

Subject: **2022 Operating and Capital Budget Deliberations**

Meeting Date: Tuesday, March 22, 2022

Prepared By: Bill McKennan, Director of Corporate Services  
Marika von Mirbach, Financial Planning Coordinator

Presented By: Bill McKennan, Director of Corporate Services

**RECOMMENDED MOTION:**

1. That the 2022 Operating Budget in the amount of \$27,892,305 as detailed in Appendix A be approved.
2. That the transfers from reserves and contributions to reserves as detailed in Appendix B be approved.
3. That the 2022 Capital Budget and funding sources in the amount of \$5,230,332 as detailed in Appendix D be approved.
4. That Council authorize the creation of an Infrastructure Reserve.
5. That the Flat Maintenance Rate related to water connections be amended to \$60.00 bimonthly effective May 1, 2022, and that the Master Rate By-Law be amended accordingly.
6. That this report be received for information.

**STRATEGIC PLAN ALIGNMENT: (Check all that apply)**

	<input checked="" type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>
Improving Fiscal Sustainability		Preserving Rural Way of Life		Pursuing Focused Growth		Ensuring Comms & Engagement		Providing Good Governance		Level of Service	

**RELEVANT LEGISLATION:**

**Provincial (cite)** - The County is required under the *Municipal Government Act (MGA)* to approve both an operating and capital budget which are balanced and fully funded.

**BACKGROUND/PROPOSAL:**

The County is required under the *Municipal Government Act (MGA)* to approve both an operating and capital budget which are balanced and fully funded. To achieve this, the budget is prepared on a fiscal viability basis and is monitored and controlled to achieve the desired outcome of a balanced budget. As such, all budgeted revenues must equal budgeted expenditures.

The municipality follows the legislative financial requirements of the *MGA* and it's supporting *Regulations*. In addition, the municipality meets or exceeds all policy statements of the Canada Public Sector Accounting Handbook, which is governed by the Chartered Professional Accountants Canada (CPA).

The budget document and budget presentation slides to support this final approval document have been available to Council and available to the ratepayers for numerous weeks on the County's web site (Budget 2022). The budget presentation slides and budget book provided detailed information of the current economic climate, budget pressures (current and future), fiscal data, and comparisons to other municipal units in terms of tax burdens and the specific drivers and initiatives in the 2022 budget.



This report incorporates prior Council decisions on specific 2022 priorities and incorporates all directions and motions of Council during prior Council meetings and the 2022 budget deliberations.

**DISCUSSION/OPTIONS/BENEFITS/DISADVANTAGES/OTHER CONSIDERATIONS:**

The budget serves as a policy document, financial plan, operations guide, and a communications device. The County's 2021 budget document and presentation meet or exceeded all these criteria, and the budget document has been awarded the Distinguished Budget Presentation Award from Government Finance Officers Association (GFOA) of the United States and Canada. **“This award is the highest form of recognition in governmental budgeting. Its attainment represents a significant achievement by your organization” (quote from Executive Director GFOA).** In a typical year only 4 to 7 municipalities across Canada are first time recipients. In 2021 Kneehill County was the only first-time recipient in Alberta. We believe the 2022 budget document also meets or exceeds the GFOA Distinguished Budget Presentation Award Program Criteria.

Through the operating and capital budgets, Council decides on the municipality's priorities for the upcoming years by setting aside funds for each program or service. This important financial plan provides guidelines and directives to staff for the allocation of resources and the provision of services and infrastructure. The budget also determines the total amount of taxes to be levied on residents and businesses of the community for the budget year.

The budgeting process allows municipalities to prioritize projects, programs and service levels based on anticipated revenues and expenses. A municipality's annual budget routinely consists of two components:

- The Operating Budget plans for a municipality's day-to-day expenditures (e.g., salaries, wages, benefits, heat, electric, and maintenance of buildings and infrastructure, etc.).
- The Capital Budget plans for the purchase and financing of assets or improvement of existing infrastructure (e.g., roads, water and wastewater facilities, county facilities and major projects).

