

Maintaining the Foundation for Today and the Future

2016-2018 Fiscal Management Strategy

Prepared by: Financial Services Department



TABLE OF CONTENTS

EXECUTIVE SUMMARY	4
ECONOMIC OUTLOOK.....	5
ASSUMPTIONS AND DEFINITIONS	7
STRATEGIC PLAN – 2015 – 2017	10
CONSOLIDATED SUMMARY	12
REVENUE SUMMARIES	13
2016-2018 REVENUE STRATEGY	16
PROPERTY TAXES	17
SALES TO OTHER GOVERNMENTS	22
SALES OF GOODS & SERVICES	23
OTHER REVENUE FROM OWN SOURCES	24
GRANTS.....	25
OTHER TRANSFERS	26
EXPENSE SUMMARIES	27
2016-2017 EXPENSE STRATEGY	31
SALARIES, WAGES & BENEFITS	32
CONTRACTED & GENERAL SERVICES.....	33
PURCHASES FROM OTHER GOVERNMENTS.....	34
MATERIALS, GOODS, SUPPLIES & UTILITIES.....	35
SMALL EQUIPMENT & FURNISHINGS	36
TRANSFERS & GRANTS	37
FINANCIAL SERVICES CHARGES.....	38
OTHER EXPENSES.....	39
WOOD BUFFALO UTILITY CORPORATION (WBUC).....	40
DEBT AND DEBT SERVICE.....	42
DEBT STRATEGY.....	42

DEBT LIMIT	43
DEBT LIMIT CALCULATION.....	44
DEBT SERVICE LIMIT	44
FISCAL STABILITY RESERVES.....	46
GENERAL RESERVE STRATEGY.....	46
EMERGING ISSUES RESERVE (EIR).....	46
CAPITAL INFRASTRUCTURE RESERVE (CIR).....	47
INVESTMENTS.....	48
INVESTMENT STRATEGY.....	48
FINANCIAL CONDITION INDICATORS.....	52
SUSTAINABILITY.....	52
FLEXIBILITY.....	53
VULNERABILITY.....	55

EXECUTIVE SUMMARY

The Fiscal Management Strategy (FMS) is prepared annually and presented to the Council of the Regional Municipality of Wood Buffalo (RMWB).

The purpose of the FMS is to provide a high level overview of the Municipality's operating and capital needs for the current year and the next two years. The FMS also provides a context for reviewing and setting property tax rates, user fees and charges and other municipal services charges.

The document outlines, at a high level, the sources of revenue and anticipated expenses over the time period 2016 – 2018, with comparisons to prior years. Although, the 2016 Budget and the Financial Plans for 2017 and 2018 were approved in December of 2015, the FMS is an avenue to re-evaluate budget assumptions, based on new information that was not available at the time of the budget preparation and approval.

Considered in 2016-2018 Fiscal Management Strategy is the impact of the proposed 2016 property tax bylaw, which directly impacts the municipal revenue.

The FMS assumes property tax revenue will be calculated using revenue neutral methodology plus taxes applicable to new construction growth. Any change from the budgeted 2016 revenue is referenced as 2016 Proposed Amended Budget, until such time as the Property Tax bylaw is approved by Council (May 2016), at which time this document will be revised to reflect the 2016 Approved Amended Budget.

The 2016 revenue budget of \$830.7M was approved by Council on December 8, 2015, after reducing property tax revenue by \$30M. As a result of new construction growth, it has been identified that the Municipality will have \$77.3M additional property tax revenue in 2016. The FMS is based on committing the \$77.3M within the Emerging Issues Reserve (EIR) to fund the costs associated with potential assessment appeals. Even with the commitment of the \$77.3M to EIR, it is anticipated that there will be a significant shortfall of funds available to respond to assessment appeals.

FMS includes reference to the Municipality's current debt and debt limits. The Municipality has a policy, which permits a debt limit up to 85% of the provincially legislated limit. The proposed debt limit reduction to 75% of the provincially legislated limit ensures that the Municipality continues to be prudent with the debt that is carried, in consideration of the current economic climate. A review of the debt service limit will be conducted in response to current economic conditions.

The FMS is used as a base to build the 2017 Budget and Financial Plans for 2018 and 2019.

ECONOMIC OUTLOOK

The Municipality saw significant growth from 2012 to 2015. Wood Buffalo's economy expanded by 7.3 per cent in 2014 – the latest in a series of strong growth years in large part to significant investments in the oil sands and increased production. The 2015 Municipal Census reflected a 7.4 per cent growth over the census data collected in 2012 (116,407 to 125,032).

By the end of 2015 the region has seen a 1.2 per cent decline in gross domestic product (GDP), the first decline since 2009. The region experienced a 1.5 per cent drop in overall employment in 2015 (split between full and part time employment), and a jump in the unemployment rate to 7.6 per cent (2015 annual average). This was attributed to the decline in oil prices which led to a significant reduction in investment and has had a ripple effect in many sectors, including wholesale and retail trade, transportation and warehousing and most notably construction.

In 2014 crude oil prices began to fall due to global oversupply. The falling prices are continuing into 2016 and have fallen more than 50 per cent from their summer 2014 levels. With oil companies under pressure to cut cost by lowering investment and reducing employees, it is expected fewer people will move to the region over the next two years. Residential investment will be impacted and slower migrant inflows, combined with the weaker overall economy, will continue to limit demand for new housing.

Bitumen production remains strong and is expected to increase in the short to medium term due to the completion of projects currently under construction. This overall level of development of the oil sands will provide a strong economic base for the region and continue to provide opportunities for both individuals and organizations. While pipeline capacity to the United States remains a concern, bitumen exports to the U.S. Gulf Coast continues to be strong.

Despite challenging economic times businesses remain eager to expand and open as affordable business space becomes available. Diversification of the region and its economy has been pushed to the forefront. There are currently several new development areas in progress and are expected to open up future opportunities for additional residential properties and commercial activities. In 2015 the region had over 4,350 active businesses, 720 of those were new businesses to Wood Buffalo.

The region has responded with a variety of initiatives when it comes to growth and diversification of the economy; The Sustainable and Green Energy Initiative will create unique environmental, social and economic opportunities to convert waste into energy. Sports and Experience Tourism are also growing in the region with the success of the "Year of Sport"; hosting seven major sporting events in 2015 including the Western Canada Summer Games. Based on the success of 2015 the region has moved forward with

a successful bid to host the 2018 Alberta Winter Games. Assessments and studies are currently being done for tourism in Fort Chipewyan and sports tourism. Both studies will offer insight and ideas on how to improve the diversification and opportunities that exist in growing the region's economy. Initial discussions are showing strong potential for growth and development when it comes to diversification to the region and the implementation in the near future.

Moving forward, it is expected that crude oil prices will gradually improve, but current market conditions indicate that price gains will be slow, as the market has changed due to new supply dynamics. This price increase will have a corresponding positive effect on the region's economy. The region continues to find resilience and opportunity in the face of a challenging economy. Local businesses and industry leaders are focused on improving process, reducing expenditures and searching for new opportunities. The change in the economy has presented the opportunity to refocus, re-evaluate and adapt, as we move forward in 2016.

ASSUMPTIONS AND DEFINITIONS

In order to prepare accurate capital and operating budgets and other financial plans for Council's review, consistent assumptions are established to ensure comparability.

The FMS assumes:

- **Property Tax Revenue Neutral Plus Construction Growth:** *conservative* outlook on projected property assessment growth, supporting operating costs as approved in the 2016-2018 Operating Budget and Plan and the 2016-2021 Capital Budget and Plan.

What Does Tax Revenue Neutral Mean?

Property taxes remaining at neutral levels mean that the municipality will collect the same property tax revenue for the 2016 tax year as it did in the 2015 tax year on properties which existed in 2015. Although the total tax collected by the municipality for these properties will remain the same (Revenue Neutral) the amount collected for each property may change due to the assessed value of the property changing. Tax rates are adjusted to collect the same total tax revenue as in 2015, and growth (newly assessed property) is the only contributor to any increase in tax revenue. The RMWB applies the tax revenue neutral methodology and then adds taxes applicable to new construction growth.

Assumptions and constraints followed in constructing the report include:

- Property tax “revenue neutral plus new construction growth” is assumed.
- Debt and debt service level will be lower than the debt and debt service limit established under the *Municipal Government Act* (MGA) and regulations.
- The Municipality draws debt on an as-needed basis, in line with the cash flow requirements for capital projects. For planning purposes, debt is assumed to be drawn three years after Council's approval.
- If the Municipality draws debt there will be an increase in debt service.
- Interest rate of 2.9% is assumed for future debt amortization.

- Any changes to the current user fees will be based on completion of the comprehensive user fees study and will be brought to Council annually, commencing in 2016.
- Retain investment strategies being adopted by the Municipality in compliance with Investment Policy FIN-140.
- Transition to the Wood Buffalo Utility Corporation is in progress and will need to be monitored and phased in.

The strategy is guided by:

- Municipal Government Act RSA 2000 cM-26
- 2015-2017 Strategic Plan
- Municipal Census 2015
- Regional Structure Action Strategy Population and Employment Forecasts, approved by Council June 23, 2015
- Municipal Development Plan 2011-2030
- Fiscal Responsibility Policy FIN-160
- Investment Policy FIN-140
- Debt Management Policy FIN-120
- Approved 2016 Operating and Capital Budgets
- 2017-2018 Adjusted Operating Plan
- 2017-2021 Capital Plan

Definitions:

Actuals	Audited accounting numbers.
Committed Debt	A total of actual debt plus the amount of debt that Council has approved through the capital budget process but has not been drawn.
Department	Functional business unit comprising one or more specialized sections.
Division	Administrative unit comprising one or more functional business units.
Projected	Estimated year-end balance.

Acronyms

CIR	Capital Infrastructure Reserve
CUPE	Canadian Union of Public Employees
EIR	Emerging Issues Reserve
IAFF	International Association of Fire Fighters
LIP	Local Improvement Program
MGA	Municipal Government Act
RCMP	Royal Canadian Mounted Police
RMWB	Regional Municipality of Wood Buffalo
WBUC	Wood Buffalo Utility Corporation

STRATEGIC PLAN – 2015 – 2017

On May 26, 2015, the 2013-2017 Council of the Regional Municipality of Wood Buffalo approved its Strategic Plan. The Strategic Plan, addresses the steps the Municipality will take over the next three years, from 2015 – 2017, to address the vision and the goals of our longer-term Municipal Development Plan (MDP). Each goal and strategy within our three-year Strategic Plan aligns with one or more of the strategies from the MDP. Council's Strategic Plan sets the direction for the next three years and clarifies the important goals and accomplishments that are needed to continue to build the Region.

The Strategic Plan focuses on **Building a Strong and Resilient Community**. It was built on the feedback received from community residents and leaders and reflects the wishes and needs of the community. As a result, the 2013-2017 Council will put building blocks in place for the following goals:

1. A more responsible government

To ensure that the Municipality operates effectively and efficiently, by demonstrating accountability, integrity and transparency in all that it does.

2. Balanced services for all residents in the region

To deliver high quality and well-planned services to our residents.

3. A continued robust economy

To systematically collaborate with local businesses, residents and industry to encourage creation of a viable and sustainable marketplace.

4. An effective land strategy

To have an integrated and planned approach to the effective and efficient release and development of land.

5. A reliable transportation network

To provide sustainable and reliable transportation and so improve the quality of life throughout the Region.

6. A sustainable community

To value our environment as our natural, community and economic foundation.

7. A healthy and active lifestyle

To connect people and communities through accessible, regional-based leisure and wellness activities, programs and public gathering places.

Departmental Business Plans were approved in December 2015 and were based on Council's Strategic Plan. The business plans have been integrated with the strategic plan in one overarching reporting tool with key highlights and accomplishments made accessible to Council and the public in regular intervals.

CONSOLIDATED SUMMARY

Figure 1 2016 Proposed Amended Operating Budget and 2017-2018 Adjusted Financial Plans

	2012 - Actual (Audited)	2013 - Actual (Audited)	2014 - Actual (Audited)	2015 - Actual	2016 - Proposed Amended Budget	2017 - Proposed Adjusted Financial Plan**	2018 - Proposed Adjusted Financial Plan**
Revenues							
Property Taxes*	495,526,167	548,213,399	630,836,983	677,561,333	797,974,000	825,502,700	836,170,100
Sales to Other Governments	5,341,330	2,960,403	3,280,699	3,573,100	3,469,600	3,484,600	3,496,100
Sales of Goods & Services	56,839,141	65,011,597	62,849,435	51,808,139	56,132,700	57,115,000	57,780,500
Other Revenue from Own Sources	44,070,581	42,628,786	41,451,130	32,399,118	34,469,200	35,098,300	35,748,000
Grants	12,957,476	14,938,974	23,934,465	33,227,670	14,827,400	14,777,400	14,827,400
Other Transfers	39,361,542	8,619,410	14,504,685	18,880,599	1,148,500	1,139,800	1,141,700
	654,096,237	682,372,569	776,857,396	817,449,959	908,021,400	937,117,800	949,163,800
Expenses							
Salaries, Wages & Benefits	163,243,798	178,487,271	189,168,739	221,108,134	261,310,200	269,734,100	282,898,600
Contracted & General Services	125,824,420	129,111,543	137,289,252	108,151,224	106,048,100	107,523,900	109,497,100
Purchases from Other Governments	22,922,173	22,877,551	23,387,184	23,788,887	28,147,800	28,770,800	30,208,500
Materials, Goods, Supplies & Utilities	26,986,073	28,147,658	27,606,698	28,300,188	38,663,000	40,660,600	41,426,500
Small Equipment & Furnishings	4,720,086	3,823,437	4,414,089	7,092,291	3,205,800	3,285,300	3,345,600
Transfers & Grants	45,293,220	48,637,443	81,682,329	61,507,877	41,737,300	43,550,100	45,197,100
Financial Services Charges	32,257,780	32,275,279	31,159,516	31,112,585	30,294,300	51,523,200	72,726,100
Other Expenses	1,516,991	13,421,894	11,323,841	19,350,732	1,088,800	1,086,900	1,115,700
	422,764,541	456,782,075	506,031,649	500,411,917	510,495,300	546,134,900	586,415,200
TRANSFERS TO RESERVES							
Capital Infrastructure	229,073,236	220,601,530	269,713,713	285,499,020	320,212,900	313,282,500	286,696,800
Emerging Issues***	2,258,459	4,988,965	1,112,034	31,539,022	77,313,200	77,700,400	76,051,800
	231,331,695	225,590,494	270,825,747	317,038,042	397,526,100	390,982,900	362,748,600
SURPLUS/(DEFICIT)	-	-	-	-	-	-	-

*includes Grants in Lieu of Taxes; net of provision for potential appeal losses.

**includes estimated debt services obligation for debts drawn in the year.

***increase in Transfers to EIR in 2016 - 2018 are a result of increased Property Taxes from new construction growth. These funds are designated for costs associated with assessment appeals.

REVENUE SUMMARIES

The Municipality has six major revenue categories:

- Property Taxes
- Sales to Other Governments
- Sales of Goods & Services
- Other Revenue From Own Sources
- Grants
- Other Transfers

On December 8, 2015, after reducing Property Taxes by \$30M, Council approved revenue for 2016 of \$830.7M, which included property tax revenue of \$720.7M. Subsequently, as a result of new construction growth, in excess of budget assumptions, it has been identified that the Municipality will have \$77.3M additional property tax revenue. This brings the total tax revenue; net of appeal losses, to \$798.0M. This represents a 17.8% increase from 2015 actual revenue and a 10.7% increase over the 2016 property tax budget that was approved by Council. The largest portion of property tax revenue is collected from the Machinery and Equipment class (76%).

