

OPERATING AND CAPITAL PLANS

VULCAN COUNTY, ALBERTA, CANADA

PREPARED BY VULCAN COUNTY:
CORPORATE SERVICES DEPARTMENT
DECEMBER 2018





THREE-YEAR OPERATING PLAN (2019-2021)

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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 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 2019-2021 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.

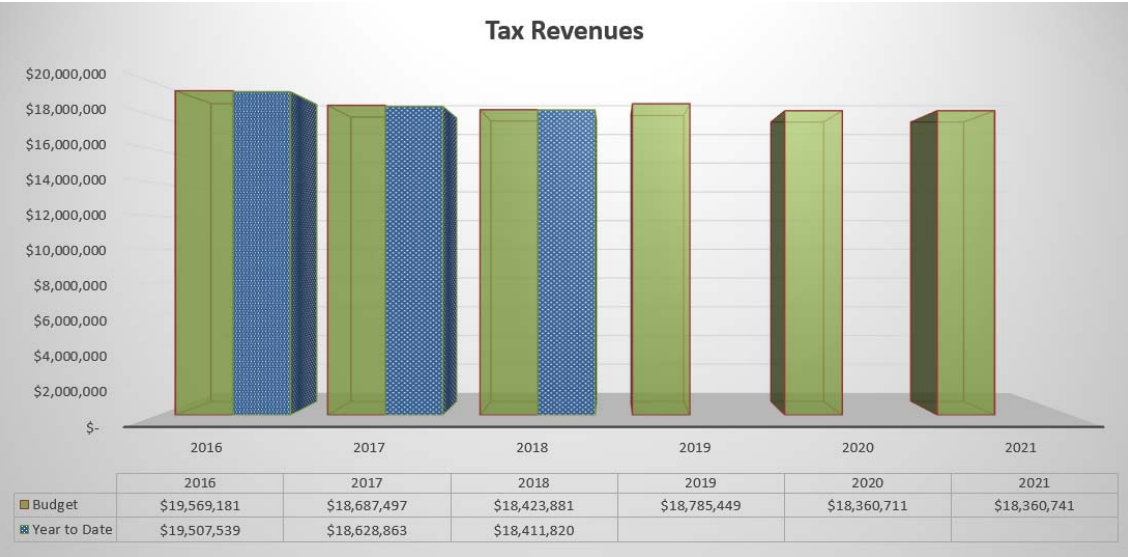
The following are the 2019-2021 projected operating revenues:

Vulcan County Three-year Operating Plan	Budget 2019	Budget 2020	Budget 2021
REVENUE:			
Net municipal taxes			
Real property taxes	\$ 7,691,059	\$ 7,727,221	\$ 7,727,299
Linear taxes	8,098,852	8,070,490	8,070,559
Commercial taxes	1,321,963	1,314,306	1,314,316
Government grants in lieu of taxes	18,600	18,600	18,600
Special levy	1,635,330	1,210,449	1,210,322
Well drilling tax	19,645	19,645	19,645
	<u>18,785,449</u>	<u>18,360,711</u>	<u>18,360,741</u>
School requisitions	(3,581,736)	(3,581,736)	(3,581,736)
Seniors foundation	(248,237)	(248,237)	(248,237)
	<u>14,955,476</u>	<u>14,530,738</u>	<u>14,530,768</u>
Government transfers			
Provincial government transfers - Operating	727,097	353,630	350,630
Federal government transfers - Operating	219,734	219,734	219,734
Transfers from Local Government - Operating	138,909	139,119	139,330
	<u>1,085,740</u>	<u>712,483</u>	<u>709,694</u>
Return on investments	452,214	448,881	448,881
Sale of goods, services, and user charges	1,351,649	792,046	796,182
Rental Income	316,280	324,280	324,280
Community aggregate levy	220,000	220,000	220,000
Penalties and costs of taxes	160,500	160,500	160,500
Other revenue			
Fines	44,500	21,500	21,500
Other	199,410	-	-
	<u>243,910</u>	<u>21,500</u>	<u>21,500</u>
TOTAL BUDGETED REVENUES	\$ 18,785,770	\$ 17,210,427	\$ 17,211,805

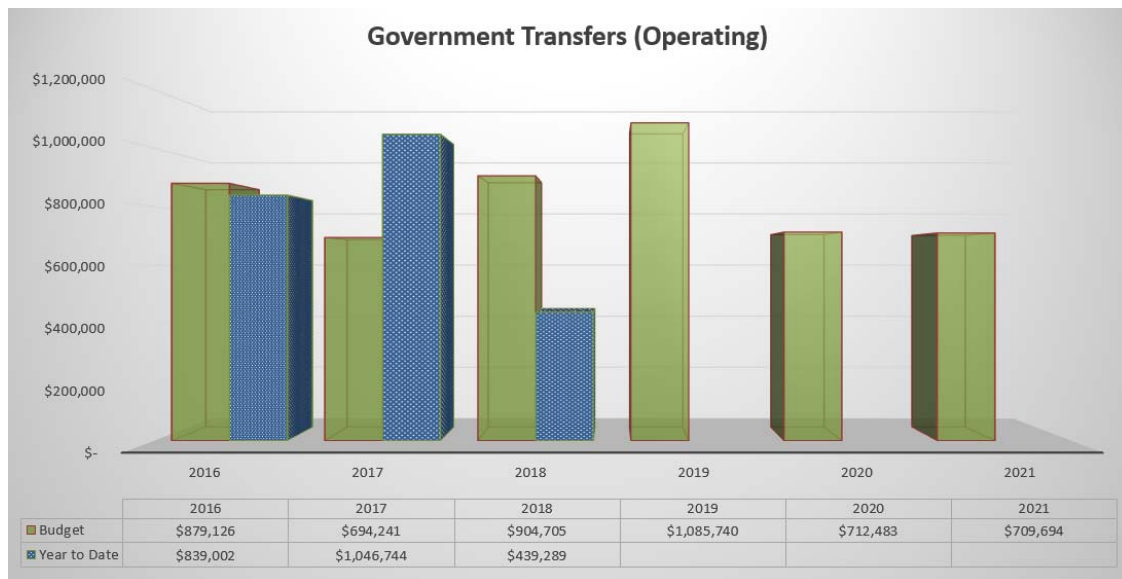
OPERATING REVENUE - continued

The tax revenues and the requisitions for school and senior support are budgeted based on the 2018 actual amounts. The final tax assessment figures for the County have not been determined for 2019 and we are not able to speculate on any potential changes in assessment.

