OPERATING AND CAPITAL PLANS

VULCAN COUNTY, ALBERTA, CANADA

PREPARED BY VULCAN COUNTY: CORPORATE SERVICES DEPARTMENT APRIL 2017





THREE-YEAR OPERATING PLAN (2017-2019)



THREE (3) YEAR OPERATING PLAN

The purpose of a three (3) year operating plan is to provide an overview on the operating activities of the County for the upcoming years to ensure that the County is prepared for the projected activities and service levels while ensuring that the cost of these activities are planned in a fiscally responsible manner. This allows for stability in the tax rates so as to avoid significant fluctuations from year to year.

These operating plans also allow the County to build-in projected increases in annual operating costs. An example of this includes the diesel/ fuel costs; whereas, projected increases can be included and the proposed carbon tax increases may 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 the project, instead of funding these costs in the year that it incurs, which may have significant impact on the budget and tax rates with huge fluctuations in funding required to cover these costs.

The County has taken many of these factors into consideration in prior budgets, such as funding future projects; however, preparing a written plan ensures that this process is formalized and that these types of activities are reviewed. Although this is not yet required under the Municipal Government Act, County Council has decided to take a proactive approach in the implementation of written operating plans (this will likely be legislated in the future). This written operating plan will be reviewed and updated on an annual basis.



In the following pages, the 2017-2019 Operating Plan is presented, indicating the projected operating revenues and expenses of the County, including a high level review of the prior three years of financial data with the projected three upcoming fiscal years.

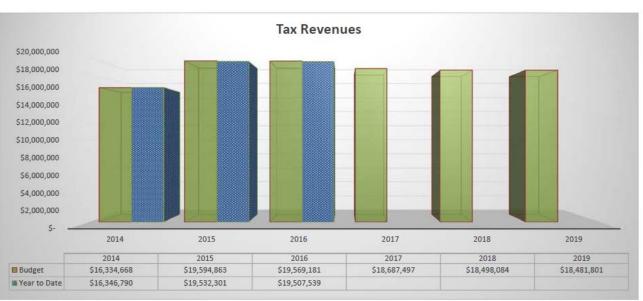
OPERATING REVENUES

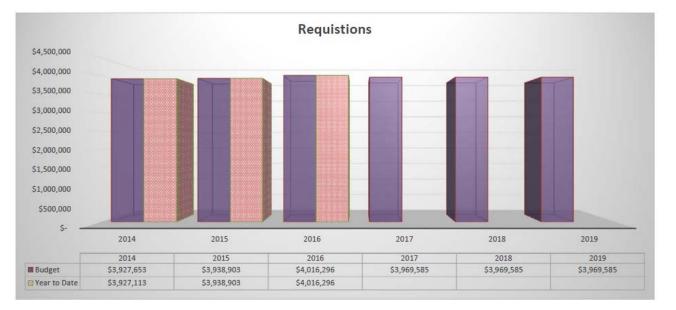
The operating revenues for a municipality are typically budgeted on a conservative basis; whereas, the revenues are only included in the budget if it is considered to be more than likely received.

Typically, these operating revenues are determined by historical revenues received, funding agreements that are in place, and projected changes in service levels. Often many of the revenues correlate to expenditures that are also projected, such as government transfers for grant funding of operating costs.

The following is the 2017-2019 projected operating revenues:

Vulcan County Three-year Operating Plan	 Budget 2017	Budget 2018	Budget 2019	
REVENUE:				
Net municipal taxes				
Real property taxes	\$ 7,651,991 \$	7,554,046 \$	7,554,123	
Linear taxes	8,420,354	8,420,415	8,420,484	
Commercial taxes	1,247,966	1,247,972	1,247,981	
Government grants in lieu of taxes	16,500	16,500	16,500	
Special levy	1,295,686	1,204,151	1,187,713	
Well drilling tax	55,000	55,000	55,000	
	 18,687,497	18,498,084	18,481,801	
School requisitions	(3,717,487)	(3,717,487)	(3,717,487)	
Seniors foundation	 (252,098)	(252,098)	(252,098)	
	 14,717,913	14,528,500	14,512,216	
Government transfers				
Provincial government transfers - Operating	414,305	356,630	356,630	
Federal government transfers - Operating	210,854	210,854	210,854	
Transfers from Local Government - Operating	69,082	69,202	69,322	
	 694,241	636,686	636,806	
Return on investments	393,236	389,736	393,236	
Sale of goods, services, and user charges	712,786	645,576	647,006	
Rental Income	357,029	357,029	357,029	
Community aggregate levy	120,000	120,000	120,000	
Penalties and costs of taxes	100,500	100,500	100,500	
Other revenue				
Fines	30,700	30,700	30,700	
Other	343,587	52,600	52,600	
	 374,287	83,300	83,300	
TOTAL BUDGETED REVENUES	\$ 17,469,992 \$	16,861,327 \$	16,850,093	

