

FISCAL MANAGEMENT STRATEGY

Regional Municipality of Wood Buffalo

2019 – 2021

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EXECUTIVE SUMMARY

The Fiscal Management Strategy (FMS) is prepared annually and presented to Council for endorsement. 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, and other sources of revenue.

In January 2018, the Council of the Regional Municipality of Wood Buffalo (Municipality) approved the Strategic Plan that will guide the Municipality from 2018 – 2021. Embodied within the Strategic Plan is a key strategic priority titled Responsible Government. Fiscal Responsibility and Council adoption of a fiscal strategy are identified as a key initiative. The 2019 – 2021 Fiscal Management Strategy is a key deliverable of this initiative.

In response to the downturn in the economy and to ensure the sustainability of the Municipality, a zero-based budgeting approach was introduced at the beginning of 2017. This budgeting methodology is focused on understanding all costs for programs and services, with a continued emphasis on finding further savings and efficiencies. Through use of this budgeting strategy, property tax revenue has decreased by \$148M since the 2016 Budget.

All revenue sources are being evaluated to ensure the Municipality is benefiting from all opportunities. A comprehensive user fees and charges analysis has been undertaken. The fees have been benchmarked with other communities in Alberta and are being adjusted to be more in line with costs to deliver each service.

A debt reduction strategy started in 2017 has been expanded into 2019. The strategy allows the Municipality to avoid future additional debenture interest and principal payments as well as provide interest savings over the amortization period. The committed drawn debt will be repaid by the second quarter of 2019, and funds have been allocated within the budget and financial plan to fund previously approved debenture-funded capital projects and thereby eliminate the committed undrawn debt by 2021. The Municipality would then be able to support a Pay-As-You-Go (PAYG) approach to funding future capital assets.

An updated financial reserve strategy is being developed. The strategy will incorporate several key variables that will be evaluated to determine a reasonable and sustainable approach to financial reserves including:

- Asset Management (AM) project – As the asset management project progresses, the Municipality will be in a better position to identify future funding requirements to maintain and/or rehabilitate assets. Current plans are premised on the age of infrastructure as opposed to condition, therefore it is difficult to quantify resources required until further progress is made. This information will also directly impact the development of a financial reserve strategy.

- Taxation Stabilization – determine vulnerability of the assessment base to mitigate the impact on property taxation revenue. Due to changes in the *Municipal Government Act* (MGA), s358(1) Maximum Tax Ratio, limitations will impact the Municipality's ability to raise sufficient tax revenue for unanticipated expenditures, therefore there will be an increased focus on financial reserves to provide supplemental funding during these situations. Significant progress has been made to reduce the taxation ratio. The initial taxation ratio in 2016 was 18.3. Due a combination of changes in the assessment base and budget reductions, as a result of zero-based budgeting, the taxation ratio at first reading of the 2019 Tax Rate Bylaw is 12.45.

The final section of the FMS will review several Financial Condition Indicators that are measures of overall financial health; sustainability, flexibility and vulnerability.



ECONOMIC OUTLOOK

To understand a future strategy, it is important to revisit the economic conditions and events of the past. A brief history is provided below to create a deeper understanding for readers.

2015 – 2017

During this period, the region began to experience challenging economic conditions. By the end of 2015 the region had seen a 1.2% decline in gross domestic product (GDP), the first decline since 2009. The region experienced a 1.5% drop in overall employment in 2015 (split between full and part time employment), and an increase in the unemployment rate to 7.6% (2015 annual average). This was attributed to the decline in oil prices which led to a significant reduction in investment and 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 continued into 2016 and had fallen more than 50% from their summer 2014 levels. With oil companies under pressure to cut cost by lowering investment and reducing employees, fewer people moved to the region. Residential investment was impacted and slower migrant inflows, combined with the weaker overall economy, limited demand for new housing.

Bitumen production remained strong and increased due to the completion of projects that were already under construction. This overall level of development of the oil sands provided a strong economic base for the region and continued to provide opportunities for both individuals and organizations. While pipeline capacity to the United States remained a concern, bitumen exports to the U.S. Gulf Coast continued to be strong.

Despite challenging economic times businesses remained eager to expand and open as affordable business space became available. Diversification of the region and its economy were pushed to the forefront. There were several new development areas in progress that were expected to open for 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.

As oil prices continued to decline in early 2016, the Horse River Wildfire engulfed the region forcing the evacuation of 88,000 people on May 3, 2016. The Wildfire had an immediate and significant impact on the economy locally and nationally as production was halted at several oil sands operations in the Region through May and into early June and July. Residents began returning to the region at the beginning of June 2016 and an assessment of the damage continued. Rebuild activities have “softened” the economic downturn as residents and businesses rebuild.

2019 – 2021

Rebuild progress has been steady. As of early April 2018, approximately 20% of destroyed dwelling units have received their building permit final inspection, while most properties are at various stages of the process. In addition, there is a considerable emphasis on other aspects of recovery as outlined in the Municipality's 2016 Wildfire Recovery Plan (Plan). The Plan should position the Municipality for future growth following the rehabilitation of damaged areas and enable the region to support its own recovery. The Plan will continue to be adjusted and modified as new challenges and opportunities arise based on the five Pillars of Recovery – People, Environment, Economy, Rebuild and Mitigate.

The Municipality is focusing on downtown revitalization and regional economic development. The Wood Buffalo Economic Development Corporation was formed in the second half of 2018 to showcase investment opportunities in the region.

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.

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.

Assumptions and constraints followed in constructing the report include:

- Taxation methodology will support the transition to a 5:1 tax rate ratio within a ten-year timeframe.
- The Municipality will transition to a Pay-As-You-Go (PAYG) methodology for funding future tangible capital assets.
- The Municipality will fund existing undrawn debenture debt over a three-year period. The 2019 Budget includes a funding allocation of \$60M for this purpose. The 2019 and 2020 Financial Plans include a total allocation of \$50M.
- The Municipality will continue to utilize a zero-based budgeting methodology to find further efficiencies and savings.

The strategy is guided by:

- *Municipal Government Act, RSA 2000, M26*
- 2018-2021 Strategic Plan
- Updated OSCA Population Projections (2016 – 2030) and the 2018 Municipal Census
- Fiscal Responsibility Policy FIN-160
- Approved 2019 Operating and Capital Budgets
- 2020 – 2021 Capital Plan
- 2020 – 2021 Operating Financial 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.
Projected	Estimated year-end balance.



STRATEGIC PLAN 2018 – 2021

In January 2018, the Council of the Regional Municipality of Wood Buffalo (Municipality) approved the Strategic Plan that will guide the Municipality from 2018 – 2021.

The Strategic Plan focuses on the vision of a vibrant, sustainable region we are proud to call home. The plan includes four key strategic priorities identified as critical areas to address to achieve this goal:

- Responsible Government
- Downtown Revitalization
- Regional Economic Development
- Rural and Indigenous Communities and Partnerships

The Municipal Strategic Plan was developed as a collaborative effort between Council and Administration, providing long-term focus and direction for municipal services and programs. This “road map to the future” outlines the steps the Municipality will take during this time, as well as the key performance indicators that will measure success.

Through its stated mission of delivering excellence every day, the Regional Municipality of Wood Buffalo will seek to implement strategies and initiatives to meet the vision.

