

2018 Second Quarter Management Report

**Priorities Committee Meeting
September 18, 2018**

OVERVIEW

The 2018 Second Quarter Management Report includes:

1. The year-to-date operating variance and year-end forecast of the annual operating surplus for tax purposes, along with the analysis of the 2018 year-end forecast;
2. Capital activity update;
3. Assessment of key financial indicators of Strathcona County; and
4. The 2015-2018 Corporate Business Plan Progress Report.

KEY TERMS EXPLAINED

Year-To-Date Operating Variance

The favorable or unfavorable difference between budget and actuals at a point in time including any timing differences.

Annual Operating Surplus for Tax Purposes (Operational Term)

The annual surplus (or deficit) resulting from the variances between the approved operating budget and the actual revenue and expenditures that occur during the year. The annual surplus is determined on the same basis used in the budget process, which includes certain expenditures (i.e. cash flow transactions) for debt repayments, reserve transactions, and also excludes capital activity. This budgeting method is required by the Municipal Government Act (MGA).

KEY TERMS EXPLAINED

PSAS Surplus (Accounting Term)

The surplus (or deficit) reported within the financial statements prepared in accordance with Public Sector Accounting Standards (PSAS). This is the method used to prepare the financial statements, as required by the Municipal Government Act (MGA).

Accumulated Surplus (Accounting Term)

The accumulation of equity held within financial reserves and tangible capital assets, plus any surplus (or deficit) incurred during the year.

YEAR-TO-DATE OPERATING VARIANCE (page 2)

For the Period Ended June 30, 2018

The year-to-date raw operating variance is a **(\$0.4) million deficit** (Q2 2017 \$9.0 million surplus) and is composed of both timing and permanent differences.

Strathcona County Operating Segments	2018 Second Quarter YTD Variance	2017 Second Quarter YTD Variance	2016 Second Quarter YTD Variance
Municipal	-	\$9.4M	\$16.5M
Utility	(\$0.4M)	(\$0.6M)	(\$0.6M)
Library	-	\$0.2M	\$0.1M
Total	(\$0.4M)	\$9.0M	\$16.0M

2018 YEAR-END FORECAST (page 2)

(Permanent Differences + Forecasted Items)

For the Period Ended June 30, 2018

Strathcona County's 2018 year-end forecast annual operating surplus for tax purposes¹ is **\$0.8 million – 0.2%** of the 2018 Operating Budget (Q2 2017 \$3.8 million – 1.1%).

Strathcona County Operating Segments	2018 Forecast	2018 Forecast
Municipal	-	-
Utility	\$0.8M	1.4%
Library	-	0.6%
Total	\$0.8M	0.2%

¹The annual operating surplus for tax purposes (cash based budgeting) includes debt repayment expenditures and reserve transactions, and excludes amortization expense, gains/loses on asset disposals and capital revenues, unlike the PSAS surplus used to prepare the financial statements.

2018 YEAR-END FORECAST (page 3)

(Permanent Differences + Forecasted Items)

For the Period Ended June 30, 2018

Municipal Operations - Forecasted to be on budget

The year-end forecast for municipal operations is very close to budget.

Some significant items to note are:

- \$1.6 million of revenue and savings primarily attributed to continued focus on traffic enforcement (i.e. fine revenues) and savings on RCMP contract costs
- \$1.3 million of investment income due to higher rates and volumes than anticipated
- (\$1.0) million higher than anticipated P4 costs and increased costs for overtime for winter snow and spring floods
- (\$1.0) million lower than anticipated permit revenue
- (\$1.0) million of emergent 2018 North Strathcona County Fire expenses

Personnel costs for the County as a whole are on budget.

RESERVE TRANSFER (page 3)

As planned during budget approval, reserve funding from the R2 Contingency Reserve is available to fund:

- Expenses incurred by Emergency Services and Fleet Services (approximately \$1.0 million) for the May 2018 North Strathcona County Fire.
- Expenses incurred by Transportation and Agriculture Services (approximately \$1.0 million) for higher than anticipated P4 winter maintenance costs.

Council approval would be required to use reserve funds to offset these emergent costs.

2018 PLANNED CAPITAL SPENDING (page 4)

The revised 2018 planned capital spend totalled \$111.7 million (2017 \$202.6 million).

2018 Capital Budget (approved by Council on December 4, 2017)	\$69.2 million
Unspent prior years budgeted capital expenditures	\$227.3 million
Planned spending changes resulting from capital budget amendments	(\$79.5) million
Budgeted capital expenditures planned to be incurred after 2018	(\$105.3) million
2018 Planned Capital Spend	\$111.7 million

2018 CAPITAL SPENDING (page 4)

Capital spending as of June 30, 2018 totaled **\$17.7 million**, 15.8% of what was planned to be spent. The 2018 variance between planned and actual capital expenditures is \$94.0 million which is expected to be spent from July to December.

- 15 projects were completed, resulting in the release of \$0.9 million of unused funding/financing.