The approval of this report will guide the internal reporting to management and will be the benchmark for reporting to Council on a quarterly basis during 2022.

**2022 Budget Challenges and Budget Guidelines**

In recent years, and looking forward into 2023 and beyond, compounding budget pressures have significantly impacted the revenues collected by the municipality. As a result, administration and Council have worked diligently to manage expenses to mitigate the funding shortfall in the budget. Council and administration will continue to develop and focus on strategies to manage the negative impacts of the ongoing financial pressures facing the County.

Addressing the current and future needs and services desired by residents and businesses and planning for infrastructure improvements in our community is always the focus of Council during these deliberations. Council and senior staff have reviewed infrastructure needs with a commitment to maintain current infrastructure and ensure plans are in place to accommodate growth while maintaining a responsible tax increase.

The expenditures under the control of Council have been restrained, reduced where reasonable, and are well under the general inflation rate. Council's past practices and prudent financial planning have positioned the County well for these financial challenges. The County has not experienced an operating budget deficit, has no reliance on borrowing, has maintained or enhanced service levels, maintained our roads and other infrastructure and still will be able to maintain competitive tax burdens in the future.



Specific measures that have been utilized and adhered to for the development of the 2022 operating budget include:

- Froze most accounts at 2020 levels unless cost pressures were documented
- Thorough multi-layer budget review process
- Focus on financial constraint
- Reinforce priorities through business planning, evaluation, and best practices
- Ongoing service and fee reviews

In summary the proposed operating and capital budgets:

- ü Maintain Program & Service Levels
- ü Support Councils Infrastructure Renewal Plan
- ü Identify the need for the Provincial and Federal Governments to Provide Funding for Infrastructure Investment
- ü Set the Stage for the Present and Future Prudent Financial Stewardship by Council
- ü Maintain Competitive Tax Burdens

### External Budget Pressures

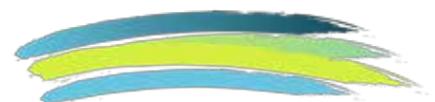
The chart below summarizes the expenditure downloading and revenue losses that have resulted from provincial policy during the 2020 to 2022 period and known impacts for the 2023-2025. Summary notes are provided under the table to explain these items in greater detail.

Description	Incremental 2020	Incremental 2021	Incremental 2022	Incremental 2023-2025	Total
<b>Provincial Pressures</b>					
Shallow Gas	\$ 1,925,000	\$ -	\$ -	\$ -	\$ 1,925,000
Assessment Model Review - Initial Impacts	\$ -	\$ 1,000,000	\$ -	Unknown	\$ 1,000,000
Assessment Model - Depreciation Impacts	\$ -	\$ -	\$ 200,000	\$ 600,000	\$ 800,000
Provincial Policing	\$ 160,000	\$ 80,000	\$ 80,000	\$ 160,000	\$ 480,000
Loss of Provincial Grants - Programs	\$ -	\$ 94,000	\$ (50,000)	Unknown	\$ 44,000
Loss of Provincial Grants - Infrastructure Funding	\$ 300,000	\$ 141,000	\$ 600,000	\$ 1,200,000	\$ 2,241,000
<b>Economic Pressures</b>					
Return on Investment	\$ -	\$ 400,000	\$ (175,000)	\$ (350,000)	\$ (125,000)
<b>Total</b>	<b>\$ 2,385,000</b>	<b>\$ 1,715,000</b>	<b>\$ 655,000</b>	<b>\$ 1,610,000</b>	<b>\$ 6,365,000</b>

### *Provincial Pressures*

During 2020 the provincial government announced changes to the assessment model related to the Oil and Gas industry. These changes directly impact the municipality due to decreased assessment values resulting in decreased property taxes.

Significant changes, resulting in a revenue loss of \$1,925,000 in 2020, were made to the assessment of “Shallow Gas” and the elimination of the well drilling tax, which was previously budgeted at \$400,000 annually.



Starting in 2020 a portion of the costs related to RCMP policing were downloaded to the municipality. The funding has increased from \$160,000 in 2020 to \$240,000 in 2021 and will continue increasing until 2023 where the total funding paid to the province will be \$480,000 annually.