Consolidated Summary

	2016 Actual	2017 Actual	2018 Actual	2019 Budget	2020 Plan	2021 Plan
Revenues						
Property Taxes	\$ 793,137,961	\$ 730,069,973	\$ 680,883,086	\$ 645,187,200	\$ 622,930,231	\$ 602,455,231
Government Transfers	13,793,184	18,213,155	17,241,974	16,466,234	16,466,234	16,466,234
Sales and User Charges	40,310,117	49,454,350	47,072,780	47,686,150	49,686,150	49,686,150
Sales to Other Governments	2,519,357	3,459,778	2,609,849	2,441,500	2,441,500	2,441,500
Penalties and Costs on Taxes	923,272	2,804,033	5,294,952	4,182,000	4,182,000	4,182,000
Licenses and Permits	3,632,114	3,772,700	4,919,628	2,193,108	2,193,108	2,193,108
Fines	3,173,120	4,928,587	3,560,958	3,048,145	3,048,145	3,048,145
Franchise and Concessions	6,860,033	7,802,627	7,875,171	8,300,000	8,300,000	8,300,000
Returns on Investments	5,099,725	17,274,605	22,151,836	23,432,000	23,432,000	23,432,000
Rentals	1,131,544	1,810,319	2,039,247	1,552,400	1,552,400	1,552,400
Other Revenues	2,795,360	394,006	6,510,748	160,996	160,996	160,996
	\$ 873,375,787	\$ 839,984,133	\$ 800,160,229	\$ 754,649,733	\$ 734,392,764	\$ 713,917,764
Expenses						
Salaries, Wages, & Benefits	\$ 248,051,736	\$ 230,837,934	\$ 210,544,474	\$ 224,776,794	\$ 226,260,871	\$ 228,365,788
Contracted & General Services	79,729,004	54,383,945	55,546,093	69,791,072	73,237,072	75,697,072
Purchases from Other Governments	24,643,612	24,102,618	23,641,339	25,266,500	25,266,500	25,266,500
Materials, Goods, Supplies & Utilities	29,239,853	27,930,995	30,936,349	33,874,566	34,198,420	34,525,513
Provision for Allowances	3,594,493	8,265,996	(2,658,892)	774,000	774,000	774,000
Transfers to Local Boards and Agencies	893,000	143,000	71,500	521,000	443,000	443,000
Transfers to Individuals and Organizations	36,650,276	30,162,535	31,032,792	33,643,200	31,866,400	31,866,400
Bank Charges and Short Term Interest	233,401	221,439	233,069	211,500	211,500	211,500
Interest on Long Term Debt *	14,020,076	13,431,331	12,639,738	11,840,000	11,116,260	10,311,916
Other Expenses	17,904,047	51,914	68,615	15,000	15,000	15,000
Debt Repayment *	15,702,338	17,116,136	17,300,936	17,526,000	17,890,273	16,568,799
	\$ 470,661,836	\$ 406,647,843	\$ 379,356,013	\$ 418,239,632	\$ 421,279,296	\$ 424,045,488
Transfer to Reserves						
Reserve for operations	\$ 43,546,152	\$ 31,142,687	\$ (372,000)	\$ -	\$ -	\$ -
Capital Infrastructure	366,417,400	335,552,869	356,176,216	276,410,101	278,113,468	274,872,276
Emerging Issues	-	59,391,133	-	-	-	-
Undrawn Debt Reduction **	-	-	65,000,000	60,000,000	35,000,000	15,000,000
	\$ 409,963,552	\$ 426,086,689	\$ 420,804,216	\$ 336,410,101	\$ 313,113,468	\$ 289,872,276
Surplus / (Deficit)	\$ (7,249,601)	\$ 7,249,601	\$ -	\$ -	\$ -	\$ -

Figure 1 – 2019 Approved Operating Budget and 2020 - 2021 Financial Plans

* The Municipality eliminated the committed drawn debt in April 2019.

** The Municipality plans to eliminate the committed undrawn debt by 2021.

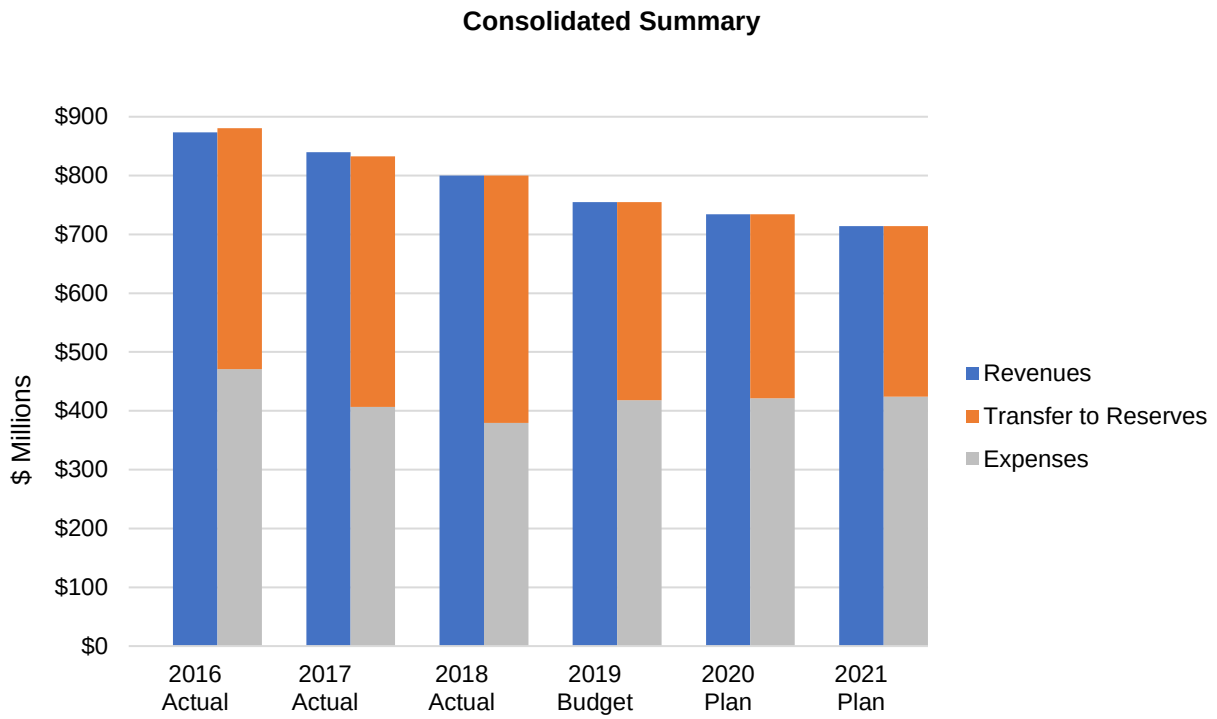


Figure 2 – Consolidated Summary

REVENUE STRATEGY

The Municipality's revenue strategy is based upon the needs of the community. What level of municipal services are needed for the benefit of the residents in correlation to the Municipality's ability to pay? All areas of revenue sources are continuously evaluated to ensure that the Municipality is benefiting from all opportunities.

To ensure cost recovery for certain services is in place, a comprehensive user fees and charges analysis has been undertaken. As part of this initiative in 2017, the Municipality reviewed utility rates and determined the rates being charged were significantly below direct cost recovery. A 5-year plan has been instituted to bring the utility rates in line with the direct cost of providing the services. The remaining fees have been benchmarked with other communities in Alberta and are being adjusted in 2019 to be more in line with costs to deliver the service. The User Fees and Charges Policy (FIN-030) recognizes and seeks to protect vulnerable segments of the population such as youth and seniors and attempts to balance the need for service with the ability to pay.

Revenue Trend Analysis 2016 – 2021

	2016 Actual	2017 Actual	2018 Actual	2019 Budget	2020 Plan	2021 Plan
Revenues						
Property Taxes	\$ 793,137,961	\$ 730,069,973	\$ 680,883,086	\$ 645,187,200	\$ 622,930,231	\$ 602,455,231
Government Transfers	13,793,184	18,213,155	17,241,974	16,466,234	16,466,234	16,466,234
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Franchise and Concession	6,860,033	7,802,627	7,875,171	8,300,000	8,300,000	8,300,000
Returns on Investments	5,099,725	17,274,605	22,151,836	23,432,000	23,432,000	23,432,000
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Other Revenues	2,795,360	394,006	6,510,748	160,996	160,996	160,996
Total	\$ 873,375,787	\$ 839,984,133	\$ 800,160,229	\$ 754,649,733	\$ 734,392,764	\$ 713,917,764
Percentage Change	11.80%	-3.82%	-4.74%	-5.69%	-2.68%	-2.79%

Figure 3 – Revenue Trend Analysis 2016 - 2021

Revenue Profile 2016 – 2021

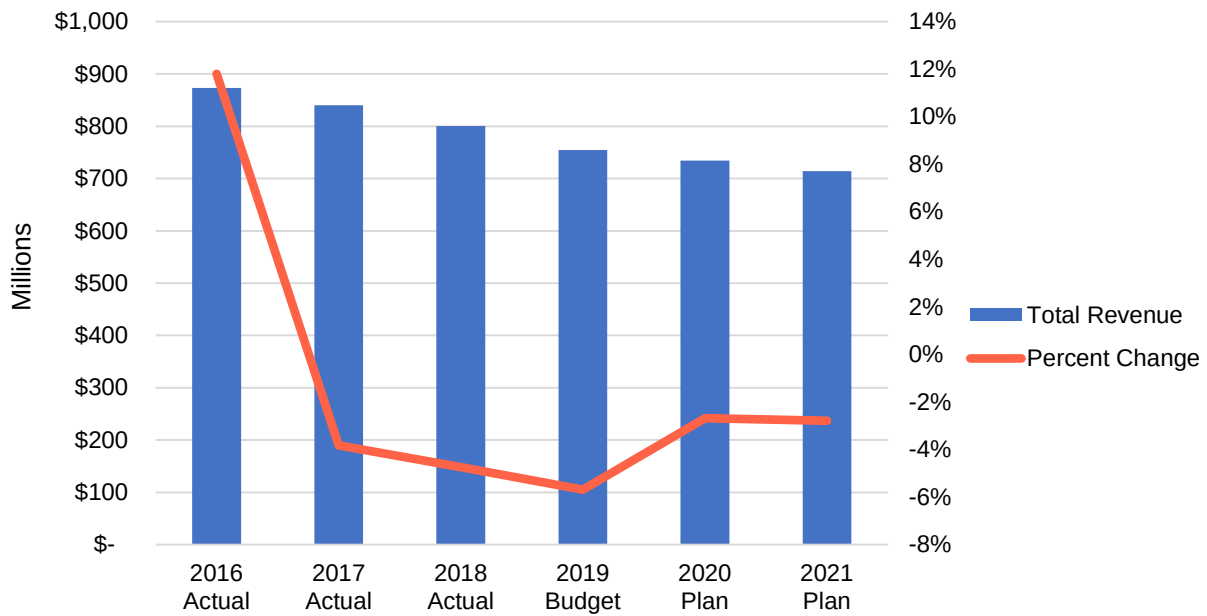


Figure 4 – Revenue Profile 2016 – 2021



Property Tax

Property taxes represent the single largest source of revenue for the Municipality. The 2019 Approved Budget for property taxes is \$643,621,000 (number does not include Special Assessment and Local Imp. Taxes or Oil Well Drilling Taxes), which represents 87% of the Municipality's revenue, which is comprised of:

- Rural Residential Class – 0.08%
- Rural Non-Residential – 94.36%
- Urban Residential Class – 2.93%
- Urban Other Class – 0.63%
- Urban Non-Residential Class – 2.00%

Property taxes are not a fee for service, but rather a method of distributing the cost of municipal services and programs fairly throughout the municipality.

The Municipal Government Act provides direction to Alberta municipalities for assessment and taxation through legislation. The purpose of the legislation is to establish and maintain a property assessment system that fairly and equitably distributes taxes, and promotes transparency, predictability and stability for municipalities and taxpayers. Assessment and taxation are distinct and independent processes, although assessment impacts taxation. Property assessment is the method used to distribute the tax burden amongst property owners.

Prior to changes in the Municipal Government Act, Municipalities were able to establish non-residential and residential tax rates independent of one another. There was no limitation on the extent to which a municipality's tax rate could differ for the taxation of non-residential and residential property. The Municipal Government Act has since been amended to ensure that the highest non-residential tax rate can be no more than five times the lowest residential tax rate. Within the 5:1 ratio, municipalities will continue to be able to set their own tax rates. A regulation will be developed to require non-conforming municipalities to comply with the tax ratio over time. To date, no timeline to comply with the ratio has been adopted.

Since 2016, the Municipal Government Act S.358.1, defines a "non-conforming municipality" as a municipality that has a tax ratio greater than 5:1. For purposes of the Regional Municipality of Wood Buffalo tax ratio calculation, the rural non-residential tax rate to the rural residential tax rate forms the basis of the ratio. In addition, the tax rate ratio cannot increase from the previous year.

Increases or decreases in municipal tax rates will not necessarily result in corresponding increases or decreases in municipal taxes paid. The reason for this is that increases or decreases in municipal taxes

are equally dependent on the year over year assessment change of a property. Due to this formula, many property owners will see reductions in their municipal tax levies even if the tax rate in their tax class have increased.

The formula for municipal taxes is as follows:

$$\text{Assessment} \times \text{Municipal Tax Rate} = \text{Municipal Tax Levy}$$

For years 2010 to 2018, the following occurred:

- Urban residential rates decreased by 31% from 2.663 in 2010 to 1.828 in 2018;
- Multi-residential rates decreased by 12% from 5.743 in 2010 to 5.026 in 2018;
- Rural-residential rates decreased by 37% from 1.577 in 2010 to 0.998 in 2018;
- Urban non-residential rates decreased by 43% from 6.764 in 2010 to 3.838 in 2018;
- Rural non-residential rates decreased by 21% from 18.034 in 2010 to 14.268 in 2018.

The Modernized Municipal Government Act centralized property assessment for Designated Industrial Properties under the newly created role of the Provincial Assessor. The vision is that centralization of Designated Industrial Property assessments will lead to improved consistency and equity for industrial taxpayers, and lower administrative costs for municipalities. Costs associated with these property assessments will be borne by industry. The Province requisitions for reimbursement of these costs through a separate tax rate applied to every Designated Industrial property owner's municipal tax notice. Municipalities collect the Designated Industrial property taxes to pay the requisitions. Effective January 1, 2018, the Provincial Assessor became responsible for these assessments impacting 2019 property taxes.

Designated Industrial Properties include:

- Properties regulated by the Alberta Energy Regulator, National Energy Board, Alberta Utilities Commission.
- Linear Property (wells, pipeline, railways, telecommunications and electric power systems) assessed by the Province.
- Property designated as a "major plant" by regulation, for example large refineries, upgraders, pulp and paper mills
- Land and improvements associated with property regulated by the Alberta Energy Regulator, Alberta Utilities Commission or National Energy Board and major plants
- Machinery and equipment on a site not classified as a Designated Industrial Property will continue to be assessed by the Regional Assessor

In addition, based on *Alberta Regulation 202/2017 Matters Relating to Assessment Sub-Classes*, municipalities can create a sub-class for either the urban or rural service areas entitled “small business sub-class”. In 2018, the Regional Municipality of Wood Buffalo Council approved the creation of a rural non-residential small business sub-class. The tax rate of this sub-class was 25% lower than the rural non-residential tax rate. The criteria of this sub-class required that the business:

- must apply online and meet all criteria to be taxed at the rural non-residential small business tax rate; and
- must be operating under a business license or that is otherwise identified in a municipal bylaw; and
- have fewer than 50 employees across Canada; and
- must hold a RMWB business license as of December 31 of the preceding year.

The inclusion of a small business tax rate within the 2019 Tax Rate Bylaw will be subject to Council approval.



The calculation of the taxes levied is a combination of assessed value and tax rate. Property assessments in which construction had occurred in 2018 were excluded from the median calculation as the calculation was intended to capture market changes in the assessed values. Tax rates for 2019, based on 1st reading of the 2019 Property Tax Rate Bylaw, propose the following changes when compared to 2018 as follows:

- Urban residential tax rate increased by 9%. This increase in tax rate, corresponds with the median assessment decrease of 9%. The median municipal tax change in the urban residential tax class is a **reduction of \$20** (if no improvements were completed to the home in 2018) due to a combination of the change in assessment over 2018 and the change in the urban residential tax rate. The median municipal and education tax change in the urban residential tax class is a **reduction of \$126** (if no improvements were completed to the home in 2018) due to a combination of the change in assessment over 2018 and the change in the urban residential and education tax rates.
- Other residential tax rate increased by 12%. This increase in tax rate, corresponds with the median assessment decrease of 12%. The median municipal tax change in the other residential tax class is a **reduction of \$115** (if no improvements were completed to the home in 2018) due to a combination of the change in assessment over 2018 and the change in the other residential tax rate. The median municipal and education tax change in the other residential tax class is a **reduction of \$1,000** (if no improvements were completed to the home in 2018) due to a combination of the change in assessment over 2018 and the change in the other residential and education tax rates.
- Rural residential tax rate increased by 5%. The median municipal tax change in the rural residential tax class is **\$0** (if no improvements were completed to the home in 2018) due to a combination of the change in assessment over 2018 and a change in the rural residential tax rate. The median municipal and education tax change in the rural residential tax class is a **reduction of \$9** (if no improvements were completed to the home in 2018) due to a combination of the change in assessment over 2018 and a change in the rural residential and education tax rates.
- Urban non-residential tax rate increased by 3%. The urban non-residential assessment class experienced an overall increase due to factors such as sales, vacancy, availability, rents, and land value, and as such, individual properties may experience differing increases or decreases in taxes. Therefore, a median tax change was not calculated.
- Rural non-residential tax rate decreased by 9%. Rural non-residential assessment class experienced an overall increase over 2018 due to oil sands growth. Due to the wide variance in assessed values in this tax class a median tax change was not calculated.

Based on 1st reading of the 2019 Property Tax Rate Bylaw, the tax ratio decreased from 14.30 in 2018 to 12.45 proposed for 2019.