2018 CAPITAL BUDGET AMENDMENTS (page 4)

Thirty eight capital budget amendments have been approved in 2018 resulting in a \$78.4 million net decrease to the capital budget.

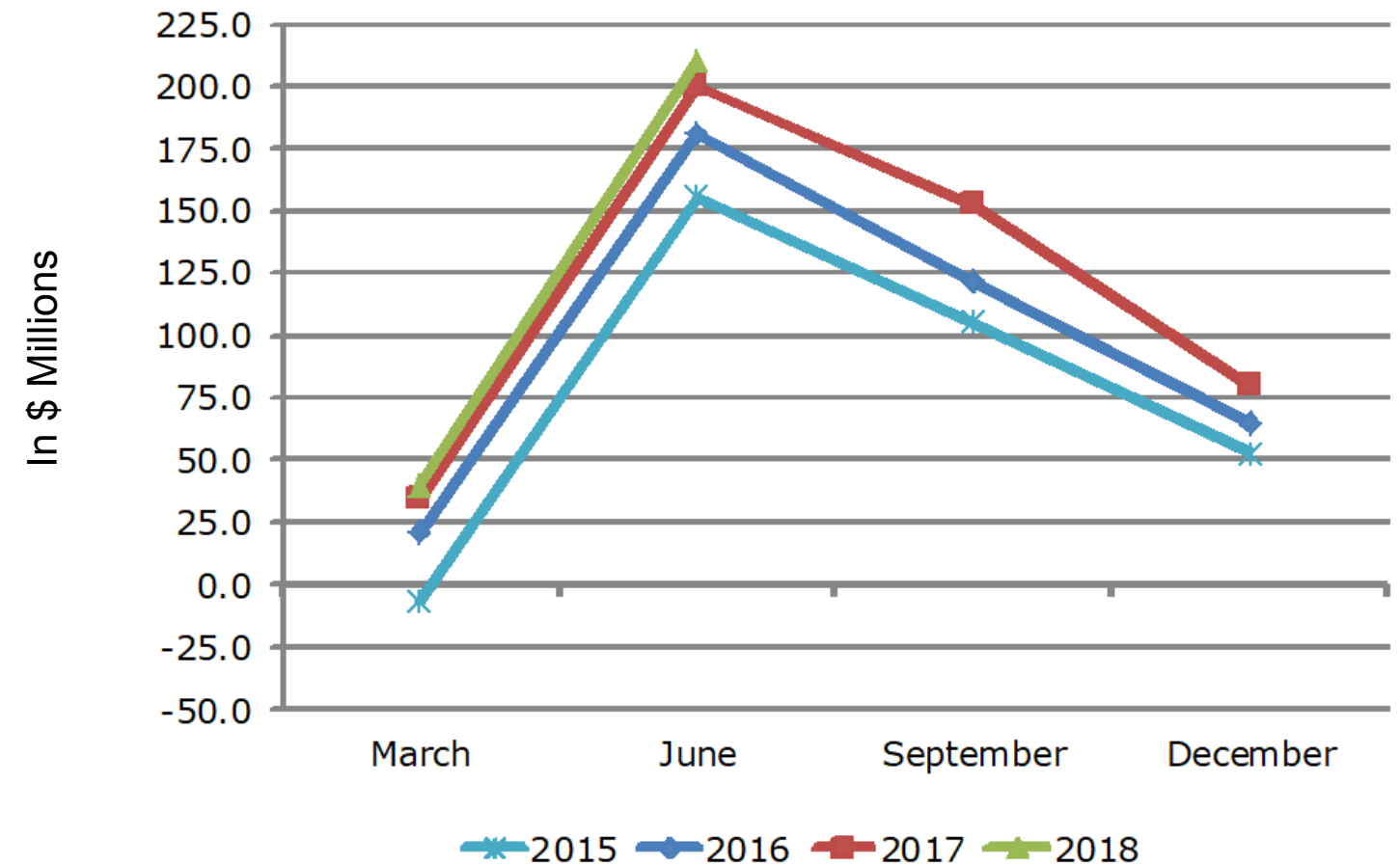
The decrease is composed of:

- One new project was added with minimal cost impact;
- Twenty four projects approved in 2017 and prior years amended to decrease the budget by \$21.6 million;
- Three projects approved in 2017 and prior years amended to increase the budget by \$1.3 million;
- Two projects approved in 2017 and prior years amended without financial consequences, as funds were repurposed within the projects; and
- Eight projects approved in 2014 – 2016 cancelled to decrease the budget by \$58.1 million.

KEY INDICATOR: Net Financial Assets (page 5)

- Net Financial Assets (or Net Debt) is the difference between financial assets and liabilities.
- It is a key indicator of the County's ability to maintain services and meet financial commitments.

