FISCAL MANAGEMENT STRATEGY

Regional Municipality of Wood Buffalo

2015 - 2017

Planning for a Sustainable
Future in Dynamic Times

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Regional Municipality of Wood Buffalo

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Financial Services Department

Dated: April 28, 2015

Introduction

EXECUTIVE SUMMARY

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

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

This document outlines, at a high level, the sources of revenue and anticipated expenses over this time period. Although, the 2015 Budget and the Financial Plans for 2016 and 2017 were approved in December of 2014, the FMS is an avenue to re-evaluate budget assumptions, based on new information that was not available at the time of the budget preparations.

New information that is considered in the 2015-2017 FMS includes: information related to the Municipal Corporate Utility (MCU); Transit Operations performed by the Municipality starting May 22, 2015, and a budget amendment as a result of revenue increase based on updated assessment information which directly impacts the municipal revenue by way of property taxes.

The FMS is used as a base to build the 2016 Budget and Financial Plans for 2017 and 2018. Due to options included in the FMS, Council is able to provide direction to Administration on what should be considered when developing the budget.

ECONOMIC OUTLOOK

It is easy to see the impact of the recent decline in oil price on the local economy of the region. Oil sands firms have scaled back investments for 2015 and have already begun laying off some workers. According to Alberta Energy, 1 in 16 jobs in Alberta is directly related to energy. Furthermore, for every direct job generated in the oil sands sector, one additional job is generated by indirect association. The reduction of employment leads to a slowdown in economic activities in the region, and in particular, the real estate sector.

At the provincial level, the royalty rate on gross revenue imposed by the Alberta government on oil sands firms is at its lowest level now because this rate is connected to the price of oil. Hence the growth in royalties earned by the provincial government is less than before. In addition, the reduction in employment deprives this government of some income tax revenue. This situation may impact provincial delivery of financed projects in the region, as well as provincial grants.

At the municipal level, future property tax revenue growth from companies involved in the energy sector may be reduced as some of the projects planned for coming years have been scaled back, delayed or cancelled. As the local economy is closely integrated with the energy industry any change in this sector will directly affect the local economy.

The monthly indicator of real estate property sales has been declining in Fort McMurray since July 1, 2014. That indicator reached its peak last June, when the price per barrel of oil was over $100 (USD), for the period from January 2013 to February 2015. The number of residential properties sold in June 2014 was 207, while it was only 54 in February 2015.

The price of oil has an effect on the growth rate of population in the region. A study performed last year by the Municipality's Assessment and Taxation Department concluded that there is a strong relationship between the price of oil and the growth rate of population. The same study showed, under some assumptions, that in the long-term a 1% decrease in oil sands production causes approximately a 1.4% decrease in the growth of total tax revenue for the RMWB, and a 1% decrease in the price per barrel of Canadian Heavy Hardisty crude oil, which is sold at a discount below West Texas Intermediate (WTI), can cause approximately a 1.5% decrease in tax revenue growth. One might say that these percentages of revenue decrease are moderate. This is due to the fact that the oil price and production have an indirect effect rather than direct on tax revenue.

The economic difficulties facing RMWB now are due to the reduction in investments on the part of oil sands firms. Therefore the main challenge now is how to bring more investments within the RMWB. The oil firms will spend more if they realize an improvement in the price of the heavy diluted bitumen (dilbit), which is the preliminary form of oil sands production, even if the benchmark WTI price remains on average below $60 (USD) for the next two years. The improvement in the price of dilbit can be achieved when it becomes easy to get production to markets in Asia and the EU countries. Sending fast and large shipments of crude to intended refineries can lead to higher crude price. The Mexican heavy Maya, which is similar in quality to Alberta's dilbit, is sold for a higher price than dilbit just because it has an easy access to the refineries in the southern American states. This whole situation necessitates the quick development of the TransCanada East Coast (TCEC) pipeline system to send heavy crude to the refineries in the eastern Canada provinces, for local consumption, and the EU countries which have recently expressed interest in buying dilbit shipments. It is worth noting that relatively speaking, the TCEC project of the already existing gas pipeline system is more acceptable from social and political perspectives than the Northern Gateway pipeline project.

ASSUMPTIONS AND DEFINITIONS

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

The FMS assumes 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 2015-2017 Operating Budget and Plan and the 2015-2020 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 2015-2017 Operating Budget and Plan and the 2015-2020 Capital Budget and Plan.

WHAT DOES *TAX REVENUE NEUTRAL* MEAN?

Property taxes remaining at neutral levels mean that the municipality will collect the same property tax revenue for the 2015 tax year as it did in the 2014 tax year on properties which existed in 2014. Although the total tax collected by the municipality for these properties will remain the same (Revenue Neutral) the amount collected for each property may change due to the assessed value of the property changing. Tax rates are adjusted to collect the same total tax revenue as in 2014, and growth (newly assessed property) is the only contributor to any increase in tax revenue. The RMWB applies the tax revenue neutral methodology and then adds taxes applicable to new construction growth.

Assumptions and constraints followed in constructing the report include:

- Property tax "revenue neutral plus new construction growth" is assumed with low risk / high risk scenarios.
- Low risk scenario assumed for property tax revenue.
- Debt and debt service level will be lower than the debt and debt service limit established under the *Municipal Government Act* (MGA) and regulations.
- The Municipality draws debt on an as-needed basis, in line with the cash flow requirements for capital projects. For planning purposes, debt is assumed to be drawn three years after Council's approval.
- If the Municipality draws debt there will be an increase in debt service.
- Interest rate of 3.5% is assumed for future debt amortization.
- Any changes to the current user fees will be based on completion of the comprehensive user fees study and will be brought to Council annually, commencing in 2015.
- Retain investment strategies being adopted by the Municipality in compliance with Investment Policy FIN-140.
- Transition to the MCU is in progress and will need to be monitored and phased in. The MCU impact on revenue and expenses is incorporated into this strategy.
- 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. Any possible impact of specific ACF projects will be determined on a case by case basis.
- Operating expense adjustment due to new assets coming into operation:

Each year new assets are brought into and taken out of operation, which have an impact to the operating costs for the Municipality. Older assets require greater maintenance, which may entail more man hours, additional parts, and/or contracted services. Newer assets may not require as much maintenance in the first years of operation and/or may be more efficient and thereby reduce the number of man hours/parts and/or contracted services required to operate.

The impact of the changes in operating expenses have not been considered in the current FMS, but will be built in future years as more information becomes available.

The strategy is 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 2015 Operating and Capital Budgets
- 2016-2017 adjusted operating plan
- 2016-2020 Capital Plan
- Debt Management Policy FIN-120
- Alternative Capital Financing FIN-200

*Any impact of the new Council Strategic Plan will be incorporated in the 2016 -2018 FMS

DEFINITIONS:

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

ACRONYMS

ACF	Alternative Capital Financing
CIR	Capital Infrastructure Reserve
CUPE	Canadian Union of Public Employees
dilbit	diluted bitumen
EIR	Emerging Issues Reserve
EU	European Union
IAFF	International Association of Fire Fighters
LIP	Local Improvement Project
MGA	Municipal Government Act
RCMP	Royal Canadian Mounted Police
RMWB	Regional Municipality of Wood Buffalo
TCEC	Trans Canada East Coast
WTI	West Texas Intermediate

CONSOLIDATED SUMMARY

FIGURE 1 2015 AMENDED OPERATING BUDGET AND 2016-2017 ADJUSTED FINANCIAL PLANS

	2013 Actual (Audited)	2014 Actual	2015 Amended Budget	2016 Adjusted Financial Plan**	2017 Adjusted Financial Plan**
Revenues					
Property Taxes*	548,213,399	630,836,983	691,940,422	750,446,052	775,297,663
Sales to Other Governments	2,960,403	3,280,699	3,573,100	3,668,100	3,710,300
Sales of Goods & Services	65,011,597	62,849,435	63,990,118	68,594,650	72,556,485
Other Revenue from Own Sources	42,628,786	41,704,075	42,825,200	52,761,331	59,806,508
Grants	14,938,974	23,934,465	15,134,500	15,212,900	15,216,400
Other Transfers	8,619,410	14,504,685	867,000	43,100	44,300
	682,372,569	**777,110,342**	**818,330,340**	**890,726,133**	**926,631,656**
Expenses					
Salaries, Wages & Benefits	178,487,423	189,168,739	234,317,579	214,043,719	217,835,167
Contracted & General Services	129,111,390	137,289,252	136,243,890	160,198,446	165,401,198
Purchases from Other Governments	22,877,551	23,387,184	24,867,100	26,030,300	27,317,400
Materials, Goods, Supplies & Utilities	28,147,658	27,606,698	35,016,429	25,503,084	26,113,552
Small Equipment & Furnishings	3,823,437	4,414,089	6,004,600	3,711,722	4,856,588
Transfers & Grants	48,637,443	80,263,809	33,204,900	32,882,500	33,770,200
Financial Services Charges	32,275,279	33,943,015	31,200,900	47,274,430	70,001,926
Other Expenses	13,421,894	11,323,842	813,700	806,126	818,342
	456,782,075	**507,396,628**	**501,669,098**	**510,450,327**	**546,114,373**
TRANSFERS TO RESERVES					
Capital Infrastructure***	220,601,530	268,601,679	285,499,020	343,313,142	352,362,464
Emerging Issues****	4,988,965	1,112,034	31,162,222	36,962,664	27,205,819
Increased Revenue due to MCU*****					949,000
	225,590,494	**269,713,713**	**316,661,242**	**380,275,806**	**380,517,283**
SURPLUS/(DEFICIT)	0	0	0	0	0

* includes Grants in Lieu of Taxes; net of provision for potential appeal losses
** includes proposed changes for 1) MCU (Figure 33a & 33b) and 2) Transit Operations, and 3) estimated debt services obligation for debts drawn in the year
*** increases in Transfers to CIR in 2015-2017 are a result of increased Property Taxes from new construction.
**** increases in Transfers to EIR in 2015-2017 are to support possible maintenance costs of assets when completed and possible increases in grants to operate new recreational facilities.
***** projected increases in revenue from MCU.

Revenue Summaries

REVENUE SUMMARIES

The Municipality has six major revenue categories:

- Property taxes
- Sales to other governments
- Sales of goods & services
- Other revenue from own sources
- Grants
- Other transfers

On December 16, 2014, Council approved revenue for 2015 of $785.9M, which included property tax revenue of $660.8M.

Subsequently, as a result of construction growth it has been identified that the Municipality will have $31.2M additional property tax revenue. This brings the total tax revenue; net of appeal losses, to $691.9M. This represents a 9.7% increase from 2014 actual revenue and a 4.7% increase over the 2015 property tax budget that was approved by Council. The largest portion of property tax revenue is collected from the Machinery and Equipment class (73%), with overall tax revenue from Non-Residential properties accounting for 95%.

