

Consolidation and Transformation of the Big Plans *

**Regional Municipality of Wood Buffalo
2014-2016 Fiscal Management Strategy
May 6, 2014**

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EXECUTIVE SUMMARY

The purpose of the Fiscal Management Strategy (FMS) is to provide a high-level financial overview of the Municipality's operating and capital needs and provide context for setting property tax rates, user fees and other Municipal service charges. As part of long term planning, the FMS is updated annually.

The FMS assumes two likely scenarios:

- **Property Tax Revenue Neutral Plus Construction Growth—“LOW RISK”:** *conservative* outlook on projected property assessment growth, supporting operating costs as approved in the 2014-2016 operating plan and the 2014-2019 capital budget and plan.
- **Property Tax Revenue Neutral Plus Construction Growth—“HIGH RISK”:** *optimistic* outlook on projected property assessment growth, supporting operating costs as approved in the 2014-2016 operating plan and the 2014-2019 capital budget and plan.

What Does Tax Revenue Neutral Mean?

The property taxes remaining at neutral levels means that the Municipality will collect the same property tax revenue for the 2014 tax year as it did in the 2013 tax year on properties which existed in 2013. Tax rates are adjusted to collect the same tax revenue as in 2013, and growth (newly assessed property) is the only contributor to any increase in tax revenue.

In summary, the 2014-2016 FMS forecasts are as follows:

- Using the revenue neutral plus new construction growth assumption model, the Municipality will be able to meet its recurring operating expenses.
- In both Low Risk and High Risk scenarios, the Municipality will be able to maintain its \$50M minimum requirement for the Emerging Issues Reserve (EIR) and the Capital Infrastructure Reserve (CIR).
- There is \$459M of unfunded capital projects from 2015 to 2018, which will remain unfunded due to debt, reserve and grant limitations. A redistribution and reprioritization of financial resources would need to occur to fund these projects.
- Debt and debt service levels will be within Council's approved limit of 85% of *Municipal Government Act* (MGA) limits, in accordance with the Debt Management Policy FIN-120.

- Retain investment strategies being adopted by the Municipality in compliance with Investment Policy FIN-140.
- Transition to the Municipal Corporate Utility (MCU) is in progress and will need to be monitored and phased in, if necessary, to preserve existing debt capacity. The impact on revenue and expenses is included in 2015 and 2016 of the FMS.
- Funding requirements for the new Regional Recreation Corporation has not been quantified therefore the impact has not been reflected in the FMS.
- Exploration of Alternative Capital Financing (ACF) strategies will continue as a possible funding method for certain capital projects. Due to the varied arrangements, the capital and operational impacts of these potential private partnerships have not been quantified nor reflected in the FMS.

ASSUMPTIONS AND ANALYSIS LIMITATION

In order to prepare accurate capital and operating budgets and other financial plans for Council's review, consistent assumptions are established to ensure comparability. Assumptions and constraints followed in constructing the report include:

- Property tax "revenue neutral plus new construction growth" is assumed with low risk / high risk scenarios.
- Low risk scenario assumed for property tax revenue.
- Debt and Debt Service limits are 85% of the MGA limit as approved by Council.
- The Municipality has \$634M of undrawn, committed debt as at December 31, 2013. In 2015, \$377M will be drawn, and thereafter debt will be drawn within three years of commitment or approval by Council, depending on the rate of construction. The draw downs on debt will be on an as-needed basis, in line with the cash flow requirements for capital projects.
- There will be an increase in debt service as result of the drawdown which will take place in 2015.
- Interest rate of 3.5% is assumed for future debt amortization.

- Changes to the current user fees are based on completion of the comprehensive user fees study, and will be brought to Council in Quarter 3 of 2014 for approval.
- Franchise fee and dividends from the MCU are part of the revenue in 2015 and 2016 financial plan. All expenses and revenues attributed to the MCU in 2015 and 2016 are excluded from the financial plan.

The analysis is restricted and guided by:

- *Municipal Government Act* RSA 2000 cM-26
- Municipal Development Plan 2011-2030
- 2012-2016 Strategic Plan
- Fiscal Responsibility Policy FIN-160
- Investment Policy FIN-140
- Approved 2014 operating and capital budgets
- 2015-2016 adjusted operating plan
- 2015-2019 Capital Plan
- Debt Management Policy FIN-120
- Alternative Capital Financing FIN-200

REVENUE SUMMARIES

The Municipality has six major revenue categories:

- taxes
- sales to other governments
- sales of goods/services
- other revenue from own sources
- grants
- other transfers

The amended operating budget revenue for 2014 is \$751,184,744, which represents an 11% increase from the 2013 approved budget and a \$44,799,089 increase (6%) from the 2014 Operating Budget approved by Council on January 17, 2014. This represents a 7% increase in property tax as a result of growth in assessments.

Local Improvement Plan (LIP) levies budgeted as part of Taxes includes \$418,100 each year for 2014, 2015 and 2016. The amended budget for 2014 includes \$44,799,089 increase in tax revenue based on

the 2014 new construction growth. The FMS is prepared based on the assumption that the new tax revenue will be transferred to the Capital Infrastructure Reserve, as it has in prior years.

Figure 1 2014 Amended Operating Budget Revenue Composition, \$751,184,744

	2014 - Approved Budget	2014 - Amended Budget	Additional Revenue
Property Taxes *	599,949,700	644,748,789	44,799,089
Sales to Other Governments	3,370,300	3,370,300	-
Sales of Goods/Services	56,089,986	56,089,986	-
Other Revenue From Own Sources	39,055,406	39,055,406	-
Grants	7,234,263	7,234,263	-
Other Transfers	686,000	686,000	-
Total	\$ 706,385,655	\$ 751,184,744	\$ 44,799,089

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

Figure 2 2014 Amended Operating Budget Revenue Composition Chart, \$751,184,744

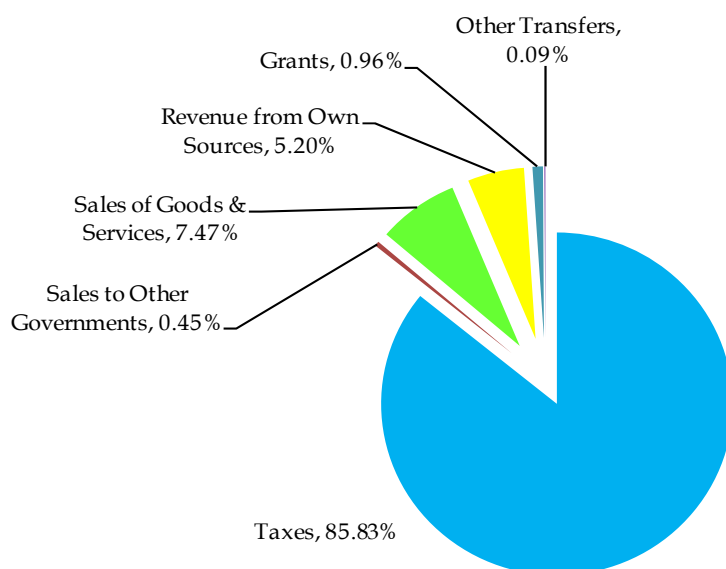


Figure 3 Revenue Trend Analysis 2012-2016

	2012 - Actual (Audited)	2013 - Actual (Audited)	2014 - Amended Budget	2015 - Adjusted Financial Plan**	2016 - Adjusted Financial Plan**
Revenue					
Property Taxes *	495,526,167	548,213,399	644,748,789	667,953,076	679,428,748
Sales to Other Governments	5,341,330	2,960,403	3,370,300	3,370,300	3,370,300
Sales of Goods & Services	56,839,141	65,011,597	56,089,986	28,176,186	25,037,986
Other Revenue From Own Sources	44,070,581	42,628,786	39,055,406	48,116,470	53,680,335
Grants	12,957,476	14,938,974	7,234,263	7,054,263	6,868,863
Other Transfers	39,361,542	8,619,410	686,000	253,400	254,100
Total	654,096,236	682,372,569	751,184,744	754,923,695	768,640,332
Original Budget and Plan - Jan 17, 2014			706,385,655	735,376,119	752,035,484
Additional Revenue			44,799,089	19,547,576	16,604,848

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

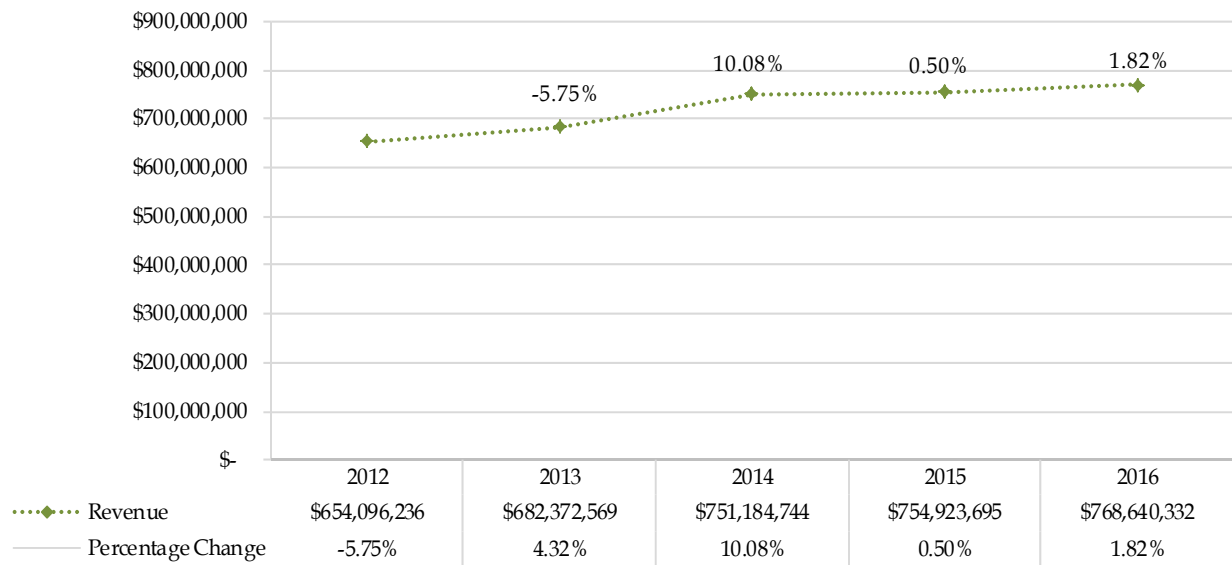
**includes the proposed change in tax bylaws and MCU

Construction growth in the region has resulted in increasing taxation revenue. In the 2014 amended budget, the increase in property tax revenues of approximately \$44.8M, based on assessment of construction growth causes the overall budget to increase by 6.3%. Based on the 2014 growth, the property tax revenue is projected to increase approximately \$38.3M (6%) in 2015 and \$33M (5%) in 2016.

Other Transfers in 2012 were comparatively high, and include:

- \$15.5M transferred from capital projects that was deemed to be operating in nature
- \$10.4M developer contributions/offsite levies

Approximately \$28M and \$31M revenues attributable to the MCU for 2015 and 2016 are not included in revenues noted in Figure 3. The assumptions included were based on information provided in the initial business case to support the formation of the MCU presented in 2012. Any changes in the future versions of this business case will be incorporated into revised versions of the FMS.

Figure 4 Revenue Profile 2011-2016

Increased revenue forecasted for 2014-2016 is attributed to increased tax revenue due to new construction growth. Since Council approval of the 2014 operating budget in early 2014, property taxation revenue estimates for 2014-2016, based on tax revenue neutral plus new construction growth approach, have exceeded original projections.

2014-2016 REVENUE STRATEGY

Diverse revenue sources are adopted by the Municipality and appropriate 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 and reasons for not recovering full costs are identified and explained. The Municipality relies on the user fees and charges recovered to offset some of the costs related to service delivery. However, the user fees policies recognize and seek to protect vulnerable segments of the population such as youth and seniors and make attempts to balance need for service with ability to pay.

The Municipality is finalizing a comprehensive user fee study. The recommended general strategy for user fees and charges is:

- Full cost recovery imposed to recover full cost of providing the service, good or access to amenity where it is determined that a service or 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 or 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 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

In 2014, property taxes are projected to be 85.9% of revenue for the Municipality. A fraction (0.1%) of this is from the rural residential class, 2.1% from urban non-residential, 5.5% from urban residential, and 92.3% from rural non-residential. The category also includes grants in lieu of taxes, approximately 0.3%.

For the past five years, the unfavorable variances between the actual 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 from 2014-2016, the provision for potential appeal losses has increased from 2% to 3% of total property tax revenue. The increase in the provision reflects the unique assessment environment in the Municipality and the risks associated with it. As a result of this provision, the variance between the actual and budgeted property tax revenue is insignificant, supporting a conservative budget approach.