An unanticipated decrease of \$94,000 in operating grants occurred in 2021, \$50,000 of this related to Agricultural Services Boards was reinstated in 2021 which is a favorable impact in the 2022 budget.

The level of provincial infrastructure funding has decreased significantly. The actual reduction for 2022 is approximately \$1,800,000 (2022 and 2023-2025 impacts combined). Administration has spread the impact on the chart above since the options to manage this magnitude of change in 2022 would require a significant financial impact in the tax rate in 2022. Additional unplanned reserve draws will be required to manage the transition.

### **Operating Budget Approval**

The Operating Budget must be balanced such that the total revenues equal the total expenditures. Specific contributions to/from reserves should be clearly noted in the approval document.

### ***Appendix A - 2022 Operating Budget***

Provides a summary of the total revenues (\$27,892,305) and total expenditures (\$27,892,305) which Council has discussed during the budget deliberations. The recommended budget in Appendix A has reflected all Council motions and directions including:

- Various changes to base program funding across departments through service level discussions and found cost efficiencies.
- Funding for provincial downloaded program such as policing and additional infrastructure funding to partially off-set the \$1.8 reduction in provincial capital funding under the MSI Program.
- This budget continues the reductions in Council remuneration approved in 2021.
- Enhanced investment returns based on improvements to cash management and increasing interest rates, allowing investment income to be increased by \$225,000.
- An increase of \$5 monthly, on the water billings, to fund ongoing maintenance needs of the water network system. This is the first increase in the maintenance fee since 2010. This increase will be mitigated by the removal of the general capital charge from numerous ratepayer tax accounts.

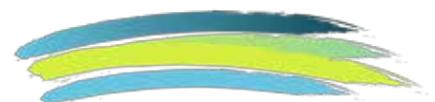
*Motion #1* seeks authority to approve the 2021 Operating Budget as detailed in Appendix A.

### ***Appendix B - Operating Grants and Reserve Transfers***

Provides a summary of the budgeted grants and reserve transfers incorporated into the operating budget.

- External grants totaling \$314,861 from the provincial government.
- Transfers from Reserves totaling \$849,600. These transfers are funding for Operating Projects not completed in 2021 and new initiatives for 2022.
- Transfers to Reserves totaling \$7,085,463. These transfers are intended to allocate funding to reserves which can be utilized for capital infrastructure investments and other initiatives.

*Motion #2* seeks authority to approve the 2021 Reserve transfers as detailed in Appendix B.



**Appendix C - Operating Budget Projects**

This appendix provides details on the 2022 operating initiatives planned by administration and proposed to Council during budget deliberations. All operating projects detailed in Appendix C have been included in the Operating Budget detailed in Appendix A, and approvals for these projects are accounted for in *Motion #1*.

Both new and carry-forward initiatives are detailed in this appendix.

**Capital Budget Approval****Appendix D - 2022 Capital Budget**

Details the County's planned capital expenditures and funding requirements by project. This table also incorporates motions made during Council meetings outside of the budget deliberations and includes all 2021 carry-forward projects.

The total capital expenditures total \$5,230,332 and the funding sources are identified. Of this amount, \$2,636,332 relate to carry-forward projects.

*Motion #3* seeks the authority to approve the 2021 Capital budget as detailed in Appendix D.

**Summary of Key Investments**

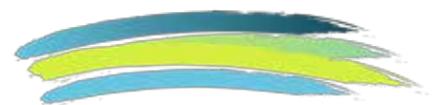
This report summarizes prior budget deliberations. Further options are not being presented in this report. Some of the key investments in the 2022 budget include:

- Bridge improvements & rehabilitations \$550,000.
- Fire communications system updates \$147,567.
- Gravel crushing funding of \$991,800.
- Fleet replacements to support road maintenance, winter control & maintenance, parks and fire operations \$2,426,265.
- Further improvements to the Ron Gorr Arena for \$235,000.
- Ongoing facility needs \$187,000.
- Additional infrastructure funding to off-set provincial grant reductions.
- An additional \$5/monthly contribution to the water system network to fund ongoing maintenance.

