

Strathcona County Third Quarter 2022 Management Report

Prepared by Financial and Strategic Services

Prepared for
Council Budget Meeting
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Introduction

The Strathcona County (the County) third quarter management report provides individual results of the Municipal, Utility and Library operating segments. Pioneer Housing Foundation is not included in the financial information presented in this report. To be consistent with the budget, the annual operating surplus for tax purposes includes reserve transactions and debt repayments; and excludes amortization expense and gains or losses on disposals or write downs of tangible capital assets, that are excluded and included (respectively) from Public Sector Accounting Standards (PSAS) that are used to prepare the financial statements.

Detailed variance analysis information for Municipal, Utility and Library is provided later in this report. The significant favourable and unfavourable variances noted below are not intended to total to the surplus (deficit) amounts for each line of operations. Generally, a materiality of \$1.0 million is applied for variance analysis. Other variances may also be included if they are deemed to be of note.

Municipal Operations – Third Quarter 2022

Municipal operations' overall revenue variance was (2%) unfavorable. Budgeted total revenue was \$280.3 million and actual revenue was \$275.7 million, inclusive of contributed assets. Municipal operations' expense variance was 11% favourable. Total budgeted expenses were \$266.2 million and actual expenses were \$237.9 million, including amortization, gains and losses on tangible capital assets.

Non-Operating and Non-Cash Items include transfers to and from reserves, repayment of loans and debt, and equity transactions. These items generally align with the activity within revenue and expenses. Although significant, much of the existing variance is due to timing and is expected to resolve by the end of the year.

	Q3 2022 YTD Budget	Q3 2022 YTD Actuals	Favourable (Unfavorable) \$	Favourable (Unfavorable) %
Revenue				
Property Taxes	232,638,791	229,816,025	(2,822,766)	(1)%
Utility User Rates	-	-	-	-
Service Fees and Charges	24,708,165	19,736,100	(4,972,065)	(20)%
Penalties and Fines	5,073,863	3,961,553	(1,112,310)	(22)%
Permit and License Fee	2,682,248	2,744,356	62,108	2%
Investment Income	3,543,845	4,961,271	1,417,426	40%
Government Grants	4,676,692	3,594,808	(1,081,884)	(23)%
Other Revenue	6,996,272	7,469,858	473,586	7%
Subtotal	280,319,876	272,283,971	(8,035,905)	(3)%
Contributed Assets	-	3,381,119	3,381,119	-%
Total Revenue	280,319,876	275,665,090	(4,654,786)	(2)%
Expenses				
Salaries & Benefits, Employee Expenses	134,847,576	126,203,796	8,643,780	6%
Business Expenses	18,051,017	15,655,950	2,395,067	13%
Purchased Services	49,174,426	39,970,428	9,203,998	19%
Supplies, Materials and Equipment	12,968,577	12,227,812	740,765	6%
Interest on Debentures	2,063,185	1,957,316	105,869	5%
Grants Disbursed	7,767,500	3,638,200	4,129,300	53%
Amortization and Gain/Loss on Disposal	40,792,455	38,923,742	1,868,713	5%
Other Expenses	2,520,257	1,909,410	610,847	24%
Intercharges Provided (to)	(8,574,874)	(8,873,380)	298,506	3%
Intercharges Received (from)	6,601,936	6,297,942	303,994	5%
Total Expenses	266,212,055	237,911,215	28,300,840	11%
Net Revenue(Expense)	14,107,821	37,753,875	23,646,054	168%
Non-Operating Items and Close to Equity	17,681,369	(2,696,503)	(20,377,872)	(115)%
Operating Surplus (Deficit) For Tax Purposes	31,789,190	35,057,372	3,268,182	10%

The significant favourable and unfavourable variances are noted below:

Revenue (Municipal Operations)

- Municipal property taxes - (\$2.8 million) unfavourable variance due to lower than anticipated growth driven by start-up delays primarily in the heavy industrial sector, which is expected to be offset by the end of the year by higher supplemental taxes.
- Service fees and charges - (\$5.0 million) unfavourable variance continues to be primarily driven by the decrease that the County has experienced in public facility admissions, programs and memberships resulting from COVID-19 restrictions in

place throughout the earlier part of the year, coupled with the public's varying acceptance of a full re-opening of services. This variance is partially offset by expenditure savings and is expected to continue throughout the year as the County continues to adjust to changes in demand.