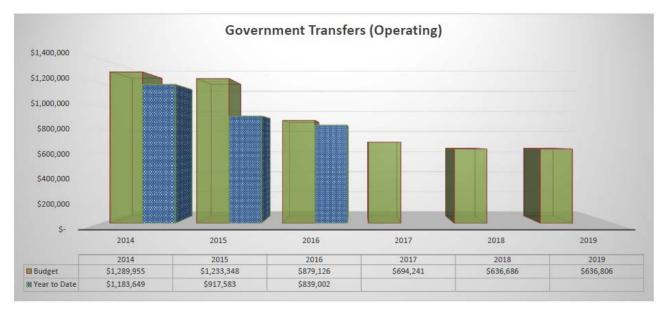




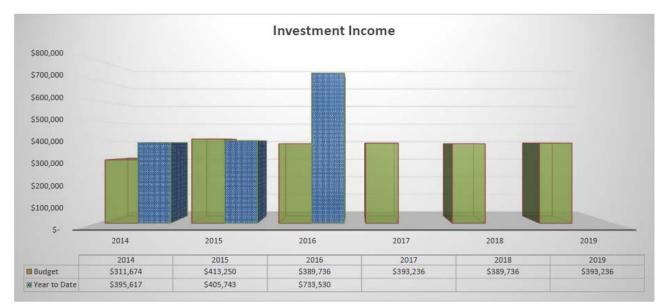
The tax revenues and the requisitions for school and senior support are budgeted based on the Final 2017 amounts including:

- 2017 General Tax Rates (Bylaw 2017-015) for tax rates on the General Municipal, Waste Commission, School Requisitions, and the Seniors Requisition.
- 2017 Special Levy Tax Rates (Bylaw 2017-016, 2017-017, & 2017-018) for tax rates on the special tax levies for the fire protection areas, the recreational areas, and the waterworks upgrades.

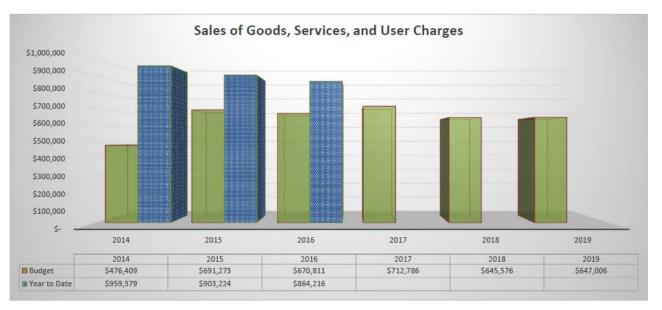
There is an overall decrease in projected tax revenues as there was an approximate \$124 million decrease in total assessment (majority from linear assessment); in which, this represents a 7.5% decrease. The 2018 & 2019 assessment and tax rates are based on the 2017 amounts as it is uncertain on the potential changes in these areas.



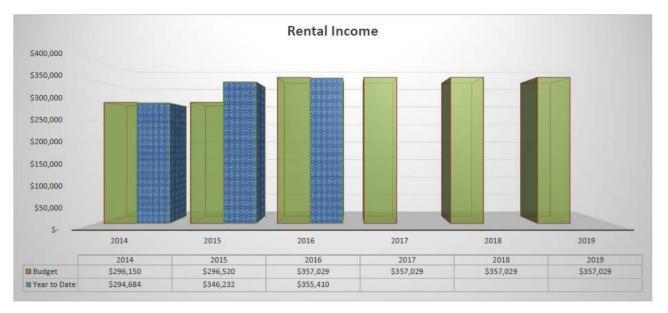
The majority of the government transfers for operations relate to the Municipal Sustainability Initiative (MSI) Operating grant, the Alberta Collaboration Partnership (ACP) grant, and the Agricultural Service Board (ASB) grant. The MSI Operating and the ASB grant are based on the prior year funding allocations, which cover the eligible operating costs. The ACP grant is based on the funding agreements to cover specific operating costs included in the budgets. The projected decrease in the budgeted Government Transfers relates projects being completed in prior years; therefore, less carry forward operating grant funding available.