Over prior years, the Municipality has seen a significant increase in tax revenue from the Machinery and Equipment class, primarily due to new construction growth. The Municipality also has outstanding appeals from prior years and expects this trend to increase in 2016. Due to this increase in appeals, the Municipality will have a significant financial shortfall if all assessment appeals are successful. To offset a portion of this shortfall, it is imperative to commit the additional \$77.3M in revenue within the Emerging Issues Reserve.

Figure 2 2016 Proposed Amended Operating Budget Revenue Composition, \$908,021,400

	2016 - Approved Budget	2016 - Proposed Amended Budget	Additional Revenue
Property Taxes *	720,660,800	797,974,000	77,313,200
Sales to Other Governments	3,469,600	3,469,600	-
Sales of Goods & Services	56,132,700	56,132,700	-
Other Revenue from Own Sources	34,469,200	34,469,200	-
Grants	14,827,400	14,827,400	-
Other Transfers	1,148,500	1,148,500	-
Total	830,708,200	908,021,400	77,313,200

*includes Grants in Lieu of Taxes; net of provision for potential assessment appeal losses.

Figure 3 2016 Proposed Amended Operating Budget Revenue Composition Chart, \$908,021,400

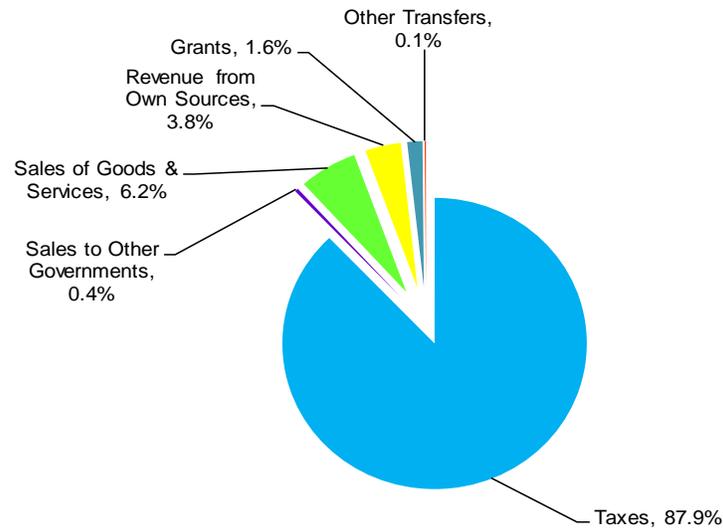


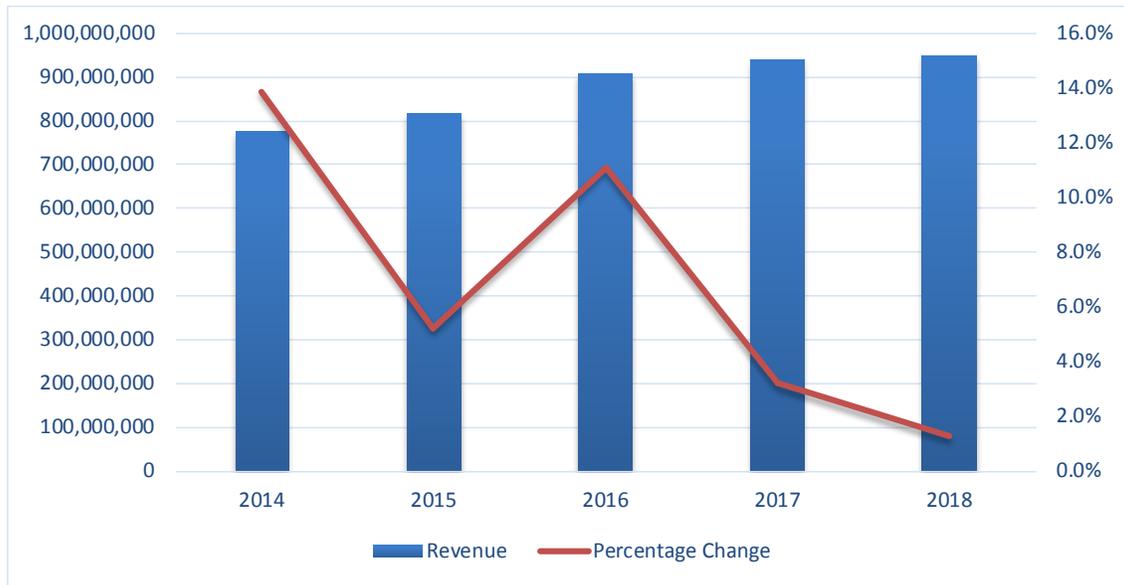
Figure 4 Revenue Trend Analyses 2014-2018

	2014 - Actual (Audited)	2015 - Actual	2016 - Proposed Amended Budget	2017 - Proposed Adjusted Financial Plan	2018 - Proposed Adjusted Financial Plan
Revenue					
Property Taxes *	630,836,983	677,561,333	797,974,000	825,502,700	836,170,100
Sales to Other Governments	3,280,699	3,573,100	3,469,600	3,484,600	3,496,100
Sales of Goods & Services	62,849,435	51,808,139	56,132,700	57,115,000	57,780,500
Other Revenue from Own Sources	41,451,130	32,399,118	34,469,200	35,098,300	35,748,000
Grants	23,934,465	33,227,670	14,827,400	14,777,400	14,827,400
Other Transfers	14,504,685	18,880,599	1,148,500	1,139,800	1,141,700
Total	776,857,396	817,449,959	908,021,400	937,117,800	949,163,800
Original Budget and Plan - December 8, 2015			830,708,200	859,417,400	873,112,000
Additional Revenue**			77,313,200	77,700,400	76,051,800

*includes Grants in Lieu of Taxes; net of provision for potential assessment appeal losses.

**Additional Revenue proposed for transfer to EIR to offset funding required for potential assessment appeal losses.

Figure 5 Revenue Profile 2014-2018



Increased revenue forecasted for 2016-2018 is attributed to increased tax revenue due to new construction growth projections exceeding expectations in 2016. Since Council approval of the 2016 Operating Budget in December 2015, property tax estimates for 2016-2018 based on tax revenue neutral plus new construction growth approach, have exceeded original projections. With the cancellation, deferral and/or slowdown in construction, future assessment growth will be variable. 2016 Property Tax revenue was reduced by \$30M when Council approved the budget on December 8, 2015.

2016-2018 REVENUE STRATEGY

Diverse revenue sources are adopted by the Municipality and appropriate cost recovery levels are established for municipal services. The level of community resources that is dedicated toward municipal services is directly related to the extent of benefit to the community and the Municipality's ability to pay.

Higher rates of cost recovery for certain services are achieved by charging fair market value for services when it is appropriate to do so and by using prudent cost control measures. User fees and charges are reviewed for the level of cost recovery. The Municipality relies on the user fees and charges recovered to offset some of the costs related to service delivery. However, the User Fees and Charges Policy (FIN 030) recognizes and seeks to protect vulnerable segments of the population such as youth and seniors and make attempts to balance the need for service with ability to pay.

The Municipality is finalizing a comprehensive user fee study. The recommended general strategy for the User Fees and Charges Policy is:

- Full cost recovery imposed to recover full cost of providing the service, good or access to an amenity where it is determined that a service, good or access to an amenity provided by the Municipality provides a direct benefit to individuals, group of individuals or businesses.
- Partial cost recovery imposed where it is determined that a service, good or access to an amenity provided by the Municipality provides a direct benefit to individuals, groups of individuals or businesses but also results in benefits to the general public. Such, it will also be partially funded by means of a public subsidy from general property tax revenue.

The recommended property tax revenue strategy is:

- Establishment of tax rates that are governed by the three core principles of predictability, stability and transparency that is sustainable for the long term.
- Establishment of rates that contribute to the affordability of living and working in the Municipality while supporting long term infrastructure needs.

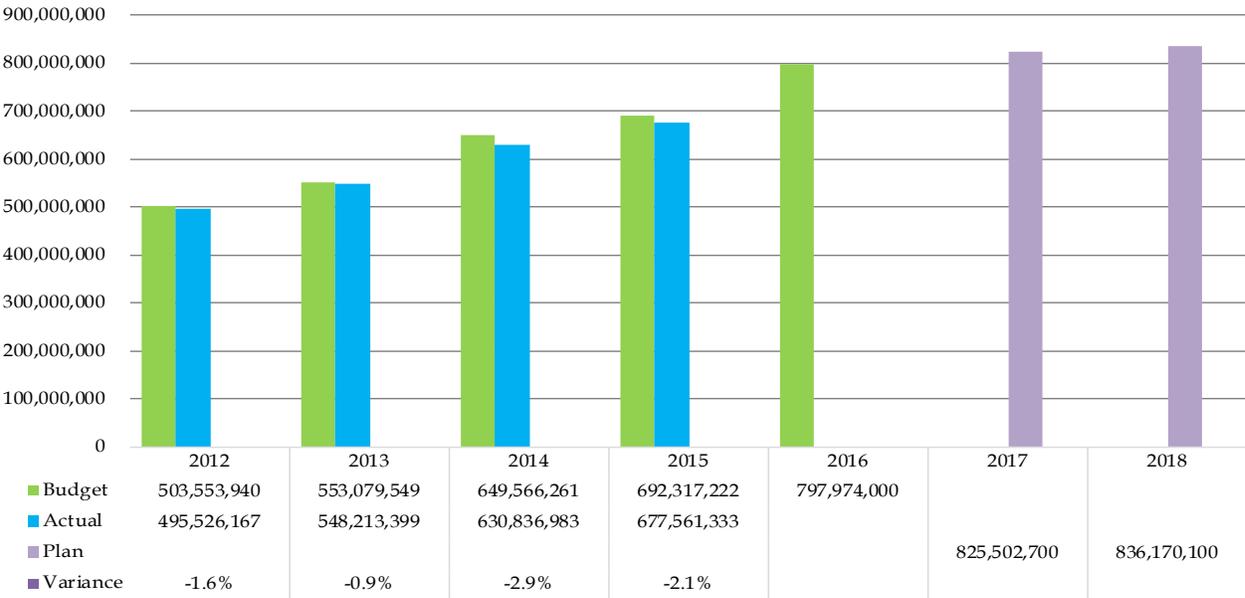
PROPERTY TAXES

The 2016 Proposed Amended Budget for property taxes are projected to be 87.9% of the Municipality’s revenue, which is comprised of:

- Rural Residential Class – 0.1%
- Rural Non-Residential – 94.8%
- Urban Residential Class – 3.5%
- Urban Non-Residential Class – 1.7%

For the past four years, the variances between actuals and budget are due to a provision for the potential impact of assessment appeals which are at various stages of the appeal process. To further mitigate the impact, the provision for appeal losses increased from 3% to 5% on the Machinery and Equipment taxes category. The increase in provision reflects the unique assessment environment in the Municipality and the risk associated with it.

Figure 6 Property Taxes 2012-2018



The increase in property tax revenue is primarily due to an increase in new construction growth, and not due to inflationary increases in property tax rates or market value increases. The Municipality maintains competitive property tax rates in the residential class compared to other municipalities.

Figure 7 Property Tax Revenue Projections 2016-2018

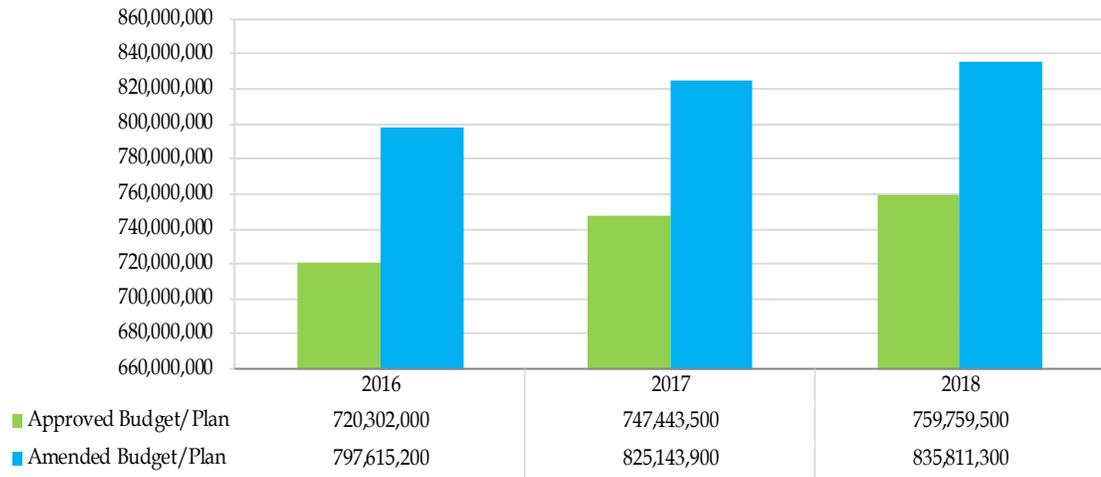
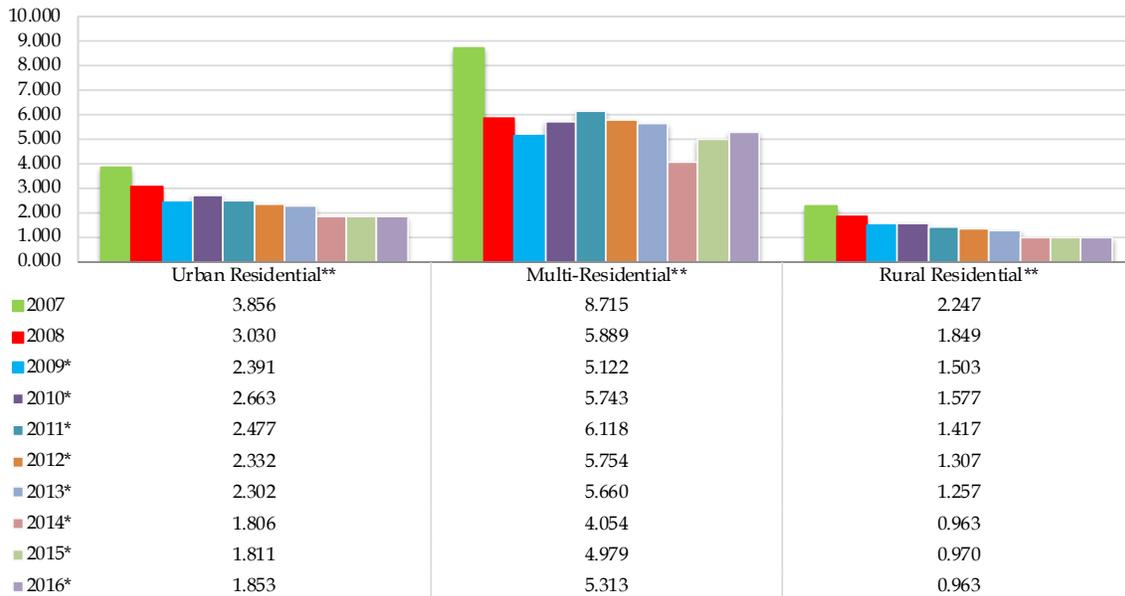


Figure 7 provides an overview of the Property Tax Revenue Projections for 2016 – 2018. The data is based on updated assessed values that take into account new construction growth. Provision for assessment appeals for tax years, 2016, 2017 and 2018 for all classes is 3% with the exception of the Machinery & Equipment tax class, where the provision is 5% of the revenue of that tax class.

