

INTERIM OPERATING AND CAPITAL PLANS

VULCAN COUNTY, ALBERTA, CANADA

PREPARED BY VULCAN COUNTY:
CORPORATE SERVICES DEPARTMENT
DECEMBER 2023





THREE-YEAR OPERATING PLAN (2024-2026)

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THREE YEAR OPERATING PLAN

The purpose of a three year operating plan is to provide an overview of the operating activities of the County for the upcoming years. This ensures that the County is not only prepared for the projected activities and service levels, but that the costs of these activities are planned in a fiscally responsible manner. The result is a greater level of stability of tax rates over the next three years.

These operating plans also allow the County to build-in projected increases in annual operating costs. An example of this is fuel; projected increases in fuel cost can be included and any other changes to fuel prices can be applied. This also takes into account the County's strategic plan and goals.



Planning of large scale operating projects, such as gravel crushing, is included in the operating plans to ensure that the County is preparing in advance for these types of projects. This can include building reserves over multiple years to fund a project, rather than fund those costs all at once in the year that it takes place with a resulting spike in tax rates.



The County has consistently budgeted this way in the past. Preparing a written plan, however, ensures that this process is formalized and that these types of activities are reviewed. The implementation of written operating plans was formally made a legislative requirement in Alberta in 2017, however County Council had chosen to begin creating these written plans prior to the requirement taking effect.

In the following pages, the 2024-2026 Operating Plan is presented, indicating the projected operating revenues and expenses of the County. Included in the plan is comparative financial data for the prior three years. This written operating plan will be reviewed and updated on an annual basis.

OPERATING REVENUES

The operating revenues for a municipality are typically budgeted on a conservative basis. Generally, this will involve taking historical revenues and adjusting for known future variances such as changes made to funding agreements, and adjustments to service levels. The revenues will often correlate to expenditures that are also projected, such as government grant funding of operating costs.

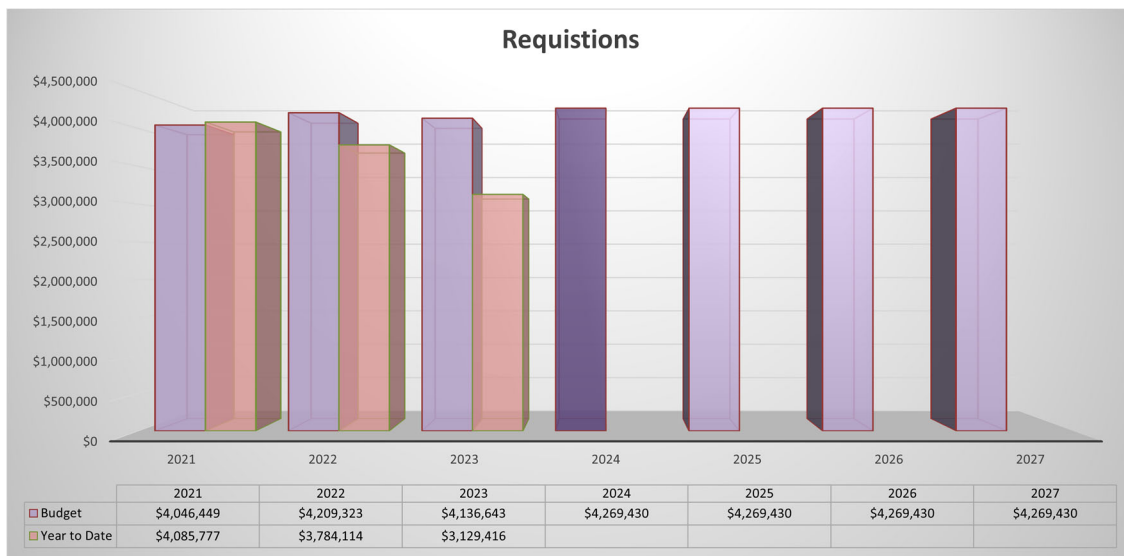
The following are the 2024-2026 projected operating revenues:

Vulcan County Three-year Operating Plan	Budget 2024	Budget 2025	Budget 2026
REVENUE:			
Net municipal taxes			
Real property taxes	\$ 7,738,915	\$ 7,254,713	\$ 6,967,391
Linear taxes	10,854,669	12,054,469	12,854,469
Commercial taxes	1,682,160	1,584,627	1,584,627
Government grants in lieu of taxes	21,661	21,661	21,661
Special levy	1,508,007	1,415,314	1,426,043
Well drilling tax	156	156	156
	<u>21,805,568</u>	<u>22,330,940</u>	<u>22,854,347</u>
School requisitions	(3,283,609)	(3,283,609)	(3,283,609)
Designated industrial	(54,046)	(54,046)	(54,046)
RCMP requisitions	(371,262)	(371,262)	(371,262)
Seniors foundation	(560,513)	(560,513)	(560,513)
	<u>17,536,138</u>	<u>18,061,510</u>	<u>18,584,917</u>
Government transfers			
Provincial government transfers - Operating	377,443	352,205	352,205
Federal government transfers - Operating	249,405	249,405	249,405
Transfers from Local Government - Operating	196,745	187,297	189,506
	<u>823,593</u>	<u>788,907</u>	<u>791,116</u>
Return on investments	726,824	676,824	626,824
Sale of goods, services, and user charges	949,002	753,978	738,402
Rental income	320,680	319,680	319,600
Community aggregate levy	142,912	142,912	142,912
Penalties and costs of taxes	130,000	130,000	130,000
Other revenue			
Fines	11,500	11,500	11,500
	<u>11,500</u>	<u>11,500</u>	<u>11,500</u>
TOTAL BUDGETED OPERATING REVENUES	\$ 20,640,649	\$ 20,885,311	\$ 21,345,271

OPERATING REVENUE - continued

The tax revenues and the requisitions for school and senior support are budgeted based on the 2023 actual amounts plus any additional information known for 2024. The final tax assessment figures for the County have not been determined for 2024 and we are not able to speculate on any potential changes in assessment.

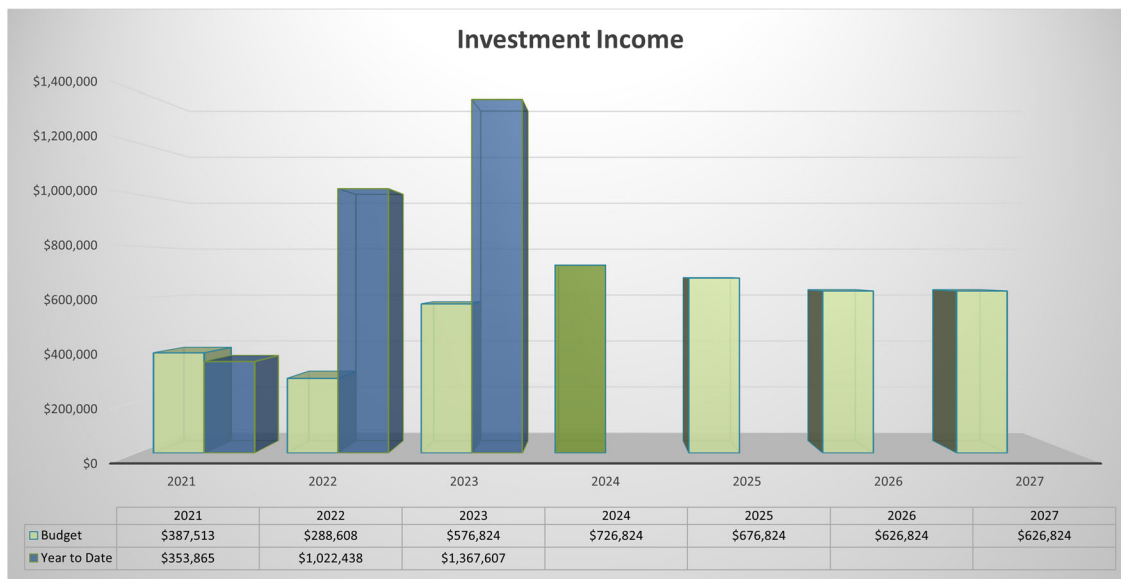
There is a projected increase in taxable assessment in 2024 as an estimated \$450 million solar project is coming online; whereas, the County budgeted to receive approximately 1/2 of the tax revenues in 2023 with supplemental assessment) Currently, the County is projecting to increase total tax revenues with the increased assessment with the potential of including tax rate reductions. These figures will be updated in the 2024 Final Budget when new information becomes available.