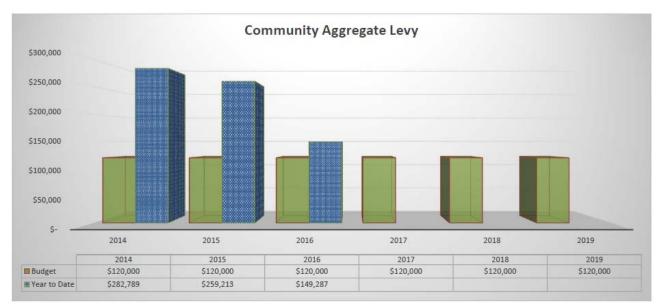
The investment income is based on prior interest and dividends received on the County's investments. Note: 2016 includes a large one-time gain on the sale of bonds as part of investment strategies. The investment income is projected to remain relatively constant over the next couple years with minor fluctuations for dividend income.



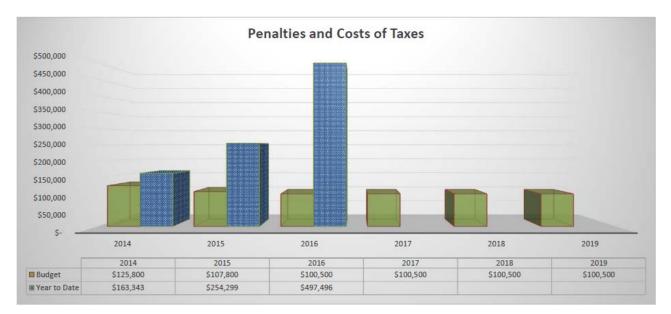
The sale of goods, services, and user charges include the sale of materials and supplies (i.e. gravel sales), surface rights, fees charged for services (i.e. permits, tax certificates, safety codes), and cost recoveries (i.e. dust abatement). Typically, historical revenues are used to project these revenues sources; while remaining conservative in the budgeting. These revenues are projected to remain relatively consistent, with a slight increase in 2017 for potential sale of gravel to the Town and Villages throughout the year.



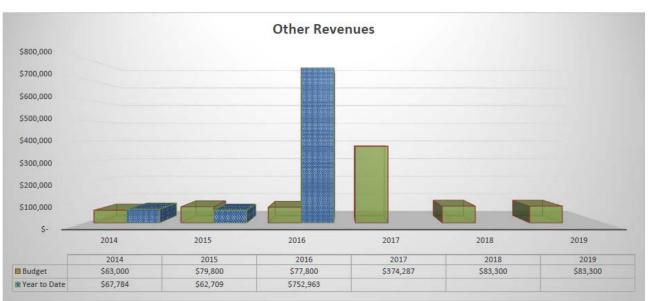
Rental income is based on rental agreements that the County has with the RCMP, Alberta Heath Services (AHS), and the Town of Vulcan. There are also other rental agreements for buildings and equipment. Rental income is projected to remain consistent for the next couple of years as they are based on agreements.



The community aggregate levy is the levy for transporting materials such as gravel and sand, where the rate of \$0.25/tonne is set by Bylaw. As the actual amount transported can fluctuate from year to year, and is outside of the County's control, the budget uses a conservative amount which is based on historical lows in the revenues. These are projected at the same rate as in prior years.



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 2015-2016, there was a higher than usual amount due to a couple of larger accounts going into tax arrears. These are projected at the same rate as in prior years.



The 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. Fine revenues are projected to also slightly increase for the next couple years.

During 2016, the County received the \$657,326 matching contribution from the Town of Vulcan for the Vulcan Hospital Expansion Project. This was not budgeted for 2016. The 2017 budget is projected that the remaining matching funds of \$290,987 will be received for the Vulcan Hospital Expansion Project.



OPERATING EXPENSES

The operating expenses for a municipality are typically budgeted on a conservative basis; whereas, the expenses are included in the budget to ensure that the budget is sufficient to cover the costs that may occur. This often includes room in the budget for a reasonable amount of unexpected items, such as vehicle and equipment repairs for unexpected breakdowns.

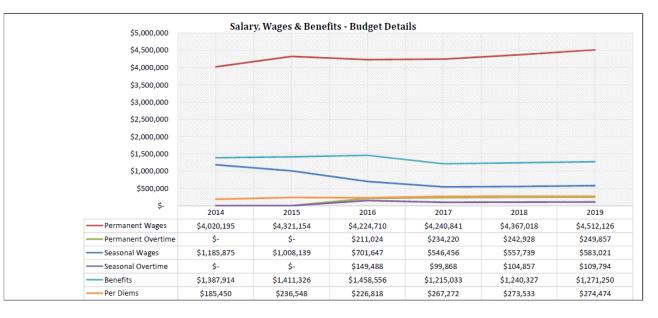
Typically these operating expenses are determined by historical trends, projected increases in costs (i.e. fuel/diesel pricing) and inflation, expected pay rates based on approved salary grids, and projected changes in service levels.