FIGURE 2 **2015 PROPOSED AMENDED OPERATING BUDGET REVENUE COMPOSITION,** $818,330,340

	2015 Approved Budget	2015 Proposed Amended Budget	Additional Revenue
Property Taxes*	660,778,200	691,940,422	31,162,222
Sales to Other Governments	3,573,100	3,573,100	0
Sales of Goods & Services**	62,727,100	63,990,118	1,263,018
Other Revenue From Own Sources	42,825,200	42,825,200	0
Grants	15,134,500	15,134,500	0
Other Transfers	867,000	867,000	0
Total	785,905,100	818,330,340	32,425,240

* includes Grants in Lieu of Taxes; net of provision for potential appeal losses
**includes proposed changes for Transit Operations

FIGURE 3 **2015 AMENDED OPERATING BUDGET REVENUE COMPOSITION CHART,** $818,330,340

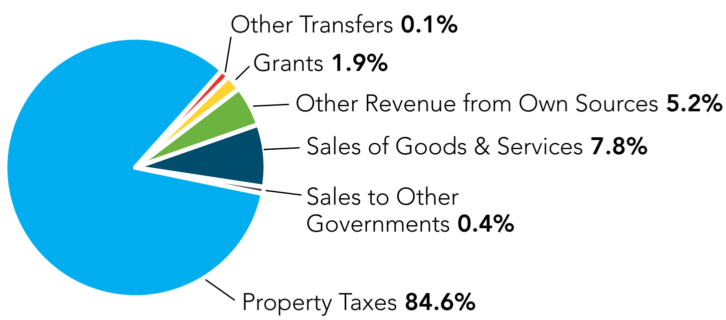


FIGURE 4 **REVENUE TREND ANALYSIS,** 2013-2017

	2013 Actual (Audited)	2014 Actual	2015 Proposed Amended Budget	2016 Adjusted Financial Plan**	2017 Adjusted Financial Plan**
Revenues					
Property Taxes *	548,213,399	630,836,983	691,940,422	750,446,052	775,297,663
Sales to Other Governments	2,960,403	3,280,699	3,573,100	3,668,100	3,710,300
Sales of Goods & Services	65,011,597	62,849,435	63,990,118	68,594,650	72,556,485
Other Revenue from Own Sources	42,628,786	41,704,075	42,825,200	52,761,331	59,806,508
Grants	14,938,974	23,934,465	15,134,500	15,212,900	15,216,400
Other Transfers	8,619,410	14,504,685	867,000	43,100	44,300
Total	682,372,569	777,110,342	818,330,340	890,726,133	926,631,656
Original Budget and Plan - December 16, 2014			785,905,100	807,090,720	829,230,142
Additional Revenue			32,425,240	83,635,413	97,401,514

* includes Grants in Lieu of Taxes; net of provision for potential appeal losses
**includes proposed changes for 1) MCU (Figure 33a & 33b) and 2)Transit Operations

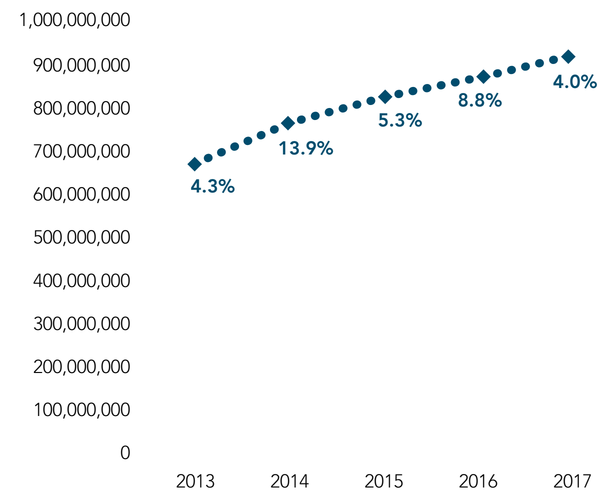
FIGURE 4a **RECONCILIATION OF ADDITIONAL REVENUE,** 2015-2017

	2015	2016	2017
Revenue, Original Budget and Plan	785,905,100	807,090,720	829,230,142
Add: Franchise fee and dividend to be paid by MCU		8,089,561	13,244,251
Add: Net property tax increase*	31,162,222	73,427,752	82,039,163
Add: Transit Operations**	1,263,018	2,118,100	2,118,100
Revenue, Amended Budget and Plan	818,330,340	890,726,134	926,631,656
Net change, Original to Amended Budget and Plan	32,425,240	83,635,413	97,401,514

* As per in the 2015 Property Tax Bylaw.
**Transit Operations moved in house as of May 22, 2015

2015-2017 REVENUE STRATEGY

FIGURE 5 **REVENUE PROFILE** 2013-2017



Revenue	$682,372,569	$777,110,342	$818,330,340	$890,726,133	$926,631,65
Percentage Change	4.3%	13.9%	5.3%	8.8%	4.0%

Since Council approval of the 2015 Operating Budget in December 2014, a number of changes have occurred, which have increased the amount of revenue forecasted for 2015-2017. These changes are attributed to: 1) increased tax revenue due to new construction growth (2015-2017), 2) new revenue from Transit Operations (2015-2017), and 3) Franchise Fee and Dividend revenue from MCU operations (2016-2017).

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

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

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

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

The recommended property tax revenue strategy is:

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

PROPERTY TAXES

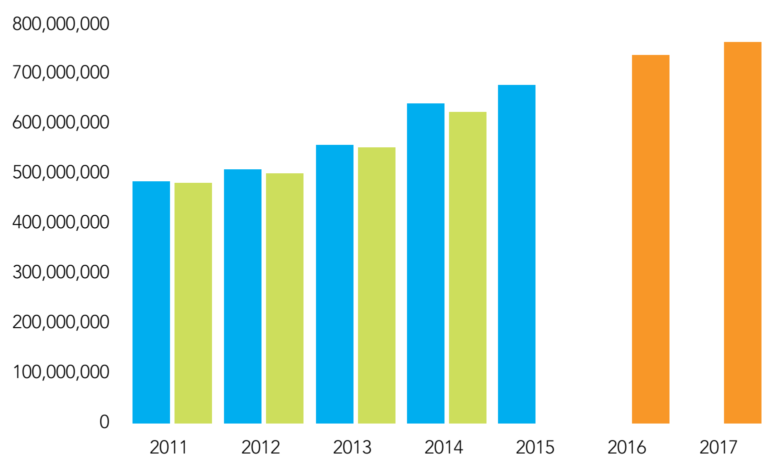
The 2015 amended budget for Property Taxes are projected to be 85.1% of the Municipality's revenue, which is comprised of:

- Rural Residential Class – 0.10%
- Urban Non-Residential Class – 1.96%
- Urban Residential Class – 4.13%
- Rural Non-Residential - 93.81%

For the past five years, the unfavourable variances between actuals and budget are due to a provision for the potential impact of assessment appeals which are at various stages of the appeal process. To further mitigate the impact from 2015-2017, the provision for appeal losses has increased from 3% to 5% on the Machinery and Equipment taxes category. The increase in provision reflects the unique assessment environment in the Municipality and the risks associated with it. As a result, the variance between actual and budgeted property tax revenue is insignificant, supporting a conservative budget approach.

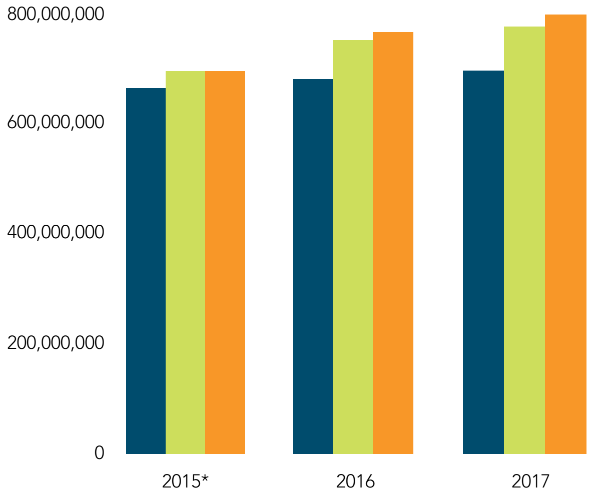
The increase in property tax revenue is primarily due to an increase in new construction growth, and not due to increases in property tax rates or market value increases. The Municipality maintains competitive property tax rates in the residential class compared to other municipalities.

FIGURE 6 **PROPERTY TAXES** 2011-2017



	2011	2012	2013	2014	2015	2016	2017
Budget	481,302,711	503,553,940	553,079,549	649,566,261	691,940,422		
Actual	477,988,208	495,526,167	548,213,399	630,836,983			
Plan						750,446,052	775,297,663
Variance	-0.7%	-1.6%	-0.9%	-2.9%			

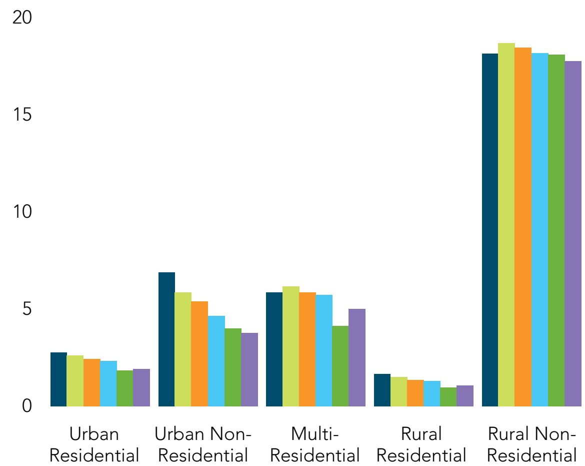
FIGURE 7 **PROPERTY TAX REVENUE PROJECTIONS** 2015-2017



	2015*	2016	2017
Approved Budget/Plan	660,778,200	677,018,300	693,258,500
Low risk	691,940,422	750,446,052	775,297,663
High risk	691,940,422	764,750,753	796,285,451

* 2015 Includes the Approved Budget for Property Taxes of $660.8M, and does not take into account any additional construction growth anticipated for 2015, which is show in prior charts.

FIGURE 8 **MUNICIPAL PROPERTY RATES** 2010-2015



	Urban Residential	Urban Non-Residential	Multi-Residential	Rural Residential	Rural Non-Residential
2010	2.663	6.764	5.743	1.577	18.034
2011	2.477	5.779	6.118	1.417	18.571
2012	2.332	5.306	5.754	1.307	18.321
2013	2.302	4.624	5.660	1.257	18.090
2014	1.806	4.015	4.054	0.963	18.020
2015	1.811	3.802	4.979	0.970	17.747

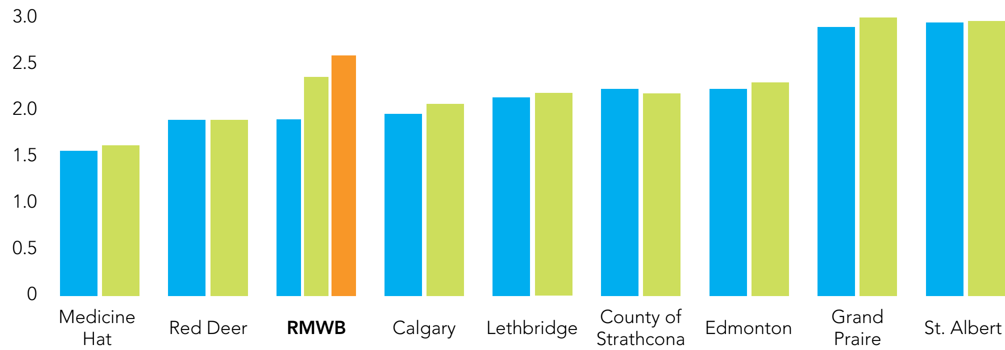
Figure 7 provides an overview of the Property Tax Revenue Projections for 2015 – 2017. The Low Risk and High Risk data is based on updated assessed values that takes into account new construction.