The increase in property tax revenue is primarily due to an increase in new construction growth, and not due to 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 5 Property Taxes 2010-2016

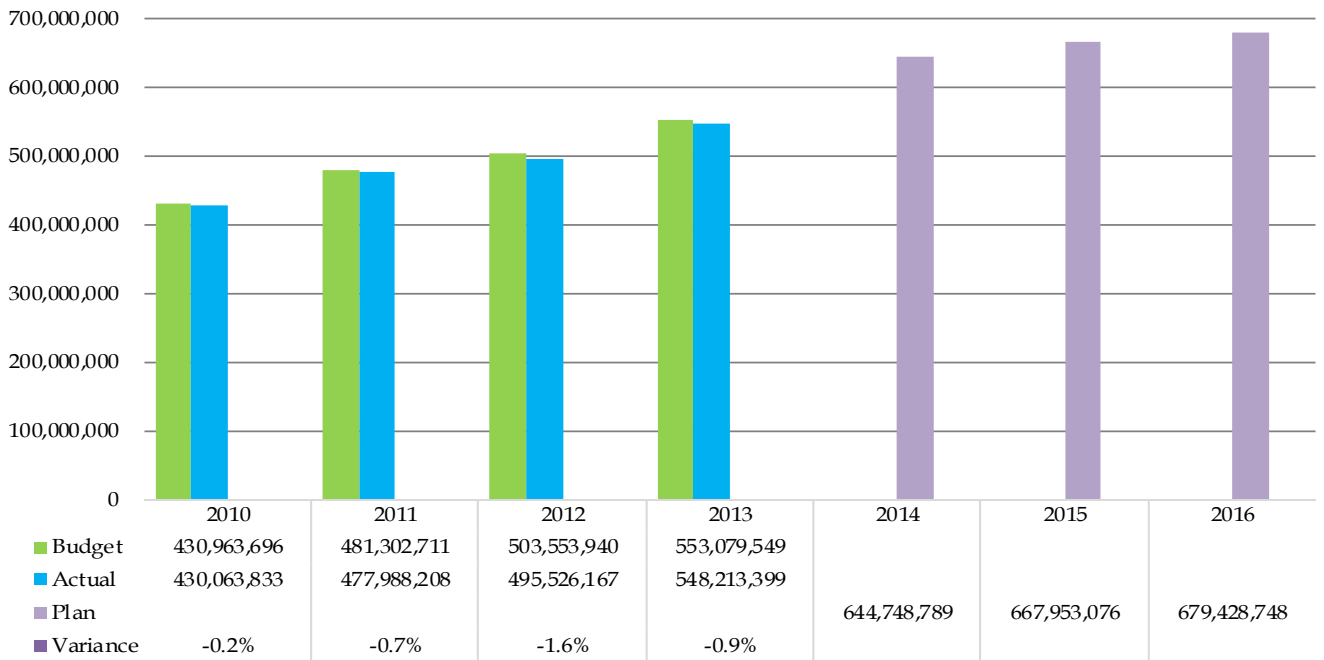
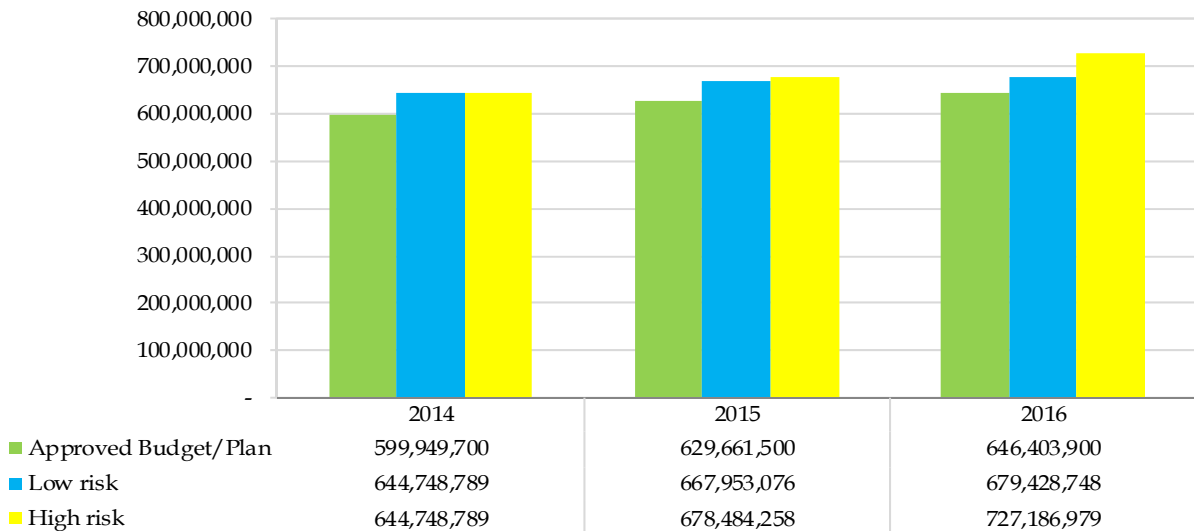


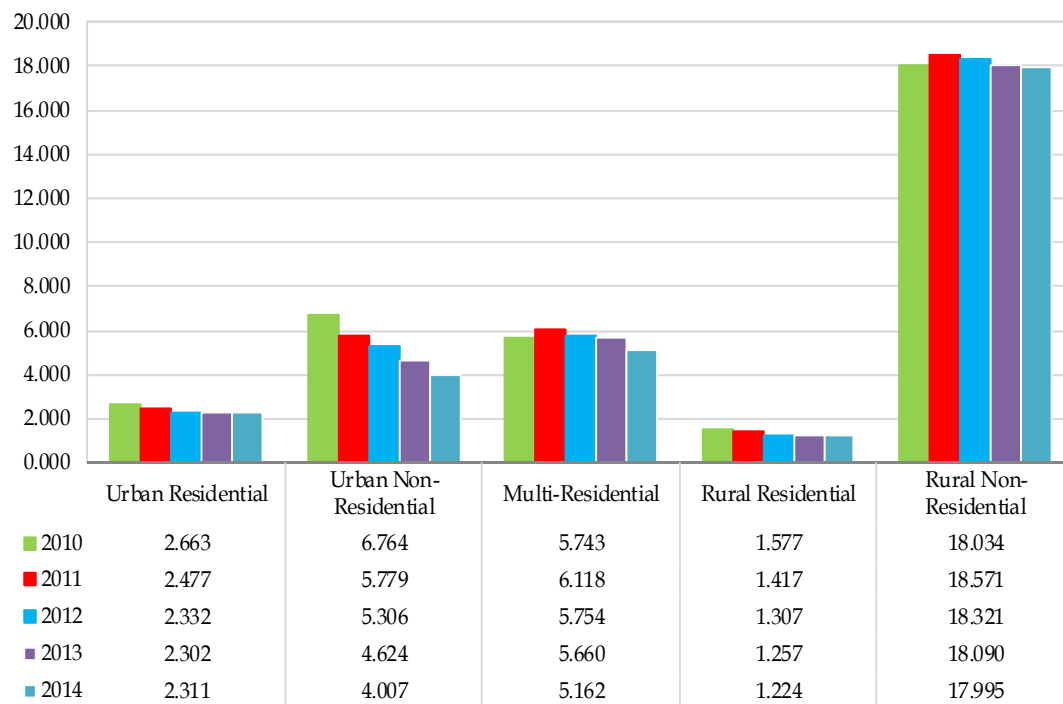
Figure 6 Property Tax Revenue Projections 2014-2016



The 2014-2016 property tax revenues presented in Figure 6 are different from the approved 2014 budget and 2015-2016 financial plan based on revised estimates considering additional revenue from growth arising from the low risk scenario. Figure 6 includes LIP levies, budgeted as \$418,100 for 2014 through 2016, and provision for estimated assessment appeal losses of about \$19.9M in 2014, \$20.6M in 2015 and \$21M in 2016.

It is assumed that the tax revenue projections are the same under the low risk and high risk for 2014 because the tax philosophy followed only offers the low risk and high risk scenarios for future budget years and not the current year.

Figure 7 Municipal Property Tax Rates 2010-2014



Tax rate facts in the Municipality:

- Tax rates are levied per \$1,000 of assessed value.
- Urban residential property tax rates have decreased by 13.2% from 2.66 in 2010 to 2.31 in 2014.
- Urban non-residential rates have decreased by 41% from 6.8 in 2010 to 4.01 in 2014.
- Multi-residential rates decreased by 10.1% from 5.7 in 2010 to 5.16 in 2014.
- Rural-residential represents the least amount of property tax revenue. The tax rates have decreased by 22% from 1.6 in 2010, to 1.22 in 2013.

- Rural non-residential property rate class generates the highest tax revenue. The property tax rates in this category have decreased by 0.2% from 18.03 in 2010 to 17.99 in 2014.

The Municipality's non-residential and residential property tax cost per square foot in 2013 were competitive compared to other municipalities in the province. Figures 8 and 9 compare the Municipality's tax cost for urban residential and non-residential per square foot.

Figure 8 Urban Residential Property Tax Cost Comparison per Square Foot 2012-2013¹

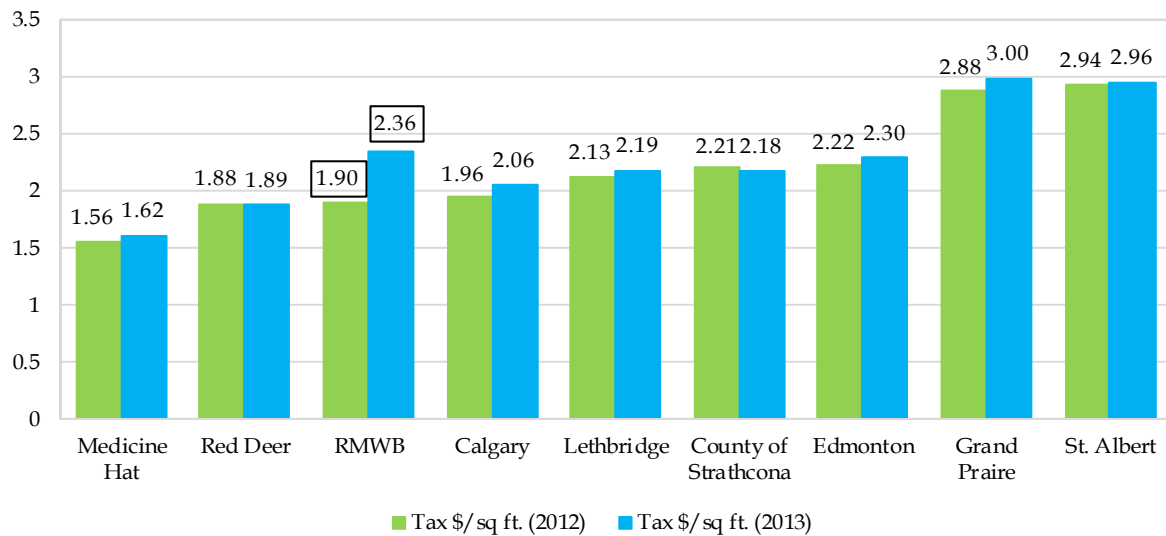
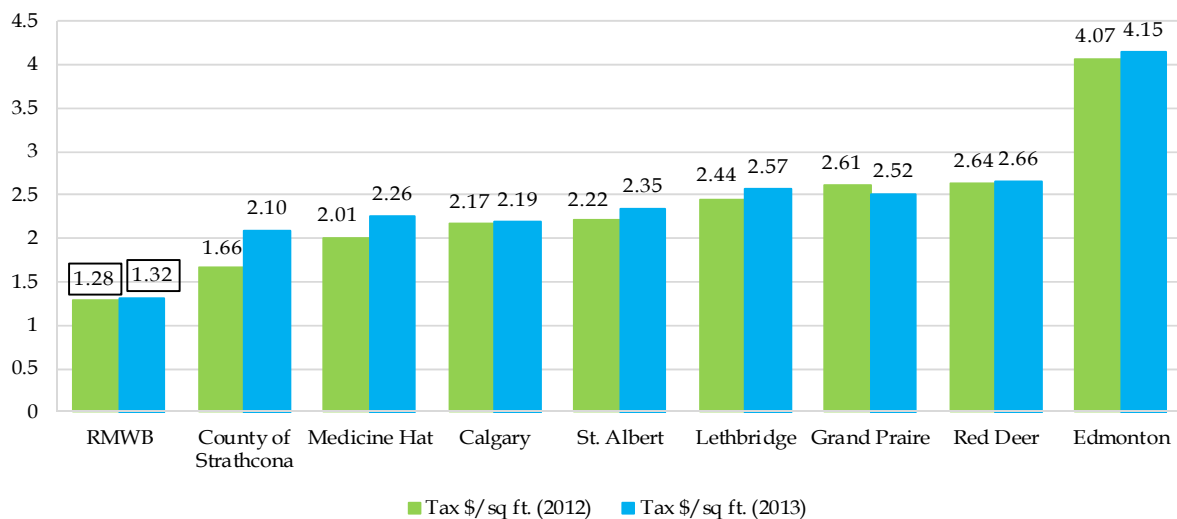


Figure 9 Urban Non-Residential Property Tax Cost Comparison per Square Foot, 2012-2013



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

To remain revenue neutral, the property tax rates often need to change. For the 2014 amended budget, the recommended property tax rates and tax revenue distributions are shown in Figures 10 and 11.

Figure 10 Municipal Property Tax Rates 2014

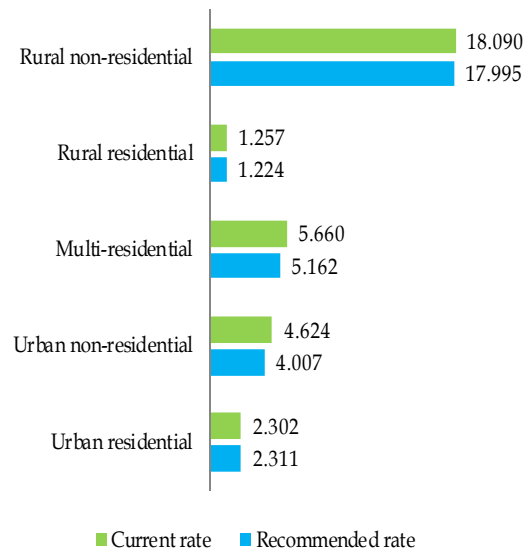
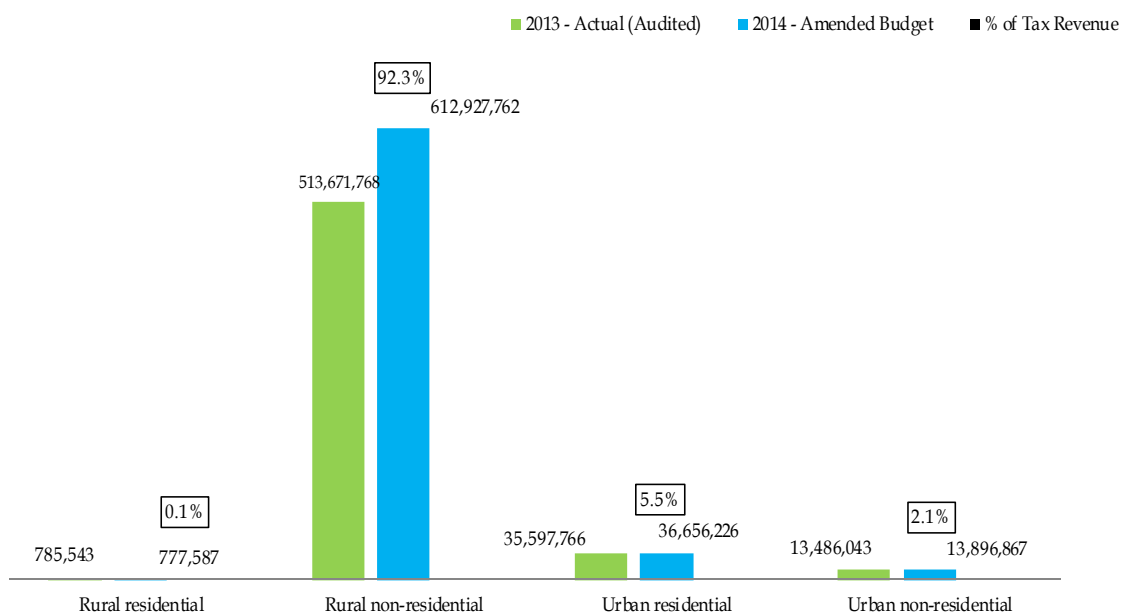


Figure 11 Property Tax Revenue Contribution by Source 2013-2014



The estimated unadjusted property tax revenue (gross) for 2014 is projected to be approximately \$664M based on the revenue neutral assumption. In projecting property tax revenue, two scenarios are assumed: *low risk* and *high risk*.