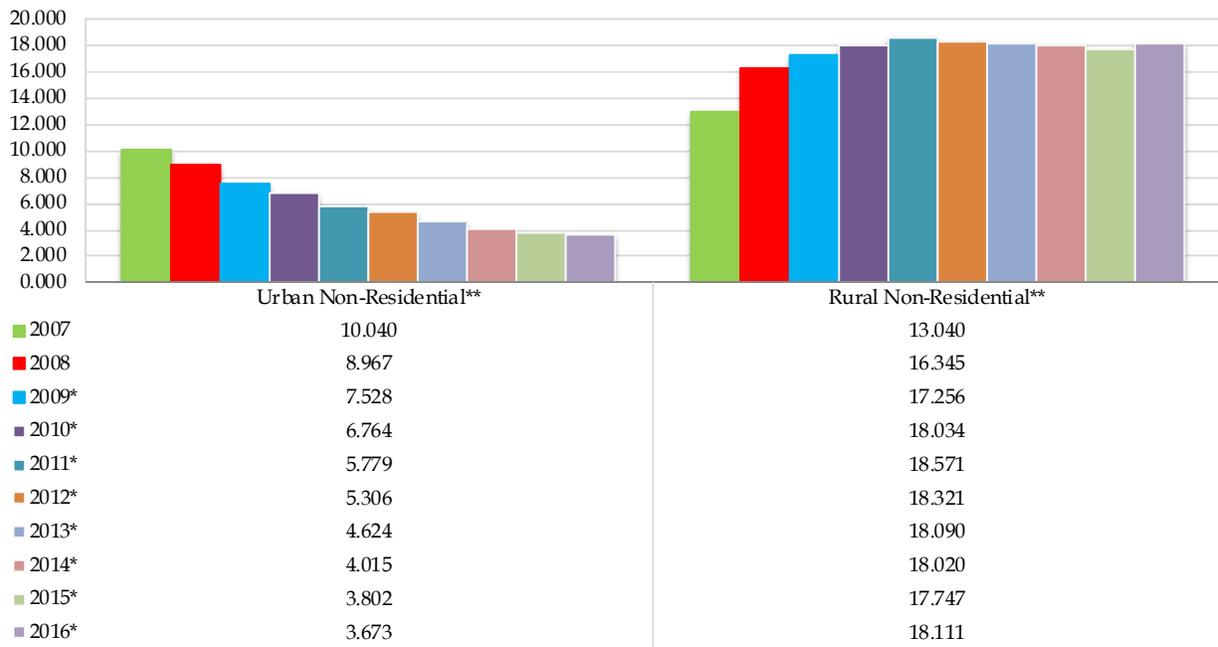
Figure 8a Municipal Residential Property Rates 2007-2016



*Revenue neutral plus new construction methodology has been in use since 2005 for residential properties.

**Rates are based on information available at the time of publication, and are subject to change until the Property Tax Bylaw has been approved by Council.

Figure 8b Municipal Non-Residential Property Rates 2007-2016



*Revenue neutral plus new construction methodology has been in use since 2009 for non-residential properties.

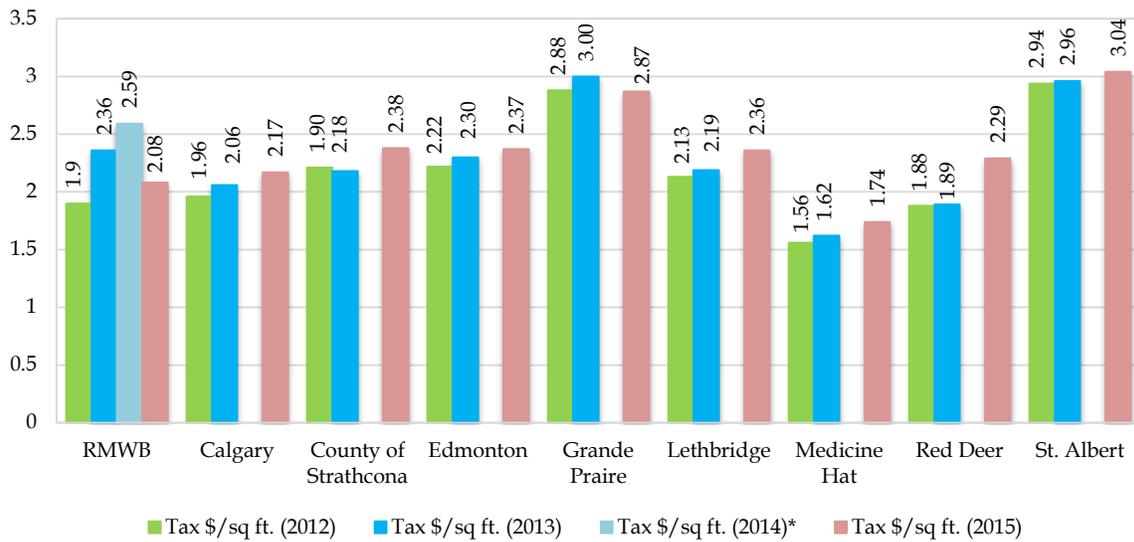
**Rates are based on information available at the time of publication, and are subject to change until the Property Tax Bylaw has been approved by Council.

Tax rate facts in the Municipality:

- Tax rates are levied per \$1,000 of assessed value.
- Urban residential rates have decreased by 52.0% from 3.86 in 2007 to 1.85 in 2016.
- Multi-residential rates decreased by 39.0% from 8.72 in 2007 to 5.31 in 2016.
- Rural-residential rates have decreased by 57.1% from 2.25 in 2007 to 0.96 in 2016.
- Urban non-residential rates have decreased by 51.2% from 7.53 in 2009 to 3.67 in 2016.
- Rural non-residential rates have increased by 5.0% from 17.26 in 2009 to 18.11 in 2016.

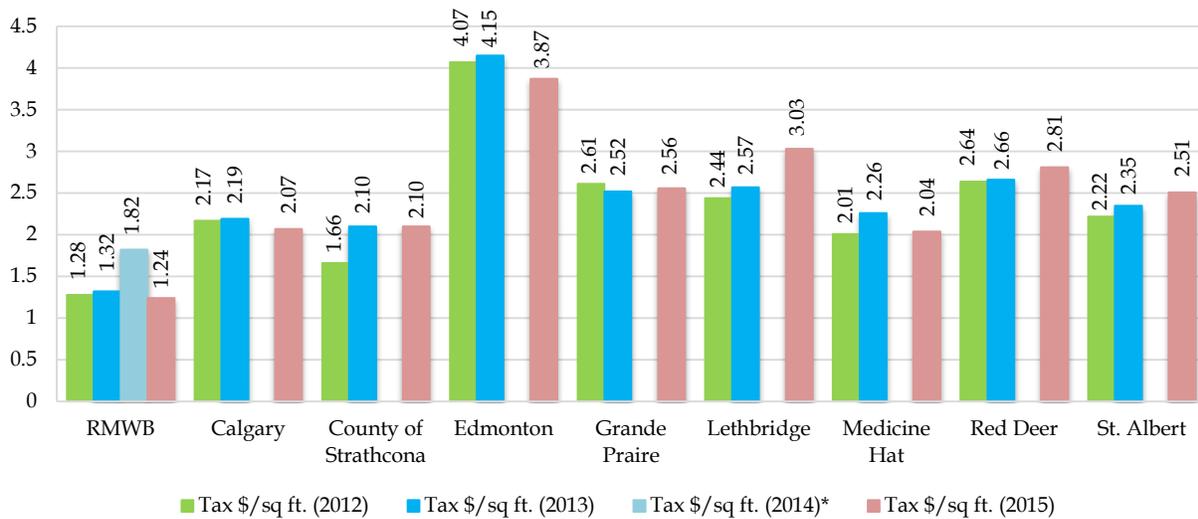
Year over year, shifts in the tax rate are a result of non-market changes in the assessment base, the most common being assessment reductions due to appeals.

Figure 9 Urban Residential Property Tax (gross) Cost Comparison per Square Foot 2012-2014¹



*Data for 2014 only available for RMWB.

Figure 10 Urban Non-Residential Property Tax (gross) Cost Comparison per Square Foot, 2012-2014



*Data for 2014 only available for RMWB.

¹ Source: Primary research conducted by Assessment & Taxation Department, Regional Municipality of Wood Buffalo

Figure 11 Unadjusted Property Tax Revenue Projection 2016-2018 (Gross Revenue)



Movement from year to year represents conservative tax revenue estimates using projected new construction growth.

Property Tax Strategy

The Municipality's taxation strategy is guided by the underlying principles of predictability, stability and transparency.

The taxation strategy seeks to achieve:

- **Urban Residential Taxation Class:** this class will have one of the lowest total tax burdens per square foot as compared to major Alberta cities.
- **Rural Residential Taxation Class:** this class will have an equal or lower tax burden per square foot as compared to Urban Residential Taxation Class.
- **Urban Non-Residential Taxation Class:** this class will have one of the lowest total tax burdens per square foot as compared to major Alberta cities.
- **Rural Non-Residential Taxation Class:** this class has the highest assessed value and growth in the Municipality. The tax rate has seen minimal change, year over year.

The property taxation strategy contributes to the affordability of living and working in the region while supporting long term capital infrastructure needs. The strategy also takes into account the growth facing the region and the underlying growth drivers.

SALES TO OTHER GOVERNMENTS

This category includes revenue arising from transactions between the Municipality and other public entities such as Indigenous and Northern Affairs Canada (INAC).

Figure 12 Sales to Other Governments 2012-2018

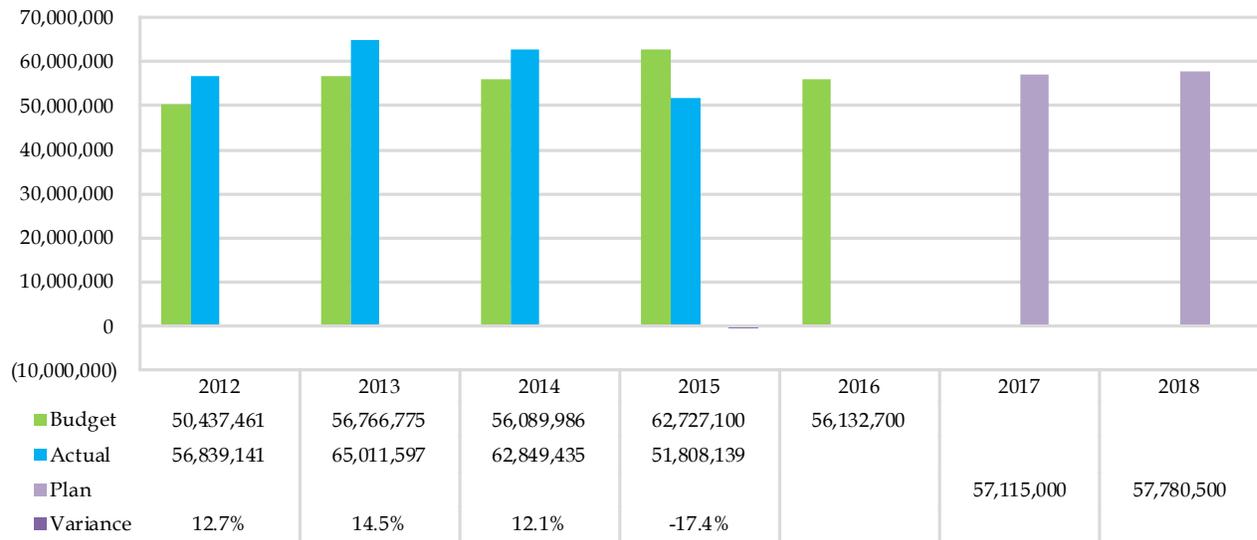


In the 2016 Proposed Amended Budget, revenue generated from Sales to Other Governments will total \$3.47M. It is expected that the Municipality will maintain 2016 revenue levels in 2017 and 2018 for this category.

SALES OF GOODS & SERVICES

Sales of Goods & Services is a category that includes various items such as revenue from utility, ambulance, community program and facility fees.

Figure 13 Sales of Goods & Services 2012-2018

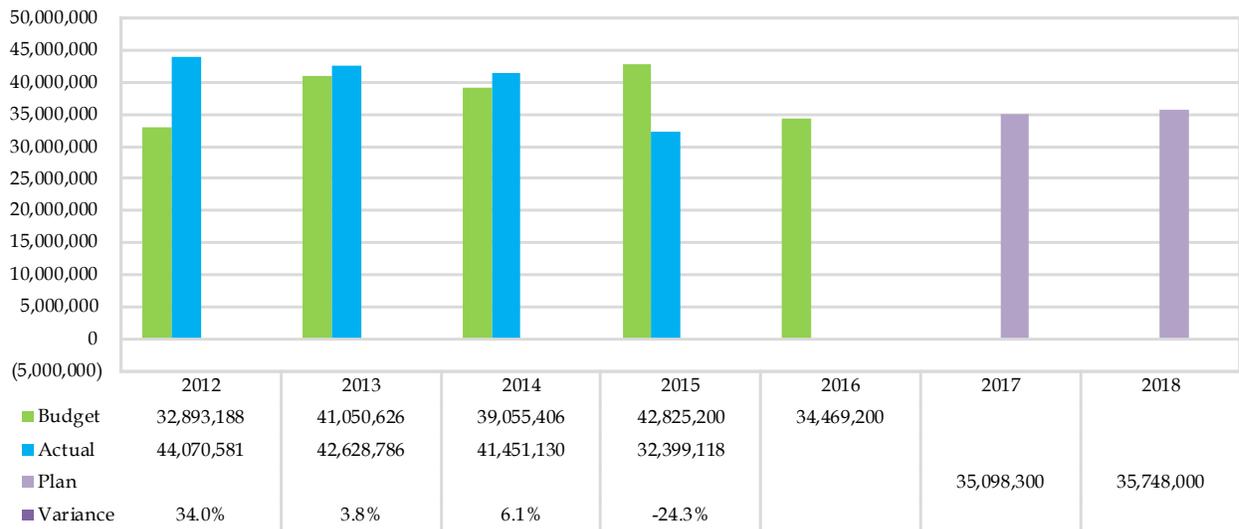


Actual revenue from the Sales of Goods & Services decreased in 2015, which is attributed to the economic downturn and reduction in many commercial based services. The 2016 Proposed Amended Budget from this category is approximately \$56.1M—about 6.2% of the total 2016 revenue budget.

OTHER REVENUE FROM OWN SOURCES

This category includes revenue from permits, fines and penalties, franchise fees, and interest from investments. The 2016 Proposed Amended Budget from this category is approximately \$34.5M—approximately 3.8% of the total 2016 revenue budget. The decline in 2015 is attributed to decline in economic activity within the region which had a major impact on development permits. This trend is reflected in 2016-2018.

