OPERATING AND CAPITAL PLANS

VULCAN COUNTY, ALBERTA, CANADA







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 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 is 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. Note: the 2016 year-to-date are amounts up to mid-December 2016 and still required year-end adjustments.

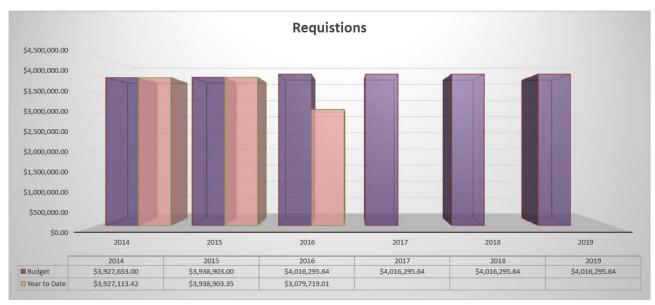
The operating revenues for a municipality are typically budgeted on a conservative basis; whereas the revenues are only included in the budget if it is considered to be more than likely received.

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.

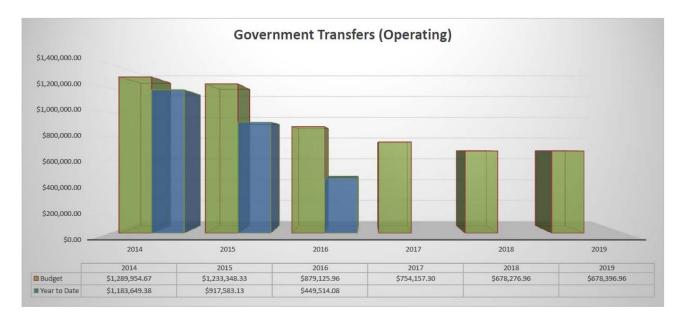
The following is the 2017-2019 projected operating revenues:

Vulcan County Three-year Operating Plan	Budget 2017	Budget 2018	Budget 2019	
REVENUE:				
Net municipal taxes				
Real property taxes	\$ 7,472,638 \$	7,472,730 \$	7,472,730	
Linear taxes	9,816,822	9,816,923	9,816,923	
Commercial taxes	1,126,768	1,126,780	1,126,780	
Government grants in lieu of taxes	16,500	16,500	16,500	
Special levy	1,288,109	1,204,170	1,187,364	
Well drilling tax	55,000	55,000	55,000	
_	19,775,837	19,692,103	19,675,297	
School requisitions	(3,789,172)	(3,789,172)	(3,789,172)	
Seniors foundation	(227,124)	(227,124)	(227,124)	
	15,759,541	15,675,807	15,659,001	
Government transfers				
Provincial government transfers - Operating	464,091	388,091	388,091	
Federal government transfers - Operating	204,082	204,082	204,082	
Transfers from Local Government - Operating	85,984	86,104	86,224	
Transiers from Escal Sovernment Sperating	 754,157	678,277	678,397	
Return on investments	393,236	389,736	393,236	
Sale of goods, services, and user charges	750,236	696,806	698,402	
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	61,500	61,500	61,500	
	61,500	61,500	61,500	
TOTAL BUDGETED REVENUES	\$ 18,296,199 \$	18,079,655 \$	18,068,066	





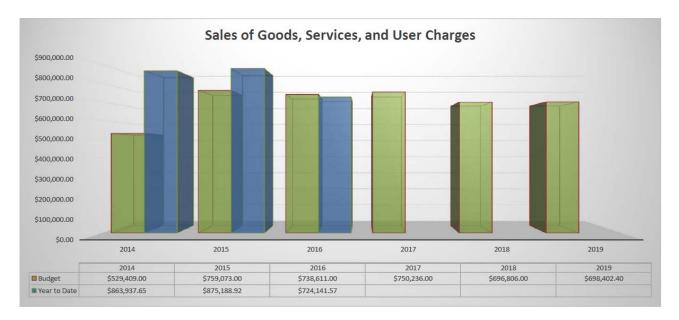
The tax revenues and the requisitions for school and senior support are budgeted based on the 2016 amounts. Currently, the assessment figures for the County have not been determined for these years and we are not able to speculate on any potential changes in assessment. Although, we consider that there may potentially be decreases in some areas, such as assessment of machinery and equipment, other areas have historically increased. These figures will be updated as new information is available in the 2017 Final Budget.