- Penalties and fines - (\$1.1 million) unfavourable variance driven by a decrease in Traffic Safety Act fines due to a reduction in traffic and increased driver education. There was also a reduction in Intersection Safety Device (ISD) revenue due to reduced ISD operations; however, this was largely offset by savings in directly related contracted services costs.
- Investment income - \$1.4 million favourable due to higher than anticipated investment balances coupled with a higher rate of return than budgeted on the County's investments.
- Government grants - (\$1.1 million) unfavourable variance due to delays in receiving the Provincial Policing grant anticipated to be received by year-end.
- Contributed assets - \$3.4 million favourable variance due to the fact that the County does not budget for contributed assets, which is a common practice. Contributed assets to date include roadway system engineered structures and pathways and trails.

Expense (Municipal Operations)

- Salaries & benefits, employee expenses - \$8.6 million favourable variance primarily due to:
 - Savings from permanent vacancies, turnover and permanent reduction of positions due to restructuring.
 - Reduction in staffing requirements during public facility closures earlier during the year due to COVID-19 in Recreational Parks and Culture (public facility admissions, programs, and memberships) as well as reduced demand for transit services. This favourable variance is partially offset by a portion of the decrease in revenue.
 - Savings in professional development and training due to more staff utilizing online conferences and slower take up since COVID-19.
- Business expenses - \$2.4 million favourable is partly due to timing, in addition to reduced expenses across most departments.
- Purchased services - \$9.2 million favourable:
 - A significant portion of this variance is attributable to timing differences in numerous departments and should resolve by year-end. The variance is also due to reduced contracting costs in recreation and cultural programming, and consistent with the decreased demand. The remainder of this variance

is due to supply chain and capacity challenges impacting various areas and may require some unspent budget to be carried forward into 2023.

- These favourable variances were offset by an unfavourable variance of \$2.7 million due to additional snow clearing costs caused by adverse weather conditions earlier in the year.
- Grants disbursed - \$4.1 million favourable variance is mainly due to a timing difference for the County's contributions towards the River Valley Alliance footbridge.

Utility Operations – Third Quarter 2022

Utility operations' overall revenue variance was 25% favourable which includes contributed assets. Budgeted total revenue was \$45.2 million and actual revenue was \$56.4 million. Utility operations' expense variance was 1% favourable. Total budgeted expenses were \$45.0 million and actual expenses were \$44.6 million, including amortization, gains and losses.

	Q3 2022 YTD Budget	Q3 2022 YTD Actuals	Favourable (Unfavorable) \$	Favourable (Unfavorable) %
Revenue				
Property Taxes	14,570	5,117	(9,453)	(65)%
Utility User Rates	43,329,122	46,016,186	2,687,064	6%
Service Fees and Charges	825,870	382,333	(443,537)	(54)%
Penalties and Fines	56,997	89,619	32,622	57%
Permit and License Fee	-	-	-	-
Investment Income	982,674	1,261,110	278,436	28%
Government Grants	5,256	26,379	21,123	402%
Other Revenue	5,697	364,632	358,935	6,300%
Subtotal	45,220,186	48,145,377	2,925,191	6%
Contributed Assets	-	8,270,290	8,270,290	-%
Total Revenue	45,220,186	56,415,667	11,195,481	25%
Expenses				
Salaries & Benefits, Employee Expenses	8,759,628	8,017,419	742,209	8%
Business Expenses	595,833	421,121	174,712	29%
Purchased Services	8,864,616	7,981,230	883,386	10%
Supplies, Materials and Equipment	16,624,194	18,570,074	(1,945,880)	(12)%
Interest on Debentures	1,506,266	1,504,864	1,402	0%
Grants Disbursed	-	4,413	(4,413)	-
Amortization and Gain/Loss on Disposal	7,292,880	6,143,585	1,149,295	16%
Other Expenses	25,929	14,583	11,346	44%
Intercharges Provided (to)	(4,304,055)	(2,614,137)	(1,689,918)	(39)%
Intercharges Received (from)	5,666,386	4,567,198	1,099,188	19%
Total Expenses	45,031,677	44,610,350	421,327	1%
Net Revenue(Expense)	188,509	11,805,317	11,616,808	6,162%
Non-Operating Items and Close to Equity	3,359,955	(7,103,258)	(10,463,213)	(311)%
Operating Surplus (Deficit) For Tax Purposes	3,548,464	4,702,059	1,153,595	33%

