

# Strathcona County 2017 Annual Management Report

Prepared by Corporate Finance

**Prepared for**

Priorities Committee

April 17, 2018

**Annual Operating Surplus for Tax Purposes for Municipal, Utility, and Library Operations**

**1. Annual Operating Surplus for Tax Purposes**

The 2017 annual operating surplus for tax purposes is \$13.3 million, which is a decrease of (\$8.5) million or (39%) as compared to the 2016 results. The annual operating surplus for tax purposes includes reserve transactions and debt repayments that are excluded from Public Sector Accounting Standards (PSAS) financial reporting.

<b>Annual Operating Surplus for Tax Purposes</b>	<b>2017 \$M</b>	<b>2016 \$M</b>	<b>2015 \$M</b>	<b>2014 \$M</b>
Municipal	10.2 (3.6%)	19.3 (6.9%)	17.9 (6.6%)	9.7 (3.7%)
Utility	2.8 (4.8%)	2.3 (3.8%)	3.1 (5.4%)	3.7 (6.8%)
Library	0.3 (3.0%)	0.2 (2.0%)	0.1 (0.8%)	0.1 (1.5%)
<b>TOTAL</b>	<b>13.3 (3.7%)</b>	<b>21.8 (6.3%)</b>	<b>21.1 (6.3%)</b>	<b>13.5 (4.2%)</b>

*Please note that the percentages represent the proportion of surplus compared to the respective annual operating budgets.*

**2. Analysis of the 2017 Annual Operating Surplus for Tax Purposes**

**a. Municipal Operations – \$10.2 million – Contributing Factors (In Order of Significance)**

Favourable:

- i. Savings in winter road maintenance (excluding P4) — \$2.0 million. Winter road maintenance savings was attributable to the budgeted cost of three P3 snow clearings when none were required, and additional savings in winter sand/salt/chips.
- ii. Savings in general road maintenance — \$1.6 million. The savings was primarily due to reduced volumes of road oil and cold mix as a result of asset management strategies and the application of new maintenance techniques. Lower signal maintenance, street sweeping and line painting provided additional savings.
- iii. Higher than anticipated investment income — \$1.5 million. The investment income exceeded the budget due to higher rates and volumes than anticipated. Please refer to Page 6 for further information and analysis of investments.
- iv. Contract circumstances — \$1.4 million. Savings in RCMP contract costs were realized as provisions were estimated with reasonable conservatism, and the actual rates and volumes were lower than anticipated.
- v. Greater than anticipated tax revenue — \$0.8 million. The higher than anticipated tax revenue was due to greater supplementary taxes due to growth, and lower appeals than anticipated.
- vi. Unbudgeted Municipal Sustainability Initiative (MSI) Operating Grant revenues — \$0.8 million.



**b. Utility Operations – \$2.8 million – Contributing Factors (In Order of Significance)**

Favourable:

- i. Savings from lower emergent repair and maintenance costs (wastewater services and storm sewer services) – \$0.8 million.
- ii. Unbudgeted third party reimbursement of wastewater repair and other recoveries – \$0.6 million.
- iii. Savings in professional services due to timing of inter-municipal studies, and initiatives – \$0.5 million.
- iv. Lower than anticipated solid waste contract costs due to lower tonnage (volumes) – \$0.4 million.

**c. Library Operations – \$0.3 million – No significant impacts to report.**

**2015 - 2018 Corporate Business Plan Progress Report (Appendix 1)**

An integral component of the Business Plan and Budget Implementation (BPBI) Project includes performance measurement and progress reporting. As such, Q2 and annual (Q4) quarterly management reports will include progress reporting on the goals within the 2015 - 2018 Corporate Business Plan, which demonstrate linkages to the Strategic Plan.

Performance measures will also be reported on as part of the Corporate Business Plan Progress Report, including ongoing refinement to the measures themselves as part of an evolving process.