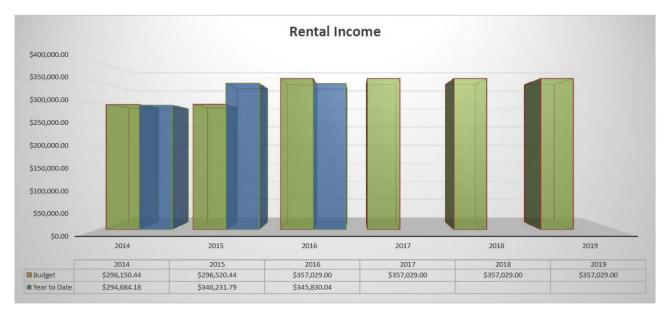
The majority of the government transfers for operations relate to the Municipal Sustainability Initiative (MSI) Operating grant, the Alberta Collaboration Partnership (ACP) grant, and the Agricultural Service Board (ASB) grant. The MSI Operating and the ASB grant are based on the prior year funding allocations, 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 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.



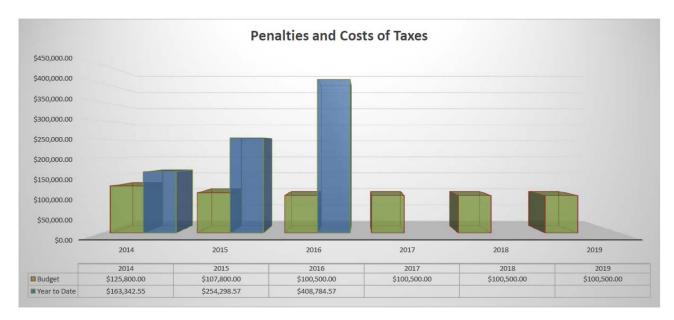
The sale of goods, services, and user charges include the sale of materials and supplies (i.e. gravel sales), surface rights, fees charged for services (i.e. permits, tax certificates, safety codes), and cost recoveries (i.e. dust abatement). Typically, historical revenues are used to project these revenues sources.



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.



The community aggregate levy is the levy for transporting materials such as gravel and sand, which 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.



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.



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. Historically, the fines have been budgeted at a lower amount; however, the projected fines revenues have increased in 2017 budget and future years, based on proposed changes to the service levels (this will be reviewed again in the 2017 Final Budget).



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.

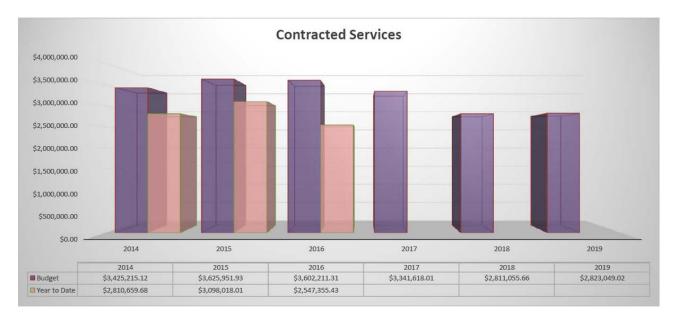
The following is the 2017-2019 projected operating expenses:

Vulcan County	Budget	Budget	Budget		
Three-year Operating Plan	 2017	2018	2019		
EXPENSES:					
Salaries, wages and benefits	\$ 6,971,231 \$	7,202,508 \$	7,387,817		
Contracted and general services	3,341,618	2,811,056	2,823,049		
Materials, goods and utilities	4,481,415	2,882,756	2,985,755		
Transfers to local boards and agencies	1,872,430	1,794,927	1,763,052		
Interest and bank charges Bank Charges and Short Term Interest Interest on Capital Long Term Debt	 25,800 48,983 74,783	- 25,800 46,082 71,882	25,800 43,108 68,908		
Amortization of tangible capital assets	4,014,425	4,114,786	4,217,655		
Machine expenses capitalized for construction	(1,808,002)	(1,872,066)	(1,907,369)		
Other expenses Contingency Tax Discounts & Write-offs Other	 70,000 119,262 120,422 309,684	70,000 119,262 123,323 3 12,585	70,000 119,262 126,297 315,559		
TOTAL BUDGETED EXPENSES	\$ 19,257,583 \$	17,318,434 \$	17,654,425		

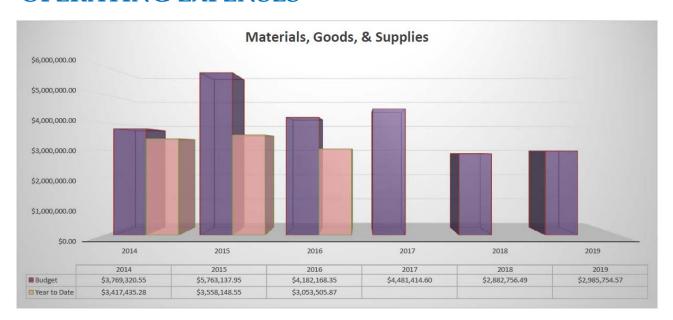
For display purposes, these expenses are shown by type/object as this may provide better information than displaying by function/department (as there are multiple types of expenses in each department).