**Ratepayer Impacts**

To manage the budget shortfall facing the County, the Committee of the Whole is recommending to Council a tax increase. Although the individual impacts on homeowners will be dependent on their assessed values, the typical hamlet home would see an increase of \$20 annually, acreages would see an annual increase of approximately \$60 annually and farmland increases would be approximately \$16 annually. These increases were recommended after Council and administration worked to manage expenditures in response to provincial budget pressures. In order to protect the long-term viability of the municipality it is pertinent that the operating shortfall not be funded through reserves.

Council and administration will continue to seek measures to manage revenue and expenditures and to continue prudent financial practices to plan for the future. Council is committed to ensuring core services are not impacted and that our roads and other infrastructure are maintained and renewed.

**FINANCIAL & STAFFING IMPLICATIONS:**

This report ensures the fiscal plan for the municipality is approved within the framework required under the *Municipal Government Act*.

The financial recommendations detailed in this report will ensure the financial risks of the County are managed and planned for in the best interest of the ratepayers. The 2022 Tax Rate Bylaw will be predicated on this information, and this information will be used for tax notices to ratepayers. The necessary funds to fund the reserve draws have been identified in the various Appendixes and funding is available in the indicated reserves.

RECOMMENDED ENGAGEMENT:			
Directive Decision (Information Sharing, One-Way Communication)			
Tools:	Public Notification	Other:	

**ATTACHMENTS:**

- Appendix A – 2022 Operating Budget
- Appendix B – Operating Budget Grant and Reserve Transfers
- Appendix C – Operating Projects
- Appendix D – Capital Budget

**COUNCIL OPTIONS:**

1. That Council adopts the recommendations in this report.
2. That Council provides further direction.

**FOLLOW-UP ACTIONS:**

This information and data within this report will form the basis for the financial reporting and monitoring of the budget to Council related to the fiscal year. Prepare Budget newsletter and 2022 Tax Rate By-Law

**APPROVAL(S):**

Bill McKennan, Director of Corporate Services	Approved- <input checked="" type="checkbox"/>
Mike Haugen, Chief Administrative Officer	Approved- <input checked="" type="checkbox"/>





## Appendix A: 2022 Operating Budget - by Function

<b>Revenues</b>	<b>2021 Budget</b>	<b>2022 Core Budget</b>	<b>Core Budget Variance</b>
Licenses and Permits	(82,100)	(88,100)	(6,000)
Operating Grants	(265,866)	(314,861)	(48,995)
Other Revenue	(111,000)	(116,000)	(5,000)
Sales of Goods and Services	(1,386,236)	(1,386,750)	(514)
Sales to Other Governments	(126,148)	(145,478)	(19,330)
Rental Income	(154,010)	(145,846)	8,164
Penalties and Fines	(120,000)	(125,000)	(5,000)
Property Taxes	(22,467,214)	(23,761,496)	(1,294,282)
Special Taxes and Frontage	(1,292,490)	(331,374)	961,116
Return on Investments	(302,800)	(527,800)	(225,000)
Transfer from Reserves	(3,540,039)	(849,600)	2,690,439
Capital Equipment Plan Sales	(100,000)	(100,000)	-
<b>Total Revenues</b>	<b>(29,947,903)</b>	<b>(27,892,305)</b>	<b>2,055,598</b>
<b>Expenses</b>	<b>2021 Budget</b>	<b>2022 Core Budget</b>	<b>Core Budget Variance</b>
Contract, Goods, and Services	2,997,888	3,004,772	6,884
Materials, Goods, Supplies, and Utilities	3,602,772	3,766,410	163,638
Salaries, Wages, and Benefits	9,452,295	9,700,295	248,000
Other Expenses	93,666	138,382	44,716
Provision for Allowances	1,100,000	1,000,000	(100,000)
Purchases from Other Governments	530,531	580,064	49,533
Transfer to Other Governments	596,969	637,364	40,396
Transfer to Individuals and Organization:	348,757	276,600	(72,157)
Transfer to Local Boards and Agencies	102,532	153,356	50,824
Contributions to Reserves	6,857,630	7,085,463	227,833
Operating Projects	423,000	557,800	134,800
Gravel (Inventory) Projects	3,841,864	991,800	(2,850,064)
<b>Total Expenses</b>	<b>29,947,903</b>	<b>27,892,305</b>	<b>(2,055,598)</b>
<b>Net</b>	<b>-</b>	<b>-</b>	<b>-</b>