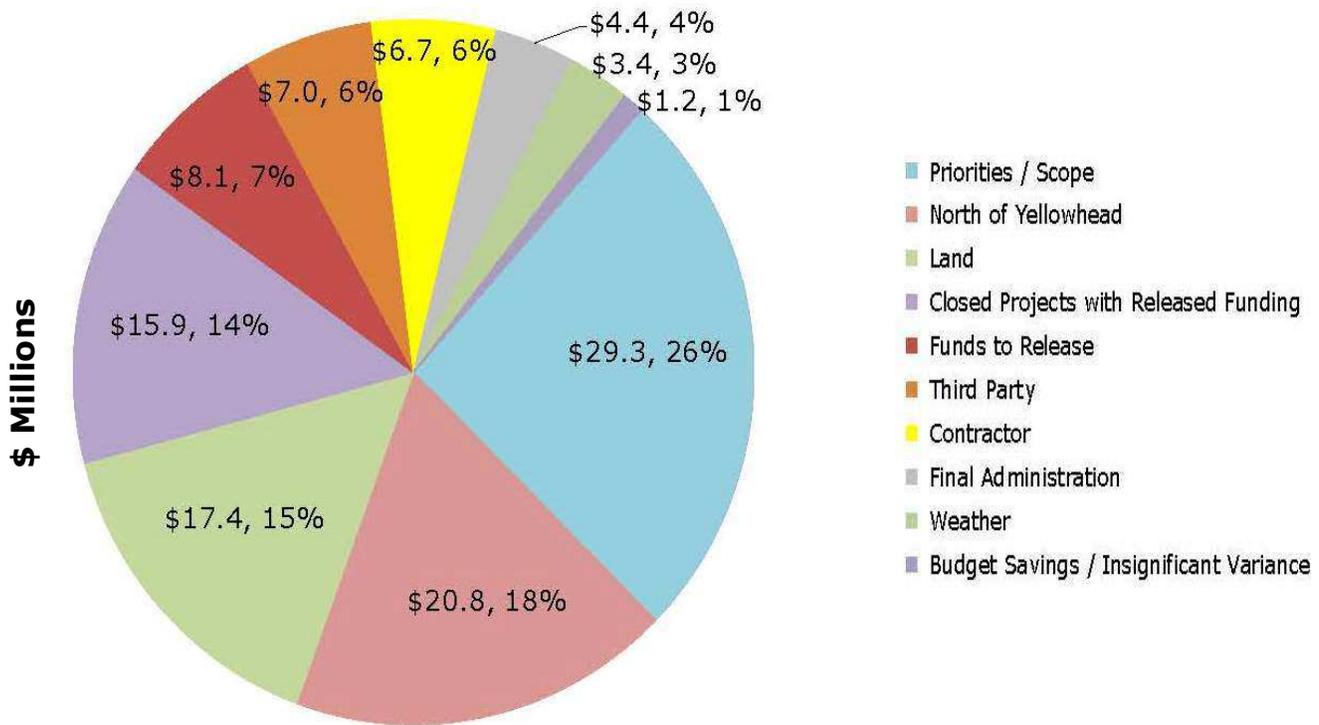
**Capital Activity (Excluding Pioneer Housing Foundation)**

**1. Capital Variance (Cash Flowed)**

The 2017 Capital Budget (cash flowed), as amended, totals \$190.7 million (2016 — \$240.2). The 2017 Capital Budget (cash flowed) comprises the 2017 Capital Budget of \$65.6 million, approved by Council on November 28, 2016; unspent prior years budgeted capital expenditures of \$222.4 million; plus budget amendments approved in 2017 of \$21.8 million; less budgeted capital expenditures planned to be incurred after 2017 of (\$119.1) million.

The capital spending, as of December 31, 2017, totals \$76.6 million (2016 — \$95.3 million). Therefore, the 2017 budget variance between planned and actual capital expenditures is \$114.1 million. The supporting explanations for the 2017 capital variance of \$114.1 million are illustrated in the chart below.

**2017 Capital Variance = \$114.1 Million**



**2. Total Outstanding Open Capital Budget (Non-Cash Flowed)**

The total approved open capital project budget (non-cash flowed) totals \$233.1 million (2016 — \$228.7), with 181 capital projects, including 37 inactive projects at December 31, 2017. Inactive projects are complete but not closed due to administrative processes.



**3. Capital Project Count by Project Stage at December 31, 2017**

Project Stage <sup>1</sup>	2017	2016	2015 and Prior	Total by Stage
1) 0 to 10% - Initiated	9	6	12	27
2) 11 to 85% - In Progress	23	14	21	58
3) 86 to 99% - Substantially Complete	14	12	33	59
<b>TOTAL</b>	<b>46</b>	<b>32</b>	<b>66</b>	<b>144</b>

<sup>1</sup> Project Stage groupings are based on the assessments provided by responsible departments, based on the work or purchases completed to date. This is not reflective of the budgeted expenditures that have been incurred, and excludes inactive projects.