OPERATING REVENUES - continued

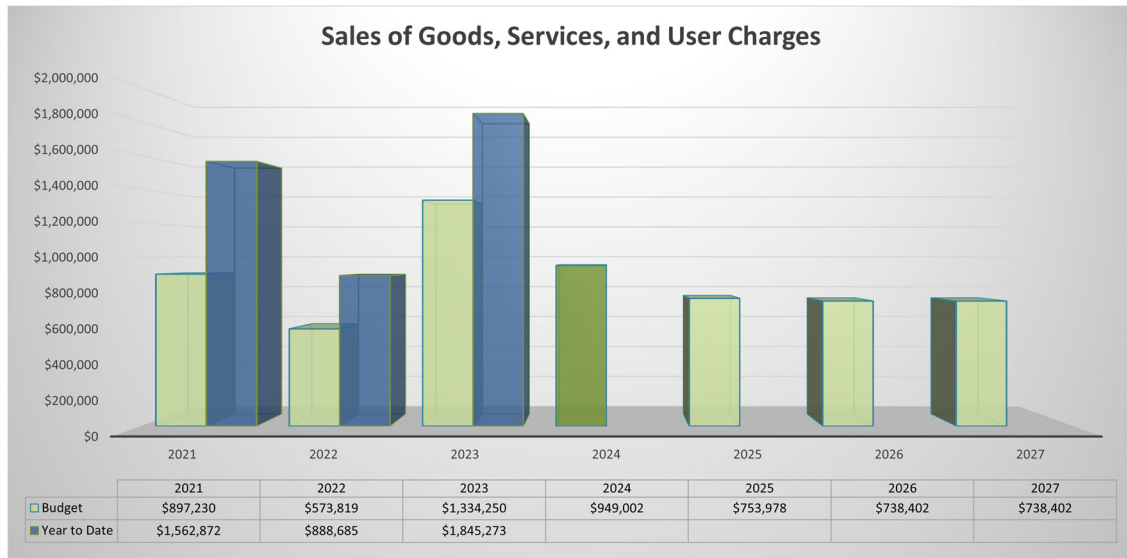


The majority of the government transfers for operations relate to the Municipal Sustainability Initiative (MSI) Operating grant, the Canadian Community Building Fund (CCBF - previously known as federal gas tax fund) grant, and the Agricultural Service Board (ASB) grant. The MSI Operating, CCBF, and the ASB grant are based on prior year funding allocations. In 2024, the MSI is being replaced with the Local Government Fiscal Framework (LGFF); however, the funding details are not available at this time so the grant as been set at the 2022 allocations (as 2023 has a one-time top-up).

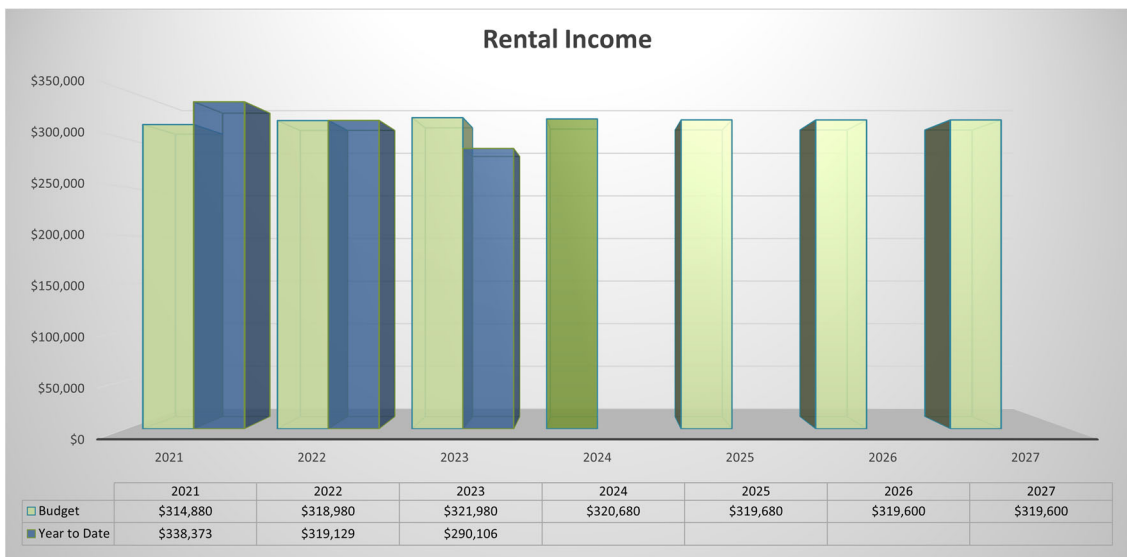


The investment income is typically based on previous years' interest and dividends received and was historically budgeted very conservatively. Starting in 2022, the interest rates have had a significant increase with the increase in the bank's Prime Rate, therefore, with this increase, the County has increased its projections for the 2023 and 2024 based on current locked in investment rates (including multi-year GICs).

OPERATING REVENUES - continued

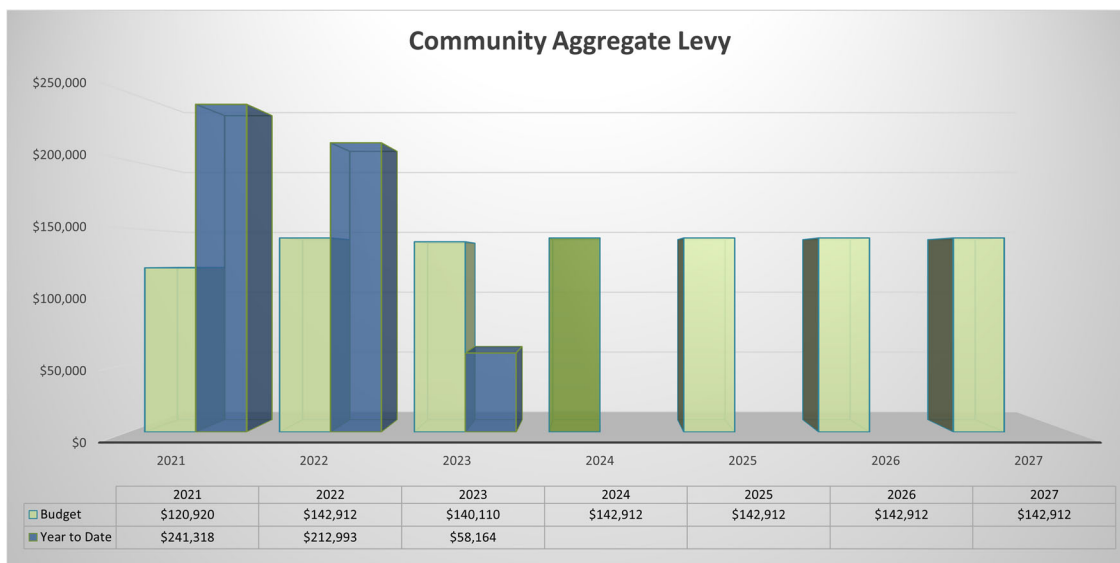


The sale of goods, services, and user charges include the sale of materials and supplies (i.e. gravel sales), surface rights, fees charged for services (i.e. permits, tax certificates, safety codes), and cost recoveries (i.e. dust abatement). Historical revenues are typically used to project these revenue sources. Budget 2023 and 2024 include additional one-time road use agreement recovery costs for another large linear project (covering additional service costs for the roads relating to this project).

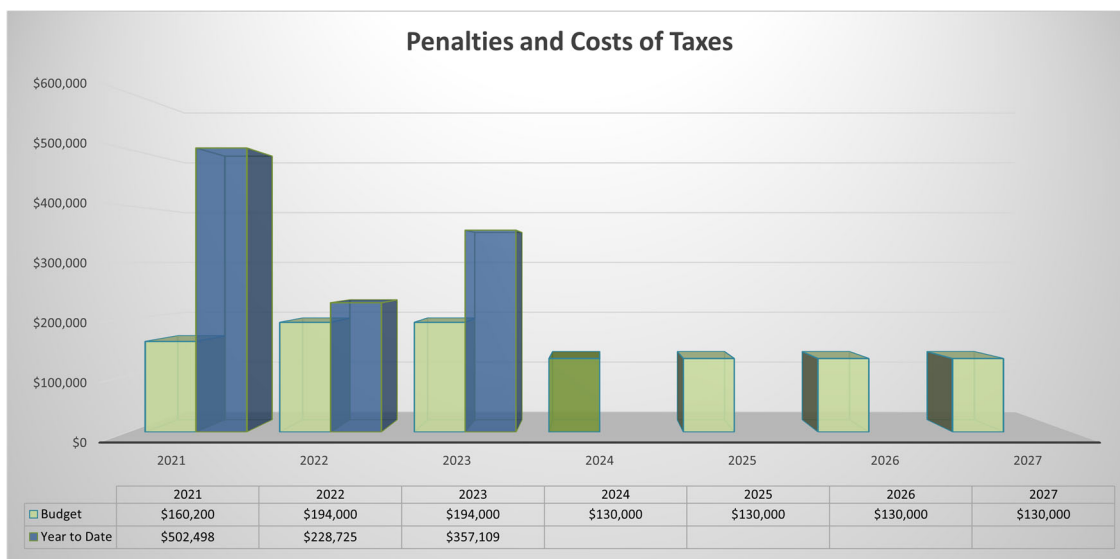


Rental income is based on rental agreements that the County has with the RCMP and Alberta Health Services (AHS). There are also other rental agreements for buildings and equipment as well.