The salary, wages, and benefits includes all of the staff wages/benefits and Council per diems. Currently, there are no significant changes in staffing levels from prior years; however, the projected increases are from increases in the 2017 approved salary grids for cost of living increases, staff grid movements, and some market adjustments in the staff wages.



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, there have been projected decreases in legal costs and consulting costs on development projects and mapping.



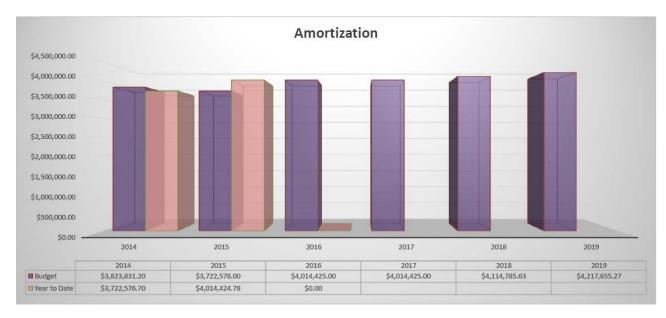
The materials, goods, and supplies includes the costs of supplies, utilities, information technology, diesel/fuel, gravel, herbicides, culverts, blades, tools, and other materials. Most of these costs stay consistent from year to year (with no changes in service levels); however, there is projected increases in diesel/fuel costs and significant decreases in the cost of gravel as the 2015-2017 gravel crushing project will be completed.



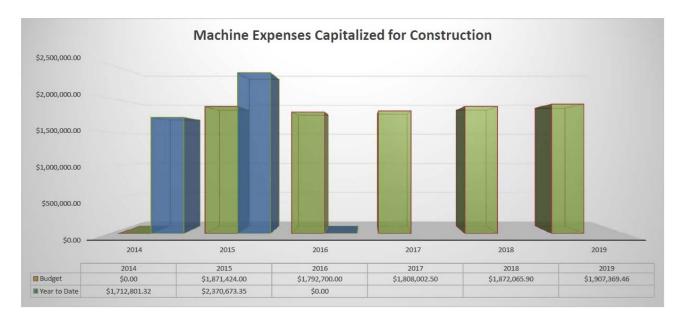
The transfer to local boards and agencies includes contributions to fire associations, recreation boards, Vulcan Business Development Society (VBDS), tourism, waste and water commissions, and other community groups. The budgets are typically based on prior year annual requests for funding.



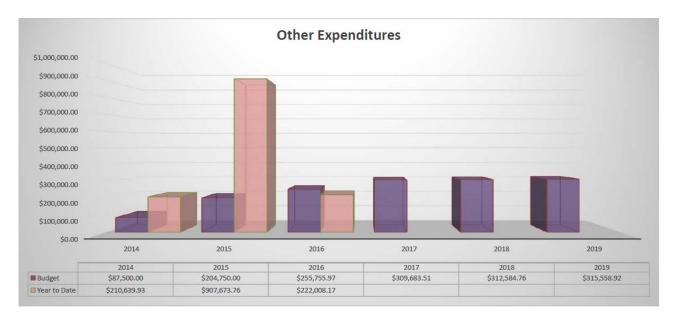
The interest and bank charges includes bank and credit card fees, and interest on debentures. The bank and credit card fee rates were able to be negotiated down from prior years and the County is looking to implement a "convenience fee" to recover the credit card fees for taxes. In 2016, the County started 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 includes write-offs of large tax accounts that went insolvent.

