



## 2018 Capital & Operating Budgets 2019-2027 Capital Financial Plan Q & A

### 1. What is the difference between a capital budget and an operating budget?

The capital budget allocates funds needed for the first year of a 10 year capital plan and multi-year projects beginning in 2018. It is how the Town pays for major projects such as reconstructing streets; building and improving public facilities such as recreation facilities and parks; dealing with growth pressures; and new initiatives. The only projects approved by Council are those planned for 2018, multi-year projects beginning in 2018, or projects in need of additional funding in 2018. These costs are similar to how a household would prepare for building a new home or adding an addition to your home this year. The capital budget deals with assets that are generally valued at more than \$10,000 and have a life span greater than one year. This includes items like major equipment, buildings and infrastructure.

The operating budget shows the day-to-day costs of delivering programs and services and running Town facilities for the next year. These costs are similar to your everyday household expenses such as mortgage payments, utilities or groceries. The operating budget considers things like staff to provide the service, gas and fuel, heating and electricity bills. The annual operating budget provides a financial representation of the Town's plans to deliver municipal services and programs.

### Capital Budget

### 2. How is the Town funding its 2018 Capital Budget?

The 2018 capital budget is approximately \$12.88 million dollars. \$6.45M of that will be funded by offsite levies (developer paid), \$1.16M will be funded by Town reserves and \$5.27M will be funded from grants.

There are approximately \$8.6M in projects that will carry forward from previous year approvals. In 2018 we will also have 6 projects that are multi-year projects totalling \$12.95M. This means the total capital budget for 2018 will be \$34.6M.

### 3. How is the capital budget structured?

The budget shows the total capital expenditures for 2018. It also outlines the funding sources for proposed capital projects including off site levies, reserves, grants and debt.

The capital budget is broken down into 13 different sub-categories:

Okotoks Community Campus	Major Community Amenities
South Growth Area	Signage
Northwest Growth Area	Fleet
Southwest Growth Area	Fire Hall
Active Transportation	Municipal Enforcement
Downtown Urban Design Master Plan	Internal Infrastructure
Water, Storm, Solid Waste & Wastewater Treatment Plant Improvements	



**4. What are the major capital projects for 2018?**

	<b>(M's)</b>
• Water, Storm Water & Solid Waste Improvements	\$ 2.75
• Replacement of Laurie Boyd Pedestrian Bridge	\$ 2.70
• Zone 2S Distribution Mains	\$ 1.75
• Zone3N/4N Reservoir Upgrade	\$ 1.35
• Parks/Recreation Enhancements	\$ 0.77
• Dedicated Mains & Zone 2S/3S Upgrades to Southwest Reservoir	\$ 0.75
• Internal Infrastructure	\$ 0.73
• Fleet Vehicles	\$ 0.63
• Wastewater Treatment Plant Improvements	\$ 0.50
• Okotoks Community Campus Playfield Development	\$ 0.50
• Highway 783 Improvements	\$ 0.25
• Wayfinding & Entry Signage	\$ 0.17
• Municipal Enforcement Traffic Devices	\$ 0.03

**5. How is debt used?**

Using debt to finance capital spending is a practice most businesses and homeowners use. Debt financing is just like mortgages, vehicle loans, and other borrowing tools, that provide the financial capacity to allow borrowers to pay for significant investments over time, as use occurs, instead of saving to pay the entire amount up front.

The Town of Okotoks has no planned debt for 2018. However, debt is expected beyond the 2018 period. Like many other municipalities, Okotoks has identified debt financing as a viable and financially responsible method of funding projects.

**6. If Council approves the capital budget in December, does that mean all projects listed are automatically approved?**

Council will debate and approve a capital budget for 2018 that allows for current year and multi-year projects that are planned to start in 2018 and beyond; some require more than one year to complete. Projects shown beyond 2018 in the capital financial plan section are not automatically approved. Projects identified in 2019-2027 are provided as information as a planning tool Council will review the capital projects and forecast on an annual bases to ensure alignment with updated economic conditions and priorities.

**7. What is the approval process for the 2018 budget and 10 year capital financial plan?**

Each year in November, Council reviews the expenditure requirements for projects proposed in the capital budget. They consider the following options for each project:

- a. approve as proposed;
- b. change timing;
- c. change scope; or
- d. remove entirely

The 2019-2027 Capital Plan forecast will be approved in principle by Council. This allows the flexibility for Administration to adjust the priorities outlined in the plan based on community need and project funding and then present an updated plan.



## **Operating Budget**

### **8. How is the operating budget structured?**

The operating budget shows the expenditures for 2018. We also have a forecast for the next four years (2019-2022) of anticipated operational expenditures.

### **9. How is the operating budget funded?**

The operating or current budget is primarily funded from property taxes, though it can also include revenues received from:

- earnings on our investments
- senior government subsidies such as the provincial gas tax
- reserves and grants
- user fees and charges such as recreation fees, business licenses and building permits

### **10. What are the changes to municipal taxes in 2018?**

The proposed changes include a 3% tax increase which equates to \$5.63 per month for a typical dwelling. The residential average, based on an assessed value of \$450,000, would be \$2,337 total municipal tax per year.

### **11. What are the changes to fees in 2018?**

There is a proposed 4.24% average increase for water, sewer, storm and waste fees and a 5% increase for recreation fees and facility rentals.

