis will also help inform conversations in the long-term financial sustainability planning process.

The breakdown of the analysis is as follows:

Social: The social area considers individual and community health and well-being, and how we relate to and care for one another. For the purposes of the STEEP analysis, significant social challenges (or opportunities) from a corporate perspective will be identified. The focus will be on high level socio-economic indicators as these help quantify our community's means and economic ability to generate revenue relative to the community's demand for services. For example, relevant socio-economic indicators include:

Population and Demographic Trends: Population trends impact both revenues (assessment base) as well as expenditures and therefore are important indicators of the amount of services that should be provided; while demographic trends may be an important indication of what types of services should be provided. If population is expected to grow at a significant pace, then this will have corporate implications as more of the same services will need to be provided to maintain Strathcona County standards. This is why a growth variable is included for projection purposes in base case projections. If demographic trends indicate a significant shift, such as an aging population then this may signal the need for new services to be provided (for example new types of recreation activities), or more of a certain type of service to be provided (for example, more mobility bus services).

Household Income, Unemployment, EI recipients: These trends are helpful indicators of what citizens can afford in relation to property taxes. As household income increases, this could signal higher affordability and ability to pay taxes. On the contrary, as unemployment and EI recipients increase, this could indicate lower affordability of taxes in the County. These indicators may also help identify the need for new or increased services (for example, affordable housing) while reducing costs in other areas for affordability.

Other: Other analysis based on emerging trends may be required.

Technological: Technological trends and factors will be examined to identify potential significant implications to the County. For example:

- New technology that may be required for business operations, and costs of such technology
- New technology that will improve operations, and costs of such technology
- Changes in cyber-security, information, or other requirements
- Methods to connect our community digitally

Economy: As stated in the strategic plan, the strength of our economy is the foundation supporting our entire community. A healthy, sustainable economy allows us to invest in infrastructure and provide the quality programs and services residents and businesses value. It is, therefore, vital to be aware of certain economic indicators and influences that could have significant organizational implications.

Assessment Composition (mix of residential and non-residential assessment): The assessment composition is an indication of the mix of which the County can collect taxes. A greater mix of non-residential assessment assists the County to provide and maintain services to the community.

Assessment Growth: The expected assessment growth in the future signals how much our revenue base will increase and support the growth and maintenance of services.

Property Taxes as a Percentage of Income: Comparing municipal property taxes as a percentage of average household income gives insight into the affordability of taxes for our residents.

Municipal Levy per Capita: Comparing the municipal tax levy per capita year-over-year in the County helps us identify trends in our municipal taxes relative to population. The types and levels of services provided each year may differ; as such trends in this indicator should consider these factors.

Assessment per Capita: Comparing the assessment per capita in Strathcona County year-over-year can help us understand trends in our base. The higher the assessment per capita, the stronger our base is which signals a stronger financial condition.

Strathcona County Business by Industry Sector: Understanding the composition of the types of businesses in Strathcona County by sector can help us identify how diverse our economy is.

Employment Indicators: Examining employment indicators in the County will help demonstrate the strength of the local economy. These indicators may include employment rates, employment sectors, and education levels.

Environment: As stated in the strategic plan, the environment includes the natural areas both within and around Strathcona County, along with our commitment to protect and preserve our natural environment and to live sustainably. For the purposes of the STEEP analysis, environmental challenges/implications (or opportunities) from a corporate perspective will be identified. For example, challenges could include changes in environmental legislation (carbon tax); how new growth and development removes ecosystems and agricultural lands; and opportunities could include investing in new environmentally friendly technology and facilities.

Political: The political priority area refers to governance and cooperative partnerships with community, business, industry and neighbouring governments. The analysis will identify potential challenges or changes in these areas that may have a significant corporate impact.

Federal: Decisions made by the federal government may have direct impact on our operations. We must identify the most significant influences and potential known changes (if any) in order to quantify and project changes or impacts to our operations. For example, if there are changes in political power and policies/budgets, this could lead to a significant change in types and amount of grant funding available to the County.

Provincial: The most significant provincial influence is the Municipal Government Act (MGA). When there are changes to the MGA there may be significant impacts on County policy, procedures and process. We need to be aware of any potential upcoming changes that could have a significant financial implication. Such potential changes could be to off-site development levies, industrial assessment, and inter-municipal collaboration agreements. In addition to the MGA, there are other provincial policies and decisions reflected in the provincial budget that have significant impacts on Strathcona County's operations, such as grant funding that is available to the County.