It is assumed that the tax revenue projections are the same under the low risk and high risk for 2015 as the tax philosophy followed only offers the low risk and high risk scenarios for future budget years and not the current year. Provision for appeal of assessments for tax years, 2015, 2016 and 2017 for all classes is 3% with the exception of the Machinery & Equipment tax class, where the provision is 5% of the revenue of that tax class.

Tax rate facts in the Municipality:

- Tax rates are levied per $1,000 of assessed value.
- Urban residential rates have decreased by 32.0% from 2.66 in 2010 to 1.81 in 2015.
- Urban non-residential rates have decreased by 43.8% from 6.76 in 2010 to 3.80 in 2015.
- Multi-residential rates decreased by 13.2% from 5.74 in 2010 to 4.98 in 2015.
- Rural-residential rates have decreased by 38.6% from 1.58 in 2010 to 0.97 in 2015. This class generates the least amount of tax revenue.
- Rural non-residential rates have decreased by 1.6% from 18.03 in 2010 to 17.75 in 2015. This class generates the highest amount of tax revenue.

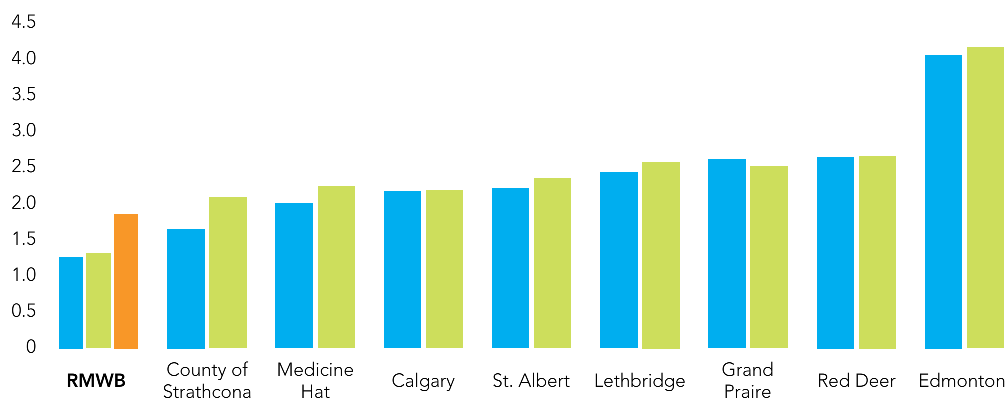
FIGURE 9 URBAN RESIDENTIAL PROPERTY TAX (GROSS) COST COMPARISON PER SQUARE FOOT, 2012-2014[1]



Tax $/sq ft.	Medicine Hat	Red Deer	**RMWB**	Calgary	Lethbridge	County of Strathcona	Edmonton	Grand Praire	St. Albert
2012	1.56	1.88	**1.90**	1.96	2.13	2.21	2.22	2.88	2.94
2013	1.62	1.89	**2.36**	2.06	2.19	2.18	2.30	3.00	2.96
2014*			**2.59**						

* 2014 Property Tax information not available for locations other than RMWB.

FIGURE 10 URBAN NON-RESIDENTIAL PROPERTY TAX (GROSS) COST COMPARISON PER SQUARE FOOT, 2012-2014



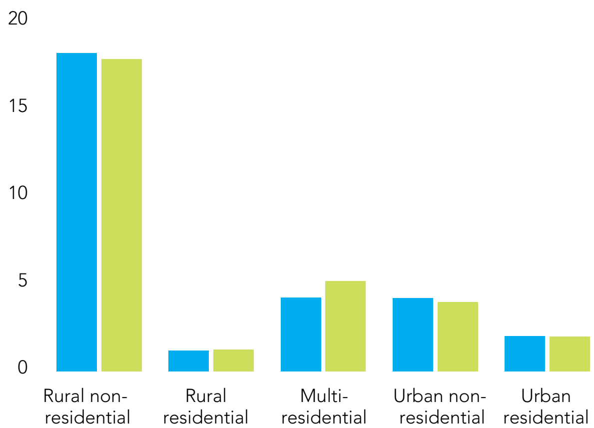
Tax $/sq ft.	**RMWB**	County of Strathcona	Medicine Hat	Calgary	St. Albert	Lethbridge	Grand Praire	Red Deer	Edmonton
2012	**1.28**	1.66	2.01	2.17	2.22	2.44	2.61	2.64	4.07
2013	**1.32**	2.10	2.26	2.19	2.35	2.57	2.52	2.66	4.15
2014*	**1.82**								

* 2014 Property Tax information not available for locations other than RMWB.

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

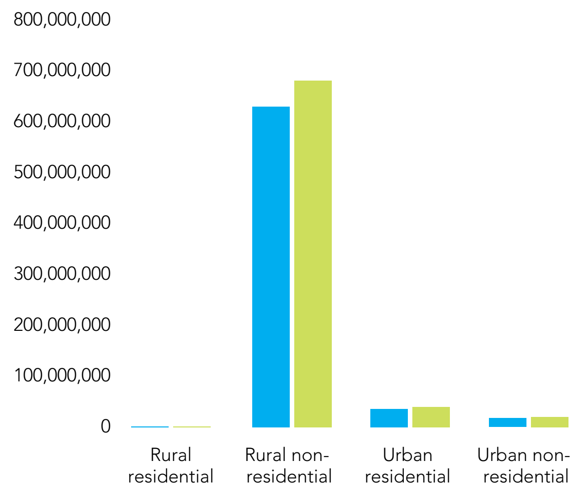
To remain revenue neutral, property tax rates often need to change. For the 2015 amended budget, the approved property tax rates and tax revenue distributions are shown in Figures 11 and 12.

FIGURE 11 **MUNICIPAL PROPERTY RATES,** 2014-2015



	Rural non-residential	Rural residential	Multi-residential	Urban non-residential	Urban residential
2014 Rate	18.020	0.963	4.054	4.015	1.806
2015 Rate	17.747	0.970	4.979	3.802	1.811

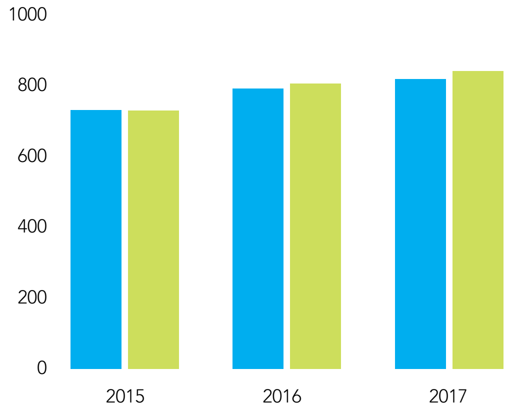
FIGURE 12 **PROPERTY TAX REVENUE (GROSS) CONTRIBUTION BY SOURCE** 2014-2015



	Rural residential	Rural non-residential	Urban residential	Urban non-residential
2014 - Actual	610,744	626,297,350	28,666,410	13,897,790
2015 Amended Budget	621,348	679,551,738	29,892,615	14,313,175
% of Tax Revenue	0.1%	93.8%	4.1%	2.0%

The estimated unadjusted property tax revenue (gross) for 2015 is projected to be approximately $725.0M based on the revenue neutral plus new construction growth assumption. In projecting property tax revenue, two scenarios are assumed: *low risk* and *high risk*.

FIGURE 13 **UNADJUSTED PROPERTY TAX REVENUE PROJECTION** 2015-2017 (GROSS REVENUE)



	2015	2016	2017
Low risk	724.4	785.8	811.9
High risk	724.4	800.8	834.0

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:

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

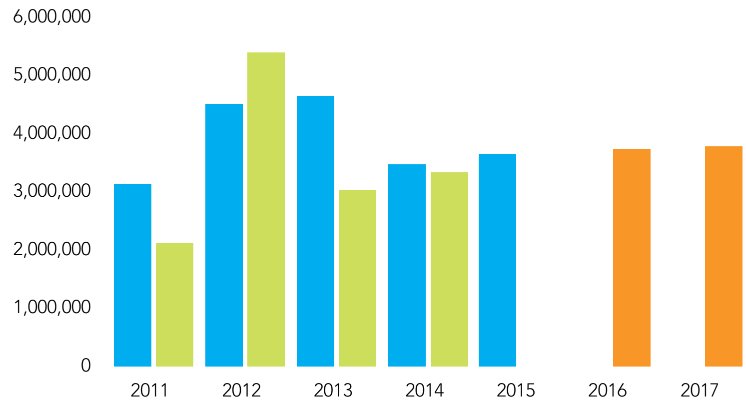
The property taxation strategy contributes to the affordability of living and working in the region while supporting long term capital infrastructure needs. The strategy also takes into account the growth facing the region and the underlying growth drivers.

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).

In the 2015 Amended Budget, revenue generated from Sales to Other Governments will total $3.57M. It is expected that the Municipality will maintain 2015 revenue levels in 2016 and 2017 for this category.

FIGURE 14 **SALES TO OTHER GOVERNMENTS** 2011-2017



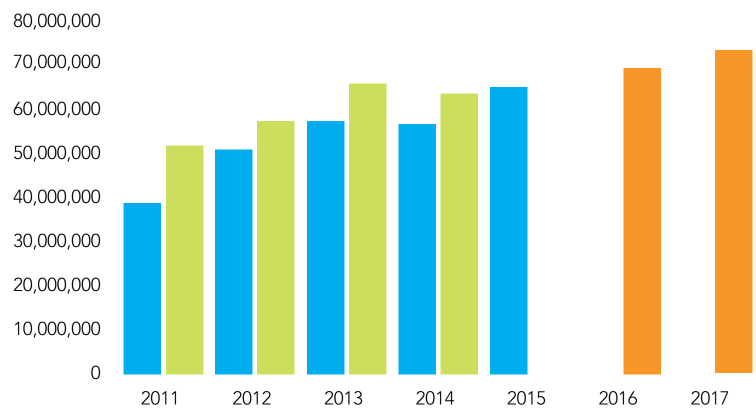
	2011	2012	2013	2014	2015	2016	2017
Budget	3,089,435	4,397,954	4,561,999	3,370,300	3,573,100		
Actual	2,077,293	5,341,330	2,960,403	3,280,699			
Plan						3,668,100	3,710,300
Variance	-32.8%	21.5%	-35.1%	-2.7%			

SALE OF GOODS & SERVICES

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

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 budget is attributed mainly to transit fares, which are collected by the service provider since July 2013. In May 2015, the Municipality is taking over Transit Operations and revenues are expected to increase by approximately $2M annually.

