



## 2019 Interim Operating and Capital Budget

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### Summary

On November 30, 2018 Lacombe County Council adopted the County's 2019 interim operating and capital budgets. Following the priorities set out in the County's Strategic Plan and its long-range road construction and capital equipment replacement plans, the budget reflects the desire to support the maintenance of existing service levels while managing the County's spending in a responsible manner that reflects the current economic situation.

The \$55,212,370 interim operating budget is balanced and supported by a 2.0% property tax rate increase for residential properties, a 3.5% tax rate increase for farmland and 4.5% property tax rate increase for all other properties and a transfer of \$67,630 from the tax rate stabilization reserve. The 2.0% property tax rate increase represents an additional \$20.04 in taxes on a \$400,000 residential property.

The 2019 interim capital budget, which provides for revenues and expenditures of \$15,827,070, sees a decrease of \$13.105 million from last year's budget. Highlights of the capital budget include:

- Carry-over funding to extend water and wastewater services from the City of Lacombe to County lands west of the QEII, including the Wildrose Industrial Park.
- Construction and rehabilitation of 19 kilometers of local roads (\$4.5 million)
- Decreases in road projects (\$12.2 million), bridge projects (\$137,750), equipment/vehicle replacements (\$676,410), and recreation projects (\$158,400).

### Process

The draft interim budgets are the culmination of a budgeting process that began with the development of the 2018-2023 Strategic Plan, approved by Council earlier this year. Further direction was received from Council with regards to service levels and potential tax rate increases at the 2019 pre-budget meeting in August.

At the August 29, 2018 pre-budget meeting of Council, Council provided the following direction:

- Cost of living adjustment for staff and Council wages of 2.5%.
- Annual inflation adjustment for recreation, fire and cemetery grant funding arrangements of 2.5%.
- Support for additional staff resources for the Human Resources Department.
- No separate tax rate for small business properties.
- No major changes to service levels either in operations or capital except those identified in Council's Strategic Plan.

The interim budgets were developed over a period of several months. Departments prepared their individual budgets which were then presented to senior management in early October.

Following a number of revisions, including updates to the County's 2019 assessment forecasts, a single consolidated budget document was developed for Council's consideration.

The consolidated interim budget is the first stage of a two-stage process. Stage 1 involves the development and approval of interim operating and capital budgets in late November or early December of each year. Approval of the 2019 interim budgets authorizes the County to incur expenditures and conduct its operations, commencing January 1, 2019. The interim budgets are based on preliminary property assessment information and do not include revenue (taxes) and expenses associated with the Alberta School Foundation Fund (education requisition) or the seniors requisition.

Stage 2 will occur in April or May of 2019. The tax rate bylaw establishes the current year property tax rates, by property type, and once approved gives the County the authority to prepare and issue property tax notices. **The adoption of the interim budget does not formally approve the 2019 tax rates.** Information confirmed during the period between Stage 1 and Stage 2 of the budget process, including property assessment values, revenue and expenditure changes, grant funding and receipt of the education requisition, will require Council to review and amend the proposed tax rates, if warranted, prior to approving them in final form.

The County's multi-year operating, and capital plans will also be approved in the new year as part of the annual budget process. These multi-year plans are the result of new legislative requirements which require 3-year operating and 5-year capital plans for the County.

The following are highlights of the interim budgets and cover the following areas:

1. Operating Budget
2. Capital Budget
3. Reserves
4. Property Assessments
5. Property Taxes and Tax Rates
6. Property Tax Comparison
7. Grants
8. Share Fire Services