**4. Update on Completed Projects**

During 2017, 98 projects were completed or cancelled with total combined budgets of \$255.3 million, resulting in the release of \$17.0 million of unused funding/financing. Of these amounts, \$7.6 million was budgeted to be funded from external grants and other sources, \$6.9 million was from internal sources (reserves), and \$2.5 million of planned debenture financing was not required. All funds released are allocated back to their original funding sources and are available for other emergent or future capital priorities.

**5. 2017 Capital Budget Amendments**

28 project amendments were approved in 2017 for a \$21.8 million total net increase to the capital budget as follows:

- i. 8 - 2017 projects were added in the amount of \$17.9 million.
- ii. 7 - 2017 projects were amended to increase the budget by \$1.9 million.
- iii. 10 - 2016 and prior year projects were amended to increase the budget by \$4.5 million.
- iv. 3 - 2017 and prior year projects were amended without financial consequences, as funds were repurposed within the projects.
- v. 1 - 2016 and prior project was cancelled to decrease the budget by \$2.5 million.



**Assessment of the County’s Financial Condition – Key Financial Indicators**

The following section is prepared based on the 2017 Strathcona County Consolidated Financial Statements (unaudited) provided in Enclosure 2. The Consolidated Financial Statements are prepared in accordance with Public Sector Accounting Standards (PSAS).

**1. Statement of Financial Position – Highlights**

**a. Investments**

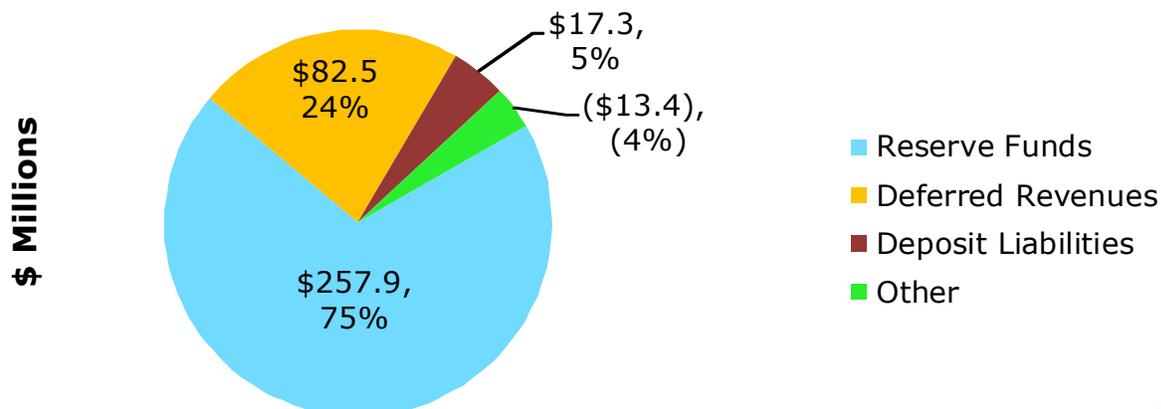
The County held \$344.3 million in investments at December 31, 2017 (2016 – \$306.5 million). Prior to the allocation of interest to liabilities, the County earned \$8.6 million (2016 – \$7.5 million) in investment income, which was 27% higher than budgeted. This favourable variance was due to the 2.45% year-to-date weighted average return on investments exceeding the 2.18% budgeted return, and a 14% higher than anticipated volume of investments. Additionally, \$0.9 million (2016 - \$0.7 million) of gains were realized from the disposal of investments, and transferred to reserve in accordance with *FIN-001-024: Financial Reserves Policy*.