The following is the 2017-2019 projected operating expenses:

Vulcan County Three-year Operating Plan		Budget 2017	Budget 2018	Budget 2019	
EXPENSES:		2017	2010	2013	
EXPENSES:					
Salaries, wages and benefits	\$	6,603,690 \$	6,786,402	\$ 7,000,522	
Contracted and general services		3,216,804	2,689,688	2,642,405	
Materials, goods and utilities		4,488,890	2,746,078	2,820,484	
Transfers to local boards and agencies		2,820,420	1,815,149	1,783,274	
Interest and bank charges			-	-	
Bank Charges and Short Term Interest		25,800	25,800	25,800	
Interest on Capital Long Term Debt		48,983	46,082	43,108	
		74,783	71,882	68,908	
Amortization of tangible capital assets		4,328,196	4,404,509	4,514,622	
Machine expenses capitalized for construction		(1,657,578)	(1,733,361)	(1,763,292)	
Loss on disposal of tangible capital assets		-	-	-	
Other expenses					
Contingency		70,000	70,000	70,000	
Tax Discounts & Write-offs		12,845	12,845	12,845	
Other		5,000	5,000	5,000	
		87,845	87,845	87,845	
TOTAL BUDGETED EXPENSES	\$	19,963,050 \$	16,868,191	\$ 17,154,767	

For display purposes, these expenses are shown by type/object as this may provide better information than displaying by function/department (as there are multiple types of expenses in each department).



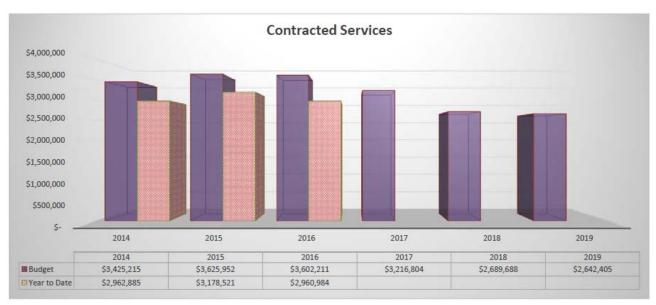


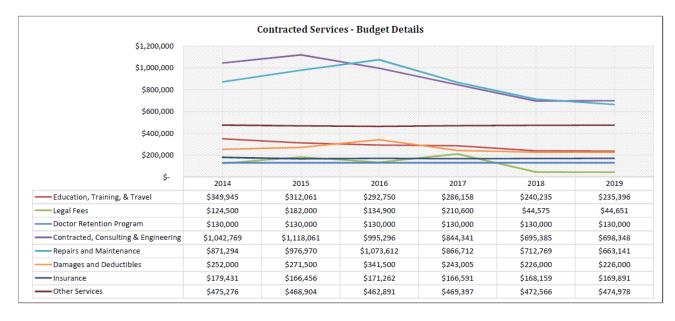
The salary, wages, and benefits includes all of the staff wages/benefits and Council per diems. All of the wages/benefits have the increases from the 2017 approved salary grids for cost of living increases, staff grid movements, and some market adjustments in the staff wages. These increases are projected at the same rates in 2018-2019.

As part of the 2017 budget review/approval, there were some changes to staffing that reduced the budgeted wages/benefits, including:

- The County reduced the miles of roads constructed each year (from 10 miles to 8 miles); in which, resulted in reductions in seasonal staffing and overtime.
- Reduction in staffing positions, such as not filling positions that were vacant in prior years and no longer requiring the positions of Director of Human Resources and Emergency Management and Safety Coordinator.

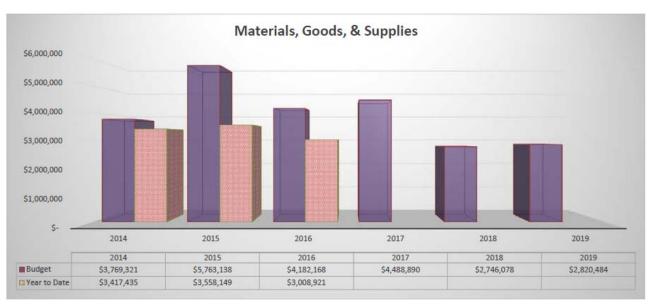
Note that the overtime was included in the 2014-2015 wages; whereas, starting in 2016 it was budgeted separately.