OPERATING REVENUES - continued

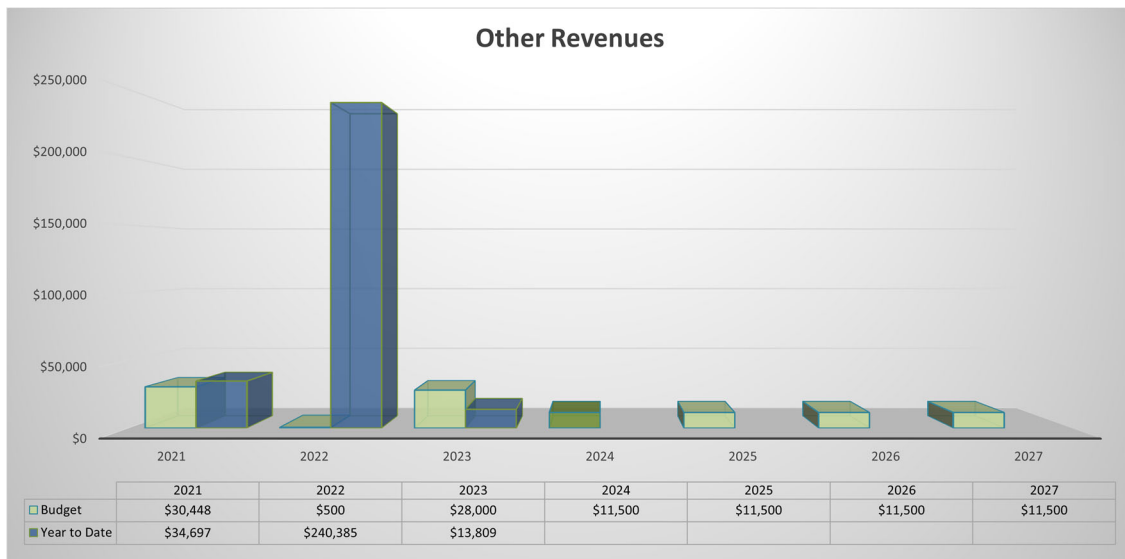


The community aggregate levy is the levy for transporting materials such as gravel and sand from gravel pits within the County and is intended to help offset the increase in road maintenance costs caused by these activities. The rate of \$0.25/tonne is set by Bylaw. Current estimates of revenue here are based on the previous 5 years of actuals.



The penalties and costs of taxes are the penalties charged on unpaid taxes and are added to the tax roll. As the actual outstanding tax arrears fluctuate from year to year, and is outside of the County's control, the budget uses a conservative amount. During 2019-2021 there was a higher than expected amount of penalties due to a couple of larger accounts failing to pay their property tax in a timely fashion. 2023 included penalties on a late payment from a large tax balance (repaid in 2023). This is considered to be unusual so their effect on future projections has been limited. The 2024 budget and upcoming years are reduced based on the recent higher rates of collection on tax balances.

OPERATING REVENUES - continued



Other revenues include fines, donations, recovery of accounts receivable, and other miscellaneous revenues. Most of these are not able to be projected; therefore, the budget currently only consists of the fines and other known revenues.

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In 2022, there was an additional "other revenue" recognized as the Gravel Reclamation Liability was reduced in 2022 (which creates a revenue instead of a negative expense) as the Gravel Reclamation Liability is calculated using a net present value (NPV) which is impacted by borrowing rates (which prime rate increased in 2022). This is likely a one time adjustment reduction and is projected to be maintained or increase (as an expense) in future years.



OPERATING EXPENSES

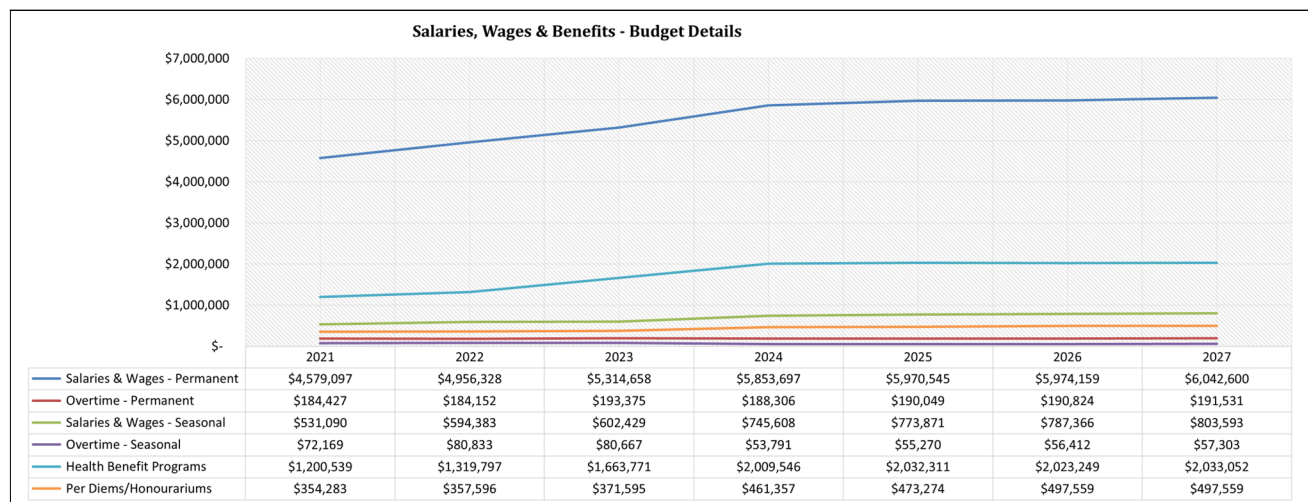
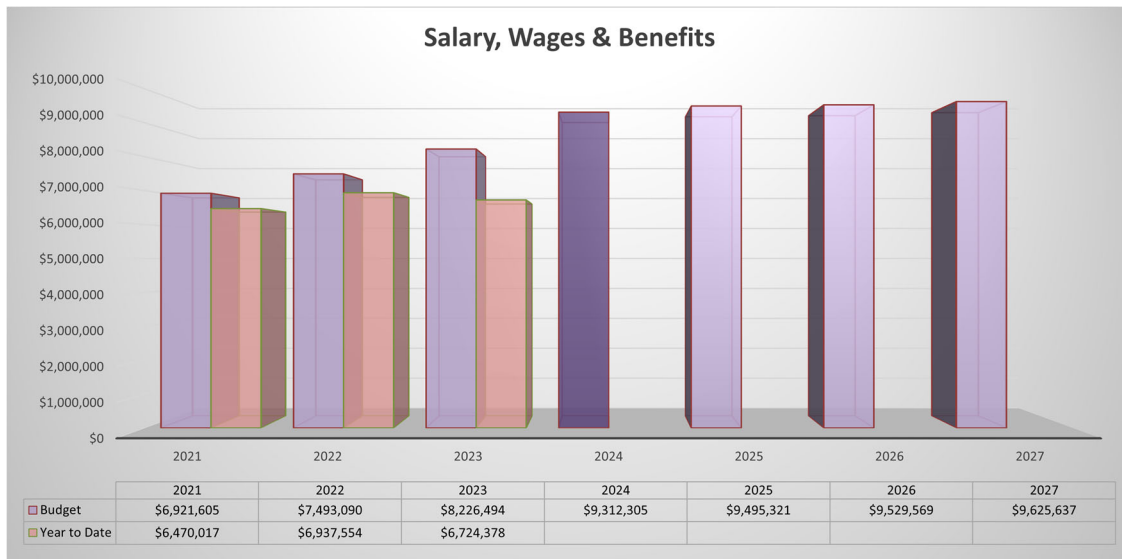
The operating expenses for a municipality are also budgeted on a conservative basis to ensure the budget is sufficient to cover whatever costs may occur and prevent the County from having to draw on reserves to fund a shortfall. This often includes adding amounts for unpredictable expenses like unexpected vehicle breakdowns and building maintenance.

Typically, these operating expenses are determined by historical trends, projected market fluctuations (i.e. fuel/diesel pricing), inflation, expected pay rates based on approved salary grids, and projected changes in service levels.

