

Strathcona County 2019 First Quarter Management Report

Prepared by Corporate Finance

Prepared for
Priorities Committee
July 16, 2019

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

1.1 Year-to-Date Operating Variance¹

The operating variance as of March 31, 2019 is a **\$1.3 million** (Q1 2018 \$0.4 million). 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.

County Operating Segments	2018 First Quarter YTD Variance	2019 First Quarter YTD Variance	2019 First Quarter YTD Timing Differences	2019 First Quarter YTD Permanent Differences
Municipal	\$0.3M	(\$0.2M)	\$0.1M	(\$0.3M)
Utility	\$0.1M	\$1.5M	\$1.5M	-
Library	-	-	-	-
TOTAL	\$0.4M	\$1.3M	\$1.6M	(\$0.3M)

Although the first quarter variance for municipal operations is (\$0.2 million) unfavorable, the forecasted activity is anticipated to recover this amount.

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

County Operating Segments	2018 Q1 Year-End Forecast²		2019 Q1 Year-End Forecast²	
Municipal	\$0.7M	0.3%	\$0.2M	0.1%
Utility	-	-	-	-
Library	-	-	-	-
TOTAL DOLLARS AND WEIGHTED PERCENTAGES	\$0.7M	0.3%	\$0.2M	0.1%

The year-end forecast of **\$0.2 million** (Q1 2018 \$0.7 million) is based on the information available as of March 31, 2019 and is subject to the uncertainty of unknown events or circumstances which may take place during the remainder of the year.

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 in accordance with the Municipal Government Act (MGA). This method includes debt repayment expenditures (i.e. repayment of loan principal) 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.



1.3 Analysis of the 2019 Year-End Forecast

a. Municipal Operations — \$0.2 million

Municipal operations is forecasted to have a \$0.2 million surplus. Contributing factors to this surplus are (in order of significance):

Favourable:

- i. Traffic Fine Revenue — \$0.8 million — this is forecasted to be higher than budget due to continued focus on road safety through traffic enforcement and the anticipated addition of intersection safety devices (ISD).
- ii. Personnel Costs — \$0.5 million — forecasted savings are primarily due to vacancies in excess of budgeted estimates.
- iii. RCMP Contract Services — \$0.3 million — forecasted savings are due to continued lower than budgeted member strength in the detachment.

Unfavorable:

- i. Budgeted Offset — (\$1.6 million) — an adjustment to the budget at the corporate level to offset projected surpluses based on historical trends.

b. Utility Operations — Forecasting to be on budget

No significant impacts to report.

c. Library Operations — Forecasting to be on budget

No significant impacts to report.

Please note that both the Municipal and the Library forecasts assume that the entirety of the insurance claims made in relation to the November 2018 parkade incident will be successful. The total costs for the first quarter of 2019 are estimated to be \$6.2 million for Municipal Operations and \$0.1 million for the Library. This results in an approximate cumulative total of \$12.6 million of expenses to March 31 (\$12.4 million Municipal and \$0.2 million Library). Insurance proceeds in the amount of \$2.25 million were received by March 31.

2. Capital Activity

2.1 2019 Capital Spending

The 2019 planned capital spending is determined based on the following:

The 2019 Capital Budget (approved by Council on December 6, 2018)	\$64.5
Unspent prior years budgeted capital expenditures	\$110.1
Approved spending changes resulting from capital budget amendments and funds to be released	-
Budgeted capital expenditures planned to be incurred after 2019, including approved capital budget amendments	(\$61.5)
2019 Planned Capital Spending	\$113.1

There have been no capital budget amendments as of March 31, 2019. The 2019 planned capital spending totals \$113.1 million (2018 — \$115.1 million).