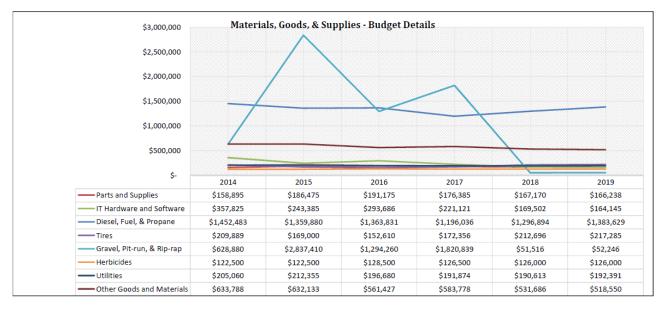




The contracted services includes the costs of repairs and maintenance, consulting and contracted services, audit and legal fees, education, leases, telecommunications, insurance, and other services. Most of these costs stay consistent from year to year (with no changes in service levels); however, the following are some of the significant changes in the contracted services:

- Consulting costs had significant amounts in prior years for development projects, such as the Rural Inter-Municipal Development and ORTHO Projects; in which, these were completed in the prior years.
- Repairs and Maintenance had budgeted large increases in road repairs in 2016-2017 for chip seal coats on specific roads in the County.
- The legal fees are projected to decrease in 2018-2019 after a couple of the legal matters are resolved, such the litigation against the Genesis Insurance for coverage on the IT project matters.

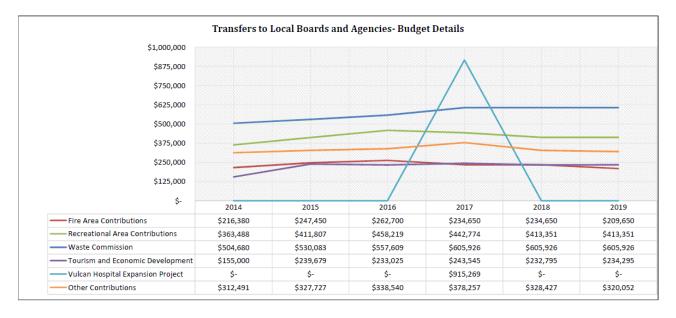




The materials, goods, and supplies includes the costs of supplies, utilities, information technology, diesel/fuel, gravel, herbicides, culverts, blades, tools, and other materials. Most of these costs stay consistent from year to year (with no changes in service levels); however, the following are some of the significant changes in the materials, goods, and supplies:

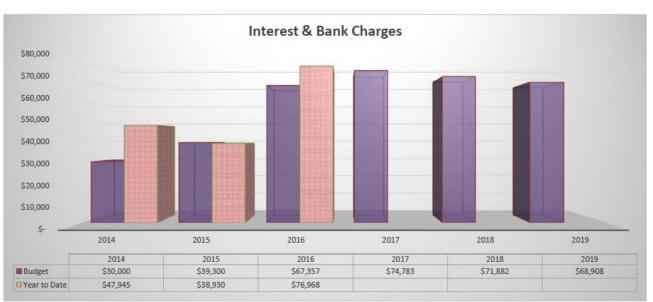
- Gravel crushing program started in 2015 and will be completed during 2017. It is not projected to be required again until 2021.
- Diesel/fuel costs are projected to be slightly decreased with the reduction in the amount of road construction (from 10 miles to 8 miles); this reduction is somewhat offset by the projected diesel and fuel prices into account (i.e. including carbon taxes and other increases).



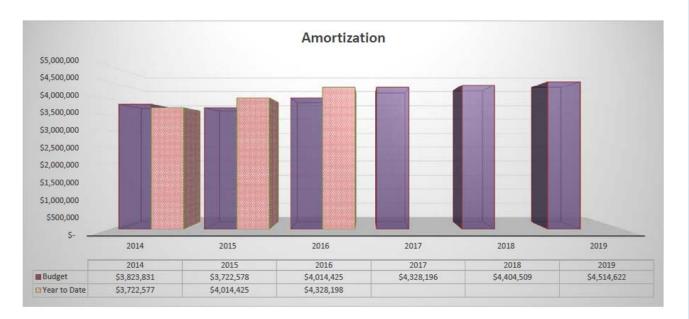


The transfer to local boards and agencies includes contributions to fire associations, recreation boards, Vulcan Business Development Society (VBDS), tourism, waste and water commissions, and other community groups. The budgets are typically based on prior year annual requests for funding.