### **12. What are the most significant initiatives approved in the 2018 budget?**

- Pason Centennial Arena expansion opening
- Water, storm water and solid waste improvement
- Replacement of Laurie Boyd Pedestrian Bridge
- South, southwest, and northwest growth area improvements
- South Fire Hall opening (as development occurs)
- Local transit pilot
- Enhanced snow and ice control
- Downtown branding and business attraction

## **10 Year Financial Plan**

### **13. What is the 10-year Capital Financial Plan?**

This is the first year the Town has completed a 10 year capital plan, which forecasts estimated future capital costs for 2019 to 2027. Our capital financial plan is similar to your household plan to prepare to save up to purchase a new vehicle or plan major home renovations in the future.

The estimates outlined in the capital financial plan are placeholder values for the funding expected to be required in each of the nine years. By creating this long-term plan, the Town can better manage finances to prepare for future expenses and tailor projects to meet the changing needs of the community.

Just like a household budget, the plan is a forecast of anticipated costs, which can alter based on trends. Impacts like grant funding, interest rates and inflation, economic conditions, rates of land consumption and growth will all be indicators that may require an adjustment to the plan. Council will still review and approve a yearly capital budget that will direct actual spending for that year.



**14. How does the 10 year Capital Financial Plan help Okotoks prepare for the future?**

The 2019-2027 Capital Financial Plan is about planning for the future ensuring we have a balance between the pressures of current service and growth. The capital plan will focus on investing in infrastructure in alignment with the Town's strategic and sustainable priorities.

Having placeholders in the capital plan will allow us to understand the capital cost of infrastructure, the impacts of the capital budget on the operating budget, and plan for community amenities and potential grant and sponsorship opportunities.

**15. What are the biggest budget challenges Okotoks is facing?**

Okotoks is at a plateau. With the removal of the finite growth model and the approval of the recent annexation, infrastructure investments are critical for our future. While many of these investments are funded by offsite levies, there are still implications for our workload, capacity and financial plan that need to be closely monitored.

The 10 year capital financial plan illustrates the decline in reserve balances and increase in debt load as we begin to grow. It is important that Council establish a healthy financial policy that articulates how all of these elements work together. We must move forward in a way that is respectful of the current recovering economic climate. At the same time, we must continue to maintain, build, and grow a community that attracts investment for the future of our community.

Our capital plan attempts to balance these influencers with the many and diverse needs in our community. We look to the federal and provincial governments to provide long-term sustainable funding to match the infrastructure needs of Okotoks. This is especially critical for the water pipeline. Okotoks is also wanting significant investment in recreation, culture, heritage and arts amenities, which are important for maintaining and building on the quality of life of Okotokians.

Not all projects could be included in the 10 year capital plan as the Town exceeded its debt limit within the 10 years so these projects have been referred beyond the 10 year capital plan.

**16. If the 10 Year Capital Plan is approved does that mean that all the projects in the plan are automatically approved?**

The projections in the 2019-2027 Capital Plan are intended as estimated placeholders and are not approved as part of the capital budget. These amounts are very preliminary and are used as a planning tool that shows order of magnitude, not budget specifics.



## **17. What two factors could influence future Town of Okotoks budgets?**

### **a.) Utility Franchise Fees**

Provincial legislation allows municipalities to either provide public utilities themselves or to have outside companies provide the services. In Okotoks, Fortis and ATCO provide power and gas services to the community through a franchise agreement. The Town charges a fee, known as a franchise fee, to these service providers to use right of ways for its lines, pipes, poles, etc. The utility companies collect these fees and return to the municipality based on the rates approved by the Town.

Franchise agreements are standardized, which ensures an equitable comparison of franchise fees across the Province. Okotoks' franchise fees are consistently lower than our comparator cities/towns and should be reviewed as the agreements are up for renewal.

The Governance and Priorities Committee is reviewing Okotoks fees and will report to Council in March 2018 to consider the following:

- the minimum and maximum fees that can be charged;
- comparisons of fees charged by comparator municipalities across the Province;
- recommendation on fees that should be planned for in the 2019 five year operating budget forecast; and
- recommend potential policy options to capture Council's future policy direction

### **b.) Financial Leadership Framework**

Provincial requirements in the Municipal Government Act require municipalities to provide multi-year plans for proactive budgetary planning. This is why it is important that Council review and improve upon current financial policies. This will assist Administration in developing annual budgets that are consistent with Council expectations.

There is a need for an enhanced financial leadership framework that clarifies the different elements of budgets such as debt, revenue, investment and reserves as well as highlighting the stewardship role that Council must perform. The Finance & Budget Committee will be reviewing these aspects of the budget and preparing a report to be presented to Council in May, 2018. Items for consideration include:

- a definition of financial health for the Town that includes an understanding of what are acceptable levels of debt and reserves;
- review of Reserve Management Policy that incorporates a review of the number of reserves, the type of reserves needed, as well as the minimum balance required for reserves;
- an investment policy which defines the acceptable level of yield on idle funds linking the length of term investments and drawdown policy and minimum levels;
- a review of the current Debt Management Policy recommendation on fees that should be planned for in the 2019 five-year operating budget forecast;
- future policies in relation to asset replacement and tax/subsidization requirements that need to be developed

*For more budget information, please visit [www.okotoks.ca/budget](http://www.okotoks.ca/budget)*

*Watch for opportunities to provide feedback for the 2019 budget later in 2018 at:*

*[www.okotoks.ca/consultation](http://www.okotoks.ca/consultation)*