Revenue (Utility Operations)

- Utility user rates - \$2.7 million favourable variance due to higher residential consumption than anticipated as more businesses allowed employees to work from home and the hot, dry summer weather.
- Contributed assets - \$8.3 million favourable variance due to the fact that the County does not budget for contributed assets. Contributed assets to date include water, wastewater, and stormwater infrastructure.

Expense (Utility Operations)

- Supplies, materials and equipment – (\$1.9 million) unfavourable variance is primarily due to higher water and wastewater purchases, which is consistent with the higher utility user rates noted above. More water was used by customers; therefore, more water was purchased and treated.

Additional Information - Service Lateral Rehabilitation

The demand for service lateral rehabilitations has significantly increased over the past few years, as have average costs per rehabilitation. On June 14, an additional \$0.6 million was added to the budget funded from reserves to address additional requests for 2022. As of September 30, 2022, there were 19 Service Lateral Rehabilitations completed, for a total cost of \$0.6 million. An additional 10 rehabilitations have been committed, projecting the completion of 29 rehabilitations for 2022.

Library Operations – Third Quarter 2022

Library operations' overall revenue variance was 1% favourable. Budgeted total revenue was \$10.8 million and actual revenue was \$10.9 million. Library operations' expense variance was 3% favourable. Total budgeted expenses were \$7.7 million and actual expenses were \$7.5 million, including amortization expense.

	Q3 2022 YTD Budget	Q3 2022 YTD Actuals	Favourable (Unfavorable) \$	Favourable (Unfavorable) %
Revenue				
Property Taxes	10,052,503	10,052,503	-	-
Utility User Rates	-	-	-	-
Service Fees and Charges	4,284	3,012	(1,272)	(30)%
Penalties and Fines	8,253	11,433	3,180	39%
Permit and License Fee	-	-	-	-
Investment Income	70,515	156,804	86,289	122%
Government Grants	550,563	573,459	22,896	4%
Other Revenue	126,120	139,062	12,942	10%
Subtotal	10,812,238	10,936,273	124,035	1%
Contributed Assets	-	-	-	-%
Total Revenue	10,812,238	10,936,273	124,035	1%
Expenses				
Salaries & Benefits, Employee Expenses	4,935,749	4,793,839	141,910	3%
Business Expenses	189,768	149,855	39,913	21%
Purchased Services	101,549	68,080	33,469	33%
Supplies, Materials and Equipment	416,263	366,102	50,161	12%
Interest on Debentures	575,533	575,535	(2)	-
Grants Disbursed	-	-	-	-
Amortization and Gain/Loss on Disposal	888,534	884,832	3,702	-
Other Expenses	1,800	61,339	(59,539)	(3,308)%
Intercharges Provided (to)	-	-	-	-
Intercharges Received (from)	602,323	605,621	(3,298)	(1)%
Total Expenses	7,711,519	7,505,203	206,316	3%
Net Revenue(Expense)	3,100,719	3,431,070	330,351	11%
Non-Operating Items and Close to Equity	(295,325)	(96,568)	198,757	67%
Operating Surplus (Deficit) For Tax Purposes	2,805,394	3,334,502	529,108	19%

There are no significant items to note for Library Operations at the end of the third quarter.