Regional: The most significant regional influences would be from the Edmonton Metropolitan Region Board (EMRB). The board creates regulations and policies that have direct impact on Strathcona County. We must be aware of significant potential changes from the EMRB and organizational implications they may have (for example, cost and/or service sharing agreements).

Regional influences also include existing and future partnerships with neighbouring municipalities such as the Metro Mayors Alliance. There may also be other challenges, such as annexation pressures. These issues may have significant organizational implications, such as shared revenues or expenditures for shared services, potential loss of tax base etc.

Community: It is important to be aware of community expectations as well as perceptions on certain issues, and how these may change over time. The community may have an influence on corporate decisions in certain circumstances.

There are various public engagement opportunities at the County on specific issues, as well as surveys which cover a variety of questions about the County. Such applicable questions from a corporate perspective include how citizens perceive the value they receive for their tax dollars.

As part of the STEEP Analysis, the most recent public surveys may be referenced to determine relevant attitudes and perceptions that may influence organizational discussions.

Strategy: Other

In addition to the policies mentioned, there are other financial strategies/policies in connection with long-term financial planning.

Current Strategies

Other financial strategies not mentioned previously related to financial planning include the following:

Allocation of Year-End Operating Surplus for Tax Purposes (policy FIN-001-008): The purpose of this strategy and policy is to help ensure the allocation of Annual Operating Surpluses for Tax Purposes aligns with, and contributes to the economic health and sustainability of County operations. The surplus is the excess of revenues over expenditures, net of "budget carryover items", including non-operational items, such as reserve transfers and debt payments. Budget carryover items are items that have been approved in the current year budget but have not been completed at year-end, and are intended to be completed in the following year. These items are allocated to Designated Reserves at year-end, and are not considered part of the year-end surplus.

The current guidelines indicate that the surplus may be allocated to:

- Designated reserves to be expended in future years, as approved by Council in accordance with the reserve policy (FIN-001-024) to provide future funding requirements and emergent costs.
- Fund non-recurring expenditures within the following year's operating or capital budget. This strategy is to align 'one-time' generated surpluses (i.e. funding sources) to one-time expenditures (i.e. to ensure funding sources that are not sustainable do not fund ongoing expenditures).
- The Stabilization Reserve to smooth future property tax dollar increases in periods of high inflation, to stabilize fluctuations in operating and capital activity, to address the risk of revenue or expenditure volatility, or other circumstances.
- If there is an Annual Operating Surplus for Tax Purposes in the Utilities department it will be allocated within these operations and respective reserves.
- If there is an Annual Operating Surplus for Tax Purposes from The Strathcona County Library, it will be allocated pursuant to the Strathcona County Library Board direction.

Future Strategies

Other future strategy areas will include:

- Investigation into more specific uses of Allocations of Year-End Operating Surplus for Tax Purposes, and how it should be determined through a prioritization process, etc.
- Policy creation to formalize all financial strategies and practices in place at the County, and as new strategies arise. For example, there are not yet formal financial policies relating to capital funding strategies and annual programs discussed in this section.
- Creation of more specific financial performance indicators and ratios that the County should be held accountable to through policy.
- Creation of new revenue and expenditure strategies with supporting policies, and other strategies that arise from legislation changes and the long-term financial sustainability process described in the next section.

Long-Term Financial Sustainability Process

Long-term financial sustainability planning at the County will eventually include the future strategies identified in the previous section, including (among others):

- Updated levy procedures/practices/philosophy
- Asset management plan
- Debt management plan
- Multi-year budgeting
- Other financial strategies in accordance with challenges and priorities

As there are many extensive strategies that long-term financial sustainability planning may involve, it is vital to follow a collaborative process that will uncover the County's most significant challenges and priority areas. The purpose of the process is to bring to light future financial implications of current decisions, as well as potential financial issues, and to reduce risk by developing financial strategies to mitigate these challenges.

The County already engages in numerous long-term financial planning practices as discussed in the previous section. However, there needs to be a formal long-term financial sustainability planning process in place.

