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Town of Strathmore 2019 Long Term

Director of Corporate Services

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Introduction

Strathmore is a growing and every changing municipality. It is a leader in recreation and recreational facilities and has a population of 13,528. It is situated east of Calgary 40 kilometers on the TransCanada highway and is poised for growth. The Town, Golden Hills School Division and Wheatland County partnered in the construction and development of Strathmore Motor Products Sports Centre in the community of Edgefield. It had a cost of over \$12 million and is scheduled to open in the fall of 2018. Over the previous few years the following infrastructure projects have been completed and have strengthened the community: 1. Regional waterline from the city of Calgary (\$54 Million), 2. Wildflower reservoir (\$8 Million), 3. Waste water treatment plant upgrades (\$20 Million), 4. Waste water line to the Bow River (\$16 Million).

The Capital cost of a facility is generally about 30% of the total cost of a facility the balance (70%) is in operating costs of a facility over the life of the facility. **Annual operating cost increases have resulted over the past few years because of adding the above listed new facilities to the town operations.**

In 2010 the town annexed land sufficient to provide for development growth for approximately 50 years.

The Three Year Operating Financial Plan 2019-2021 has been prepared taking into consideration the priorities and direction established by council during the budget deliberations. The plan expresses the financial direction for the Town and identifies the financial principles and policies that will lead the Town's fiscal stability and sustainability in the coming years. These principles and policies will establish the basic framework for the responsible fiscal management of the Town's resources.

The Town of Strathmore will strive to provide a level of municipal service to the community that will take into consideration the community's service expectations and the community's ability to pay for these services. (See Graphs and analysis included in the budget presentation.) As the Town's municipal infrastructure ages, funds must be committed for proper management, maintenance and refurbishment throughout the lifecycle of the municipal infrastructure. **Additional new revenue is required to cover the costs of maintaining this municipal infrastructure and preserving current service levels while providing for new programs and service enhancements.** The Town recognizes that taxpayers are demanding value for money. A balance must be struck between customers' expectations for service and

the taxpayers' ability to pay for these services. The municipality is responding by adopting a more creative cost-effective approach to service delivery. Local solutions and actions must be developed to ensure that services, programs and facilities are sustainable now and into the future for a prosperous community

Reasons for Strategy

1. Long term financial sustainability
2. Provide financial flexibility to meet the needs of the town on either an emergent need or on a traditional needs basis. Provide financial resiliency when an emergent or unexpected need is met.
3. Improve financial controls on expenditures and projects by amending budgets within departments. Improved administrative controls on expenditures will improve operations and the utilization of budgets. This will reduce the overall need for requesting additional funding of projects during a budgetary year overall.
4. Improved vision planning and prioritization of future projects and provide additional investment in reserves to accommodate capital infrastructure reinvestment and to address the infrastructure deficit.
5. Leverage opportunities as opportunities arise.
6. Grow alternative revenue sources to help keep pace with program delivery expectations using fees and other charges.
7. Contain reliance on tax revenue for core service delivery.
8. Review and revise utility rate models to adjust fees and charges so that there is full-cost recovery. Borrow on utility long term capital projects where the project will benefit future generations.
9. Fund new programs or services with net new revenue sources within a sustainable financial model.
10. Maximize the use of grants when available.

Budget Preparation - Factors and Guidelines

The Town prepares a three-year operating financial plan and a five-year capital plan in accord with the revisions to the MGA. Section 243 of the MGA outlines the purpose of the Budget is to provide for council's policies and programs. A

requirement of the financial plan is that it be balanced. Simply stated expenditures must be paid for by revenue and transfers. Factors that affect operating and capital budgets include inflation, cost of living increase, population and assessment growth, development growth, economic trends including employment or unemployment, changing real estate markets, taxation issues, and policy decisions of council.