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

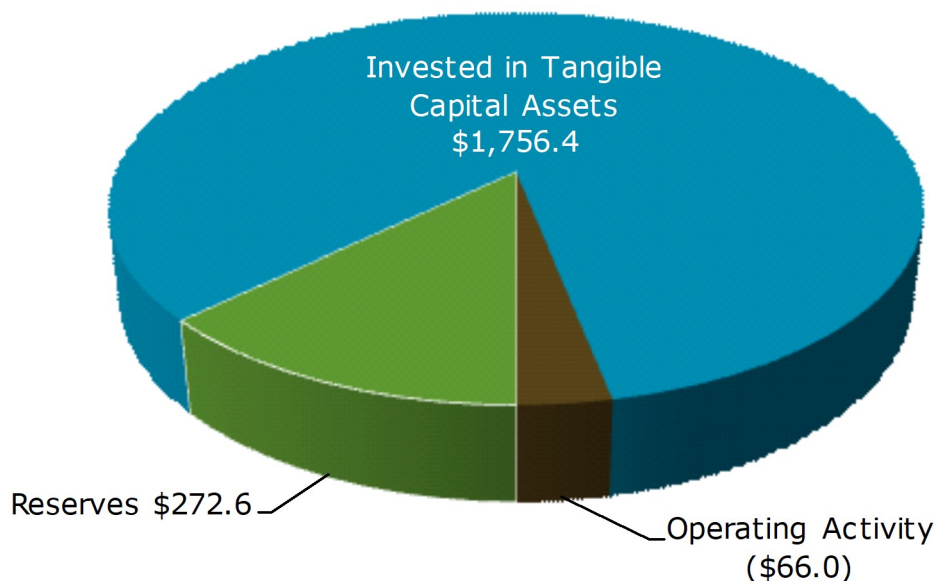
The following section is prepared based on the 2019 Strathcona County Consolidated Financial Statements (unaudited) for the period ended March 31, 2019 provided in **Appendix 1**. The Consolidated Financial Statements are prepared in accordance with Public Sector Accounting Standards (PSAS).

3.1 Accumulated Surplus

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.

The County's accumulated surplus totals \$1,963.0 million at March 31, 2019 (\$2,006.9 million at December 31, 2018). The composition of the first quarter 2019 accumulated surplus is as illustrated below:

Composition of Accumulated Surplus (in \$ Millions)



The operating activity is made up of the budgeted spend and the operating variance against that budget. The operations of the first quarter are financed in advance of recognition of the 2019 tax revenue. The resulting operating deficit is budgeted and in the normal course of the operating cycle for the County. Operating activity also includes the unrestricted surplus/(deficit) which is primarily a timing item due to the interim financing of capital expenditures (i.e. spending) in advance of borrowing.



3.1 Accumulated Surplus (continued)

The amount invested in tangible capital assets of \$1,756.4 million (Q1 2018 — \$1,712.7 million) is composed of:

- Municipal \$1,457.8 million (Q1 2018 — \$1,420.0 million)
- Utilities \$293.2 million (Q1 2018 — \$287.3 million)
- Library \$5.4 million (Q1 2018 — \$5.4 million)

The reserves balances can be further broken up into:

- Municipal Reserves \$212.6 million (Q1 2018 — \$215.3 million)
- Utility Reserves \$55.3 million (Q1 2018 — \$53.3 million)
- Library Reserves \$4.7 million (Q1 2018 — \$4.7 million)

3.2 Net Financial Assets (Net Debt) Position

Net financial assets (or net debt) is the difference between financial assets and liabilities. It is a key indicator of the County's financial 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 March 31, 2019, the County's net financial asset position was \$34.0 million compared to a \$67.9 million net financial asset position at December 31, 2018, a decrease of (\$33.9 million). The decrease in net financial assets is expected for the first quarter, as the Q1 operational activity is financed in advance of the recognition of the 2019 property tax revenue. Net financial assets is trending normally for the first quarter, consistent with prior years.