The process will be comprised of the following steps:

1. Base case financial forecasts
2. Sensitivity analysis
3. Checkpoint 1: stakeholder discussion and direction
4. Analysis and scenarios
5. Checkpoint 2: stakeholder review of options and selection of desired financial strategy
6. Implementation plan
7. Council approval (as required)

Step 1: Base case financial forecasts

The starting point of the process is to create financial forecasts based on current information, in order to identify what the financial future may look like in 30 years if we continued to operate the way we do now. The base case forecasts include various assumptions and variables (see Appendix II). The purpose of the 30 year operating forecast is to identify any potential gaps between operating revenues and expenditures.

The purpose of the 30 year capital forecast is to identify capital projects and annual projects over the long-term and to show the financial implications of these, including gaps in funding. The base case will include necessary capital projects for annual costs, rehabilitation and replacement costs. Separate scenarios will be developed with varying capital costs projected based on future needs.

Step 2: Sensitivity analysis

As previously discussed, sensitivity analysis is required to demonstrate the magnitude of impact on the long-term financial picture by altering certain variables. This helps gain insight into the degree of risk that variables may impose.

Step 3: Checkpoint 1 – stakeholder discussion and direction

Once steps 1 and 2 are complete, the base case projections and sensitivities will be discussed with identified key stakeholders as deemed necessary (for example, Executive Team). In addition, significant findings from the Social, Technological, Economic, Environment, and Political (STEEP) analysis conducted by Corporate Planning will be discussed.

The purpose of this checkpoint is to provide and discuss the following information:

- Base case financial forecasts, prior to any significant changes to operations or the environment in which we operate (legislation, provincial policies etc.)
- Financial forecasts with some variables modified to demonstrate the magnitude of impact (i.e. sensitivity analysis)
- Findings from Corporate Planning's STEEP analysis that could have significant financial implications

In addition, the purpose is also to receive direction from the key stakeholders on the following, in order to revise forecasts and create scenarios as necessary:

- Which significant challenges identified in the STEEP analysis should be investigated further to create scenarios and determine potential financial impacts
- Types of limitations to incorporate into forecasts, if necessary and/or desired
    - For example: tax increase limitations, debt limitations
- If adjustments to sensitivities are required
- Other types of scenarios that are desired and/or necessary to investigate for either forecasts, or isolated financial impacts
    - For example: growth area analysis, debt management plans, levy model review

Step 4: Analysis and scenarios

As a result of the collaborative discussion and directions in Step 3, Corporate Planning will create the financial analysis, scenarios and updated projections as required.

The purpose will be to create further analysis on challenges identified (within any defined limitations, if applicable), and to develop potential financial strategies and options to help mitigate them.

This step will include:

- Updating projections model and/or creating financial scenarios/analysis based on collaborative discussions
- Analyzing results of analysis and creating potential financial strategies to resolve potential issues (such as gaps from revenues and expenditures) with consideration of defined limitations (tax rates, debt limits, reserve balances, other ratios etc.)
- Creating a list of potential options/strategies
- Demonstrating potential/estimated financial impacts by quantifying the potential options into projections/ financial analysis
- Identifying the relationship or impact that each strategy has on each of LTFSF principles

Step 5: Checkpoint 2 – stakeholder review of options and selection of desired financial strategy

Once Step 4 is complete, the results of the financial analysis and suggested options will be reviewed by the key stakeholders.

The purpose of this checkpoint will be for the key stakeholders to review the results of the financial analysis and list of potential financial strategies and to engage in a collaborative discussion to help select a desired financial strategy to pursue.

A meeting will be held with the key stakeholders identified to review the results of the analysis. Depending on the specific circumstances and analysis, a financial strategy will be selected that the County should pursue to help mitigate future financial challenges and help ensure financial sustainability in the long term.

Step 6: Implementation plan

Once the recommended financial strategy is determined in Step 5 it will need to be implemented and incorporated into current practice.

Depending on the analysis and strategies chosen, implementation steps may vary. An endorsed work plan will be created in order to put the desired strategy into effect. This may include creating new policies, updating current policies, creating new management plans, making changes to the budget process and strategies, etc.

Step 7: Council approval (as required)

Financial strategies resulting in new policy or policy change will be brought forward for Council approval.

Continuous Improvements

The process (steps 1-7) will occur every 4 years. This is because priorities and circumstances may change, new issues and potential threats may arise; and existing projections, plans, strategies and practices may need to be updated.