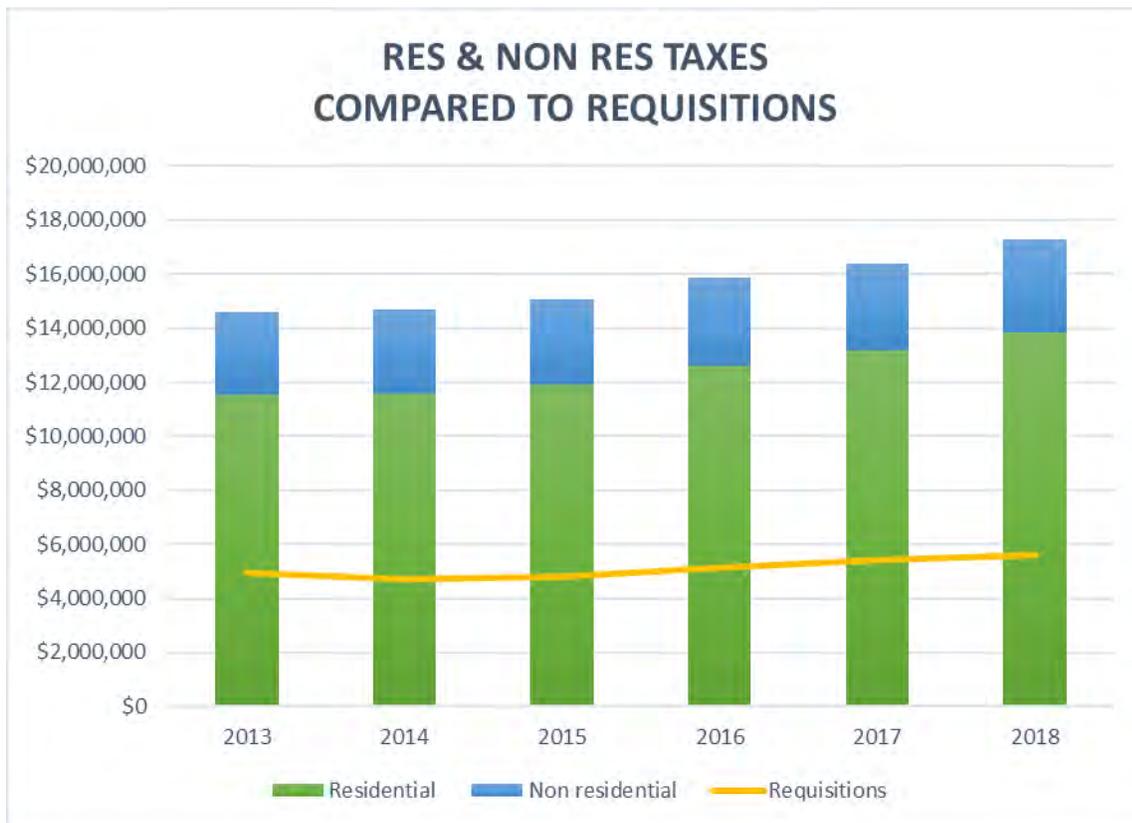
Guiding Principles

1. Integrated approach to financial strategy and planning, using property taxation, local improvement taxes, user fees, franchise fees, reserves and investment income and the use of debt to best serve the citizens of Strathmore.
2. Respect for the tax and utility rate payer. Mitigate significant fluctuations in tax and utility rates, increases in rates should reflect the increase in the consumer price index over the long term.
3. Ensure the capital plan is sustainable, that the capital asset additions will not negatively impact the operating budget and is sustainable and affordable.
4. Deliver value for money is a principle that will be pushed to continuously find efficiency and quality improvements in the way we manage and deliver services. Innovative approaches to the delivery of services, including shared services, contract service models, and public private partnerships will be considered.
5. Borrow for sustainable, revenue generating long term assets at affordable levels. Consider a maximum debt utilization relative to the provincial regulation. I.E. 60% of the provincial debt limit.
6. Reserves are funded 100% with long term investments in accord with Town investment policy. This conservative approach will not compromise safety of principal and the investments will be readily saleable if required.
7. Improving financial strength and sustainability through savings and spending less than total revenue. Reinvest savings in operating or capital reserves.
8. Forward planning on the long-term capital program must identify sources of funding for assets and comply with the *Municipal Government Act*.
9. Contract and term human resources to provide expertise and to limit growth to core FTE's

Property Taxes

Property Taxes are the single largest revenue source for the Town of Strathmore, like almost all Canadian Municipalities. Property Taxes are levied based on rates set in accordance with the property tax rate bylaw passed annually by Council. Council establishes two rates of Taxation one rate for residential property and the second rate for non-residential property (Commercial, Industrial, Linear).

Property taxes are assessed on each taxable property based on a market value assessment as at July 31 of the prior year. Assessment values may be appealed following the assessment each year. Property taxes may not be appealed.