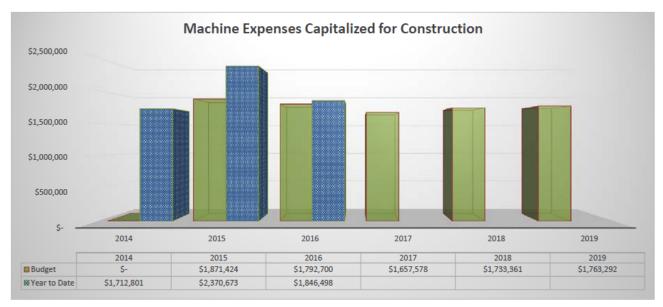
During 2016, the County contributed a total of approximately \$2.085 million towards the Vulcan Hospital Expansion Project as matching contributions from the Town of Vulcan and the County. The remaining \$915,269 is projected to be contributed in 2017 (\$290,987 from the Town of Vulcan and \$624,282 from the County). These contributions are held by the County until the project is started.



The interest and bank charges includes bank and credit card fees, and interest on debentures. The bank and credit card fee rates were able to be negotiated down from prior years and the County is looking to implement a "convenience fee" to recover the credit card fees for taxes. In 2016, the County started to incur the interest costs for the Vulcan Hospital Expansion Project debenture.



The amortization expenses are non-cash expenditures to reduce the net book value of the tangible capital assets (roads, buildings, equipment). This is offset against the transfers to capital. This amortization is increased each year based on historical increases.



The machine expenses capitalized for construction relates to the capitalization of operating expenses used for the internal construction of roads and bridges. These operating costs are included in the other operating expenses, such as wages/benefits, engineering costs, gravel, culverts, crop damages and other costs relating to the construction.



The other expenditures include contingency expenses, recovery of principal repayment on debentures, 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 principal repayment on debentures.

Note: 2015-2016 includes write-offs of large tax oil & gas accounts that went insolvent and increases in the gravel reclamation liability for the gravel crushing program.

RESERVE AND CAPITAL TRANSFERS

The operating budget also includes the reserve and capital transfers to reconcile to the net budget effect for the fiscal year. The total operating revenues less the operating expenses is then either transferred to capital or funded/transferred to the County's operating and capital reserves. The net effect on the "accumulated surplus" is the operating surplus or deficit for each of the fiscal years.

The following is the 2017-2019 projected reserves and capital transfers:

Vulcan County	Budget	Budget	Budget 2019	
Three-year Operating Plan	2017	2018		
TOTAL BUDGETED REVENUES	17,469,992	16,861,327	16,850,093	
TOTAL BUDGETED EXPENSES	(19,963,050)	(16,868,191)	(17,154,767)	
EXCESS OF REVENUES OVER EXPENSES	(2,493,058)	(6,864)	(304,674)	
RESERVE AND CAPITAL TRANSFERS:				
Transfer of Amortization	4,328,196	4,404,509	4,514,622	
Transfer from Reserves	3,335,011	568,853	573,145	
Transfer to Reserves	(3,512,570)	(3,419,840)	(3,424,388)	
Transfer to Capital Functions	(1,657,578)	(1,733,361)	(1,763,292)	
TOTAL RESERVE AND CAPITAL TRANSFERS	2,493,058	(179,839)	(99,913)	
TOTAL NET EFFECT ON ACCUMLATED SURPLUS	\$ 0\$	(186,703) \$	(404,587)	

As shown above, there is a projected deficit in 2018 and 2019; however, this will be significantly revised when the final assessment and tax information is available. Should the County's assessment increase, it will reduce the deficit; however, if there is no assessment increases (or decreases), the County will either have to try to further reduce the operating costs, try to find increases in operating revenues, use

reserves, and/or increase tax rates to eliminate the operating deficit. As this information is not known at this time, the deficit is shown 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 2017 transfer from reserves is substantially larger than other years as the majority relates to the completion of the gravel crushing program of approximately \$1.74 million and the \$624,282 of County reserves remaining from the debenture acquired for the Vulcan Hospital Expansion Project



The transfer to reserves are the amount 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 which there is approximately \$2.9 million to \$3.1 million put into capital reserves for this program (funding both 2017 and future years capital).
- There is also approximately \$424,400 to \$456,200 budgeted to be allocated to operating reserves for future projects. This includes approximately \$279,200 allocated to the gravel crushing reserves each year so that the reserve will be sufficient to cover the next gravel crushing project in 2020-2021.

The transfer to capital function is the offset to the capitalization of the machine expenses included in the operating expenses. This is to transfer these operating costs to the capital costs of the internally constructed projects (i.e. roads and bridges).