The following is the 2024-2026 projected operating expenses:

Vulcan County Three-year Operating Plan	Budget 2024	Budget 2025	Budget 2026
EXPENSES:			
Salaries , wages and benefits	\$ 9,312,305	\$ 9,495,321	\$ 9,529,569
Contracted and general services	3,309,370	2,917,572	2,866,117
Materials, goods and utilities	3,150,363	2,774,174	2,779,818
Transfers to local boards and agencies	2,068,994	1,993,239	1,993,239
Interest and bank charges		-	-
Bank Charges and Short Term Interest	14,990	14,990	14,990
Interest on Capital Long Term Debt	27,078	23,626	23,626
	<u>42,068</u>	<u>38,616</u>	<u>38,616</u>
Amortization of tangible capital assets	4,818,615	4,818,615	4,818,615
Machine expenses capitalized for construction	(2,134,920)	(2,177,619)	(2,221,172)
Other expenses			
Contingency	20,000	20,000	20,000
Tax Discounts & Write-offs	294,520	294,522	294,522
Other	7,492	7,492	7,492
	<u>322,012</u>	<u>322,014</u>	<u>322,014</u>
TOTAL BUDGETED OPERATING EXPENSES	\$ 20,888,806	\$ 20,181,932	\$ 20,126,816

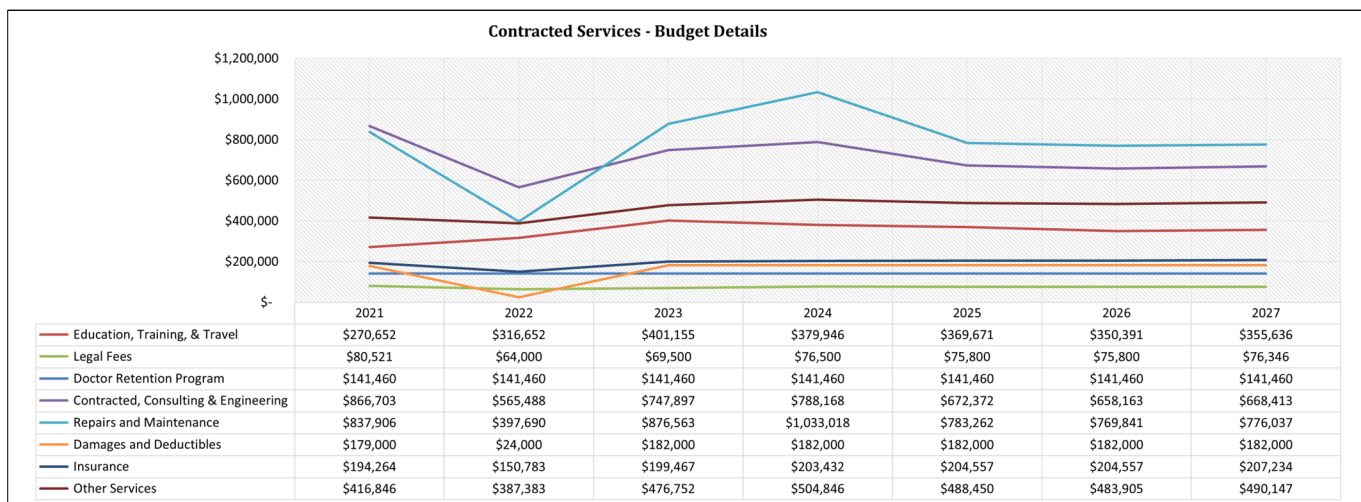
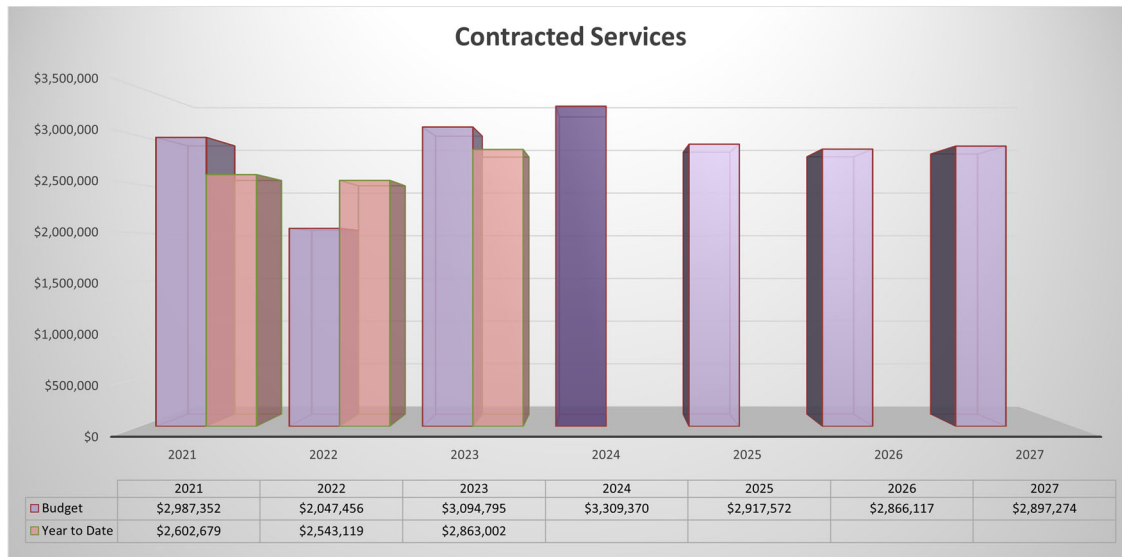
OPERATING EXPENSES - continued



The salaries, wages, and benefits include all of the staff wages/benefits and Council per diems. All of these costs have the 20234 approved salary grid increases included which cover one-time market increases (reviewed approximately every 4 years), cost of living increases and staff grid movements, as well as projected new hires.

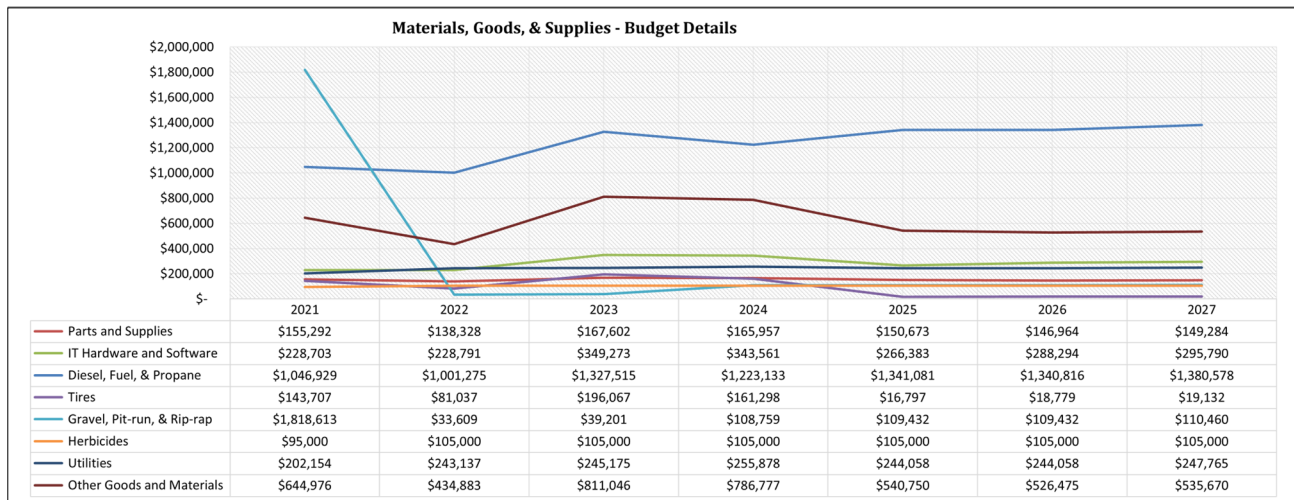
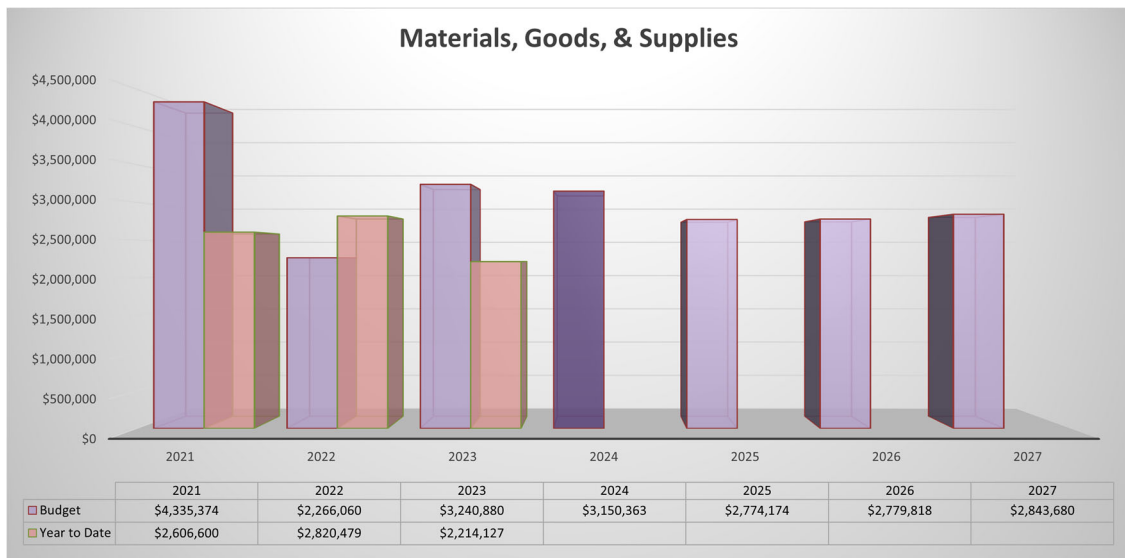
During 2023 and 2024 there has been higher inflationary cost increase which have a higher level of cost of living adjustments (COLA); however, the County is hoping that the inflationary increases level-off and are minimal in upcoming fiscal years. Benefit premium rates also are projected to increase for 2024. There are additional increases from 2024-2026 with projected staff grid movements.