	Residential	Non residential	Total	Requisitions
2013	\$11,504,014	\$3,081,076	\$14,585,090	\$4,928,148
2014	\$11,557,747	\$3,119,452	\$14,677,199	\$4,729,448
2015	\$11,896,715	\$3,166,441	\$15,063,156	\$4,793,518
2016	\$12,609,383	\$3,248,985	\$15,858,368	\$5,113,785
2017	\$13,159,375	\$3,228,419	\$16,387,794	\$5,424,124
2018	\$13,837,736	\$3,435,762	\$17,273,498	\$5,618,472

Annual Property Tax Adjustment

The general tax adjustment is the increase or decrease in taxes paid by the average property owner. The Town of Strathmore municipal tax rate is determined from the operating budget approved by council for a tax year and the total taxable assessed property values.

For the years 2013 to 2018 inclusive, the Town of Strathmore has experienced expense increases at a greater rate than the CPI for Calgary. Property tax adjustments ought to reflect this situation.

For the years 2014 to 2018 the total taxes were as follows for the average residential property assessed at \$300,000 in the town. (includes Alberta School Foundation – Education, and Wheatland Housing.)

YEAR	MILL RATE	TAXES
2014	8.431	\$2,529
2015	7.978	\$2,393
2016	7.923	\$2,377
2017	8.130	\$2,439
2018	8.489	\$2,546

The above shows that total taxes have decreased from \$2,529 by \$90 (3.5%) to \$2,439 for the average residential property owner for the years 2014 to 2017. 2018 was the first year where residential taxes exceeded the level established in 2014.

In the same period (2014-2017) inflation in the Calgary as measured by Statistics Canada CPI was 3.5% increase.

The trend of reducing taxation coupled with increasing expenses as shown above are not financially sustainable over a long period of time. Stable ongoing tax and rate increases provides funding to ensure a sustainable service delivery model and strategic planning for the town.

Requisitions – Education and Wheatland Housing

The Town of Strathmore passes on directly the education requisition and Wheatland Requisition to the property owner in the form of a separate mill rate for each of the requisitions. The Town neither increases nor decreases its Town mill rate to capture additional taxes if the requisitions decreases, nor does it lower taxes should the education requisition increase. The Education requisition increased by 18.3% over the three-year period 2015 to 2018 an average of 6.1% per year. The Wheatland Housing requisition increased by 21.5% over the same three-year period an average of 7.2% per year. The increase in taxation because of the requisition increase averaged \$290,000 per year to town property owners.

Commercial/Residential Municipal Tax Rate

Most Alberta municipalities levy a higher municipal tax rate on commercial properties than on residential properties. In Strathmore, the non-residential/commercial mill rate for 2018 was 6.816 while the residential mill-rate was 5.803 a difference of 1.03 mills or a 17.5% differential between the two rates. Strathmore has the lowest differential between residential and non-residential in the comparison group of surrounding communities. See two table below:

Surrounding Communities

	Residential	Non-Residential	% over
Strathmore	5.8030	6.8160	17.5
High River	6.349	8.2536	30
Okotoks	5.2290	7.7640	49
Cochrane	4.5700	6.2900	38
Brooks	7.9860	12.9900	63
Airdrie	4.2000	8.6100	105
Wheatland County	3.682	8.6623	135

Large Alberta Cities

	Residential	Non-Residential	% over
Red Deer	6.626	13.7448	207
Medicine Hat	6.656	15.3104	230
Lethbridge	8.476	19.9387	235
Edmonton	6.198	17.4354	282
Calgary	3.901	15.3234	393

The Province of Alberta for the Education requisition applies a 47% premium on non-residential assessments over residential assessments.

The recommendation is to increase the non-residential taxation to the median point over 4 years. The median point being a premium of 52% non-residential over the residential tax rates. The non-residential mill rate would be increased to 8.821. The property tax for a property assessed at \$300,000 would be \$2,646 an increase of \$601 over the current 2018 property taxes. If the adjustment was to be applied evenly each year over the next four years this would increase the non-residential property taxes by \$150 per year on the tax base in each of the next four years. The current differential is not a sustainable financial model.

Local Improvement Taxes

What is a local Improvement

A Local improvement is a project that Council considers to be of greater benefit to an area of the town than to the whole town and is to be paid for in whole or in part by a tax imposed on the properties affected by the project.