FIVE-YEAR CAPITAL PLAN (2017-2021)



FIVE (5) YEAR CAPITAL PLAN

The purpose of a five (5) year capital plan is to provide an overview of the capital requirements for the County on upcoming years to ensure that the County is prepared and has the funding available for these future capital projects and purchases while ensuring that these activities are planned in a fiscally responsible manner. This allows for stability in the capital funding requirements so as to avoid significant fluctuations from year to year.

The County currently has a twenty (20) year capital funding program. All the costs and estimated replacement dates for the capital assets are projected; whereas, once the capital asset is to be either purchased or constructed within 20 years, the total projected replacement costs (using inflation rates) is effectively "saved up" through the building of the capital reserves over this period of time. For example: a grader with an estimated replacement cost of \$400,000 is scheduled to be replaced in 5 years; therefore, a total of \$80,000 of funding/reserves are allocated each year, so that when the grader is to be purchased after 5 years, the funds will be available.



This methodology is used to "level out" the funding requirements so that there is not a low amount of purchases one year and significant increases in another year; thus, this avoids the significant fluctuations from year to year. The capital reserve balances are monitored in this review so that the County maintains a positive reserve balance.

This twenty (20) year capital funding program is considered a "living" document, where it 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 is 20 years, as the year of replacement gets closer to the current year, the estimations of replacement costs typically become more accurate.

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CAPITAL PLAN

The following is the 2017-2021 projected capital plan:

Vulcan County Five-year Capital Plan	 Budget 2017	Budget 2018	Budget 2019	Budget 2020	Budget 2021
CAPITAL ACQUIRED:					
Land	\$ - \$	-	\$ - \$	- \$	-
Land Improvement	30,000	-	-	-	-
Buildings	387,675	721,158	116,238	-	-
Equipment	1,420,930	1,059,235	1,124,124	2,020,238	283,231
Vehicles	1,457,339	1,520,714	1,303,512	1,051,468	603,862
Engineered Structures	6,500,938	3,549,836	6,110,771	7,118,552	9,016,514
TOTAL CAPITAL ACQUIRED	\$ 9,796,881 \$	6,850,943	\$ 8,654,645 \$	10,190,258 \$	9,903,607
CAPITAL FUNDING:					
Capital Grants Sale of Assets	\$ 2,959,774 \$ 64,000	2,568,638	\$ 2,568,638 \$	2,568,638 \$	2,568,638
Capital Reserves from operations Transfer from Operating Function	3,056,325 1,657,578	2,995,482 1,733,361	3,000,031 1,763,292	3,000,031 1,763,292	3,000,031 1,763,292
TOTAL CAPITAL FUNDING	\$ 7,737,677 \$	7,297,481	\$ 7,331,960 \$	7,331,960 \$	7,331,960
SURPLUS (SHORTFALL) ON CAPITAL FUNDING	 (2,059,204)	446,538	(1,322,685)	(2,858,298)	(2,571,647)
PROJECTED OPENING CAPITAL RESERVES	\$ 10,077,064 \$	8,017,860	\$ 8,464,398 \$	7,141,713 \$	4,283,415
SURPLUS (SHORTFALL) ON CAPITAL FUNDING	(2,059,204)	446,538	(1,322,685)	(2,858,298)	(2,571,647)
PROJECTED CLOSING CAPITAL RESERVES	 8,017,860	8,464,398	7,141,713	4,283,415	1,711,768

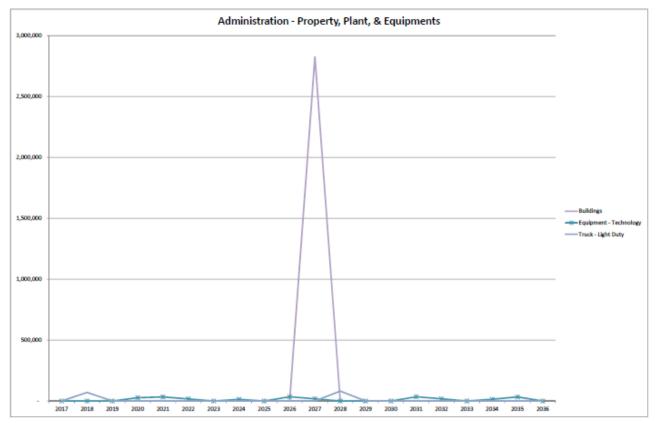
As shown above, there are significant projected increases in the engineered structures for 2019-2021 as there are some high value road construction projects. The capital reserves have been built up over the past couple years as part of this twenty (20) year capital funding program, which will allow the County to likely fund these projects without needing to increase tax rates or take on debt.