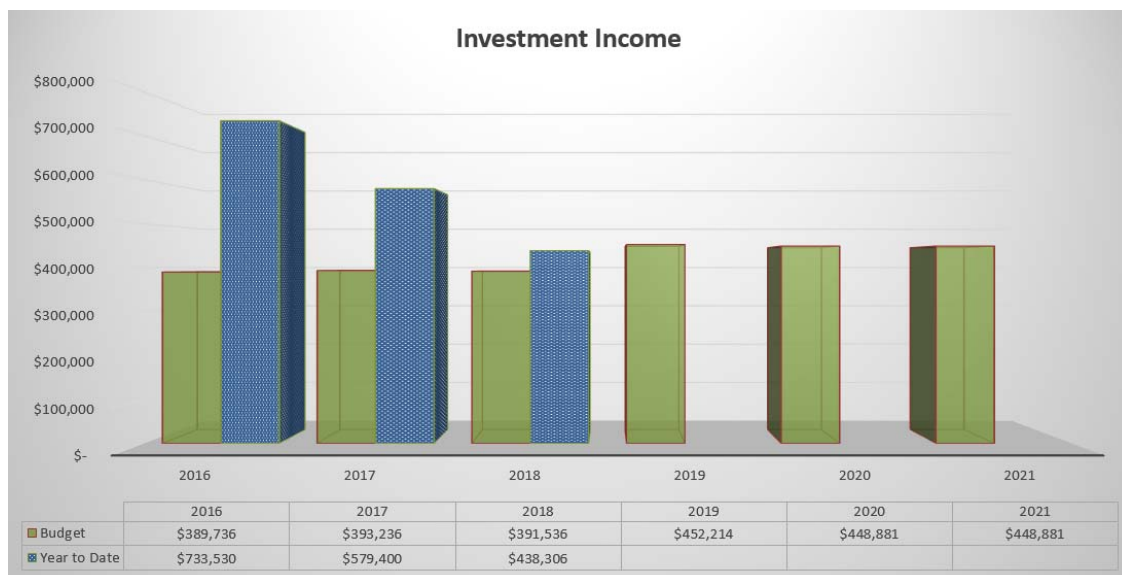
Last year saw a decrease in assessed values, particularly for linear property. Other assessment classes have generally seen some increase over the previous year. These figures will be updated in the 2019 Final Budget when new information becomes available.



OPERATING REVENUES - continued

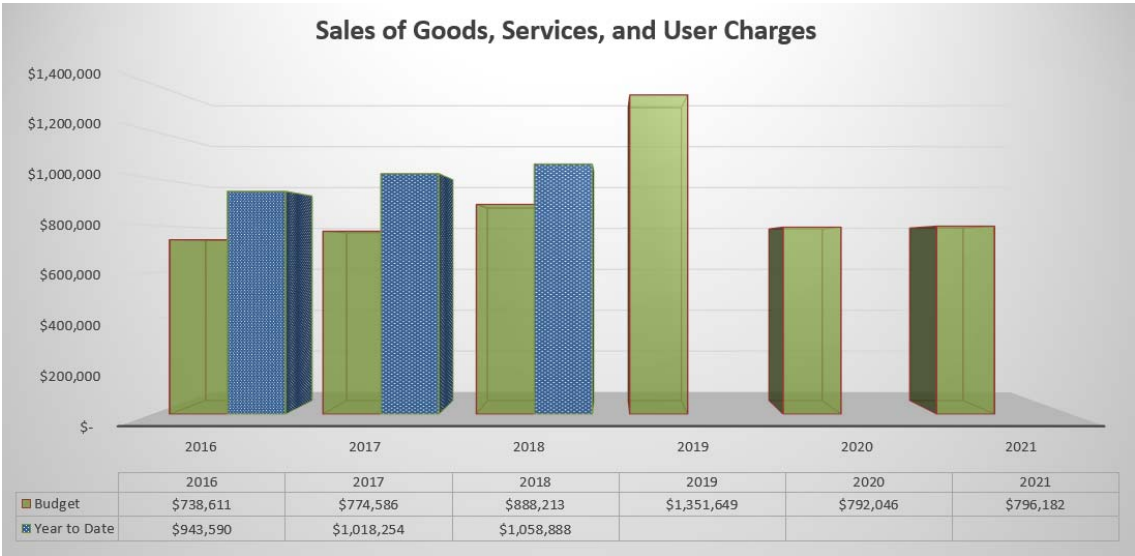


The majority of the government transfers for operations relate to the Municipal Sustainability Initiative (MSI) Operating grant, the Alberta Community Partnership (ACP) grant, and the Agricultural Service Board (ASB) grant. The MSI Operating and the ASB grant are based on prior year funding allocations. The ACP grant is based on funding agreements in place between the County and the Province. 2017 saw an unexpected revenue when the Town and County Fire Departments joined together, resulting in a significant cash transfer to the County.



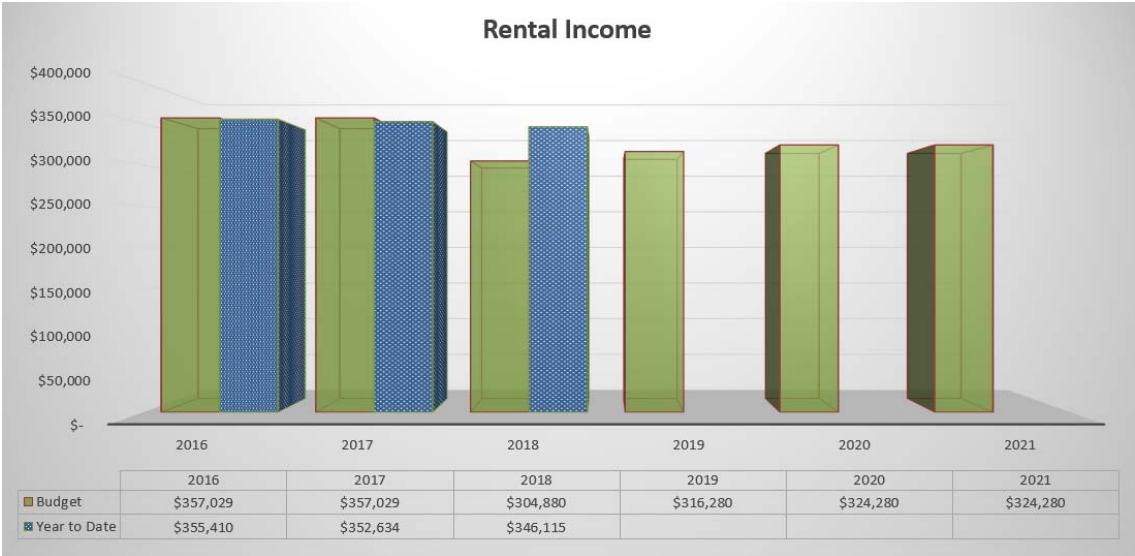
The investment income is based on previous years' interest and dividends received. 2016 includes a large one-time gain on the sale of bonds as part of the County's investment strategy. The investment income is projected to increase in 2019 as a result of the Bank of Canada's increases to interest rates.

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. The increase in projected revenue for 2019 is related to an anticipated sale of a large amount of gravel during the year.

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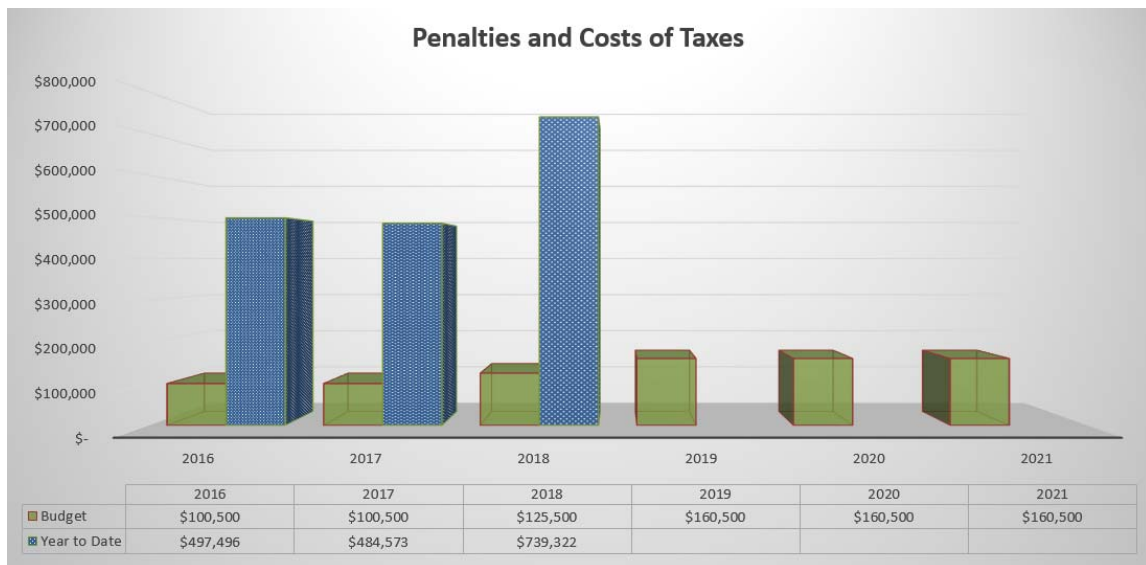


Rental income is based on rental agreements that the County has with the RCMP and Alberta Heath Services (AHS). There are also other rental agreements for buildings and equipment. The reduction in projected rental income compared to 2017 is due to the Vulcan Fire Department no longer being required to pay rent for their facility. This is a result of the Town and County Fire Departments merging operations.