There are also many practices that may be desired to be pursued by the County, but will need to be considered one at a time on a priority basis as identified through the process.

The amount of time each cycle (steps 1-7) requires will vary depending on the analysis in question.

This framework document will be updated every 4 years to incorporate refinements to the process as well as include new strategies that have been developed and/or revisions to current strategies.

SUMMARY and CONCLUSION

To meet the strategic vision of becoming “Canada’s most livable community” and to deliver the level and types of services expected by the community, there must be the financial capability to do so.

As a municipality, the County is faced with numerous challenges and pressures that can threaten financial sustainability. Issues such as sustainable revenues and funding sources, expenditure pressures, new growth, inflation, among others, combined with the pressure to keep municipal taxes affordable are factors contributing to the financial realities of the County.

The framework has been created to take action to inform discussions and, ultimately, decisions through agreed upon principles, strategies and process. The creation of the framework is a key step in planning for financial sustainability to help achieve the strategic plan’s vision of becoming “Canada’s most livable community”.

GLOSSARY

Base Case Financial Forecast or Projection: A forecast or projection that estimates future operations based on the status quo, along with relevant assumptions pertaining to growth, inflation and other variables. The purpose of the base case is to present a future financial picture if nothing significant changes.

Corporate Business Plan: A "bridging document" that interprets the vision provided in the strategic plan and provides four year focused direction for department business plans.

Debt Capacity: The difference between the debt limit and the balance of debt outstanding (i.e. the maximum remaining amount of debt that can be issued).

Debt Limit: The maximum allowable amount of debt that can be issued by the organization. There is the MGA debt limit, as well as an internal debt limit (both defined within this section).

Debt Service Ratio: Ratio of revenue available for debt servicing for interest, principal and lease payments (total interest, principal, lease payments divided by operating revenue).

Efficiency: The degree to which the types and levels of services expected by the community can be provided with the least amount of resources, time and effort.

Equitability: The degree to which residents pay a fair rate of taxation and fees for the services received; and to the greatest extent possible, those who benefit from the services pay for the services (supporting the notion of Intergenerational Equity).

Financial Forecast: A long-term (11-30 year) estimation of the organization's future financial condition.

Financial Projection: A short or mid-term (1–10 year) estimation of the organization's future financial condition.

Financial Strategies: The conscious practices and methods used to achieve a specific financial purpose and/or goal.

Flexibility: The degree to which a government can change its debt or tax burden on the economy within which it operates to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.[1]

Intergenerational Equity: In the economic context, this refers to distributing the costs associated with capital growth across the generations which will be enjoying the benefits of the capital assets built today.

Internal Debt Limit: The internally authorized maximum amount of debt communicated in policy FIN-01-0025 that can be issued by the organization. The internal debt limit is calculated to be 80% of the MGA Debt Limit as defined within this section.

MGA Debt Limit: The legal maximum amount of debt that can be issued by the organization. The limit is 1.5 times the revenue of the municipality as defined and calculated in the MGA Debt Limit Regulation 255/2000, as amended.

Municipal Development Plan: The County's plan for the future that sets out a clear vision for how Strathcona County will grow and develop over the next 20 years and beyond.

Municipal Government Act (MGA): The provincial legislative framework under which Strathcona County operates.

Off-Site Infrastructure: The infrastructure necessary to be put in place to allow for an area to be developed. Such infrastructure includes water, sewer, storm-water and arterial roads.

1. CPA Public Sector Statements of Recommended Practice – 4 Indicators of financial condition

Off-Site Levy: A charge imposed on developers for an area to help pay for all or part of the capital cost for leviable off-site infrastructure, as defined in the MGA.

Operating Initiative: The identification of new services and service level changes and the associated financial impacts.

Priority Based Budgeting: A process developed by the Denver, Colorado-based Center for Priority Based Budgeting (CPBB) that enables communities to reassess their priorities in order to make sound, long-term funding decisions[2].

Public Sector Accounting Standards: The financial guidance Strathcona County must adhere to.

Sensitivity Analysis: Financial analysis that involves the modification of certain variables that exist in the base case financial forecast/projection to demonstrate the magnitude of impact on the long-term financial picture.