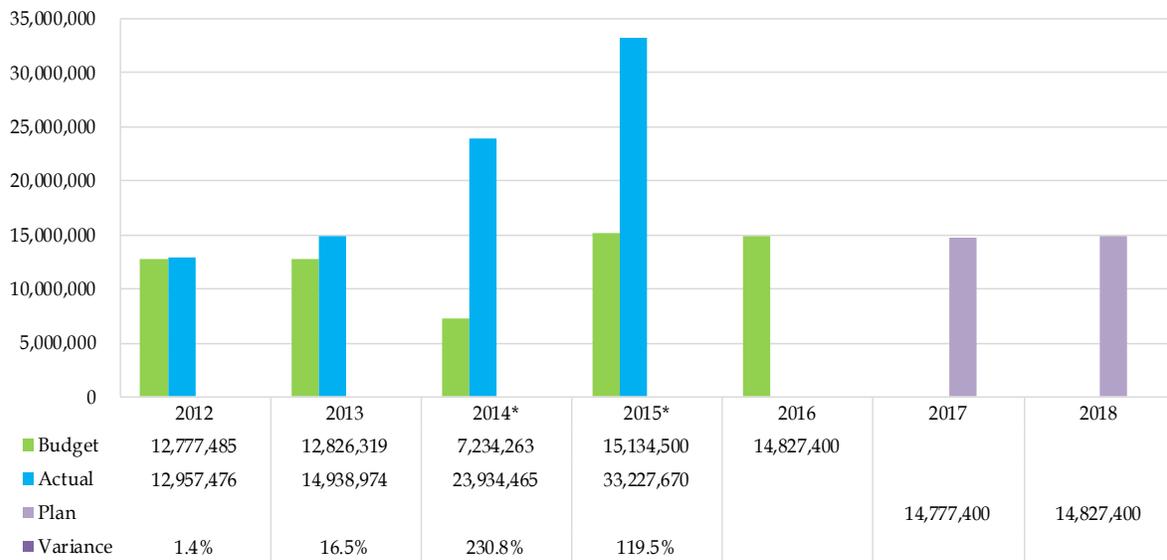
Figure 14 Other Revenue from Own Sources 2012-2018



GRANTS

Grants include both conditional and unconditional, operating grants secured from federal and provincial government(s). Variances arise mainly from grants which were not budgeted but were approved and received in the year. This category makes up about 1.6% of the total 2016 revenue budget.

Figure 15 Grants 2012-2018

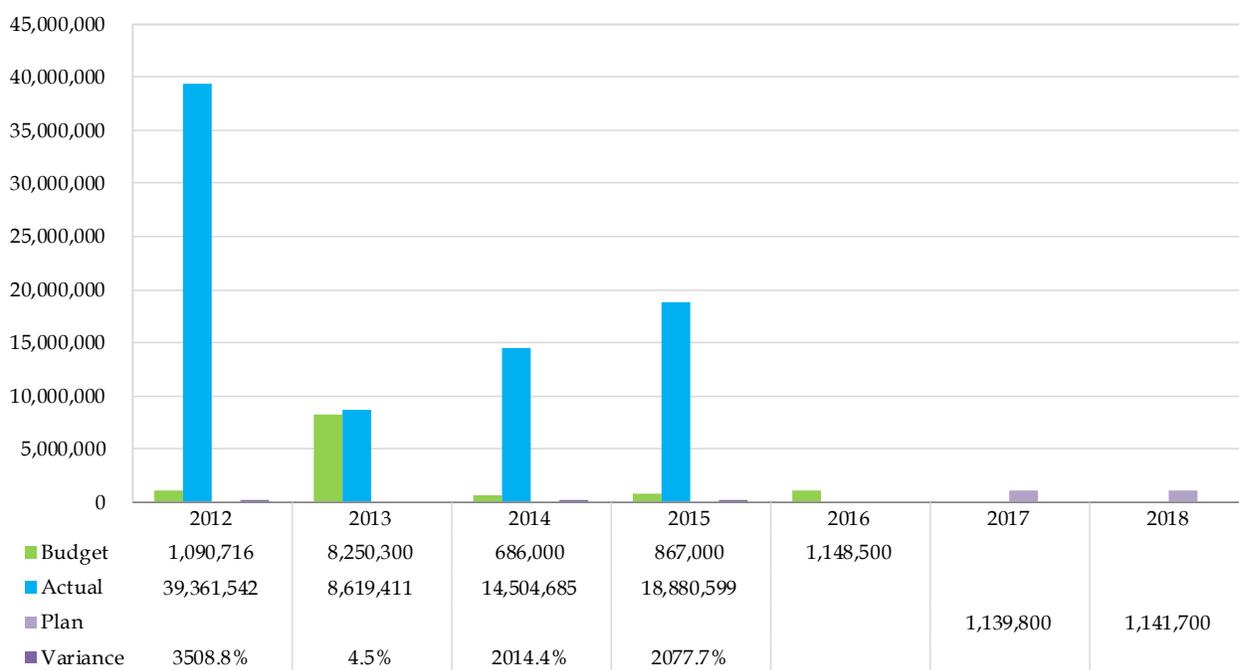


* 2014 actual to budget variance is due to: 1) uncertainty of receiving a \$6.0M Provincial Grant from Alberta Health Services, therefore originally excluded from budget, and 2) an unbudgeted transfer from Capital Infrastructure Reserve of \$6.8M to fund operating expenses included in capital projects.

OTHER TRANSFERS

The two main revenue items that are recorded in this category are transfers from reserves and internal charge allocations. Transfers from reserves are not usually budgeted and only reflected in actuals since these funds are already approved by Council. The variances are therefore due to operating expenses transferred from reserves including carryforwards. Planned balances in 2016-2018 are mainly transfers for the Photo Radar Enforcement Program. Net revenue from the Photo Radar Enforcement Program is transferred to Community Initiatives Reserves and allocated to preventive programs and community grants.

Figure 16 Other Transfers 2012-2018



*Carry forward amounts are transfers for initiatives approved in the prior year but not completed. This ensures that future budgets are not impacted.

EXPENSE SUMMARIES

The Municipality has eight expense categories:

- Salaries, Wages & Benefits
- Contracted & General Services
- Purchases from Other Governments
- Materials, Goods, Supplies & Utilities
- Small Equipment & Furnishings
- Transfers & Grants
- Financial Service Charges
- Other Expenses

Figure 17 2016 Proposed Amended Operating Budget Expense Composition, \$510,495,300

	2016 - Approved Budget	2016 - Proposed Amended Budget	Additional Expenses
Expenses			
Salaries, Wages & Benefits	261,310,200	261,310,200	-
Contracted & General Services	106,048,100	106,048,100	-
Purchases from Other Governments	28,147,800	28,147,800	-
Materials, Goods, Supplies & Utilities	38,663,000	38,663,000	-
Small Equipment & Furnishings	3,205,800	3,205,800	-
Transfers & Grants	41,737,300	41,737,300	-
Financial Services Charges	30,294,300	30,294,300	-
Other Expenses	1,088,800	1,088,800	-
Subtotal	510,495,300	510,495,300	-
Capital Infrastructure Reserve	320,212,900	320,212,900	-
Emerging Issues Reserve*	-	77,313,200	77,313,200
Total	830,708,200	908,021,400	77,313,200

*increase in Transfers to EIR in 2016 - 2018 are a result of increased Property taxes from new construction growth. These funds are designated for costs associated with assessment appeals.

Figure 18 2016 Proposed Amended Operating Budget Expense Composition Chart, \$510,495,300

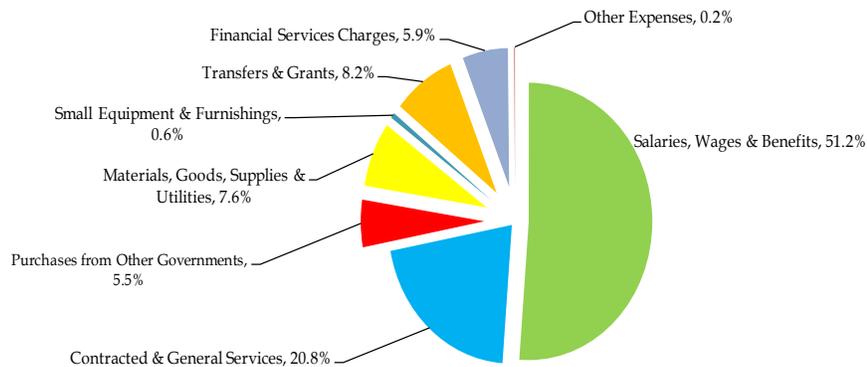


Figure 19 Expense Trend Analysis 2014-2018

	2014 - Actual (Audited)	2015 - Actual	2016 - Proposed Amended Budget	2017 - Proposed Adjusted Financial Plan*	2018 - Proposed Adjusted Financial Plan*
Expenses					
Salaries, Wages & Benefits	189,168,739	221,108,134	261,310,200	269,734,100	282,898,600
Contracted & General Services	137,289,252	108,151,224	106,048,100	107,523,900	109,497,100
Purchases from Other Governments	23,387,184	23,788,887	28,147,800	28,770,800	30,208,500
Materials, Goods, Supplies & Utilities	27,606,698	28,300,188	38,663,000	40,660,600	41,426,500
Small Equipment & Furnishings	4,414,089	7,092,291	3,205,800	3,285,300	3,345,600
Transfers & Grants	81,682,329	61,507,877	41,737,300	43,550,100	45,197,100
Financial Services Charges	31,159,516	31,112,585	30,294,300	51,523,200	72,726,100
Other Expenses	11,323,841	19,350,732	1,088,800	1,086,900	1,115,700
Total Expenses	506,031,649	500,411,917	510,495,300	546,134,900	586,415,200
Original Budget and Plan - Dec 8, 2015	506,031,649	500,411,917	510,495,300	525,564,900	543,046,200
Change in Expenses	-	-	-	20,570,000	43,369,000
Original Transfer to Reserves - Dec 8, 2015	269,713,713	285,499,020	320,212,900	333,852,500	330,065,800
Amended Transfer to CIR	269,713,713	285,499,020	320,212,900	313,282,500	286,696,800
Amended Transfer to EIR**	-	31,539,022	77,313,200	77,700,400	76,051,800
Additional Transfer to Reserves	-	31,539,022	77,313,200	57,130,400	32,682,800
Total Change from original budget and plan**	-	31,539,022	77,313,200	77,700,400	76,051,800

*includes estimated debt services obligation for debt drawn in the year.

**increase in Transfers to EIR in 2016 - 2018 are a result of increased Property taxes from new construction growth. These funds are designated for costs associated with assessment appeals.

Figures 20 and 21 provide details of the variances in the operating plan years.

Figure 20 2017 Proposed Amended Operating Plan Expense Composition

	2017 Approved Plan	2017 Proposed Adjusted Plan**	Changes
Expenses			
Salaries, Wages & Benefits	269,734,100	269,734,100	-
Contracted & General Services	107,523,900	107,523,900	-
Purchases from Other Governments	28,770,800	28,770,800	-
Materials, Goods, Supplies & Utilities	40,660,600	40,660,600	-
Small Equipment & Furnishings	3,285,300	3,285,300	-
Transfers & Grants	43,550,100	43,550,100	-
Financial Services Charges	30,953,200	51,523,200	20,570,000
Other Expenses	1,086,900	1,086,900	-
Total Expenses	525,564,900	546,134,900	20,570,000
Capital Infrastructure Reserve	333,852,500	313,282,500	(20,570,000)
Emerging Issues Reserve*	-	77,700,400	77,700,400
Total	859,417,400	937,117,800	77,700,400

*increase in Transfers to EIR in 2016 - 2018 are a result of increased Property taxes from new construction growth. These funds are designated for costs associated with assessment appeals.

**includes estimated debt services obligation for debt drawn in the year

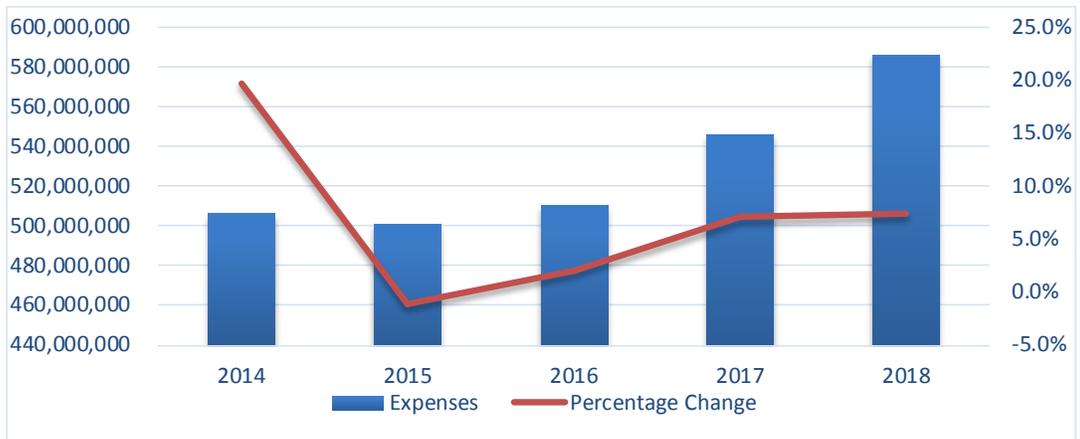
Figure 21 2018 Proposed Amended Operating Plan Expense Composition

	2018 Approved Plan	2018 Proposed Adjusted Plan**	Changes
Expenses			
Salaries, Wages & Benefits	282,898,600	282,898,600	-
Contracted & General Services	109,497,100	109,497,100	-
Purchases from Other Governments	30,208,500	30,208,500	-
Materials, Goods, Supplies & Utilities	41,426,500	41,426,500	-
Small Equipment & Furnishings	3,345,600	3,345,600	-
Transfers & Grants	45,197,100	45,197,100	-
Financial Services Charges	29,357,100	72,726,100	43,369,000
Other Expenses	1,115,700	1,115,700	-
Total Expenses	543,046,200	586,415,200	43,369,000
Capital Infrastructure Reserve	330,065,800	286,696,800	(43,369,000)
Emerging Issues Reserve*	-	76,051,800	76,051,800
Total	873,112,000	949,163,800	76,051,800

*increase in Transfers to EIR in 2016 - 2018 are a result of increased Property taxes from new construction growth. These funds are designated for costs associated with assessment appeals.

**includes estimated debt services obligation for debt drawn in the year.

Figure 22 Expense Profile 2014-2018



2016-2017 EXPENSE STRATEGY

Monthly, quarterly and annual financial reports are prepared to compare the actual revenues and expenses to budgeted amounts. These reports are distributed to management for review.

Budgets must be in place for all expenses for both operating and capital costs. An expenditure may be made for an emergency that was not contemplated in the financial plan but the plan is amended, as soon as practical, to include the expense and the funding source.

Reallocation of the approved Budget can be approved by Administration, in accordance with Fiscal Responsibility Policy Fin-160.

For the preparation of the FMS, certain expense assumptions have been made:

- Debt may be drawn three years after commitment or approval by Council.
- An interest rate of 2.9% has been assumed for future debt draws.

Salaries, Wages and Benefits usually account for approximately 51% of the Municipality's Operating Budget. There are labour agreements in place with the Canadian Union of Public Employees (CUPE) for the period January 1, 2014 – December 31, 2017 and with the International Association of Fire Fighters (IAFF) for the period January 1, 2014 – December 31, 2016.

Exempt staff salary increases are guided by Exempt Performance Management Policy HRM – 55 based on annual performance reviews and market rate adjustments.

Vacant positions are partially funded based on estimated hiring dates.

The Municipal debt strategy is:

- Current debt limit is not to exceed 85% of the debt limit per Municipal Government Act.
- Proposed debt limit to be reviewed for potential reduction to 75% of debt limit per Municipal Government Act. Additional review will be undertaken relative to the reduction to the debt service limit in response to current economic conditions.