A local improvement is a new or replacement construction project intended to upgrade specific conditions within a residential, commercial or industrial area of the town. Examples include rear lane paving, street paving, curb and gutter replacement, boulevard and street lighting, extending sanitary, storm or water systems replacements.

Who can request a local improvement?

Local improvements are most often requested by property owners. Property owners can request a local improvement with a petition. The town can also initiate a local improvement.

In either case, the Town will send a notice to each affected property owner. Sections 393 to 409 of the Municipal Government Act establish the provincial statutory guidelines for the administration of local improvement Plans and Local Improvement Taxes.

Property owners affected by the proposed local improvement tax may petition the town objecting to the local improvement within 30 days of the notices being sent, the town must not proceed with the local improvement if a sufficient and valid petition is received.

Who pays for the local Improvements

Every property benefiting from a local improvement shares in the cost, even if some owners have not signed the petition in support of the petition.

How is each property owner's share of the local improvement cost determined?

The cost of the project is determined and is allocated to the benefiting property owners on an equitable basis such as property frontage.

Funding for the local improvement is borrowed by the Town of Strathmore and repaid by the affected owners. Property owners have the option of paying this cost in one lump sum payment, thereby saving interest charges, or they may choose to pay the amount in instalments over the term of the loan with interest, which is added to their annual property tax account.

Local Improvement Taxes be considered as a funding tool for projects that Council considers benefits certain property owners more than the town. The implementation of this could be over a period of 4 years. With tax payers becoming increasingly responsible for project costs with each succeeding year.

For example, year one, for projects requested by the Town of Strathmore only 25% of the project be considered for local tax, year two 50% and so on, by year four, the total cost of a local improvement be recovered by local improvement tax over a fifteen-year period.

Town Services Includes the following:

Potable water, sanitary sewer, and storm sewer

Garbage and waste collection

Streets, sidewalks, traffic control

Parks pathways and playgrounds, recreation facilities -Aquatic Center, Family Center, Strathmore Motor Products Sports Centre, Curling Rink

Cemetery

Youth Center and youth programs

Planning, community development, economic development

Policing, bylaw enforcement, fire protection services, building inspection and Animal control

Culture Civic Center,

Financial support to Strathmore Handi Bus Association, Municipal Library, Seniors Housing, Strathmore & District Agricultural Society, and other organizations.

FCSS support programs

Downtown revitalization

Canada Day Celebrations

The above identifies the major programs and services but is not exhaustive list.

New Program & Service Requests

There is continuing pressure from Strathmore residents to provide new programs and services or to expand existing ones, the funding available for new or enhanced service levels is limited given ongoing funding constraints. New or expanded programs and services that require ongoing expenditures may be presented as part of the operating budget process but will be strategic and focus on Council's strategic priorities. Funding for new programs and services that do not have a revenue source sufficient to offset expenses could require a property tax increase over and above the Calgary inflation rate, and or a reduction in other municipal services.

It is proposed that all new programs and service requests be accompanied by a source of funding. Taxation should not be considered as the sole source of funding new programs and services, this will reduce the continuing need to increase taxation.

New Development and Growth

New residential and commercial development influences the Town's operating budget. New development generates additional property tax revenues, but also increases the cost of providing municipal services. The Town will strive to generate offsite levy and property tax revenue sufficient to offset the increased service, program and municipal infrastructure costs resulting from new development and ensure that the cost increases are not passed on to the rest of the community. The Town will encourage mixed-use development that supports both commercial and residential assessment growth. The Town currently carries an 84% residential assessment and 16% commercial property assessment. The development of the proposed solar farm may increase the non-residential assessment by approximately 10%. This follows a reduction in the market value assessment of hotels and motels in Strathmore of 25% or more because of the oil and gas downturn in the economy. **A 20% commercial property assessment goal for Strathmore would be reasonable.**

Off-Site Levies

Off-site levy fees are charged to developers for certain anticipated future projects. The fees are retained in the financial reserve accounts until utilized for the specific named projects.

With the changes in the MGA there is an opportunity to include additional needed infrastructure that was specifically excluded in the past within the Off-site levy calculation and obtain partial funding for these projects as land is developed in the town. **It is recommended that the Town integrate the results from the Recreation and Fire Master Plans into the Offsite levies as rapidly as possible**

Review of Programs and Service Delivery Models

Management continually review on an ongoing basis existing programs and services for relevancy to the community and if the program is meeting the expectations of the stake holders in the community. The review will also focus on best practices and if the service is being provided in an efficient and cost-effective manner.

