OPERATING AND CAPITAL PLANS

VULCAN COUNTY, ALBERTA, CANADA

PREPARED BY VULCAN COUNTY: CORPORATE SERVICES DEPARTMENT DECEMBER 2017





3

THREE-YEAR OPERATING PLAN (2018-2020)



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 the proposed carbon tax increases 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. 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, which will likely be a legislative requirement in the future.

In the following pages, the 2018-2020 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.

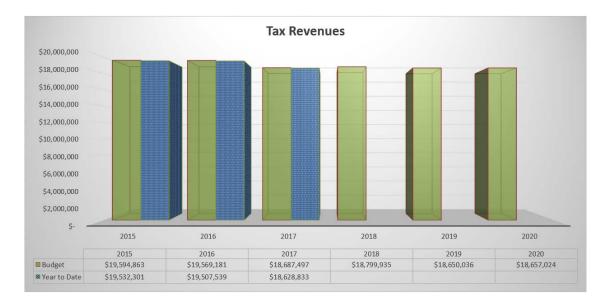
The revenues will often correlate to expenditures that are also projected, such as government grant funding of operating costs.

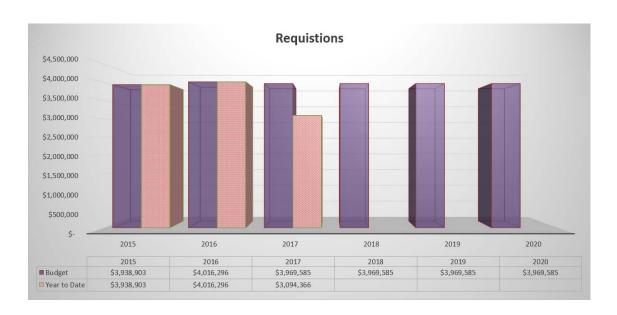
The following are the 2018-2020 projected operating revenues:

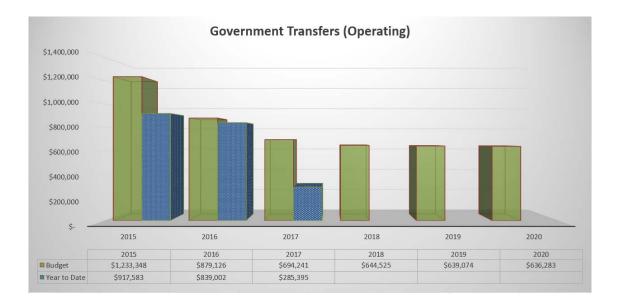
Vulcan County	Budget	Budget	Budget	
Three-year Operating Plan	2018	2019	2020	
REVENUE:				
Net municipal taxes				
Real property taxes	\$ 7,747,478 \$	7,748,205 \$	7,748,281	
Linear taxes	8,428,203	8,427,697	8,427,766	
Commercial taxes	1,246,260	1,246,134	1,246,143	
Government grants in lieu of taxes	18,600	18,600	18,600	
Special levy	1,319,394	1,169,400	1,176,234	
Well drilling tax	40,000	40,000	40,000	
	18,799,935	18,650,036	18,657,024	
School requisitions	(3,717,487)	(3,717,487)	(3,717,487)	
Seniors foundation	(252,098)	(252,098)	(252,098)	
	14,830,351	14,680,451	14,687,440	
Government transfers				
Provincial government transfers - Operating	364,290	358,630	355,630	
Federal government transfers - Operating	210,854	210,854	210,854	
Transfers from Local Government - Operating	69,381	69,590	69,799	
,	644,525	639,074	636,283	
Return on investments	391,536	389,729	389,729	
Sale of goods, services, and user charges	849,304	817,351	820,607	
Rental Income	304,880	304,880	304,880	
Community aggregate levy	180,000	180,000	180,000	
Penalties and costs of taxes	125,500	125,500	125,500	
Other revenue				
Fines	44,500	21,500	21,500	
Other	199,410	-	-	
	243,910	21,500	21,500	
TOTAL BUDGETED REVENUES	\$ 17,570,006 \$	17,158,485 \$	17,165,939	

The tax revenues and the requisitions for school and senior support are budgeted based on the 2017 actual amounts. The final tax assessment figures for the County have not been determined for 2018 and we are not able to speculate on any potential changes in assessment.