Figure 12 Unadjusted Property Tax Revenue Projection 2014-2016 (Gross Revenue)

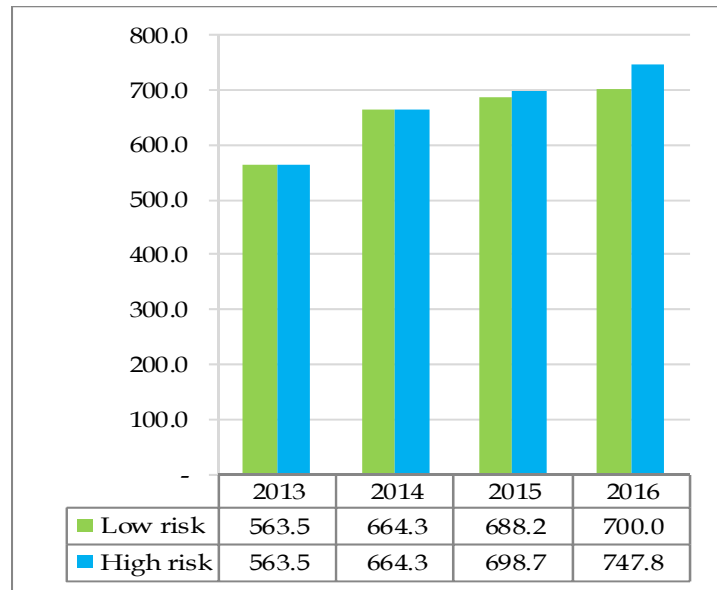


Figure 12 does not include Local Improvement Plan (LIP) levies budgeted as \$418,100 for 2014 to 2016 and estimated assessment appeal losses of \$ \$19.9M in 2014, \$20.6M in 2015 and \$21M in 2016.

Movement from year to year represents tax revenue estimates using projected property assessment growth conservative outlook (low risk) and an optimistic outlook (high risk).

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:

- **The Urban Residential Taxation Class:** this class will have one of the lowest total tax burdens per square foot as compared to major Alberta cities.
- **The Rural Residential Taxation Class:** this class will have an equal or lower tax burden per square foot as Urban Residential Taxation Class.

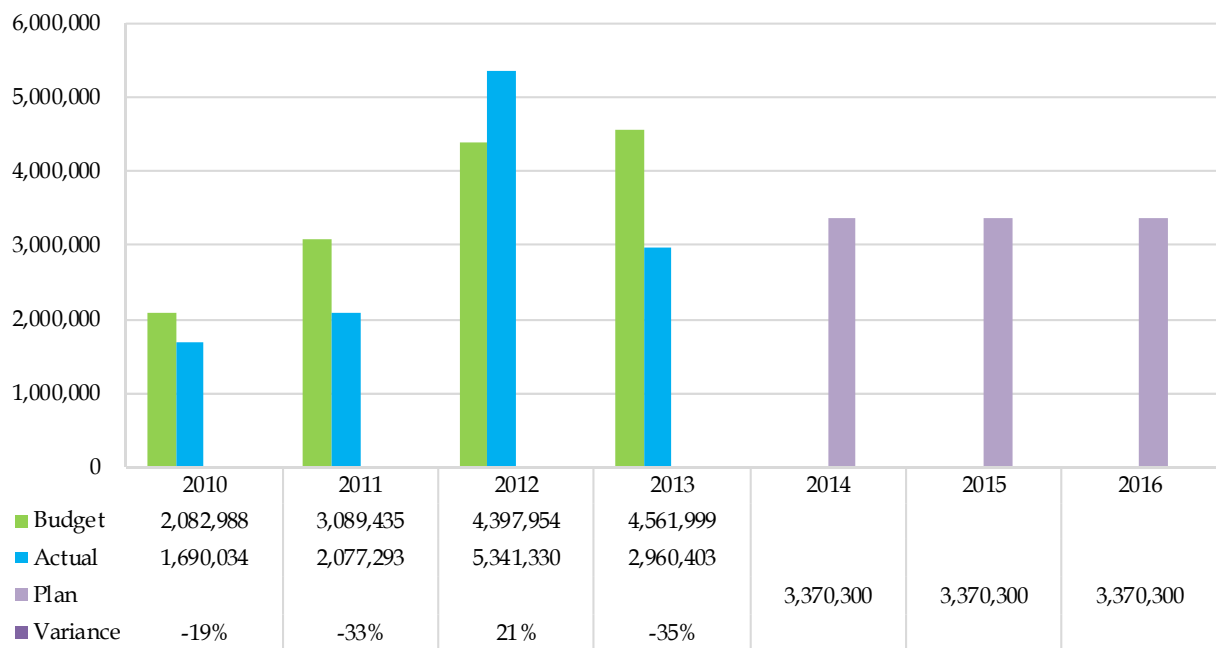
- **The Urban Non-Residential Taxation Class:** this class will have one of the lowest total tax burdens per square foot as compared to major Alberta cities.
- **Rural Non-Residential Taxation Class:** this class will have a tax burden that allows the Municipality to maintain a revenue neutral methodology as a result of growth in assessment.

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 Aboriginal Affairs and Northern Development Canada (AANDC).

Figure 13 Sales to Other Governments 2010-2016

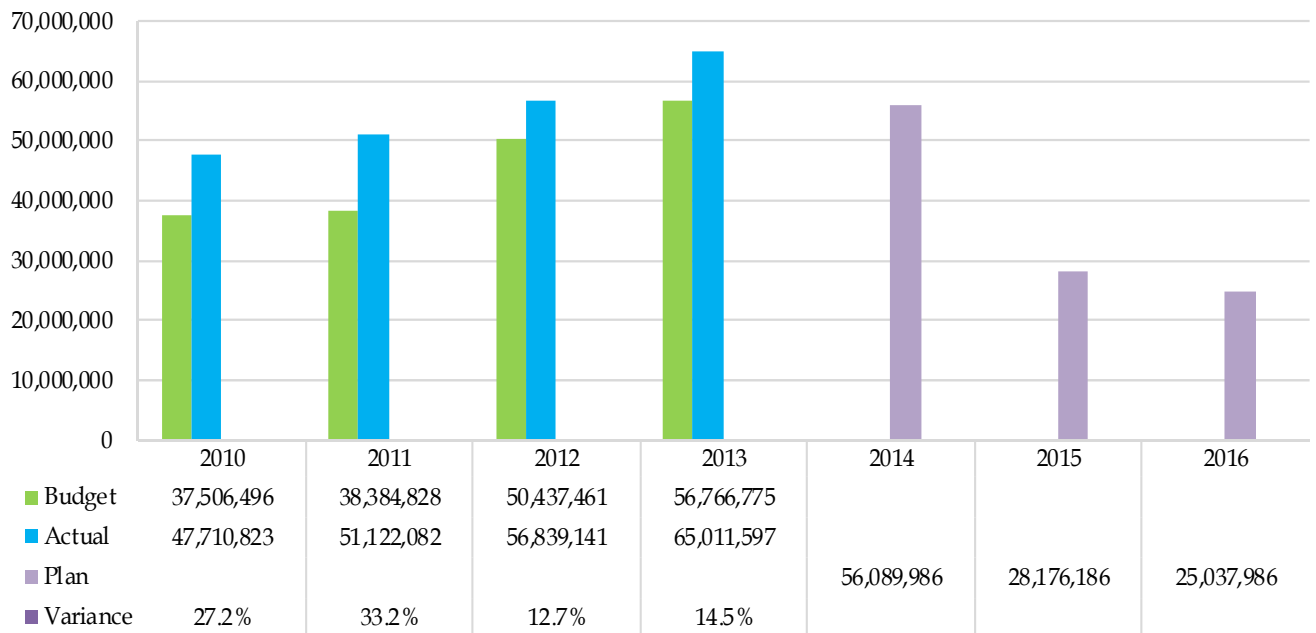


In the 2014 approved budget, proposed revenue generated from sale of goods & services to other governments is \$3.37M. It is expected that the Municipality will maintain 2014 revenue levels in 2015 and 2016.

SALE OF GOODS & SERVICES

Sale of goods & services is a category that includes various items such as revenue from utility rates, ambulance fees, community program and facility fees.

Figure 14 Sales of Goods & Services 2010-2016



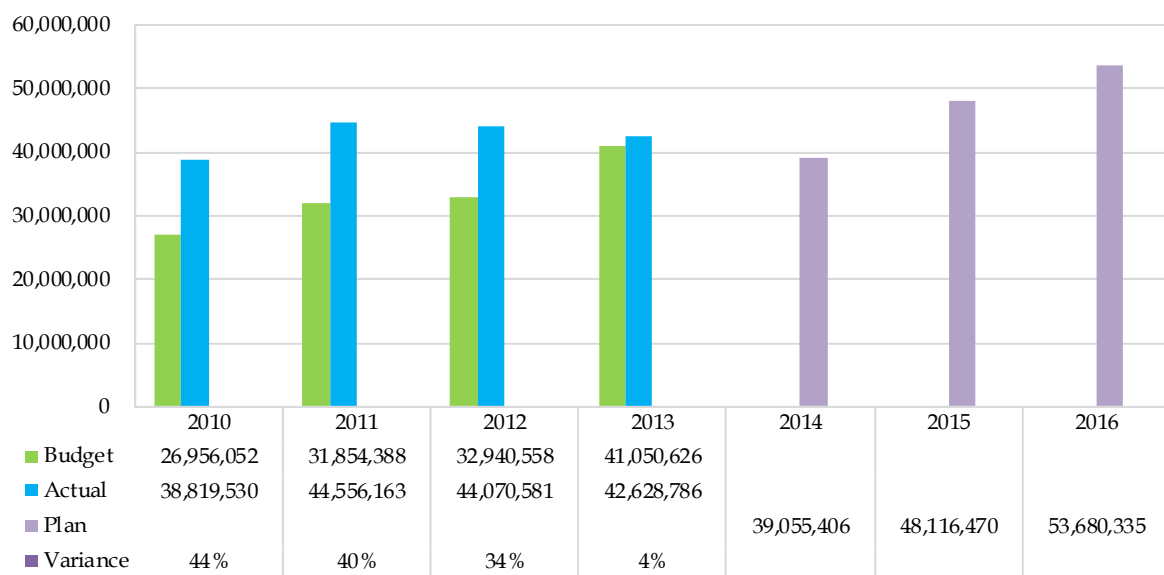
Actual revenue from the sale of goods & services has increased in the past four years and is attributed to increase in volume rather than increase in charges and rates. The decline in 2014 is attributed mainly to transit fares, which are now collected by the service provider.

Approximately \$28M and \$31M revenues attributable to the MCU for 2015 and 2016 are not included in revenues outlined in Figure 14, per the business case to support formation of the utility.

OTHER REVENUE FROM OWN SOURCES

This category includes revenue from permits, fines & penalties, franchise fees and interest from investments. The revenue from this category is approximately \$39M—about 5% of the total 2014 amended revenue budget—the major contributors to this category being revenue from building permits and investment income. The revenue from own sources have consistently exceeded budget expectations in the past.

Figure 15 Other Revenue from Own Sources 2010-2016

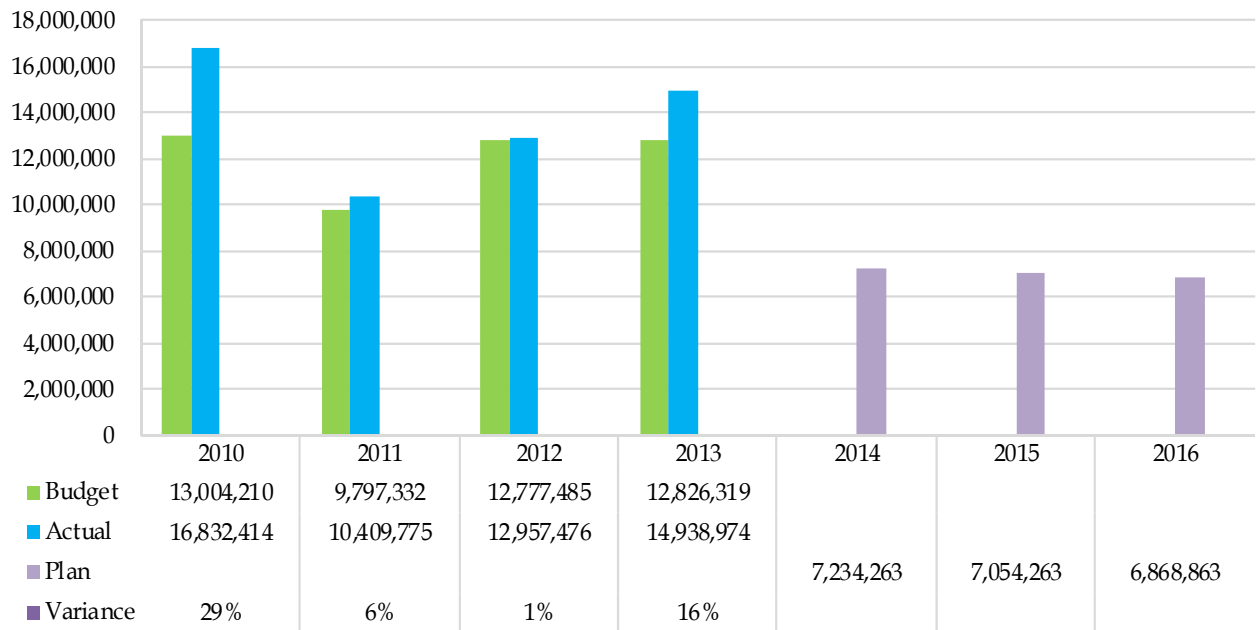


Dividend and franchise fees from the MCU of approximately \$9M for 2015 and \$14M for 2016 have been included as part of revenues in Figure 15, as outlined in the business case to support formation of the utility.