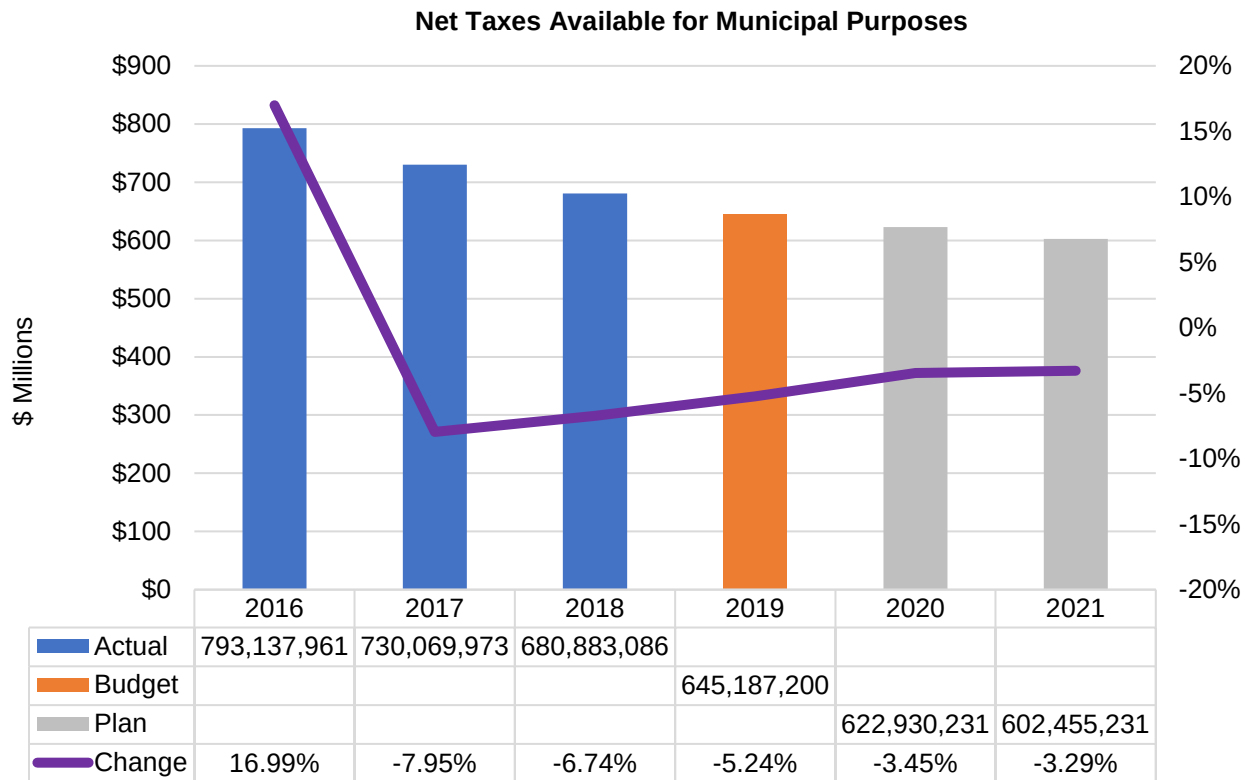


Figure 5 – Net Taxes Available for Municipal Purposes

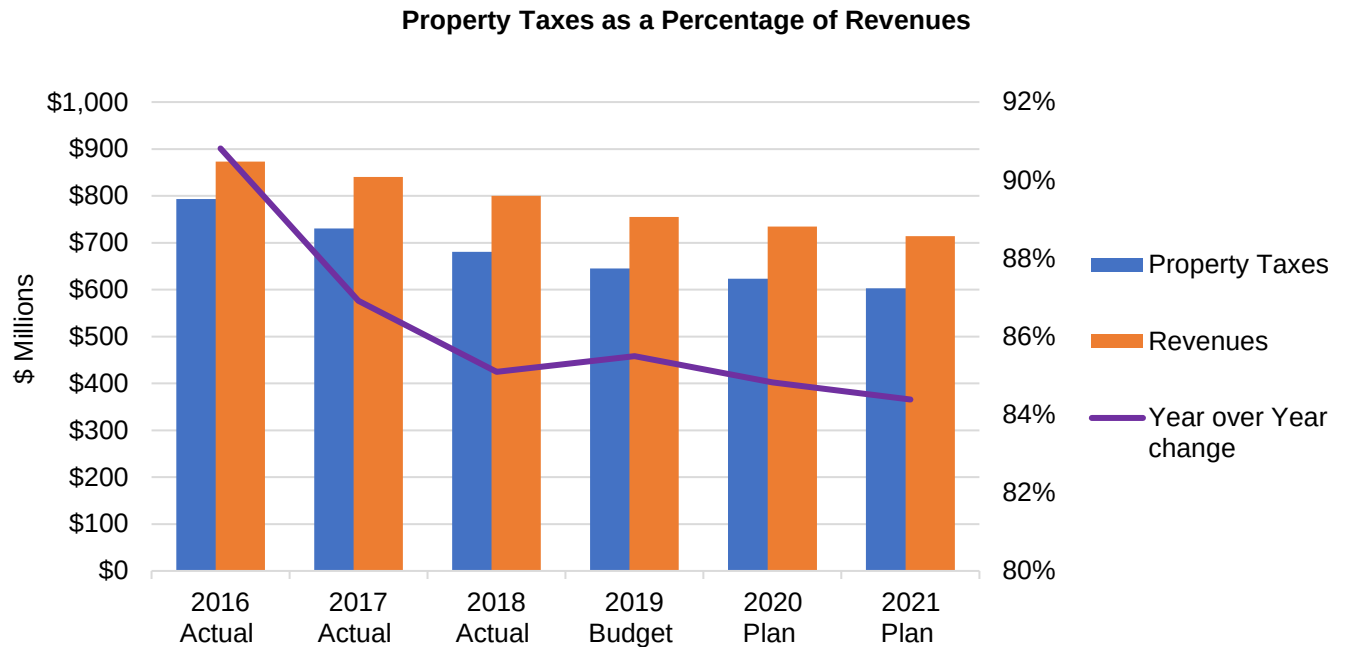


Figure 6 – Property taxes as a percentage of total revenue to remain constant to 85% for 2018 – 2020.

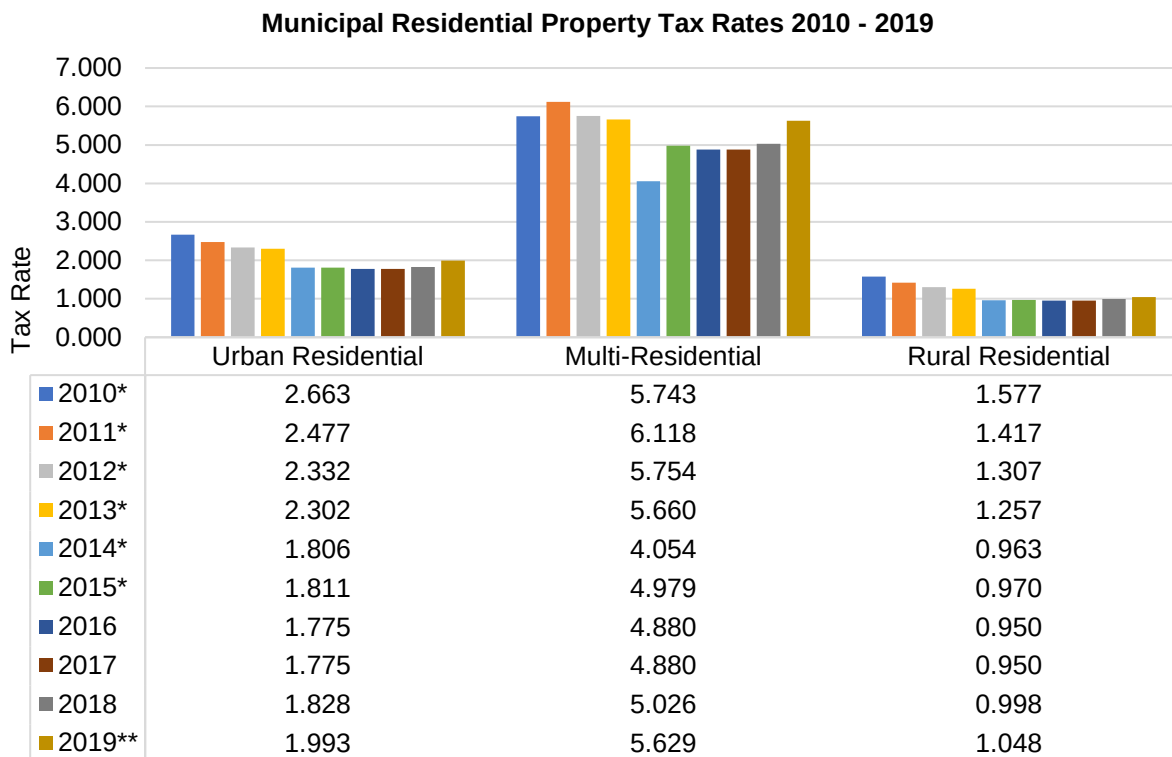


Figure 7 – Municipal Residential Property Tax Rates

* Revenue neutral plus new construction methodology was in place from 2010 to 2015 inclusive.