Net Financial Assets (Net Debt) Trend Analysis



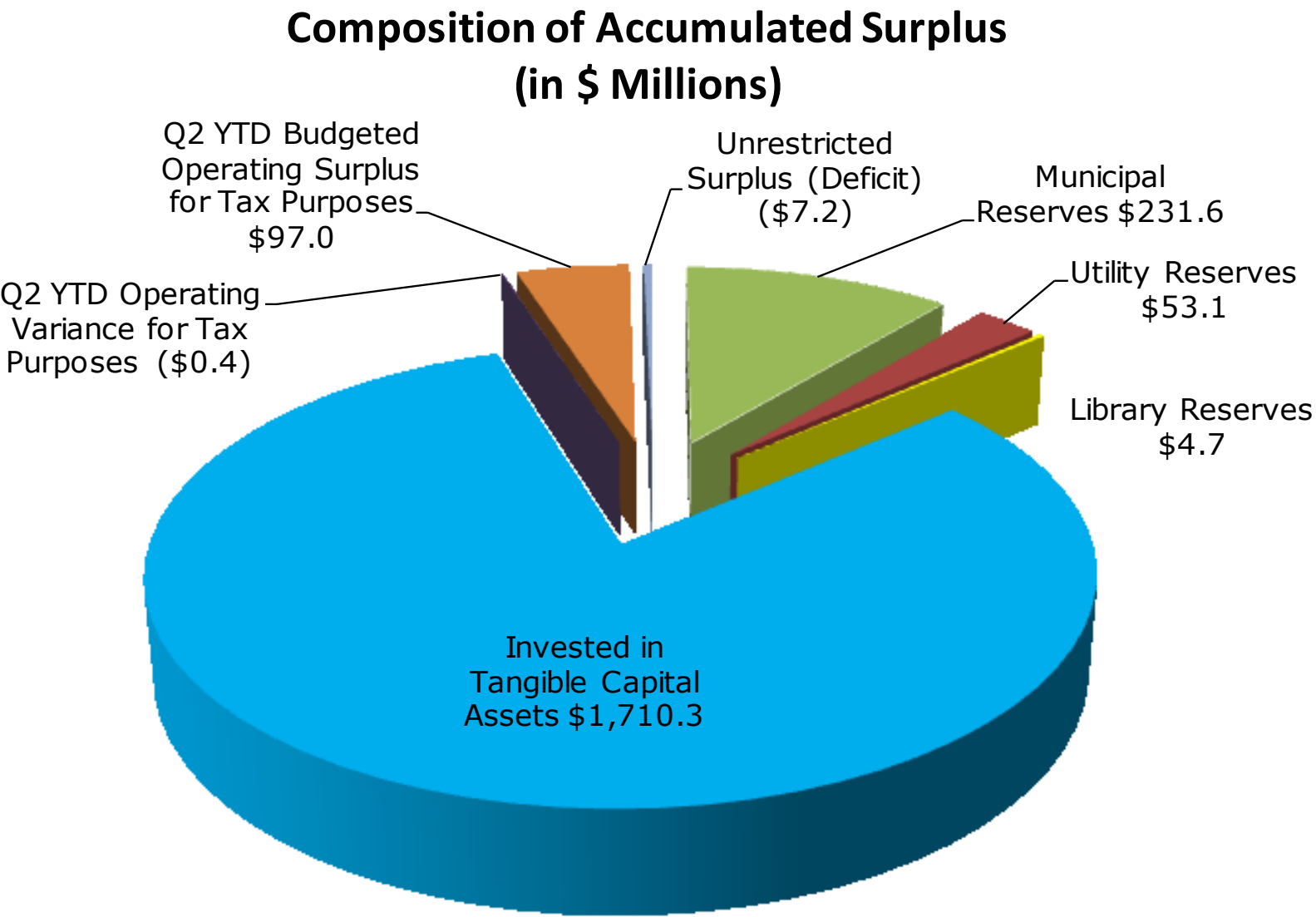
KEY INDICATOR: Accumulated Surplus (page 7)

June 30, 2018 Accumulated Surplus is \$2,089.1 Million

- Accumulated surplus represents the value the County has built over time.
- That value is impacted by current year operating variances: it increases if the County experiences surpluses and decreases if the County experiences deficits.
- The value invested in tangible capital assets used to provide services now and in the future, with the exception of land, will have to be maintained and/or replaced over time.

KEY INDICATOR: Accumulated Surplus (page 7)

June 30, 2018 Accumulated Surplus is \$2,089.1 Million



2015 – 2018 CORPORATE BUSINESS PLAN

PROGRESS REPORT (Appendix 2)

Reporting on the Corporate Business Plan:

- Progress on goals
- Reporting to Council as part of the quarterly and annual management reports, with emphasis on the second quarter (Q2) and annual (Q4) reports

Note:

- This is the second last report wrapping up on the current 2015 – 2018 Corporate Business Plan
- In the second quarter (Q2) 2019 management report, the refined 2013 - 2030 Strategic Plan will be reflected in the new 2019 – 2022 Corporate Business Plan progress report

QUESTIONS?