## Appendix B: Operating Grants and Reserve Transfers

### Operating Grants

MSI Operating	141,959
ASB Provincial Operating	122,902
ASB Provincial Environmental	50,000
<b>Total Operating Grants</b>	<b>314,861</b>

### Transfers from Reserves

Revenue Stabilization	849,600
<b>Total Transfers from Reserves</b>	<b>849,600</b>

### Contributions to Reserves

Building	481,500
Capital Equipment Plan	2,326,389
Disaster Recover	150,000
Gravel	250,000
IT	71,789
Infrastructure	600,000
Roads	2,890,800
Water	314,985
<b>Total Contributions to Reserves</b>	<b>7,085,463</b>



## Appendix C: Operating Projects

	Budget	Funding Source
<b>Operating Projects - New for 2022</b>		
Road Network Study	50,000	Revenue Stabilization
Swalwell Dam Study	12,000	Revenue Stabilization
Aerial Photography	50,000	Revenue Stabilization
Cloud Server Implementation	20,000	Revenue Stabilization
Body Cameras Implementation	11,800	Revenue Stabilization
<b>Total Operating Projects</b>	<u><u>143,800</u></u>	
<b>Operating Projects - 2021 Carry-Forward</b>		
Economic Development - Location Analysis	10,000	Revenue Stabilization
Economic Development - Sector Analysis	7,000	Revenue Stabilization
Asset Management	100,000	Revenue Stabilization
Fire Training	47,000	Revenue Stabilization
2021 Corporate Initiatives	250,000	Revenue Stabilization
<b>Total New Gravel Projects</b>	<u><u>414,000</u></u>	
<b>Gravel Projects - 2021 Carry-Forward</b>		
Gravel Crushing	291,800	Revenue Stabilization
<b>Total Carry-Forward Gravel Projects</b>	<u><u>291,800</u></u>	
<b>Total Carry-Forward Operating Projects</b>	<u><u>705,800</u></u>	
<b>Total Operating Projects - New and Carry-Forward</b>	<u><u>849,600</u></u>	



## Appendix D: Capital Budget

		Funding Source				
		2022 Budget	Grants	Description	Reserves	Description
<b>Capital Projects - New for 2022</b>						
1	Major Bridge Maintenance	200,000			200,000	Bridge
2	Swalwell Pumphouse; Fire Pump Replacement	125,000			125,000	Water
3	Horseshoe Canyon Pay Parking Attendant Booth	15,000			15,000	Parks
4	Major Facilities Maintenance	187,000			187,000	Buildings
5	Ron Gorr Memorial Arena Project	235,000	235,000	GTF	-	
6	Redland Grader Shed Project	78,000			78,000	Buildings
7	IT Capital Purchases	72,000			72,000	IT
8	Capital Equipment Plan Purchases	1,682,000			1,682,000	CEP
<b>Total New Capital Projects</b>		<u>2,594,000</u>	<u>235,000</u>		<u>2,359,000</u>	
<b>Capital Projects - 2021 Carry-Forward</b>						
9	Emergency Communications	147,567			147,567	Contingency
10	Horseshoe Canyon	1,320,000			1,320,000	Parks
11	STIP Bridge Project - BF6948, SE1-30-25-4	350,000	262,500	STIP	87,500	Bridge
12	IT Purchases	74,500			74,500	IT
13	2021 Capital Equipment Purchases	744,265			744,265	CEP
<b>Total Carry-Forward Capital Projects</b>		<u>2,636,332</u>	<u>262,500</u>		<u>2,373,832</u>	
<b>Total Capital Projects</b>		<u>5,230,332</u>	<u>497,500</u>		<u>4,732,832</u>	