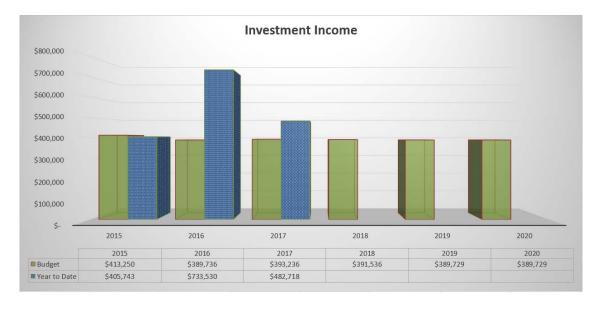
Last year saw a decrease in assessed values, particularly for linear property. Other assessment classes have generally seen some increase over the previous year. These figures will be updated in the 2018 Final Budget when new information becomes available.



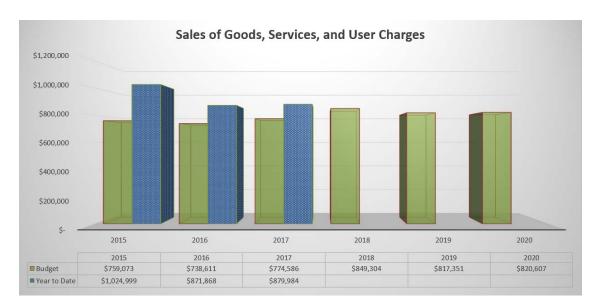




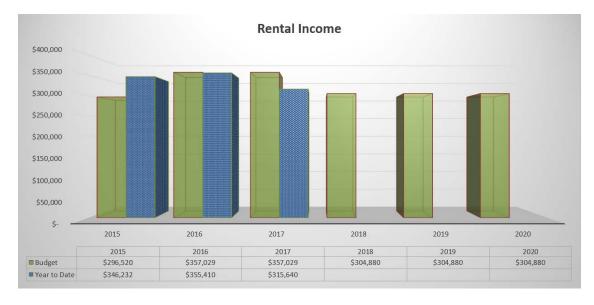
The majority of the government transfers for operations relate to the Municipal Sustainability Initiative (MSI) Operating grant, the Alberta Community Partnership (ACP) grant, and the Agricultural Service Board (ASB) grant. The MSI Operating and the ASB grant are based on prior year funding allocations. The ACP grant is based on funding agreements in place between the County and the Province. The projected decrease in the budgeted Government Transfers is due to the County already having used prior years' carry forward amounts.



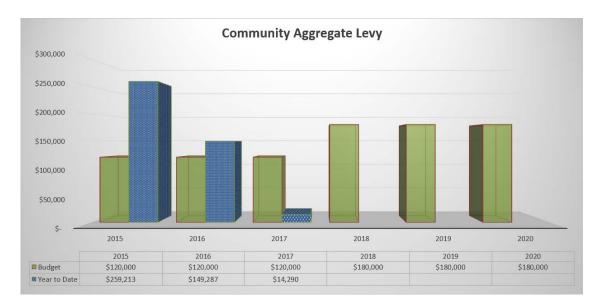
The investment income is based on previous years' interest and dividends received. 2016 includes a large one-time gain on the sale of bonds as part of the County's investment strategy. The investment income is projected to remain relatively constant over the next few years with minor fluctuations for interest rate variance.



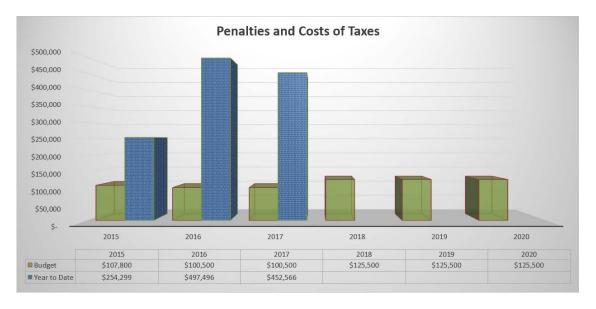
The sale of goods, services, and user charges include the sale of materials and supplies (i.e. gravel sales), surface rights, fees charged for services (i.e. permits, tax certificates, safety codes), and cost recoveries (i.e. dust abatement). Historical revenues are typically used to project these revenue sources. The increase in projected revenue for 2018-2020 is based on actual revenue in recent years, while trying to remain conservative.