FIGURE 15 **SALES OF GOODS & SERVICES** 2011-2017

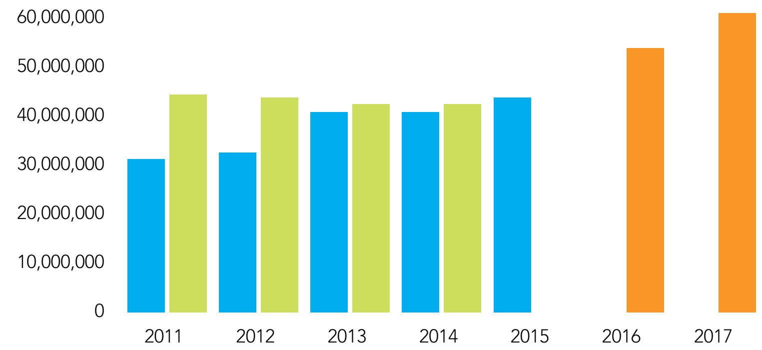


	2011	2012	2013	2014	2015	2016	2017
Budget	38,384,828	50,437,461	56,766,775	56,089,986	63,990,118		
Actual	51,122,082	56,839,141	65,011,597	62,849,435			
Plan						68,594,650	72,556,485
Variance	33.2%	12.7%	14.5%	12.1%			

OTHER REVENUE FROM OWN SOURCES

This category includes revenue from permits, fines and penalties, franchise fees, and interest from investments. The revenue from this category is approximately $43M—about 5% of the total 2015 revenue budget—the major contributors to this category being revenue from building permits and investment income.

FIGURE 16 **OTHER REVENUE FROM OWN SOURCES** 2011-2017

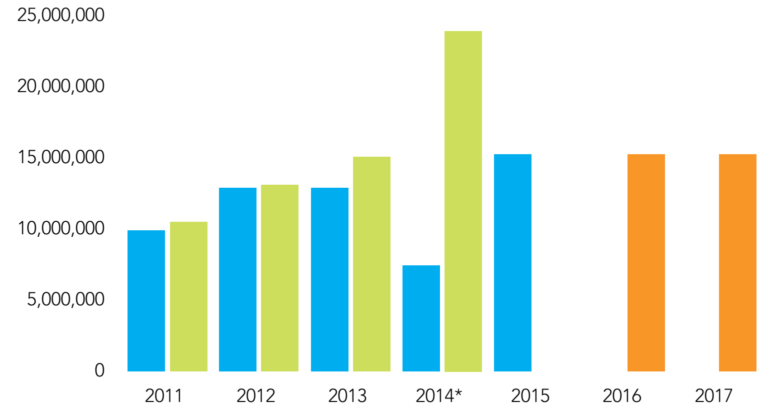


	2011	2012	2013	2014	2015	2016	2017
Budget	31,854,388	32,940,558	41,050,626	39,055,406	42,825,200		
Actual	44,556,163	44,070,581	42,628,786	41,704,075			
Plan						52,761,331	59,806,508
Variance	39.9%	33.8%	3.8%	6.8%			

GRANTS

Grants include both conditional and unconditional, operating grants secured from federal and provincial governments. Variances arise mainly from grants which were not budgeted for but were approved and received in the year.

FIGURE 17 **GRANTS** 2011-2017



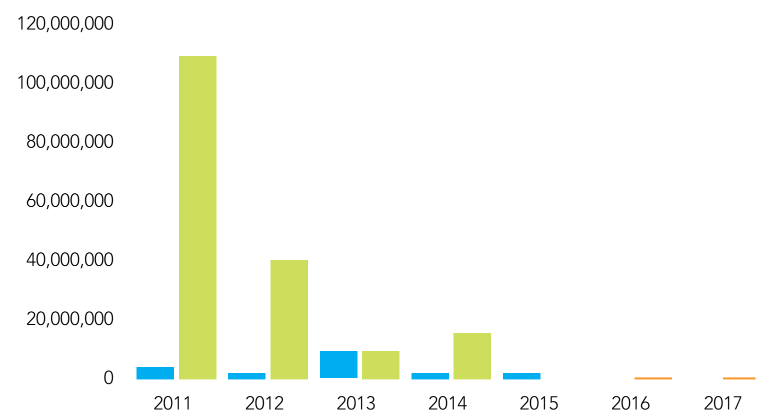
	2011	2012	2013	2014*	2015	2016	2017
Budget	9,797,332	12,777,485	12,826,319	7,234,263	15,134,500		
Actual	10,409,775	12,957,476	14,938,974	23,934,465			
Plan						15,212,900	15,216,400
Variance	6.3%	1.4%	16.5%	230.8%			

* 2014 actual to budget variance is due to: 1) uncertainty of receiving a $6.0M Provincial Grant from Alberta Health Services, so originally excluded from budget, and 2) , as well as unbudgeted transfer from Capital Infrastructure Reserve of $6.8M

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 (EIR), which was due to prior year surpluses that accumulated in the EIR balance. The remainder of the variances is due to transfer of amounts deemed to be operating in nature transferred from the carry forward reserve. Planned balances in 2015-2017 are transfers from the Photo Radar Enforcement Program. For 2015, an additional amount of $825,000 from the Community Initiatives Reserve was added for different initiatives and programs. Net revenue from the Photo Radar Enforcement Program are held in that same reserve and then allocated to preventive programs and community grants. Other components of the variances are transfers from reserves to offset program costs.

FIGURE 18 **OTHER TRANSFERS** 2011-2017



	2011	2012	2013	2014	2015	2016	2017
Budget	3,059,840	1,090,716	8,250,300	686,000	867,000		
Actual	108,907,489	39,361,542	8,619,410	14,504,685			
Plan						43,100	44,300
Variance*	3459.3%	3508.8%	4.5%	2014.4%			

* Transfers from reserves are not usually budgeted since they are funds already approved by Council, and therefore only reflected in Actuals.

Expense Summaries

EXPENSE SUMMARIES

The Municipality has eight expense categories:

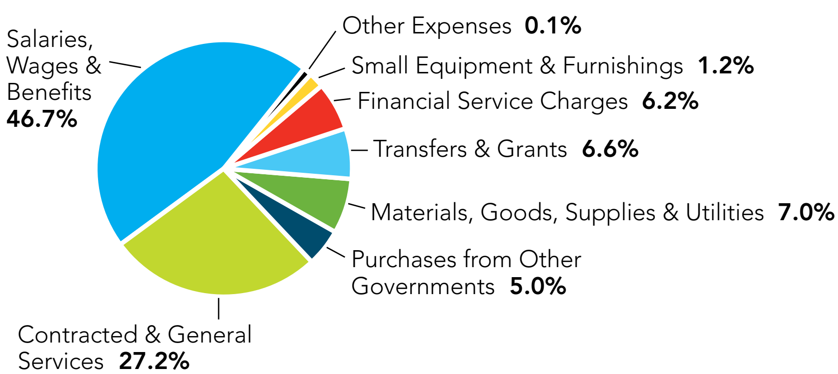
- Salaries, Wages & Benefits
- Contracted & General Services
- Purchases from Other Governments
- Materials, Goods, Supplies & Utilities
- Small Equipment & Furnishings
- Transfers & Grants
- Financial Service Charges
- Other Expenses

FIGURE 19 **2015 AMENDED OPERATING BUDGET EXPENSE COMPOSITION,** $501,669,098

	2015 Approved Budget	2015 Proposed Amended Budget	Additional Expenses*
Expenses			
Salaries, Wages & Benefits	221,983,500	234,317,579	12,334,079
Contracted & General Services	150,310,230	136,243,890	(14,066,340)
Purchases from Other Governments	24,867,100	24,867,100	0
Materials, Goods, Supplies & Utilities	32,021,150	35,016,429	2,995,279
Small Equipment & Furnishings	6,004,600	6,004,600	0
Transfers & Grants	33,204,900	33,204,900	0
Financial Services Charges	31,200,900	31,200,900	0
Other Expenses	813,700	813,700	0
Subtotal	$ 500,406,080	$ 501,669,098	$ 1,263,018
Capital Infrastructure Reserve	285,499,020	285,499,020	0
Emerging Issues Reserve	0	31,162,222	31,162,222
Total	$ 785,905,100	$ 818,330,340	$ 32,425,240

* includes proposed changes for Transit Operations

FIGURE 20 **2015 AMENDED OPERATING BUDGET EXPENSE COMPOSITION CHART,** $501,669,098



Approximately $78.4M in 2016 and $79.3M in 2017 expense amounts in various categories attributable to the MCU are not included in expenses in Figures 19 and 20. However, the service fees of $56.2M in 2016 and $46.6M in 2017 have been included, thereby incorporating assumptions from the business case to support the formation of the MCU.

Additional debt service amounts of approximately $16.8M in 2016 and $39.9M in 2017 have been included.

FIGURE 21 EXPENSE TREND ANALYSIS 2013-2017

	2013 Actual (Audited)	2014 Actual	2015 Proposed Amended Budget*	2016 Adjusted Financial Plan**	2017 Adjusted Financial Plan**
Expenses					
Salaries, Wages & Benefits	178,487,423	189,168,739	234,317,579	214,043,719	217,835,167
Contracted & General Services	129,111,390	137,289,252	136,243,890	160,198,446	165,401,198
Purchases from Other Governments	22,877,551	23,387,184	24,867,100	26,030,300	27,317,400
Materials, Goods, Supplies & Utilities	28,147,658	27,606,698	35,016,429	25,503,084	26,113,552
Small Equipment & Furnishings	3,823,437	4,414,089	6,004,600	3,711,722	4,856,588
Transfers & Grants	48,637,443	80,263,809	33,204,900	32,882,500	33,770,200
Financial Services Charges	32,275,279	33,943,015	31,200,900	47,274,430	70,001,926
Other Expenses	13,421,894	11,323,842	813,700	806,126	818,342
Total Expenses	456,782,075	507,396,628	501,669,098	510,450,327	546,114,373
Original Budget and Plan - Dec 16, 2014	456,782,075	507,396,628	500,406,080	513,777,578	526,867,678
Change in Expenses	(0)	0	1,263,018	(3,327,251)	19,246,695
Original Transfer to Reserves - Dec 16, 2014	220,601,530	268,601,679	285,499,020	293,313,142	302,362,464
Amended Transfer to CIR***	220,601,530	268,601,679	285,499,020	343,313,142	352,362,464
Amended Transfer to EIR			31,162,222	36,962,664	27,205,819
Increased Revenue due to MCU					949,000
Additional Transfer to Reserves	0	0	31,162,222	86,962,664	78,154,819
Total Change from original budget and plan	(0)	0	32,425,240	83,635,413	97,401,514

* Incorporates the change in the property tax bylaw.
** includes proposed changes for 1) MCU (Figure 33a & 33b), 2) Transit Operations, and 3) estimated debt services obligation for debts drawn in the year.
*** increases to Capital Infrastructure Reserve in 2016 and 2017 are a result of increased Property Taxes from new construction, offset by savings from the transfer of Environmental Services to MCU.

