

Strathcona County
2019 August 31
Management Report
Prepared by Corporate Finance

Prepared for
Council
November 19, 2019

1. Year-End Forecast of the Annual Operating Surplus for Tax Purposes and Year-to-Date Operating Variance

1.1 Year-End Forecast of the Annual Operating Surplus for Tax Purposes¹ (Permanent Differences and Forecasted Items)

The year-end forecast is based on the information available as of August 31, 2019 and is subject to the uncertainty of unknown events or circumstances which may take place during the remainder of the year.

<i>County Operating Segments</i>	<i>2019 Year-End Forecast² as at August 31</i>		<i>2018 Year-End Forecast² as at September 30</i>	
Municipal	\$0.3M	0.1%	-	-
Utility	-	-	\$0.2M	0.3%
Library	-	-	\$0.1M	0.9%
TOTAL DOLLARS AND WEIGHTED PERCENTAGES	\$0.3M	0.1%	\$0.3M	0.1%

Please note: To better align with the timing of the Business Plan and budget process, August 31 information has been provided, rather than September 30 information.

¹The Year-to-Date Operating Variance and the Annual Operating Surplus for Tax Purposes evaluate the results using the same method used to prepare the Operating Budget, which is prepared in accordance with the Municipal Government Act (MGA). This method 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 used to prepare the financial statements.

²The percentages represent the proportion of surplus (deficit) compared to the respective annual operating budgets.

1.2 Analysis of the 2019 Year-End Forecast

a. Municipal Operations – \$0.3 million forecasted surplus³

Municipal Operations is forecasting a \$0.3 million surplus for the current year. Significant items to note are:

- \$0.9 million favorable variance of investment income due to higher volumes than anticipated
- \$0.8 million favorable variance in supplies and materials mainly attributed to lower fuel prices which were impacted by the removal of the Provincial Carbon Tax
- \$0.8 million favorable variance from unbudgeted operating grant revenue
- \$0.3 million favorable variance due to higher than anticipated penalties and fines revenue from continued focus on traffic enforcement and the addition of more Intersection Safety Device sites
- (\$2.2 million) unfavorable variance in contracted services. This is partially attributed to an estimated contract settlement cost that is under ongoing negotiation. The variance is also attributable to the estimate for the budgeted offset, which is caused by the departments being on budget when it was corporately anticipated that they would have a favorable variance.

³ This listing is only a summary of significant amounts and is not a complete reconciliation of all variances which comprise the August 31 forecast.



1.2 Analysis of the 2019 Year-End Forecast (continued)

Risks

The most significant risks to the Municipal forecasted result are as follows:

- Land development and permitting revenue is on budget year-to-date; however, this revenue is market driven and difficult to predict and there remains a significant amount to be earned by year-end
- The County has completed one P4 snow removal as of August 31. There is a risk of snow removal costs exceeding the budget as a result of any additional P4 snow removal requirements during the remainder of the year

b. Utility Operations – Forecasted to be on budget

Utility Operations is forecasting to be on budget. Key variances within that forecast include:

- (\$1.8 million) unfavorable variance in the Water program due to lower water consumption (due to the wet summer), a reduction in the North East Water Commission revenue and an increase in repairs required due to water main breaks
- This variance is offset by favorable variances in other programs:
 - \$0.7 million favorable variance in Storm Sewer Services due to less need for repairs and maintenance, and less salaries and benefits on staff to perform those repairs
 - \$0.7 million favorable variance in Wastewater due to less need for repairs and maintenance, and less salaries and benefits on staff to perform those repairs
 - \$0.5 million favorable variance in Solid Waste mostly attributed to savings in contracted services

It is important to note that staff in Utilities work in infrastructure repair and services for all three of the Water, Wastewater and Storm Sewer Services programs. The staff work where the need is. This is consistent with the variances offsetting amongst the Utilities programs.

