Beaver County

Long Range Financial Plan

Final Report

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1. INTRODUCTION

Long-Range (or Long-Term) financial planning is the process of aligning financial capacity with long-term service objectives.[1] Municipalities across Alberta face certain fiscal realities and challenges that must be front of mind when assessing a long-term financial picture. A Long-Range Financial Plan combines financial and economic forecasting with strategies (e.g. funding required to achieving goals and mitigating identified risks). The Plan can be used as a tool to stimulate long-term and strategic thinking; guide consensus and decision making on long-term financial direction; facilitate priority setting and prevent financial challenges while balancing the needs of the municipality and its constituents.

The falling linear assessment base has a major impact on the ability of Alberta municipalities to continue delivering essential programs and services. In addition, the demands of citizens for high levels of service and infrastructure make budgeting a significant challenge. As such, Beaver County (the County) identified a need to develop a Long-Range Financial Plan and engaged MNP to assist with this undertaking. The five-year plan will guide the County's strategic and operational planning, now and into the future. The County developed a Terms of Reference (ToR) document for the Long-Range Financial Plan (refer to Appendix A). The Plan is a financial model that addresses specific tasks as outlined in the ToR, and it is intended to project revenues and expenditures over a long-term period. Assumptions of economic conditions, future spending scenarios, alternative revenue sources and other relevant variables are integrated within the projections.

1.1 Purpose of the Long-Range Financial Plan

Discussions with County Administration revealed that the absence of long-range financial planning, to supplement the annual budget process, makes the County vulnerable to "living year by year on grants." Currently the base budget covers operating costs, with minimal surplus dollars for future investment. The primary risk is that in the absence of a comprehensive picture (e.g. proactive inclusion of financial, operational, strategic and regulatory considerations), Council is not well equipped to make informed decisions, and to prioritize competing projects effectively. For example, proposed changes to the Municipal Government Act (MGA) will require Alberta municipalities to adjust base, capital and operating budgets to accommodate such changes.

County Administration is encouraging a better use of tools to ensure County sustainability. Such tools, including the Plan, will embed fact-based, independent and objective information sources to influence Council decision making (e.g. clarify what decision criteria are the most important to Council and align with the long-term vision for the County). A commitment to adhering to the long-range financial plan should also be front of mind for Administration and Council. This is critical as the Plan will lay out what programs and services the County can afford within a given timeframe, and any deviation from the Plan will require an unexpected shift in priorities and re-distribution of limited funding. The County may experience instances of ad hoc, urgent priority shifts but understanding how this may affect the County's long-term financial direction is important, and will require necessary adjustments to the Plan.

Elements of the Plan can also be used to educate constituents and ratepayers to support the decision making and resulting priorities of the County. Ultimately, Administration and Council are accountable to the public. Making key pieces of information available and easily accessible on the County's financial health, strategic direction and progress towards achieving its vision and goals will make constituents and ratepayers better informed.

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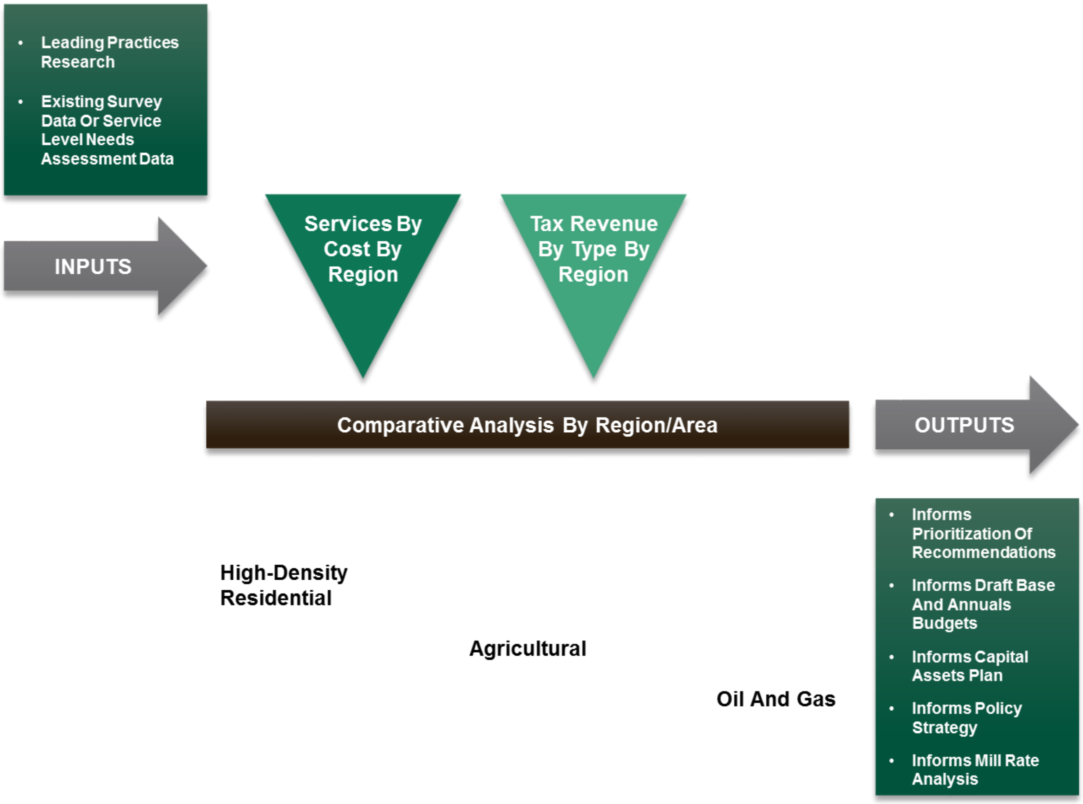
[1] Government Finance Officers Association of the United States and Canada http://www.gfoa.org/long-term-financial-planning-0 (accessed August 25, 2016)