GRANTS

Grants include both conditional and unconditional funds secured from federal and provincial government such as the Royal Canadian Mounted Police (RCMP) Grant. Budget variances in this category signify the excess funding received over the budgeted amounts.

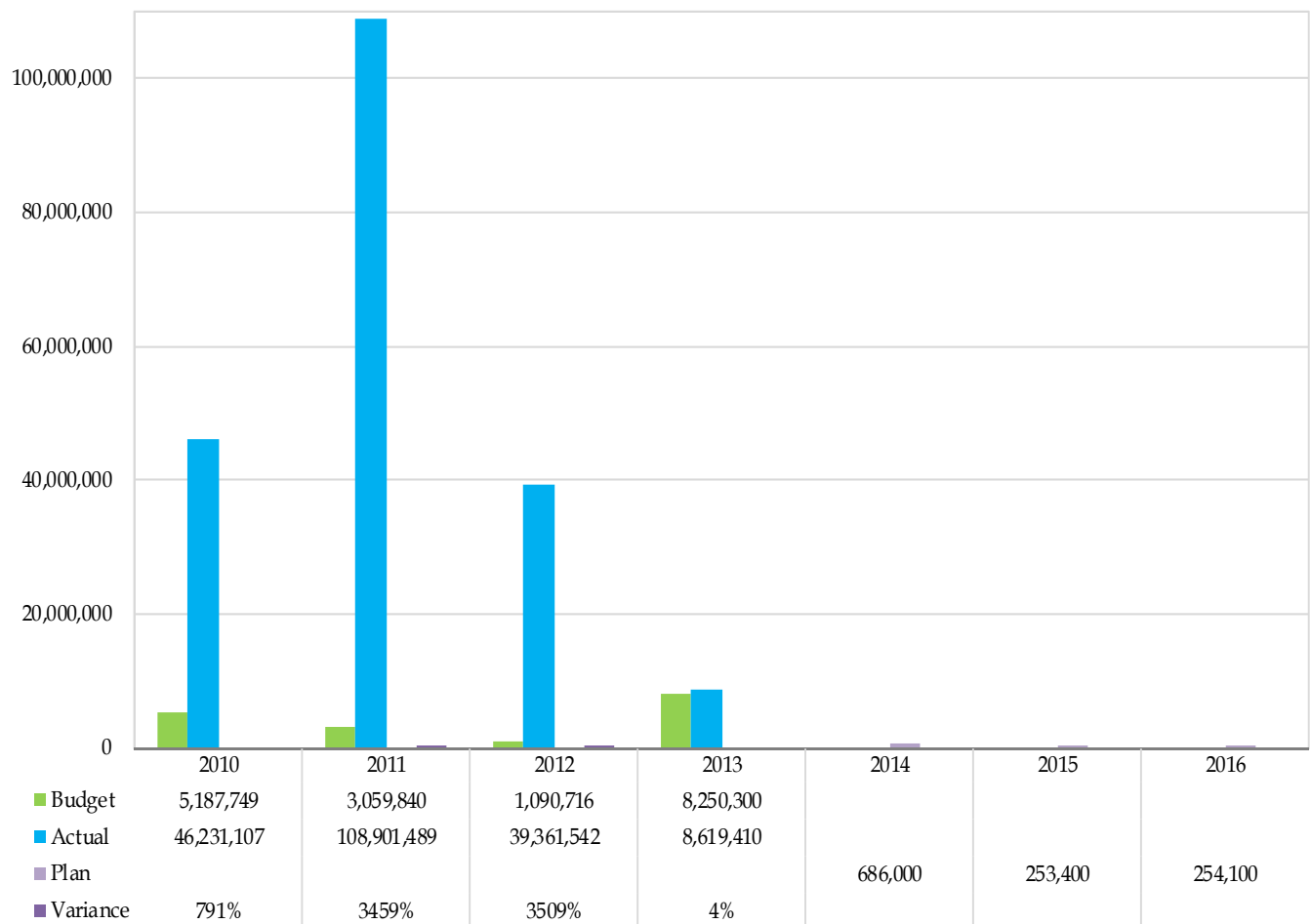
Figure 16 Grants 2010-2016



OTHER TRANSFERS

The two main revenue items that are recorded in this category are internal charge allocations and transfers from reserves. The 2011 variance is largely comprised of the \$95M transfer from the Emerging Issues Reserve, which was due to prior year surpluses that accumulated in the EIR reserve balance. The rest of the variances are due to transfer of amounts deemed to be operating in nature transferred from approved capital project budgets. Planned balances in 2014-2016 are transfers from the Photo Radar Enforcement Program. Net revenue from the Photo Radar Enforcement Program are held in the Community Initiatives Reserve and then allocated to preventive programs and community grants. Other components of the variances are transfer from reserves to offset program costs.

Figure 17 Other Transfers 2010-2016



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

The 2014 amended budget increased due to increased costs for maintaining current level of services provided to the region, growth and delivery of new services.

Figure 18 2014 Amended Operating Budget Expense Composition, \$486,288,503

	2014 - Approved Budget	2014 - Amended Budget	Variances
Expenses			
Salaries, Wages & Benefits	201,228,500	201,228,500	-
Contracted & General Services	151,113,397	151,113,397	-
Purchases From Other Governments	24,735,500	24,735,500	-
Materials, Goods, Supplies & Utilities	32,490,600	32,490,600	-
Small Equipment & Furnishings	5,069,900	5,069,900	-
Transfers & Grants	39,363,706	39,363,706	-
Financial Services Charges	31,428,400	31,428,400	-
Other Expenses	858,500	858,500	-
Subtotal	\$ 486,288,503	\$ 486,288,503	-
Transfer to Reserve	220,097,152	264,896,241	44,799,089
Total	\$ 706,385,655	\$ 751,184,744	\$ 44,799,089

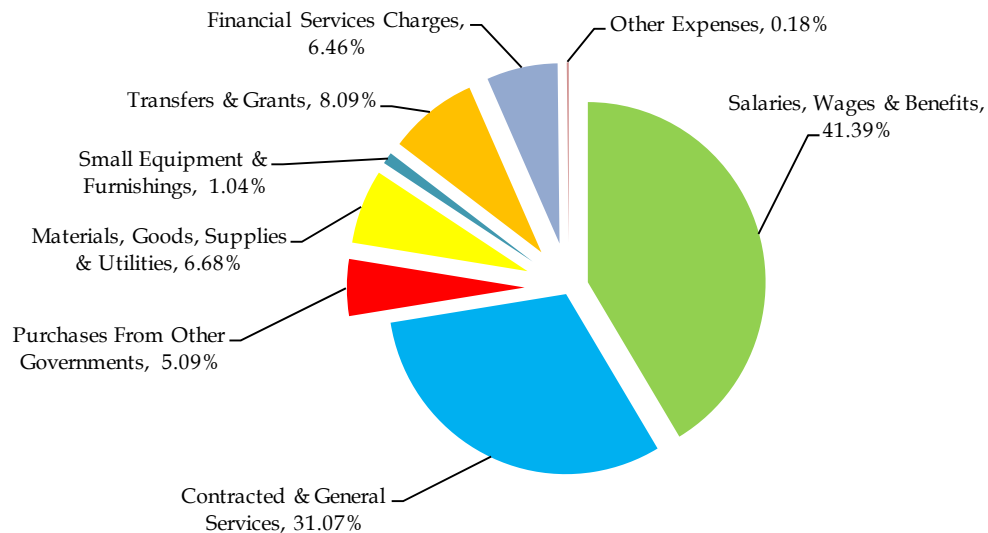
Figure 19 2014 Amended Operating Budget Expense Composition Chart, \$486,288,503

Figure 20 shows the expense trend from 2012-2016. The increases are largely due to salaries, wages and benefit increases, as well as costs incurred for providing additional contracted services.

Approximately \$67M in 2015 and \$68M in 2016 expense amounts in various categories attributable to the MCU are not included in expenses in Figures 18 and 19. However, the service fees of \$39M in 2015 and \$40M in 2016 have been included, thereby incorporating assumptions from the business case to support the formation of the MCU.

Additional debt service amounts of approximately \$41M and \$45M have been included for 2014 and 2015 respectively.

Figure 20 Expense Trend Analysis 2012-2016

	2012 - Actual (Audited)	2013 - Actual (Audited)	2014 - Amended Budget*	2015 - Adjusted Financial Plan**	2016 - Adjusted Financial Plan**
Expenses					
Salaries, Wages & Benefits	163,243,798	178,487,423	201,228,500	175,200,833	175,515,133
Contracted & General Services	125,815,581	129,111,390	151,113,397	173,043,977	176,910,686
Purchases From Other Governments	22,922,173	22,877,551	24,735,500	25,743,000	26,489,880
Materials, Goods, Supplies & Utilities	26,986,073	28,147,658	32,490,600	18,078,224	18,433,140
Small Equipment & Furnishings	4,720,086	3,823,437	5,069,900	2,382,854	2,418,154
Transfers & Grants	44,354,310	48,637,443	39,363,706	39,251,603	39,262,138
Financial Services Charges	33,461,068	32,275,279	31,428,400	72,694,928	75,046,220
Other Expenses	1,516,992	13,421,894	858,500	869,500	867,902
Total Expenses	423,020,081	456,782,075	486,288,503	507,264,919	514,943,253
Original Budget and Plan - Jan 17, 2014			486,288,503	494,150,517	498,116,576
Increased Expenses			-	13,114,402	16,826,677
Original Transfer to Reserves - January 17, 2014	231,076,155	225,590,494	220,097,152	241,225,602	253,918,908
Amended Transfer to Reserves			264,896,241	279,517,178	286,943,756
Additional Transfer to Reserve			44,799,089	38,291,576	33,024,848
Total change from original budget and plan			44,799,089	51,405,978	49,851,525

*Incorporates the proposed change in the property tax bylaw.

**includes the proposed change in MCU and Financial Service Charges

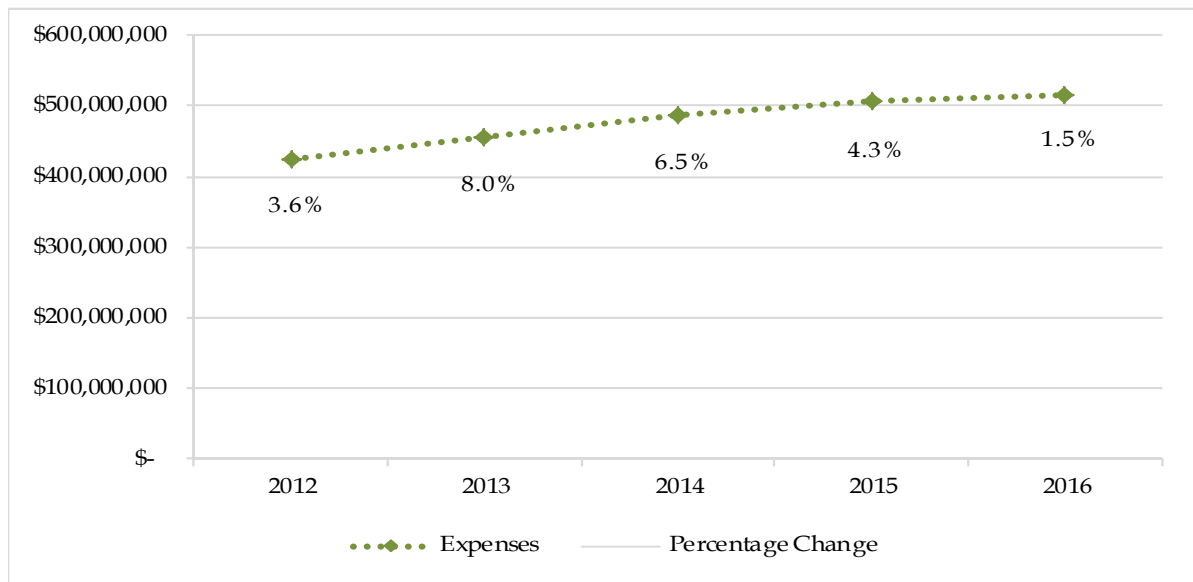
Figure 20 displays a net increase in expenses in 2015 and 2016 since the approval of the financial plan on January 17, 2014. The expenses related to the MCU have been removed from the financial plan, but the service fee has been added to the contracted and general services category. The Financial Services Charges has also increased because of the projected increase in drawdown of debt. Figures 21 and 22 provide more details of these variances.

Figure 21 2015 Amended Operating Budget Expense Composition

	2015 - Approved Plan	2015 - Adjusted Plan		Variances
Expenses				
Salaries, Wages & Benefits	206,766,633	175,200,833	-	31,565,800
Contracted & General Services	152,415,420	173,043,977		20,628,557
Purchases from Government	25,743,000	25,743,000		-
Materials, Goods, Supplies & Utilities	33,020,323	18,078,224	-	14,942,099
Small Equipment & Furnishings	4,868,594	2,382,854	-	2,485,740
Transfers & Grants	39,251,603	39,251,603		-
Financial Services Charges	31,215,444	72,694,928		41,479,484
Other Expenses	869,500	869,500		-
Subtotal	494,150,517	507,264,919		13,114,402
Transfer to Reserve	241,225,602	279,517,178		38,291,576
Total	735,376,119	786,782,097		51,405,978

Figure 22 2016 Amended Operating Budget Expense Composition

	2016 - Approved Plan	2016 - Adjusted Plan		Variances
Expenses				
Salaries, Wages & Benefits	207,080,933	175,515,133	-	31,565,800
Contracted & General Services	155,332,558	176,910,686		21,578,128
Purchases from Government	26,489,880	26,489,880		-
Materials, Goods, Supplies & Utilities	33,746,365	18,433,140	-	15,313,225
Small Equipment & Furnishings	4,953,608	2,418,155	-	2,535,454
Transfers & Grants	39,262,138	39,262,138		-
Financial Services Charges	30,383,192	75,046,220		44,663,028
Other Expenses	867,902	867,902		-
Subtotal	498,116,576	514,943,253		16,826,677
Transfer to Reserve	253,918,908	286,943,756		33,024,848
Total	752,035,484	801,887,009		49,851,525

Figure 23 Expense Profile 2012-2016

2014-2016 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.

Any unbudgeted expenses are approved by Council, while any reallocation of the approved budget can be approved by administration, in accordance with Fiscal Policy Fin-160.