Portfolio	Balance \$M	Effective Yield
Operating portfolio - terms up to one year	159.5 (2016 – 112.8)	2.07% (2016 – 1.73%)
Mid-term portfolio - terms from one year to ten years	130.4 (2016 – 141.0)	2.57% (2016 – 2.58%)
Long-term portfolio - terms greater than ten years	54.4 (2016 – 52.7)	3.10% (2016 – 3.10%)
<b>TOTAL</b>	<b>344.3 (2016 – 306.5)</b>	<b>2.45% (2016 – 2.27%)</b>

*Please note the effective yield of each portfolio is calculated based on the average daily investment balance. Investments are in compliance with FIN-001-007: Investments.*

The funds invested are mainly composed of reserves, deferred revenues and deposit liabilities, as illustrated in the chart below. Please note that “Other” amounts mainly represent the use of funds to provide interim financing for capital projects in advance of borrowing.

**Composition of Investments = \$344.3 Million**

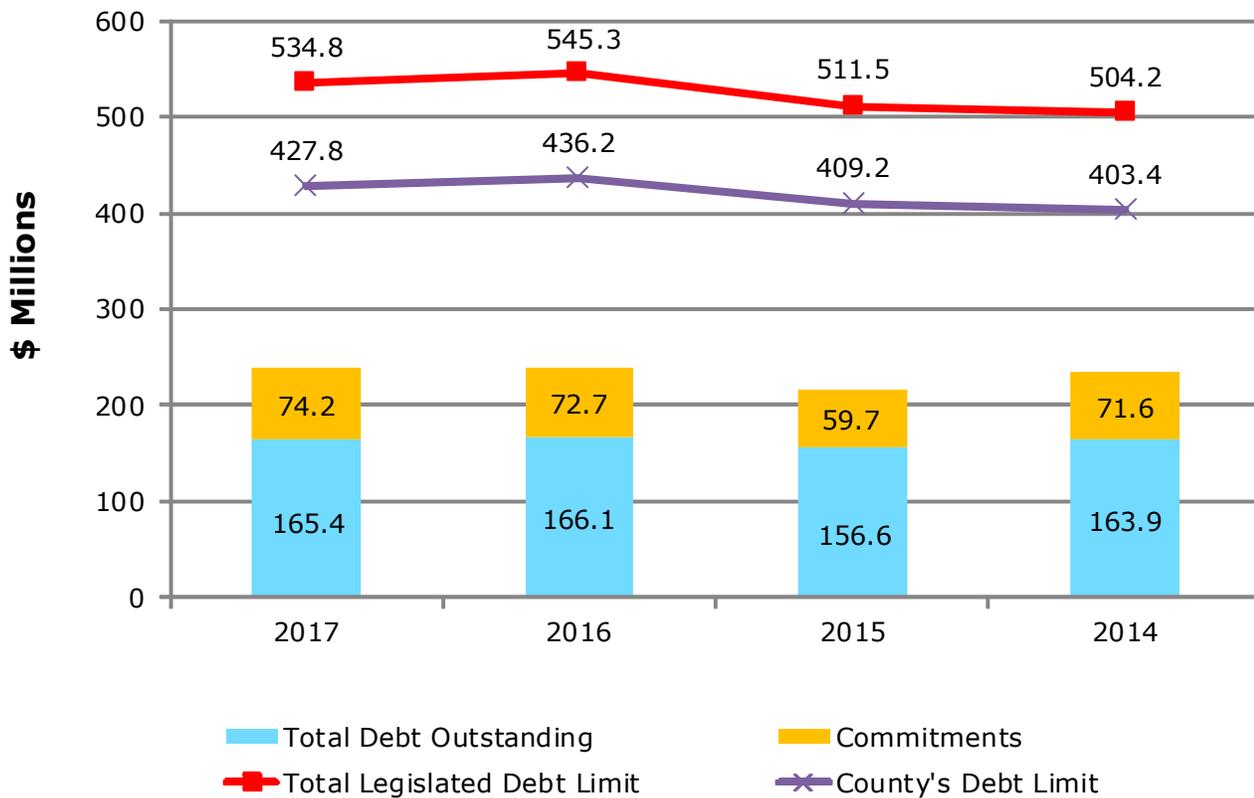


**b. Long-Term Debt**

Long-term debt is only incurred to finance capital expenditures. The long-term debt outstanding at December 31, 2017 totals \$165.4 million (2016 — \$166.1 million), representing a decrease of (\$0.7) million from December 31, 2016. This is the result of \$9.9 million in new debt being issued and (\$10.6) million that was repaid.