An example of a review of a service delivery model was completed by FCSS on the Home support program. The adjustments made within the program will better direct the available resources to move the program forward during 2019 to meet the needs of the community while balancing financial sustainability. A vehicle and equipment review has been initiated and will be reviewed against our current service delivery model during 2019.

Utility Rates

Utilities being water, sanitary sewer, storm sewer, solid waste and recycling will be operated on a full-cost recovery basis through equitable user fees. Full-cost recovery will ensure that utility revenue will cover 100 percent of the annual operating costs including debt repayment and future capital cost replacements.

Utility rates will be reviewed on an annual basis, inflationary increases will be applied to all utility rates, and utility increases greater than 10% will be phased in over a longer period. The Water and Sewer utility combined budget for 2018 did not recover all operating costs. All utility rates be increased by 5% in 2019 to obtain full cost recovery of operating expenses. Providing reserves for future capital cost replacements for utilities will provide a more sustainable financial future.

Strathmore has a safe and secure source of water and can continue to attract commercial opportunities that are not available in Okotoks and High River due to water availability issues.

Franchise Fees

Franchise fee revenue is received by the Town of Strathmore from both Fortis and Atco Gas. The fee is based on a percentage of certain items on a natural gas or electricity bill sent to the customer. Fortis and Atco Gas collect these fees and remit the fees to the town. Franchise fees are paid by all utility users whereas certain properties are exempt from property taxes. The following are exempt properties from taxes: schools, churches, institutions, hospital, Legion, WID, Senior Lodge Housing and Health Unit. The total assessed value for exempt properties in Strathmore is approximately 10% of the total assessment. Franchise fees are the only source of general revenue from these properties for the Town. The Town received \$444,000 from Atco Gas and \$859,000 from Fortis Alberta in 2017. The Franchise fees are an important component of the general revenue to the town and is 11% of the user fee revenue.

The maximum natural gas franchise fee is 35% and the town is currently at 20%. The maximum electrical franchise fee is 20% and the town is currently at 15%. The franchise fees for both the electrical and natural gas being applied in Strathmore is at the average of the surrounding communities.

Recommendation –To increase the Franchise Fees by motion of Council to the provincial maximum over a three period and to make application to Fortis and Atco Gas for the same. The monthly financial impact to the average residential property owner would be \$9.40 monthly total increase, or an annual increase of \$3.13 monthly in each of the next three years.

User Fees and Charges

For the Town of Strathmore to contain dependency on property taxes it is necessary to ensure that existing fees and charges are current. The 2018 operating budget for the Aquatic Center, Family Center and Civic Center was supported by taxation in the amount of \$2,800,000 in total and is 17% of net municipal taxes.

Recreation fees will be established on the financial concept of full-cost recovery for adult programs, 75% cost recovery for senior programs and 50% cost recovery for youth and disabled. Recreation fees will be reviewed against the fees of other municipalities and adjusted to be competitive.

Cost recovery in the Planning and Development department for the costs of department review of documents from developers is an important aspect of cost containment. The fees and charges for this service require review and updating to move to a sustainable level of cost recovery.

Government Grants

It is anticipated that the Province of Alberta and Government of Canada may over time reduce available grants. The Town of Strathmore is allocated approximately \$3,000,000 in capital grants through the Municipal Sustainability Initiative and the Federal Gas Tax Fund yearly. The total of the capital grants utilized for the capital program from 2014 to 2017 totaled \$14,494,000. The total capital program has in the past been funded by Government Grants, Borrowing, and Reserves. Twenty Eight percent of the 2018 capital program will be funded by Government grants from senior levels of government. In the future reserves and borrowing will be called upon increasingly for the funding of capital programs. Operating funding comes from the Province for Municipal Policing and FCSS. Both grants cover some of the operating costs of each program. The Town cannot rely on grant funding from senior levels of government solely to fund operations or capital needs. **The Town will maximize and leverage available grants for infrastructure and operations where possible. The Town will generally not use grants for utility infrastructure when borrowing capacity exists and the borrowing costs can be recovered thru the utility fees and charges.**

Use of Debt

The Municipal Government Act and Regulations define a municipal debt limit and debt service limit. The Town will strive to use borrowed funds where user fees will be used to cover the debt servicing payments. Long term tangible capital assets acquired for utility services (water, sewer, storm sewer) will be financed utilizing long term borrowing. Secondly use debt for municipal infrastructure of high importance and thirdly use debt only for essential municipal services when the debt limit is at 50% or greater. Essential services are defined as water, sewer, protective and emergency services and equipment associated with such. **The town will not use debt to fund operational needs or fund assets with a life expectancy of five years or less other than through a short-term rental or lease arrangement.** At December 31, 2017 the Town was at 31.5% of the debt limit and 29% of the debt-servicing limit.