Risk

- The need for any major repairs during the last four months of the year would be expected to result in an overall deficit in the Utility Operations' forecasted result.

c. Library Operations – Forecasted to be on budget

No significant items to note.



1.3 Year-to-Date Operating Variance¹

The operating variance as of August 31, 2019 is a **(\$1.3 million) deficit** (September 30, 2018 \$2.0 million surplus). The operating variance is determined through a comparison of the year-to-date budget and actual results, and is composed of timing differences that are expected to reverse during the remainder of the year, and permanent differences that have occurred and will affect the year-end results.

<i>County Operating Segments</i>	<i>2019 August 31 YTD Permanent Differences</i>	<i>2019 August 31 YTD Timing Differences</i>	<i>2019 August 31 YTD Variance</i>	<i>2018 September 30 YTD Variance</i>
Municipal	\$0.9M	(\$1.0M) ²	(\$0.1M)	\$2.0M
Utility	(\$0.3M)	(\$0.4M)	(\$0.7M)	(\$0.1M)
Library	-	(\$0.5M) ²	(\$0.5M)	\$0.1M
TOTAL	\$0.6M	(\$1.9M)	(\$1.3M)	\$2.0M

Permanent variances reflect items that have occurred that will impact the year-end results. As such, the year-to-date permanent difference aligns closely with the year-end forecast value.

The year-to-date timing difference represents amounts expected to reverse by the end of the year. As such, it is anticipated that they will not impact the year-end variance. Amounts that are identified as negative values in the timing column represent spending that has happened in advance of the time it was planned to be spent. As such, the budget will "catch up" with this spend.

¹The Year-to-Date Operating Variance and the Annual Operating Surplus for Tax Purposes evaluate the results using the same method used to prepare the Operating Budget, which is prepared in accordance with the Municipal Government Act (MGA). This method 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 used to prepare the financial statements.

²The timing column includes some costs related to the 2018 parkade event that have yet to be reimbursed.



2. Capital Activity Update

2.1 2019 Updated Planned Capital Spending as at August 31

The 2019 planned capital spend has been updated to include approved capital budget amendments to August 31, 2019:

The 2019 Capital Budget (approved by Council on December 6, 2018)	\$64.5M
Unspent prior years budgeted capital expenditures	\$110.1M
Approved spending changes resulting from capital budget amendments	\$1.9M
Budgeted capital expenditures planned to be incurred after 2019, including approved capital budget amendments	(\$63.2M)
<hr/>	
2019 Updated Planned Capital Spend (as at August 31)	\$113.3M

2.2 Capital Spending To Date

The capital spending as of August 31, 2019, totaled \$18.7 million (August 31, 2018 \$28.2 million) which is 17% of the planned annual spending (August 31, 2018 25%). The August 31, 2019 variance between planned and actual capital expenditures is \$94.4 million.

2.3 Update on Completed Projects

As of August 31, 2019, twenty four projects with total combined budgets of \$27.3 million were completed, resulting in the release of \$0.8 million of unused funding/financing. All funds released are allocated back to their original funding sources and are available for other emergent or future capital priorities.

2.4 2019 Capital Budget Amendments

Seven capital budget amendments have been approved in 2019 resulting in a \$1.9 million net increase to the capital budget. The increase is composed of two new projects and five amendments to existing projects.



3. Assessment of the County's Financial Condition - Key Financial Indicators

The following section is prepared based on the Strathcona County Consolidated Financial Statements for the Period Ended August 31, 2019 (unaudited) provided in Appendix 1. The Consolidated Financial Statements are prepared in accordance with Public Sector Accounting Standards (PSAS).

3.1 Net Financial Assets Position

Net financial assets (or net debt) is the difference between financial assets and liabilities. It is a key indicator of the County's sustainability, which is the ability to maintain services and meet financial commitments. Being in a net financial assets position indicates that financial assets are on hand to provide funding for future planned or emergent needs. A (net debt) position reflects the need to have future revenue pay for past transactions and events.