Appendices

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



STRATHCONA COUNTY

Consolidated Financial Statements

For the Period Ended March 31, 2019 (in thousands of dollars)

(unaudited)

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

	March 31, 2019	December 31, 2018
FINANCIAL ASSETS		
Cash and Cash Equivalents	\$ 42,511	\$ 5,875
Accounts Receivable		
Property Taxes	-	7,057
Government Transfers	300	3,919
Trade and Other	14,086	15,058
Development Levies and Charges	1,934	5,095
Investments	300,964	342,804
Investment Interest Receivable	15,957	14,883
	375,752	394,691
LIABILITIES		
Accounts Payable and Accrued Liabilities	17,787	60,499
Deposit Liabilities	17,154	16,899
Deferred Revenue	136,879	77,590
Long-Term Debt	169,948	171,805
	341,768	326,793
NET FINANCIAL ASSETS	33,984	67,898
NON-FINANCIAL ASSETS		
Tangible Capital Assets	1,925,908	1,935,418
Inventories of Materials and Supplies	961	954
Prepaid Expenses	2,162	2,640
	1,929,031	1,939,012
ACCUMULATED SURPLUS	\$ 1,963,015	\$ 2,006,910

STRATHCONA COUNTY
Consolidated Statement of Operations and Accumulated Surplus
For the period ended March 31, 2019 (in thousands of dollars)

	2019 Period Budget	March 31, 2019	March 31, 2018
REVENUE			
Property Taxes	\$ -	\$ -	\$ -
Utility User Rates	14,440	14,131	13,121
User Fees and Charges	10,341	12,372	10,539
Investment Income	1,931	2,022	1,779
Penalties and Fines	1,690	1,930	2,143
Government Transfers - Operating	1,117	1,250	1,432
Other	2,429	2,593	2,010
TOTAL OPERATING REVENUE	31,948	34,298	31,024
EXPENSES			
Infrastructure and Planning Services			
Economic Development and Tourism	453	526	449
Planning and Development Services	2,379	2,075	2,277
Transportation and Agriculture Services	9,179	7,919	8,819
Transportation Planning and Engineering	1,154	925	1,033
Utility Operations	14,500	12,909	12,793
	27,665	24,354	25,371
Community Services			
Emergency Services	8,656	8,465	8,240
Family and Community Services	2,191	2,795	1,964
RCMP and Enforcement Services	6,162	5,925	6,191
Recreation, Parks and Culture	9,873	9,258	9,075
Strathcona Transit	5,124	4,484	4,337
	32,006	30,927	29,807
Corporate Services	10,496	8,894	8,192
Elected Officials	370	308	285
Financial and Strategic Management	2,307	1,922	1,811
Fiscal Services	13,938	13,604	13,752
Senior Administration	1,617	1,278	1,182
Strathcona County Library	2,642	2,635	2,601
	31,370	28,641	27,823
TOTAL EXPENSES	91,041	83,922	83,001
(DEFICIT) BEFORE CAPITAL REVENUE	(59,093)	(49,624)	(51,977)
CAPITAL REVENUE			
Government Transfers - Capital	4,404	3,134	444
Contributed Tangible Capital Assets	-	2,256	1,879
Other Capital Revenue	824	339	656
TOTAL CAPITAL REVENUE	5,228	5,729	2,979
PERIOD (DEFICIT)	(53,865)	(43,895)	(48,998)
ACCUMULATED SURPLUS, BEGINNING OF PERIOD	2,006,910	2,006,910	1,969,130
ACCUMULATED SURPLUS, END OF PERIOD	\$ 1,953,045	\$ 1,963,015	\$ 1,920,132

STRATHCONA COUNTY
Consolidated Statement of Change in Net Financial Assets (Net Debt)
For the period ended March 31, 2019 (in thousands of dollars)