2. PROJECT APPROACH

MNP's approach to this engagement was to address the tasks identified in the ToR in a four phase work plan. After a project kick off meeting with representatives of County Administration, two parallel sets of activities were initiated: a Research and Data Collection phase that involved key data collection from County systems, and an Analysis phase where we worked through more concrete data to build a solid foundation to develop the financial models. The Forecasting phase focused on building the financial models that the County will need to establish a strong financial planning foundation. Lastly, Consolidation and Reporting provided the County with the reporting, presentations and deliverables it needed to move forward with Council.

	Phase 1: Project Kick-off	**Phase 2: Research and Analysis**		**Phase 3: Forecasting**	**Phase 4: Consolidation and Reporting**
		A: Research / Data Collection	**B: Analysis**		
	July 2016	**July / August 2016**		**August / September 2016**	**October 2016**
Key Activities	• Conduct kick off meeting with steering committee to review objectives and work plan • Draft and revise project Terms of Reference • Collect background documents • Determine key stakeholders (internal and external) • Validate and finalize project Terms of Reference	• Review current financial documentation including capital assets (#9) • Collect additional data required for analysis • Research leading financial practices in rural municipalities • Research *Municipal Government Act* for opportunities / challenges (#10) • Review existing Beaver County policies	• Analyze demographic trends • Analyze revenue sources, levels, predictability, barriers, etc. (#2, #3) • Analyze reserve levels (#7) • Analyze funding sources (#2, #3) • Compare service costs vs. tax revenues (#11) [see graphic below] • Analyze inflation adjustments and impacts (#5) • Review *Municipal Government Act* for financial implications (#3, #10) • Validate analysis summary and conduct further in-depth analysis as required	• Forecast property assessments (#1) • Build reserve plan (#7) • Forecast mill rates (#8) • Build capital assets plan (#9) • Create draft budgets (base and annual) (#4, #6) • Develop basic policy strategy • Validate draft budgets, policy strategy, and make adjustments as required	• Compile earlier deliverables into a draft Long-Range Financial Plan with prioritized recommendations (#12) • Review recommendations with steering committee • Revise report as required
Deliverables	• Project Terms of Reference	• Leading Practices Summary • Policy Summary	• Analysis Summary	• Draft Budgets • Basic Policy Strategy	• Long-Range Financial Plan
	Project Management (Reporting, Communications, etc.)				

Our approach to the project was to work stepwise through the analysis process rather than completing each task outlined in the ToR independently. Since there was considerable overlap in the financial and economic data that was required for each task, we conducted the necessary research across the tasks first, and then began the analysis for each task. The Research/Data Collection activities also included phone interviews with rural municipalities to gather leading financial practices. Five rural municipalities were chosen based on similar size (e.g. population and land area) to Beaver County. Appendix B provides a list of interview contacts who were invited and agreed to participate in this project. Our analysis helped us understand each of the variables (financial and economic) and ensured we had all of the data required to create robust financial models. The projections process incorporated the research and analysis of the previous phases. The following graphic provides an illustration of our approach to completing the work.


Leading Practices Research
Existing Survey Data Or Service Level Needs Assessment Data
INPUTS
Services By Cost By Region
Tax Revenue By Type By Region
Comparative Analysis By Region/Area
OUTPUTS
Informs Prioritization Of Recommendations
Informs Draft Base And Annuals Budgets
Informs Capital Assets Plan
Informs Policy Strategy
Informs Mill Rate Analysis
High-Density Residential
Agricultural
Oil And Gas

3. SUMMARY OF FINDINGS

3.1 Policy Summary

As outlined in Phase 2: Research and Analysis, MNP conducted a review of existing Beaver County policies. This section summarizes observations and recommendations for consideration by policy area.

