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MEETING OF DECEMBER 13th, 2016

FROM: David Joy

DATE: December 7th, 2016

Subject: Approval Request for the 2017 Operating & Capital Budgets

PURPOSE

To have Council approve the 2017 Operating and Capital Budgets which would provide appropriations for operating and capital expenditures for fiscal 2017.

BACKGROUND

Section 242(1) of the Municipal Government Act, R.S.A. 2000, c M-26, provides that Council must adopt an operating budget for each calendar year. Where Council has not yet adopted an operating budget for the year, Clause (2) provides that Council may adopt an interim operating budget for a part of a calendar year. Without budget approvals in place, expenditures for personnel, services and goods could not be made. In this case, for fiscal 2017, budget deliberations have been conducted for both operating and capital purposes and decisions have been made. An "interim" budget is not required pending approval of the budgets placed in front of Council.

DISCUSSION

The appropriations identified in the attached Income Statement Summary and Capital Budget Summary for fiscal 2017 are reflective of the operating and capital spending levels and assumptions inherent in these documents.

At the outset of the budget deliberations, Council was faced with a structural 2017 budget deficit of approximately \$600-thousand. Fiscal 2016 represents the last year of the 5-year fire recovery program and the end of most of the grant revenue received to help the local community rebuild and survive from the 2011 disaster. To date the Town has received approximately \$54-million in Fire Recovery grant revenue to rebuild its infrastructure and to provide programs to assist the Town's citizens to recover from the disaster; several millions have been received from our Disaster Recovery grant program, all provincially funded, and; \$18.2 million has been, or will be received from the province, local industry, private donations and the MD and Sawridge First Nations for the Legacy Centre building.

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The purpose of this report is to identify for Council the forecasted operating surplus for 2016; the financial challenges facing the Town for 2017, and; the path followed to balance the 2017 operating budget while ensuring that taxpayers will not see an increase in their municipal tax bill all-the-while maintaining current service levels. This excludes, of course, the effect of any increases that may occur due to the school and seniors' requisitions which we will not receive until February/March and which are not within Council's control. Many options were provided by and for Council in order to be able to creatively and compassionately address the financial challenges existing for 2017.

For your convenience I have provided you with a summary of any favourable and unfavourable variances over \$10,000 with explanations (attached). Further details are provided within your budget binders.

2016 Financial Forecast

In the absence of any future unexpected expenses, it appears that the Town will experience a cash surplus of approximately \$489,000. Forecasts can be very fluid and unexpected expenses can arise no matter if current spending trends are followed or how conservative the assumptions. Final financial results will not be known until the end of February 2017. Council has decided to transfer \$300-thousand of that assumed surplus to a tax stabilization reserve to be drawn upon in 2017 by the amount of \$221-thousand.

It should be noted that even though the 2016 budget reduced discretionary spending from the 2015 budget by approximately \$225,000 or 1.4%, the forecasted results for 2016 appear to indicate that a further savings of \$194,000 or 1.25% reduction from the 2016 budget may be achieved. Overall, this would mean that in 2016 the Town will have reduced discretionary spending by \$419,000 or 2.7% from the 2015 budget. The proposed 2017 operating budget is continuing this trend with discretionary spending being decreased by a further 4.4% or \$686,000 from the 2016 budget. However, 90% of the 2017 cost reductions will be due to the end of several fire recovery programs. Nonetheless, the total cost reductions would represent operating cost reductions of \$921,000 or a 5.9% decrease since 2015.

The major contributors of the forecasted surplus for the 2016 Forecast are:

- Fire mutual aid revenue increased due to the Town's assistance with the Fort McMurray fire and other forest fires (**\$168k fav**);
- RCMP FTE strength being at 13.20 vs budgeted 14.00 and a retroactive adjustment (**\$161k fav**);
- HR costs lower due to position vacancies, disabilities and one maternity leave (**\$154k fav**) excluding fire services;
- Gas and Power costs trending less than prior year partly due to milder weather (**\$120k fav**);
- Government Centre 2014 cost recovery from Infrastructure Alberta received but not previously accrued (**\$86k fav**);
- Absence of debt principal paydown requirements for the Legacy centre (**\$86k fav**) since the debenture will not be in effect until January 2017;
- Increased water & wastewater sales (**\$86k fav**);

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- Inter-municipal fire services revenue (\$74k fav) mostly due to 2015 under-accrual;
 - Bad debt expense (\$70k fav) utility accounts under control, less write-offs required;
 - Equipment rentals for snow removal; milder winter (\$61k fav);
 - Revenue for garbage disposal, increase in rates (\$61k fav);
 - Full-year effect of the reinstatement of utility invoice late payment penalties (\$59k fav);

Partially offset with:

- An increase in transfers to reserves (\$452k unfav) due to higher water and wastewater sales and fire mutual aid revenue;
- Recognition of 2016 landfill deficit (\$231k unfav).