	<u>2019 Period Budget</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>
PERIOD (DEFICIT) SURPLUS	\$ (53,865)	\$ (43,895)	\$ 37,780
Acquisition of Tangible Capital Assets	(9,051)	(2,702)	(90,343)
Contributed Tangible Capital Assets	-	(2,256)	(19,634)
Amortization of Tangible Capital Assets	15,446	14,421	59,040
(Gain) on Disposal of Tangible Capital Assets	-	(89)	(3,450)
Proceeds from Disposal of Tangible Capital Assets	-	136	5,004
	<u>(47,470)</u>	<u>(34,385)</u>	<u>(11,603)</u>
Acquisition of Inventories of Materials and Supplies	-	(427)	(1,808)
Acquisition of Prepaid Expenses	-	(208)	(2,972)
Use of Inventories of Materials and Supplies	-	420	1,882
Use of Prepaid Expenses	-	686	3,235
	<u>-</u>	<u>471</u>	<u>337</u>
(DECREASE) IN NET FINANCIAL ASSETS	(47,470)	(33,914)	(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>\$ 20,428</u>	<u>\$ 33,984</u>	<u>\$ 67,898</u>

STRATHCONA COUNTY
Consolidated Statement of Cash Flows
For the period ended March 31, 2019 (in thousands of dollars)

	March 31, 2019	December 31, 2018
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
PERIOD (DEFICIT) SURPLUS	\$ (43,895)	\$ 37,780
Items Not Involving Cash:		
Contributed Tangible Capital Assets	(2,256)	(19,634)
Amortization of Tangible Capital Assets	14,421	59,040
Amortization of Discount on Investments	(10)	(8)
(Gain) on Disposal of Tangible Capital Assets	(89)	(3,450)
(Gain) on Disposal of Investments	-	(3)
Changes to Non-Cash Assets and Liabilities:		
Property Taxes Receivable	7,057	(1,795)
Government Transfers Receivable	3,619	8,198
Trade and Other Receivables	972	133
Development Levies and Charges Receivable	3,161	(1,905)
Investment Interest Receivable	(1,074)	(4,294)
Accounts Payable and Accrued Liabilities	(42,713)	7,476
Deposit Liabilities	255	(426)
Deferred Revenue	59,289	(5,122)
Inventories of Materials and Supplies	(7)	74
Prepaid Expenses	478	263
Cash (Applied to) Provided by Operating Activities	(792)	76,327
CAPITAL		
Proceeds from Disposal of Tangible Capital Assets	136	5,004
Acquisition of Tangible Capital Assets	(2,702)	(90,343)
Cash (Applied to) Capital Activities	(2,566)	(85,339)
INVESTING		
Purchase of Investments	(3,676)	(243,201)
Proceeds from Sale/Maturity of Investments	45,527	244,664
Cash Provided by Investing Activities	41,851	1,463
FINANCING		
Long-Term Debt Issued	1,283	17,621
Long-Term Debt Repaid	(3,140)	(11,239)
Cash (Applied to) Provided by Financing Activities	(1,857)	6,382
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,636	(1,167)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,875	7,042
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 42,511	\$ 5,875

STRATHCONA COUNTY
Consolidated Schedule of Segmented Information
For the period ended March 31, 2019 (in thousands of dollars)