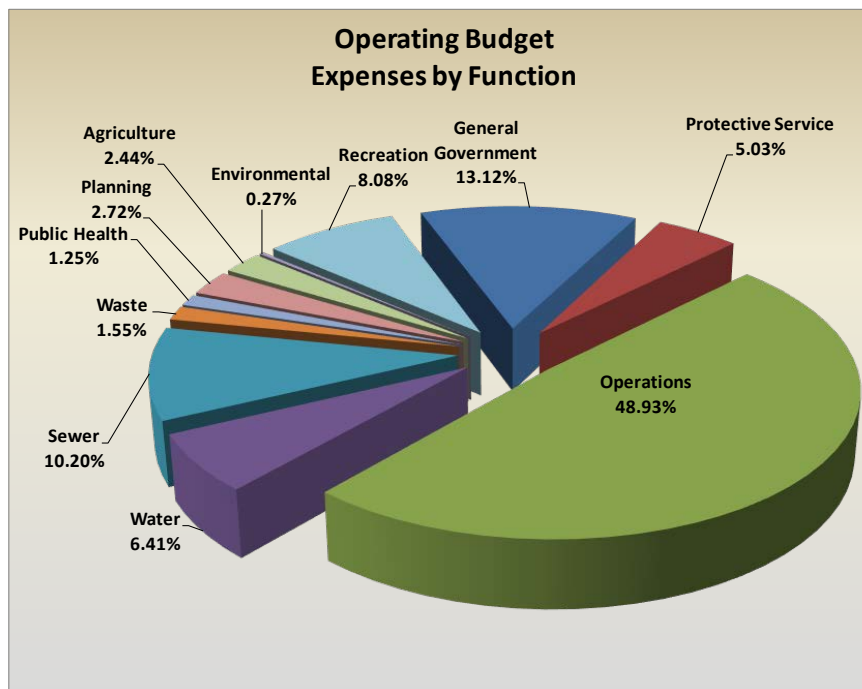
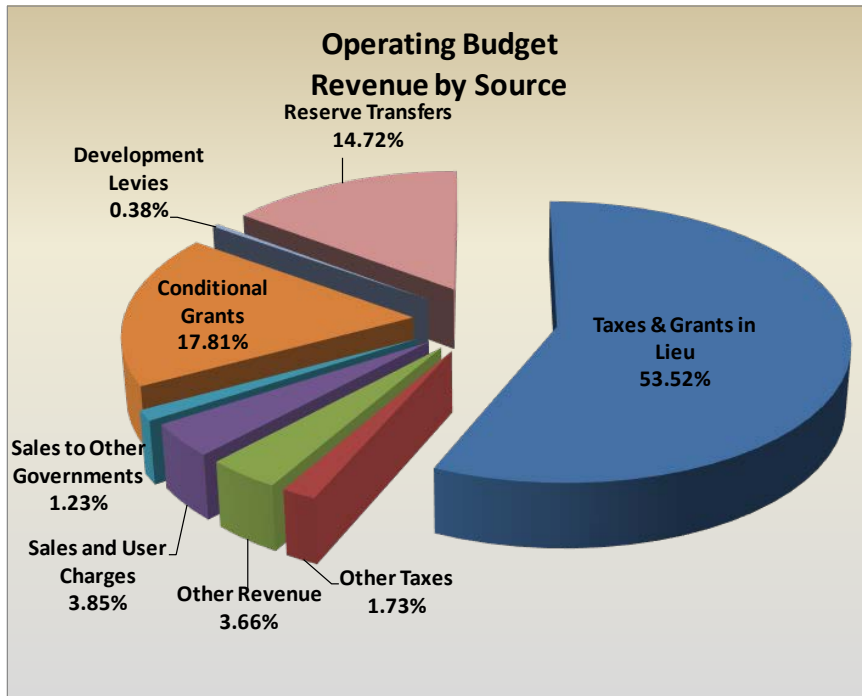
#### Budgets – Operating

1. The 2019 interim budget was prepared with the following assumptions:
  - Completing projects and initiatives budgeted for but not completed in 2018. Funding from 2018 is also carried over.
  - Providing 2018 levels of service indexed for 2019 using an inflation factor of 2%, excluding the labor component of service provided.
  - Adjustments of service levels and the undertaking of new initiatives and projects in accordance with Council direction previously provided through:
    - the 2018-2023 Strategic Plan
    - policy changes, and
    - Council resolutions and bylaws
  - Adjusted inventory requirements based on anticipated year end quantities on hand.
  - Carry forward cash flow requirements to proceed with the West QE II Water/wastewater Infrastructure project.

- Ceasing of the operations of the Mirror Fire Department.
2. The budget is balanced with revenue and expenditures of \$55,212,370 (net of requisitions for Alberta Education and Lacombe Seniors Foundation) which represents a 1.2% decrease (\$668,160) from the 2018 budget.
  3. To achieve a balance budget, a revenue shortfall of \$1,298,680 has been offset by the following Council approved increases:
 