- **Beaver Municipal Solutions (BMS) Surplus Revenue:** The current policy outlines what surplus revenue can be used for – 50% can be allocated to “Council strategic priorities” and cannot be used for operating costs. We note this may lead to a wide range of potential discretionary uses as long as it aligns to a strategic priority. There appears to be a greater reliance on BMS dollars to fund road work within the County, and major road projects for the current fiscal year have been funded by grants. Although the County is able to maintain roads, these dollars are not being allocated to “strategic projects.”
    - *Recommendation:* Better define within the policy what “operating” means, and possibly provide a narrower breakdown as to what BMS surplus revenue is eligible to fund. The intent of the policy would seem to indicate that the purpose was not to use these funds for operational purposes.
    - *Recommendation:* Closely follow the BMS Surplus Revenue policy and ensure funds are allocated to Council’s documented strategic priorities.
- **Capital Projects Priority:** In this policy, there are a large number of criteria that all receive some form of scored ranking. This provides some leeway for an objective number to be attached to each criteria. However, there may be too many criteria and the process may be too complicated and onerous for Council to understand how they go together. As per discussions with County Administration, we learned that the rankings may be modified to include only certain items for other projects (e.g. not capital projects). Council has used the policy in practice (recently within the last four years), and there is some acknowledgement from Administration and Council that the policy can be refined further.
    - *Recommendation:* Refine strategic criteria further to minimize overlaps; some of these can be combined where practical and made simpler.
- **Council/Administration Roles and Responsibilities:** The current policy clarifies the roles and responsibilities between Council (Council, Reeve) and Administration (Administration, Chief Administrative Officer). We noted that County “criteria and tools” are listed on the policy for use by Council and Administration when carrying out organizational actions. As such, there is potential to put the *Capital Project Priority* policy, and associated criteria, as explicit requirements in the role of Council. In an era where accountability and transparency in decision making are ever increasing, Municipal Councils are under increased pressure to be able to defend their decisions with strong evidence and rationales. Both Council and Administration have a role in ensuring evidence based decision making is used by the municipality, improvement will require a commitment from all the stakeholders to supporting the process.
    - *Recommendation:* Introduce the *Capital Projects Priority* policy, and associated tools (section 3.5), as a requirement for Council to consider during the ranking and assessment process for projects/initiatives. Council is only able to make changes on an exception basis and any deviation from the policy must be formally documented and recorded in the minutes (e.g. rationale for changes in prioritization and decision making).

- **Operating and Capital Reserves:** As per discussions with County Administration, surplus revenue is placed into a general pot for the entire County. In practice, this allows for a more fair distribution of surplus dollars across the various departments. The accompanying reserve schedules were last updated in 2015, while Administration tries to update the schedules each year. County Administration would like guidance around presenting reserve information in a practical way. For example, approximately $13 million is available in restricted capital reserves at present but this is tied up as equity in tangible capital assets. The County wants to clarify what is a true number in terms of available cash. The County is deliberate in what the different types of reserves, as identified in the policy, are to be used for.

  The use of reserves by municipalities can be a very effective way to manage the challenges of long term financial planning. Reserves are the deliberate setting aside of fiscal surpluses to fund future expenses. These reserves are used to reduce the spikes in expenses for significant capital purchases (i.e. multi-million dollar pieces of heavy equipment—graders, fire trucks etc.) or specific capital costs or program costs that have been committed to in future years. Reserves are also used to support the financial viability of the municipality should negative swings in assessment or growth, or emergency situations (i.e. floods or other natural disasters) lead to shortfalls.

  One area that the County should look towards is improving the governance framework that supports its financial reserve approach. In the refinement of a reserve policy, the County should look to balance the flexibility of the current approach with specific guidance by Council on how, and how much, funding should be assigned to each reserve fund. Alberta Municipal Affairs has over the past several years taken some interest in the degree to which municipalities use unrestricted surpluses. The current government hasn't stated an overt position; however, the perception that some municipalities have significant excess unrestricted reserves may create challenges with the provincial government in the future. A proactive stance on reserve policy that includes a reasonable unrestricted reserve to manage emergent issues and financial stability with a series of specific Council-directed restricted reserves is prudent.

  - *Recommendation*: Review the existing reserve policy and provide more specific restrictions and guidance from Council as to what reserve amounts can be used for by administration. Develop a guideline for the percentage of the reserve funds that can be set aside as unrestricted funds for the purposes of cash flow, emergent needs and the enablement of administrative financial flexibility.

- **Road Construction Priorities:** While there are a small number of discrete priorities, this policy doesn't provide a way for Administration or Council to rate/rank road projects. A scale might be a way to create a more tangible link to the priority list and reduce political influence. We understand a road study is currently being completed by a professional engineering firm. Information from the road study may be used to refine the criteria necessary to assess and prioritize road projects (e.g. safety, connectivity, cost of repairs, benefits to residents, etc.)

  - *Recommendation:* Establish a rating scale informed by engineering reports and connect this policy to the *Capital Projects Priority* policy in terms of decision making and transparency.

3.2 Summary of Municipal Practices

As outlined in Phase 2: Research and Analysis, MNP conducted research for leading financial practices in rural municipalities. Five municipalities of similar size to Beaver County (e.g. size by land area and population) were invited to participate in one hour phone interviews. Participating municipalities include: County of St. Paul; County of Barrhead; Municipal District of Taber; Municipal District of Willow Creek and Flagstaff County. This section provides a high level summary of discussions by theme. While the municipalities by their own admission wouldn't have identified their approaches to these topics as "leading practices", we did identify some lessons that the County can learn from their counterparts.