OPERATING EXPENSES - continued



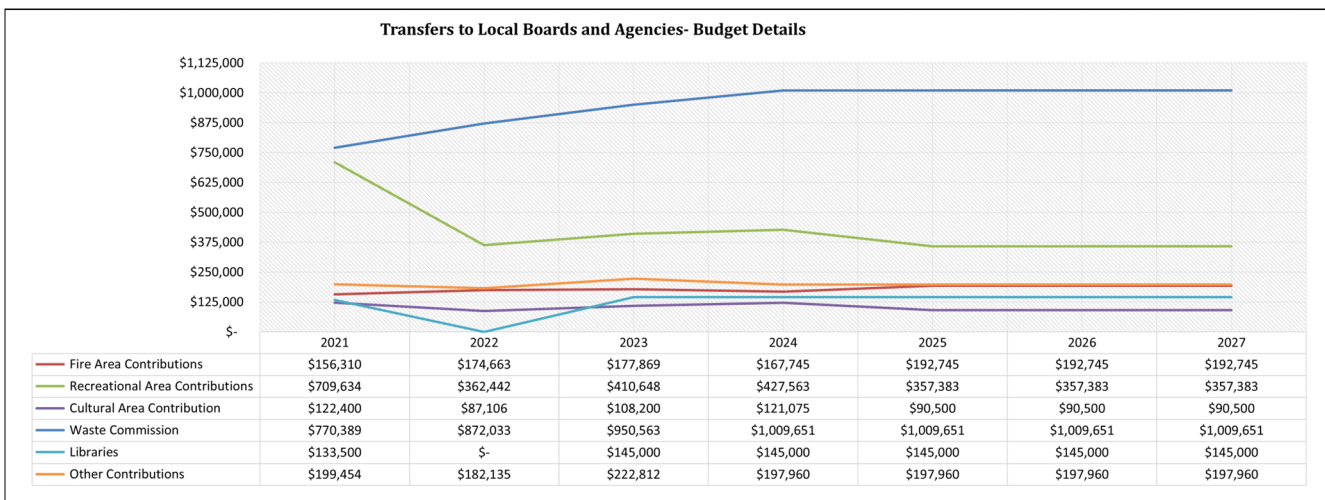
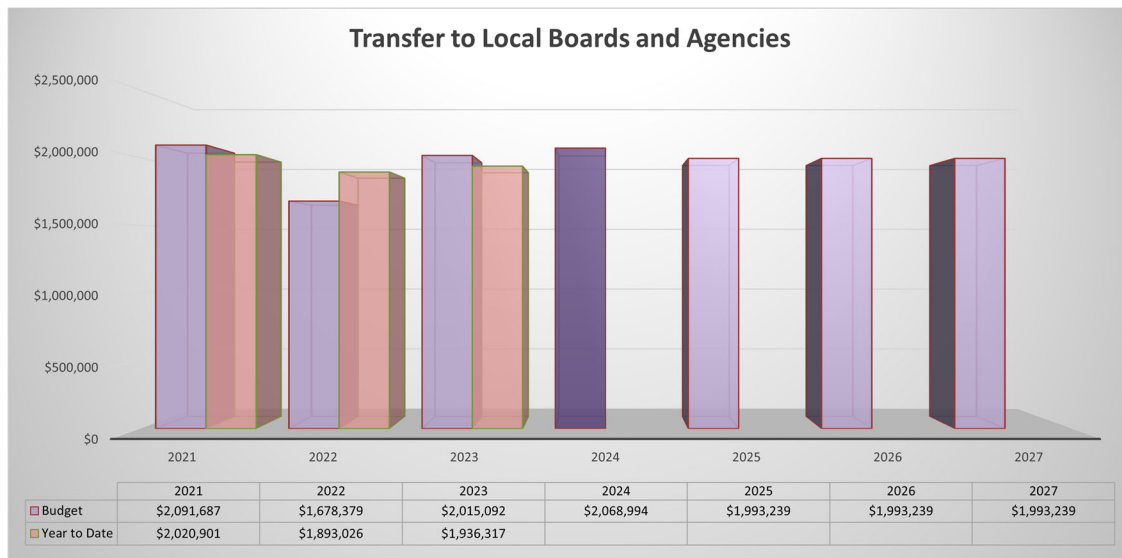
The contracted services include the costs of repairs and maintenance, consulting and contracted services, audit and legal fees, telecommunications, insurance, and other services. Most of these costs stay consistent from year to year, but there are projected decreases in repair and maintenance costs after 2024 as there are some larger project in 2024 (i.e., repairs to the Tri-Services building, trailer generator repairs, and other specific equipment repairs).

OPERATING EXPENSES - continued



The materials, goods, and supplies includes the costs of supplies, utilities, information technology, fuel, gravel, herbicides, culverts, blades, tools, and other consumables. Most of these costs stay somewhat consistent from year to year, but not all do. For example, there was a large amount of gravel crushing being done from 2021-2022 which resulted in significant costs in those years.

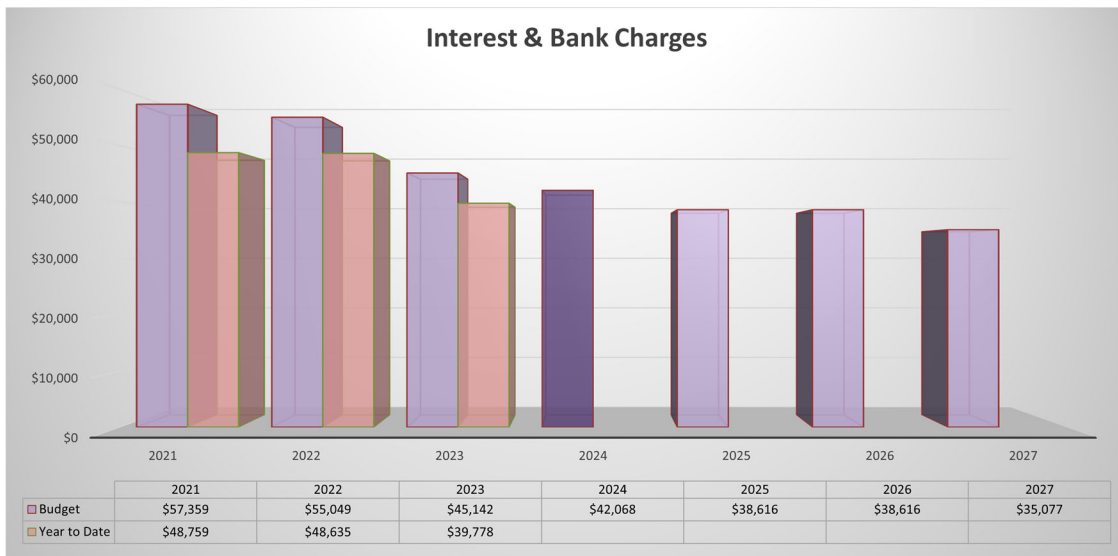
OPERATING EXPENSES - continued



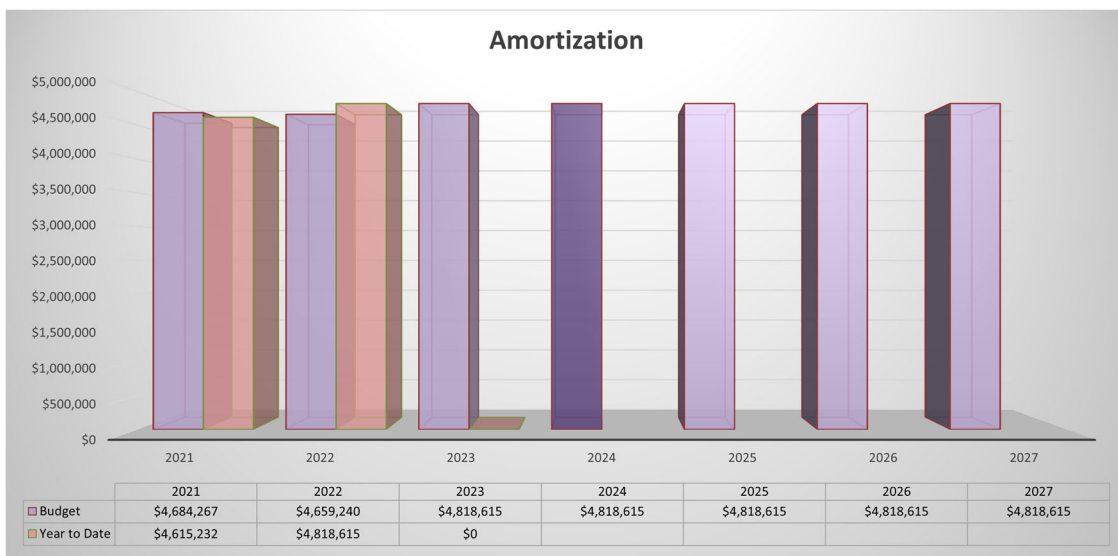
The transfer to local boards and agencies includes contributions to fire associations, recreation and cultural boards, waste and water commissions, and other community groups. The budgets are typically based on current year approved annual requests for funding.