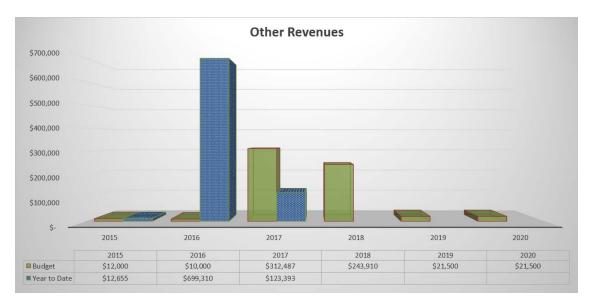
Rental income is based on rental agreements that the County has with the RCMP and Alberta Heath Services (AHS). There are also other rental agreements for buildings and equipment. The reduction in projected rental income is due to the Vulcan Fire Department no longer being required to pay rent for their facility. This is a result of the Town and County Fire Departments merging operations.



The community aggregate levy is the levy for transporting materials such as gravel and sand from County gravel pits 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. The increase in projected revenues is based on an average of the previous 5 years of actual revenue.



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 2015-2017, 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. This is considered to be unusual so their effect on future projections has been limited.



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 \$657,326 in matching contributions from the Town of Vulcan for the Vulcan Hospital Expansion Project. This was not budgeted in 2016. The 2018 budget reflects the anticipated collection of remaining funds.

Note: At the time this document was prepared, the 4th quarter contributions had not yet been calculated or recognized. The budgeted revenue for the Hospital Expansion Project may be recognized in 2017 and projections would then be updated.



OPERATING EXPENSES

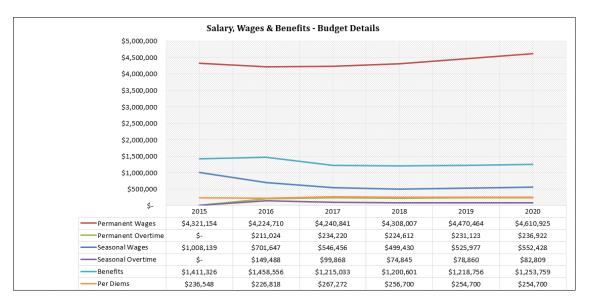
The operating expenses for a municipality are also budgeted on a conservative basis to ensure the budget is sufficient to cover whatever costs may occur and prevent the County from having to draw on reserves to fund a shortfall. This often includes adding amounts for unpredictable expenses like unexpected 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 2018-2020 projected operating expenses:

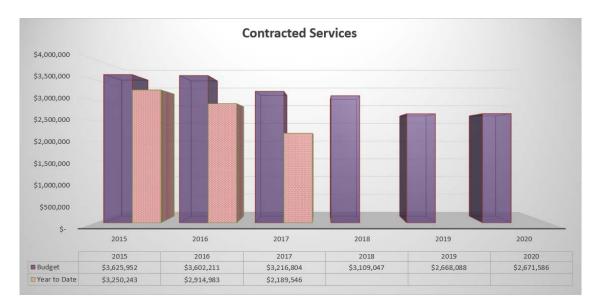
Vulcan County Three-year Operating Plan	_	Budget 2018	Budget 2019	Budget 2020		
EXPENSES:						
Salaries, wages and benefits	\$	6,564,195	\$ 6,779,880 \$	6,991,543		
Contracted and general services		3,109,047	2,668,088	2,671,586		
Materials, goods and utilities		3,028,422	3,088,696	3,214,022		
Transfers to local boards and agencies		2,473,001	1,675,246	1,666,871		
Interest and bank charges Bank Charges and Short Term Interest Interest on Capital Long Term Debt		20,300 46,082 66,382	20,300 43,108 63,408	20,300 40,059 60,359		
Amortization of tangible capital assets		4,328,196	4,404,509	4,514,622		
Machine expenses capitalized for construction		(1,739,134)	(1,795,326)	(1,852,606		
Loss on disposal of tangible capital assets		-	-	-		
Other expenses Contingency Tax Discounts & Write-offs Other		65,000 12,847 7,500 85,347	25,000 12,847 7,500 45,347	25,000 12,847 7,500 45,347		
TOTAL BUDGETED EXPENSES	\$	17,915,455	\$ 16,929,849 \$	17,311,744		

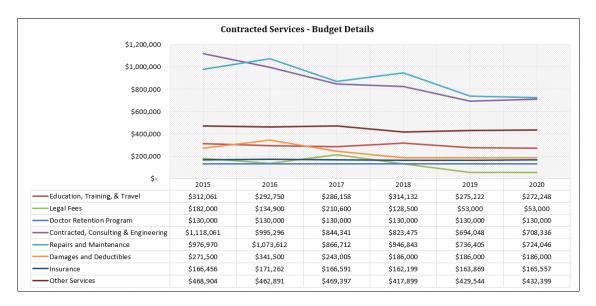




The salaries, wages, and benefits include all of the staff wages/benefits and Council per diems. All of these costs have the 2018 approved salary grid increases included which cover cost of living increases and staff grid movements. These increases are projected at the same rates in 2019-2020.