Capital Spend

Actuals spent up to the end of the third quarter is \$56.9 million (Q3 2021 - \$47.5 million). The actual spend is 32% of the \$179.0 million planned spend for all of 2022 (Q3 2021 - 28% of the \$171.1 million planned spend). There is an additional planned spend between October and December of \$41.2 million. The three-year average spend as at Q3 is 32%.

Capital spend is correlated with construction activity which generally has a seasonal peak during the summer months (June to September). Additional information will be provided in the Year-end 2022 Management Report.

Some of the capital projects that are significantly contributing (over \$5 million) to these variances are:

- Multi-Purpose Agriculture Facility (the Pointe-Aux-Pin) - outdoor amenities and servicing
- North of Yellowhead - Stage 1 Transportation Improvements
- North of Yellowhead - Wastewater Improvements
- Annual Urban Roads Rehabilitation Program (2022)
- Annual Rural Road Rehabilitation Program (2022)

Long-Term Debt

Long-term debt is only incurred to finance capital expenditures. The long-term debt outstanding at September 30, 2022 totals \$135.8 million (December 31, 2021 - \$140.8 million), representing a decrease of (\$5 million) in the current year to date. This is the result of new debt being issued, offset by debt being repaid.

December 31, 2021 Long-Term Debt Balance	\$140.8M
New Debt Issued January to September 2022	\$4.0M
Debt repayments made as at September 30, 2022	(\$9.0M)
September 30, 2022 Long-Term Debt Balance	\$135.8M

As of September 30, 2022, the County has utilized 32% of the County's policy debt limit and 26% of the Municipal Government Act (MGA) legislated debt limit. The debt limits used are from the December 31, 2021 calculation.

As per the Debt Management Policy (FIN-001-025), the County shall not exceed 80% of the total MGA legislated debt limit.

The estimated debt servicing percentage as of September 30, 2022 is 4.8%.

Year-End Projections

The year-end projections are based on the information available as of September 30, 2022 and is subject to uncertainty of unknown events or circumstances which may take place during the remainder of the year.

Municipal Operations - \$2.8 million projected year-end surplus*

	2022 Annual Budget	2022 Year-End Projected	Favourable (Unfavorable) \$	Favourable (Unfavorable) %
Revenue				
Property Taxes	232,649,540	232,649,540	-	-
Utility User Rates	-	-	-	-
Service Fees and Charges	32,469,372	27,348,146	(5,121,226)	(16)%
Penalties and Fines	6,298,101	5,282,071	(1,016,030)	(16)%
Permit and License Fee	3,302,315	3,302,315	-	-
Investment Income	4,708,028	6,615,028	1,907,000	41%
Government Grants	6,953,893	7,092,860	138,967	2%
Other Revenue	9,133,439	9,346,407	212,968	2%
Subtotal	295,514,688	291,636,366	(3,878,322)	(1)%
Contributed Assets	-	3,381,119	3,381,119	-
Total Revenue	295,514,688	295,017,485	(497,203)	(0)%
Expenses				
Salaries & Benefits, Employee Expenses	179,780,685	171,166,646	8,614,039	5%
Business Expenses	24,576,411	23,673,678	902,733	4%
Purchased Services	64,213,703	61,935,581	2,278,122	4%
Supplies, Materials and Equipment	16,739,094	15,003,188	1,735,906	10%
Interest on Debentures	2,714,510	2,714,510	-	-
Grants Disbursed	13,463,018	13,496,886	(33,868)	-
Amortization and Gain/Loss on Disposal	54,389,943	54,389,943	-	-
Other Expenses	3,349,236	2,706,639	642,597	19%
Intercharges Provided (to)	(11,411,160)	(11,411,160)	-	-
Intercharges Received (from)	8,195,993	8,195,993	-	-
Total Expenses	356,011,433	341,871,904	14,139,529	4%
Net Revenue(Expense)	(60,496,745)	(46,854,419)	13,642,326	23%
Non-Operating Items and Close to Equity	60,496,745	49,626,643	(10,870,102)	(18)%
Operating Surplus (Deficit) For Tax Purposes	-	2,772,224	2,772,225	

*Note – although best efforts have been made to forecast, Strathcona County recently implemented a new system and there could be a larger than normal variance from forecast at year-end actuals than normal.