Budget 2021 included a one-time \$300,000 contribution to the Vulcan Swimming Pool as part of their capital project. This was a one-time contribution and is a significant cost increase in that year.

OPERATING EXPENSES - continued

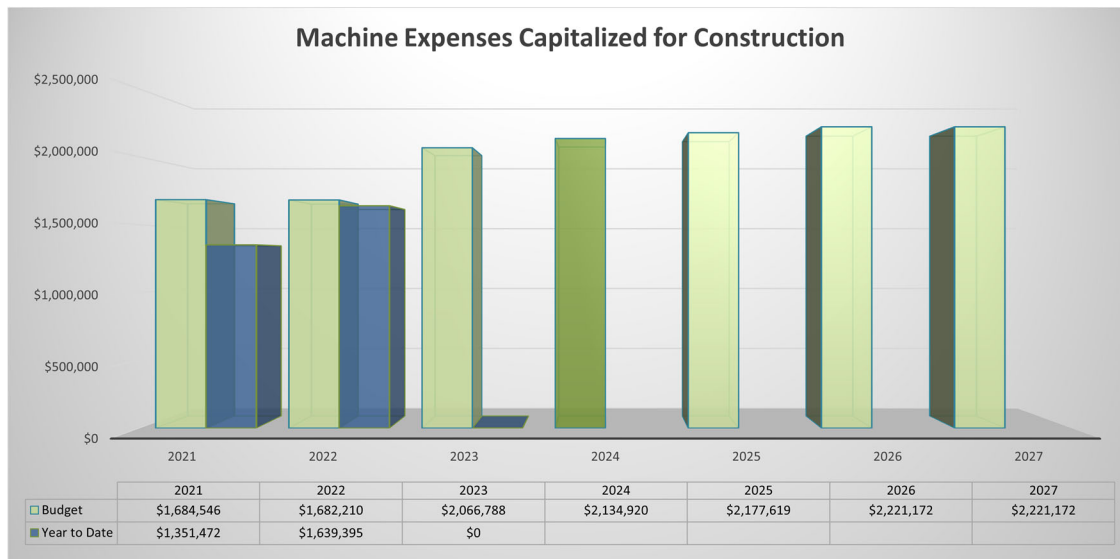


Interest and bank charges include standard banking fees, credit card fees, and the interest portion of debenture payments. The bank and credit card fee rates were able to be negotiated down from prior years and the County has implemented a "convenience fee" to recover the credit card fees we are charged for tax payments made on credit. In 2016, the County started to incur the interest costs for the Vulcan Hospital Expansion Project debenture.

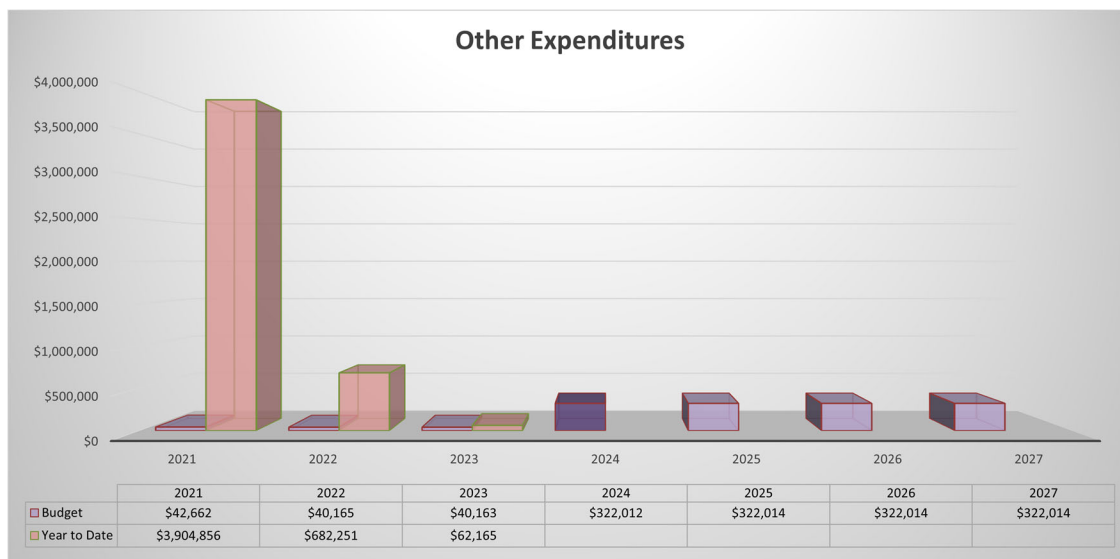


Amortization expenses are non-cash expenses which recognize the cost of the County's tangible capital assets (roads, buildings, equipment) over their expected useful lives. This is offset by annual transfers to capital reserves which will be used to replace these assets when required. Amortization is increased each year based on historical increases.

OPERATING EXPENSES - continued



The machine expenses capitalized for construction relate to the portions of operating expenses that were incurred during construction of roads and bridges. These costs are included in the other operating expenses areas, such as wages/benefits, engineering costs, gravel, and others.



The other expenditures include contingency expenses, tax and receivable write-offs, and other miscellaneous expenses. Most of these are not able to be projected; therefore, the budget currently only consists of the contingency and an estimate of bad debt expense.

Note: 2021 includes write-offs of property taxes for some large oil & gas accounts that went insolvent. The County exhausted all reasonable efforts to collect funds on these accounts and had previously had some of these companies on property tax payment plan agreements.

RESERVE AND CAPITAL TRANSFERS

The operating budget also includes reserve and capital transfers to provide sources of funding for certain purposes and to plan for future years. Total operating revenue less operating expense will result in a surplus or deficit, which is then transferred to or from capital or reserves with the goal of having no net effect on accumulated surplus.

The following is the 2024-2026 projected reserve and capital transfers:

Vulcan County Three-year Operating Plan	Budget 2024	Budget 2025	Budget 2026
TOTAL BUDGETED OPERATING REVENUES	20,640,649	20,885,311	21,345,271
TOTAL BUDGETED OPERATING EXPENSES	(20,888,806)	(20,181,932)	(20,126,816)
OPERATING SURPLUS	(248,157)	703,379	1,218,456
RESERVE AND CAPITAL TRANSFERS:			
Transfer of Amortization	4,818,615	4,818,615	4,818,615
Transfer from Reserves	1,295,744	999,469	845,872
Transfer to Reserves	(3,719,282)	(4,343,844)	(4,661,771)
Transfer to Capital Functions	(2,146,920)	(2,177,619)	(2,221,172)
Transfer to Functions	0	0	0
TOTAL RESERVE AND CAPITAL TRANSFERS	248,157	(703,379)	(1,218,456)
TOTAL NET EFFECT ON ACCUMULATED SURPLUS	\$ -	\$ -	\$ -

The projections will change when the final assessment and tax information becomes available. Should the County's assessment decrease, it will reduce or eliminate the surplus. If there are no assessment decreases (or perhaps there are increases), the County will have an opportunity to allocate excess funds to reserves. Since this information is not known at this time, the surplus is shown here until the County can determine the appropriate course of action.



RESERVE AND CAPITAL TRANSFERS - continued

The transfer of amortization is the offset to the amortization expense included in the operating expenses. This transfer is to apply the reduction in the net book value of the tangible capital assets (roads, buildings, equipment) to the equity in the tangible capital assets.

The transfer from reserves is the amount of funding used from operating reserves that have been set up in prior years. This can include the reserves that have been built up specifically for operating expenditures or that have been built from prior surpluses (revenues exceeded budget and/or expenses less than budget).



The transfers to reserves are the amounts of funds that are raised in the operating budget to be used for either future operating projects or capital projects:

- Currently, the County has a twenty (20) year capital funding program (as discussed in the five-year written capital plan). In the plan there is approximately \$2.5 million put into capital reserves for this program (funding 2024 and future years capital acquisitions).

The transfer to capital function is the offset to the capitalization of operating expenses related to road and bridge construction. This ensures those costs are added to the cost of the assets and they can then be properly amortized over their useful life.