Council Budget and Approval Process

- Municipalities surveyed approach the budget process differently. For example, Willow Creek will take budget numbers for the past three years and put together averages for costs by department. Wage increases (e.g. non-union) are negotiated every three years as decided by Council, and comparisons are made to other similar municipalities in terms of employee size, market and wages. Administration will visit department heads to discuss prior year, actual and projected budgets. This is an opportunity for departments to voice requested changes before budgets are finalized.
- For Barrhead, budget finalization typically happens at the end of April. A number of decisions are made in the fall to inform the budget such as salary grids and joint services with the Town of Barrhead (e.g. land fill, fire department, library, twinning community in Japan, airport etc.). A meeting is held in late November with Town and County Councils to review budgets that are joint, and agreement is reached to bring those budgets to the two Council meetings for approval.
- St. Paul is trying to continually improve its budget planning process. Planning typically starts in September with the goal to plan a whole year ahead. This year, the County will start a 3 year Operational Plan and 5 year Strategic Plan. The County is striving to bump planning items up in an earlier cycle. Purchase of a new budgeting software 2 years ago (e.g. Bellamy), ties into the County's financial system and has helped to develop 3 year projections and 5 year Capital Plan.

Accountability

- For Taber, a Capital Project Plan is approved by Council at the same time the annual budget is approved. There is a policy that requires any deviations from the project list to be documented and explained (e.g. Council Resolution). Public Works and Infrastructure report on progress for each project, and a monthly report is provided to Council (e.g. completed, ongoing and projected).
- Quarterly reporting and having good measures in place helps Administration in St. Paul to demonstrate accountability. A financial report is also provided to Council each month. If projects and/or initiatives were included in the Strategic Plan and not addressed in this year's budget, the County will explain why.

Priority Setting

- Flagstaff has used consultants to assist with the strategic planning process, and to facilitate priority setting workshops. This has worked well in terms of giving Administration direction. Regular follow-up is also conducted with departments to report on progress of identified priorities.

Administration will submit to Council an update on where Administration is at on priorities and endeavour to keep Council constantly informed on progress – Administration will simply ask Council where priorities fit. Currently, Flagstaff does not have a set criteria established to prioritize projects, but a chart outlining current and near future priorities assists with decision making.

- Taber has established capital projects prioritization criteria which currently includes 10 years' worth of work. Internal staff conduct a preliminary review on road projects along with a comparison to baseline information. There is a reliance on Council to re-prioritize projects with internal staff input. Suggested projects can come from the public, internal staff or Council. Ultimately, Council will undergo a series of discussions to decide which projects should be undertaken.
- St. Paul adopts a 'start from the ground up' approach to setting priorities. Department staff are consulted to move recommendations forward to Council based on the Strategic Plan. Priorities are essentially set by grant programs and the availability of funding. From an asset management perspective, all municipal buildings are currently being assessed for insurance and capital planning purposes. This exercise will assist with determining the replacement need and associated costs of buildings. The County is trying to move to full cost accounting for utilities, as this is heavily subsidized by tax revenue. A local improvement tax is contemplated if grant funding cannot be secured to replace necessary transmission lines.
- Similar to Beaver County, projects in Barrhead are typically road building projects. Each year, at the beginning of the year, Public Works will put together a listing of projects that are recommended to Council. Before this, Public Works will meet with each individual Councillor to discuss their respective divisions because they have their ears to the ground in the community. The recommendations are developed by Public Works, jointly with Council input. Most often Council and Public Works agree on the recommendations. In turn, road projects become part of the budget process.
- Willow Creek will pre-assess projects in the fall of each year, and aim to have no surprises when the budget is presented and approved by Council. Administration will look at funding levels from grants and will put money aside for the anticipated project costs (e.g. proactive allocation of dollars). If projects need to be re-prioritized, similar projects of similar dollar value will be considered, and the initial project in question may be pushed into the following year. A Council Resolution is required to bring in a replacement project and to use the money that was set aside for the project that didn't go ahead. Council wants support for recommendations made in terms of prioritizing projects.

Alternative Revenue Sources

- Generally, all the municipalities surveyed rely on grant funding and have a "no debt" philosophy. Most municipalities will seek opportunities to apply for grants in conjunction with towns/communities or regional commissions, such as Collaboration Grants or Small Communities Grant.
- Revenue is typically collected from business licenses, road allowance leases, well drilling revenue, traffic fines, etc. One municipality spoke of inter-municipal agreements with other communities located in the Municipal District such as an outsourced IT Manager.
- Future revenue opportunities identified include regional collaboration and shared cost arrangements for specific services (e.g. fire services, groundwater monitoring). Counties and

Municipal Districts will support urban neighbours with projects and venues such as libraries, spray parks, and theatres.

- In terms of cost savings, there was a general consensus that municipalities will negotiate longer term contracts (for goods and services) whenever possible. Opportunities for collaboration between and within the municipality are front of mind to keep costs down (e.g. buy bulk and share among others).

Municipal Perceptions of Proposed MGA Changes

- Overall, municipalities discussed an ideal scenario of being able to plan for longer time horizons (e.g. greater than 5 years). However, there is a need to react to government changes in direction and policy that make this a challenge at times for municipalities (e.g. regionalization of fire services).
- There is some level of concern for carbon tax changes. One municipality purchases group power and gas through the Alberta Association of Municipal Districts and Counties (AAMDC), and it has been suggested that it factor in a 30% contingency for utilities in addition to the currently budgeted amount.
- Overall, the centralization of industrial assessment is a significant concern. Municipalities expressed foreseen challenges in future projections, and not having a true picture (e.g. unlike residential assessment where permits are issued and can be tracked). One municipality shared that the approach to this year's preliminary budget was a conservative one due to the uncertainty in industrial taxation (e.g. impending changes).
- Increased municipal collaboration is viewed to be positive. One municipality noted that it is important for each rural municipality (and neighbours) to have an operational and capital plan in place so that others will have an idea of what the priorities are, and how best to assist one another. All municipalities surveyed are involved in some form of collaborative/cost sharing agreement with neighbours, and are conscious of the proposed requirements to set aside additional funds for inter-municipal activities. Flagstaff is currently working with its towns, villages and hamlets to develop a Regional Governance Framework, and an Inter-Municipal Partnership Committee has been formed. Over the last 1.5 years, Flagstaff communities have been working together to develop some models of regional governance that would work, and the goal is to have the framework implemented by October 2017.