** 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. Mill rates are levied per \$1,000 of assessed value.

Municipal Non-Residential Property Tax Rates 2010 - 2019

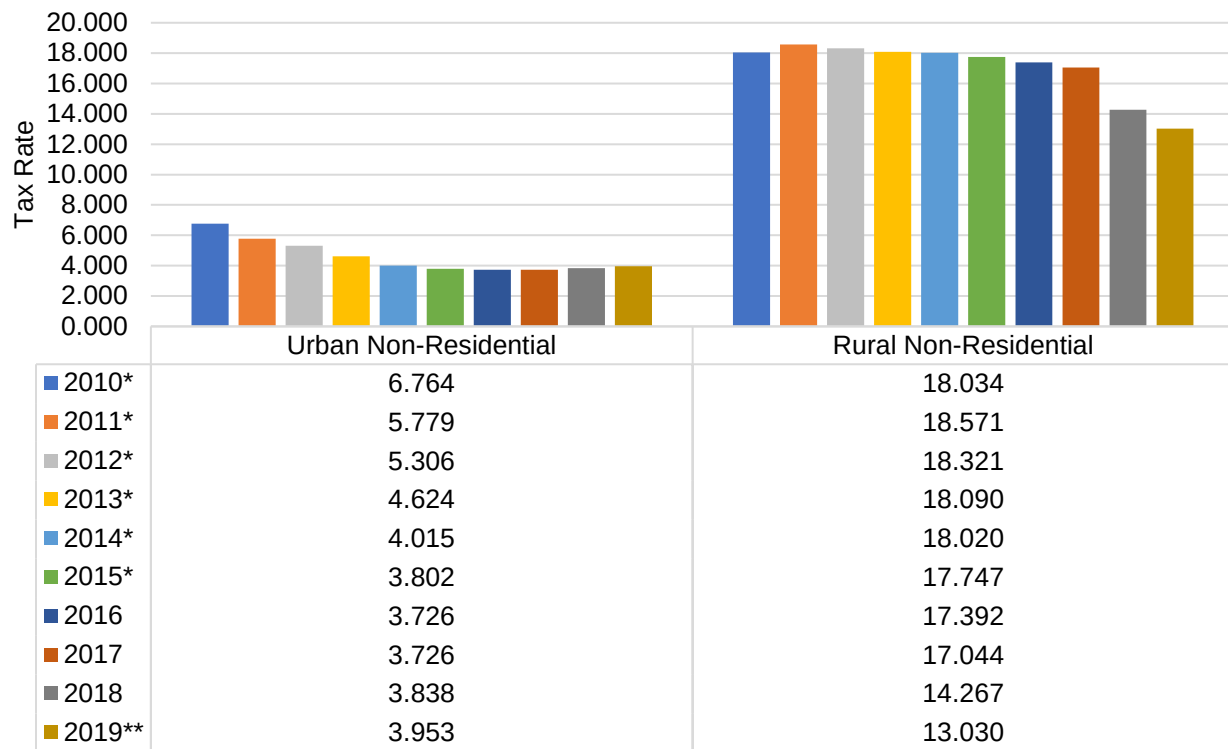


Figure 8 – Municipal Non-Residential Property Tax Rates

* Revenue neutral plus new construction methodology was in place from 2010 to 2015 inclusive.

** 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.

Mill rates are levied per \$1,000 of assessed value.

Prior to 2016 the Municipality followed a revenue neutral plus new construction growth taxation methodology whereby any increase in municipal revenue over the prior year was generated by new growth only. The 2016 changing economic climate in the Municipality coupled with the wildfire resulted in a move away from the revenue neutral plus new construction methodology to a budget driven process not dependent on assessment growth.

For years 2012-2017 the variances between actual municipal taxes required and the budget were due to a provision for the potential impact of assessment appeals which were in various stages of the appeal process. The provision for appeals losses during the time frame ranged from 3% to 5% on the Machinery and Equipment taxation category. With the conclusion of these appeals in 2017 the annual allowance for appeal losses was reduced to 1% for the 2018 taxation year. Unfortunately, due to the uncertainty with the transfer of DIP assessments to the Province, the annual allowance for appeal losses for this assessment class has been increased to 3%, with the remaining assessment classes remaining at 1%.

Although every municipality is unique, the RMWB benchmarks with other municipalities. Based on the information below, the RMWB continues to have competitive tax rates that supports affordability.

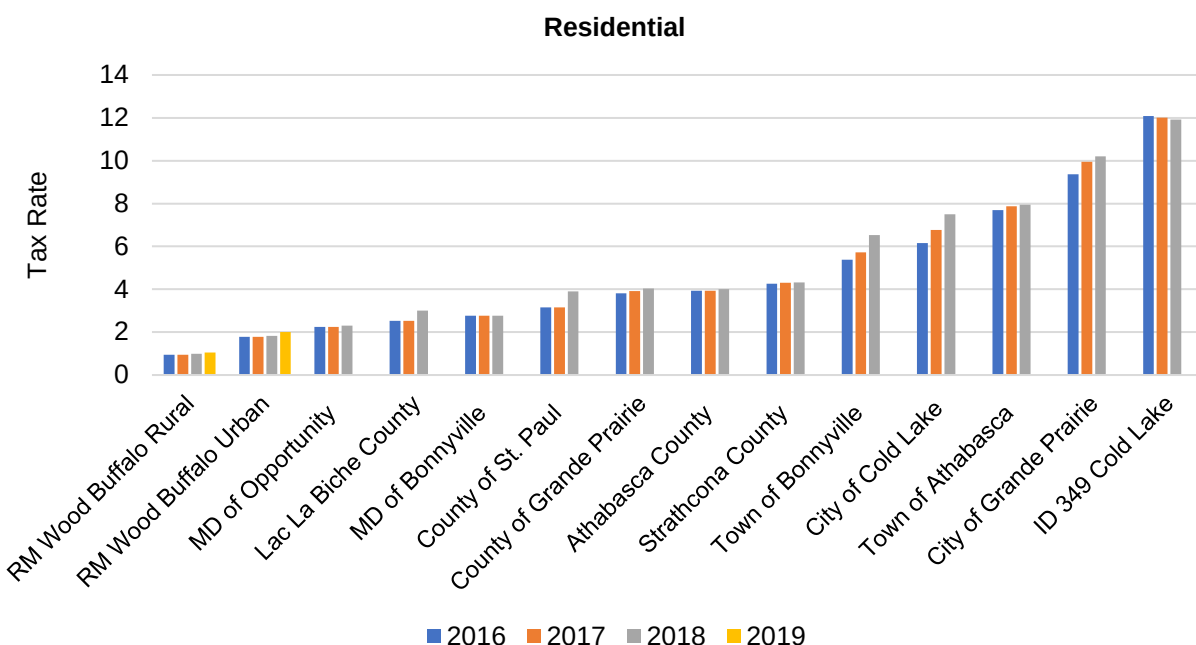


Figure 9 – Tax Rate Benchmark – Residential

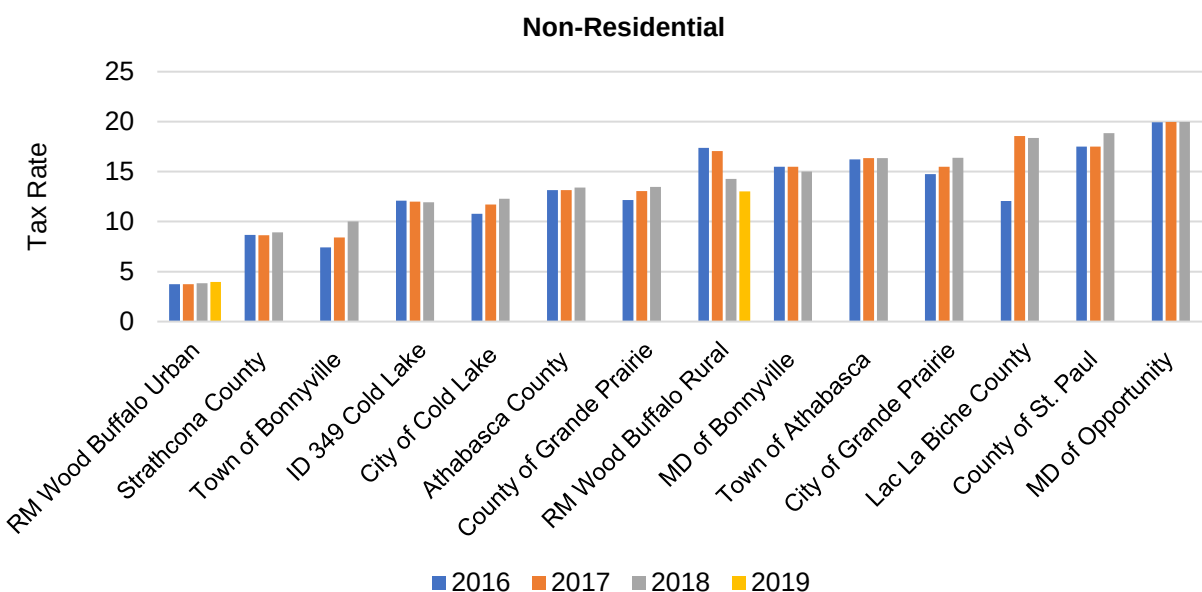


Figure 10 – Tax Rate Benchmark – Non-Residential

Education Tax

The Province calculates, based on assessment value, the annual amount each municipality must collect towards the education system. Municipalities collect the education property tax from ratepayers and then forwards it to the Province for deposit into the Alberta School Foundation Fund (ASFF). The ASFF was established by the Government of Alberta in 1994. This fund ensures that the education property tax is accounted for separately from provincial general revenues.