Revenue variances projections:

- Service fees and charges - (\$5.1 million) unfavorable variance in Recreation, Parks and Culture driven by the decrease in admissions, programs and memberships resulting from COVID-19 restrictions earlier in the year, coupled with the public's varying acceptance of full re-opening of services (partially offset by reduced personnel and purchased service costs)
- Penalties and fines - (1.0 million) unfavourable variance driven by a decrease in Traffic Safety Act fines due to a reduction in traffic and increased driver education. There was also a reduction in Intersection Safety Device (ISD) revenue due to reduced ISD operations
- Investment income - \$1.9 million favorable variance due to higher investment volumes and yields

Expenses variances projections:

- Salaries & benefits, employee expense - \$8.6 million favourable variance:
 - Savings from permanent vacancies, turnover and permanent reduction of position due to restructuring
 - Reduction in staffing requirements during facility closures earlier during the year due to COVID-19 in Recreational Parks and Services (public facility admissions, programs, and memberships) as well as transit which offsets portion of decrease in revenue
 - Savings in professional development and training due to more staff utilizing online conferences
- Business expenses - \$0.9 million favourable variance due supply chain delays and capacity challenges
- Purchased services - \$2.3 million overall favorable variance due to lower demand for programming in recreation and culture, transit, enforcement services, and savings across multiple departments. This was partially offset by an unfavorable variance of (\$2.7 million) due to higher costs for snow removal earlier in the year.
- Supplies, materials & equipment - \$1.7 million favourable variance due to lower demand in programs in recreation and culture, lower than anticipated for the summer maintenance road program

Utility Operations - \$1.6 million projected year-end surplus*

	2022 Annual Budget	2022 Year-End Projected	Favourable (Unfavorable) \$	Favourable (Unfavorable) %
Revenue				
Property Taxes	29,247	29,247	-	-
Utility User Rates	55,198,942	57,886,006	2,687,064	5%
Service Fees and Charges	1,101,163	891,370	(209,793)	(19)%
Penalties and Fines	76,000	119,492	43,492	57%
Permit and License Fee	-	-	-	-
Investment Income	1,304,630	1,681,480	376,850	29%
Government Grants	7,000	35,172	28,172	402%
Other Revenue	7,595	7,000	(595)	(8)%
Subtotal	57,724,577	60,649,767	2,925,190	5%
Contributed Assets	-	8,270,290	-	-
Total Revenue	57,724,577	68,920,057	2,925,190	5%
Expenses				
Salaries & Benefits, Employee Expenses	11,526,981	10,689,892	837,089	7%
Business Expenses	830,933	680,933	150,000	18%
Purchased Services	12,534,047	12,347,444	186,603	1%
Supplies, Materials and Equipment	22,858,358	24,760,099	(1,901,741)	(8)%
Interest on Debentures	1,997,321	2,006,485	(9,164)	-
Grants Disbursed	-	5,884	(5,884)	-
Amortization and Gain/Loss on Disposal	9,723,838	9,723,838	-	-
Other Expenses	34,573	19,444	15,129	44%
Intercharges Provided (to)	(5,147,612)	(5,147,612)	-	-
Intercharges Received (from)	7,556,263	7,556,263	-	-
Total Expenses	61,914,702	62,642,670	(727,968)	(1)%
Net Revenue(Expense)	(4,190,125)	6,277,387	2,197,222	52%
Non-Operating Items and Close to Equity	4,190,125	(4,640,525)	(8,830,650)	(211)%
Operating Surplus (Deficit) For Tax Purposes	-	1,636,862	1,636,862	

*Note – although best efforts have been made to forecast, Strathcona County recently implemented a new system and there could be a larger than normal variance from forecast at year-end actuals than normal.