As of December 31, 2017, borrowing has utilized 38% (2016—30%) of the County’s debt limit, and 31% (2016 - 31%) of the \$534.8 million (2016 — \$545.3 million) MGA legislated debt limit. Please note that the County has committed an additional \$74.2 million (2016 — \$72.7 million) of debt against capacity, through approved capital projects, as at December 31, 2017. Using the County’s debt limit, the capacity to borrow is \$188.2 million (2016 — \$197.4 million).

**Total Debt Outstanding versus Debt Limit**



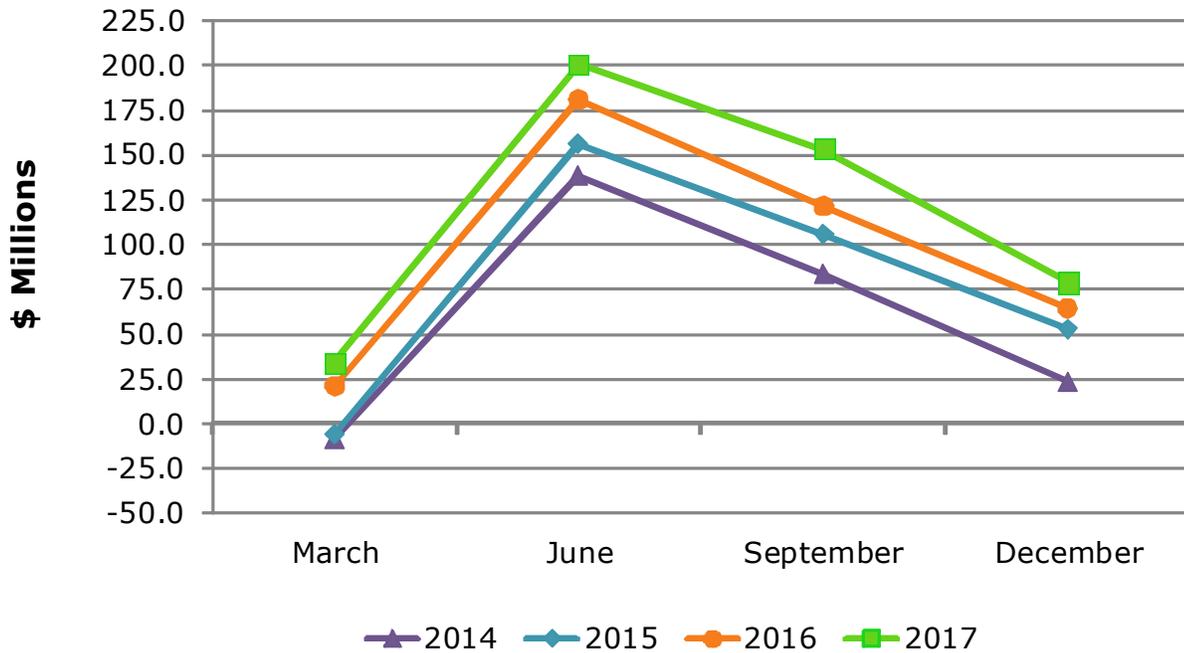
*As per policy FIN-001-025: Debt Management, the County shall not exceed 80% of the total MGA legislated debt limit.*



**c. Net Financial Assets (Net Debt) Position**

As of December 31, 2017, the County’s net financial asset position was \$79.2 million compared to a \$64.6 million net financial asset position at December 31, 2016, an increase of \$14.6 million. The increase in net financial assets reflects an increase in our financial resources to meet future operating and capital needs.

**Net Financial Assets (Net Debt) Trend Analysis**



Net financial assets trended normally for the 2017 year. Due to the significance of the County’s capital activity, the timing of capital spending is a key contributor to changes in net financial assets. Over the multi-year comparative period, net financial assets are increasing, which corresponds to growth in reserves.

**d. Accumulated Surplus**

Accumulated surplus totals \$1,969.1 million at December 31, 2017 (\$1,909.7 million at December 31, 2016). The composition of the 2017 accumulated surplus is as follows:

- i. Reserves of \$257.9 million (2016 — \$232.3 million);
- ii. Investments in tangible capital assets of \$1,721.2 million (2016 — \$1,676.3 million); and
- iii. Unrestricted (deficit) surplus of (\$10.0) million (2016 — \$1.1 million).