FIGURE 21a RECONCILIATION OF INCREASED EXPENSE, 2015-2017

	2015	2016	2017
Expenses, Original Budget and Plan	500,406,080	513,777,578	526,867,678
Less: Planned expenses associated with MCU		(78,389,526)	(79,326,045)
Add: Service fee to be paid to MCU		56,177,045	56,606,314
Add: Increased debt service		16,767,130	39,848,326
Add: Transit Operations*	1,263,018	2,118,100	2,118,100
Expenses, Amended Budget and Plan	501,669,098	510,450,327	546,114,373
Net change, Original to Amended Budget and Plan	1,263,018	(3,327,251)	19,246,695

* Transit Operations moved in house as of May 22, 2015

Figure 21 displays a net decrease in expenses in 2016 and 2017 since the approval of the financial plan on December 16, 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 have also increased because of the projected increase in drawing of debt. Figure 21a provides a reconciliation of the difference between approved and amended budget. Figures 22 and 23 provide more details of the variances in the operating plan years.

FIGURE 22 2016 AMENDED OPERATING PLAN EXPENSE COMPOSITION

	2016 Approved Plan	2016 Adjusted Plan*	Changes
Expenses			
Salaries, Wages & Benefits	233,181,500	214,043,719	(19,137,781)
Contracted & General Services	151,386,220	160,198,446	8,812,226
Purchases from Other Governments	26,030,300	26,030,300	0
Materials, Goods, Supplies & Utilities	32,853,208	25,503,084	(7,350,124)
Small Equipment & Furnishings	6,110,950	3,711,722	(2,399,228)
Transfers & Grants	32,882,500	32,882,500	0
Financial Services Charges	30,507,300	47,274,430	16,767,130
Other Expenses	825,600	806,126	(19,474)
Total Expenses	513,777,578	510,450,327	(3,327,251)
Capital Infrastructure Reserve	293,313,142	343,313,142	50,000,000
Emerging Issues Reserve	0	36,962,664	36,962,664
Total	807,090,720	890,726,133	83,635,413

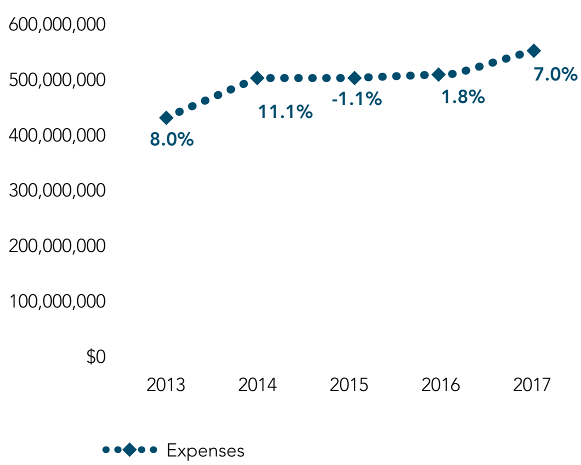
* includes proposed changes for 1) MCU (Figure 33a & 33b), 2) Transit Operations, and 3) estimated debt services obligation for debts drawn in the year

FIGURE 23 **2017 AMENDED OPERATING PLAN EXPENSE COMPOSITION**

	2017 Approved Plan	2017 Adjusted Plan*	Changes
Expenses			
Salaries, Wages & Benefits	238,122,712	217,835,167	(20,287,545)
Contracted & General Services	156,670,926	165,401,198	8,730,272
Purchases from Other Governments	27,317,400	27,317,400	0
Materials, Goods, Supplies & Utilities	33,730,840	26,113,552	(7,617,288)
Small Equipment & Furnishings	6,263,800	4,856,588	(1,407,212)
Transfers & Grants	33,770,200	33,770,200	0
Financial Services Charges	30,153,600	70,001,926	39,848,326
Other Expenses	838,200	818,342	(19,858)
Total Expenses	526,867,678	546,114,373	19,246,695
Capital Infrastructure Reserve	302,362,464	352,362,464	50,000,000
Emerging Issues Reserve	0	27,205,819	27,205,819
Increased Revenue due to MCU	0	949,000	949,000
Total	829,230,142	926,631,656	97,401,514

* includes proposed changes for 1) MCU (Figure 33a & 33b), 2) Transit Operations, 3) estimated debt services obligation for debts drawn in the year, and 4) proposed increases in revenue due to MCU

FIGURE 24 **EXPENSE PROFILE** 2013-2017



2015-2017 EXPENSE STRATEGY

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

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

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

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

- Debt may be drawn three years after commitment or approval by Council.
- An interest rate of 3.5% has been assumed for future debt draws.

Salaries, Wages and Benefits usually account for about 47% of the Municipality's total approved Operating Budget. There are labour agreements in place with the Canadian Union of Public Employees (CUPE) for the period January 1, 2014 – December 31, 2017 and with the International Association of Fire Fighters (IAFF) for the period January 1, 2014 – December 31, 2016.

Exempt staff 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:

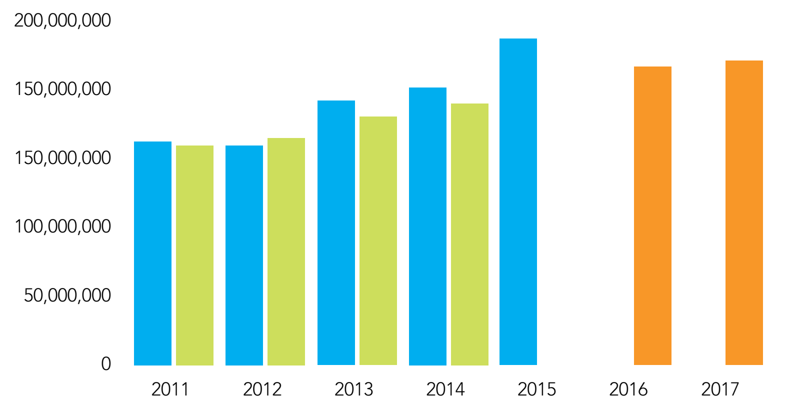
- Debt limit is not to exceed 85% of the debt limit per Municipal Government Act and regulations.

SALARIES, WAGES & BENEFITS

Salaries, Wages & Benefits account for 47% of the 2015 Amended Operating Budget totaling $234M. The budget has increased by 24% from the previous year actual, due to:

- Increase in the number of approved positions from 1,383 authorized Full Time Employee (FTE) positions by 159 to a total of 1,542. As Transit Operations moves to become a municipally operated service on May 22, 2015, there will be 148 employees added over and above the 1,542 approved in the 2015 budget.
- While the Municipality still faces difficulty filling some positions, recruitment efforts in the past two years have resulted in filling most of the vacancies. At the end of third quarter of 2014, the Municipality had an occupancy rate of 90 percent.

FIGURE 25 **SALARIES, WAGES & BENEFITS** 2011-2017



	2011	2012	2013	2014	2015	2016	2017
Budget	160,719,587	157,229,688	189,483,736	201,228,500	234,317,579		
Actual	157,541,898	163,243,798	178,487,423	189,168,739			
Plan						214,043,719	217,835,167
Variance	2%	-4%	6%	6%			

A consistent approach that aligns budget provisions to hiring delays is now in place. Vacancies and new positions have been critically reviewed and partially funded based on estimated 2015 hiring dates and 2014 occupancy trends.

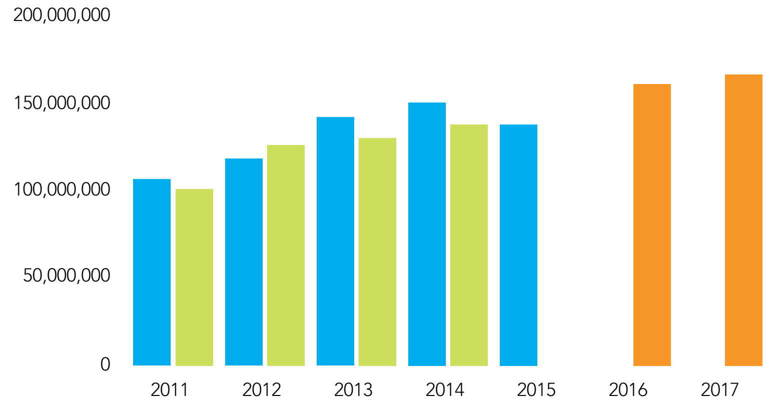
Opportunities to reduce reliance on contracted services and achieve cost savings have been identified by increasing the number of employees.

CONTRACTED & GENERAL SERVICES

Contracted & General Services consist of various expense categories including recruitment, training, travel, telephone & internet, professional services, legal costs and other minor expense categories.

This expense category is influenced by operating projects and changes in pricing of ongoing operations. Contracted & General Services has decreased approximately 1% from last year actuals, due to factors such as additional professional services and an adjustment from having Transit Operations managed from an external contractor up to May 21st, 2015, and then subsequently transferred to an in-house operation.

FIGURE 26 **CONTRACTED & GENERAL SERVICES** 2011-2017



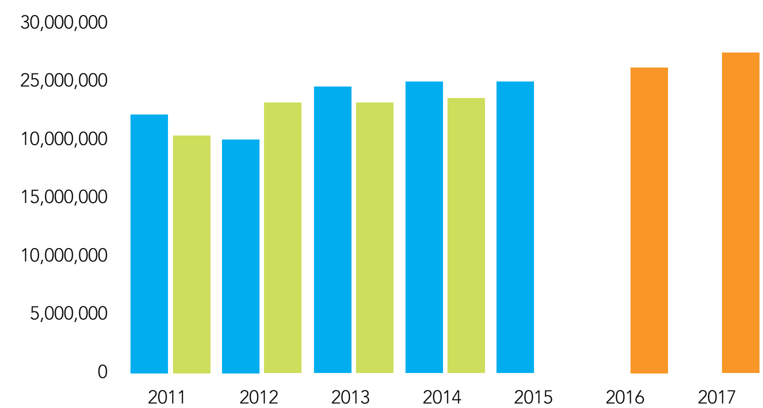
	2011	2012	2013	2014	2015	2016	2017
Budget	105,962,548	116,783,611	140,948,919	151,113,397	136,243,890		
Actual	99,072,114	125,815,581	129,111,390	137,289,252			
Plan						160,198,466	165,401,198
Variance	6.5%	-7.7%	8.4%	9.1%			

PURCHASES FROM OTHER GOVERNMENTS

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

Purchases from Other Governments represent 5% of the 2015 Amended Budget and are expected to increase steadily over the next few years.