OPERATING REVENUES - continued

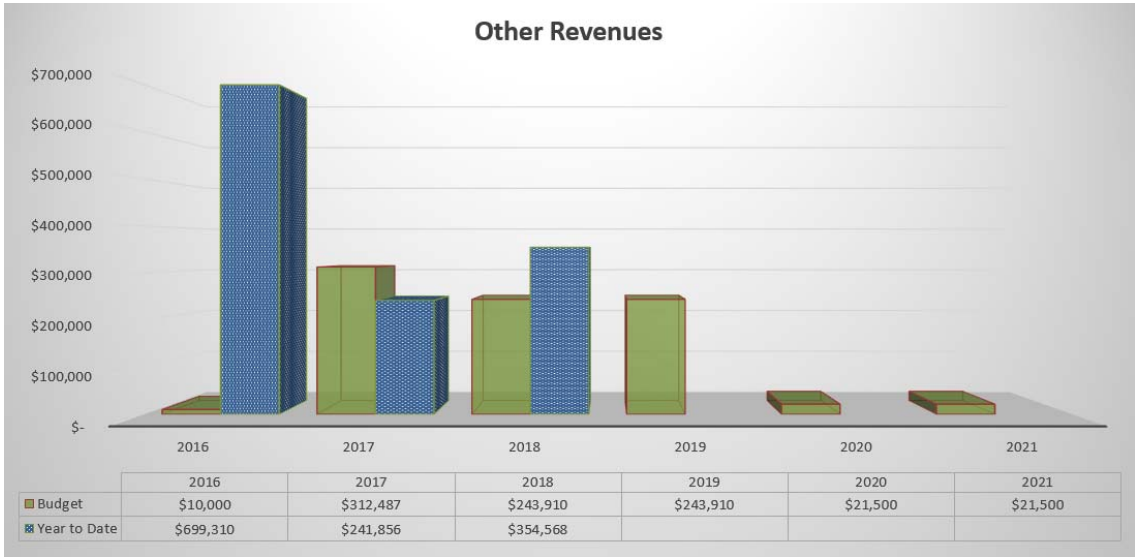


The community aggregate levy is the levy for transporting materials such as gravel and sand from County gravel pits and is intended to help offset the increase in road maintenance costs caused by these activities. The rate of \$0.25/tonne is set by Bylaw. The increase in projected revenues is based on 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 2016-2018, 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.

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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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.

Note: The anticipated matching contributions from the Town were not determinable during interim budget preparation but are expected to be known at final budget in April 2019.



OPERATING EXPENSES

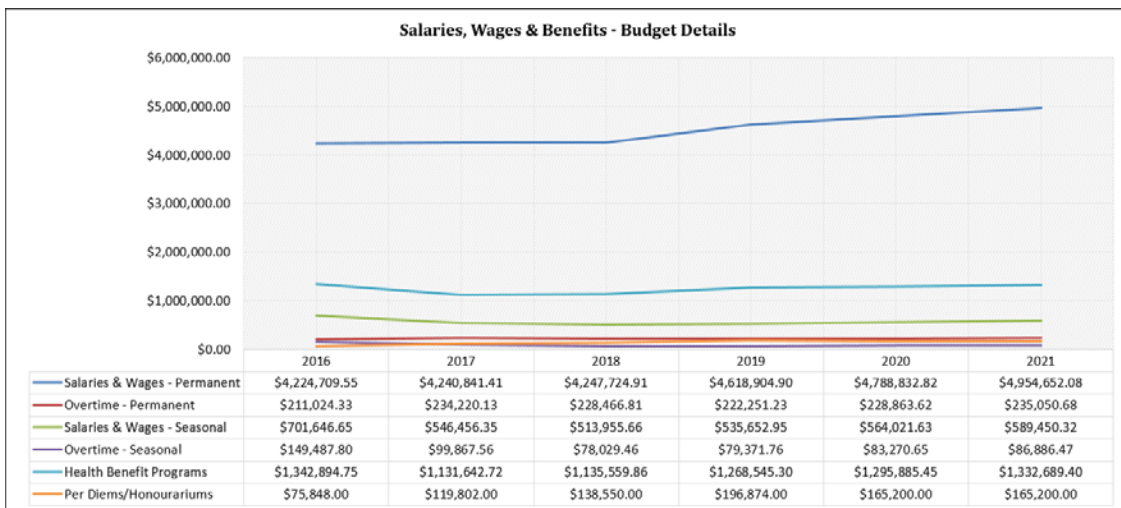
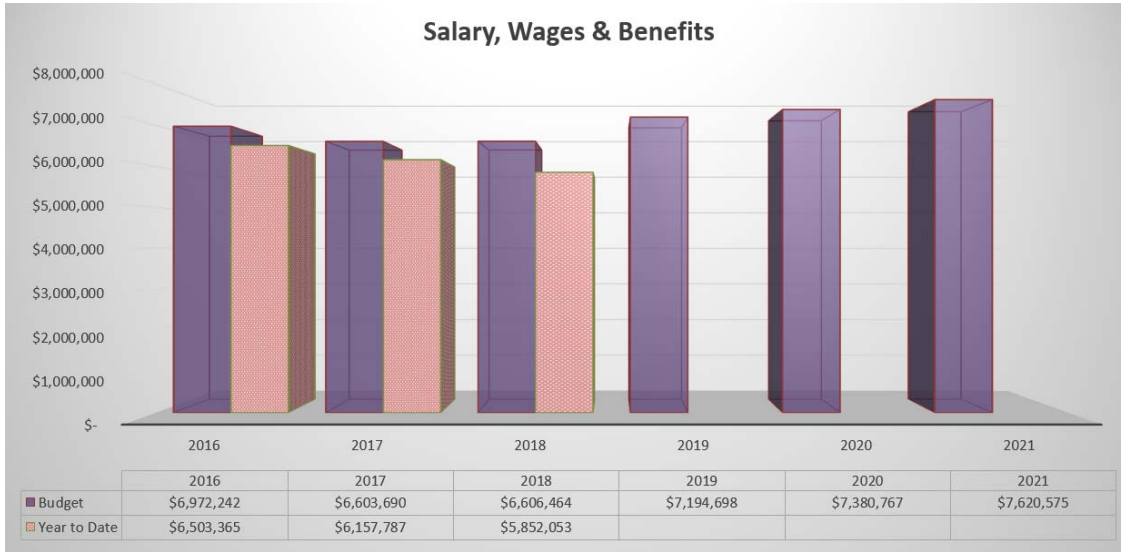
The operating expenses for a municipality are also budgeted on a conservative basis to ensure the budget is sufficient to cover whatever costs may occur and prevent the County from having to draw on reserves to fund a shortfall. This often includes adding amounts for unpredictable expenses like unexpected 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 2019-2021 projected operating expenses:

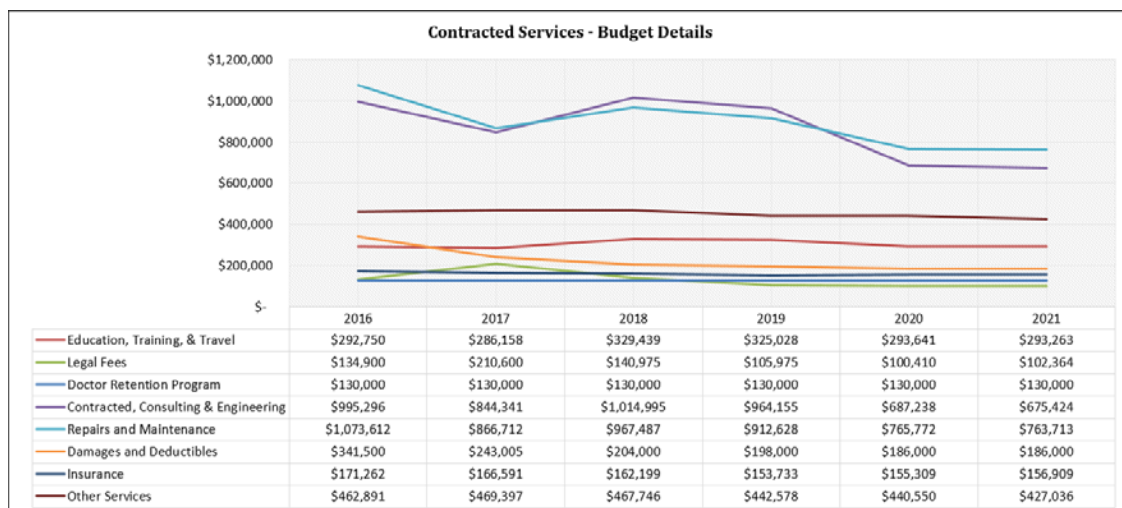
Vulcan County Three-year Operating Plan	Budget 2019	Budget 2020	Budget 2021
EXPENSES:			
Salaries, wages and benefits	\$ 7,194,698	\$ 7,380,767	\$ 7,620,575
Contracted and general services	3,232,098	2,758,919	2,734,710
Materials, goods and utilities	3,195,270	2,902,848	3,048,600
Transfers to local boards and agencies	2,568,085	1,538,100	1,519,725
Interest and bank charges		-	-
Bank Charges and Short Term Interest	20,300	20,300	20,300
Interest on Capital Long Term Debt	43,108	40,059	36,933
	<u>63,408</u>	<u>60,359</u>	<u>57,233</u>
Amortization of tangible capital assets	4,458,969	4,592,738	4,730,520
Machine expenses capitalized for construction	(1,809,375)	(1,837,503)	(1,926,463)
Loss on disposal of tangible capital assets	-	-	-
Other expenses			
Contingency	60,000	20,000	20,000
Tax Discounts & Write-offs	12,600	12,600	12,600
Other	7,492	7,492	7,492
	<u>80,092</u>	<u>40,092</u>	<u>40,092</u>
TOTAL BUDGETED EXPENSES	<u>\$ 18,983,244</u>	<u>\$ 17,436,320</u>	<u>\$ 17,824,991</u>

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 2019 approved salary grid increases included which cover cost of living increases and staff grid movements, as well as projected new hires. These increases are projected at the same rates in 2020-2021.

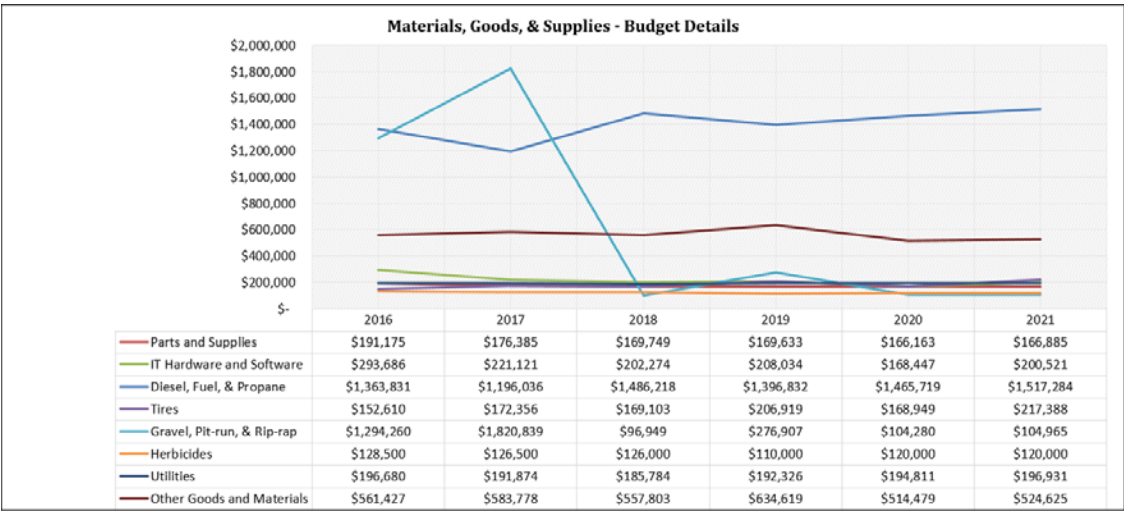
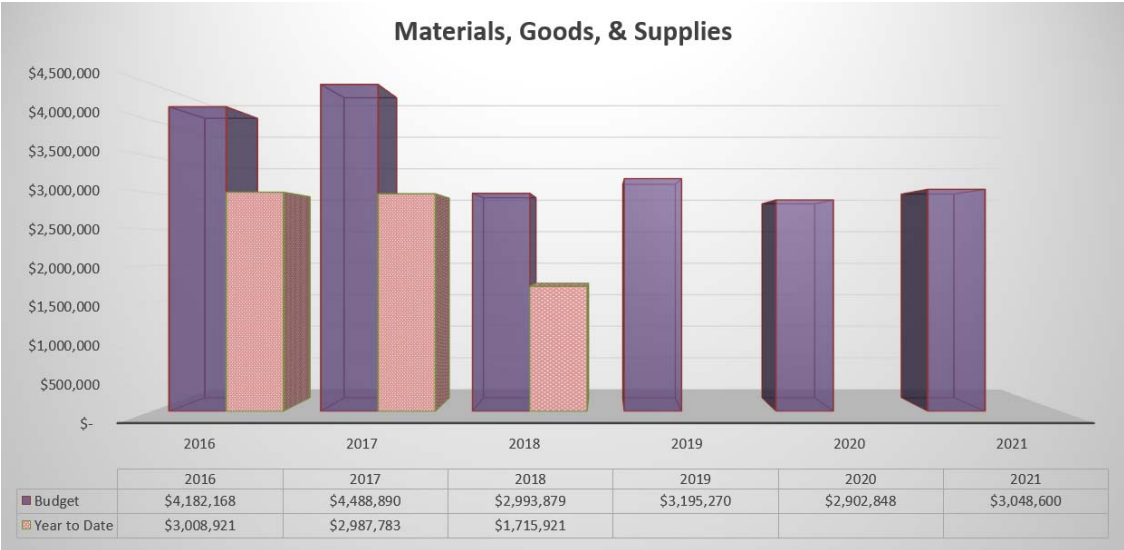
OPERATING EXPENSES - continued



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.