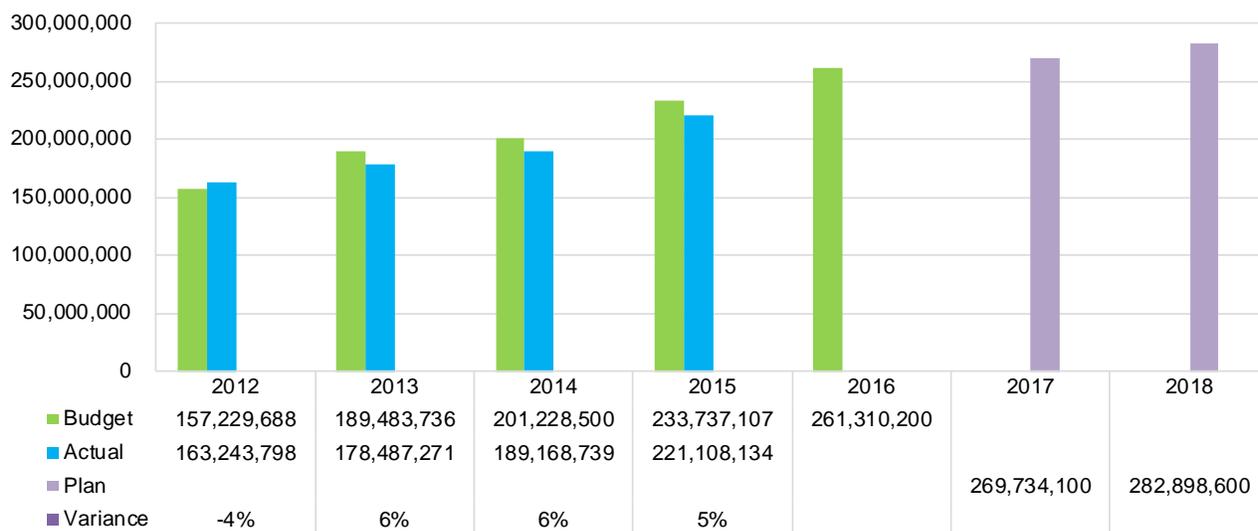
SALARIES, WAGES & BENEFITS

Salaries, Wages & Benefits account for 51.2% of the 2016 Proposed Amended Operating Budget totaling \$261M. The budget has increased by 18% from the previous year actual, due to:

- Full year wages and benefits for Transit-CUPE employees included in 2016 Budget. Due to the ongoing efforts to decrease reliance on contracted services, Transit services were brought in-house in May 2015 with a wage increase provision attributable to the new Transit-CUPE collective agreement.
- 2016 Salaries, Wages and Benefits increases. Provisions for wage increases for CUPE and IAFF staff are in accordance with each collective agreement. Exempt staff salary increases are based on performance, as per the exempt compensation plan.
- Funding for outstanding vacant positions has been included based on planned occupancy and in accordance with the 2016 Budget Development Principles.

The Municipality had 1,685 approved personnel positions in 2015. By the end of 2016, the Municipality will reduce the approved positions to 1,655, based on Council's motion on December 8th, 2015.

Figure 23 Salaries, Wages & Benefits 2012-2018

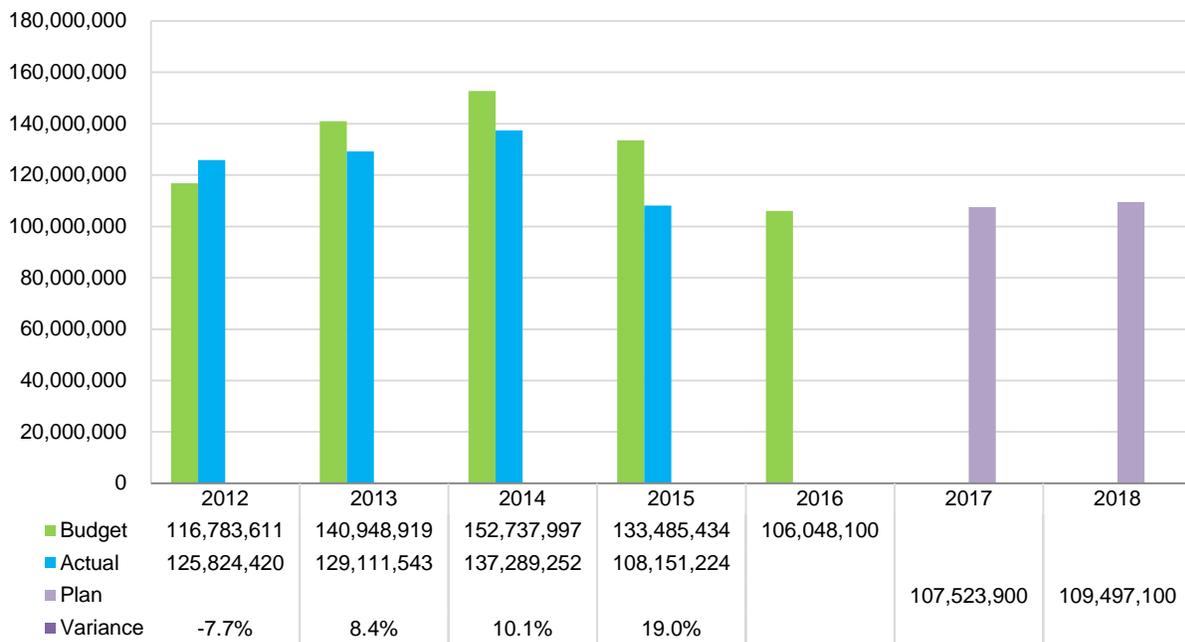


A consistent approach that aligns budget provisions to hiring delays is now in place. Vacancies and new positions have been critically reviewed and partially funded based on estimated 2016 hiring dates and 2015 occupancy trends. The 2016 personnel budget also includes funding for 67 temporary positions and 130 students to address short term work or projects and seasonal operations. There were no new FTE requests for 2016.

CONTRACTED & GENERAL SERVICES

Contracted & General Services consist of various expense categories including recruitment, training, travel, telephones & internet, professional services, legal costs and other minor expense categories. This category represents 20.8% of the total 2016 Proposed Amended Operating Budget expenses.

Figure 24 Contracted & General Services 2012-2018



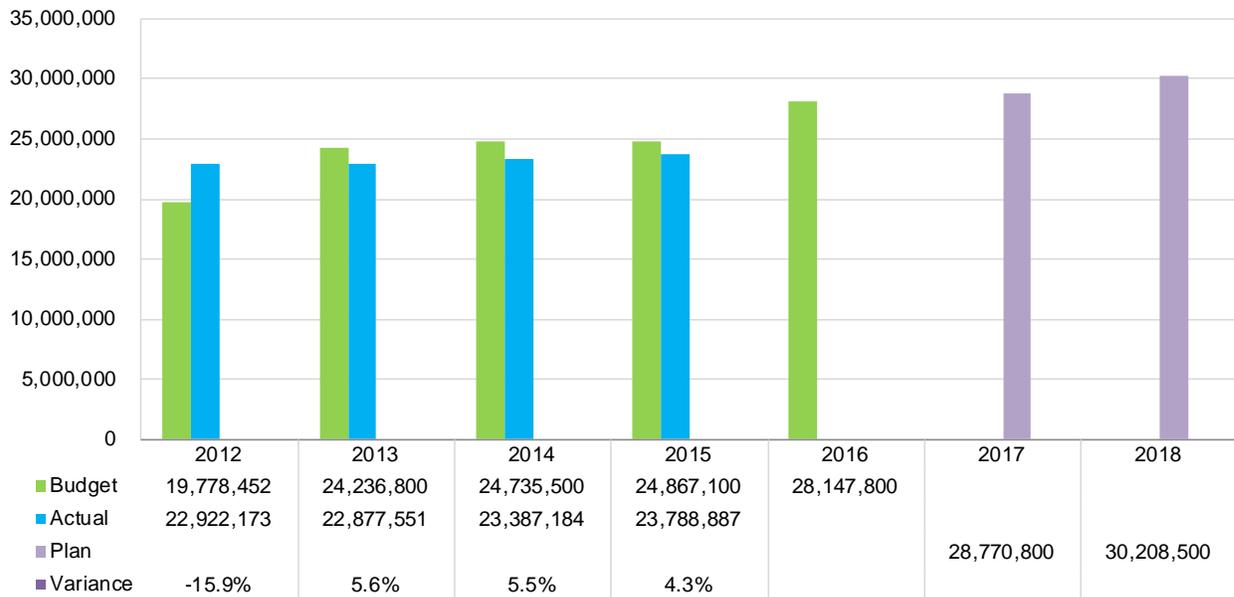
This expense category is influenced by operating projects and changes in pricing of ongoing operations. Contracted & General Services continue to decrease due to ongoing efforts by Administration to bring services in-house and reduce reliance on external contractors. The slight increase in 2017 and 2018 is as a result of factoring in inflation.

PURCHASES FROM OTHER GOVERNMENTS

Purchases from Other Governments include transactions between other municipalities or other public agencies. A significant portion of these costs are related to the RCMP contract.

Purchases from Other Governments represent 5.5% of the 2016 Proposed Amended Operating Budget and are expected to increase steadily over the next few years as a result of increases in contract costs.

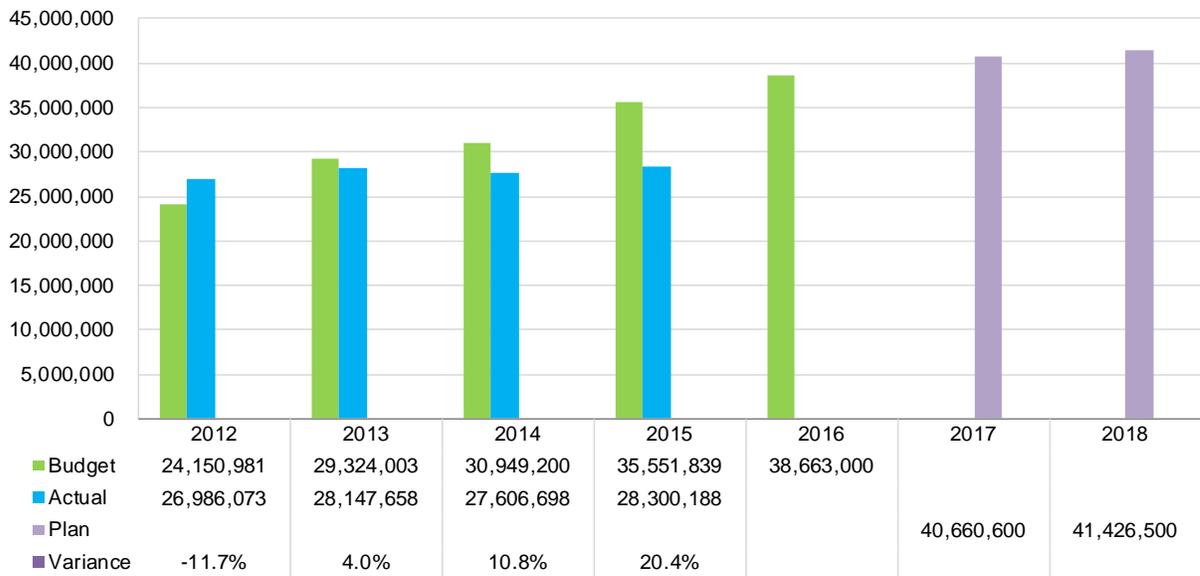
Figure 25 Purchases from Other Governments 2012-2018



MATERIALS, GOODS, SUPPLIES & UTILITIES

The Materials, Goods, Supplies & Utilities category consists of expenses incurred to maintain and operate the Municipality on a daily basis. The major items in this category include fuel & lubes, chemicals & salts, natural gas and electricity. This category makes up 7.6% of the 2016 Proposed Amended Operating Budget.

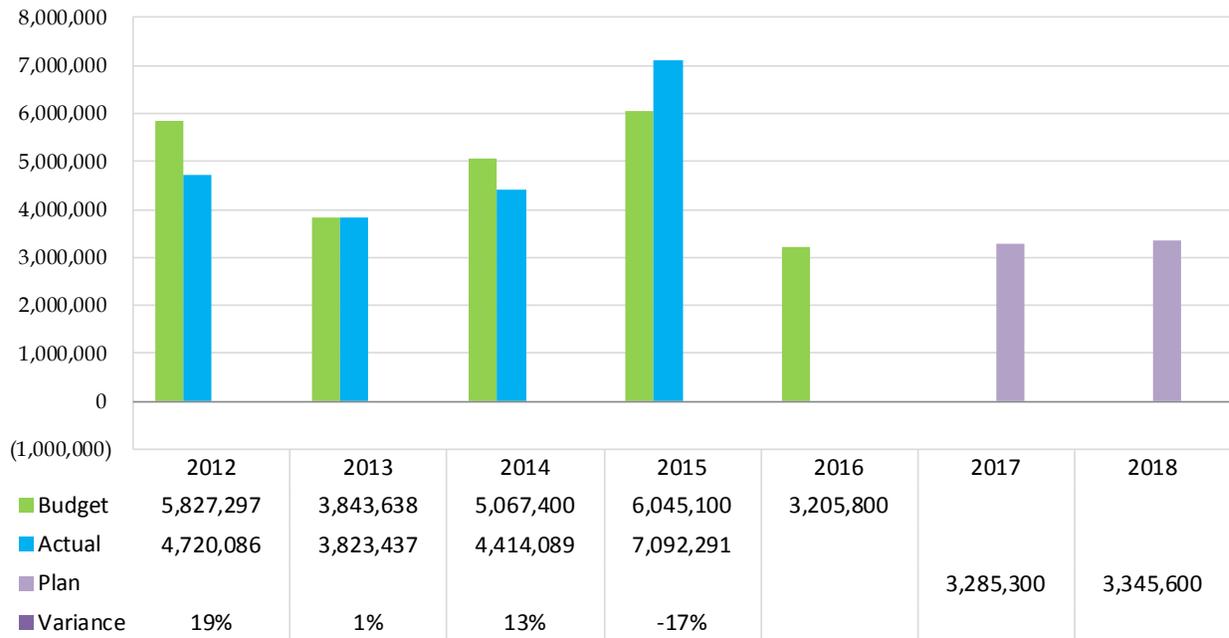
Figure 26 Materials, Goods, Supplies & Utilities 2012-2018



SMALL EQUIPMENT & FURNISHINGS

The major categories in Small Equipment & Furnishings include office equipment, computer hardware and field equipment, which are below the capital threshold.