2017 Operating Budget

At the outset, we were dealing with a possible 2017 deficit of \$606,000. This number has been significantly reduced to \$220,638. It should be noted that as at mid-August 2016 and compared to 2015 final property assessment, the Town's residential tax base decreased by only 1 unit while commercial/industrial has increased by 6 units. While overall residential assessment values as at mid-2016 year show an increase by 2.75% of property assessment values, it is expected that the January supplementary assessment report will show that property assessment values will decrease from the prior year by 5% to 10%. Council is committed to keeping property taxes the same for each individual property owner. Thus, if assessment values decrease, the tax mill rate will increase but the effect on the property owner should be negligible.

This leaves the Town in a position where it must either increase other types of revenues and/or decreasing expenses without altering service levels.

The major contributors of the 2017 Operating Budget preliminary deficit were:

- The inter-municipal community services cost sharing invoice revenue has now caught up with the budget. Only one invoice will be produced in 2017 (\$327k unfav);
- The effect of the proposed carbon tax (\$139k unfav);
- Three local improvement levies have expired and correction of budget application (\$65k unfav);
- Interest earned decreasing due to grant funds being fully applied to recovery projects (\$41k unfav);
- Alberta First Responders Radio Communication System – AFRRCS - (\$43k unfav).
- Repayment of borrowing in prior year from reserve (\$29k unfav);

The major contributors to eliminate the preliminary deficit and establish the 2017 operating budget are:

- Transfer from the tax stabilization reserve (\$221k fav);
- Reduction in receivables write-offs (\$80k fav);

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- Tax revenue correction of prior year budget using current 2016 trends and actual aggregation and audit trail of tax rolls versus general, high level numbers from assessment summaries (\$73k fav);
- Gravel inventory currently sufficient to service 2017 requirements (\$46k fav);
- Reduction in snow removal expenses (\$40k fav);
- Effect of cost of living increases eliminated and reduction of 1 full-time equivalent position on overall HR costs (\$37k fav);
- Increase in fire mutual aid revenue due to prior year trends with forest fire fighting (\$35k fav);
- Expected increase from the inter-municipal shared services revenue due to the proportional increase in the MD's population (\$26k fav);
- Increase in the government centre cost recovery from Infrastructure Alberta and the Library due to an increase in overall operating costs of the building (\$24k fav);
- Reduced IT contracted services requirements (\$20k fav);
- Elimination of transfer to reserve for snow removal; there is enough in the reserve already in case of above-average winter storms (\$20k fav).

Capital Budget 2017

Presented with a list of 37 projects totaling \$23.9 million, Council approved 28 estimated at \$20.6 million and rejected or deferred 9 projects worth \$3.3 million. Funding for those projects are provided predominantly by the generosity of the Province with approximately 23% provided by the Town's own sources, as identified below:

Funding Sources		
TOSL	Reserves	\$ 3,697,032
TOSL	External Sources, Fundraising, Donations	\$ 1,084,617
	TOSL	\$ 4,781,649
AB	Canada Building Fund	\$ 500,000
AB	Provincial Grants (Recovery, Other Programs)	\$ 10,000,000
AB	Canada 150	\$ 444,500
AB	Municipal Sustainability Initiative	\$ 3,722,156
AB	BMTG	\$ 865,895
AB	Federal Gas Tax Fund	\$ 242,270
	Province of Alberta	\$ 15,774,821
Total Funding for Capital Projects in 2017		\$ 20,556,470

Most notable is the Regional Raw Water Intake project (\$10 million) which will be funded out of Recovery grants; the new Firehall/RCMP/Emergency Services building (\$2.8 million) funded from reserves and the MSI grant, and; the additional funding required for the Legacy Centre building covered from provincial MSI grant funding (\$1.7 million).

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RESOURCE IMPACTS

For the Town's capital program, this will essentially drain the funds available from the Provincial MSI, BMTG & FGTF grants which should have a balance of \$3.3 million at the end of 2016 but will be only \$488-thousand by the end of 2017. It will also lower the Town's reserve balances by \$1.5 million but will still leave the Town with a healthy reserve balance of \$11.1 million.

POLICY IMPLICATIONS

No Policy Impacts

COMMUNICATIONS

In that this is basically an administrative procedure, no specific strategy beyond the general public and internal communication approach through the website.

RECOMMENDATION TO COUNCIL

That Council approve the 2017 operating and capital budgets.

MOTION

- (1.) THAT Council approve the 2017 Operating Budget as presented.**
- (2.) THAT Council approve the 2017 Capital Budget as presented.**
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Attachments

Report Prepared by:

Report Approved for Council by:

David Joy
Director of Finance

Brian Vance
CAO