• 2.00% Tax Rate Increase – Residential Assessment Classes	\$ 90,990
• 3.50% Tax Rate Increase – Farmland Assessment Classes	\$ 22,630
• 4.5% Tax Rate Increase – Non-Residential	\$1,117,430
• Transfer from Tax Rate Stabilization Reserve	\$ 67,630
  4. Annual operating grants provided pursuant to our recreation and culture policies have been adjusted by 2.5% in 2019; previously indexed in 2018 at 1.2%. Other operating budget items subject to inflation, have been indexed at 2%.
  5. Cost of living adjustments (COLA) of 2.5% have been applied to staff, Councillor, SDAB/ARB, and volunteer firefighter remuneration and expenses at a projected cost of \$354,330.
  6. A preliminary estimate of \$35,000 for staff market adjustments including benefits and COLA is included.
  7. Minimal staffing changes are proposed for 2019. One additional position has been proposed for the HR Department with a start date of July 2019.
  8. The overall fuel budget has increased by \$308,720 compared to 2018 because of ongoing inflationary price increases. The fuel cost increase will be funded from the Operational Reserve in 2019.
  9. The 2019 interim budget does not include potential budget increases or decreases relative to discussions related to the Inter-Municipal Collaboration Frameworks agreements.
  10. The budget has not factored in any changes to designated industrial properties (DIP) assessment guidelines and has assumed only 1% increase in the annual cost year modifiers for regulated properties.
  11. The budget also includes the full allocation of the annual MSI operating grant and a reduced MSI capital grant from the Province.

12. The following charts highlight the sources of funding of this year's budget as well as the allocation of those funds by department.



Budgets - Capital Budget

1. The 2019 capital budget is \$15,827,070, a decrease of \$13.105 million (45.3%) compared to 2018. Changes to the budget include:
  - Decrease in road projects of \$12.193 million.
  - Decrease in bridge projects of \$137,750.
  - Decrease in equipment and vehicle replacement of \$676,410.
  - Decrease in recreation projects of \$158,400.
2. In addition, several projects are carry over projects from 2018 such as:
  - Accounting and Records Management Software of \$362,330.
  - West QEII Utility Infrastructure of \$3.085 million.
3. Funding for the projects is from the following sources:
 

a. Capital Reserves	\$6,301,690
b. Trade in of Equipment	\$ 994,500
c. Operations (Tax supported)	\$4,881,010
d. Capital Grants	\$3,649,870
4. Of the \$15.827 million in capital spending in 2019, \$6.302 million (39.8%) is sourced through funds set aside in prior years through the capital replacement plans compared to \$9.24 million in 2018.

**Capital Budget by Asset Class**

<u>Department</u>	<u>2018</u>	<u>2019</u>	<u>% Change</u>
Bridges	\$3,461,260	\$3,323,510	-3.98%
Buildings & Improvement	\$17,000	\$0	-100.00%
Equipment & Vehicles	\$4,896,290	\$4,219,880	-13.81%
Land	\$0	\$120,000	100.00%
Recreation Areas	\$225,070	\$66,670	-70.38%
Road Infrastructure	\$17,145,810	\$4,952,900	-71.11%
Utility Infrastructure	\$3,186,930	\$3,144,110	-1.34%
<b>Total</b>	<b>\$28,932,360</b>	<b>\$15,827,070</b>	<b>-45.30%</b>

### Capital Budget by Department

<u>Department</u>	<u>2018</u>	<u>2019</u>	<u>% Change</u>
Agriculture	\$156,500	\$283,900	81.41%
Common Services	\$525,000	\$412,330	-21.46%
Fire Protection	\$25,000	\$165,100	560.40%
Operations	\$24,566,220	\$11,691,560	-52.41%
Peace Officer Services	\$234,640	\$63,400	-72.98%
Recreation & Culture	\$225,070	\$66,670	-70.38%
Utility Services	\$3,199,930	\$3,144,110	-1.74%
<b>Total</b>	<b>\$28,932,360</b>	<b>\$15,827,070</b>	<b>-45.30%</b>