Revenue variances projections:

- Utility user rates - \$2.7 million favorable variance due to higher residential consumption than anticipated as more businesses allow employees to work from home and the hot, dry summer weather

Expenses variances projections:

- Salaries & benefits, employee expenses - \$0.8 million favorable variance due to staff vacancies and turnover
- Supplies, materials and equipment - (\$1.9 million) unfavorable variance due to more water and wastewater purchases, which is consistent with the higher utility user rates mentioned above. As more water is used by customers, more water must be purchased and treated

Library Operations - \$0.3 million projected year-end surplus*

	2022 Annual Budget	2022 Year-End Projected	Favourable (Unfavorable) \$	Favourable (Unfavorable) %
Revenue				
Property Taxes	10,052,503	10,052,503	-	-
Utility User Rates	-	-	-	-
Service Fees and Charges	5,713	4,441	(1,272)	(22)%
Penalties and Fines	11,000	15,240	4,240	39%
Permit and License Fee	-	-	-	-
Investment Income	93,679	179,968	86,289	92%
Government Grants	550,563	573,459	22,896	-
Other Revenue	161,084	170,520	9,436	6%
Subtotal	10,874,542	10,996,131	121,589	1%
Contributed Assets	-	-	-	-
Total Revenue	10,874,542	10,996,131	121,589	1%
Expenses				
Salaries & Benefits, Employee Expenses	6,821,055	6,652,745	168,310	2%
Business Expenses	218,855	183,296	35,559	16%
Purchased Services	147,786	117,423	30,363	21%
Supplies, Materials and Equipment	595,756	578,247	17,509	3%
Interest on Debentures	731,545	731,545	-	-
Grants Disbursed	-	-	-	-
Amortization and Gain/Loss on Disposal	1,196,322	1,196,322	-	-
Other Expenses	2,400	61,939	(59,539)	(2,481)%
Intercharges Provided (to)	-	-	-	-
Intercharges Received (from)	806,516	810,141	(3,625)	-
Total Expenses	10,520,235	10,331,658	188,577	2%
Net Revenue(Expense)	354,307	664,473	310,166	12%
Non-Operating Items and Close to Equity	(354,307)	(344,682)	9,625	3%
Operating Surplus (Deficit) For Tax Purposes	-	319,791	319,791	

*Note – although best efforts have been made to forecast, Strathcona County recently implemented a new system and there could be a larger than normal variance from forecast at year-end actuals than normal.

Revenue variances projections:

- Investment income - \$0.1 million favorable variance due to higher investment yields

Expenses variances projections:

- Salaries & benefits, employee expenses - \$0.2 million favorable variance due to staff vacancies and turnover

Appendix

GLOSSARY OF TERMS

- **Annual Operating Surplus / (Deficit) for Tax Purposes** – The annual surplus / (deficit) is the difference between the approved operating budget and the actual revenue and expenditures that occur during the year. The surplus / (deficit) is based on 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 / (deficit).
- **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.
- **Forecasted Variances** – Future variances to budget that have yet to occur but are expected to be realized before the end of the year based on current information and are projected to affect the year-end surplus (deficit).
- **Permanent Differences** – Variances to budget that have occurred and will affect the year-end surplus (deficit).
- **Public Sector Accounting Standards (PSAS) Surplus / (Deficit)** – The surplus / (deficit) resulting from financial statements prepared in accordance with PSAS, which is done on an accrual basis, including both operating and capital transactions.
- **Timing Differences** – Variances to budget that are expected to reverse during the remainder of the year and will not affect the year-end surplus / (deficit).
- **Year-End Projection** – Variances to budget that are expected at year-end due to permanent differences and forecasted variances. These variances will affect the year-end forecasted surplus / (deficit).
- **Year-To-Date Operating Variance** – The favourable or (unfavourable) difference between budget and actuals at a point in time including any timing differences.