Capital Planning

- In Willow Creek, Council approves a 5 year Capital Plan each year (October/November timeframe). The Capital Plan is integrated into the budget prior to bringing the budget to Council. Annual planning in the fall includes an assessment of equipment condition, repairs, and disposal recommendations. Buildings are inspected monthly, and regular maintenance schedules with a go-forward plan on what needs to be replaced are developed.
- St. Paul has a newly implemented Capital Plan, which ties to the vision and value statements of the County. Action plans are in place to reach overarching goals, and department based Strategic Plans were introduced this past October. The County has also been working on a 20 year Asset Management Plan.

- For Taber, capital purchases are discussed internally with staff in the beginning of August/September. This includes a thorough review of the capital equipment inventory and the capital projects inventory list. A 10 year capital equipment replacement list is in place and Administration will consult Councillors to discuss capital priorities within the same timeframe. Two capital budgets exist – one for time budgets (internal construction crew) and another for contracted budgets (required to undertake capital projects on a contract basis).
- Public Works in Barrhead maintains a 5 year listing of roads that requires reconstruction. A 10 year plan for equipment is in place; it outlines which equipment would likely be replaced within those 10 years, with the remainder being replaced within 20 years. In the 10 year plan, there are estimates as to when the particular piece of equipment will be replaced (cost of trade in versus purchasing new) and the amount of money required over the 10 years (e.g. 1/10 of the money put aside each year).

Reserve Policy

- Three of the five municipalities surveyed do not have a formally documented reserve policy in place. Overall, surplus dollars or dollars from unfinished projects that did not utilize their full budget are allocated to reserves annually as the budget allows.
- The other two municipalities set aside funds each year based on amortization values and depending on any other financial constraints. Both municipalities maintain balances for both operating and capital reserves, and the reserve policy in each municipality .outlines what the accumulated surplus is earmarked for (e.g. reserve type, specific projects, etc.)

Priority Based Budgeting (PBB)

During the project, County Administration had interactions with the Manager of Corporate Planning at Strathcona County. As requested, MNP conducted a telephone interview with Strathcona County to learn more about their experience with PBB.

- Strathcona County indicated that the fundamental first step in implementing PBB was to have a solid Strategic Plan. The Plan clearly articulated what Strathcona County wanted to achieve, and elected officials saw the value of completing a results map. Strong descriptors were included in the Plan including what Strathcona County wanted to achieve and what this would look like in terms of successfully realizing its strategic goals. Eight to ten descriptors were established to inform the results map, which described achieving each identified element while showing alignment to the Strategic Plan. Strathcona County is unique in that it currently has a 20 year Strategic Plan.
- Departments were consulted to develop a program inventory – what departments actually do to support the community and internal operations. Approximately 2,000 staff participated in this exercise. Strathcona County arrived at 315 programs across 19 departments (continue refinement of the program inventory is an iterative process), which was deemed sustainable by Council and Administration. Peer review teams were established to supplement department review teams in scoring all programs against intended results. Program attributes, such as mandate, portion of community the program is serving, and cost recoverability, were also scored.
- Strathcona County still budgets using a traditional budget approach, but the information from PBB assists with informing budgets in the future. PBB has been used in its first full year of implementation with a goal to have all departments use the tool to prepare for the 2017 budget

year. Departments have submitted very positive first submissions for their budgets, and the tool is well received.

3.3 Lessons Learned

After analyzing the responses from the municipal leaders that MNP interviewed, four key themes emerged as lessons learned that could be applied to Beaver County.

- **Focus on improved forecasting and accountability**: most of the municipalities were using their financial policies and reporting process to improve accountability of their municipalities to both Council and the Public. Beaver County should establish clear priorities supported by comprehensive budgets, capital plans and performance measures. Consistent regular reporting to both Council and the Public can help to ensure accountability.
- **Strategic planning is essential and should be aligned to financial management and capital planning for administration**: the municipalities all indicated that a key area for improvement was developing strategic planning documents with Council and then aligning administrative plans to support that direction. Beaver County would benefit from a Council approved strategic plan aligned to robust operational plans with performance measures and targets.
- **Reserve policies are an effective tool for financial flexibility but require sound governance**: given that there is little in terms of established standards for the use and size of municipal reserves, a key to effective reserve policy was clear indications of what should be restricted versus unrestricted, as well as the specific uses for restricted funds. Beaver County should improve on the existing reserve policies.
- **Increased collaboration is now table stakes for municipalities**: with the changes to the MGA (discussed later in the report) municipalities are recognizing that increased collaboration is an essential component of their plans moving forward. Finding ways to work together with their neighbours to reduce costs and improve services to citizens is high on many of their agendas. Beaver County should look beyond BMS to find opportunities for municipal collaboration and cost sharing.