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

- Undrawn debt of \$377M at the end of 2013 will be drawn at the beginning of 2015 and thereafter all debt is drawn three years after commitment or approval.
- An interest rate of 3.5% has been assumed for future debt draws.

Salaries, wages and benefits usually account for about 41% of the Municipality's total approved operating budget. There is a labour agreement in place with the Canadian Union of Public Employees (CUPE) to the end of 2018, and negotiations are in process with the International Association of Fire Fighters (IAFF). Conservative increases are included in this category, subject to change based on the outcome of ongoing negotiations.

Exempt staff increases are based on annual performance reviews and market rate increases. Vacant positions are partially funded based on estimated hiring dates.

The Municipal debt strategy is:

- Debt limit is not to exceed 85% of the debt limit per Municipal Government Act and regulations.
- Debt service is not to exceed 85% of the debt service limit per Municipal Government Act and regulations.

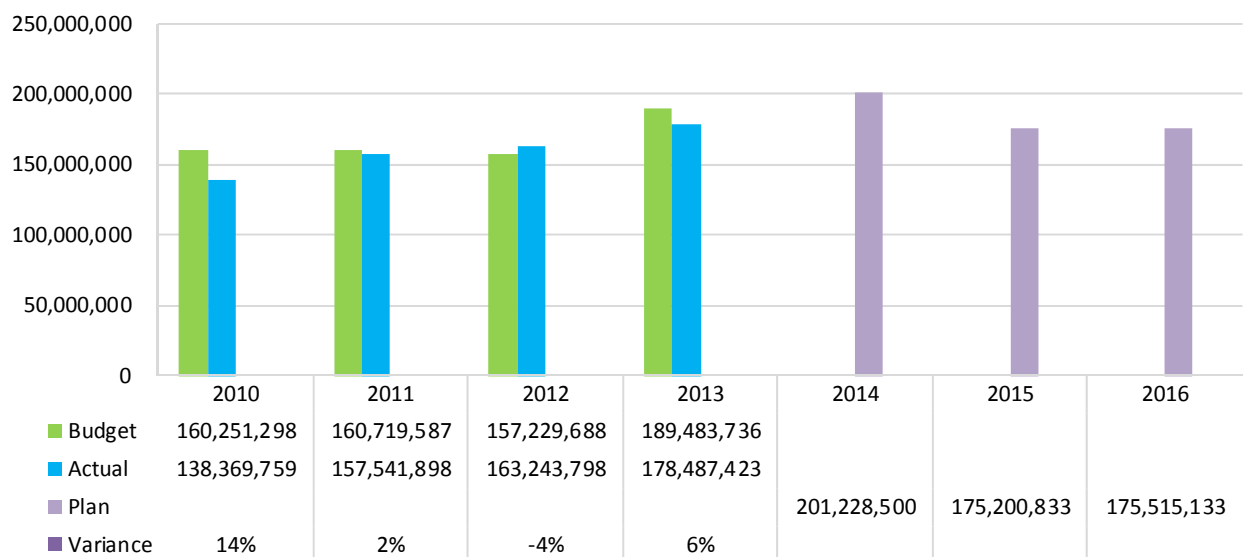
SALARIES, WAGES & BENEFITS

Salaries, wages & benefits account for about 41.4% of the 2014 approved operating budget totaling \$201M. The budget has increased by 13% from the previous year actual, due to:

- Increase in salaries for the existing employees as per the union agreements.
- While the Municipality still faces difficulty filling some positions, recruitment efforts in the past two years have resulted in filling most of the vacancies.

The \$31.6M decreases in both 2015 and 2016 in this category are a result of the formation of the MCU, as shown in Figure 24.

Figure 24 Salaries, Wages & Benefits 2010-2016

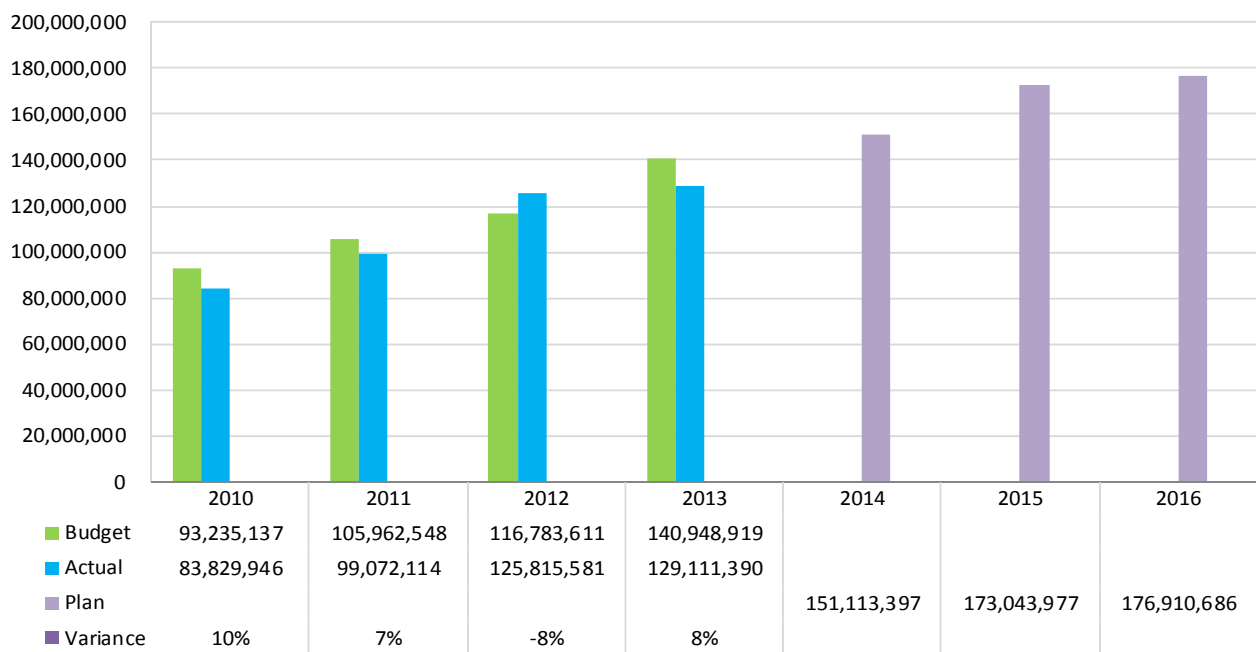


The variances between budget and actual salaries, wages and benefits each year are primarily due to estimates for vacant positions: these are difficult to project, are dependent on the rate at which vacancies are filled, and are driven by the labour market.

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.

Figure 25 Contracted & General Services 2010-2016



This expense category is influenced by operating projects and changes in pricing of ongoing operations. The contracted & general services cost increased about 17% from last year actuals, due to factors such as additional professional services and an increase in transit contract costs.

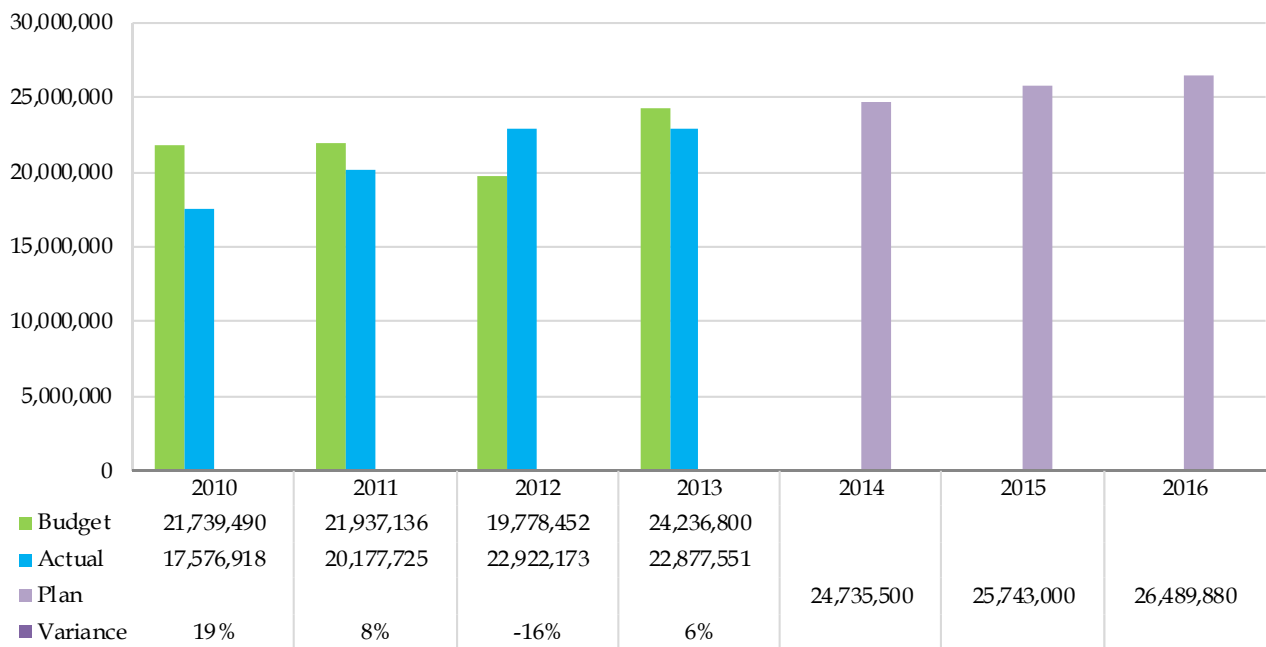
The financial plan shows an increase in contracted and general services for 2015 and 2016: this is the net result of removing the costs related to the MCU and adding in the service fee that will be paid for those services, the net impact of \$20.6M in 2015 and \$21.6M in 2016.

PURCHASES FROM OTHER GOVERNMENTS

Purchases from other governments include transactions between other municipalities and other public agencies. A significant portion of these costs are related to RCMP contracts.

Purchases from other governments represent 5% of the 2014 approved budget and are expected to remain relatively flat over the next few years.

Figure 26 Purchases from Other Governments 2010-2016

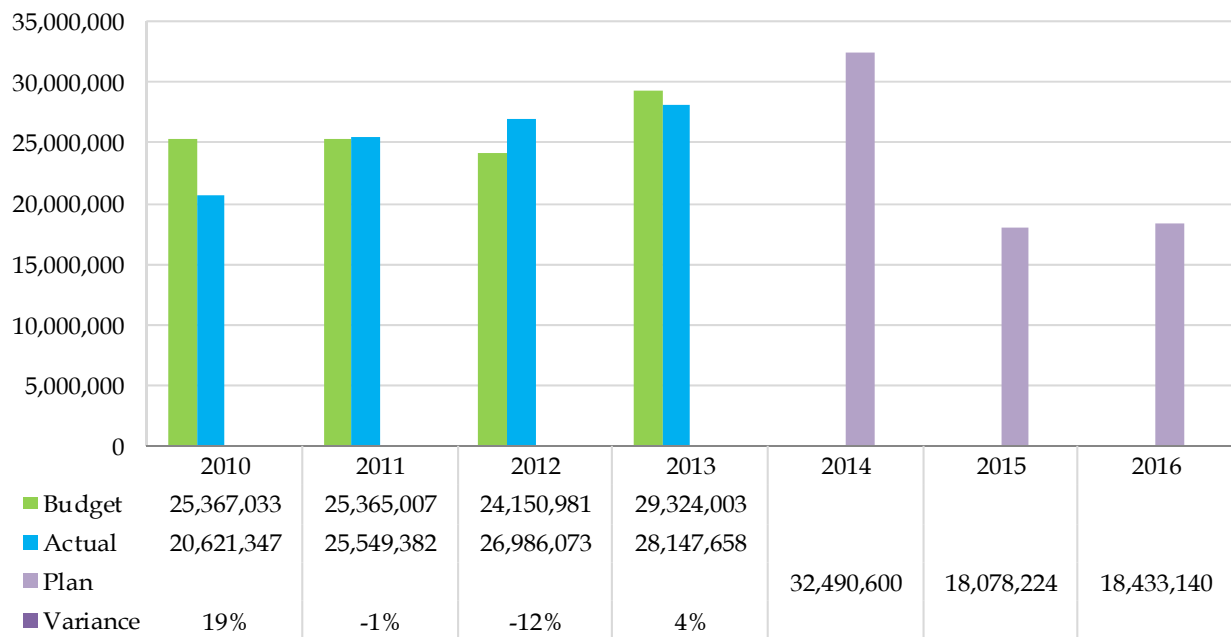


MATERIALS, GOODS, SUPPLIES & UTILITIES

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.

As shown in Figure 27, the decrease in this category of \$14.9M in 2015 and \$15.3M in 2016 is a direct impact of the MCU being formed in 2015.

Figure 27 Materials, Goods, Supplies & Utilities 2010-2016

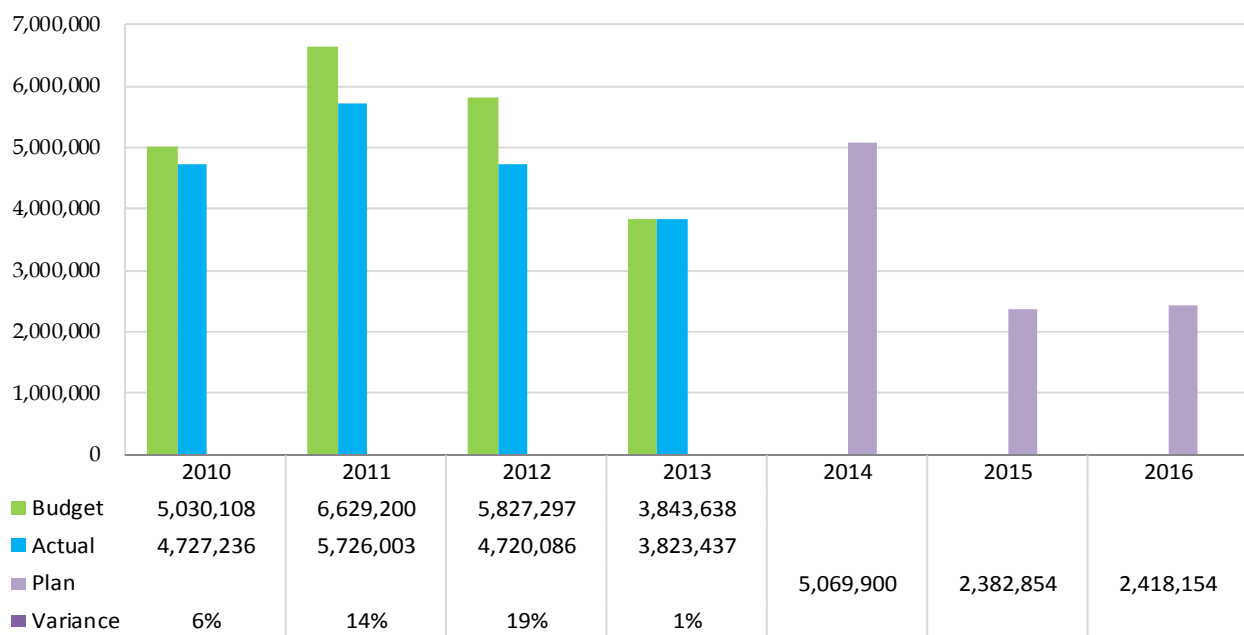


SMALL EQUIPMENT & FURNISHINGS

The major categories in small equipment & furnishing include office equipment, computer hardware and field equipment. The expenses in 2013 reduced as a result of expected slowdown in office equipment as most renovations have been completed.