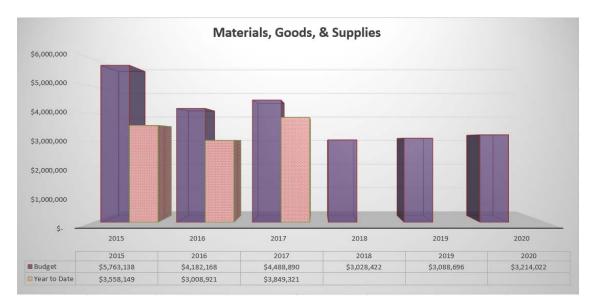
Note that the overtime was included with 2015 wages. Starting in 2016 it was budgeted separately.

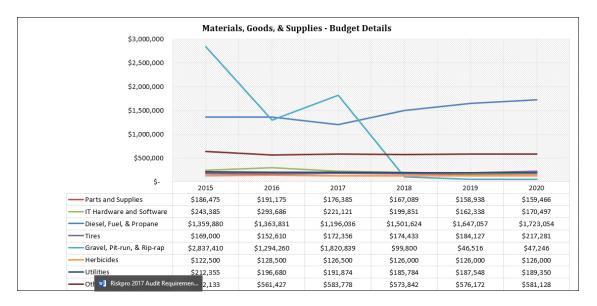




The contracted services include the costs of repairs and maintenance, consulting and contracted services, audit and legal fees, education, leases, telecommunications, insurance, and other services. Most of these costs stay consistent from year to year, but there are projected decreases in legal fees and consulting costs on development projects and mapping.

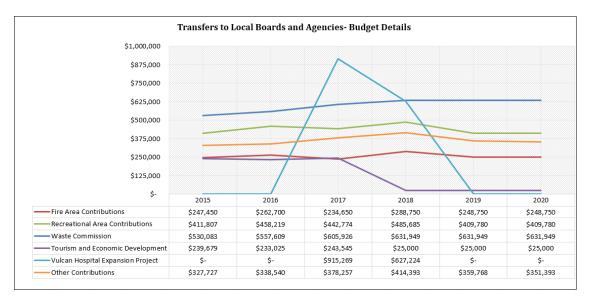
Another contributor to the expected cost reduction in 2019 is the anticipated completion of a chip seal project on Groenveld Road in 2018, which will be a reduction of approximately \$175,000.





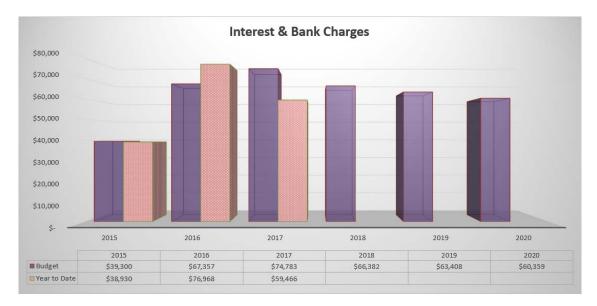
The materials, goods, and supplies includes the costs of supplies, utilities, information technology, fuel, gravel, herbicides, culverts, blades, tools, and other consumables. Most of these costs stay somewhat consistent from year to year, but not all do. For example, there was a large amount of gravel crushing being done from 2015-2017. The project is expected to be finished, leading to a significant reduction in total projected expense in 2018-2020.



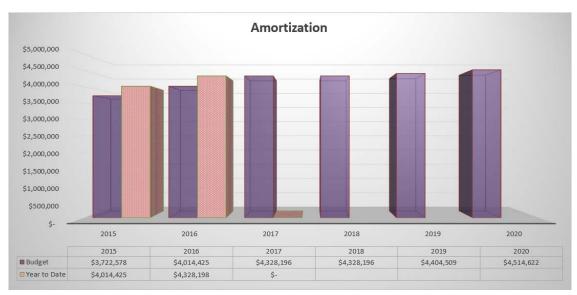


The transfer to local boards and agencies includes contributions to fire associations, recreation boards, tourism, waste and water commissions, and other community groups. The budgets are typically based on prior year annual requests for funding.