4. EXPLANATION OF FINANCIAL MODELS

A sophisticated financial model was developed for Beaver County to provide insight into the items addressed in the Terms of Reference. This model used a combination of estimates and indicators provided by financial institutions, the Province and other Jurisdictions including the City of Edmonton. The Excel-based model was also adjusted through a number of variables and assumptions further outlined in Section 5. The County can determine how conservative in their projections they wish to be by adjusting these variables.

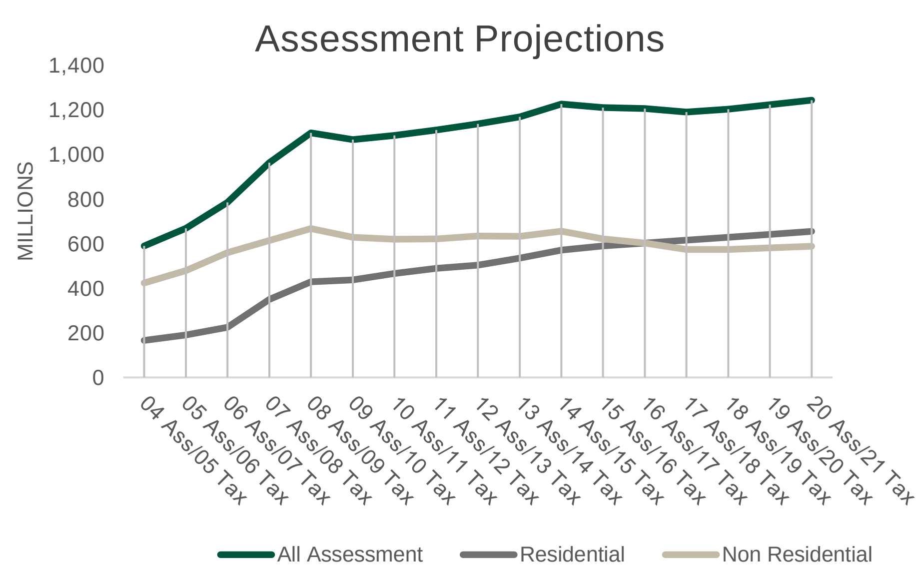
MNP validated and confirmed much of the data in the model through interviews with County managers and executive, officials in Alberta Municipal Affairs, and secondary research. The base year (2016) was validated and based on the budget documents and financial information approved by County Council.

The following sections address each of the points in the terms of reference. Where required, MNP has made recommendations for the County to consider moving forward.

4.1 Property Assessment Projections

MNP reviewed short and long-term economic forecasts, in particular the oil/gas industry predictions, and advise of the potential impact on the County's assessment base over the life of the financial plan. An assessment base for each year of the life of the financial plan was projected and then used as basis for assessing the impact on the Levy through the projection period. MNP conducted interviews with Alberta Municipal Affairs, Assessment Branch to gain an understanding of their expectations for assessment growth as well. Once we had developed the assessment model, we validated the information with County Senior Assessor and came to within $3 million on a $1.3 Billion assessment base of the County's more detailed assessment model.

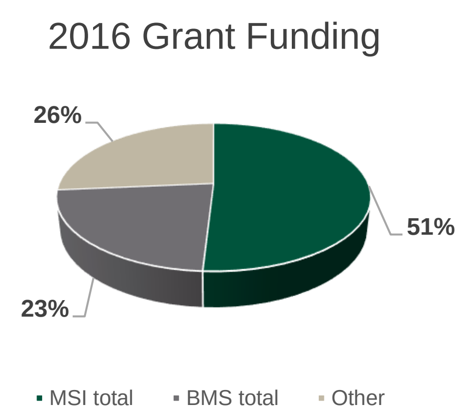
There are two key observations in the projections seen in the graph to the right. First, total property assessments will fall again in 2018 and begin to recover into the 2019 and 2020 tax years. Assessments are not likely to hit the 2015 peak until 2021. Second, there continues to be a shift away from a non-residential to a residential tax base in the County. The assessment gap has been narrowing since 2009 and flips next year (2017 tax year) to a higher residential property base in the County. The change is largely driven by substantial decreases in linear property assessments, particularly wells and pipelines from 2015 through 2018. In addition, the County has seen consistent residential property growth of more than 2% per year (predominantly in the



West of the County), which has continued the steady growth of residential assessments, despite slight declines in property values.

4.2 Revenue Challenges

While the main source of revenue for the County is property taxes, the County also relies on user fees and grants to fund operations and special projects. MNP reviewed the other funding sources in addition to property taxes in terms of consistency and predictability and the impact that a loss of grants will have on the County over the life of the financial plan. MNP met with Beaver Municipal Solutions and Alberta Municipal Affairs to understand the potential impacts on these revenue sources.