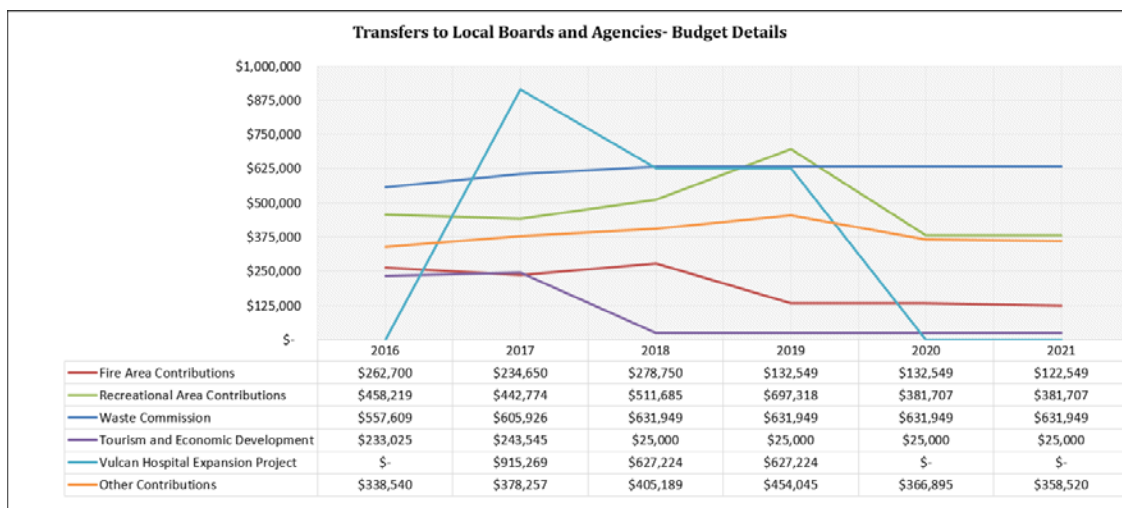
Another contributor to the expected cost reduction in 2019 is the anticipated completion of a chip seal project on Groenveld Road in 2018.

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 2015-2017. Gravel crushing is done for the next 3 years, leading to a large reduction in expected costs.

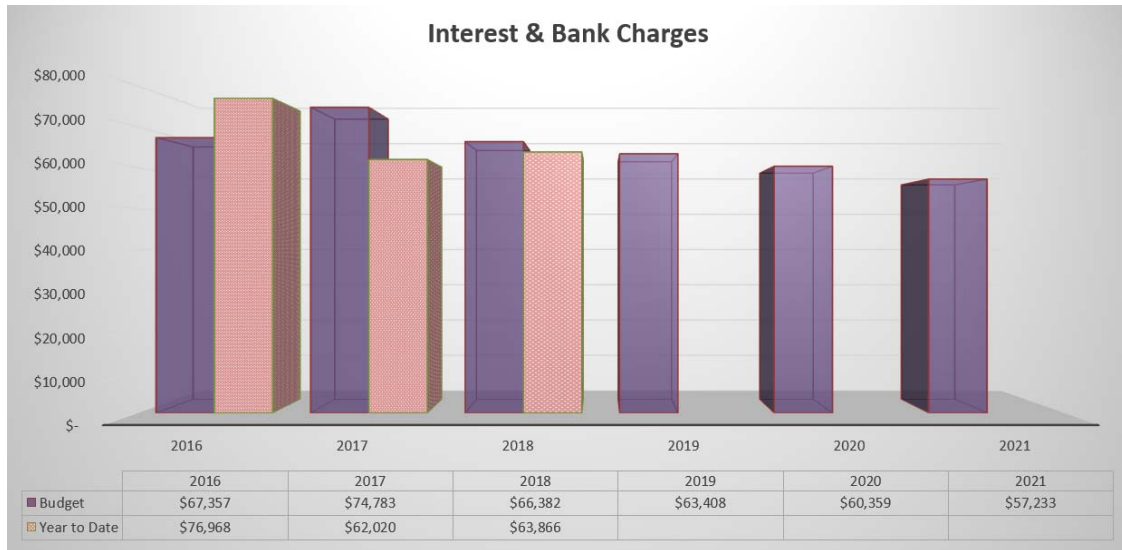
OPERATING EXPENSES - continued



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.

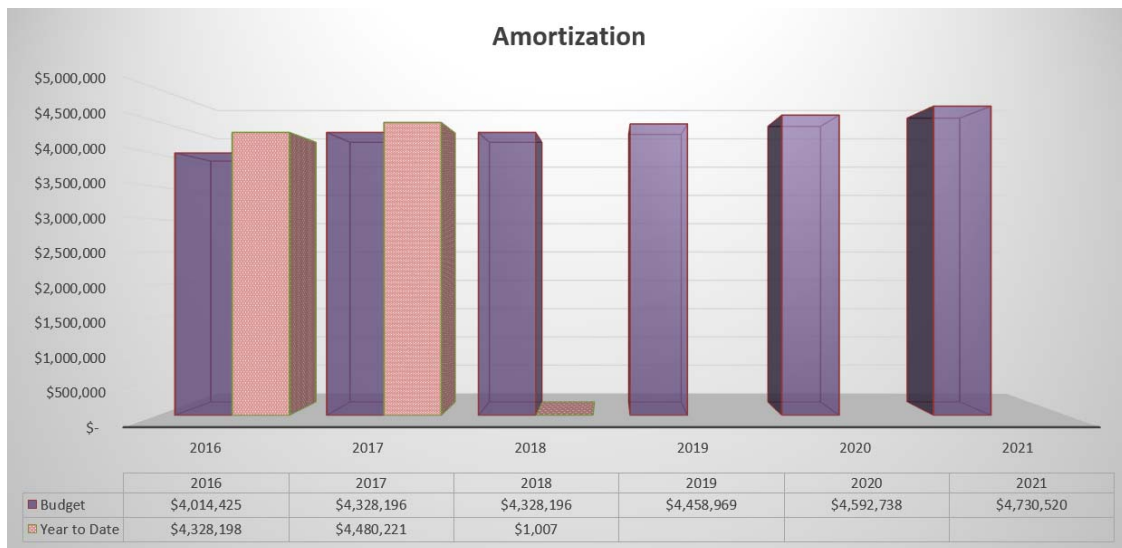
During 2016, the County contributed a total of approximately \$2.085 million towards the Vulcan Hospital Expansion Project as matching contributions from the Town of Vulcan and the County. The remaining \$915,269 was projected to be contributed during the remainder of 2017 to 2019 (\$290,987 from the Town of Vulcan and \$624,282 from the County altogether). These contributions are held by the County until the project is started.