As of August 31, 2019, the County's net financial asset position is \$173.0 million (August 31, 2018 \$170.4 million), which is consistent with annual trending in prior years. Net financial assets increases significantly in the second quarter of the year resulting from the collection of property tax revenue. In the third and fourth quarters, the County draws down on the balance to finance operations.

3.2 Long-Term Debt

The County has issued new debt in the amount of \$1.3 million as of August 31, 2019 (September 30, 2018 \$10.9 million). Debt repayment of \$5.8 million (September 30, 2018 \$8.5 million) has reduced the 2019 long-term debt opening balance.

December 31, 2018 Long-Term Debt Balance	\$171.8M
New debt issued to August 31, 2019	\$1.3M
Debt repayment to August 31, 2019	(\$5.8M)
August 31, 2019 Long-Term Debt Balance	\$167.3M



3.3 Reserve Reporting

The following table provides a summary of the County's reserve balances as of August 31, 2019:

Reserves	Committed	Designated	Total	Optimal Variance ¹
Municipal				
Stabilization and Contingency Projects	(\$0.8M)	\$16.8M	\$16.0M	\$3.0M
Infrastructure, Lifecycle, Maintenance and Replacement	\$35.4M	\$25.1M	\$60.5M	(\$0.7M)
Special Purpose	\$37.0M	\$62.9M	\$99.9M	\$13.3M
	\$21.0M	\$25.0M	\$46.0M	\$15.7M
Total Municipal	\$92.6M	\$129.8M	\$222.4M	\$31.3M
Utilities				
Stabilization and Contingency Projects	(\$0.1M)	\$3.0M	\$2.9M	\$0.2M
Infrastructure, Lifecycle, Maintenance and Replacement	\$0.1M	\$0.1M	\$0.2M	-
Levy Debt Repayment	\$8.0M	\$42.6M	\$50.6M	(\$31.2M)
	\$2.8M	-	\$2.8M	-
Total Utilities	\$10.8M	\$45.7M	\$56.5M	(\$31.0M)
Total Library	-	\$4.7M	\$4.7M	\$0.1M
Total Reserves	\$103.4M	\$180.2M	\$283.6M	\$0.4M
Percentage of Total Reserves	36.5%	63.5%	100.0%	

¹The optimal reserve balances as at December 31, 2018 represent a point in time and should be considered in relation to resulting trends and circumstances.

The presentation of reserve groupings is in accordance with the policy: FIN-001-024 Municipal Reserves. 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.

Appendices

1. Consolidated Financial Statements and Supporting Schedules for the Period Ended August 31, 2019 (unaudited)
2. Glossary of Terms



STRATHCONA COUNTY

Consolidated Financial Statements

Period Ended August 31, 2019 (in thousands of dollars)

(unaudited)

STRATHCONA COUNTY
Consolidated Statement of Financial Position
As at August 31, 2019 (in thousands of dollars)

	August 31, 2019	December 31, 2018
FINANCIAL ASSETS		
Cash and Cash Equivalents	\$ 10,813	\$ 5,875
Accounts Receivable		
Property Taxes	32,644	7,057
Government Transfers	300	3,919
Trade and Other	14,027	15,058
Development Levies and Charges	-	5,095
Investments	476,146	342,804
Investment Interest Receivable	16,694	14,883
	550,624	394,691
LIABILITIES		
Accounts Payable and Accrued Liabilities	78,073	60,499
Deposit Liabilities	17,757	16,899
Deferred Revenue	114,434	77,590
Long-Term Debt	167,315	171,805
	377,579	326,793
NET FINANCIAL ASSETS	173,045	67,898
NON-FINANCIAL ASSETS		
Tangible Capital Assets	1,916,814	1,935,418
Inventories of Materials and Supplies	1,237	954
Prepaid Expenses	1,387	2,640
	1,919,438	1,939,012
ACCUMULATED SURPLUS	\$ 2,092,483	\$ 2,006,910