FIVE-YEAR CAPITAL PLAN (2024-2028)

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FIVE-YEAR CAPITAL PLAN

The purpose of a five year capital plan is to provide an overview of the capital requirements for the County in upcoming years and to ensure that the County is in a position to fund those purchases in a fiscally responsible manner. One of the results of implementing a capital plan is a reduction in fluctuations of tax rates since the County will be building reserves to draw on for capital acquisitions rather than using tax dollars directly.



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The County currently has a twenty year capital funding program. All costs and estimated replacement dates for the County's capital assets are projected. Once an asset is due for replacement, the funds necessary to purchase it will have effectively been saved up via additions to capital reserves. For example, a grader with an estimated replacement cost of \$500,000 is scheduled to be replaced in 5 years; therefore, a total of \$100,000 would be allocated to a reserve each year so that when the grader is to be purchased after 5 years, the funds will be available.

The capital reserve balances and future requirements are actively monitored by County administration. Currently, the County is contributing \$2.5 million per year to capital reserves to meet the needs of the plan.

This twenty year capital funding program is considered a "living" document and is updated on an annual basis to take into account changes in capital reserve levels, changes in years of replacement, and the projected replacement costs. Although this capital funding program spans 20 years, as the year of replacement gets closer to the current year the estimations of replacement costs typically become more accurate.

CAPITAL PLAN

The following is the 2024-2028 projected capital plan:

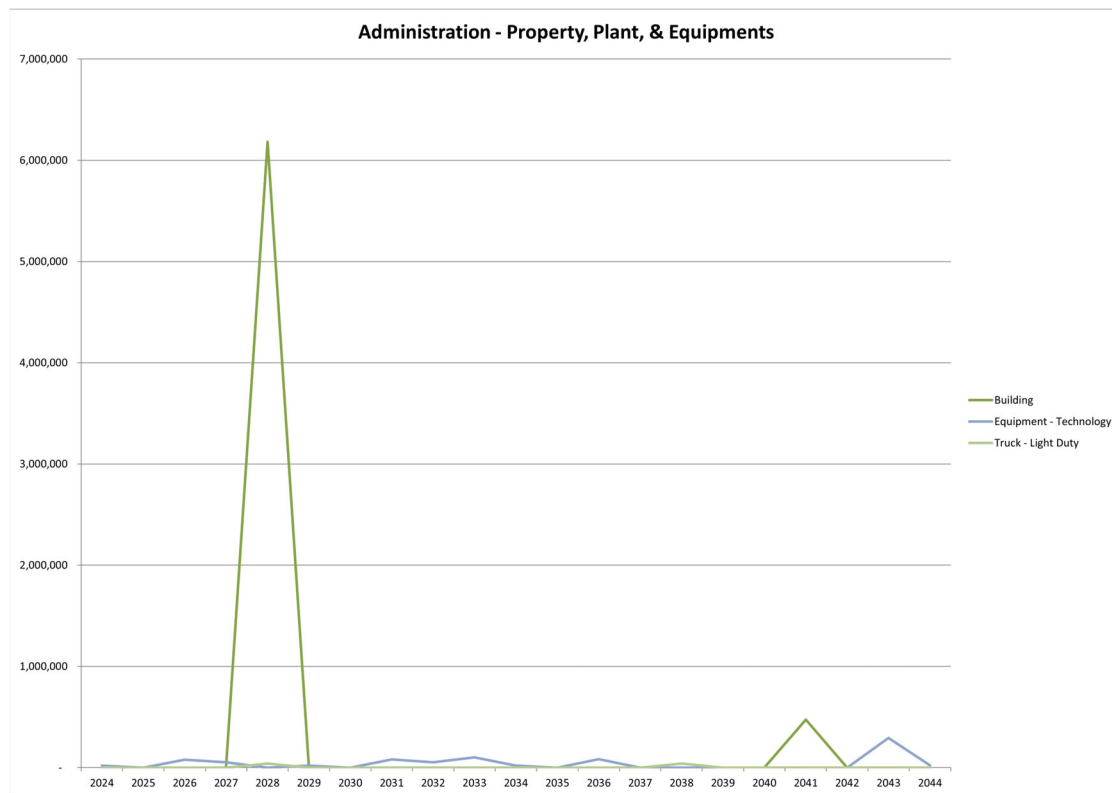
Vulcan County Capital Budget and Projections	Budget 2024	Projected 2025	Projected 2026	Projected 2027	Projected 2028
CAPITAL ACQUIRED:					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Land Improvement	-	-	-	-	-
Buildings	187,000	12,465	78,244	8,605	6,199,899
Equipment	1,793,056	1,122,049	2,427,375	3,194,638	3,644,157
Vehicles	605,268	424,390	351,303	1,002,133	1,103,086
Engineered Structures	5,113,470	2,399,817	2,497,608	503,788	2,679,610
TOTAL CAPITAL ACQUIRED	\$ 7,698,794	\$ 3,958,721	\$ 5,354,530	\$ 4,709,164	\$ 13,626,752
CAPITAL FUNDING:					
Capital Grants	\$ 1,711,230	\$ 1,297,675	\$ 1,297,675	\$ 1,297,675	\$ 1,297,675
Sale of Assets	-	-	-	-	-
Contributed Asset					
Transfer from Capital Reserves	3,840,644	526,126	1,921,935	1,276,569	10,194,157
Transfer to Capital Reserves	-				
Transfer from Operating Function	2,146,920	2,134,920	2,134,920	2,134,920	2,134,920
Transfer to Operating Function					
Capital Lease acquired					
TOTAL CAPITAL FUNDING	\$ 7,698,794	\$ 3,958,721	\$ 5,354,530	\$ 4,709,164	\$ 13,626,752

As shown above, there is some volatility in the amount spend on engineered structures for the next 5 years. These fluctuations are due to the number, size, and timing of road and bridge projects, primarily. The capital reserves have been built up over the past few years as part of this capital funding program to allow for these purchases while minimizing the future tax impact.

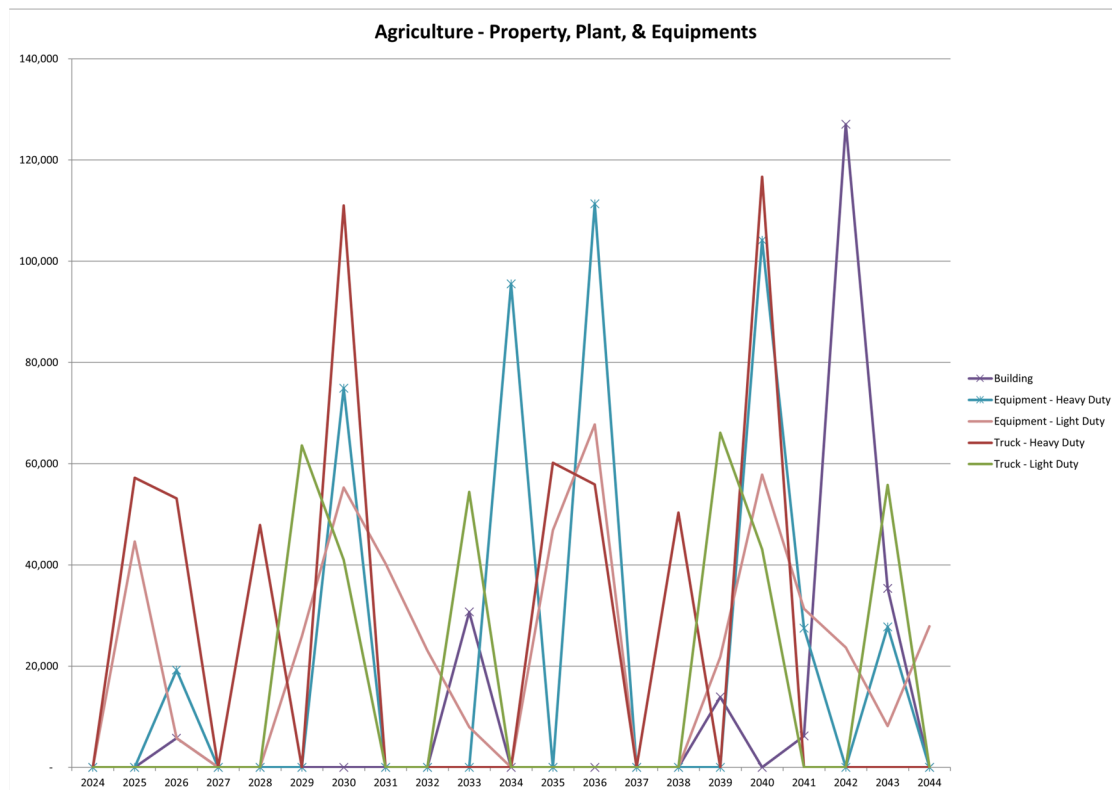
County Council approves the road and bridge capital programs. During the approval process, they review all projects, determine priorities, and determine the year of replacement. This is reviewed by Council every year during budget approval and can be modified if required.

The following pages include charts for the replacement of the capital currently included in the capital funding program.