OPERATING EXPENSES - continued



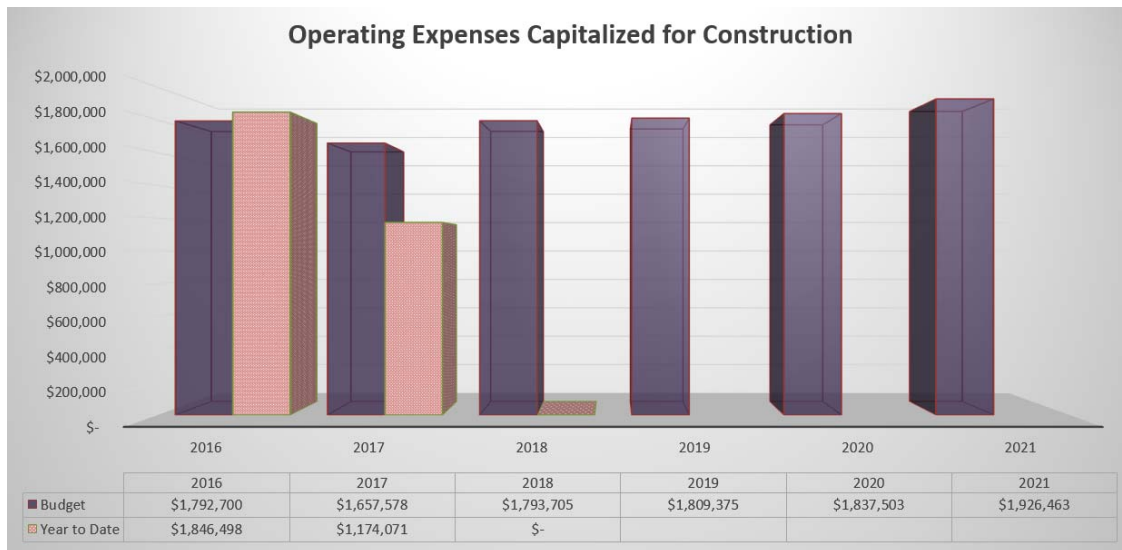
Interest and bank charges include standard banking fees, credit card fees, and the interest portion of debenture payments. The bank and credit card fee rates were able to be negotiated down from prior years and the County has implemented a "convenience fee" to recover the credit card fees we are charged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

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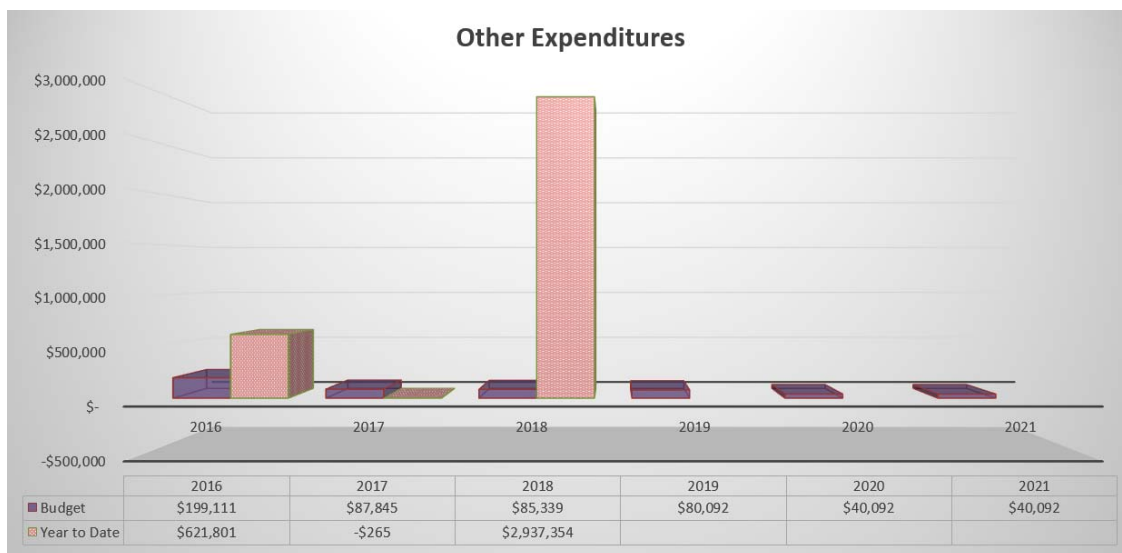


Amortization expenses are non-cash expenses which recognize the cost of the County's tangible capital assets (roads, buildings, equipment) over their expected useful lives. This is offset by annual transfers to capital reserves which will be used to replace these assets when required. Amortization is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

OPERATING EXPENSES - continued



The 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: 2018 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 over the last three years including various legal proceedings.

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 Three-year Operating Plan	Budget 2019	Budget 2020	Budget 2021
TOTAL BUDGETED REVENUES	18,785,770	17,210,427	17,211,805
TOTAL BUDGETED EXPENSES	(18,983,244)	(17,436,320)	(17,824,991)
EXCESS OF REVENUES OVER EXPENSES	(197,475)	(225,892)	(613,186)
RESERVE AND CAPITAL TRANSFERS:			
Transfer of Amortization	4,458,969	4,592,738	4,730,520
Transfer from Reserves	1,273,703	196,389	2,003,772
Transfer to Reserves	(3,544,422)	(3,465,933)	(3,470,627)
Transfer to Capital Functions	(2,038,812)	(1,859,903)	(1,948,863)
TOTAL RESERVE AND CAPITAL TRANSFERS	197,475	(536,709)	1,314,802
TOTAL NET EFFECT ON ACCUMULATED SURPLUS	\$ 0	\$ (762,601)	\$ 701,616

As shown above, there is a projected deficit in 2019. 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 2019 transfer from reserves is significantly 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 2019 and future years capital acquisitions).
- There is also approximately \$440,000 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 2022.

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
(2019-2023)**



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 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 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 2019-2023 projected capital plan:

Vulcan County Capital Budget and Projections	Budget 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023
CAPITAL ACQUIRED:					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Land Improvement	-	-	-	-	-
Buildings	-	-	-	132,670	-
Equipment	1,363,152	1,941,790	272,230	1,045,273	2,595,377
Vehicles	432,481	379,727	509,313	407,520	846,370
Engineered Structures	5,498,939	2,730,392	11,578,161	3,651,606	4,150,183
TOTAL CAPITAL ACQUIRED	\$ 7,294,572	\$ 5,051,909	\$ 12,359,704	\$ 5,237,069	\$ 7,591,930
CAPITAL FUNDING:					
Capital Grants	\$ 3,834,861	\$ 2,568,638	\$ 2,568,638	\$ 2,568,638	\$ 2,568,638
Sale of Assets	370,000	-	-	-	-
Contributed Asset	-	-	-	-	-
Transfer from Capital Reserves	3,089,711	2,483,271	9,791,066	2,668,431	5,023,292
Transfer to Capital Reserves	-	-	-	-	-
Transfer from Operating Function	-	-	-	-	-
Transfer to Operating Function	-	-	-	-	-
Capital Lease acquired	-	-	-	-	-
TOTAL CAPITAL FUNDING	\$ 7,294,572	\$ 5,051,909	\$ 12,359,704	\$ 5,237,069	\$ 7,591,930