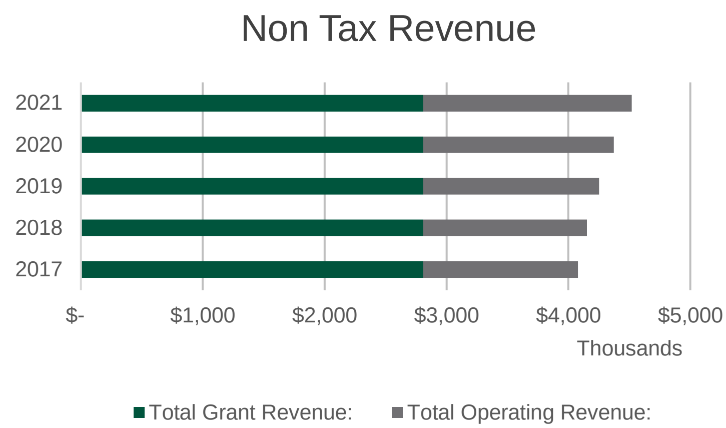
Beaver Municipal Solutions and MSI grants make up a considerable portion of the total capital and operating grants that Beaver County receives in a year. Of the total grant funding in the 2016 budget ($4.66 M) approximately 74% of it is derived from BMS and MSI. MNP conducted interviews to understand the risks related to the funding sources.

BMS' General Manager provided some insight into the future of the BMS grant. During that discussion the future of the grant was seen as reasonably sustainable for the immediate future. Risks to the grant amount included some discussions with the City of Edmonton to reduce costs of a contract, and the potential of moving to a municipal corporation from its current not for profit structure. Any move should consider the impact to revenue of federal income tax liabilities that come with a municipal corporation. For this reason, our projection maintained funding levels at slightly below current levels while recognizing that this funding is expected to be stable for the next several years. Any potential growth in dividends that might come with a transition to a for-profit municipal corporation are further out than our projection period.

The Province has provided us with some guidance with regards to MSI funding; however, it could not guarantee any commitments until official policy announcements are made. In addition, Alberta Municipal Affairs staff couched their discussion with the reality that the government is in a challenging fiscal framework right now and are doing what they can to manage the budget. With that said, it was indicated that stable funding to replace or continue current MSI grants levels is expected. Though not guaranteed, Municipalities should expect similar levels of funding from the province.

In addition, Municipal Affairs indicated that the Federal gas tax fund is expected to continue based on the current allocation methodology. The province is also expecting phase 2 of the federal infrastructure program in 2017. The challenge for Beaver County is that the competitive nature of the funding may mean that other jurisdictions with higher priority projects may get funded over Beaver County. Other programs that are expected to continue include Water for Life programs, Municipal Transit Initiatives, and the Strategic Transportation Infrastructure Project program.

Revenues generated through fees, permits and fines remain reasonably stable over the life of the projection. Our estimates include a modest increases of 2.5% in most operating revenues. One area that many municipalities have looked at is in fine revenue from traffic enforcement. While this can be a very controversial subject, a number of municipalities across the province have been increasing enforcement on the roadways in their jurisdictions to increase the funds available to improve traffic safety and infrastructure.



Beaver County provides a number of services at near or reduced cost to citizens including driveway clearing, animal control, and licenses. Unfortunately during the review MNP was unable to confirm the degree to which the County is subsidizing these services. From a principle point of view, many municipalities make deliberate decisions to provide services to citizens at or below the cost of administration and delivery. Beaver County needs to better understand the cost structure of the services provided to its citizens in order to determine the degree to which it wants to generate revenue or provide subsidies to citizens.

- *Recommendation*: Consider increasing revenue generated from community peace officers. While this is a controversial topic in municipal governments across the province, municipalities are able to improve their infrastructure and traffic safety by increasing enforcement.
- *Recommendation*: Conduct a service costing analysis to determine the degree of subsidization of citizen services. Use the results to develop a deliberate service and revenue policy.

4.3 Alternate Sources of Revenue

During our review and discussions with staff and stakeholders, sources of alternative revenues were not readily available. It is a real challenge for rural municipalities to find significant sources of new revenue to supplement the tax base. The County does have an industrial development on the horizon; however, there was not enough certainty on when that development would be viable to capture the benefit in the projection. As discussed previously, there is also an opportunity at BMS to move into additional service lines and customers by transforming into a municipal corporation. The impacts would not be felt for several years.

One area for consideration as an alternate source of revenue that was identified late in the review process is the province's Community Aggregate Payment Levy Regulation that is enabled through Section 7.1 of the MGA. This act provides municipalities the opportunity to place a levy on each tonne of gravel removed from lands within the municipality for private clients or industry. Any gravel removed for the municipality or the crown is exempt from the fee. The maximum payment is $0.25 per tonne of sand and gravel. For perspective, the municipality used 175,000 tonnes of crush, which would be worth approximately $43,500 if the municipality wasn't exempt. Unfortunately at the time of this review, we are unable to estimate the value of aggregate consumed by private clients. We do note that according to the Alberta Sand and Gravel Association's website, approximately one half of the province's rural municipalities do charge a levy under this regulation. It is our understanding that 2008 was the last time Council considered this approach and determined not to implement the levy. Circumstances have changed since then, and Beaver County should further investigate the industry within its boundaries to determine the potential value of this alternate revenue source – further analysis of the Community Aggregate Payment Levy Regulation is required to make a recommendation.