The reduction of expenses in this category of \$2.5M in both 2015 and 2016 is a result of the MCU.

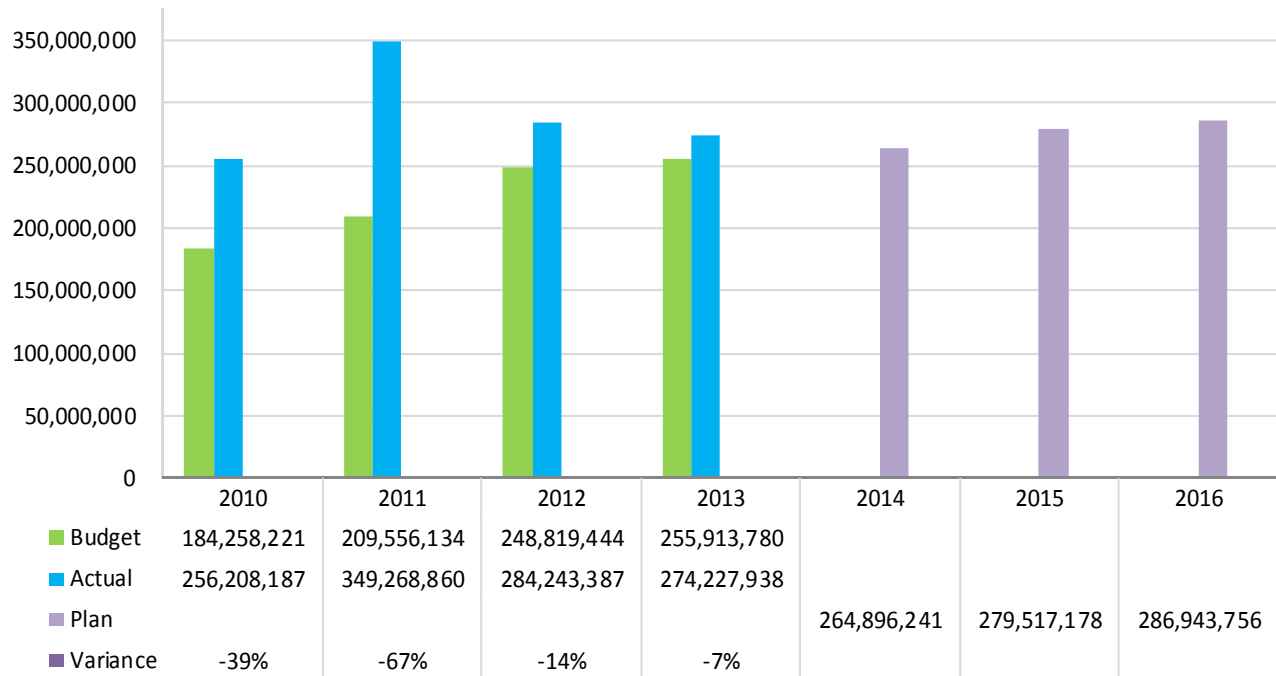
Figure 28 Small Equipment & Furnishings 2010-2016



TRANSFERS & GRANTS

Transfers to capital, reserves and other internal charges are recorded in this expense category. The amounts presented in Figure 29 are inclusive of reserve transfers and are different from Figure 17 presented in the revenue summaries section of the report.

Figure 29 Transfers & Grants 2010 -2016

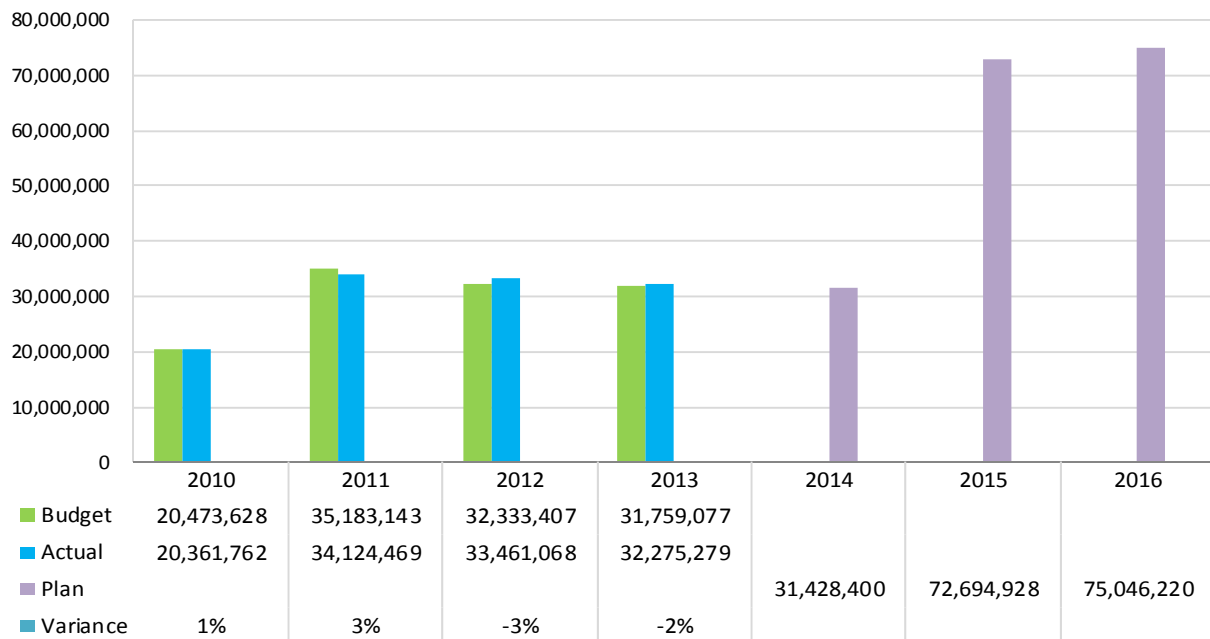


The large variances in this category are a result of additional revenue that the Municipality generates, which are transferred to either CIR or EIR, as approved by Council. These transfers represent the amount transferred and committed to current and future funding requirements. The transfer of \$264M to the CIR is included in the 2014 amended budget.

FINANCIAL SERVICES CHARGES

Items included in this category are bank charges, debenture principal and debenture interest. Figure 30 is exclusive of amortization since the Municipality does not budget for amortization. Debt service budget provisions are based on actual debt drawn or expected to be drawn in future years.

Figure 30 Financial Services Charges 2010-2016

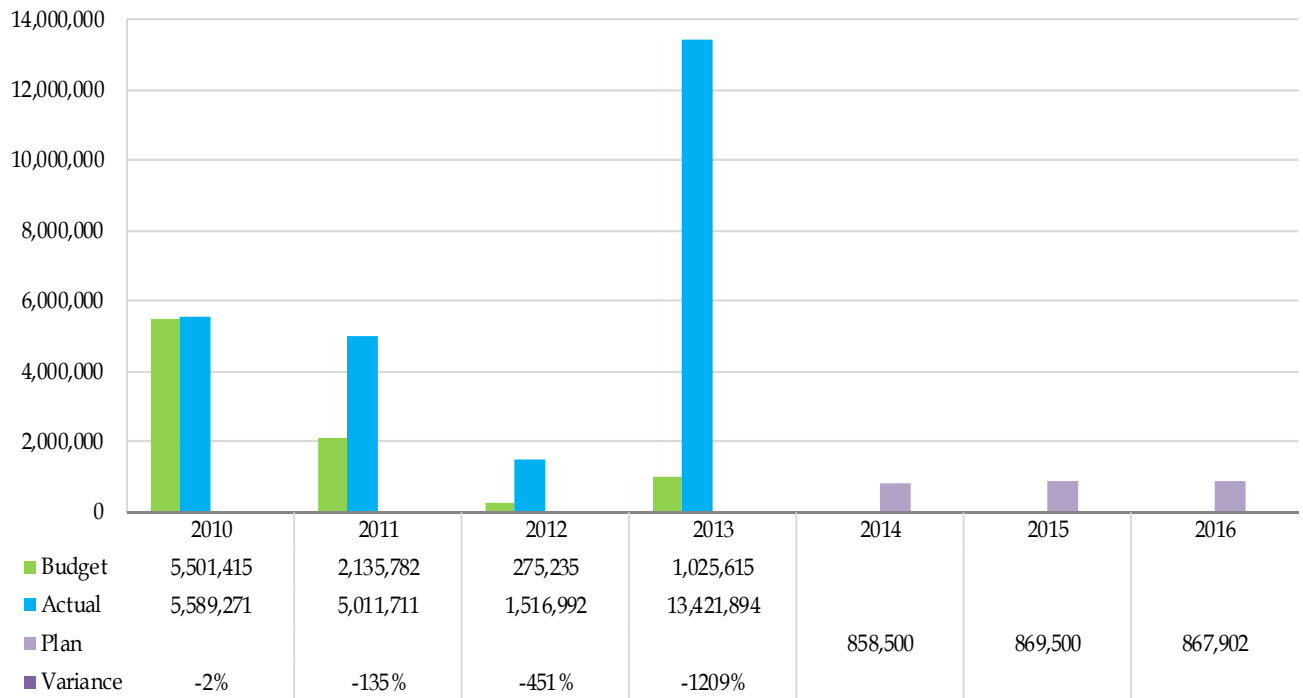


If the Municipality draws \$377M of committed debt in 2015, and implements the strategy to ensure all debt is drawn three years after commitment or approval, debt service would be \$73M in 2015 and \$75M in 2016. Based on the financial plan which was approved by Council, these potential debt services charges have not 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 internal services, bad debt expense, inventory shrinkage are some of the major expenses that are recorded in Other Expenses.

Figure 31 Other Expenses 2010-2016



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 have to be expensed as operating costs. Funding was provided within original capital project budgets.

The bulk of the actual cost in 2013 relates to: excess tax appeal loss, over budget, of \$8M related to the 2010 tax year; and \$3.7M allowance for doubtful debt.

DEBT AND DEBT SERVICE

The Debt Limit and Debt Service Limit for the Municipality are governed by Alberta Regulation 255/2000 of the 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 rapid population growth and the associated demand for new infrastructure and infrastructure rehabilitation, use of debt is a reality as general revenue growth typically lags infrastructure demand.

Figure 32 outlines the debt limit and debt service calculations under both the low risk and high risk scenarios.

Figure 32 Debt Limit and Debt Service Calculations, Low and High Risk

	LOW RISK (\$ Million)			HIGH RISK (\$ Million)		
	2014	2015	2016	2014	2015	2016
DEBT LIMIT						
Revenue of Prior Year*	689	750	755	689	750	765
Debt Limit-Per MGA (2xRevenue)	1,379	1,501	1,509	1,379	1,501	1,530
Council Approved Limit (85% of MGA limit)	1,172	1,276	1,283	1,172	1,276	1,301
Actual Debt	317	646	604	317	646	604
Undrawn Debt	778	491	502	778	491	502
Actual Total Debt Percentage	22.99%	43.03%	40.01%	22.99%	43.03%	39.46%
Committed Debt (Actual & Undrawn)	1,095	1,137	1,106	1,095	1,137	1,106
Committed Debt Percentage	79.39%	75.77%	73.30%	79.39%	75.77%	72.29%
DEBT SERVICE						
Debt Service Limit-Per MGA (0.35xRevenue)	241	263	264	241	263	268
Council Approved Limit (85% of MGA limit)	205	223	225	205	223	228
Actual Debt Service	31	73	75	31	73	75
Actual Debt Service Percentage	12.77%	27.68%	28.42%	12.77%	27.68%	28.02%

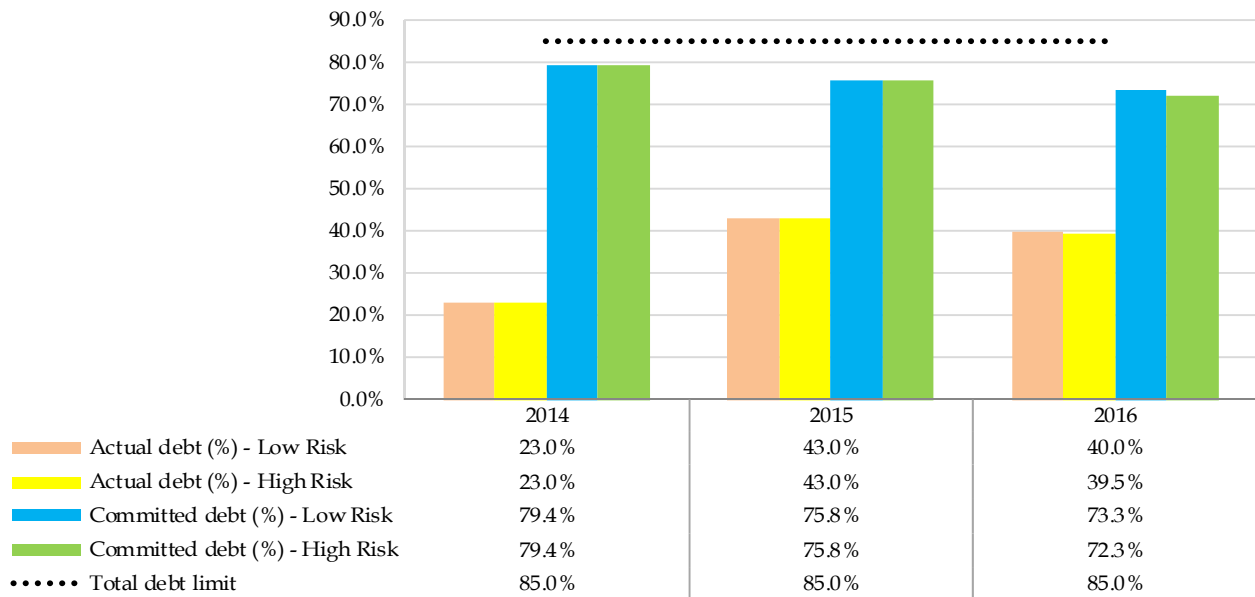
* For calculating debt limit, revenue does not include Contributions of Tangible Capital Assets nor Grants. It is based on the prior year revenue, as required by the MGA.