## 2. Reserves

The following table provides a summary of the County's reserve balances as at December 31, 2017 and includes the additional allocation of the 2017 annual operating surplus for tax purposes. The presentation of reserve groupings is in accordance with *FIN-001-024: Financial Reserves Policy*. The allocation of the 2017 Annual Operating Surplus for Tax Purposes is reflected as designated until approved by Council to be committed to a specific expenditure.

<b>Reserves</b>	<b>Committed \$M</b>	<b>Designated \$M</b>	<b>Total \$M</b>	<b>Optimal Variance \$M</b>
<b>Municipal</b>				
Stabilization and Contingency	1.6	13.8	15.4	0.9
Projects	43.6	28.4	72.0	6.8
Infrastructure, Lifecycle, Maintenance and Replacement	16.2	54.1	70.3	15.9
Special Purpose	21.0	22.7	43.7	10.0
<b>Total Municipal</b>	<b>82.4</b>	<b>119.0</b>	<b>201.4</b>	<b>33.6</b>
<b>Utilities</b>				
Stabilization and Contingency	(0.3)	2.3	2.0	(0.4)
Projects	-	-	-	-
Infrastructure, Lifecycle, Maintenance and Replacement	8.3	37.8	46.1	(36.0)
Special Purpose	3.6	-	3.6	-
<b>Total Utilities</b>	<b>11.6</b>	<b>40.1</b>	<b>51.7</b>	<b>(36.4)</b>
<b>Total Library</b>	<b>0.1</b>	<b>4.7</b>	<b>4.8</b>	<b>-</b>
<b>Total Reserves</b>	<b>94.1</b>	<b>163.8</b>	<b>257.9</b>	<b>(2.8)</b>
<b>Percent of Total</b>	<b>36%</b>	<b>64%</b>	<b>100%</b>	

*Please note that the optimal variance column is determined through a comparison of the reserve's optimal balance with the designated funds available within the respective reserve. A positive figure indicates a balance above the optimal amount and a negative figure indicates a balance below the optimal amount.*



**Appendix**

1. 2015 - 2018 Corporate Business Plan Progress Report
2. Glossary of Terms





## 2015 - 2018 Corporate Business Plan Progress Report

For the period ending December 31, 2017

### GOAL 1

**Strathcona County has planned for long-term financial sustainability in support of service delivery and infrastructure asset management.**

#### Outcome

*Stakeholders are aware of and support multi-year capital and operating budgets and business plans, and the supporting principles and policies.*

#### Linkages back to:

##### Strategic plan prioritized goals

1. Strategically manage, invest and plan for sustainable infrastructure.

##### Economic Sustainability Framework

#### Objectives

- 1) Establish a long-range financial plan to guide decision making on appropriate growth, balance and timing of operating and capital costs.
- 2) Establish the business planning and budget process to guide priority-based decision making.
- 3) Identify appropriate service levels for the community and their costs.
- 4) Establish an asset management policy and framework which consistently defines approach, roles and standards while considering the diverse requirements of departments.

#### Progress

- Finalizing the long term utility renewal plan in support of asset management.
- Introducing the Long Term Financial Sustainability Framework to Priorities Committee in July 2017.
- Supporting community halls and senior centres with the same level of care as County facilities for preventative maintenance and facility lifecycle management.
- Completing and implementing the Asset Management Framework.
- Implementing the Multi Year Planning and Execution Improvement Project (MYPE) to evolve and improve our business planning, budgeting and reporting processes.

Key performance indicator and measures	2015	2016	2017	2018 Target
Debt service ratio (net operating income/total debt service)	1.3	1.2	0.36	TBD
Percentage of committed to designated reserves (committed : designated)	44% : 56%	26% : 74%	37% : 63%	TBD
Rate of optimal reserve balance to total reserves (optimal balance/designated reserves)	0.8	1.05	1.02	TBD



## GOAL 2

### Strathcona County priorities, successes and challenges are known.

#### Outcome

*Citizen, staff, and other stakeholders are informed about the community priorities, successes and challenges.*

#### Linkages back to:

#### Strategic plan prioritized goals

3. Advance the community's interests by developing and maintaining strong relationships with our neighbouring municipalities and civic organizations to ensure long-term prosperity.
4. Increase public involvement and communicate with the community on issues affecting the County's future.