STRATHCONA COUNTY
Consolidated Statement of Operations and Accumulated Surplus
Period ended August 31, 2019 (in thousands of dollars)

	<u>2019 Period Budget</u>	<u>August 31, 2019</u>
OPERATING REVENUE		
Property Taxes	\$ 227,681	\$ 227,355
Utility User Rates	39,943	37,656
User Fees and Charges	26,105	26,078
Investment Income	5,474	6,108
Penalties and Fines	4,466	4,851
Government Transfers - Operating	5,099	4,417
Other Operating Revenue	6,296	17,210
TOTAL OPERATING REVENUE	<u>315,064</u>	<u>323,675</u>
EXPENSES		
Infrastructure and Planning Services		
Economic Development and Tourism	1,394	1,276
Planning and Development Services	6,716	6,330
Transportation and Agriculture Services	24,101	25,000
Transportation Planning and Engineering	3,257	2,924
Utilities	37,990	36,447
	<u>73,458</u>	<u>71,977</u>
Community Services		
Emergency Services	23,506	22,723
Family and Community Services	6,966	6,816
Strathcona Transit	13,514	12,292
RCMP and Enforcement Services	16,717	16,332
Recreation, Parks and Culture	30,633	29,347
	<u>91,336</u>	<u>87,510</u>
Corporate Services		
Elected Officials	28,515	25,827
Financial and Strategic Management	1,017	876
Fiscal Services	6,503	5,439
Senior Administration	37,675	49,567
Strathcona County Library	4,188	4,107
	6,975	7,367
	<u>84,873</u>	<u>93,183</u>
TOTAL EXPENSES	<u>249,667</u>	<u>252,670</u>
SURPLUS BEFORE CAPITAL REVENUE	65,397	71,005
CAPITAL REVENUE		
Government Transfers - Capital	26,975	10,832
Contributed Tangible Capital Assets	-	2,838
Other Capital Revenue	5,105	898
TOTAL CAPITAL REVENUE	<u>32,080</u>	<u>14,568</u>
PERIOD SURPLUS	97,477	85,573
ACCUMULATED SURPLUS, BEGINNING OF PERIOD	<u>2,006,910</u>	<u>2,006,910</u>
ACCUMULATED SURPLUS, END OF PERIOD	<u>\$ 2,104,387</u>	<u>\$ 2,092,483</u>

STRATHCONA COUNTY
Consolidated Statement of Change in Net Financial Assets
Period ended August 31, 2019 (in thousands of dollars)

	2019 Period Budget	August 31, 2019	December 31, 2018
PERIOD SURPLUS	\$ 97,477	\$ 85,573	\$ 37,780
Acquisition of Tangible Capital Assets	(55,548)	(18,689)	(90,343)
Contributed Tangible Capital Assets	-	(2,837)	(19,634)
Amortization of Tangible Capital Assets	41,178	40,023	59,040
(Gain) on Disposal of Tangible Capital Assets	-	(190)	(3,450)
Proceeds from Disposal of Tangible Capital Assets	-	297	5,004
	<u>83,107</u>	<u>104,177</u>	<u>(11,603)</u>
Acquisition of Inventories of Materials and Supplies	-	(1,333)	(1,808)
Acquisition of Prepaid Expenses	-	(663)	(2,972)
Use of Inventories of Materials and Supplies	-	1,050	1,882
Use of Prepaid Expenses	-	1,916	3,235
	<u>-</u>	<u>970</u>	<u>337</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	83,107	105,147	(11,266)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	<u>67,898</u>	<u>67,898</u>	<u>79,164</u>
NET FINANCIAL ASSETS, END OF PERIOD	<u>\$ 151,005</u>	<u>\$ 173,045</u>	<u>\$ 67,898</u>