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 during the remainder of 2017 or 2018 (\$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.



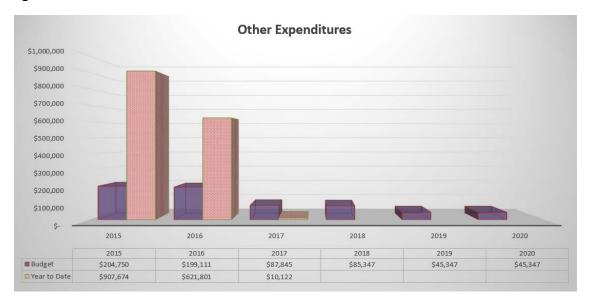
Interest and bank charges include standard banking fees, credit card fees, and the interest portion of debenture payments. The bank and credit card fee rates were able to be negotiated down from prior years and the County has implemented a "convenience fee" to recover the credit card fees we are charged for tax payments made on credit. In 2016, the County started to incur the interest costs for the Vulcan Hospital Expansion Project debenture and they increased in 2017 since the debenture was outstanding for the full year.



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.



The operating 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: 2015-2016 includes write-offs of property taxes for some large oil & gas accounts that went insolvent, as well as increases in the gravel reclamation liability for the County's gravel crushing program. The gravel reclamation liability represents the estimated cost of returning gravel pits back to their previous condition once material is exhausted.

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 2018-2020 projected reserve and capital transfers:

Vulcan County	Budget	Budget	Budget
Three-year Operating Plan	2018	2019	2020
TOTAL BUDGETED REVENUES	17,570,006	17,158,485	17,165,939
TOTAL BUDGETED EXPENSES	(17,921,455)	(16,935,849)	(17,317,744)
EXCESS OF REVENUES OVER EXPENSES	(351,450)	222,636	(151,805)
RESERVE AND CAPITAL TRANSFERS:			
Transfer of Amortization	4,328,196	4,404,509	4,514,622
Transfer from Reserves	1,400,193	453,980	200,575
Transfer to Reserves	(3,563,805)	(3,454,975)	(3,459,927)
Transfer to Capital Functions	(1,813,134)	(1,817,726)	(1,875,006)
TOTAL RESERVE AND CAPITAL TRANSFERS	351,450	(414,212)	(619,736)
TOTAL NET EFFECT ON ACCUMLATED SURPLUS	\$ 0\$	(191,576) \$	(771,540)

As shown above, there is a projected deficit in 2018. However, this will change when the final assessment and tax information becomes available. Should the County's assessment increase, it will reduce or eliminate the deficit. If there are no assessment increases (or perhaps there are decreases), the County will have to either try to further reduce operating costs, try to find increases in operating revenues, use reserves, and/or increase tax rates to eliminate the operating deficit. Since this information is not known at this time, the deficit 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 2018 transfer from reserves is significantly lower than 2017, but still unusually high. This is mainly due to the \$427,814 that is currently being budgeted from the County's debenture-backed reserve for the Hospital Expansion project, as well as the application of surplus carry-forwards from prior years in Administration and Road Transportation.

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 the plan there is approximately \$3 million put into capital reserves for this program (funding 2018 and future years capital aquisitions).
- There is also approximately \$512,000 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 2021.

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 (2018-2022)



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 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.



The County currently has a twenty (20) 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 have will have effectively been saved up via additions to capital reserves. 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 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 (20) 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 2018-2022 projected capital plan:

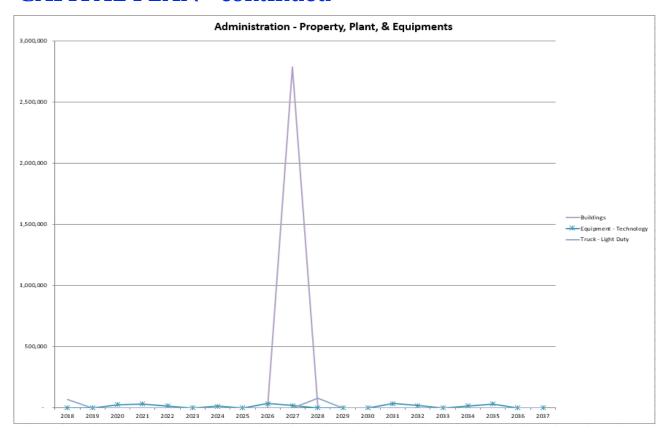
Vulcan County Capital Budget and Projections	Budget 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022
CAPITAL ACQUIRED:					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Land Improvement	30,000	-	-	-	-
Buildings	50,000	114,520	-	-	134,661
Equipment	1,453,380	1,102,082	1,988,582	277,676	1,066,179
Vehicles	1,380,646	1,288,304	660,841	592,023	415,670
Engineered Structures	6,187,927	6,080,372	4,211,615	11,857,528	3,896,077
TOTAL CAPITAL ACQUIRED	\$ 9,101,953	\$ 8,585,278	\$ 6,861,038	\$ 12,727,227	\$ 5,512,587
CAPITAL FUNDING:					
Capital Grants	\$ 3,515,447	\$ 2,568,638	\$ 2,568,638	\$ 2,568,638	\$ 2,568,638
Sale of Assets	80,800	-	-	-	-
Transfer from Capital Reserves	3,692,572	4,198,914	2,417,394	8,283,583	1,068,943
Transfer from Operating Function	1,813,134	1,817,726	1,875,006	1,875,006	1,875,006
TOTAL CAPITAL FUNDING	\$ 9,101,953	\$ 8,585,278	\$ 6,861,038	\$ 12,727,227	\$ 5,512,587

As shown above, there are significant projected increases in the engineered structures for the next 5 years. These increases are mainly due to high value road and bridge projects. 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.

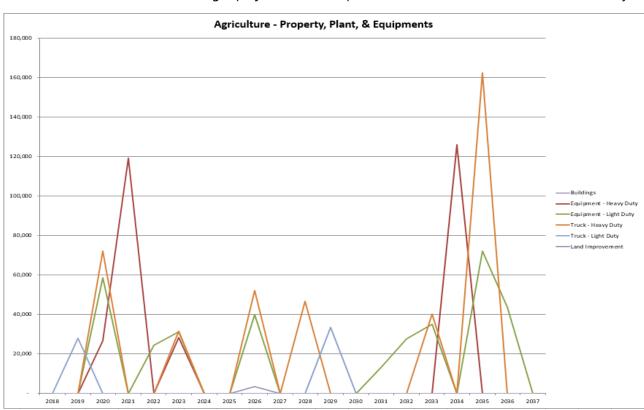
County Council approves the road and bridge capital programs. During the approval process, they review all projects, determine priorities, and determine the year of replacement. This is reviewed by Council every year during budget approval and can be modified if required.

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

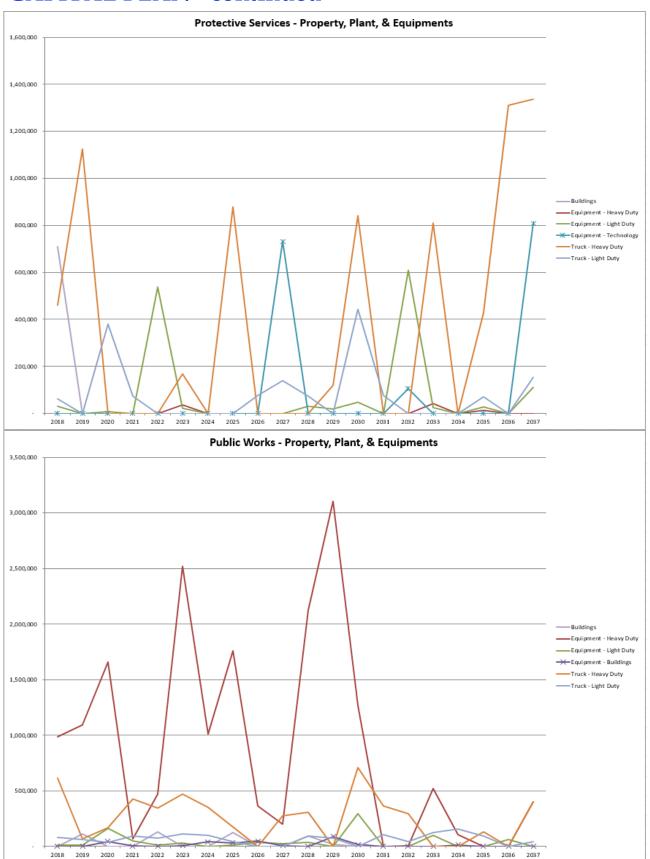
CAPITAL PLAN - continued



Note: A new administration building is projected to be required in 2027. This will be re-evaluated annually.



CAPITAL PLAN - continued



CAPITAL PLAN - continued







CONTACT INFORMATION

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