	Municipal Operations												
	Infrastructure and Planning Services	Community Services	Corporate Services	Financial and Strategic Management	Senior Administration	Elected Officials	Fiscal Services	Total Municipal Operations	Utility Operations	Strathcona Library Operations	March 31, 2019	2019 Period Budget	
OPERATING REVENUE													
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Utility User Rates	-	-	-	-	-	-	-	-	14,131	-	14,131	14,440	
User Fees and Charges	765	7,855	40	64	-	-	3,096	11,820	549	3	12,372	10,341	
Investment Income	-	-	-	-	-	-	1,666	1,666	334	22	2,022	1,931	
Penalties and Fines	5	1,204	-	-	-	-	703	1,912	-	18	1,930	1,690	
Government Transfers - Operating	-	1,193	-	-	-	-	51	1,244	6	-	1,250	1,117	
Other	197	1,518	-	98	-	-	745	2,558	3	32	2,593	2,429	
TOTAL OPERATING REVENUE	967	11,770	40	162	-	-	6,260	19,200	15,023	75	34,298	31,948	
EXPENSES													
Salaries, Wages and Benefits	6,573	21,246	5,796	1,721	1,150	252	388	37,126	2,466	1,466	41,058	42,553	
Contracted and General Services	3,107	4,747	1,977	272	86	41	313	10,543	2,154	80	12,777	16,039	
Supplies, Materials and Utilities	1,556	3,635	1,023	(77)	42	13	(562)	5,630	5,636	467	11,733	13,846	
Interest on Long-Term Debt	-	-	-	-	-	-	911	911	646	238	1,795	1,791	
Grants and Requisitions	198	1,244	82	-	-	-	288	1,812	-	-	1,812	901	
Amortization	-	-	-	-	-	-	12,064	12,064	1,991	365	14,420	15,481	
(Gain) Loss on Asset Disposals	-	-	-	-	-	-	(105)	(105)	-	16	(89)	-	
Other Expenses	11	55	16	6	-	2	307	397	16	3	416	430	
TOTAL EXPENSES	11,445	30,927	8,894	1,922	1,278	308	13,604	68,378	12,909	2,635	83,922	91,041	
(DEFICIT) SURPLUS BEFORE CAPITAL REVENUE													
	(10,478)	(19,157)	(8,854)	(1,760)	(1,278)	(308)	(7,343)	(49,178)	2,114	(2,560)	(49,624)	(59,093)	
CAPITAL REVENUE													
Government Transfers - Capital Contributed Tangible Capital Assets	-	-	-	-	-	-	3,134	3,134	-	-	3,134	4,404	
	-	-	-	-	-	-	2,256	2,256	-	-	2,256	-	
Other Capital Revenue	-	-	-	-	-	-	182	182	157	-	339	824	
TOTAL CAPITAL REVENUE	-	-	-	-	-	-	5,572	5,572	157	-	5,729	5,228	
PERIOD (DEFICIT) SURPLUS	\$ (10,478)	\$ (19,157)	\$ (8,854)	\$ (1,760)	\$ (1,278)	\$ (308)	\$ (1,771)	\$ (43,605)	\$ 2,271	\$ (2,560)	\$ (43,895)	\$ (53,865)	

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

Cost	Balance at January 1, 2019	Additions	Contributed Additions	Disposals	Balance at March 31, 2019
Land	\$ 510,318	\$ -	\$ -	\$ -	\$ 510,318
Land Improvements	121,054	3	159	-	121,216
Buildings	483,408	236	-	-	483,644
Engineered Structures	1,256,685	21	2,097	(178)	1,258,625
Machinery and Equipment	78,760	658	-	(41)	79,377
Books and Periodicals	6,388	78	-	-	6,466
Vehicles	77,254	147	-	(246)	77,155
Assets under Construction	45,808	1,559	-	-	47,367
	\$ 2,579,675	\$ 2,702	\$ 2,256	\$ (465)	\$ 2,584,168

Accumulated Amortization	Balance at January 1, 2019	Disposals	Amortization Expense	Balance at March 31, 2019
Land Improvements	\$ 43,671	\$ -	\$ 1,355	\$ 45,026
Buildings	122,910	-	2,932	125,842
Engineered Structures	389,435	(174)	7,673	396,934
Machinery and Equipment	45,228	(25)	1,579	46,782
Books and Periodicals	3,262	-	160	3,422
Vehicles	39,751	(219)	722	40,254
	\$ 644,257	\$ (418)	\$ 14,421	\$ 658,260

Net Book Value	Balance at January 1, 2019	Balance at March 31, 2019
Land	\$ 510,318	\$ 510,318
Land Improvements	77,383	76,190
Buildings	360,498	357,802
Engineered Structures	867,250	861,691
Machinery and Equipment	33,532	32,595
Books and Periodicals	3,126	3,044
Vehicles	37,503	36,901
Assets under Construction	45,808	47,367
	\$ 1,935,418	\$ 1,925,908

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 Slippage** – 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.