STRATHCONA COUNTY
Consolidated Statement of Cash Flows
Period ended August 31, 2019 (in thousands of dollars)

	August 31, 2019	December 31, 2018
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
PERIOD SURPLUS	\$ 85,573	\$ 37,780
Items Not Involving Cash:		
Contributed Tangible Capital Assets	(2,837)	(19,634)
Amortization of Tangible Capital Assets	40,023	59,040
Amortization of (Discount) on Investments	(19)	(8)
(Gain) on Disposal of Tangible Capital Assets	(190)	(3,450)
(Gain) on Disposal of Investments	-	(3)
Changes to Non-Cash Assets and Liabilities:		
Property Taxes Receivable	(25,587)	(1,795)
Government Transfers Receivable	3,619	8,198
Trade and Other Receivables	1,030	133
Development Levies and Charges Receivable	5,095	(1,905)
Investment Interest Receivable	(1,811)	(4,294)
Accounts Payable and Accrued Liabilities	17,574	7,476
Deposit Liabilities	858	(426)
Deferred Revenue	36,844	(5,122)
Inventories of Materials and Supplies	(283)	74
Prepaid Expenses	1,253	263
Cash Provided by Operating Activities	<u>161,142</u>	<u>76,327</u>
CAPITAL		
Proceeds from Disposal of Tangible Capital Assets	297	5,004
Acquisition of Tangible Capital Assets	(18,689)	(90,343)
Cash (Applied to) Capital Activities	<u>(18,392)</u>	<u>(85,339)</u>
INVESTING		
Purchase of Investments	(214,212)	(243,201)
Proceeds from Sale/Maturity of Investments	80,890	244,664
Cash (Applied to) Provided by Investing Activities	<u>(133,322)</u>	<u>1,463</u>
FINANCING		
Long-Term Debt Issued	1,282	17,621
Long-Term Debt Repaid	(5,772)	(11,239)
Cash (Applied to) Provided by Financing Activities	<u>(4,490)</u>	<u>6,382</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,938	(1,167)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,875	7,042
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 10,813	\$ 5,875

STRATHCONA COUNTY
Consolidated Schedule of Tangible Capital Assets
As at August 31, 2019 (in thousands of dollars)

Cost	Balance at January 1, 2019	Purchased Additions	Contributed Additions	Disposals	Balance at August 31, 2019
Land	\$ 510,318	\$ -	\$ -	\$ -	\$ 510,318
Land Improvements	121,054	2,189	413	-	123,656
Buildings	483,408	17,778	-	-	501,186
Engineered Structures	1,256,685	3,119	2,424	(178)	1,262,050
Machinery and Equipment	78,760	1,541	-	(873)	79,428
Books and Periodicals	6,388	320	-	-	6,708
Vehicles	77,254	2,577	-	(640)	79,191
Assets under Construction	45,808	(8,835)	-	-	36,973
	\$ 2,579,675	\$ 18,689	\$ 2,837	\$ (1,691)	\$ 2,599,510

Accumulated Amortization	Balance at January 1, 2019	Disposals	Amortization	Balance at August 31, 2019
Land Improvements	\$ 43,671	\$ -	\$ 3,730	\$ 47,401
Buildings	122,910	-	7,931	130,841
Engineered Structures	389,435	(174)	20,138	409,399
Machinery and Equipment	45,228	(796)	4,026	48,458
Books and Periodicals	3,262	-	422	3,684
Vehicles	39,751	(614)	3,776	42,913
	\$ 644,257	\$ (1,584)	\$ 40,023	\$ 682,696

Net Book Value	Balance at August 31, 2019
Land	\$ 510,318
Land Improvements	76,255
Buildings	370,345
Engineered Structures	852,651
Machinery and Equipment	30,970
Books and Periodicals	3,024
Vehicles	36,278
Assets under Construction	36,973
	\$ 1,916,814

STRATHCONA COUNTY
Consolidated Schedule of Segmented Information
Period ended August 31, 2019 (in thousands of dollars)