Scenario Analysis: Financial analysis that involves identifying situations that the organization may face and estimating financial implications of these.

Specialized Municipality: A unique municipal structure that allows urban and rural communities to coexist in a single municipal government.

Stakeholder: An individual or group who has a specific interest or is impacted by a topic or issue. Stakeholders may include residents, non-residents, groups, businesses, organizations, individuals, representatives and/or County staff, depending on the issue.

Strategic Plan: The highest level and principal guiding document in Strathcona County for governance, community development, infrastructure and service delivery.

Sustainability: The degree to which a government can maintain its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others without increasing the debt or tax burden relative to the economy within which it operates[1].

Transparency: The degree to which decisions made are communicated and open with stakeholders.

Minimize Vulnerability: The degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others[1].

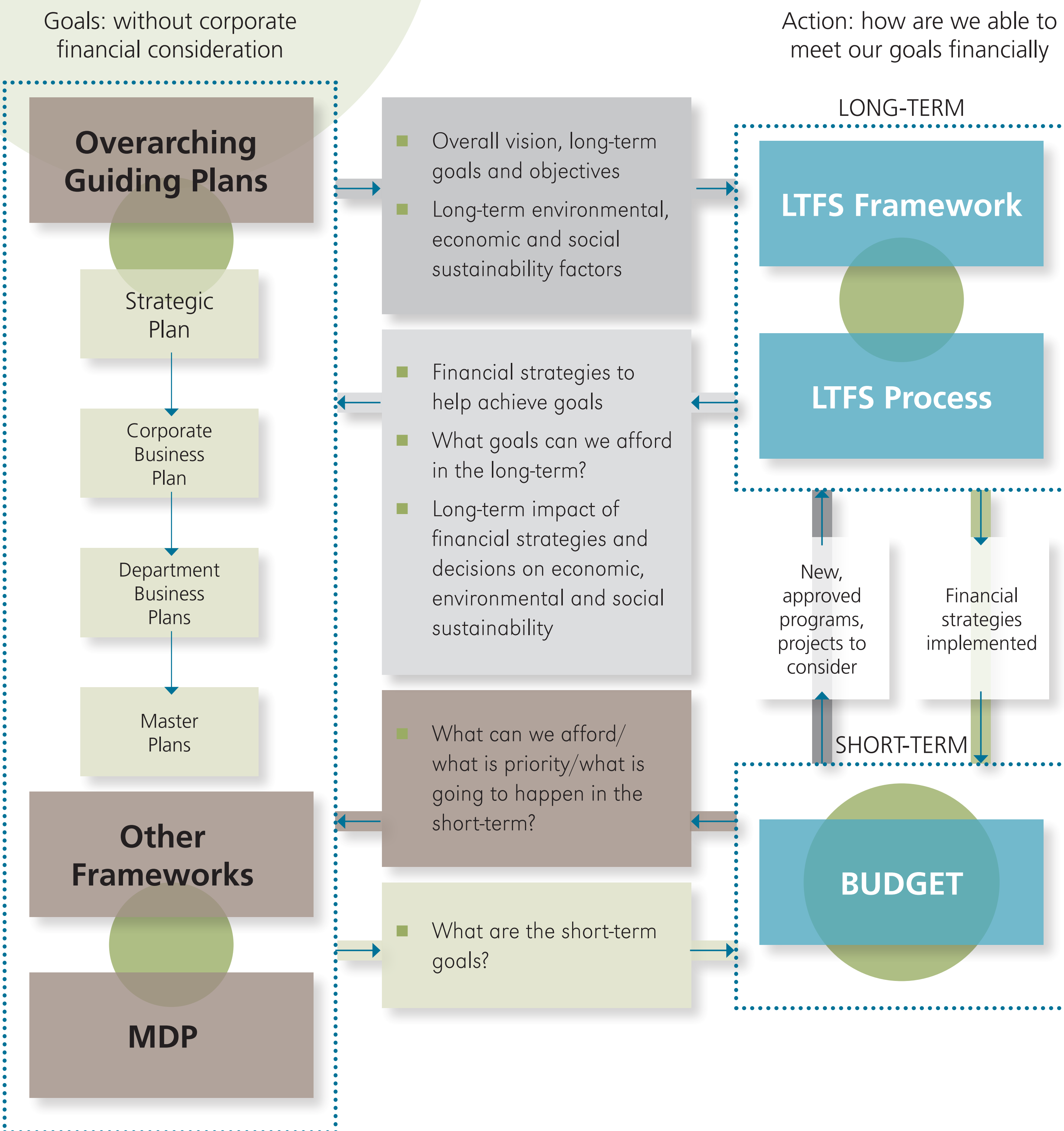
1. CPA Public Sector Statements of Recommended Practice – 4 Indicators of financial condition