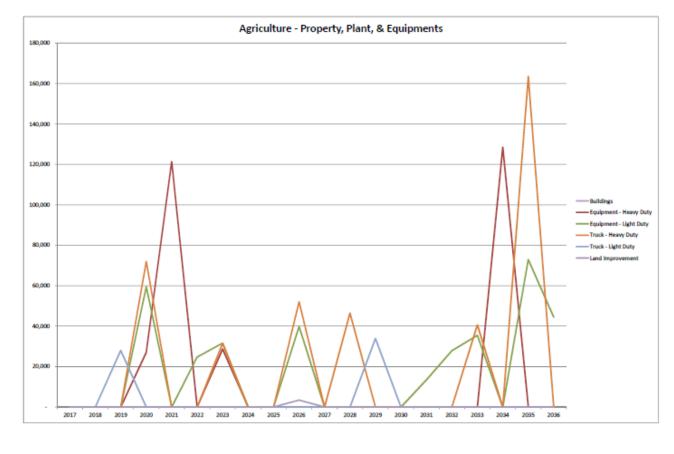
County Council approves the road and bridge capital programs; in which, they review these projects, determine priorities, and determine the year of replacement. This is reviewed by Council every four (4) years and can be modified if required.

The following pages include charts for the replacement of the capital currently included in the twenty (20) year capital funding program.

CAPITAL PLAN - continued

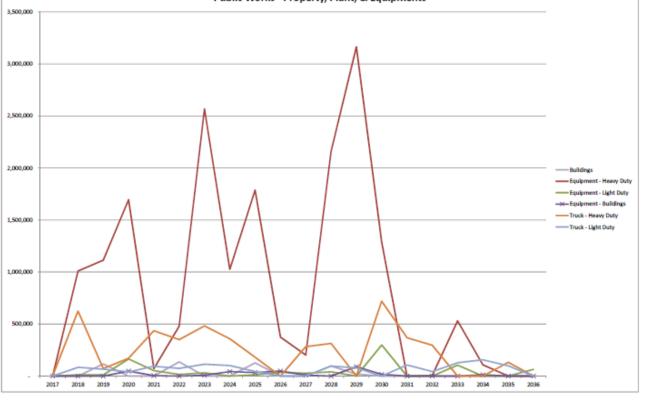
* Administration Building is projected to be replaced by 2027; however, will be reviewed on an ongoing basis.





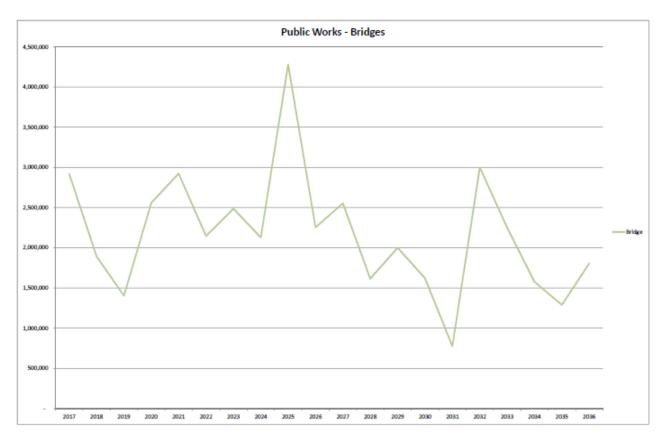
CAPITAL PLAN - continued

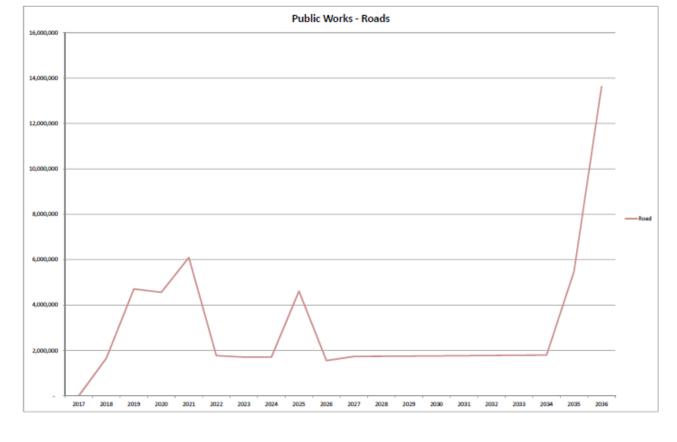




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CAPITAL PLAN - continued









CONTACT INFORMATION

VULCAN COUNTY ADMINISTRATION BUILDING BOX 180, 102 CENTRE STREET, VULCAN, ALBERTA, CANADA TOL 2B0

PHONE: 1-403-485-2241 TOLL FREE: 1-877-485-2299 FAX: 1-403-485-2920

www.vulcancounty.ab.ca