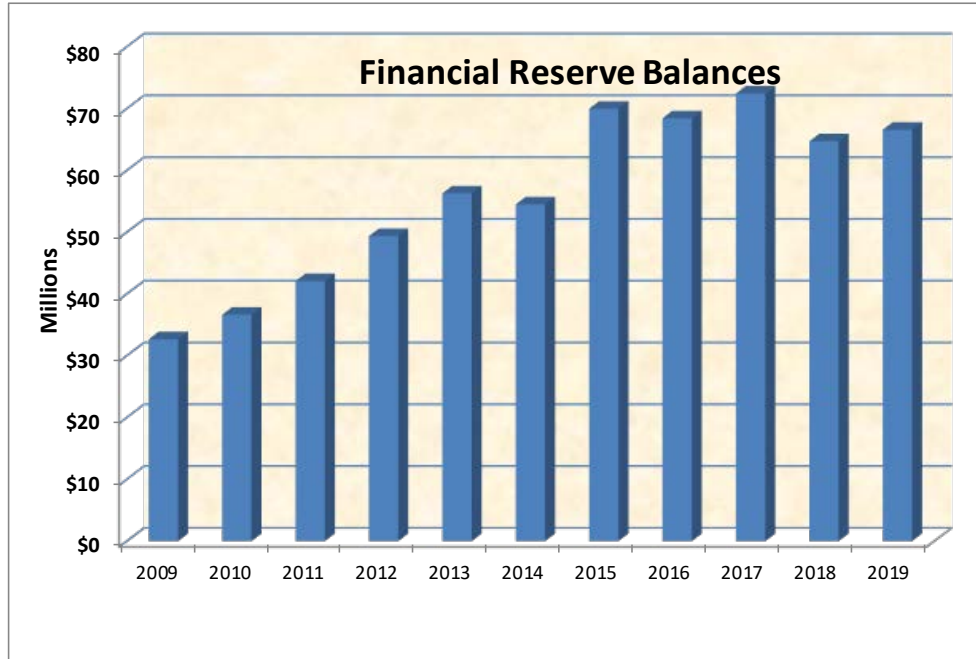
#### Reserves

1. The County's reserves balances are managed in accordance with the County's Financial Reserve Policy, #AD(30).
2. The proposed reserve activity for 2019 is as follows:

January 1, 2019 Balance	\$64,713,894.01
Transfers in During Year	\$16,185,150.00
Transfers Out During Year	<u>\$14,328,680.00</u>
December 31, 2019 Balance	\$66,570,364.01

3. Transfer from reserves are projected at \$14,328,680 reflecting a return to an average capital program for 2019, with the bulk of the funds earmarked for equipment replacement at \$2,106,650 and funding for bridge construction \$2,835,500. An allocation from reserves for the MSI capital reallocation due to the West QEII project of \$5,346,900 originally identified in 2018 is carried over as a transfer in 2019.

4. The following graphs illustrate Lacombe County's philosophy to invest in long range planning through established policy guidelines for the ongoing dedication of funds to reserves.



Property Assessment

1. The 2019 property assessment is projected to decline by 0.693% from 2018 value as indicated below:

<u>ASSESSMENT CLASS</u>	<u>2018 BUDGET</u>	<u>2019 BUDGET</u>		
TAXES	ASSESSMENT	ASSESSMENT	\$ CHANGE	% CHANGE
Residential	1,775,735,380	1,813,022,326	37,286,946	2.100%
Commercial	124,121,580	124,121,580	0	0.000%
Industrial	266,605,860	266,605,860	0	0.000%
Industrial DIP	779,259,220	779,259,220	0	0.000%
Farmland	124,330,480	124,330,480	0	0.000%
Machinery & Equipment	14,260,940	14,260,940	0	0.000%
Machinery & Equipment DIP	2,823,365,680	2,795,132,023	-28,233,657	-1.000%
Electric Power/Telecom	204,672,730	201,095,755	-3,576,975	-1.748%
Pipeline/Wells	605,567,470	553,393,578	-52,173,892	-8.616%
Cable Vision	<u>970,150</u>	<u>979,852</u>	<u>9,702</u>	<u>1.000%</u>
<b>SUB-TOTAL</b>	<b>6,718,889,490</b>	<b>6,672,201,614</b>	<b>-46,687,876</b>	<b>-0.693%</b>
<b>GRANTS IN PLACE OF TAXES</b>				
Federal- Residential	898,670	898,670	0	0.000%
Federal - Farmland	431,150	431,150	0	0.000%
Federal - Non-Residential	12,263,110	12,263,110	0	0.000%
Provincial - Residential	853,140	853,140	0	0.000%
Provincial - Farmland	120,860	120,860	0	0.000%
Provincial - Non-Residential	<u>2,660,630</u>	<u>2,660,630</u>	<u>0</u>	<u>0.000%</u>
<b>SUB-TOTAL</b>	<b><u>17,227,560</u></b>	<b><u>17,227,560</u></b>	<b><u>0</u></b>	<b><u>0.000%</u></b>
<b>TOTALS</b>	<b>6,736,117,050</b>	<b>6,689,429,174</b>	<b>-46,687,876</b>	<b>-0.693%</b>