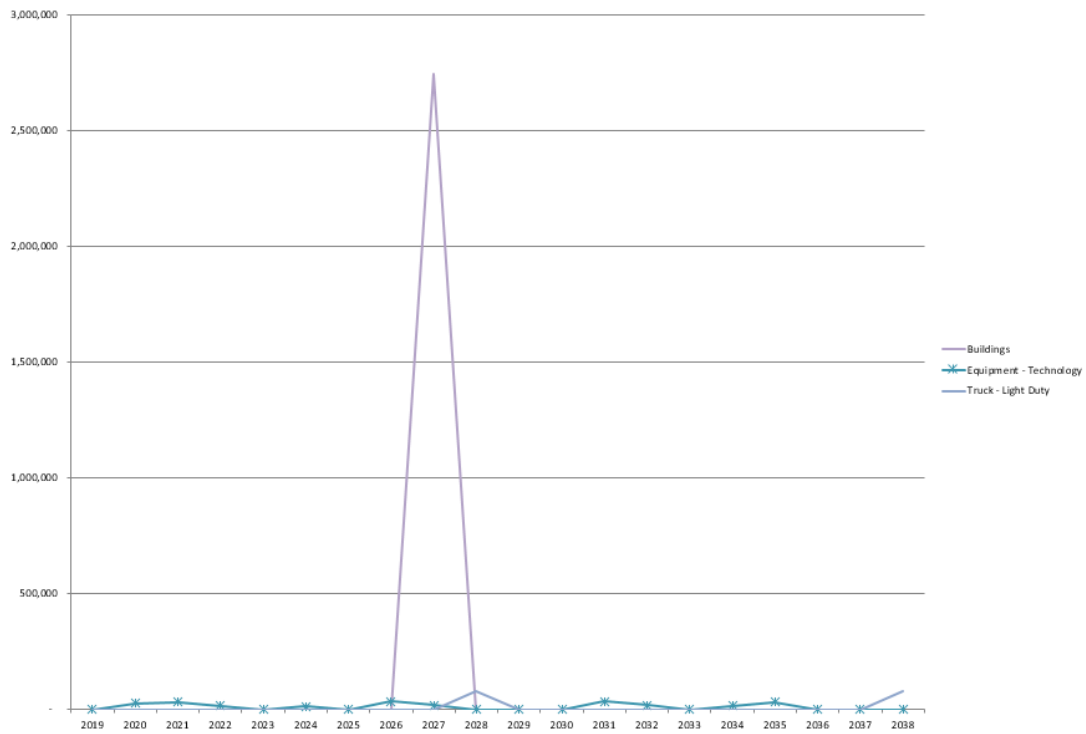
As shown above, there are significant projected increases in the engineered structures for the next 5 years. These increases are mainly due to high value road and bridge projects. The capital reserves have been built up over the past few years as part of this capital funding program to allow for these 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.

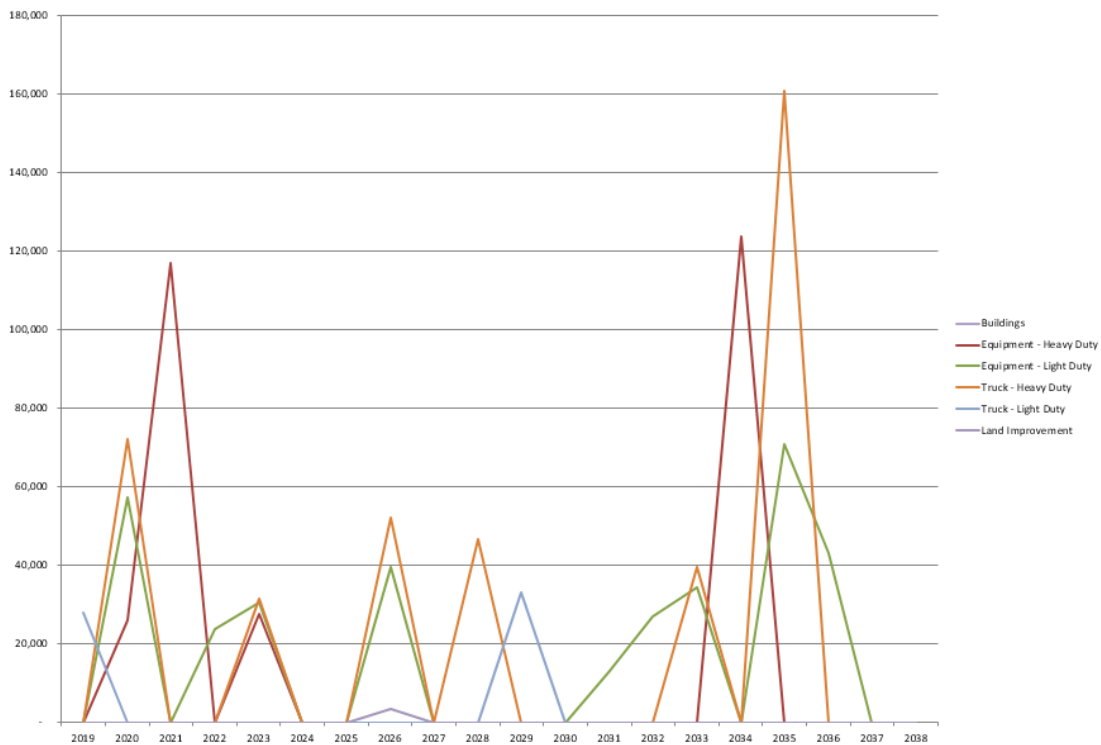
CAPITAL PLAN - continued

Administration - Property, Plant, & Equipments



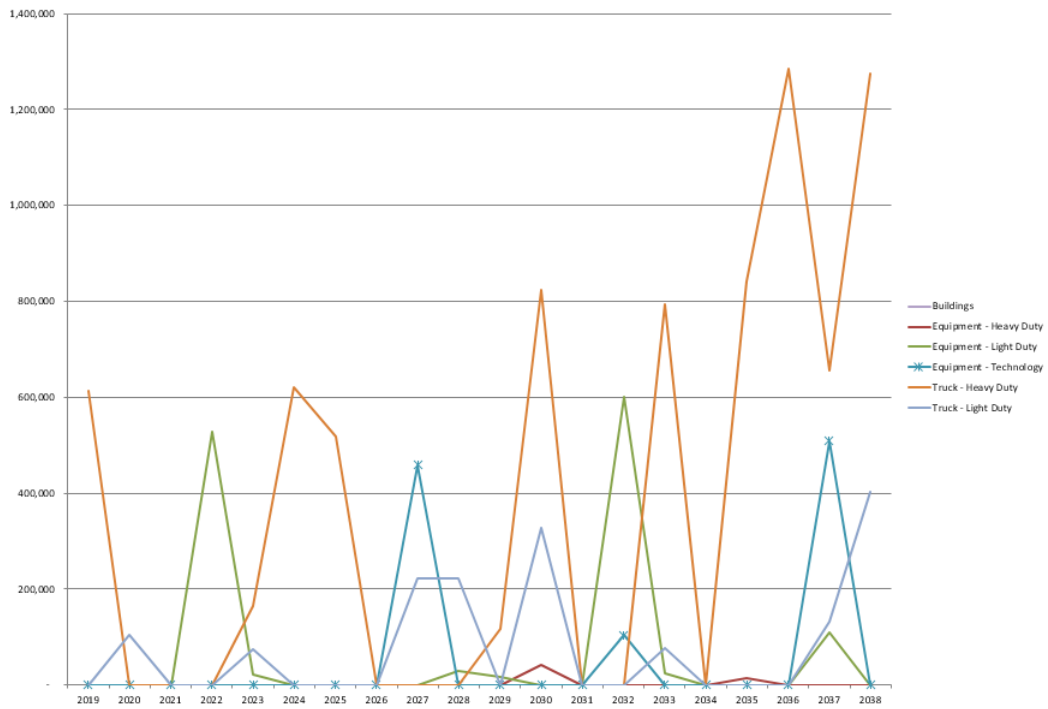
Note: A new administration building is projected to be required in 2027. This will be re-evaluated annually.