#### Objectives

- 1) Provide open, transparent and meaningful stakeholder communication.
- 2) Use various communications tools to make the provision of municipal services known.
- 3) Inform stakeholders of the short- and longer-term strategic and corporate priorities.
- 4) Build support, knowledge and understanding of organizational direction.
- 5) Provide opportunities for public engagement and participation.
- 6) Establish an Open Government Policy Framework.

#### Progress

- Launching the new Strathcona County public website; which includes an upgraded structure, a new look, and is more mobile friendly.
- Showcasing local business successes at the local theatre as a way to market the community to potential business investment.
- Providing internal survey writing and public engagement sessions to introduce staff to the public engagement policy, procedures, framework and handbook.
- Receiving international communications awards for the Community Talk campaign, Responsible Dog Ownership Bylaw, and the YOU CAN campaign.

Key performance indicator and measures	2014	2015	2016	2017	2018 Target
Citizen awareness of Council's top four prioritized strategic goals	-	20.7%	29.2%	36.8%	35%
Citizens feel informed about services and activities	80.9%	77.3%	81.7%	73.1%	85%
Citizen satisfaction in opportunity to express opinion (very satisfied/satisfied)	48.2%	64.3%	55.7%	63.8%	60%



### GOAL 3

## Economic opportunities are created through strategic partnerships.

### Outcome

*New industrial, commercial and residential developments are occurring at fiscally sustainable rates within Strathcona County.*

### Linkages back to:

#### Strategic plan prioritized goals

2. Increase and diversify the petrochemical business.
3. Advance the community's interests by developing and maintaining strong relationships with our neighbouring municipalities and civic organizations to ensure long-term prosperity.

#### Economic Sustainability Framework

### Objectives

- 1) Leverage external and internal partnerships to expand our economic capacity.
- 2) Strengthen relationships with other orders of government and regional municipalities.
- 3) Promote and support partnerships with groups, organizations and businesses in the community.
- 4) Sequence development through collaborative and systematic infrastructure investments.
- 5) Ensure new development is strategically planned and sustainably funded.
- 6) Direct focus on development within the Urban Service Area and Hamlet of Ardrossan.
- 7) Develop a generally available program to promote and support heavy industrial development.

### Progress

- Completing the Highway 15 Functional Planning Study and starting the Highway 16 Functional Planning Study, both in partnership with Alberta Transportation.
- Participating in joint training emergency response exercises with industry partners to enhance community safety.
- Realigning departmental responsibilities to allow for more efficient and effective customer services, both internally and externally.

Key performance indicator and measures	2014	2015	2016	2017	2018 Target
Municipal tax revenue by source type (residential/non-residential)	37%:63%	38%:62%	35%:65%	35%:65%	TBD
Citizens perception of Strathcona County's municipal government as collaborative (excellent/good)	-	52%	-	-	60%





**GOAL 4**  
**Informed decision making supports quality of life in the community.**

**Outcome**

*Anticipated growth maintains quality of life for our community.*

**Linkages back to:**

**Strategic plan: overall**

**Economic Sustainability Framework**

**Environmental Sustainability Framework**

**Social Sustainability Framework**

**Objectives**

- 1) Explore and present elements of change, such as the impact of decisions regarding growth.
- 2) Continue to use evidence-based analysis to inform planning and decision making.
- 3) Promote and support partnerships within community-based groups and organizations to align social planning.
- 4) Use program and service evaluation and adjustments to facilitate a safe, healthy and thriving community.

**Progress**

- Partnering with community groups and agencies to deliver Bridging the Gap; a program built on breaking down system silos to work together to increase the ability to impact housing affordability for individuals and families in vulnerable circumstances.
- Planning for the Transit Master Plan review to review all transit services to identify any options for alternative delivery models that would provide a more cost effective and efficient service.
- Receiving Council approval in September for the updated Municipal Development Plan (MDP).
- Completing the Retail Market Study update to assist in retail attraction to Strathcona County.