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		
Three-year Operating Plan	2017	2018	2019		
TOTAL BUDGETED REVENUES	18,296,199	18,079,655	18,068,066		
TOTAL BUDGETED EXPENSES	(19,257,583)	(17,318,434)	(17,654,425)		
EXCESS OF REVENUES OVER EXPENSES	(961,384)	761,221	413,640		
RESERVE AND CAPITAL TRANSFERS:					
Transfer of Amortization	4,014,425	4,114,786	4,217,655		
Transfer from Reserves	2,649,983	259,202	262,386		
Transfer to Reserves	(3,895,022)	(3,772,743)	(3,774,604)		
Transfer to Capital Functions	(1,808,002)	(1,872,066)	(1,907,369)		
TOTAL RESERVE AND CAPITAL TRANSFERS	961,383	(1,270,821)	(1,201,932)		
TOTAL NET EFFECT ON ACCUMLATED SURPLUS	\$ 0 \$	509,600 \$	788,291		

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 increase (or decreases in assessment), 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

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.

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



• There is also approximately \$663,700 to \$709,700 budgeted to be allocated to operating reserves for future projects. This includes approximately \$518,800 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" though 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; in which, 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.

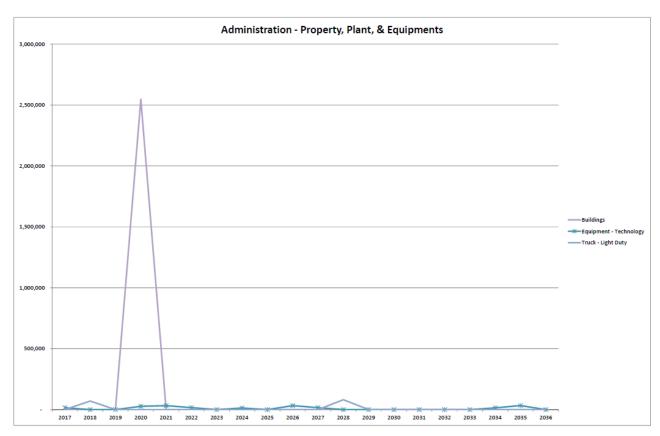
The following is the 2017-2021 projected capital plan:

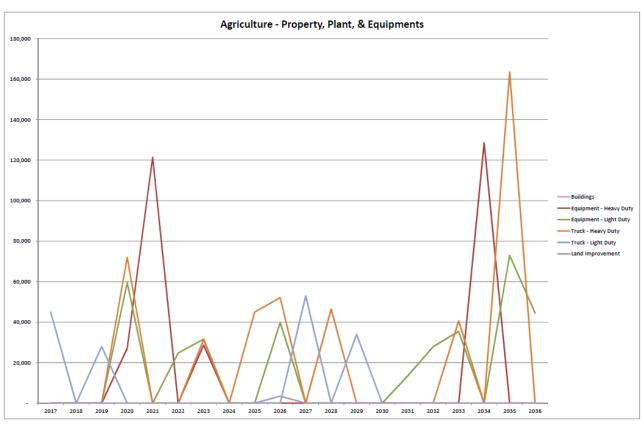
Vulcan County Five-year Capital Plan	Budget 2017	Budget 2018	Budget 2019	Budget 2020	Budget 2021
CAPITAL ACQUIRED:					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Land Improvement	30,000	-	-	-	-
Buildings	-	721,158	116,238	2,547,273	-
Equipment	1,397,430	938,956	1,176,955	1,729,959	1,192,571
Vehicles	1,457,339	1,049,123	1,231,306	1,051,468	493,956
Engineered Structures	6,446,053	3,549,836	6,416,583	7,118,552	9,016,514
TOTAL CAPITAL ACQUIRED	\$ 9,300,821	\$ 6,259,073	\$ 8,941,082	\$ 12,447,252	\$ 10,703,041
CAPITAL FUNDING:					
Capital Grants	\$ 2,987,857	\$ 2,568,638	\$ 2,568,638	\$ 2,568,638	\$ 2,568,638
Sale of Assets Capital Reserves from operations	64,000 3,185,303	3,109,075	3,110,936	3,110,936	3,110,936
Transfer from Operating Function	1,808,002	1,872,066	1,907,369	1,907,369	1,907,369
TOTAL CAPITAL FUNDING	\$ 8,045,163	\$ 7,549,779	\$ 7,586,943	\$ 7,586,943	\$ 7,586,943
SURPLUS (SHORTFALL) ON CAPITAL FUNDING	 (1,255,659)	1,290,706	(1,354,139)	(4,860,309)	(3,116,098)
PROJECTED OPENING CAPITAL RESERVES	\$ 10,610,954	\$ 9,355,295	\$ 10,646,001	\$ 9,291,862	\$ 4,431,554
SURPLUS (SHORTFALL) ON CAPITAL FUNDING	(1,255,659)	1,290,706	(1,354,139)	(4,860,309)	(3,116,098)
PROJECTED CLOSING CAPITAL RESERVES	9,355,295	10,646,001	9,291,862	4,431,554	1,315,456