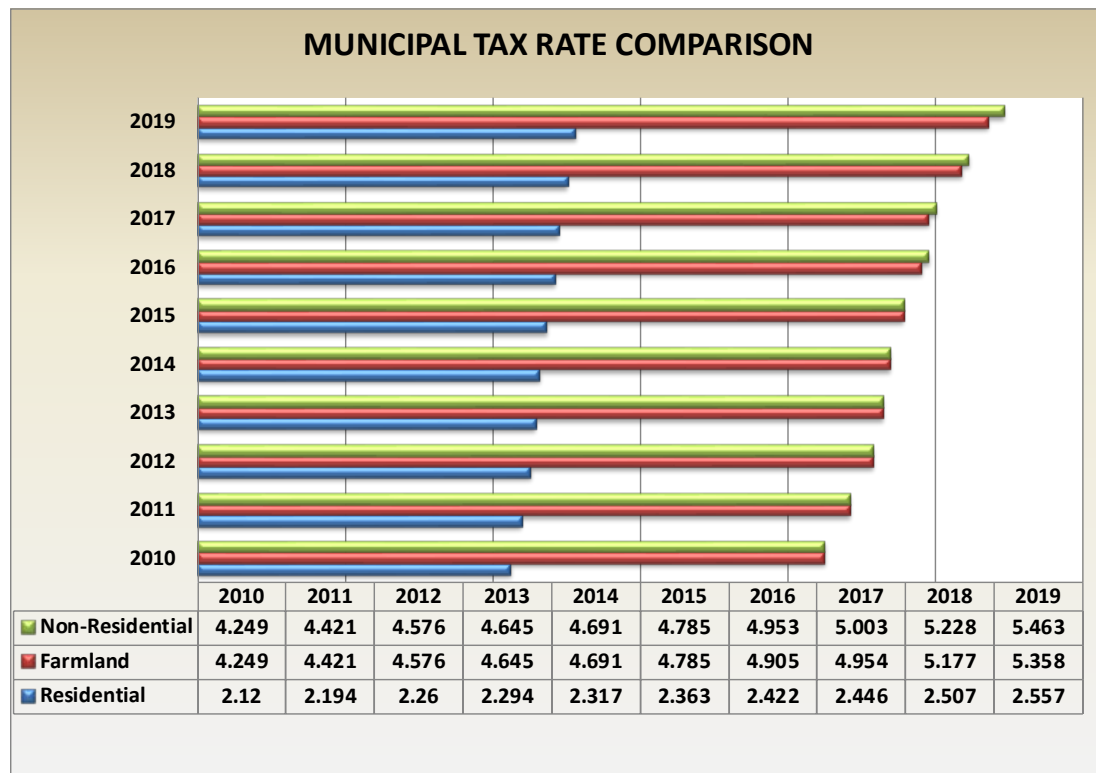
2. Increases in residential assessment is the result of growth. Market values for residential properties will remain similar to 2018 levels.
3. Designated Industrial Properties assessments are projected to remain unchanged from 2018 as a small annual cost year modifier increase will be offset by depreciation. Minimal new assessment is expected for 2019.
4. Possible changes to the Minister's Guidelines for Industrial Properties could have a major impact on how assessments for pipelines and wells are prepared. These changes, along with slow growth in new pipelines and wells and depreciation of existing pipelines and wells, will result in a net decrease of 8.6% over 2018 values. Administration will have more information on this matter in later December, early January.
5. Commercial and Industrial development is projected to remain flat for 2019 based on 2018 development to date. Final assessments will be known in early January 2019.



- No provision has been made for a supplementary assessment for 2019.

### Property Taxes and Tax Rates

- The graph below illustrates municipal tax rate changes over the past eight years including the proposed rates for 2019. The prior five-year average increase has been 2.40% for Non-Residential assessments and 2.20% for Farmland and 1.80% for Residential assessments. Factoring in the proposed tax rate increases for 2019 would bring the average increases to 3.10% for Non-Residential, 2.70% for Farmland, and 2.00% for Residential assessments.



- A 1% property tax rate increase on all properties, would generate \$300,260 in additional tax revenue.
- Based on the 2018 municipal tax rate the municipal property taxes on a \$400,000 residence in Lacombe County are \$1,002.80. A 2.0% increase in the municipal tax rate in 2019 represents an additional \$20.04 in taxes on this same value residence.
- The average assessment for a quarter section of land in Lacombe County of \$32,000 generated \$165.66 in municipal property taxes in 2018. A 3.5% increase in tax rates would levy an additional \$5.80 in property taxes.
- As per Council direction, no provision has been made for a small business tax rate which is now permitted under the Municipal Government Act and supporting regulation.