The money collected from the education property tax is pooled into the ASFF to fund priorities in education and then distributed among Alberta's public and separate school boards on an equal per student basis.

Although **municipalities do not control the amount of education taxes requisitioned by the Province**, the amount increases the total property tax bill for applicable municipal property owners. For urban service area residents, this represented **60%** of their property tax bill in 2019 and **74%** for rural residential property owners.

For 2019, due to the timing of the provincial election and in the absence of an approved provincial budget, municipalities have not received the annual education tax requisition at the time of this publication. Therefore, the Municipality has opted to use the 2018 education tax requisition to collect education tax from ratepayers. A subsequent increase/decrease to the actual 2019 education tax requisition will be adjusted as part of the 2020 taxation process. Municipalities are still responsible for the actual 2019 education tax payment regardless of whether the funds have been collected from ratepayers.

Residents are encouraged to contact the Government of Alberta Education Property Tax Line directly if they require any clarification.

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, the plan is amended, as soon as practical, to include these unbudgeted expenses and the applicable funding source.

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

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, 2018 – December 31, 2020 and with the International Association of Fire Fighters (IAFF) for the period January 1, 2017 – December 31, 2020.

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 budgeted based on estimated hiring dates.

The Municipality has eight expense categories:

- Salaries, Wages & Benefits
- Contracted & General Services
- Purchases from Other Governments
- Materials, Goods, Supplies & Utilities
- Provision for Allowances
- Transfers & Grants
- Financial Service Charges
- Other Expenses

Expense Trend Analysis 2016 – 2021

	2016 Actual	2017 Actual	2018 Actual	2019 Budget	2020 Plan	2021 Plan
Expenses						
Salaries, Wages, & Benefits	\$248,051,736	\$230,837,934	\$210,544,474	\$224,776,794	\$226,260,871	\$228,365,788
Contracted & General Services	79,729,004	54,383,945	55,546,093	69,791,072	73,237,072	75,697,072
Purchases from Other Governments	24,643,612	24,102,618	23,641,339	25,266,500	25,266,500	25,266,500
Materials, Goods, Supplies & Utilities	29,239,853	27,930,995	30,936,349	33,874,566	34,198,420	34,525,513
Provision for Allowances	3,594,493	8,265,996	(2,658,892)	774,000	774,000	774,000
Transfers to Local Boards and Agencies	893,000	143,000	71,500	521,000	443,000	443,000
Transfers to Individuals and Organizations	36,650,276	30,162,535	31,032,792	33,643,200	31,866,400	31,866,400
Bank Charges and Short Term Interest	233,401	221,439	233,069	211,500	211,500	211,500
Interest on Long Term Debt	14,020,076	13,431,331	12,639,738	11,840,000	11,116,260	10,311,916
Other Expenses	17,904,047	51,914	68,615	15,000	15,000	15,000
Debt Repayment	15,702,338	17,116,136	17,300,936	17,526,000	17,890,273	16,568,799
Total Expenses	\$470,661,836	\$406,647,843	\$379,356,013	\$418,239,632	\$421,279,296	\$424,045,488
Percentage Change	-1.80%	-13.60%	-6.71%	10.25%	0.73%	0.66%

Figure 11 – Expense Trend Analysis 2016 – 2021

Expense Profile 2016 - 2021

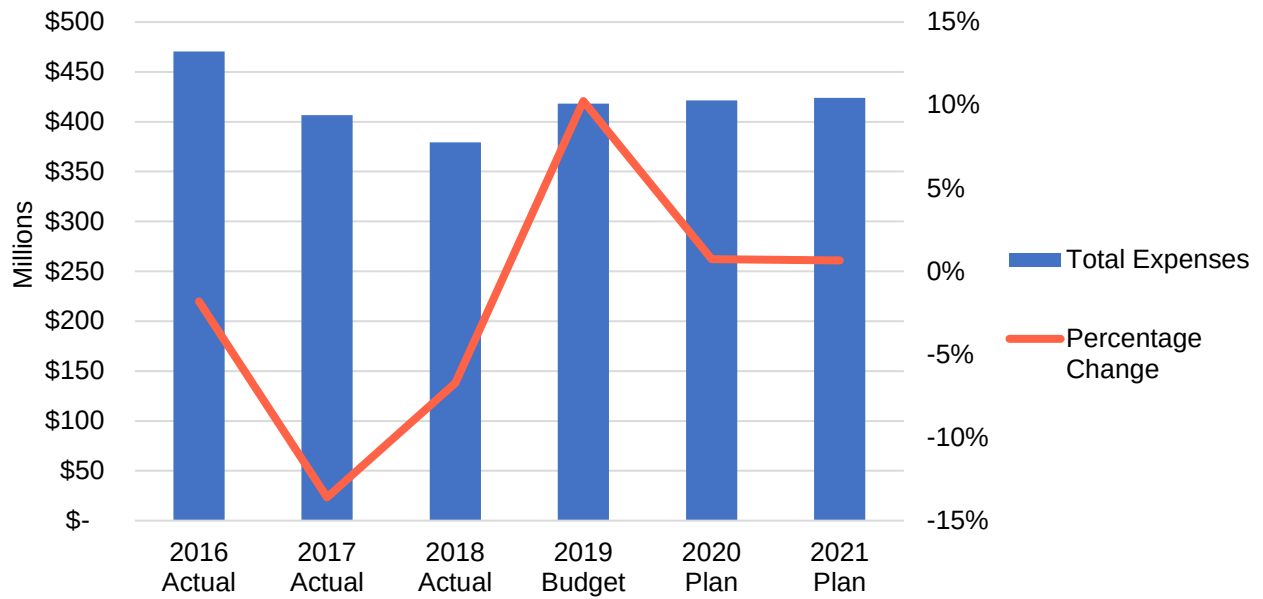


Figure 12 – Expense Profile 2016 – 2021



CAPITAL STRATEGY

The 2019 Capital Budget and the 2020 – 2021 Plans have been developed with a focus on building a vibrant and sustainable region. A vision to balance sustainment requirements within the economic reality was the main determinate in development of the capital budget. This philosophy is exhibited through the 71% of total budget on Public Facilities which includes the building of a delivery system for Rural Water and Sewer Servicing.

The major groupings or categories for the capital budget and plans are:

- **Public Facilities** – These projects include environmental systems such as solid waste, waste, waste water and storm water. Also included in this category are public land, land improvements, machinery and equipment.
- **Recreation and Culture** – These projects have two broad categories; parks/recreation and cultural/historical. Park and recreation projects include trails, playgrounds, parks, sports fields, rinks and green spaces. Cultural and historical projects include museums, cemeteries, and other cultural facilities.
- **Transportation** – These projects include Municipal transit systems, roadways including traffic signals and street lights, and sidewalks.

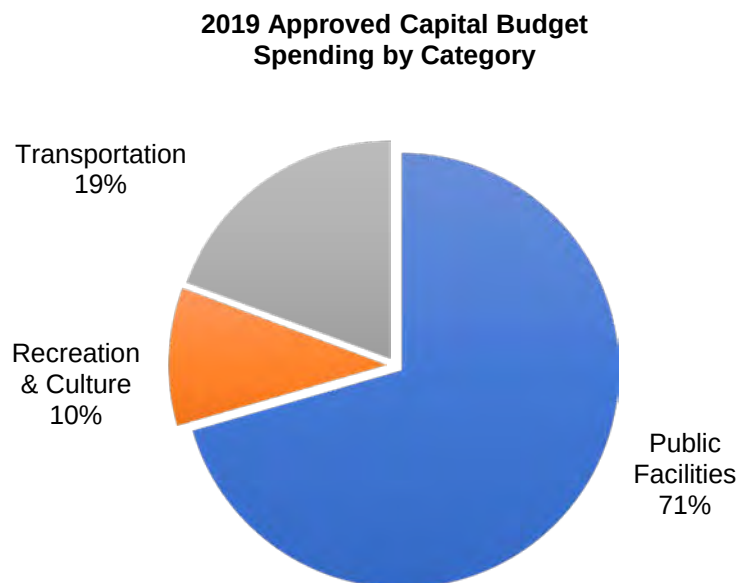


Figure 13 – 2019 Approved Capital Budget Spending by Category

The approved 2019 Capital Budget is \$256,680,449 with an additional \$638,950 to be funded from the Capital Infrastructure Reserve for public art installation.