FIGURE 27 **PURCHASES FROM OTHER GOVERNMENTS** 2011-2017

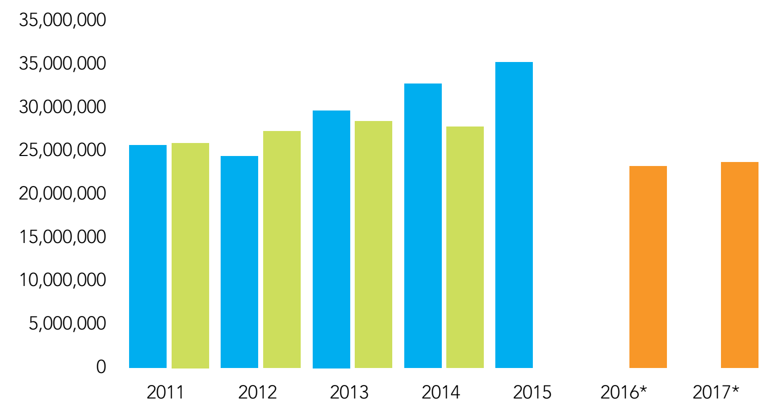


	2011	2012	2013	2014	2015	2016	2017
Budget	21,937,136	19,778,452	24,236,800	24,735,500	24,867,100		
Actual	20,177,725	22,922,173	22,877,551	23,387,184			
Plan						26,030,300	27,317,400
Variance	8.0%	-15.9%	5.6%	5.5%			

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.

FIGURE 28 **MATERIALS, GOODS, SUPPLIES & UTILITIES** 2011-2017



	2011	2012	2013	2014	2015	2016*	2017*
Budget	25,365,007	24,150,981	29,324,003	32,490,600	35,016,429		
Actual	25,549,382	26,986,073	28,147,658	27,606,698			
Plan						22,992,470	23,482,440
Variance	-0.7%	-11.7%	4.0%	15.0%			

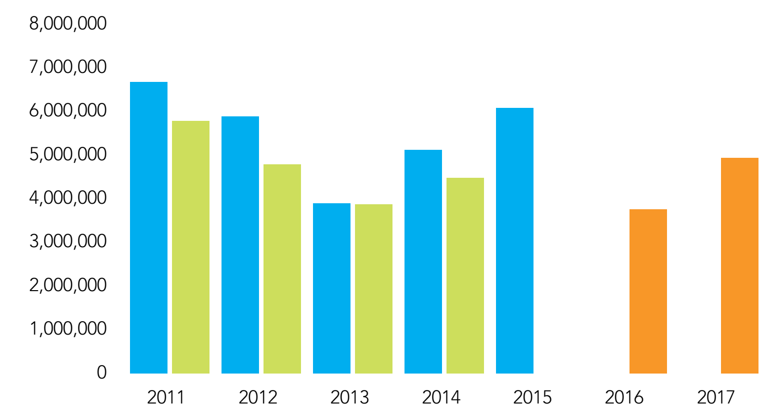
* The reduction of expenses in this category in 2016 and 2017 is a result of the MCU (Figures 33a/33b) impact on the financial plan.

SMALL EQUIPMENT & FURNISHINGS

The major categories in Small Equipment & Furnishings include office equipment, computer hardware and field equipment.

Increase in expenses for 2015 are mainly due to three factors: increased number of computers due for replacement in 2015, increase in new requests due to filled vacancies, and newly built South Operations Centre opened January 2015.

FIGURE 29 **SMALL EQUIPMENT & FURNISHINGS** 2011-2017



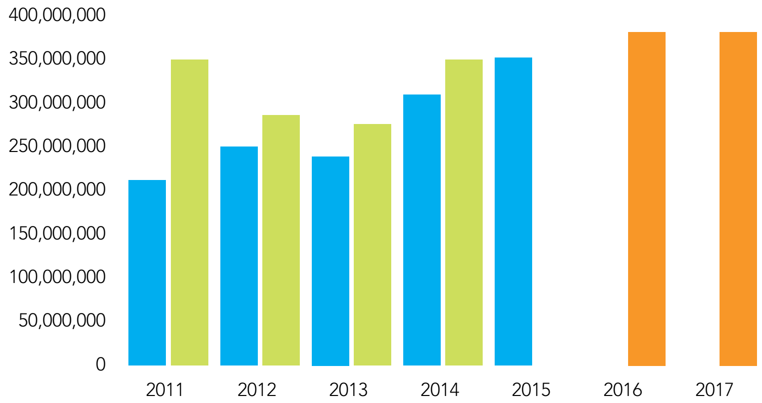
	2011	2012	2013	2014	2015	2016	2017
Budget	6,629,200	5,827,297	3,843,638	5,069,900	6,004,600		
Actual	5,726,003	4,720,086	3,823,437	4,414,089			
Plan						3,711,722	4,856,588
Variance	14%	19%	1%	13%			

TRANSFERS & GRANTS

Transfers to capital, reserves and other internal charges are recorded in this expense category. The amounts presented in Figure 30 are inclusive of transfers to reserves.

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.

FIGURE 30 **TRANSFERS & GRANTS** 2011-2017



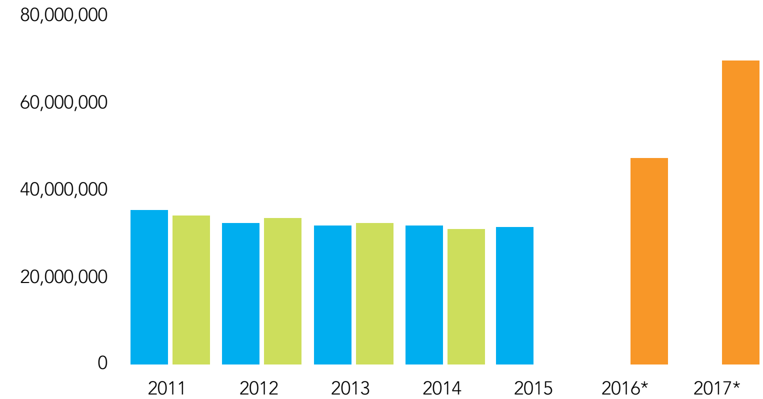
	2011	2012	2013	2014	2015	2016	2017
Budget	209,556,131	249,980,455	236,590,519	309,077,419	349,866,142		
Actual	349,268,860	284,243,387	274,227,938	349,977,522			
Plan						380,275,807	380,517,283
Variance	-66.7%	-13.7%	-15.9%	-13.2%			

FINANCIAL SERVICES CHARGES

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

The Municipality assumes to draw on debt three (3) years after commitment or approval by Council. Debt services obligation increases when additional debt is drawn. In 2015 no additional debt is expected to be drawn. However, in 2016 and 2017, 50% of undrawn committed debt of 2013 and 2014 respectively may be drawn. Based on the financial plan which was approved by Council in December 2014, these potential debt services charges have been included in the FMS. The impact on debt service limits is reflected in the section "Debt and Debt Service Limits". Administration continues to monitor cash flow requirements as well as prevailing and projected interest rate levels.

FIGURE 31 **FINANCIAL SERVICES CHARGES** 2011-2017



	2011	2012	2013	2014	2015	2016*	2017*
Budget	35,183,143	32,333,407	31,759,077	31,428,400	31,200,900		
Actual	34,124,469	33,461,068	32,275,279	31,159,517			
Plan						47,254,956	69,982,068
Variance	3.0%	-3.5%	-1.6%	0.9%			

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

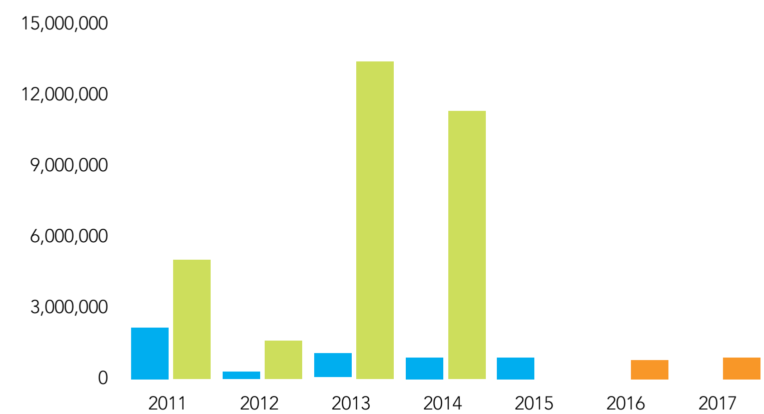
OTHER EXPENSES

Charges related to internal services, bad debt expense, inventory shrinkage are some of the major expenses that are recorded in Other Expenses.

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

The bulk of the actual cost in 2013 and 2014 relates to excess tax appeal losses.

FIGURE 32 **OTHER EXPENSES** 2011-2017



	2011	2012	2013	2014	2015	2016	2017
Budget	2,135,782	275,235	1,025,615	858,500	813,700		
Actual	5,011,711	1,516,992	13,421,894	11,323,842			
Plan						806,126	818,342
Variance	-134.7%	-451.2%	-1208.7%	-1209%			

Municipal Corporate Utility (MCU)

MUNICIPAL CORPORATE UTILITY (MCU)

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

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

The terms and conditions of the formation of the MCU have yet to be decided. The FMS has been prepared with the assumption that the MCU will proceed at the beginning of 2016. However, the final impact on the financial plan cannot be determined until the MCU has been approved by the Province. At the time of publication, the financial impact for 2016 and 2017 is based on the MCU business case that was prepared in 2012, along with the expected reduction in expenses from the 2016 and 2017 Fiscal Plan that was approved by Council December 2014, and is reconciled in Figures 33a & 33b.

Expenses related to the Environmental Services Department are removed from the 2016 and 2017 financial plans as these will now be the responsibility of the MCU. The MCU will pay a dividend and franchise fee to the Municipality, and in turn, the Municipality will incur a service fee as payment to the MCU for the provision of the utility services.

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

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

FIGURE 33a **IMPACT OF MCU ON FINANCIAL PLAN,** 2016

	Municipal Changes	MCU Changes	Consolidated Changes	Comments
Revenues				**Municipality:** Dividend & Franchise Fee
Sales of Goods & Services	8,089,561	56,177,045	64,266,607	**MCU:** Service Fee
	8,089,561	56,177,045	64,266,607	
Expenses				
Salaries, Wages & Benefits	(39,481,165)	39,481,165	0	Transferred to MCU
Contracted & General Services	(24,154,235)	24,154,235	0	Transferred to MCU
Contracted & General Services - Fee	56,177,045	0	56,177,045	Service Fee paid by Municipality
Materials, Goods, Supplies & Utilities	(12,335,424)	12,335,424	0	Transferred to MCU
Small Equipment & Furnishings	(2,399,228)	2,399,228	0	Transferred to MCU
Financial Services Charges	(19,474)	19,474	0	Transferred to MCU
Dividend	0	5,000,000	5,000,000	
Franchise Fee	0	3,089,561	3,089,561	
	(22,212,481)	86,479,087	64,266,607	
GAIN/(LOSS) TO MUNICIPALITY	**30,302,042**	**(30,302,042)**	**0**	

FIGURE 33b **RECONCILIATION OF MCU CHANGES,** 2017

	Municipal Changes	MCU Changes	Consolidated Changes	Comments
Revenues				**Municipality:** Dividend & Franchise Fee
Sales of Goods & Services	13,244,251	56,606,314	69,850,565	**MCU:** Service Fee
Sales of Goods & Services		949,000	949,000	Increased Income Opportunities
	13,244,251	57,555,314	70,799,565	
Expenses				
Salaries, Wages & Benefits	(40,630,929)	40,630,929	0	Transferred to MCU
Contracted & General Services	(24,665,458)	24,665,458	0	Transferred to MCU
Contracted & General Services - Fee	56,606,314	0	56,606,314	Service Fee paid by Municipality
Materials, Goods, Supplies & Utilities	(12,602,588)	12,602,588	0	Transferred to MCU
Small Equipment & Furnishings	(1,407,212)	1,407,212	0	Transferred to MCU
Financial Services Charges	(19,858)	19,858	0	Transferred to MCU
Dividend	0	10,000,000	10,000,000	
Franchise Fee	0	3,244,251	3,244,251	
	(22,719,731)	92,570,296	69,850,565	
GAIN/(LOSS) TO MUNICIPALITY	**35,963,982**	**(35,014,982)**	**949,000**	

Debt and Debt Service

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 useful life longer than a year.
- Use debt finance as a funding source of "last resort."