DEBT LIMIT

The MGA states that a municipality cannot exceed the debt limit of two times its total revenue.² Council has approved a Debt Management Policy FIN-120, which permits a debt limit up to 85% of the provincially legislated limit.

Actual debt refers to actual debentures drawn and outstanding by the Municipality while committed debt refers to total debt approved (through debenture bylaws) eligible to be drawn by the Municipality. Committed debt is an addition of actual debt drawn and undrawn debt.

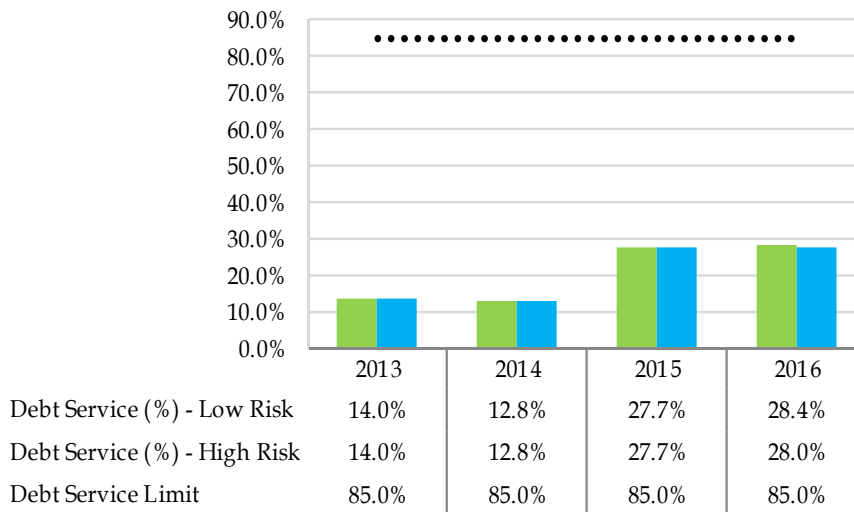
² Total revenue reported in the last year audited annual financial statement

Figure 33 Debt Limit Trend 2013-2015

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 times of the total revenue. The Municipality's Debt Management Policy establishes a limit as 85% of the legislated limit and was amended in 2012 increasing the limit from 75% to 85% of the legislated limit. As depicted in Figure 33, both the low risk and high risk outlook on debt service are under the prescribed limit of 85% of the MGA as set by Council.

Figure 34 Debt Service Comparison (%) 2014-2015

While total committed debt is being tracked, committed debt service is more difficult to project, as it is tied to unpredictable capital projects delivery and related backlog. Consequently, it is difficult to predict when the debt would be drawn. For planning purposes, debt is assumed to be drawn three years after Council's approval.

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 expense increases
- To ensure stable property tax rates

In compliance with the Fiscal Responsibility Policy FIN-160 (approved April 26, 2011), the Municipality holds two reserves: the Emerging Issues Reserve (EIR) and the Capital Infrastructure Reserve (CIR). Council approval is required to utilize funding from both reserves.

EMERGING ISSUES RESERVE (EIR)

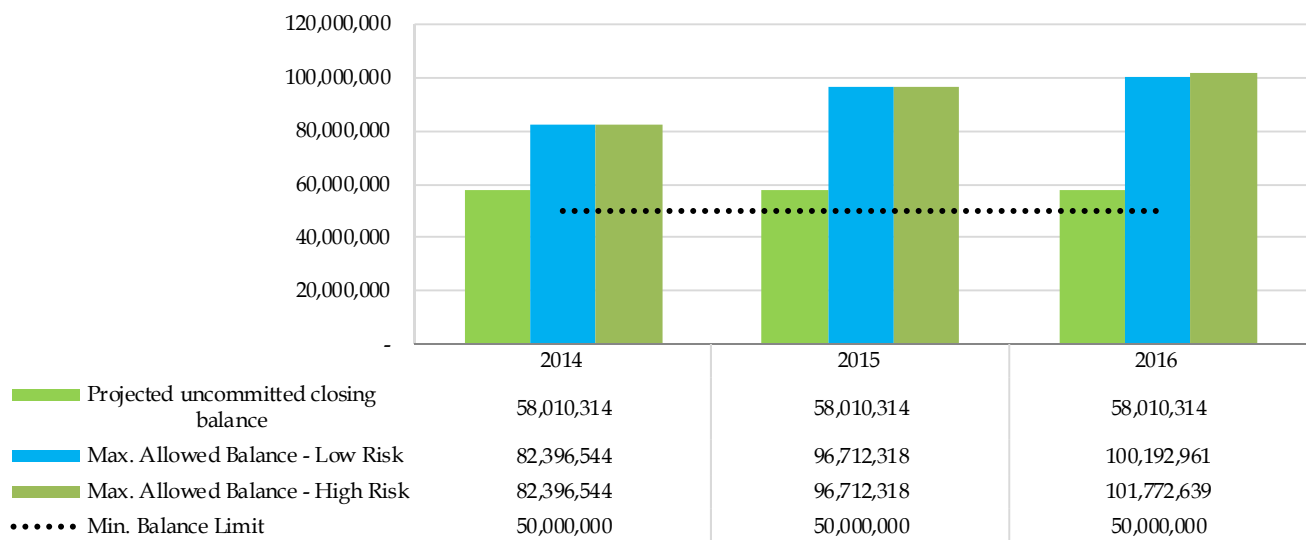
The EIR was established by Council in 2002 to stabilize operating revenues in response to unanticipated loss of revenue as well as provide funding flexibility in responding to unplanned events and other significant price changes. Funding of the EIR comes from operating surplus (if any) at the end of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

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 2014-2016.

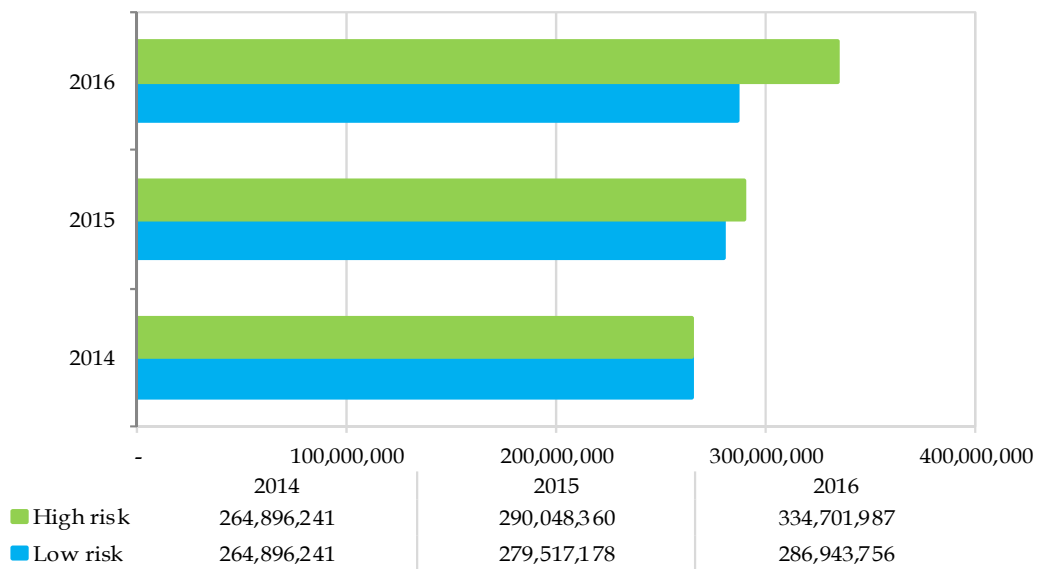
Figure 35 Projected Emerging Issues Reserve Balances 2014-2016



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 funds unanticipated capital program requirements. The \$44.8M increase in the amended tax revenue for 2014 is also adjusted in the CIR balances. The forecasted capital infrastructure contributions are presented in Figure 36.

Figure 36 Projected Operating Budget Transfer to CIR 2014-2016

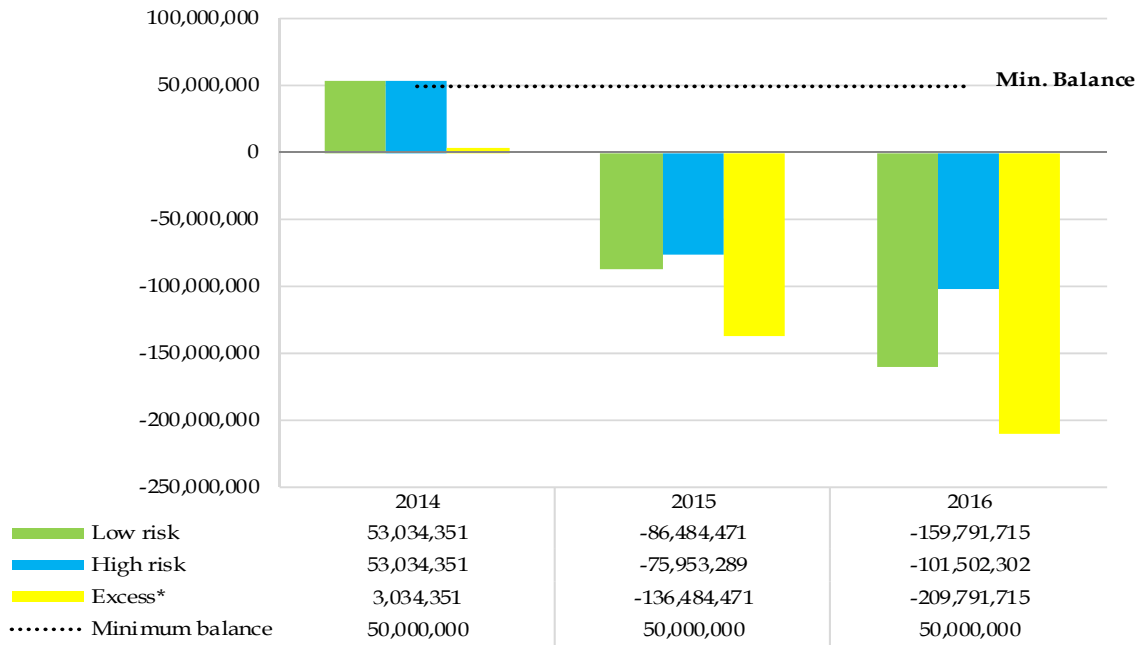


Based on the low/high risk scenarios, the projected balance in the CIR is found in Figure 37. In 2015, the CIR falls below the minimum balance—many capital projects were delayed to start in 2015 or later during the 2014 capital budget process. Council will decide the funding priorities for these projects, by removing, postponing or exploring alternative funding sources.

The CIR drawdown outlined in Figure 38 will require revision/reprioritization by Council to meet funding and resource capacity.

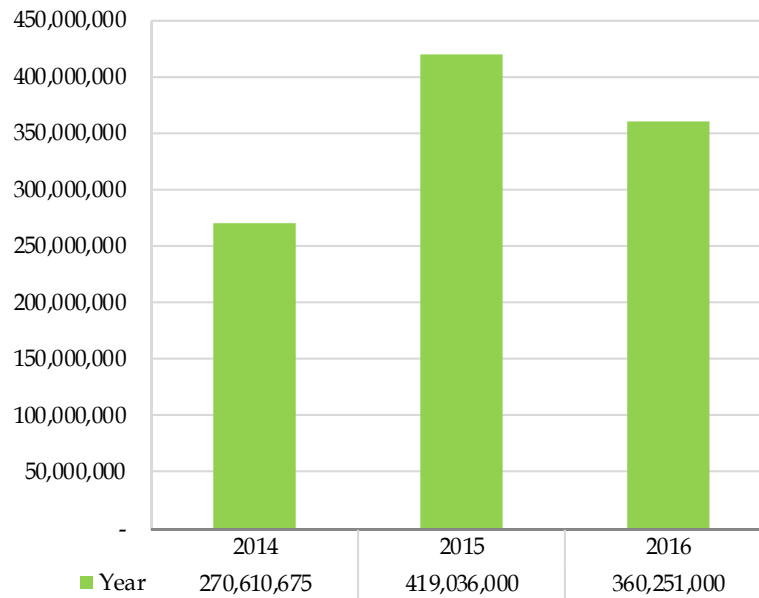
The projects that carry forward into multiple years that started in 2014 and prior have the CIR funding set aside—it is the new projects beginning in 2015 or 2016 that will be affected by the prioritization of projects.

Figure 37 Capital Infrastructure Reserve Projected Balance 2014-2016



* Excess from Low Risk (Cumulative)

Figure 38 Projected CIR drawdown 2014-2016



INVESTMENTS

INVESTMENT STRATEGY

The Municipality's investment of funds is 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 of Principal:** 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 on Investment:** the investments of the fund shall be structured with the objective of attaining a market rate of return.

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

- **Short term investments:** maturity of less than a year; 11% of the portfolio
- **Medium term investments:** maturity greater than one year, but less than ten less than five years; 89% of the portfolio

The Municipality's investments have various levels of oversight and governance. First of all, funds are managed by external fund managers. In addition, there is an Investment Advisory Committee that has oversight responsibility, and is comprised of the CFO (chair), the CAO/COO and the Director of Finance. Finally, a performance update is presented to Council annual.

Given the reclassification of the Short-Term and Medium-Term portfolios that occurred in Q2 2013, only one quarter of performance is available for the complements outlined in Figure 39. The securities distribution of the portfolio is allocated such that 88.7% of the holdings are allotted to the Medium-Term Portfolio and 11.32% to the Short-Term Portfolio.