The approved 2019 Capital Budget is funded through property tax transfers from the Capital Infrastructure Reserve and grants (Provincial and Federal).

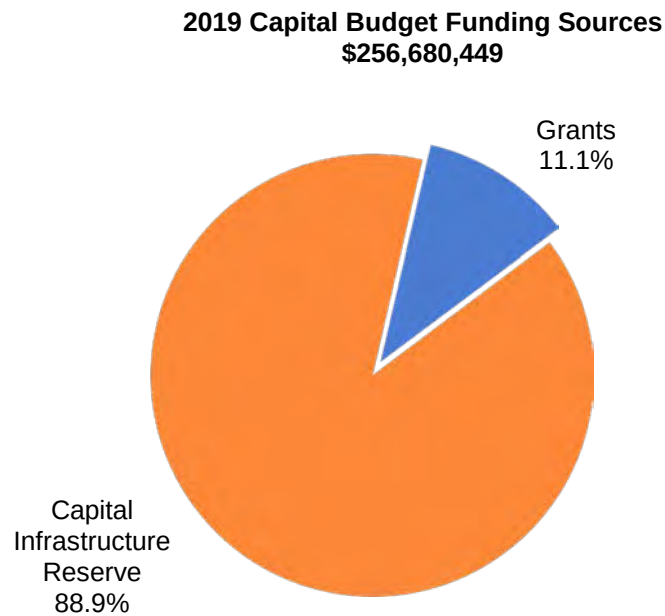


Figure 14 – 2019 Capital Budget by Funding Source



DEBT STRATEGY

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

In the section *Financial Condition Indicators*, a set of financial conditions used by the Municipality is Flexibility. In Flexibility, the Municipality measures the resources spent on debt and debt service.

Prior to 2017

The Municipality utilized debt to fund capital assets 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 respected the *inter-generational equity philosophy*, which stated that each generation that benefits from an amenity must bear their fair share of financial burden, and the second principle indicated a conservative approach to debt use.

The Municipality continues to consider 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) was the lender of choice.

For a municipality that was facing demand for new infrastructure and infrastructure rehabilitation, use of debt was a reality as general revenue growth lagged infrastructure demand.

2019 and onward

The Municipality will eliminate the committed drawn debt in 2019 and will plan to convert committed undrawn debt from debentures to Capital Infrastructure Reserve funds by 2021. The Debt Management Policy, FIN-120, currently states a maximum of 85% of allowable MGA limits. An analysis of our future capital funding approach will be undertaken to further support the Municipality's transition to a Pay-As-You-Go (PAYG) strategy for funding capital assets.

A benchmarking study completed in 2017 identified the Regional Municipality of Wood Buffalo as having above-average debt per capita over all the selected Alberta comparators. With the payment of the debt the Municipality will be situated in a positive financial position for residents.

Debt Per Capita

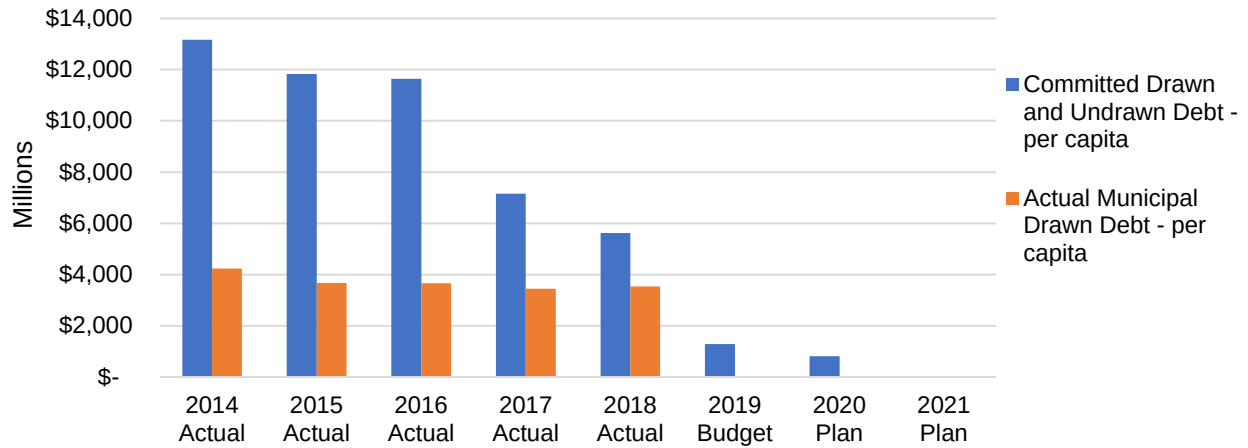


Figure 15 – Population is based on the Municipal Affairs Population List 2013 – 2017 and Municipal Census 2018; neither includes shadow population.

Note – Figures as at December 31

FISCAL RESERVES

General Reserve Strategy

The Municipality has an established reserve 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: 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. The EIR is funded 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.

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 the main funding source for budgeted capital program requirements. This reserve will become even more important as the Municipality transitions to a Pay As You Go (PAYG) strategy for funding capital infrastructure.



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 ensure the following objectives are adhered:

- **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 members of Administration.

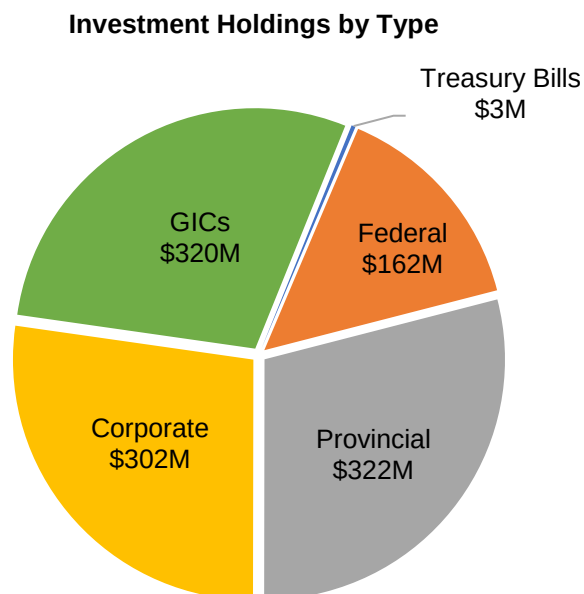


Figure 16 – Investment Holdings by Type

Maturity of Investments – Liquidity

The investment portfolio is structured to maintain a proportionate ratio of short (under 1 year), medium (1 to 5 years), and long-term (over 5 years) maturities to meet current and future funding requirements.

A structured series of short-term Guaranteed Investment Certificates (GICs) maturing on a regular basis throughout the fiscal year is part of the short-term liquidity strategy. This enables sufficient liquidity within the investment portfolio to meet the Municipality's operating and capital cash flow requirements.

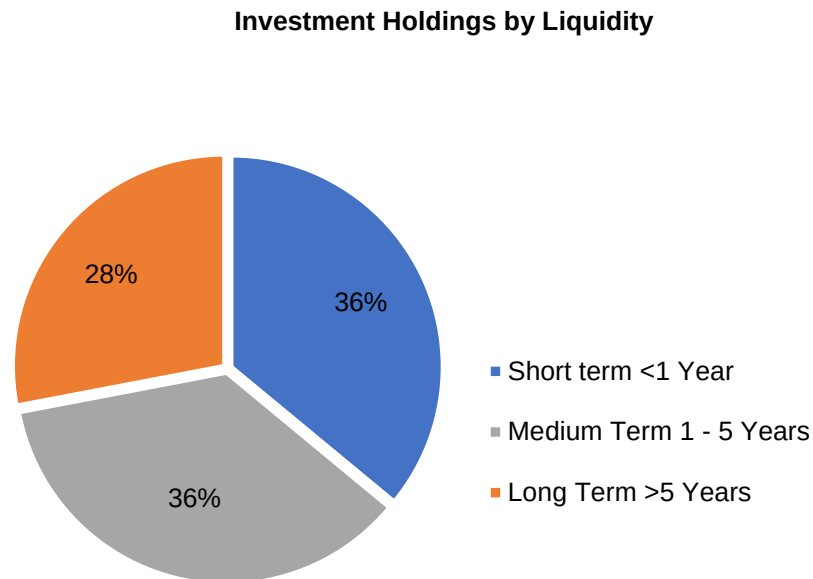


Figure 17 – Investment Term Analysis

FINANCIAL CONDITION INDICATORS

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

The Municipality eliminated the committed drawn debt in April 2019. The indicators have been modified to reflect that eliminated debt.