Joint Funding Model

The town will endeavor to collaborate with CMRB partners including primarily Wheatland County to utilize joint services for the delivery of recreation, FCSS and other programs where possible. The Town annually supports the Aquatic Centre and Family centre by more than two million dollars annually from taxation. **The town will attempt to negotiate with Wheatland County a joint funding model that recognizes utilization of town facilities by county residents and county facilities by town residents.** There are several good examples of Joint Funding agreements within the province that recognizes and funds joint use facilities.

Budget Surplus and Reserves

The financial surplus from recent years operating results have been retained in both the Financial Stabilization operating reserve account, and in the unrestricted surplus account. Council authorizes the creation of and utilization of reserve accounts.

\$1,407,000 was budgeted to fund operations, and \$4,580,000 to fund the capital program in 2017 and 2018 from reserves and unrestricted surplus. During the period from 2015 to 2017 the reserves and unrestricted surplus decreased by approximately \$2,000,000.

The unrestricted surplus account at December 31, 2017 had a balance of \$4,779,000.

The Town of Strathmore could consider targets for various reserve accounts to be utilized for the replacement of infrastructure and facilities in the future. This could be funded out of both tax and user fee revenue.

The purpose of this policy is to build reserves and to shift away from reliance upon senior levels of government for funding.

Investments

The Town invests cash not immediately needed for operational or capital purposes, operating and capital reserve balances and the unrestricted surplus in short and long-term investments. The investments meet the Town of Strathmore investment policy guidelines and the requirements of the MGA. The Town of Strathmore operating budget includes the investment income derived from the investments. Investment income on reserve balances is added to the reserves on an annual basis. The short-term investments represent a portion of tax revenue required for operational needs during the year. Deferred grant revenue is also invested on a short-term basis. Short-term investments are liquidated on an ongoing basis during the year to pay operating expenses and capital expenditures as needed. Developer offsite levy reserve balances are maintained on a long-term investment basis until required for specified capital projects. Long term investments are invested in government and bank bonds and notes. Long term investments currently earn a return of 2.5% to 3% annually. Investment income for 2017 was \$601,000.