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

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

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

Figure 34a and b outline the Debt Limit and Debt Service Limit calculations under both the low risk and high risk scenarios.

FIGURE 34a **DEBT LIMIT AND DEBT SERVICE CALCULATIONS, ALL DEBENTURE FUNDED PROJECTS**

	Low Risk ($ Million)			High Risk ($ Million)		
	2015	**2016**	**2017**	**2015**	**2016**	**2017**
Debt Limit						
Revenue of Prior Year*	729	817	891	729	817	905
Debt Limit-per MGA (2xRevenue)	1,458	1,635	1,781	1,458	1,635	1,810
Council Approved Limit (85% of MGA limit)	1,239	1,390	1,514	1,239	1,390	1,538
Actual Debt	301	286	269	301	286	269
Undrawn Debt	790	824	856	790	824	856
Actual Total Debt Percentage	20.66%	17.46%	15.12%	20.66%	17.46%	14.89%
Committed Debt (Actual & Undrawn)	1,092	1,109	1,125	1,092	1,109	1,125
Committed Debt Percentage	74.87%	67.85%	63.17%	74.87%	67.85%	62.17%
Debt Service						
Debt Service Limit-per MGA (35% of Revenue)	255	286	312	255	286	317
Council Approved Limit (85% of MGA limit)	217	243	265	217	243	269
Actual Debt Service	31	30	29	31	30	29
Actual Debt Service Percentage	11.99%	10.40%	9.43%	11.99%	10.40%	9.28%

* 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.

FIGURE 34b DEBT LIMIT AND DEBT SERVICE CALCULATIONS, ACTIVE DEBENTURE FUNDED PROJECTS ONLY

	Low Risk ($ Million)			High Risk ($ Million)		
	2015	**2016**	**2017**	**2015**	**2016**	**2017**
Debt Limit						
Revenue of Prior Year*	729	817	891	729	817	905
Debt Limit-per MGA (2xRevenue)	1,458	1,635	1,781	1,458	1,635	1,810
Council Approved Limit (85% of MGA limit)	1,239	1,390	1,514	1,239	1,390	1,538
Actual	301	286	269	301	286	269
Planned Drawn Debt	-	240	330	-	240	330
Total Actual and Planned Debt	301	526	599	301	526	599
Undrawn Debt	729	522	464	729	522	464
Actual and Planned Debt Percentage	20.66%	32.19%	33.65%	20.66%	32.19%	33.12%
Committed Debt (Actual & Undrawn)	1,030	1,048	1,063	1,030	1,048	1,063
Committed Debt Percentage	70.64%	64.12%	59.65%	70.64%	64.12%	58.71%
Debt Service						
Debt Service Limit-per MGA (35% of Revenue)	255	286	312	255	286	317
Council Approved Limit (85% of MGA limit)	217	243	265	217	243	269
Actual plus Planned Debt Service	31	47	69	31	47	69
Actual plus Planned Debt Service Percentage	11.99%	16.27%	22.21%	11.99%	16.27%	21.86%

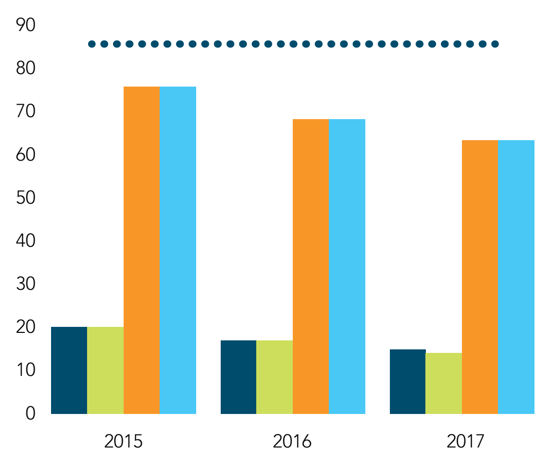
* For calculating debt limit, revenue does not include Contributions of Tangible Capital Assets nor Grants. It is based on the prior year revenue, as required by the MGA.

DEBT LIMIT

The MGA states that a municipality cannot exceed the debt limit of two times its total revenue[3]. 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.

FIGURE 35 DEBT LIMIT TREND 2015-2017



	2015	2016	2017
Actual debt (%) Low Risk	20.7%	17.5%	15.1%
Actual debt (%) High Risk	20.7%	17.5%	14.9%
Committed debt (%) Low Risk	74.9%	67.9%	63.2%
Committed debt (%) High Risk	74.9%	67.9%	62.2%
Total debt limit	85.0%	85.0%	85.0%

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

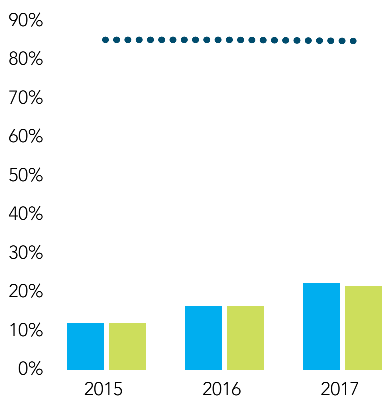
DEBT SERVICE LIMIT

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

The MGA debt service limit is calculated as 35% of the total revenue. The Municipality's Debt Management Policy establishes a limit of 85% of the legislated limit. As depicted in Figure 35, both the low risk and high risk outlook on debt service are under the prescribed limit of 85%.

While total committed debt is 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 as shown in figure 36b. In 2015 no additional debt is expected to be drawn.

FIGURE 36a **DEBT SERVICE COMPARISON (%)** 2015-2017



	2015	2016	2017
Debt Service (%) Low Risk	12.0%	16.3%	22.2%
Debt Service (%) High Risk	12.0%	16.3%	21.9%
Debt Service Limit	85.0%	85.0%	85.0%

FIGURE 36b **EXPECTED DEBENTURE DRAWS**

	2015	**2016**	**2017**
Undrawn Debt (3 Year Back)	2012	2013 & Prior	2014
Projected Debt to draw ($M)	-	479	180
Debt drawn ($M)*	-	240	330
Debt service ($M)	-	17	40

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

Fiscal Stability Reserves

GENERAL RESERVE STRATEGY

The Municipality has an established reserve strategy to meet future operations and capital expenses.

The reserve is in place to hedge against future risk factors including:

- Revenue shortfalls
- Unanticipated expenses

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

EMERGING ISSUES RESERVE (EIR)

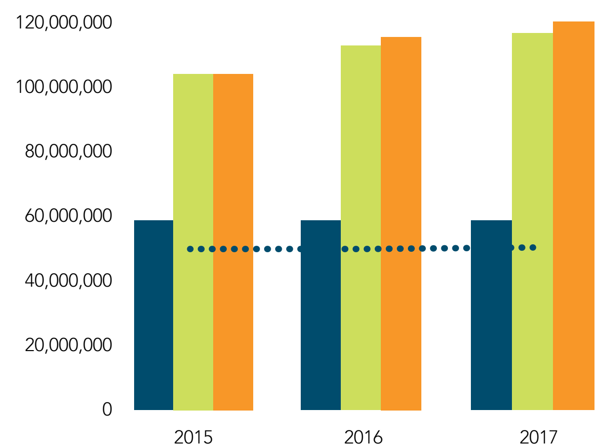
The EIR was established by Council in 2002 to stabilize operating revenues in response to unanticipated loss of revenue as well as provide funding flexibility in responding to unplanned events and other significant prices changes. Funding of the EIR comes from the year end operating surplus (if any).

The EIR is governed as follows:

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

As depicted in Figure 37, the $50M minimum uncommitted balance is maintained in the EIR for the period 2015 - 2017.

FIGURE 37 **PROJECTED EIR BALANCES** 2015-2017

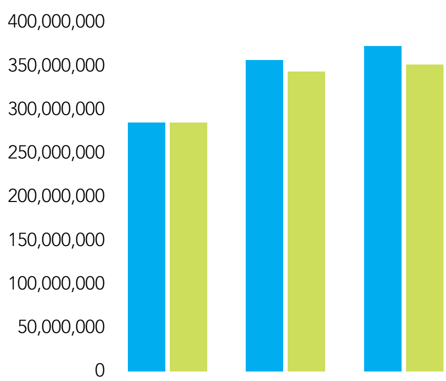


	2015	2016	2017
Projected uncommitted closing balance	58,010,314	58,010,314	58,010,314
Max. Allowed Balance - Low Risk	103,791,063	112,566,908	116,294,649
Max. Allowed Balance - High Risk	103,791,063	114,712,610	119,442,818
Min. Balance Limit	50,000,000	50,000,000	50,000,000

CAPITAL INFRASTRUCTURE RESERVE (CIR)

The CIR has been established to provide a source for capital project funding with a minimum uncommitted balance of $50M. The reserve is one funding source for budgeted capital program requirements. The forecasted revenue contributions are presented in Figure 38.

FIGURE 38 **PROJECTED REVENUE TRANSFER TO CIR** 2015-2017

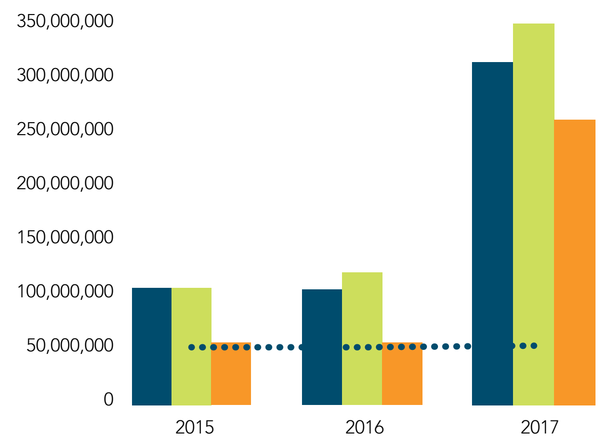


	2015	2016	2017
High risk	285,499,020	357,617,823	373,350,252
Low risk	285,499,020	343,313,142	352,362,464

Based on the low/high risk scenarios, the planned 3 year CIR balance is presented in Figure 39. The Capital budgeting process has a rigorous review process to ensure the core needs of infrastructure and environmental services for both urban and rural areas are met. Further, these projects are prioritized by a ranking score that is based on the project meeting one or of the following criteria - health/safety, legislation/contractual obligation, maintenance of existing asset or service, increase efficiencies, increase service levels or new services. The main focus for the 2015 budget year is to deliver the projects funded and to minimize the existing backlog. Administration will provide to Council the refined listing where ultimately they will decide the funding priorities for these projects, by removing, postponing or exploring alternative funding sources.