2. CPBB Website (http://pbbcenter-public.sharepoint.com/)

APPENDICES

APPENDIX I:

Strategic Linkages



APPENDIX II:

Base Case Forecast Assumptions

The assumptions below are for future years forecasts, and may not necessarily be the assumptions utilized in a current year budget (for example, more specific inflationary and growth measures may be considered if available).

Operating: The assumptions in the operating forecast will include:

Issue	Assumption *
Inflation rate forecasts expenditures ■ Salary and wage ■ Non-salary and wage	**Salaries, wages, benefits inflation** ■ Salaries and wages are projected to change at a rate based on the historical 5 year trend of approved COLA ■ Benefits are projected to change at a rate based on historical trends **Average Expenditure Inflation: Projected Municipal Price Index (MPI)** ■ Training & Development ■ Business Expenses ■ Advertising & Printing ■ Professional Services ■ Rentals & Leases ■ Contracted Services ■ Supplies and materials ■ Repairs & Maintenance ■ Equipment Purchases (non-capital) ■ Telecommunications ■ Other Expenses ■ Operating Impacts of Capital ■ From Reserve Fund (non-operating) ■ To Reserve Fund (non-operating) **Other inflation** ■ Insurance: per Treasury and Risk Management (T&RM) ■ Investment Income: per T&RM ■ Debt – Municipal (new debt only): per T&RM ■ Debt – Utilities (new debt only): per T&RM ■ Utilities water and sewer treatment for resale (part of supplies and materials): per Utilities

Issue	Assumption *
continued	**No inflation** ▪ Grants & Requisitions ▪ Interprogram ▪ Amortization
Growth on Salaries and Benefits	An allowance is included in Fiscal Services each year for staff and benefit growth
Impact of population growth on operating expenditures	**Applicable expenditures increase based on population growth factor** ▪ Business Expenses ▪ Advertising & Printing ▪ Professional Services ▪ Rentals & Leases ▪ Contracted Services ▪ Supplies & Materials ▪ Repairs & Maintenance ▪ Equipment Purchases ▪ Utilities ▪ Other Expenses ▪ Amortization
Population growth forecast	▪ Multi-year projections are determined and estimated by internal experts
Property tax	▪ Property inventory growth per sector (i.e. residential, commercial, heavy industrial etc.) is determined and estimated by internal experts. ▪ If there is a projected organizational shortfall or surplus in a year, a corresponding increase or decrease is applied to property taxes in the subsequent year
continued next page...	

* Assumptions may evolve as the long-term financial sustainability process progresses and/or better information becomes available.