Key performance indicator and measures	2014	2015	2016	2017	2018 Target
Overall citizen satisfaction with quality of life (excellent/very good)	85.6%	80.9%	77.2%	68.4%	85%
Citizen rating that quality of service is much better/better compared to two years ago	24.6%	29.5%	-	-	40%





**GOAL 5**  
**We are efficient and effective in daily operations.**

**Outcome**

*Strathcona County demonstrates efficient operations.*

**Linkages back to:**

**Strategic plan: overall**

**Objectives**

- 1) Promote innovation, technology and best practices appropriately.
- 2) Ensure policies, procedures and practices support and guide decision making at an appropriate level, and that policies are regularly presented.
- 3) Continue to support service and program reviews.
- 4) Examine reallocation, or sharing of resources and leverage partnerships and revenue opportunities.
- 5) Support effective operations and evidence-based decision making through technology, integrated systems, data, tools, and performance measurement.
- 6) Implement an integrated program for reviews focused on efficiency and effectiveness.

**Progress**

- Implementing oblique aerial imagery to provide for a more effective and customer service based means to collect property assessment information.
- Releasing the first municipal election results in the region, with new voting initiatives including The Vote Bus and Youth at the Booth.
- Implementing electronic voice entry to relieve RCMP and Enforcement Services' members of administrative duties, allowing more time to be proactive in policing and investigational matters.
- Completing the Information and Technology Strategy to guide the organization in how to use technology to enhance our delivery of services.

Key performance indicator and measures	2014	2015	2016	2017	2018 Target
Citizens feel they are getting value for their tax dollar (very good/good)	51.0%	51.3%	46.1%	68.2%	65%
Staff collaboration index	79.6	-	-	-	85
Efficiency/effectiveness service and program reviews <i>*under development</i>	-	-	-	TBD	TBD





## GOAL 6

**Strathcona County is an employer of choice, attracting and retaining the best people in all aspects of municipal service delivery.**

### Outcome

*Quality service delivery is evident in staff engagement and customer satisfaction.*

### Linkages back to:

**Strategic plan: overall**

### Objectives

- 1) Promote leadership and collaboration throughout the organization.
- 2) Establish a learning and development framework which supports appropriate training and development opportunities for staff.
- 3) Establish and promote a culture that reflects our corporate values.
- 4) Implement a comprehensive attraction and retention strategy.

### Progress

- Creating the Strathcona County People Plan, which included hosting small group discussions to capture the feedback of nearly 1000 Strathcona County employees.
- Implementing an updated workplace inspection guideline to enhance employee safety.
- Proactively reviewing our practices and policies on how pay is administered in a fiscally responsible manner.
- Implementing department action plans to respond to the 2017 Employee Engagement survey results.

Key performance indicator and measures	2014	2015	2016	2017	2018 Target
Overall citizen satisfaction with quality of service (very high/high)	79.43%	77.43%	-	-	85%
Staff engagement index	79.6				85
Staff communication index	72.2				77
Work environment index	70.0	-	-	-	75
Career and compensation index	69.8				75
Permanent employee voluntary turnover rate	5.30%	4.90%	3.51%	3.40%	<6%
Permanent employee short-term (less than 12 months) turnover rate	10.53%	4.70%	6.59%	4.29%	<8%

## GLOSSARY OF TERMS:

- **Annual Operating Surplus for Tax Purposes** – The annual surplus or (deficit) resulting from the modified cash flow basis, which includes debt repayment expenditures and reserve transactions, and excludes amortization expense, gains/losses on asset disposals and capital revenues, unlike the Public Sector Accounting Standards (PSAS) Surplus.
- **Committed** – Funding approved as per FIN-001-024: Municipal Reserves policy to be applied towards specific expenditures.
- **Designated** – Funding designated to reserves for a specific purpose, which has not yet been approved by Council to be applied towards specific expenditures.
- **Forecast Variances** – Future variances to budget that have yet to occur, but are expected to be realized based on current information, and are projected to affect the year-end surplus or (deficit).
- **Permanent Differences** – Variances to budget that have occurred and will affect the year-end surplus or (deficit).
- **PSAS Surplus** – The surplus or (deficit) resulting from financial statements prepared in accordance with PSAS.
- **Timing Differences** – Variances to budget that are expected to reverse during the remainder of the year and not affect the year-end surplus or (deficit).
- **Year-End Forecast** – Permanent Differences plus the Forecast Variances make up the Year-End Forecast surplus or (deficit).
- **Year-To-Date Operating Variance** – The favourable or (unfavourable) difference between budget and actuals at a point in time including any Timing Differences.