A Capital Steering Committee has been formed to review ongoing capital needs and to ensure all projects meet the core requirements. The Capital Steering Committee produces a quarterly report for Council outlining project progress and project closures. Projects that require revision/reprioritization by Council to meet funding and resource capacity are presented on an ongoing basis.

FIGURE 39 **CIR PROJECTED BALANCE** 2015-2017



	2015	2016	2017
Low risk	104,720,907	102,024,949	302,942,813
High risk	104,720,907	116,329,630	338,235,282
Excess*	54,720,907	52,024,949	252,942,813
Minimum balance	50,000,000	50,000,000	50,000,000

* Excess from Low Risk (Cumulative). An "unfunded" capital project listing of $1.9B (2015-2019) existed during the 2015 budget development process. Additional review and prioritization are required.

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**: 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 investment are managed prudently, appropriately and in compliance with applicable legislation and the investment policy. First of all, funds are managed by independent fund managers. In addition, there are three principal levels of responsibility. Council approves all investment policies; Audit and Budget Committee reviews and accepts investment report updates; and Investment Advisory Committee (IAC) provides oversight to the governance and management of the Municipality's investments. IAC is comprised of the Chief Administrative Officer, Chief Financial Officer, Director of Financial Services, while the Manager of Financial Planning acts as the Secretary.

The total book value of the portfolio as at December 31, 2014 was $377M (market value $378M). Overall portfolio performance has been slightly below the benchmark in 2014 as a result of market volatility and uncertainty. However, there is no financial risk as investments are held to maturity and the price differential are temporary in nature.

As at December 31 2014, all investments are within the approved benchmarks as stated in the Investment Policy FIN-140.

FIGURE 40 **TOTAL PORTFOLIO PERFORMANCE SUMMARY,** DECEMBER 31, 2014

Book Value ($M)	Performance/Benchmark/Value Added	3 months	1 year	3 years
40	**RBC Dominion Securities**	0.38%	1.36%	n/a
	FTSE/TMX 91 Day T-Bill Index	0.22%	0.91%	n/a
	Total Value Added	0.16%	0.45%	0.00%
155	**CIBC Wood Gundy**	0.11%	3.85%	2.86%
	FTSE/TMX Gov't Short Term Index	0.35%	2.43%	1.60%
	Total Value Added	-0.24%	1.42%	1.26%
85	**BMO**	2.33%	7.68%	2.49%
	FTSE/TMX Gov't Short Term Index	0.92%	3.06%	2.27%
	Value Added	1.41%	4.62%	0.22%
	BMO	2.33%	7.68%	2.49%
	FTSE/TMX Gov't Long Term Bond Index	5.25%	17.48%	5.06%
	Value Added	-2.92%	-9.80%	-2.57%
	Total Value Added	-1.51%	-5.18%	-2.35%
97	**Baker Gilmore -long Term**	1.09%	4.27%	2.48%
	Benchmark	1.32%	4.00%	2.09%
	Total Value Added	-0.23%	0.27%	0.39%
377	**RMWB Total**	-1.82%	-3.04%	0.00%

The bulk of the Municipality's investments 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 41 **TOTAL INVESTMENT COST TREND,** 2012-2014 ($ MILLIONS)

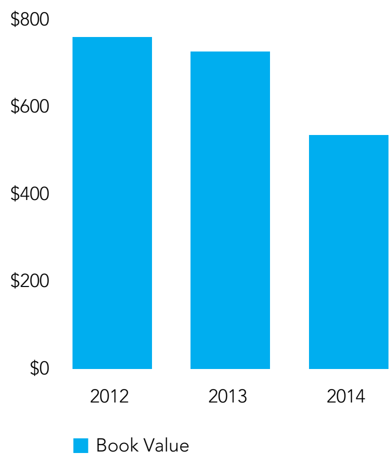
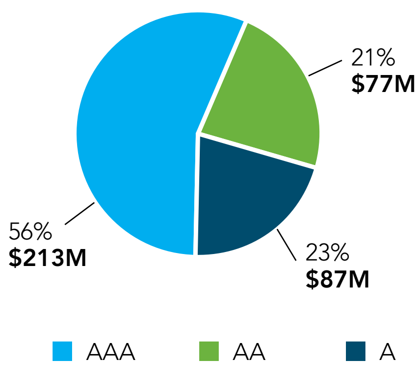


FIGURE 42 **TOTAL PORTFOLIO INVESTMENT QUALITY ANALYSIS,** DECEMBER 31, 2014



As illustrated in Figure 42, the quality of investment grade is also maintained while achieving an above-market rate of return.

FIGURE 43a **TOTAL PORTFOLIO ISSUER ANALYSIS,** DECEMBER 31, 2014

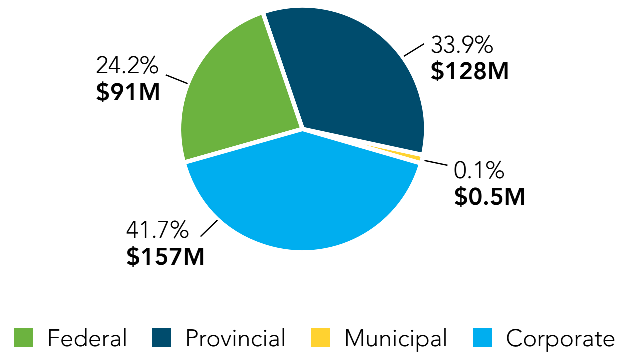
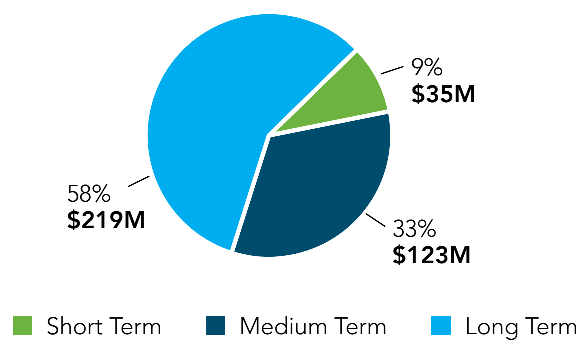


FIGURE 43b **TOTAL PORTFOLIO TERM ANALYSIS,** DECEMBER 31, 2014



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

Financial Condition Indicators

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

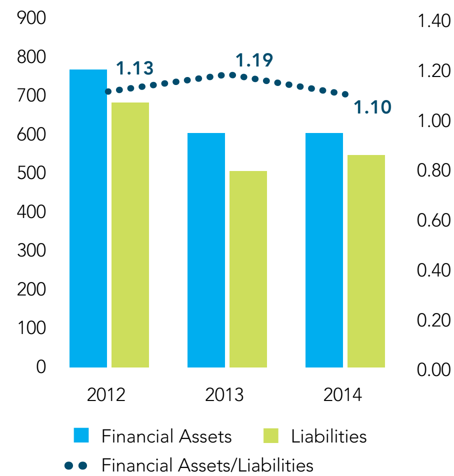
SUSTAINABILITY

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

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

A ratio of 2:1 is desirable. This indicator includes long term debt of $337M in 2014, $332M in 2013, and $347M in 2012. 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.

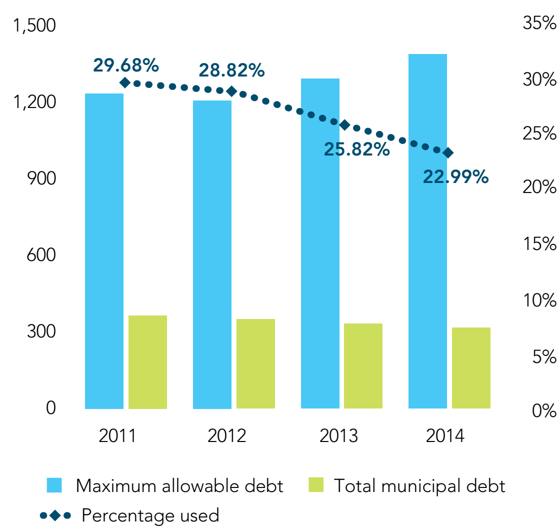
FIGURE 44 **RATIO OF FINANCIAL ASSETS TO LIABILITIES,** 2012-2014 ($ MILLIONS)



FLEXIBILITY

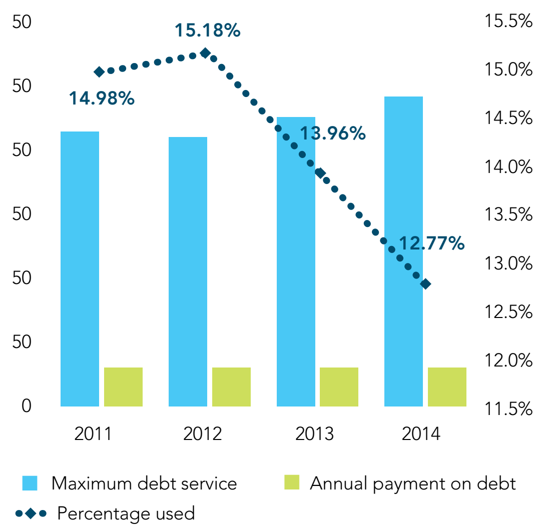
In the flexibility category, the Municipality uses one measure to monitor performance, *public debt charges to maximum allowable debt*, which is a measure of resources spent on debt and debt service relative to the maximum allowable debt as prescribed in the MGA.

FIGURE 45 **DEBT LIMIT USAGE** 2011-2014 ($ MILLIONS)



As illustrated in Figures 45 and 46, 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 46 **DEBT SERVICE LIMIT USAGE**
2011-2014 ($ MILLIONS)

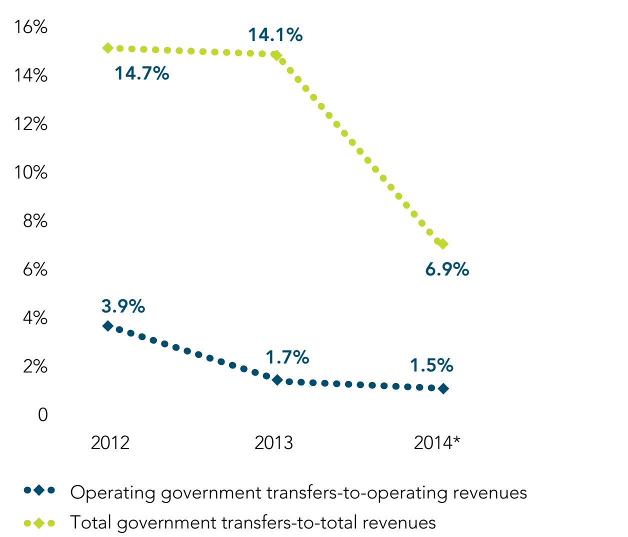


VULNERABILITY

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.

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.

FIGURE 47 **VULNERABILITY INDICATORS**
2012-2014



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

Regional Municipality of Wood Buffalo

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