Figure 27 Small Equipment & Furnishings 2012-2018

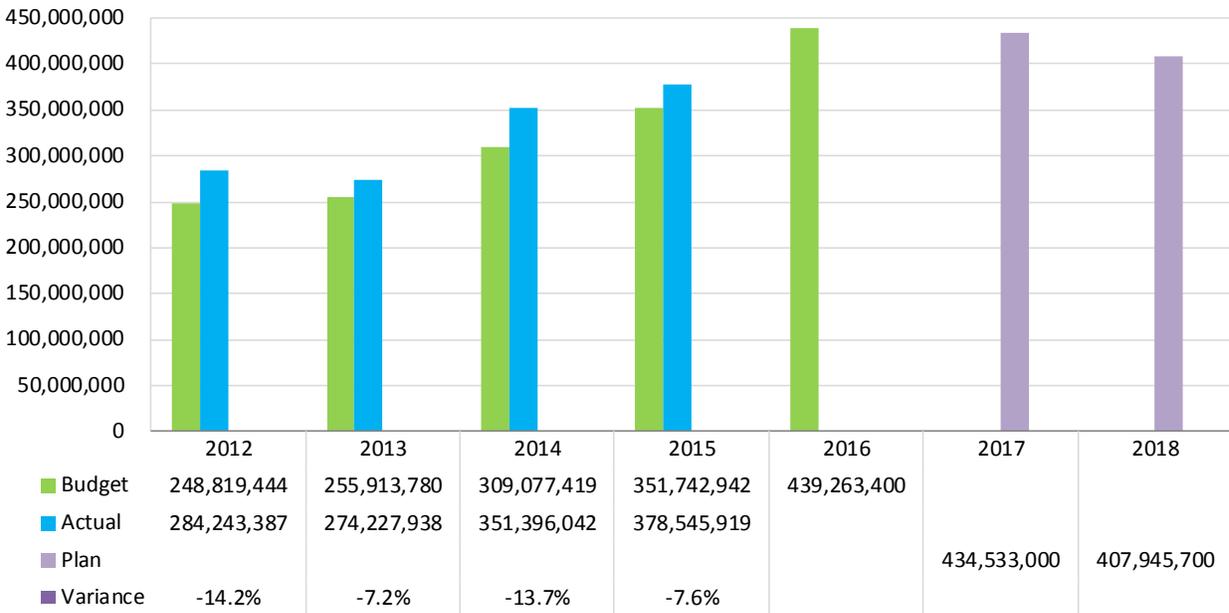


Increased expenses for 2015 were mainly due to the increased number of computers that were due for replacement in 2015. There is a reduction in planned expenses for 2016 for the purchase of rolling bins and replacement water meters as these programs have been fully implemented.

TRANSFERS & GRANTS

This expense category includes grant funding to various community organizations as well as transfers to reserves and other internal charges. The amounts presented in Figure 28 include transfers to Emerging Issues and Capital Infrastructure Reserves as approved by Council and are committed for current and future funding requirements.

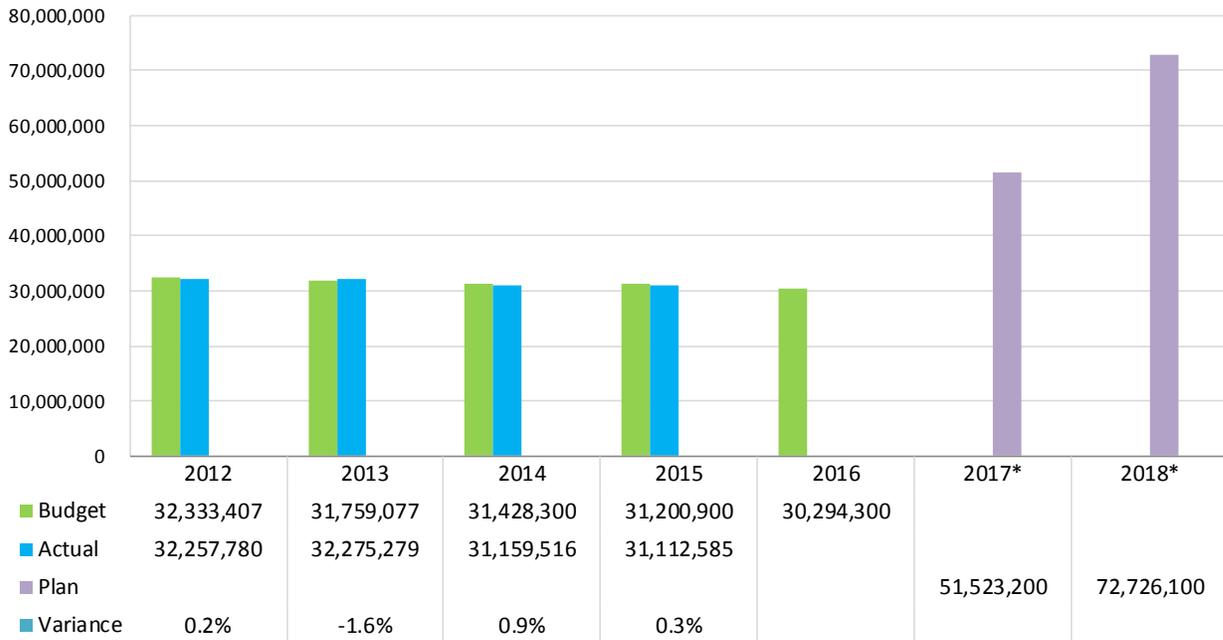
Figure 28 Transfers & Grants 2012-2018



FINANCIAL SERVICES CHARGES

Items included in this category are bank charges, debenture principal and debenture interest, and investment related fees. Debt service budget provisions are based on actual debt drawn or expected to be drawn in future years.

Figure 29 Financial Services Charges 2012-2018



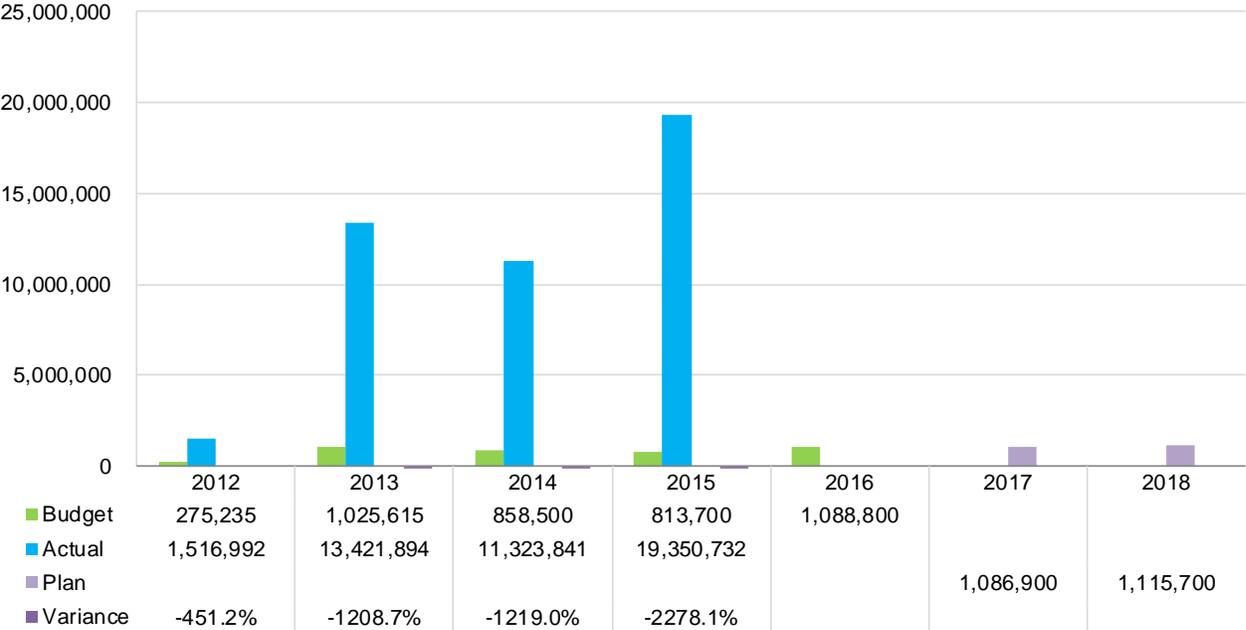
*Includes additional estimated debt services obligation for proposed debt to be drawn in the year

The Municipality assumes to draw on debt three (3) years after commitment or approval by Council. Debt services obligation increases when additional debt is drawn. In 2016 no additional debt is expected to be drawn. However, in 2017 and 2018, 50% of undrawn committed debt of 2014 and 2015 respectively may be drawn. Based on the financial plan which was approved by Council in December 2015, these potential debt services charges have been included in the FMS. The impact on debt service limits is reflected in the section "Debt and Debt Service Limits". Administration continues to monitor cash flow requirements as well as prevailing and projected interest rate levels.

OTHER EXPENSES

Charges related to tax appeal adjustments and cancellations, internal services, bad debt expense, inventory shrinkage are the major expenses that are recorded in this category.

Figure 30 Other Expenses 2012-2018



The variance between 2012 and 2013 is attributed to transfers of operating costs relating to approved capital projects. These costs do not qualify to be recorded as Tangible Capital Assets, and must be expensed as operating costs. Funding was provided within original capital project budgets.

The majority of the actual costs in 2013 to 2015 relates to tax appeal adjustments.

WOOD BUFFALO UTILITY CORPORATION (WBUC)

A presentation was first made to Council in June 2012, along with a subsequent presentation in March 2015, which outlined the purpose of the WBUC as providing an alternative delivery method for those services currently being provided by Environmental Services; specifically water, wastewater, solid waste, underground services, and trade services. The WBUC would also undertake exploring and promoting the following opportunities:

- Implementation of green practices and operations on a regional basis with potential for positive impact on climate change, waste diversion, renewable energy, water conservation and water quality;
- Generation of new sustainable income through innovative service agreements and partnerships;
- Local economic diversification and employment opportunities;
- Provision of value-added benefits with no increase in costs for residential services;
- Opportunity for partnerships with regional educational institutions; and
- New sustainable skill set development and career opportunities for staff to maximize recruitment and retention efforts.²

The terms and conditions of the formation of the WBUC have yet to be decided. The FMS has been prepared with the assumption that the WBUC will proceed at the beginning of 2017. However, the final impact on the financial plan cannot be determined until the WBUC has been approved by the Province. At the time of publication, the financial impact for 2017 is based on the WBUC business case that was prepared in 2012, along with the expected reduction in expenses from the 2017 Fiscal Plan that were approved by Council December 2015, and is reconciled in Figure 31a & 31b.

The WBUC will pay a dividend and franchise fee to the Municipality, and in turn, the Municipality will incur a service fee as payment to the WBUC for the provision of utility services.

The consolidated impact of the WBUC is presented in the following reconciliation.

² Investigation of a Municipal Controlled Corporate Utility Model for Environmental Services, Regional Municipality of Wood Buffalo Council Meeting Minutes, December 13, 2011, www.woodbuffalo.ab.ca.

Figure 31a Impact of WBUC on Financial Plan 2017

Reconciliation of WBUC Changes - 2017				
	Municipal Changes	WBUC Changes	Consolidated Changes	Comments
Revenues				
Sales of Goods & Services	(18,596,874)	61,138,343	42,541,469	Municipality: Dividend & Franchise Fee WBUC: Service Fee
	(18,596,874)	61,138,343	42,541,469	
Expenses				
Salaries, Wages & Benefits	(29,696,123)	29,696,123	0	Transferred to WBUC
Contracted & General Services	(13,242,085)	13,242,085	0	Transferred to WBUC
Contracted & General Services - Fee	38,252,928	0	38,252,928	Service Fee paid by Municipality
Materials, Goods, Supplies & Utilities	(7,883,610)	7,883,610	0	Transferred to WBUC
Small Equipment & Furnishings	(844,954)	844,954	0	Transferred to WBUC
Dividend	0	2,000,000	2,000,000	
Franchise Fee	0	2,288,541	2,288,541	
	(13,413,844)	55,955,313	42,541,469	
CHANGES TO MUNICIPALITY	(5,183,030)	5,183,030	0	

Figure 31b Impact of WBUC on Financial Plan 2018

Reconciliation of WBUC Changes - 2018				
	Municipal Changes	WBUC Changes	Consolidated Changes	Comments
Revenues				
Sales of Goods & Services	(19,100,515)	62,975,364	43,874,849	Municipality: Dividend & Franchise Fee WBUC: Service Fee
Sales of Goods & Services		949,000	949,000	Increased Income Opportunities
	(19,100,515)	63,924,364	44,823,849	
Expenses				
Salaries, Wages & Benefits	(30,587,006)	30,587,006	0	Transferred to WBUC
Contracted & General Services	(13,506,926)	13,506,926	0	Transferred to WBUC
Contracted & General Services - Fee	39,397,778	0	39,397,778	Service Fee paid by Municipality
Materials, Goods, Supplies & Utilities	(8,041,283)	8,041,283	0	Transferred to WBUC
Small Equipment & Furnishings	(1,085,378)	1,085,378	0	Transferred to WBUC
Dividend	0	2,060,000	2,060,000	
Franchise Fee	0	2,417,071	2,417,071	
	(13,822,815)	57,697,664	43,874,849	
CHANGES TO MUNICIPALITY	(5,277,700)	6,226,700	949,000	

DEBT AND DEBT SERVICE

Debt Limit and Debt Service Limit for the Municipality are governed by Alberta Regulation 255/2000 of the Municipal Government Act (MGA) and Municipality's Debt Management Policy FIN-120.

DEBT STRATEGY

The Municipality uses debt to fund capital projects based on two principles:

- Use debt to fund capital projects that have a longer useful life.
- Use debt finance as a funding source of "last resort."

The first principle respects the *inter-generational equity philosophy*, which states that each generation that benefits from an amenity must bear their fair share of financial burden, and the second principle indicates a conservative approach to debt use.

The Municipality considers the use of alternative sources of funding such as grants, developer contributions, off-site levies, donations, user fees, or reserves for capital asset acquisition or construction to minimize the requirement for debt. The Alberta Capital Finance Authority (ACFA) is the lender of choice unless a more attractive loan arrangement is available from another acceptable lender.

For a municipality facing demand for new infrastructure and infrastructure rehabilitation, use of debt is a reality as general revenue growth typically lags infrastructure demand.

To continue to be prudent with the Municipality's debt strategy, Administration is proposing a debt limit reduction to 75%, from the current 85%. A review of the debt services limit will be conducted in response to the current economic conditions.

Figure 32 outlines the Debt Limit and Debt Service Limit calculations of actual and committed debt.

Figure 32 Debt Limit and Debt Service Calculations, All Debenture Funded Projects

	2016 (\$M)	2017 (\$M)	2018 (\$M)
DEBT LIMIT			
Revenue of Prior Year*	797	907	936
Debt Limit-per MGA (2xRevenue)	1,593	1,815	1,873
Council Approved Limit (85% of MGA limit)	1,354	1,542	1,592
Actual Debt	286	269	253
Undrawn Debt	739	784	786
Actual Total Debt Percentage	17.9%	14.8%	13.5%
Committed Debt (Actual & Undrawn)	1,025	1,053	1,039
Committed Debt Percentage	64.3%	58.1%	55.5%
DEBT SERVICE			
Debt Service Limit-per MGA (35% of Revenue)	279	318	328
Council Approved Limit (85% of MGA limit)	237	270	279
Actual Debt Service	30	29	29
Actual Debt Service Percentage	10.7%	9.3%	8.8%
Undrawn Debt Service	49	52	52
Undrawn Debt Service Percentage	17.4%	16.2%	15.8%
Total Debt Service	79	81	81
Total Debt Service Percentage	28.5%	25.5%	24.9%
*For calculating debt limit, revenue does not include Contributions of Tangible Capital Assets nor Grants. It is based on the prior year revenue, as required by the MGA.			

DEBT LIMIT

The MGA states that a Municipality cannot exceed the debt limit of two times the Municipality's total revenue.³ Council has approved a Debt Management Policy (FIN-120), which permits a debt limit up to 85% of the provincially legislated limit.