SUSTAINABILITY

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

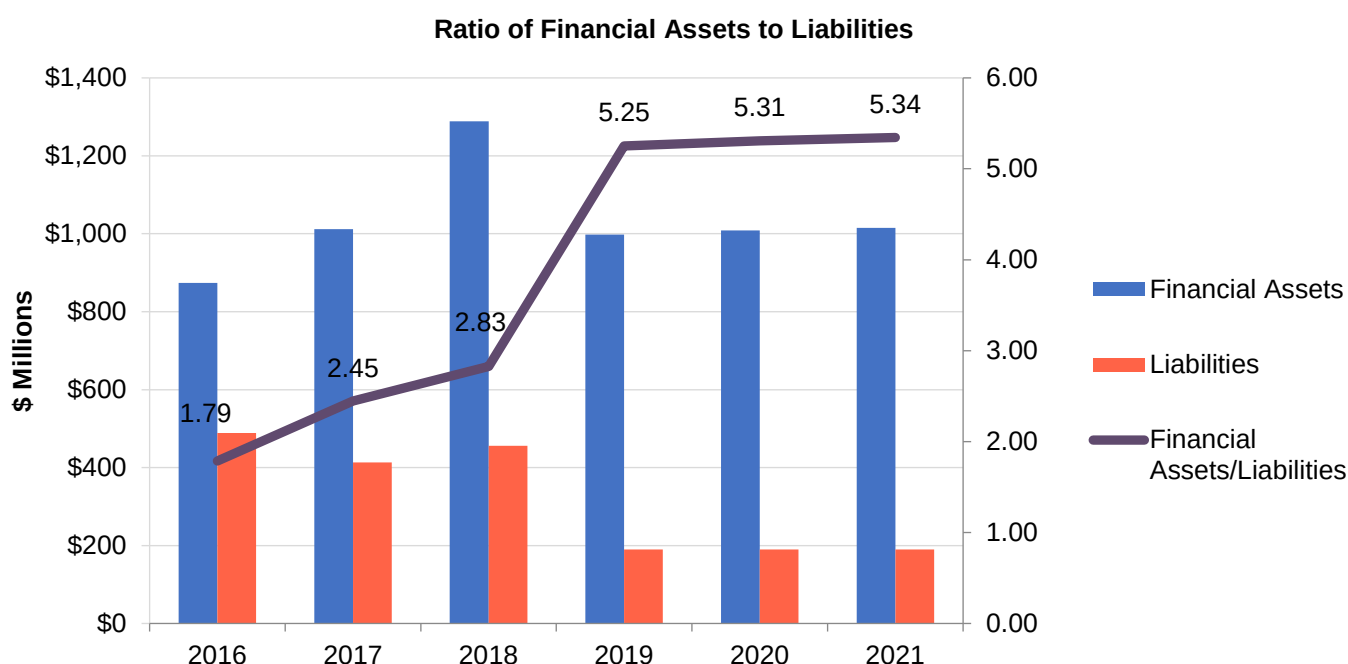


Figure 18 – Ratio of Financial Assets to Liabilities, 2016 – 2021

A ratio of 2:1 and above is desirable. To ensure that the Municipality does not fall below this target, prioritization of existing and future capital projects is required. In addition, as the Municipality transitions to a Pay-As-You-Go capital funding strategy.

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 14 – 16 the debt and debt service limit levels have been below MGA prescribed debt and debt service limits and did not compromise revenues for debt service. With the payment of the debt the Municipality's flexibility is increased if there is an impact on current or future services and programs.

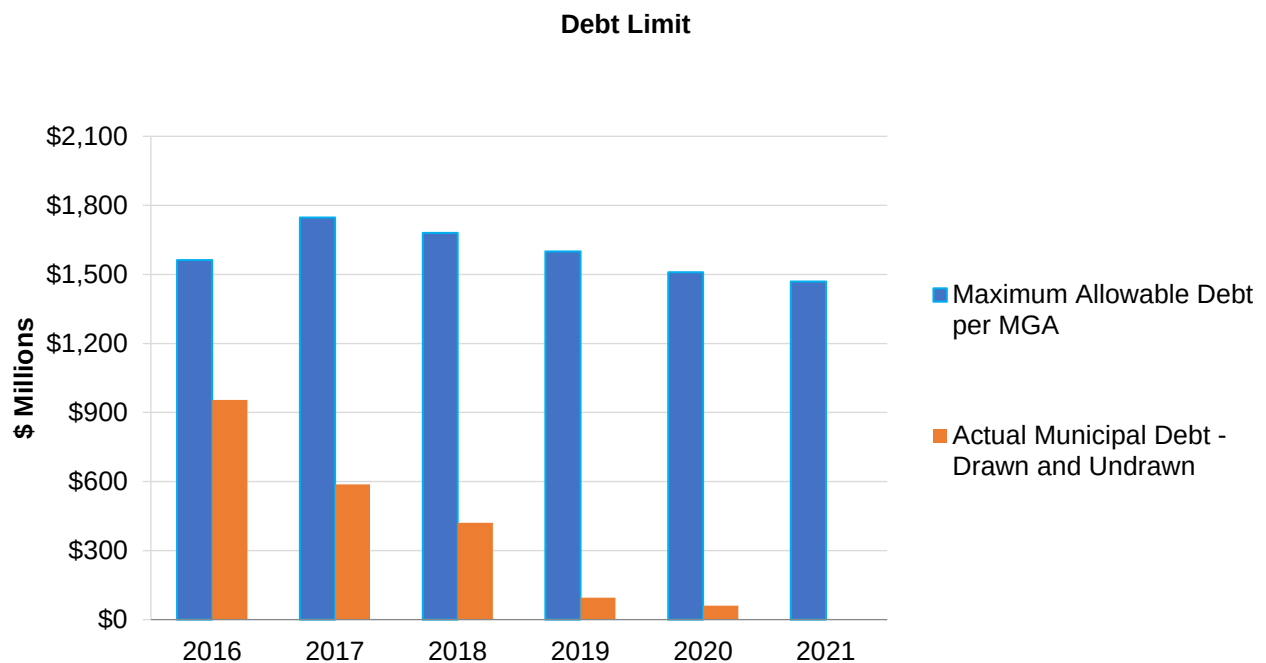


Figure 19 – Debt Limit 2016 – 2021 Per Actual, Approved Budget and Plans

Note - Figures as at December 31

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.

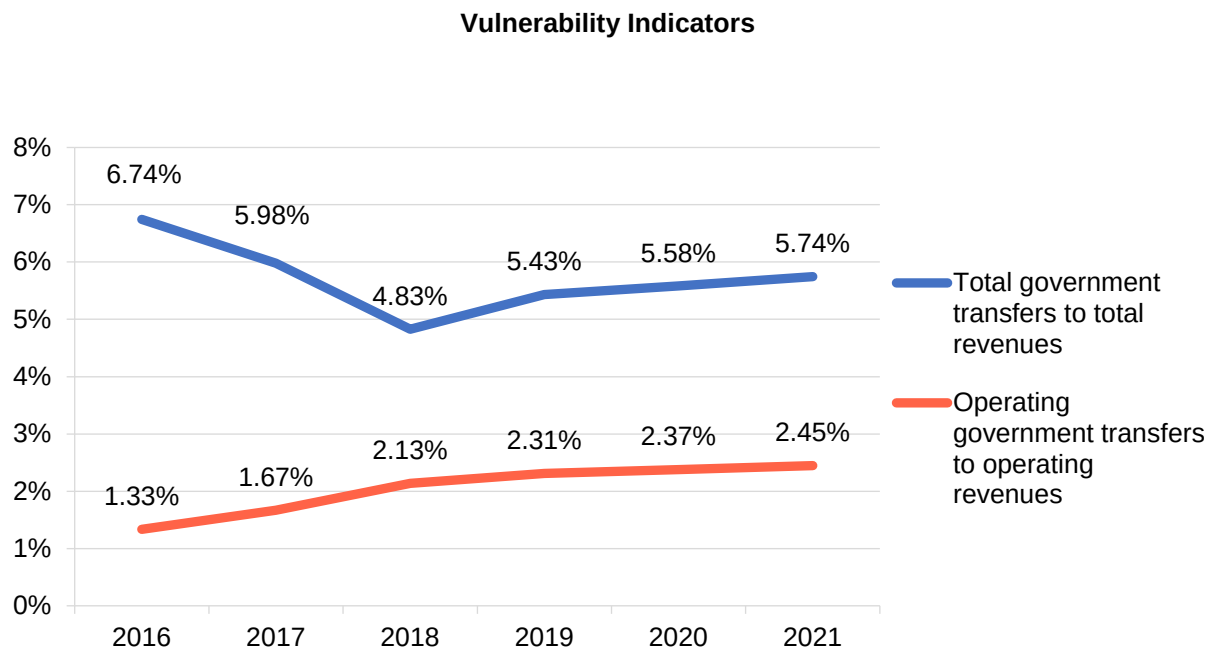


Figure 20 – Vulnerability Indicators 2016 – 2021

Operating transfers from provincial and federal governments are limited. Total government transfers are a combination of operating and capital transfers. Most government transfers relate to capital grants.