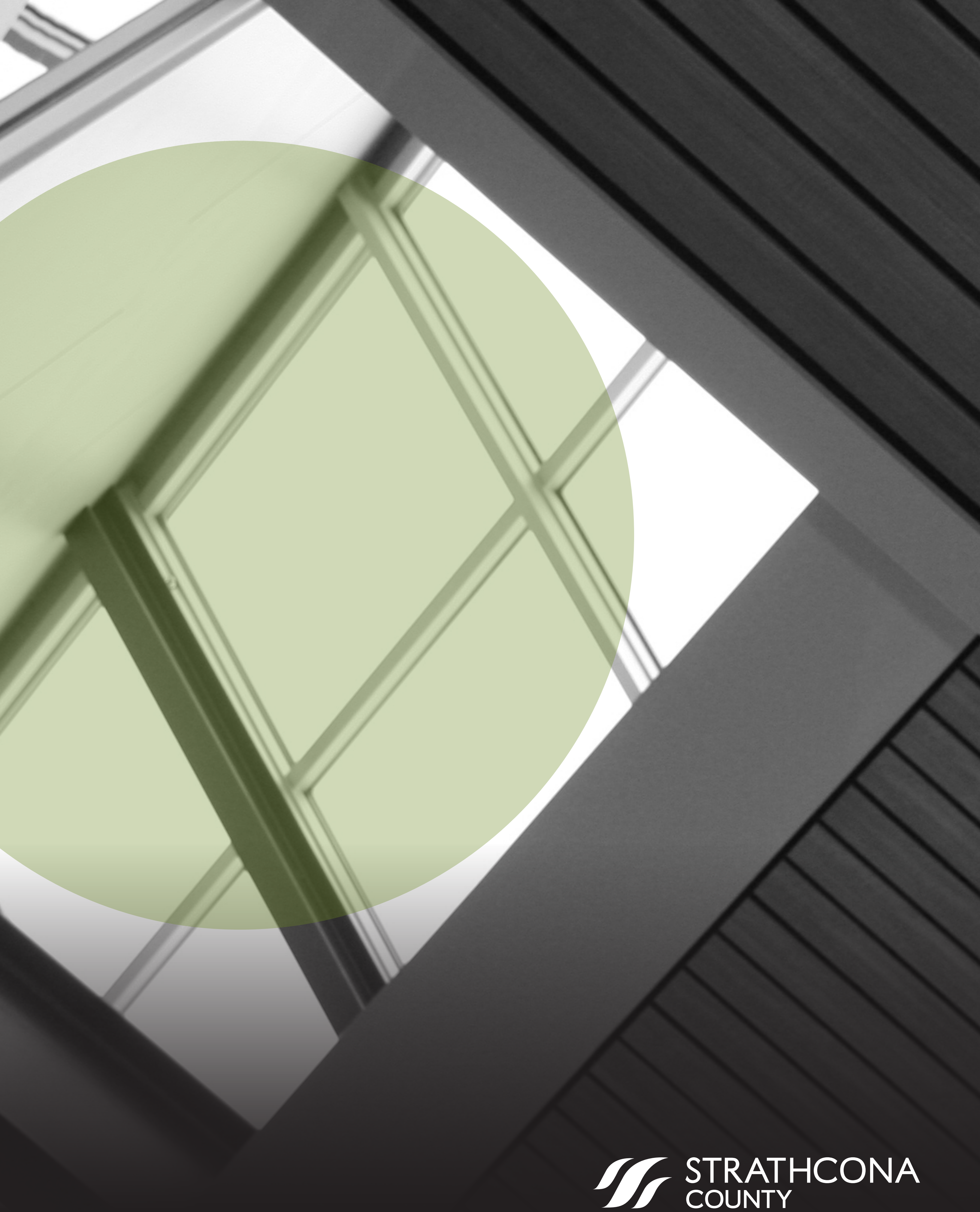
Issue	Assumption *
Other revenues ■ Utility user rates ■ User fees & charges ■ Penalties and fines ■ Investment Income ■ Other	**General growth factor** ■ Utility user rates growth is based on a general revenue growth factor ■ User fees & charges growth is based on a general revenue growth factor ■ Penalties and fines growth is based on general revenue growth factor ■ Investment income growth and inflation factors are determined by Strathcona County's Treasury and Risk Management group ■ No growth and inflation on other revenues **General inflation factor** ■ Utility user rates inflation is based on a general revenue inflation factor ■ User fees & charges inflation is based on a general revenue inflation factor ■ Penalties and fines inflation is based on a general revenue inflation factor. However, this will be adjusted to exclude inflation on penalties and fines controlled by external parties
Base/Starting Point	■ Most recent approved budget is the starting point
Service Levels	■ Service levels remain at existing levels in base projections
Debt financing	■ Debt repayments are dependent on the capital and debt financing requirements identified in base capital projections
New services	■ No new services are included in base projections
Operating impacts of capital	■ Operating impacts of future approved capital are included based on the base capital projections
Annexation activity	■ No annexation is projected. If circumstances change it would be considered in a future update

* Assumptions may evolve as the long-term financial sustainability process progresses and/or better information becomes available.

Capital: The assumptions in the capital forecast will include:

Issue	Assumption *
Base: capital budget	■ Include only capital project costs required for major asset rehabilitation or replacement, and annual programs ■ The base philosophy is to maintain current asset inventory, and no new assets will be included ■ Follow capital funding strategies outlined in the framework

* Assumptions may evolve as the long-term financial sustainability process progresses and/or better information becomes available.



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