³ Total revenue reported in the last year audited annual financial statement

DEBT LIMIT CALCULATION

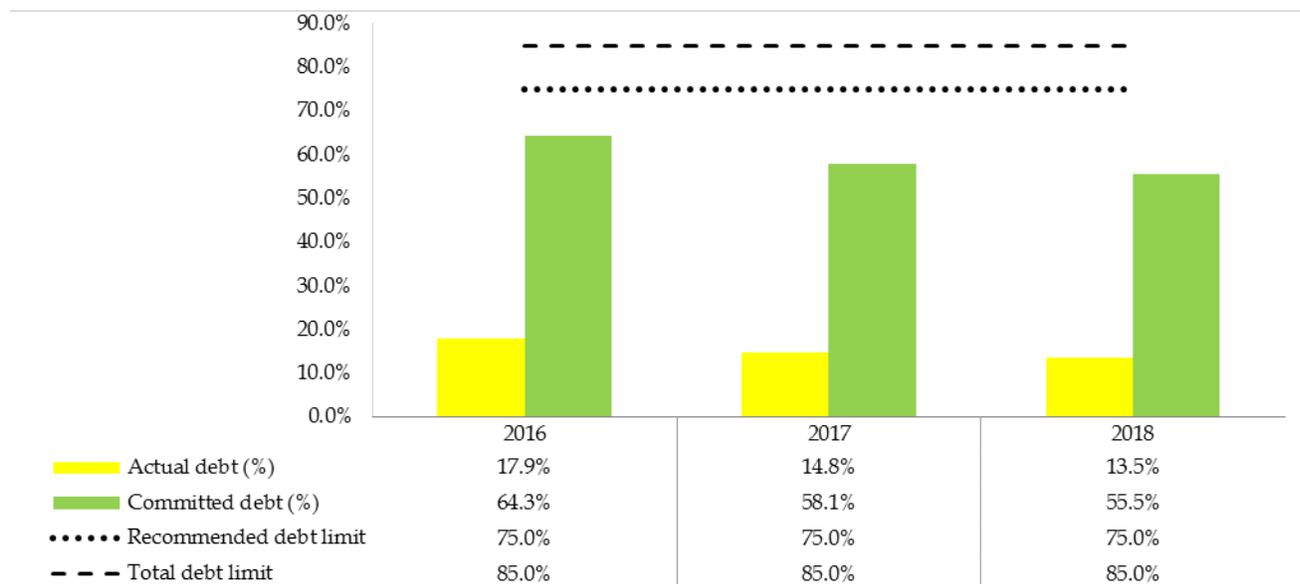
Previous year's Revenue x 2 = MGA Debt Limit

MGA Debt Limit x 85% = Municipal Debt Limit

Actual debt refers to actual debentures drawn and outstanding by the Municipality. Committed debt is the total of actual debt and the amount of debt that Council has approved through the capital budget process but has not been drawn.

The Administration is recommending amending the Debt Management Policy (FIN-120) to reduce the permitted debt limit from 85% to 75%. The recommendation to reduce the Municipality's debt limit to 75% of the provincial debt limit does not affect current actual or committed debt.

Figure 33 Debt Limit Trend 2016 - 2018

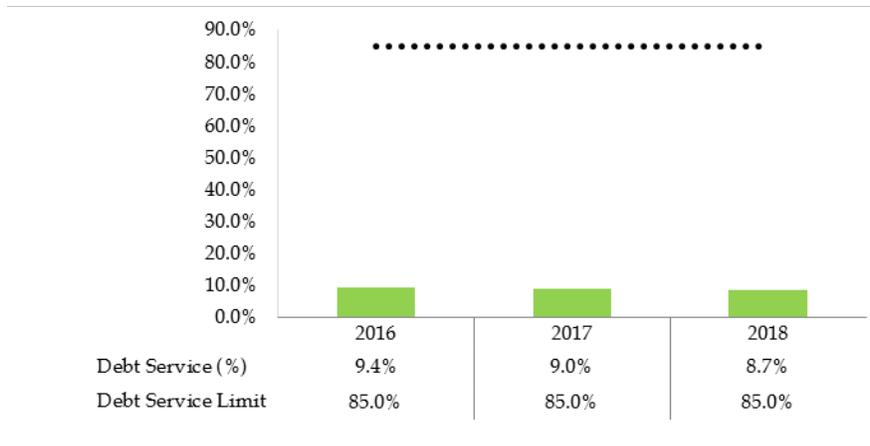


DEBT SERVICE LIMIT

Debt Service is defined as annual principal and interest amounts owing on outstanding loans made by the Municipality plus annual principal and interest amounts that the Municipality will be liable to pay on loans guaranteed by the Municipality.

The MGA debt service limit is calculated as 35% of the total revenue. The Municipality's Debt Management Policy establishes a limit of 85% of the legislated limit. As depicted in Figure 34a, the Municipality's debt service is under the prescribed limit of 85%. Debt Service limit will be reviewed to support prudent financial management.

Figure 34a Debt Service Comparison (%) 2016-2018



While total committed debt is tracked, committed debt service is more difficult to project based on timing and interest at time of rate of draw. For planning purposes, debt is assumed to be drawn three years after Council's approval as shown in Figure 34b. In 2016 no additional debt is expected to be drawn.

Figure 34b Actual and Expected Debenture Draws

Years	2016	2017	2018
	(\$)	(\$)	(\$)
Actual Debt	286	269	253
Actual Debt Service	30	29	29
Undrawn Debt (3 Year Back)	2013	2014 & Prior	2015
Projected Debt to draw (\$ M)	-	620	687
Additional Debt to be drawn (\$ M)	-	310	344
Additional Debt service (\$M)	-	21	43
Total Debt service	30	50	72

*50% of the projected debt to draw is completed in the year and the remaining 50% is drawn in the following year.

FISCAL STABILITY RESERVES

GENERAL RESERVE STRATEGY

The Municipality has an established reserve strategy to meet future operations and capital expenses. The reserve is in place to hedge against future risk factors including:

- Revenue shortfalls
- Unanticipated expenses

In compliance with the Fiscal Responsibility Policy FIN-160, the Municipality holds two main reserves: the Emerging Issues Reserve (EIR) and the Capital Infrastructure Reserve (CIR). Council approval is required to utilize funding from either of these reserves.

EMERGING ISSUES RESERVE (EIR)

The EIR was established by Council in 2002 to stabilize operating revenues in response to unanticipated loss of revenue as well as provide funding flexibility in responding to unplanned events and other initiatives. Funding of the EIR comes from the year end operating surplus (if any).

The EIR is governed as follows:

- Maximum EIR balance equivalent to 15% of the audited prior year’s net property tax revenue and is subject to a minimum uncommitted balance of \$50M.
- Council approval is required to utilize funding from the EIR.

As depicted in Figure 35, the \$50M minimum uncommitted balance is maintained in the EIR for the period 2016 - 2018.

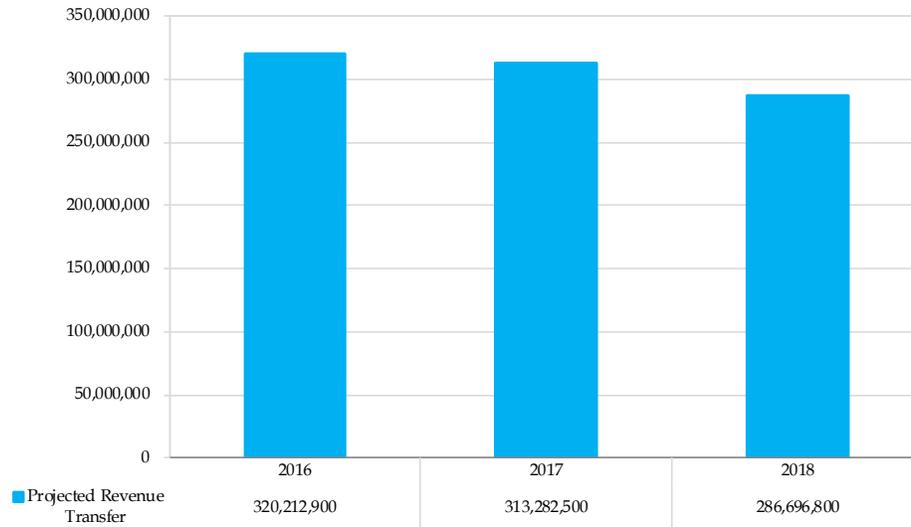
Figure 35 Projected EIR Balances 2016-2018



CAPITAL INFRASTRUCTURE RESERVE (CIR)

The CIR has been established to provide a source for capital project funding with a minimum uncommitted balance of \$50M. The reserve is one funding source for budgeted capital program requirements. The forecasted revenue transfer contributions are presented in Figure 36.

Figure 36 Projected Revenue Transfer to CIR 2016-2018



The Capital budget centres on Building a Strong and Resilient Community as outlined in the 2015-2017 Strategic Plan. We are re-focusing attention to core services which in turn will strengthen our ability to deliver services to our residences in both the urban and rural areas. For the 2016 budget year we will continue with the delivery of existing multi-year projects with prior year approval and the funding of new projects that meet core service needs. Capital projects that are dependent on population growth or expanded future service levels are included in a separate listing and are currently un-resourced and will remain on hold until conditions change.

Projects that require revision or reprioritization by Council to meet funding and resource capacity are presented on an ongoing basis.

INVESTMENTS

INVESTMENT STRATEGY

The Municipality's investment of funds are governed under Investment Policy FIN-140 as approved by Council. The general investment strategies adopted by the Municipality are to:

- Rebalance investment term such that fiscal reserves balances are invested in the medium and long term periods.
- Review current capital project backlog to establish cash flow which would determine term horizon.

The primary objectives of the policy, in order of priority, are:

- **Safety:** investments shall be undertaken in a manner that seeks to ensure the preservation of capital.
- **Liquidity:** the investment portfolio shall remain sufficiently liquid to meet all operating and capital cash requirements that may be reasonably anticipated.
- **Return:** the investments of the fund shall be structured with the objective of attaining a market rate of return commensurate with the respective portfolio benchmark.

The investment type is restricted to fixed income securities that are of high credit rating quality and meet the following parameters:

- Maximum holdings by credit rating: maximum holdings of short, medium and long-term investment portfolio by credit rating are 100% AAA, AA, A rating.
- Maximum holdings by investment portfolio issuer: 100% for federal issues and guarantees; 100% for provincial issues and guarantees; 40% for municipal guarantees; and 40% for corporate issues.

The Municipality's investment governance structure is designed to ensure that the Municipality's investments are managed prudently, appropriately and in compliance with applicable legislation and the investment policy. Funds are managed by independent fund managers. Council approves the investment policy and the Investment Advisory Committee (IAC) provides oversight to the governance and management of the Municipality's investment. IAC is comprised of the Chief Administrative Officer, Deputy Chief Administrative Officer, Chief Financial Officer, Director of Financial Services, and Manager of Financial Planning.

The total book value of the portfolio as at December 31, 2015 was \$379M (market value \$378M). Overall portfolio performance has been slightly below the benchmark in 2015 as a result of market volatility and uncertainty. However, there is no financial risk as investments are held to maturity and the price differential are temporary in nature.

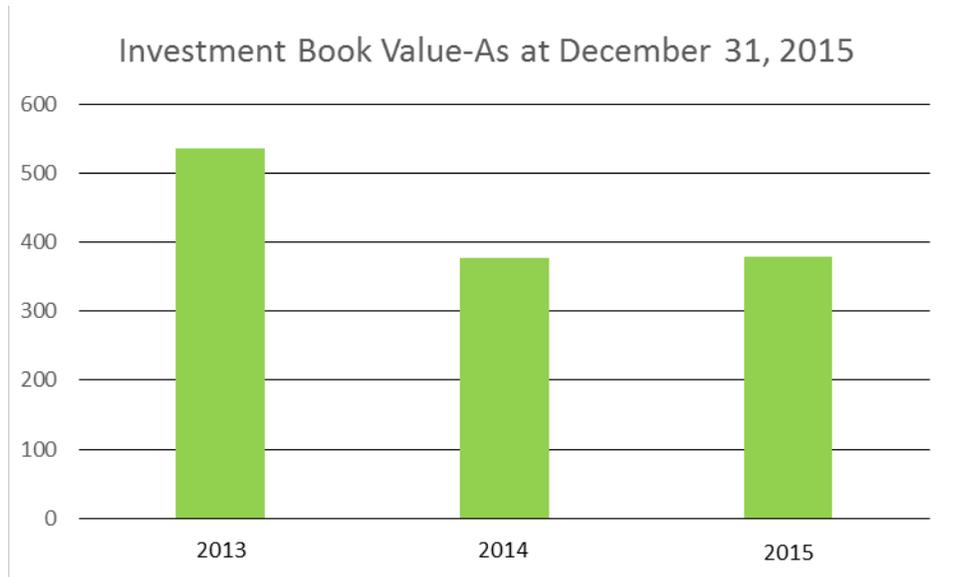
As at December 31, 2015 all investments are within the approved benchmarks as stated in the Investment Policy FIN-140.

Figure 37 Total Portfolio Performance Summary, December 31, 2015

Book Value (\$M)	Performance/Benchmark/Value Added	3 months	1 year	3 years
40	RBC Dominion Securities	0.41%	1.71%	n/a
	FTSE/TMX 91 Day T-Bill Index	0.09%	0.63%	n/a
	Total Value Added	0.32%	1.08%	0.00%
153	CIBC Wood Gundy	0.25%	0.03%	3.82%
	FTSE/TMX Gov't Short Term Index	0.12%	n/a	n/a
	Total Value Added	0.13%	0.00%	0.00%
87	BMO	0.64%	3.33%	3.34%
	FTSE/TMX Canada Short Term Bond Index	0.40%	2.61%	2.47%
	Value Added	0.24%	0.72%	0.87%
	BMO	0.64%	3.33%	3.36%
	FTSE/TMX Canada Long Term Bond Index	1.63%	3.80%	4.50%
	Value Added	-0.99%	-0.47%	-1.14%
	Total Value Added	-0.75%	0.25%	-0.27%
99	Baker Gilmore -long Term	0.38%	1.93%	1.91%
	Benchmark*	0.56%	3.05%	1.91%
	Total Value Added	-0.18%	-1.12%	0.00%
379	RMWB Total	-0.48%	0.21%	-0.27%

The bulk of the Municipality's investment relate to funds for approved capital projects that are currently active. Further, the liquidity of the portfolio is also maintained as most of the investments can be readily converted or liquidated.

Figure 38 Total Investment Cost Trend, 2013-2015 (\$ Millions)



As illustrated in Figure 39, the quality of investment grade is also maintained while achieving an above-market rate of return.