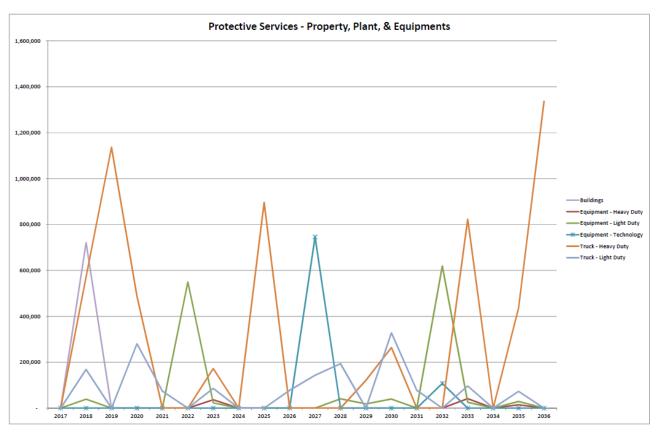
As shown above, there are significant projected increases in the engineered structures for 2019-2021 as there are some high value road construction projects. The capital reserves have been built up over the past couple years as part of this twenty (20) year capital funding program, which will allow the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

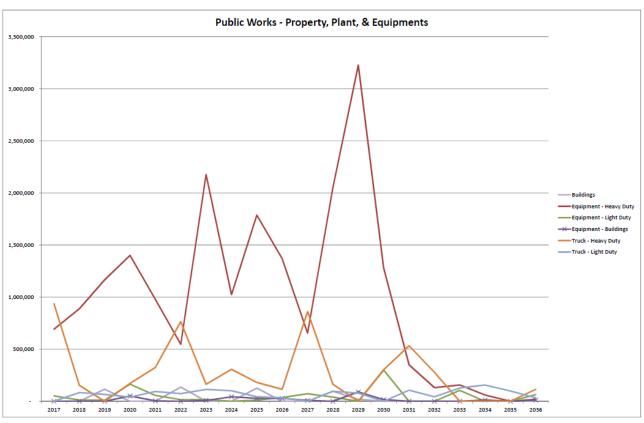
County Council approves the road and bridge capital programs; in which, they review these projects, determine priorities, and determine the year of replacement. This is reviewed by Council every four (4) years and can be modified if required.

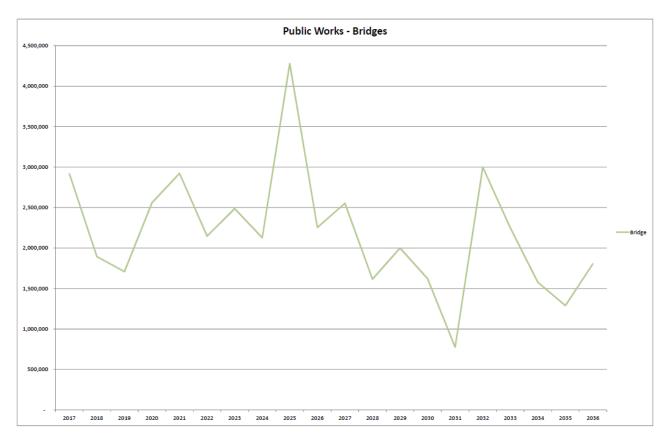
The following pages include charts for the replacement of the capital currently included in the twenty (20) year capital funding program.

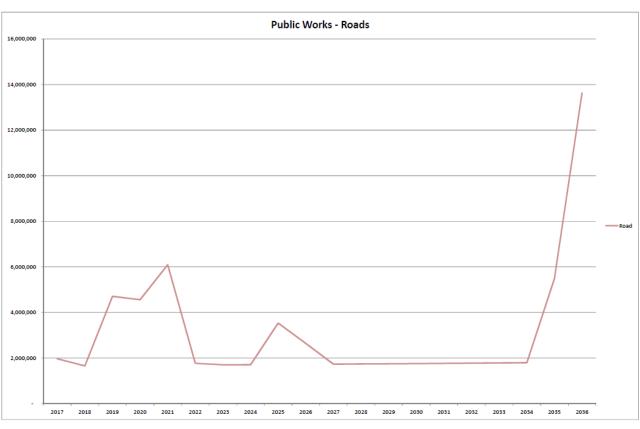
















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