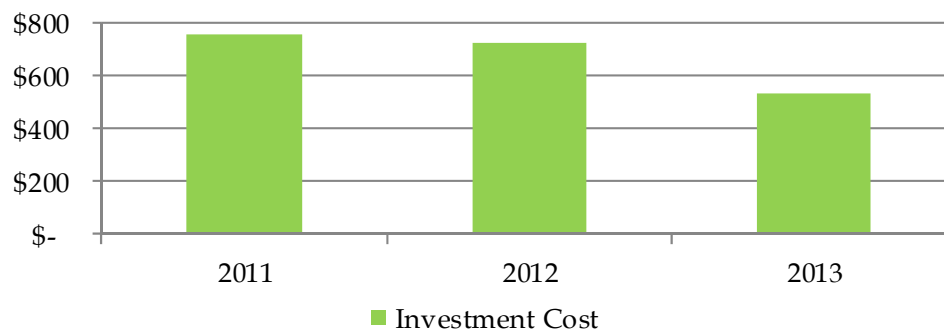
The total amortized cost of the portfolio is \$523.4M at December 31, 2013. Overall portfolio performance has been above benchmark for the last four years, and ensures the safety of the capital and provides an above-market rate of return as prescribed in the investment policy.

Figure 39 Total Portfolio Performance Summary, December 31, 2013

Market Value		Annualized				Annual (1-year Ending)			
		3 months	1 year	4 year		2013	2012	2011	2010
\$521.6 M	Total Portfolio	0.45%	0.01%	2.03%		0.01%	2.22%	3.50%	2.43%
100%	DEX 91 Day T-Bill Index	0.25%	1.01%	0.89%		1.01%	1.01%	1.00%	0.54%
	Excess Return (%)	0.20%	-1.00%	1.14%		-1.00%	1.21%	2.50%	1.89%
	DEX Short Term	0.61%	1.40%	2.61%		1.40%	1.17%	4.62%	3.29%
\$462.9 M	Medium Term Portfolio	0.52%	n/a	n/a		n/a	n/a	n/a	n/a
88.7%	Dex Short Term	0.61%	n/a	n/a		n/a	n/a	n/a	n/a
	Excess Return	-0.09%	n/a	n/a		n/a	n/a	n/a	n/a
	Quartile	Q4	n/a	n/a		n/a	n/a	n/a	n/a
\$511.1 M	Short Term Portfolio	0.33%	n/a	n/a		n/a	n/a	n/a	n/a
11.3%	DEX 91 Day T-Bill Index	0.25%	n/a	n/a		n/a	n/a	n/a	n/a
	Excess Return	0.08%	n/a	n/a		n/a	n/a	n/a	n/a
	Quartile	Q1	n/a	n/a		n/a	n/a	n/a	n/a

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 40 Total Investment Cost Trend, 2011-2013 (\$ Millions)



As illustrated in Figure 41, the quality of investment grade is also maintained while achieving an above-market rate of return.

Figure 41 Total Portfolio Investment Quality Analysis, December 31, 2013

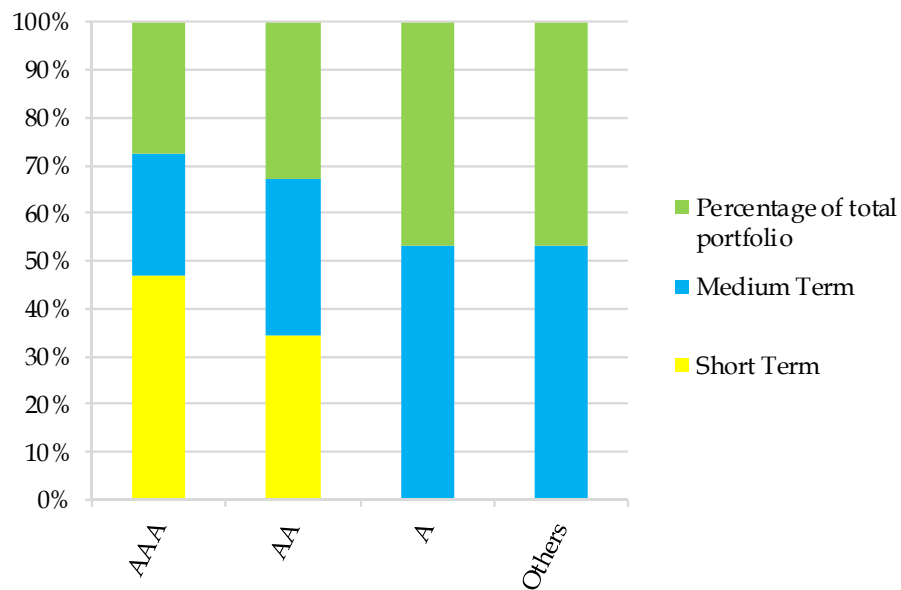
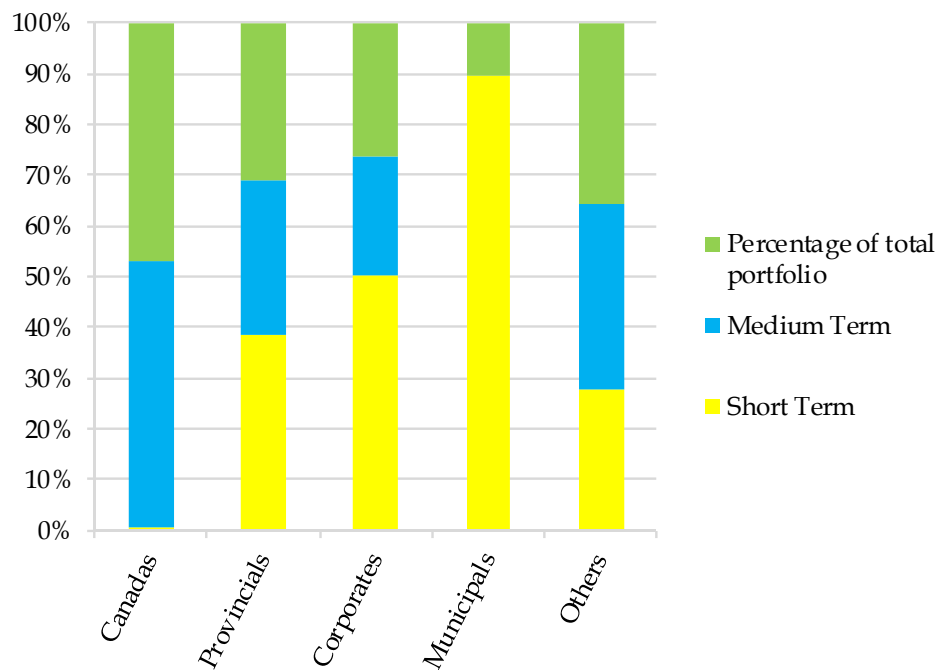


Figure 42 Total Portfolio Sector Analysis, December 31, 2013



FINANCIAL CONDITION INDICATORS

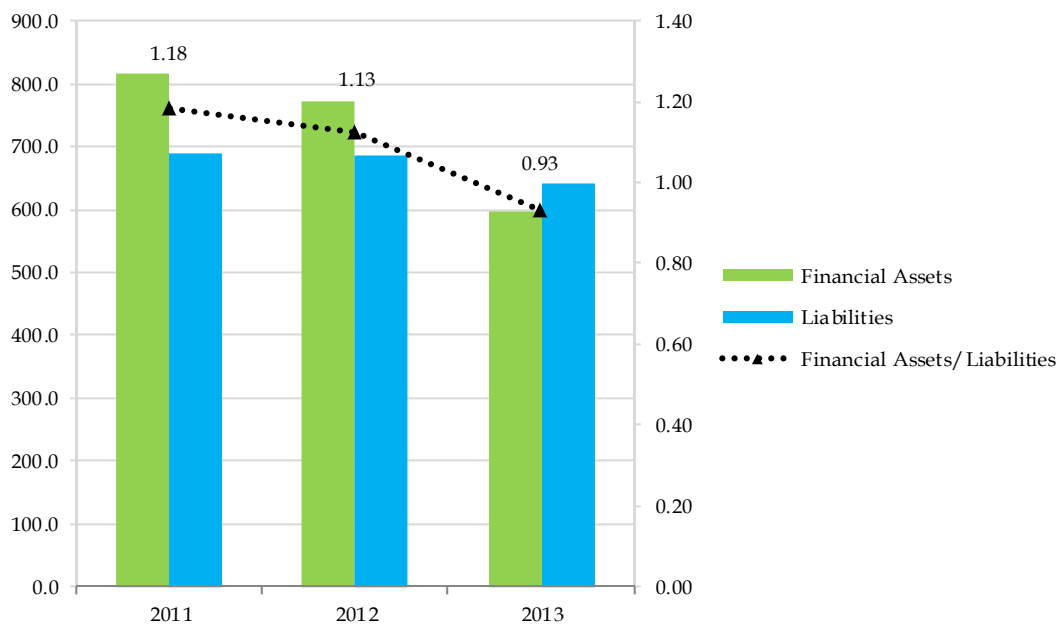
The Municipality uses three sets of financial conditions to measure its overall financial health: sustainability, flexibility, vulnerability.

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 its debts as they come due. 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 43 Ratio of Financial Assets to Liabilities, 2011-2013 (\$ millions)



A ratio of 2:1 is desirable. This indicator includes long term debt of \$332M in 2013, \$347M in 2012, and \$362M in 2011. 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 44 and 45, the debt and debt service limit are maintained at relatively stable levels without any major swings. This indicates that the debt levels are not negatively impacting the delivery of programs without compromising revenues for debt service. The debt included in this section contains actual debt and does not incorporate the expected debt that is to be drawn in future.

Figure 44 Debt Limit Usage 2011-2013 (\$ millions)

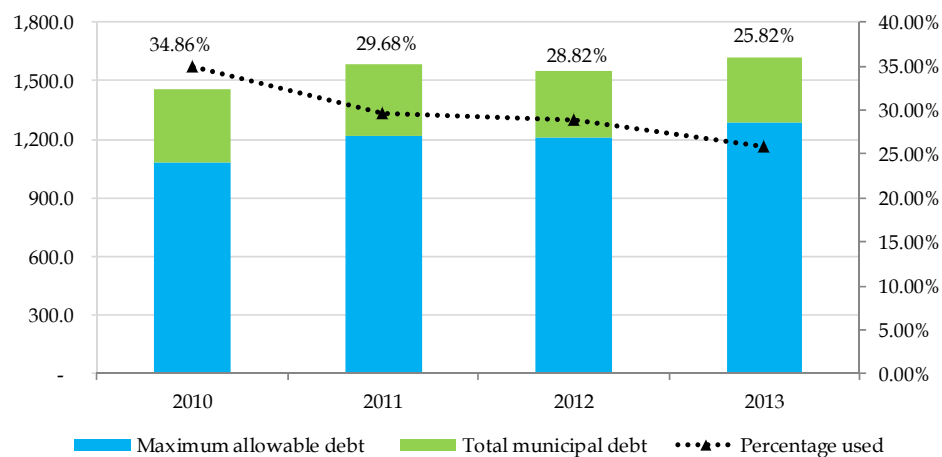
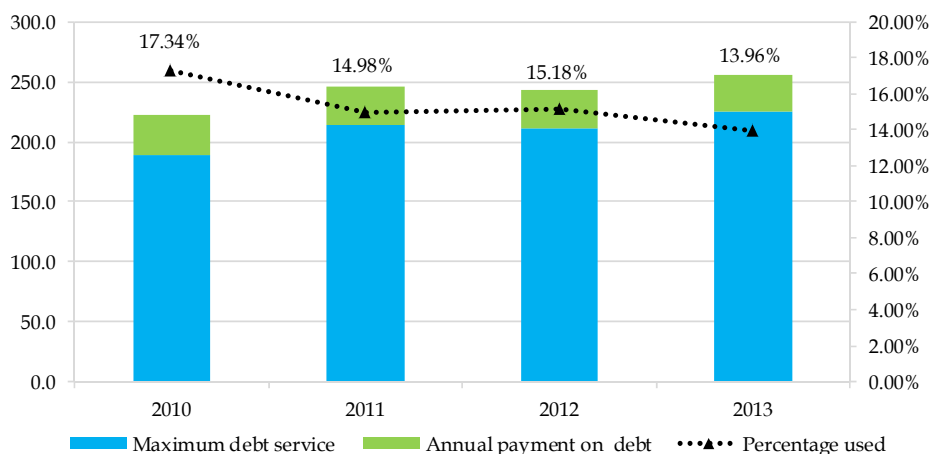


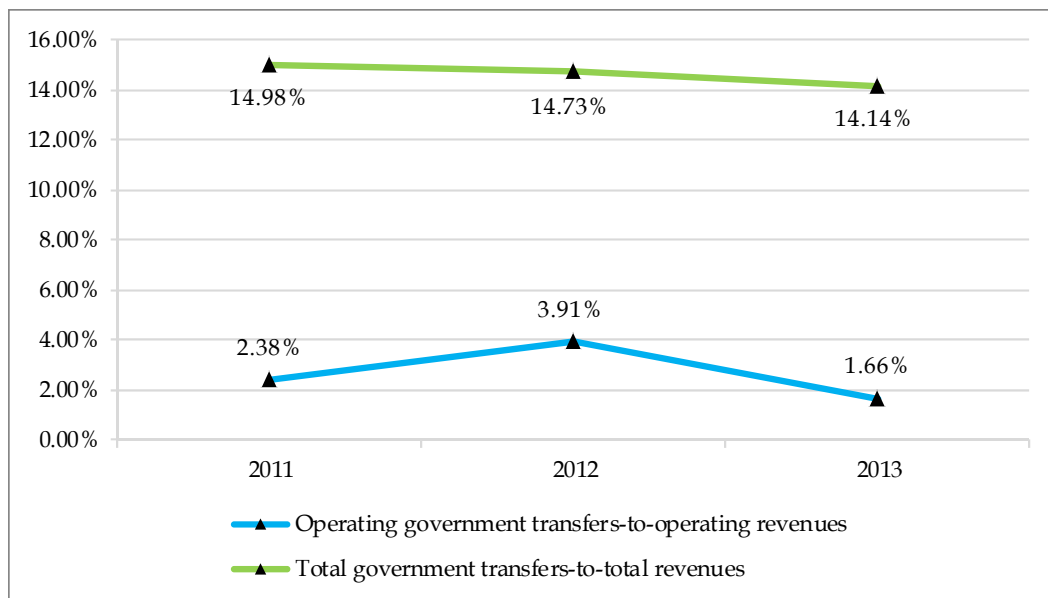
Figure 45 Debt Service Limit Usage 2011-2013 (\$ millions)



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 46 Vulnerability Indicators 2011-2013



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.