Figure 39 Total Portfolio Investment Quality Analysis, December 31, 2015

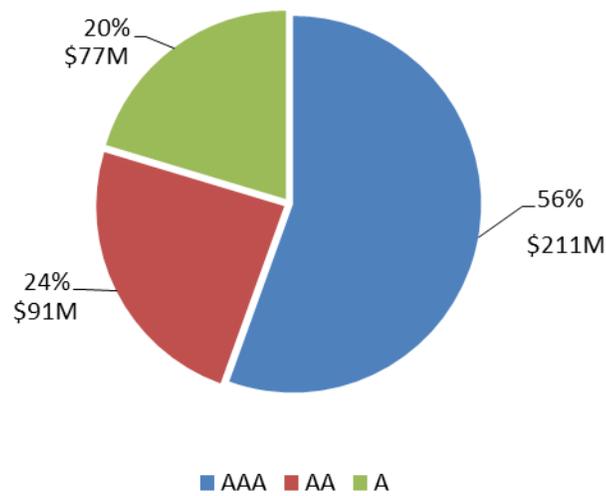


Figure 40 Total Portfolio Issuer Analysis, December 31, 2015

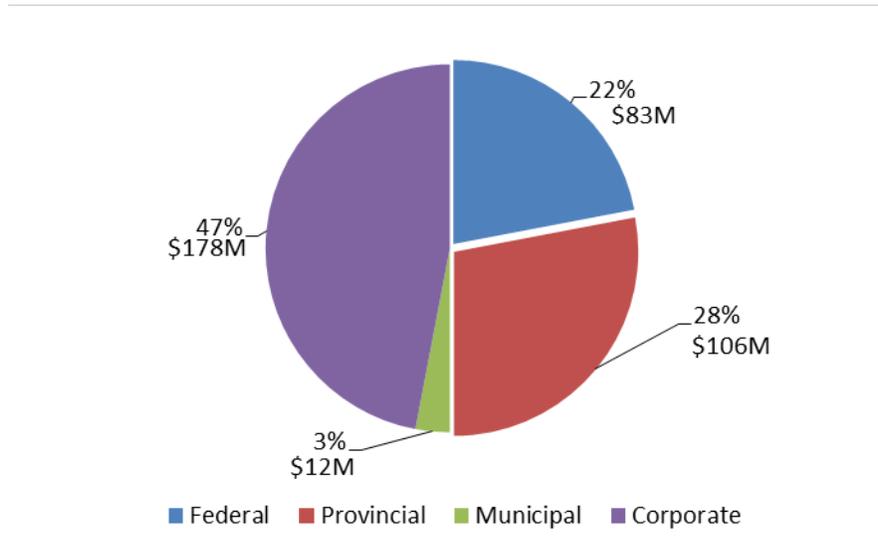
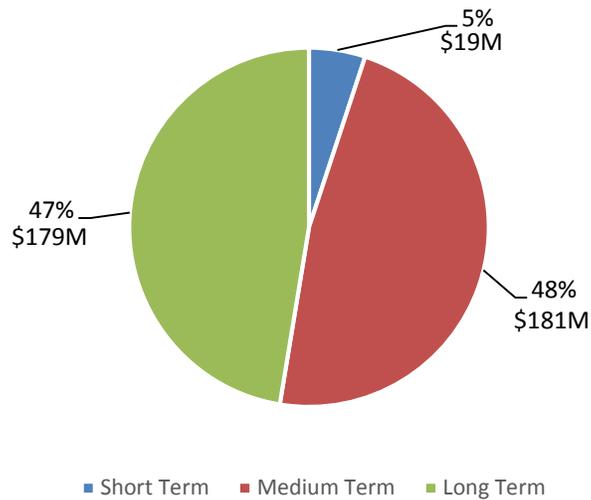


Figure 41 Total Portfolio Term Analysis, December 31, 2015



Short-term and medium-term investments have maturities that are less than one year and five years respectively. Long-term investments have maturities that are greater than five years.

FINANCIAL CONDITION INDICATORS

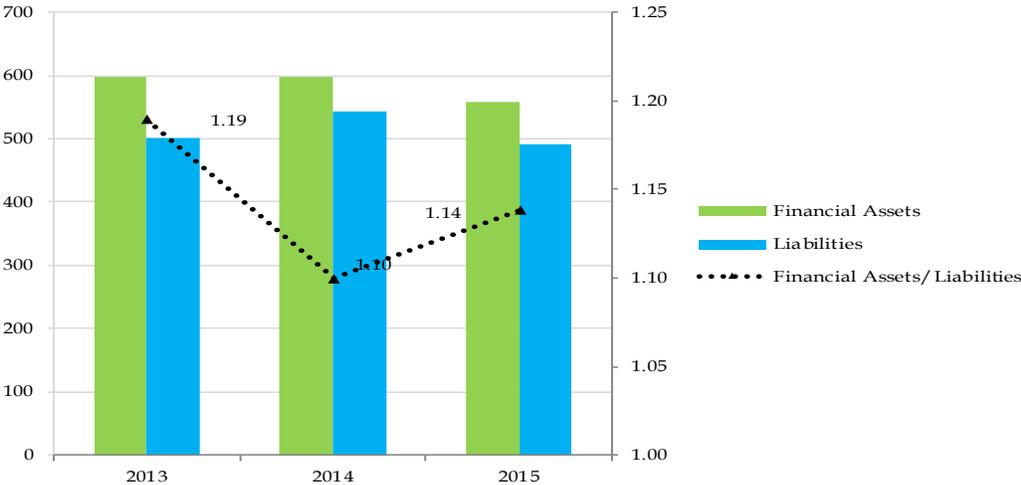
The Municipality uses three sets of financial conditions to measure its overall financial health: sustainability, flexibility, vulnerability.

SUSTAINABILITY

Sustainability refers to the Municipality's ability to maintain existing programs and meet creditor requirements without the need to take on more debt.

Within this category, the Municipality uses two financial indicators to measure its performance: financial assets and liabilities. The *financial assets to liabilities ratio* measures whether the Municipality has adequate resources to pay debt. The liabilities are adjusted for *deferred revenue* related to grant funding that is received but not yet expended according to the terms of the grant agreement. The ratio is continuing to decline which indicates that the Municipality is relatively leveraged for financing future capital projects.

Figure 42 Ratio of Financial Assets to Liabilities, 2013-2015 (\$ millions)



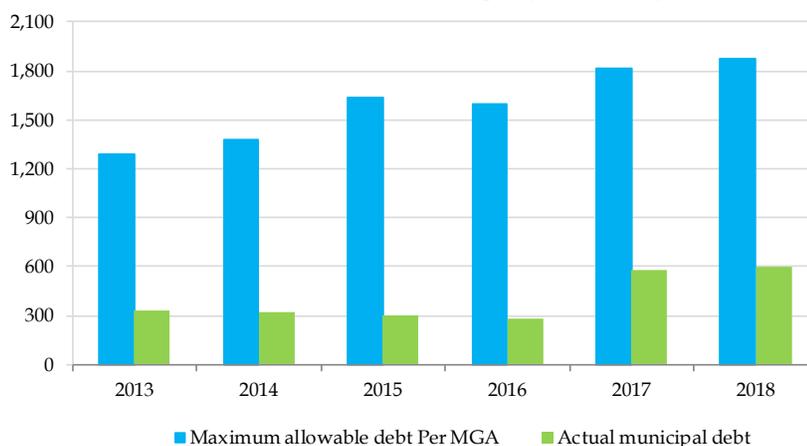
A ratio of 2:1 is desirable. This indicator includes long term debt of \$301M in 2015, \$317M in 2014 and \$332M in 2013. To ensure that the Municipality does not fall below this target, it needs to reprioritize existing capital projects, to ensure less reliance on debt as a source of funding, as well as consider extending time horizons of these projects.

FLEXIBILITY

In the flexibility category, the Municipality uses one measure to monitor performance, *public debt charges to maximum allowable debt*, which is a measure of resources spent on debt and debt service relative to the maximum allowable debt as prescribed in the MGA.

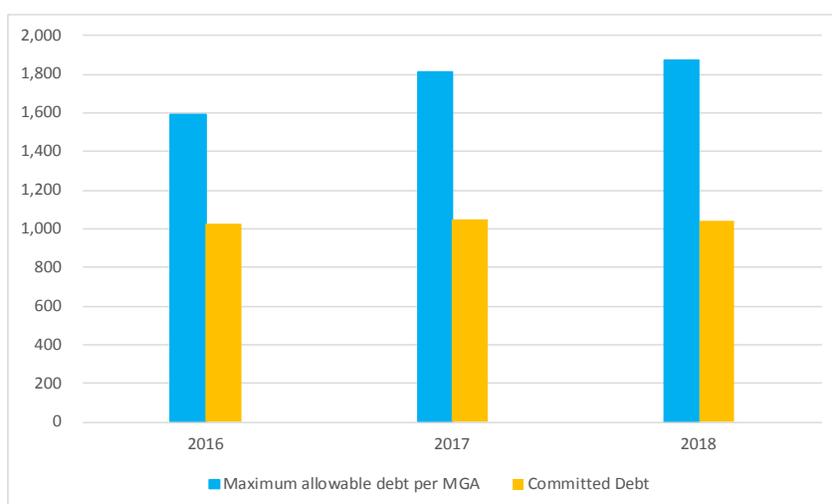
As illustrated in Figures 43 – 46 the debt and debt service limit levels are below MGA prescribed debt and debt service limits and do not compromise revenues for debt service. If the Municipality's revenues decrease, the debt limit will also decrease and any debt service increase may impact current service levels.

Figure 43 Debt Limit 2013-2018 Per Amended Budget (\$ millions)



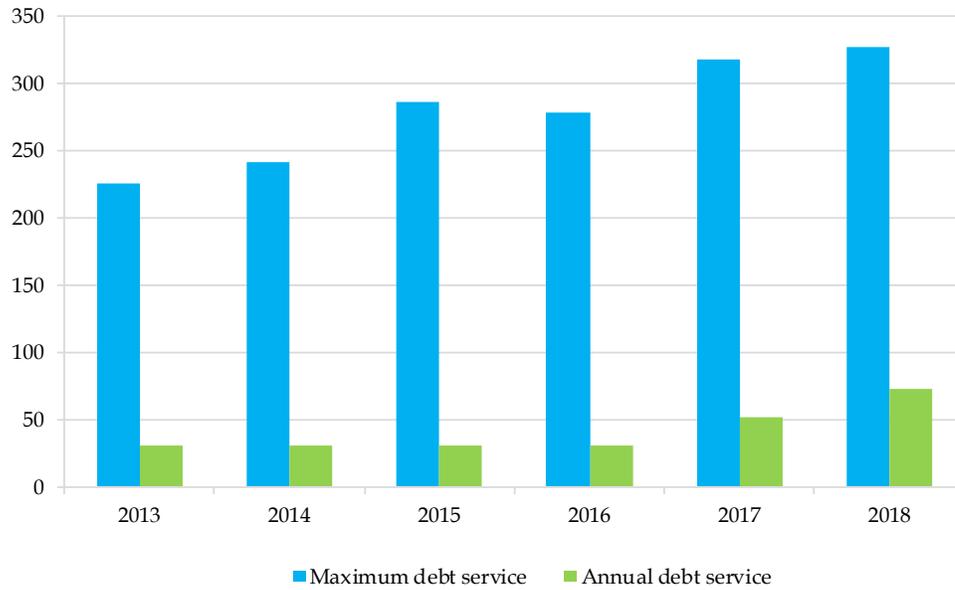
Note: Historical and plan debt limit usage. 2016 – 2018 data is based on figure 34b – Actual and Expected Debenture Draws

Figure 44 Committed Debt Limit 2016-2018 (\$ millions)



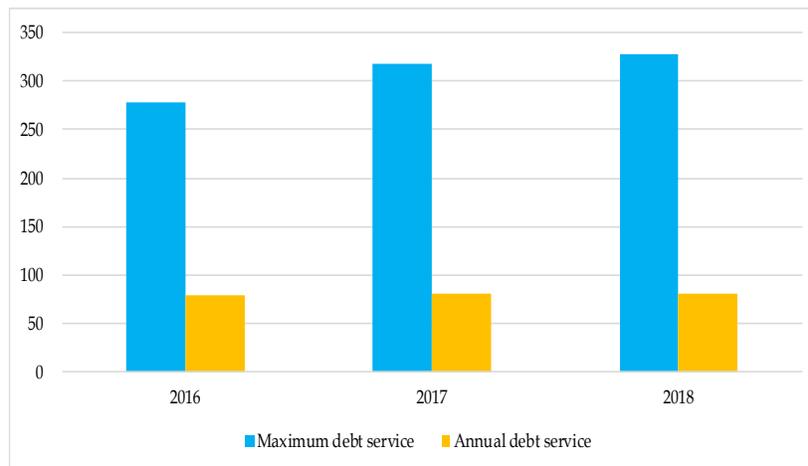
Note: If total committed debt is drawn based on figure 32 - Debt Limit and Debt Service Calculations. Committed Debt includes Actual and Undrawn Debt.

Figure 45 Debt Service Limit 2013-2018 Per Amended Budget (\$ millions)



Note: Historical and plan debt limit usage. 2016 – 2018 data is based on figure 34b – Actual and Expected Debenture Draws

Figure 46 Committed Debt Service Limit 2016-2018 (\$ millions)

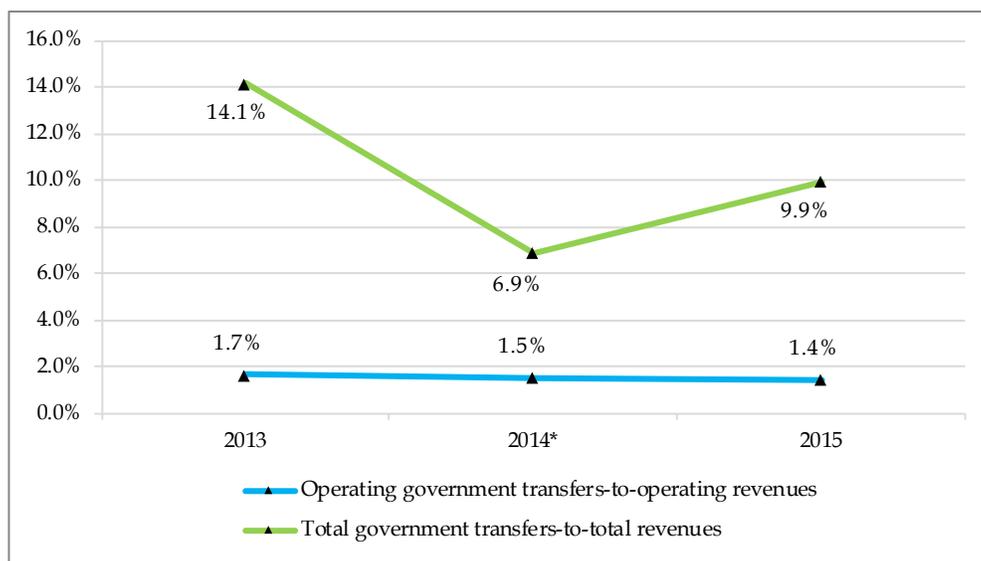


Note: If total committed debt is drawn based on figure 32 - Debt Limit and Debt Service Calculations. Annual Debt Service includes Actual Debt Service and Undrawn Debt Service.

VULNERABILITY

To measure vulnerability of the Municipality's portfolio, two indicators are used: operating government transfers to operating revenues and total government transfers to total revenues: The *operating government transfers to operating revenues ratio* measures how much the Municipality is dependent on provincial and federal transfers relative to the operating revenue generated, and the *total government transfers-to-total revenues ratio* measures the level of provincial and federal grants to support both operating and capital programs at the Municipality.

Figure 47 Vulnerability Indicators 2013-2015



*The sharp decrease in 2014 is due to an overall increase of revenue between 2013 vs. 2014 of approximately \$30M (Machinery & Equipment Taxes), offset by a reduction in funding received from the Provincial Government for the same period of \$55M (Community Development Plan).

Operating transfers from provincial and federal governments are limited. The bulk of the transfers support community or not-for-profit organizations and the Municipality acts as a distributing agency. Total government transfers are a combination of operating and capital transfers. Most government transfers relate to capital grants.