Agriculture - Property, Plant, & Equipments



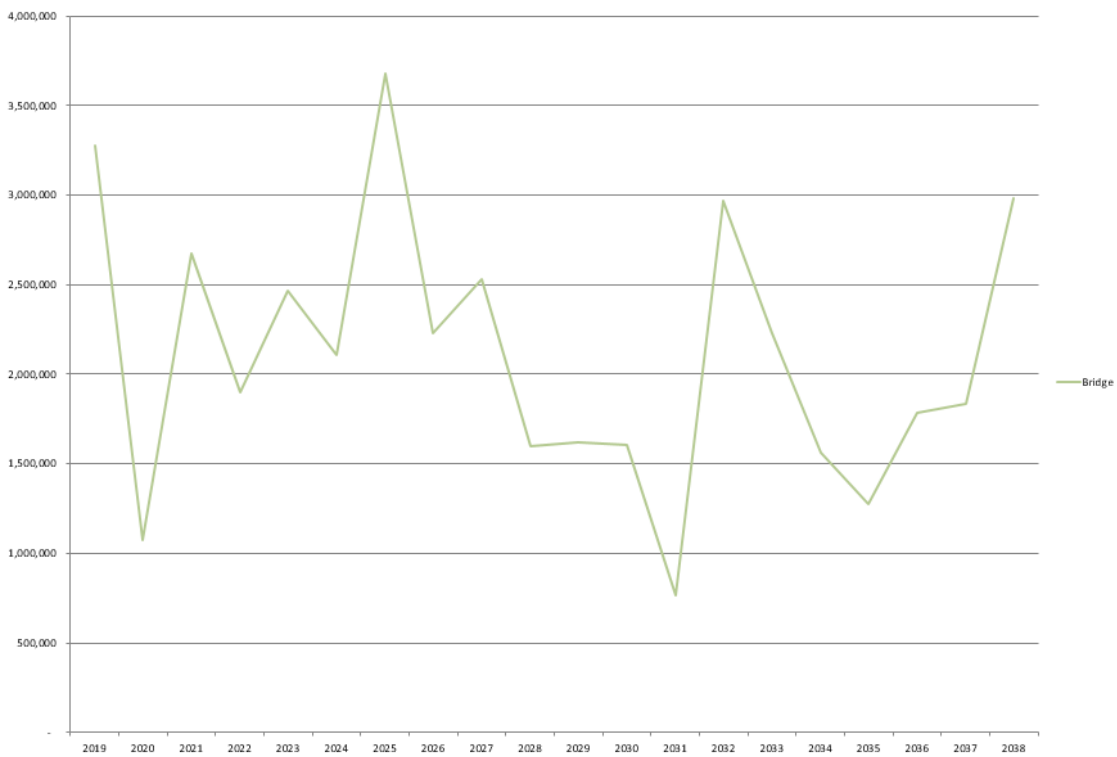
CAPITAL PLAN - continued

Protective Services - Property, Plant, & Equipments



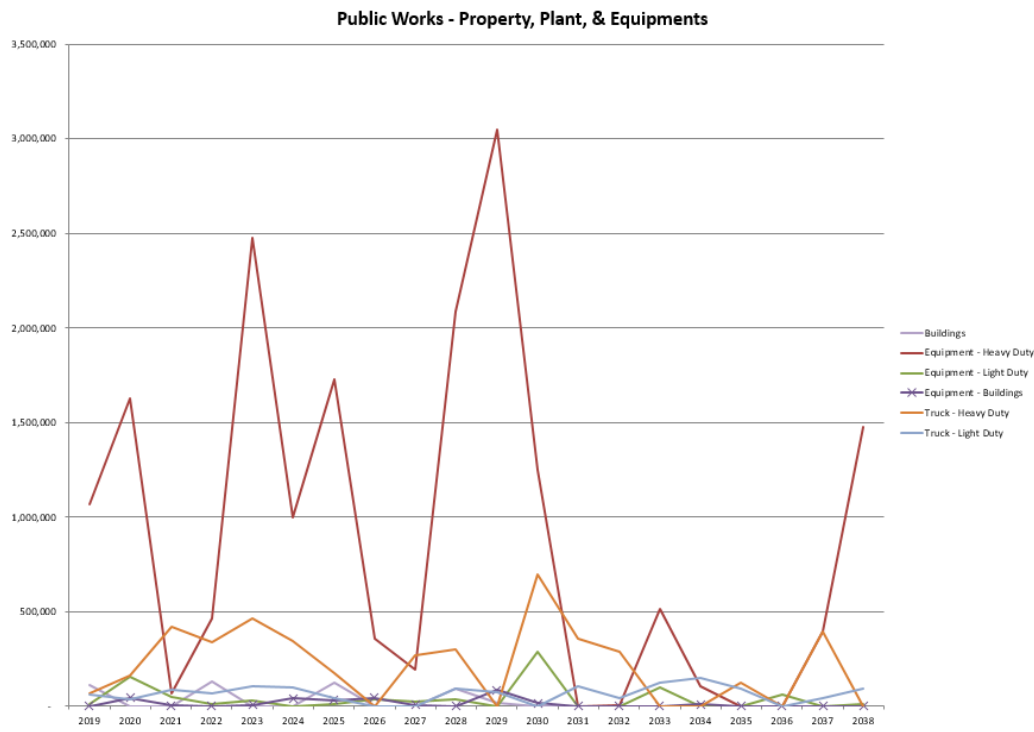
Several fire engines are expected to require replacement in 2026-2028

Public Works - Bridges

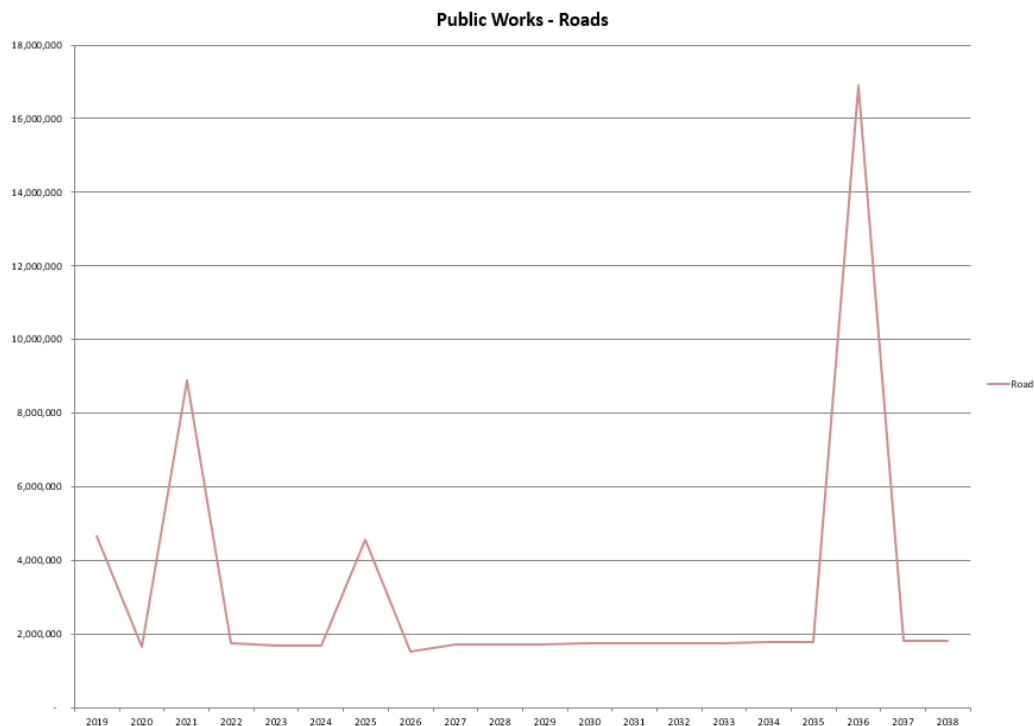


The spike in capital expenditure in 2025 is due to 13 planned bridge projects that year.

CAPITAL PLAN - continued



The capital budget currently includes 2 graders and 2 scrapers being purchased in 2029.



A large number of roads are expected to require construction or reconstruction in 2026. Due to the volume of work this would require, these projects will be reviewed and likely spread out over a few years.





CONTACT INFORMATION

VULCAN COUNTY ADMINISTRATION BUILDING
BOX 180, 102 CENTRE STREET,
VULCAN, ALBERTA, CANADA T0L 2B0

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

www.vulcancounty.ab.ca