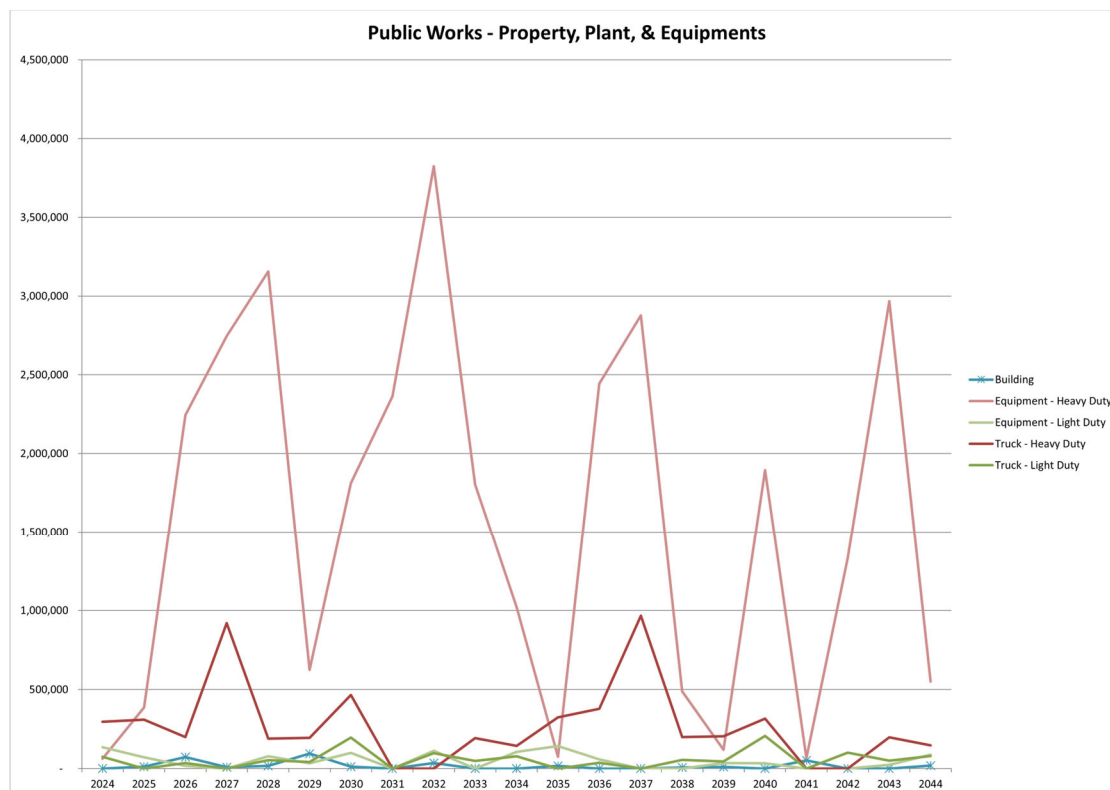
CAPITAL PLAN - continued



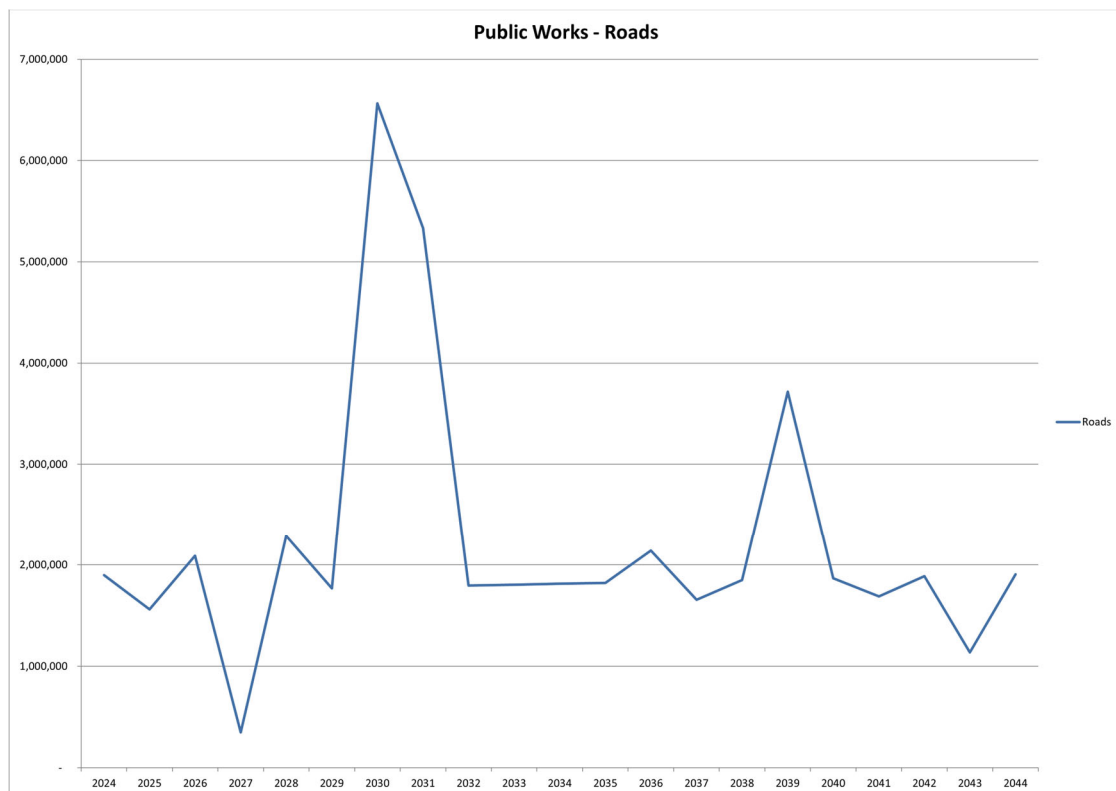
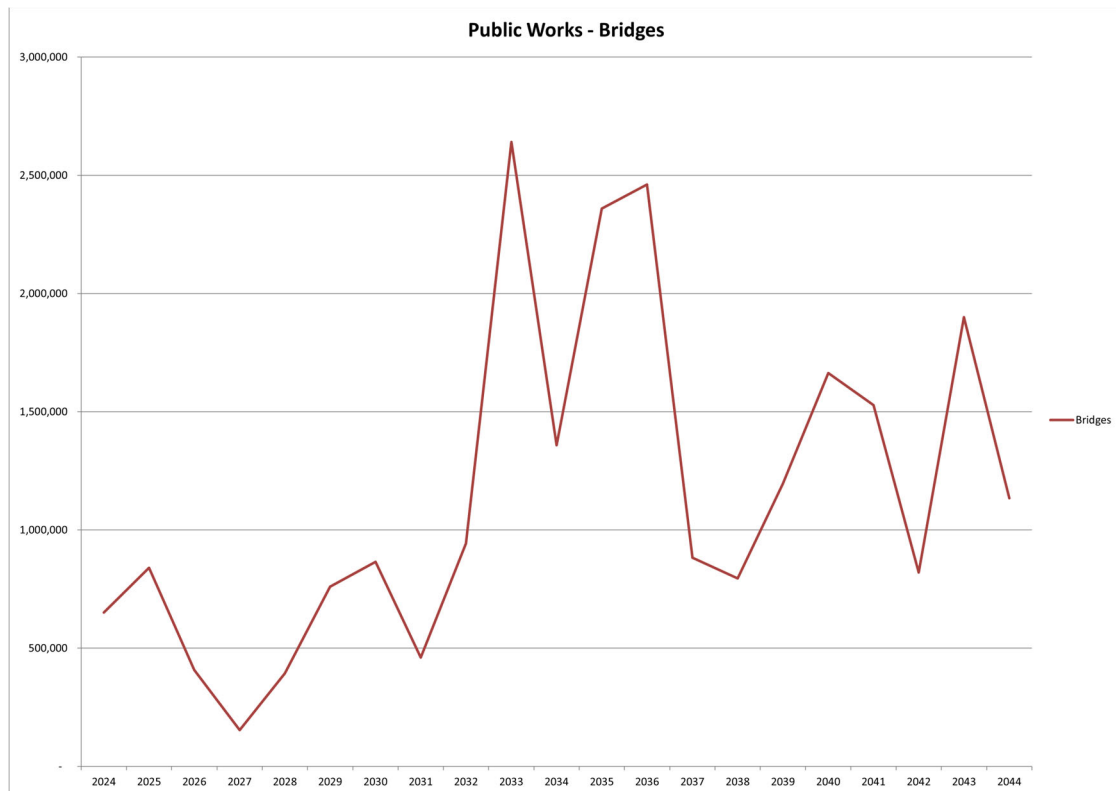
Note: A new administration building is projected to be required in 2028. This will be re-evaluated annually.



CAPITAL PLAN - continued



CAPITAL PLAN - continued



A large number of roads are expected to require construction or reconstruction in 2030, including higher costs oiled roads (higher cost than gravel roads)





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