### Property Tax Rate Comparison

1. The chart below summarizes a comparison of 2018 municipal tax rates for 16 rural Alberta municipalities and provides insight into the differences in residential, farmland and non-residential tax rates. Based on the proposed tax rate increases of 2% residential, 3.5% farmland and 4.5% non-residential, the County's ratio between tax rates would be 2.1 for residential to farmland and 2.14 for residential and non-residential compared to the median of 2.46 and 3.0. The County's rates are also 21.9% below the median for residential and 46.4% below the median for non-residential rates.

2018 Municipal Tax Rate Comparison - Counties						
Municipality	Year	Residential	Farmland	Non-Res	Relationship to Res	
					Farmland	Non-Res
Camrose County	2018	3.1457	12.9812	13.9392	4.13	4.43
Clearwater County	2018	2.6644	4.3850	7.9942	1.65	3.00
County of Grande Prairie	2018	4.0436	8.4950	13.4765	2.10	3.33
County of Stettler	2018	4.3526	12.9987	13.6492	2.99	3.14
Kneehill County	2018	2.8037	6.8400	14.0180	2.44	5.00
Leduc County	2018	3.2900	13.5900	6.8700	4.13	2.09
MD of Foothills	2018	3.4237	8.4195	8.3968	2.46	2.45
Mountain View County	2018	2.8700	8.1800	10.1900	2.85	3.55
Parkland County	2018	3.9673	3.9673	7.9345	1.00	2.00
Ponoka County	2018	1.6900	5.9950	10.8200	3.55	6.40
Red Deer County	2018	3.9406	9.2242	12.2055	2.34	3.10
Rocky View County	2018	2.5140	5.6566	7.5420	2.25	3.00
Strathcona County	2018	4.3185	4.3185	8.9383	1.00	2.07
Sturgeon County	2018	3.6465	9.4700	10.3820	2.60	2.85
Wetaskiwin County	2018	2.4204	15.9874	14.2174	6.61	5.87
Wheatland County	2018	3.7596	12.7321	8.7402	3.39	2.32
Lacombe County Proposed	2019	2.5570	5.3580	5.4633	2.10	2.14
Minimum		1.6900	3.9673	5.4633	1.00	2.00
Maximum		4.3526	15.9874	14.2174	6.61	6.40
Median		3.2900	8.4195	10.1900	2.46	3.00
Mean (Average)		3.2593	8.7411	10.2810	2.80	3.34

### Grants

1. Government grants are projected to decrease to \$9,591,160 compared to 2018 as indicated in the table below.
2. Variations in the Municipal Sustainability Grant in 2019 from 2018 are due to the application of the grant against eligible projects. Administration is forecasting an overall decline in the capital portion of the MSI grant from \$3.318 million to \$1.704 million. The MSI operating grant is expected to remain unchanged until it is eliminated in 2021.

		<u>2018</u>	<u>2019</u>
<b>Agriculture</b>	<b>ASB Legislative Grant</b>	<b>168,360</b>	<b>168,360</b>
<b>Environmental</b>	<b>ASB Environmental Stream</b>	<b>58,000</b>	<b>58,000</b>
<b>FCSS</b>	<b>Family &amp; Community Support Services</b>	<b>303,650</b>	<b>303,650</b>
<b>General Government</b>	<b>MSI Operating Grant</b>	<b>147,580</b>	<b>147,580</b>
	<b>Asset Management Program Grant</b>	<b>50,000</b>	
<b>Operations</b>	<b>Federal Gas Tax Fund</b>	<b>570,460</b>	<b>564,140</b>
	<b>MSI Capital Grant</b>	<b>523,570</b>	<b>489,100</b>
	<b>Strategic Transportation Infrastructure</b>	<b>1,378,590</b>	<b>0</b>
<b>Planning</b>	<b>Alberta Community Partnership</b>	<b>200,000</b>	<b>120,000</b>
<b>Utility Services</b>	<b>MSI Capital Grant</b>	<b>7,416,440</b>	<b>7,144,100</b>
	<b>Local Government Grants</b>	<b>619,830</b>	<b>596,230</b>
	<b>TOTAL GRANTS</b>	<b>\$11,436,480</b>	<b>\$9,591,160</b>

### Shared Fire Funds Operating Budget

Lacombe County manages the finances of fire department equipment jointly owned with its urban partners. Separate Operating Budget documents have been prepared to reflect the projected revenue and expenses for the operation of this equipment and are included in the budget package.