Municipal Operations

	<u>Infrastructure and Planning Services</u>	<u>Community Services</u>	<u>Corporate Services</u>	<u>Financial and Strategic Management</u>	<u>Senior Administration</u>	<u>Elected Officials</u>	<u>Fiscal Services</u>	<u>Total Municipal Operations</u>	<u>Utility Operations</u>	<u>Library Operations</u>	<u>August 31, 2019</u>	<u>2019 Period Budget</u>
OPERATING REVENUE												
Property Taxes	\$ 32,432	\$ 59,886	\$ 28,010	\$ 6,067	\$ 4,126	\$ 1,017	\$ 86,105	\$ 217,643	\$ 6	\$ 9,706	\$ 227,355	\$ 227,681
Utility User Rates	-	-	-	-	-	-	-	-	37,656	-	37,656	39,943
User Fees and Charges	2,573	19,998	247	277	63	-	1,995	25,153	898	27	26,078	26,105
Investment Income	-	-	-	-	-	-	5,075	5,075	936	97	6,108	5,474
Penalties and Fines	8	3,485	-	-	-	-	1,291	4,784	-	67	4,851	4,466
Government Transfers - Operating	93	3,786	-	-	138	-	377	4,394	23	-	4,417	5,099
Other Operating Revenue	312	4,345	46	177	-	-	11,755	16,635	6	569	17,210	6,296
TOTAL OPERATING REVENUE	35,418	91,500	28,303	6,521	4,327	1,017	106,598	273,684	39,525	10,466	323,675	315,064
EXPENSES												
Salaries, Wages and Benefits	19,175	60,928	16,464	4,991	3,317	709	1,608	107,192	7,242	4,272	118,706	120,171
Contracted and General Services	10,935	13,791	6,898	527	544	125	11,028	43,848	7,532	239	51,619	44,000
Supplies, Materials and Utilities	5,037	10,787	2,278	(106)	104	36	214	18,350	15,103	969	34,422	37,314
Interest on Long-Term Debt	-	-	-	-	-	-	1,726	1,726	1,215	432	3,373	3,344
Grants and Requisitions	329	1,712	82	-	142	-	483	2,748	18	-	2,766	2,363
Amortization	-	-	-	-	-	-	33,756	33,756	5,303	964	40,023	41,178
(Gain) Loss on Asset Disposals	-	-	-	-	-	-	(200)	(200)	(15)	25	(190)	-
Other Expenses	54	292	105	27	-	6	952	1,436	49	466	1,951	1,297
TOTAL EXPENSES	35,530	87,510	25,827	5,439	4,107	876	49,567	208,856	36,447	7,367	252,670	249,667
SURPLUS (DEFICIT) BEFORE CAPITAL REVENUE	(112)	3,990	2,476	1,082	220	141	57,031	64,828	3,078	3,099	71,005	65,397
CAPITAL REVENUE												
Government Transfers - Capital Contributed Tangible Capital Assets	-	-	-	-	-	-	10,816	10,816	16	-	10,832	26,975
Other Capital Revenue	-	-	-	-	-	-	2,838	2,838	-	-	2,838	-
Other Capital Revenue	-	-	-	-	-	-	735	735	163	-	898	5,105
TOTAL CAPITAL REVENUE	-	-	-	-	-	-	14,388	14,388	179	-	14,568	32,080
PERIOD SURPLUS (DEFICIT)	\$ (112)	\$ 3,990	\$ 2,476	\$ 1,082	\$ 220	\$ 141	\$ 71,420	\$ 79,217	\$ 3,257	\$ 3,099	\$ 85,573	\$ 97,477

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 or (deficit).
- **Budgeted Offset** – An adjustment to the budget at the corporate level to offset projected surpluses based on historical trends.
- **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 favorable or (unfavorable) difference between budget and actuals at a point in time including any Timing Differences.