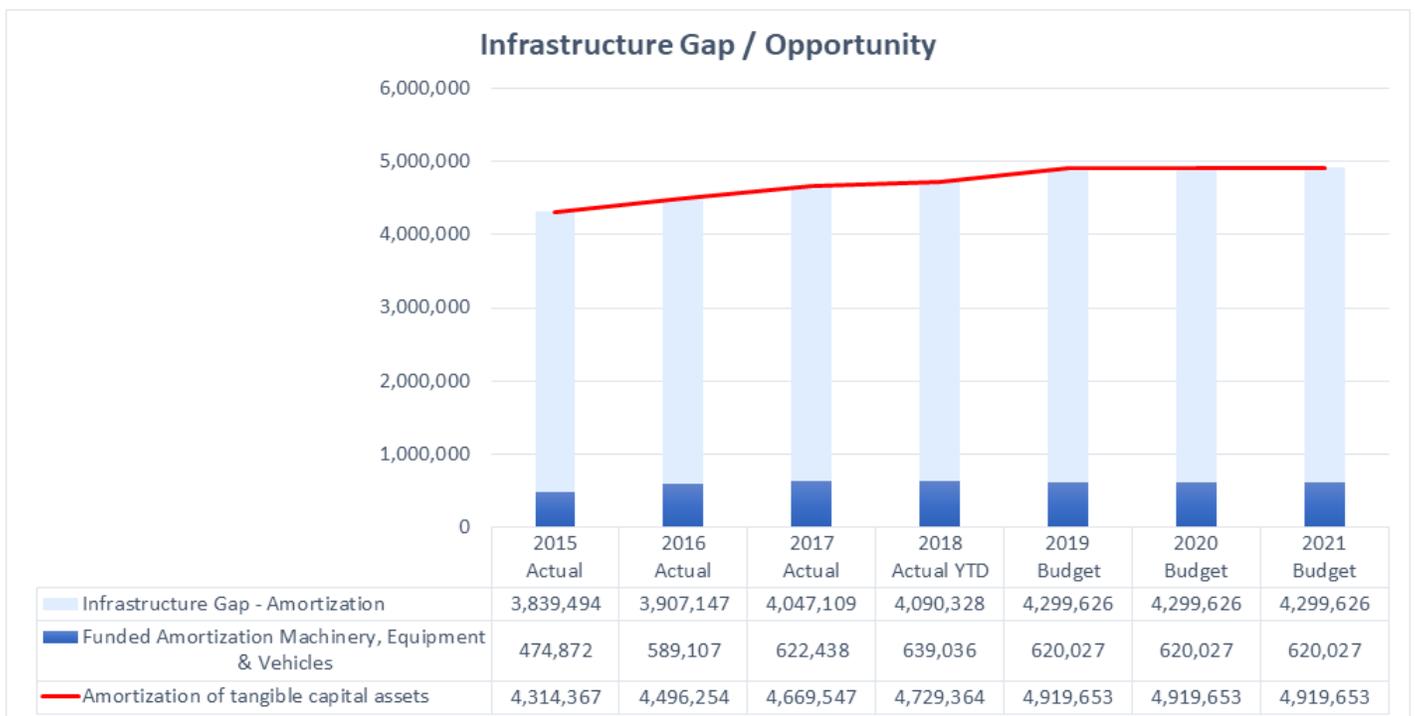
Infrastructure Deficit

The Town of Strathmore has \$212,000,000 worth of Engineered Structures, Buildings, and Land Improvements at cost. This includes water and sewer pipelines, pump stations, reservoirs, storm water management ponds, roads, sidewalks and buildings. The current net book value of these assets amounts to \$160,000,000 and they are 25% depreciated. The depreciation on these assets is \$52,000,000. The Town currently has \$8,200,000 in capital reserves. This would indicate the Town of

Strathmore has an unfunded infrastructure deficit of \$43,800,000. The Town depreciates these assets by \$4,047,000 annually and has no formal plan for funding the replacement of these assets over the long term. The town has established an infrastructure investment reserve and has a balance of \$253,000. This represents approximately 2.3% of the Town of Strathmore net municipal taxes in 2017.

The Town will need to move to a long-term sustainability model that will provide for replacement of assets.

The other factor not considered in any of this is the inflationary factor that over the long term, assets are replaced at a cost much greater than the original purchase cost.



Recommendation: That the town contribute to the Infrastructure Reinvestment Reserve at a rate of no less than 1% of Net Municipal Tax Revenue annually with the goal of having an amount equal to 25% (\$10 Million) of the Infrastructure Deficit within 15 years.

Summary

The financial principles discussed in this plan are intended to guide the Town of Strathmore for the upcoming years with an emphasis on long term municipal infrastructure funding. It will be necessary to review and update the plan annually to ensure that it is meeting the financial needs of the Town.

Next Steps

Council adopt the following protocol in setting the budget and the amount of taxation be determined by the following formula as a minimum tax adjustment: prior year taxes, plus CPI adjustment, plus 1% of net municipal taxes to fund reinvestment reserve, plus the cost of new programs or services, less efficiencies identified savings from program adjustments. Any tax adjustment resulting in less than this amount is really a tax reduction that cannot be sustained in the long term. One percent of the net municipal taxes for 2018 is \$116,500.

Council adopt a utility rate model of the utilities being self-supporting with future infrastructure needs being funded thru utility revenue and or borrowing with the cost of borrowing being paid for by utility revenue. The first step is to have the utility departments recover all expenses and not be dependent on tax revenue. The Utilities in 2017 had an actual operating deficit of \$605,000 in aggregate. The budget for 2018 also had a deficit of \$590,000. With a 5% increase in utility rates in 2019, the completion and payout of some long-term utility debt payments in 2018, the utilities can recover current operating costs.

Council instruct Administration to prepare a plan to engage Wheatland County in meaningful discussions on a Joint Services Funding Model. This will reduce the operational deficit of \$2,000,000 for the Aquatic Center and Family Center.

All master plans that require updating proceed as soon as possible. This will assist in funding capital projects into the future.