The main opportunity for the County is with regard to campsite operations. There are two campsites in the County: Black Nugget Lake, operated by contract, and Camp Lake, recently taken over by the municipality. Investments in Camp Lake in the first year of operations have positioned the County to increase its revenue in the coming years. There may also be potential for additional revenue at the Black Nugget Lake operation. Data from campground utilization rates at the County run site will likely provide the County with an estimate of the degree to which Black Nugget Lake revenue could be increased. MNP suggests a more in depth analysis of the results and campground usage patterns at both sites would ensure that they County is achieving the maximum return from both sites.

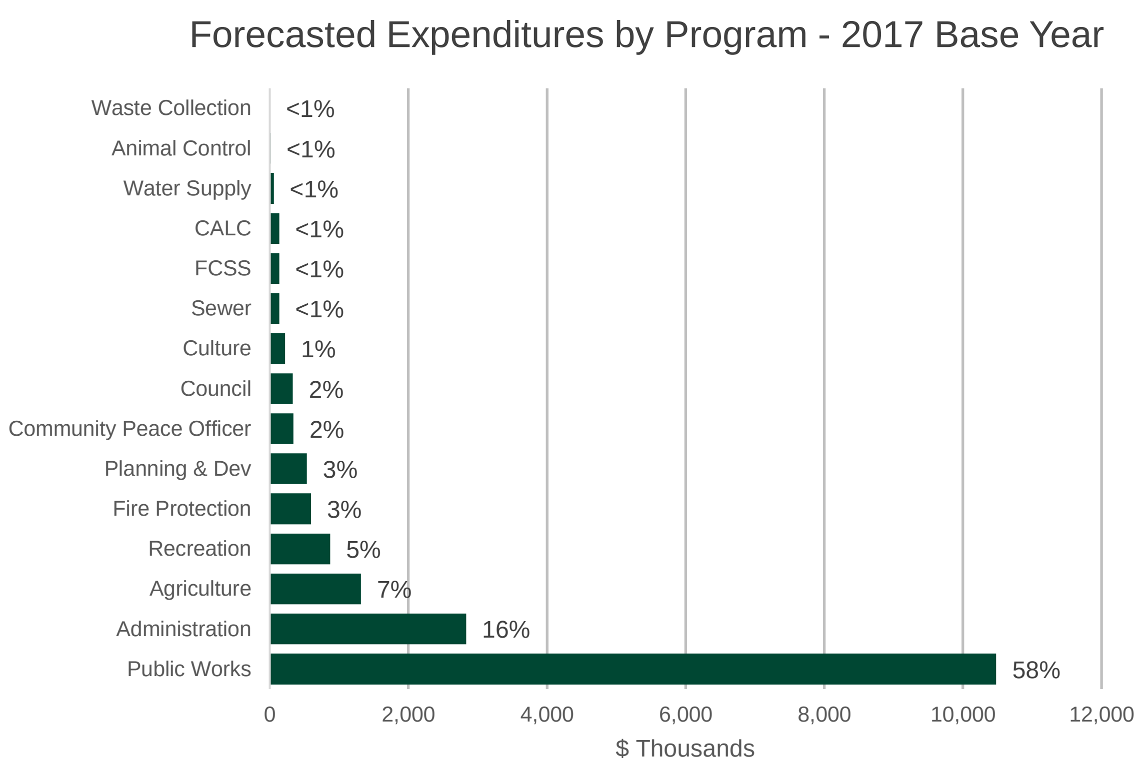
- *Recommendation:* Review the campground utilization for both sites and assess revenue potential in both locations. Assess business case to run both sites municipally.

4.4 Base Budget

Through our interviews and discussions with County management and staff, we did not identify any key special programs or initiatives that need to be built into the budget moving forward. Administration has taken a conservative approach to budgeting, recognizing that the assessment base is being stretched and additional funding is unlikely to be available. With this in mind, the base operational budget in 2017 includes only key inflationary modifiers like the Municipal Price Index (MPI) developed for the City of Edmonton), the impact of the carbon tax, and contracted salary increases.

The Approach MNP took to developing the financial models and the projections in this report is different than the one Beaver County management takes to develop their budgets. MNP took the 2016 budget as our base case and then applied a number of indices and economic indicators to each revenue and cost category. These assumptions are further articulated in section 5 of this report. In contrast, Beaver County management prepares the budget line by line. This enables management to prudently manage its costs and revenues to be addressed.

- The City of Edmonton forecasts a 2.5% increase in MPI for 2017.
- Carbon tax increases estimated at 8% for 2017 on the direct gas purchases by the County (approximately a $38,000 impact on gas costs of $475,000). Additional cost increases due to carbon tax impacts on gravel hauling and other transportation related services will need to be calculated.
- Salary increase is based on a historical increment of 2.5% in 2017.



Like most rural municipalities, the largest piece of the base budget is Public Works followed by administration. Together they make up almost three quarters of the total expenses of the municipality.

At a summary level the County projection for the 2017 base year in the budget is reflected in the table below. While the non-levy funding remains relatively stable from 2016, expenses increase by approximately $850,000. With the continued use of the operating reserve of approximately $980,000, the County will still require a tax levy increase of approximately $780,000 over 2016. Operating revenues of approximately $4 million are offset by $18 million of expenditures, to create a required property tax levy of $13.9 million before capital purchases from the levy (new equipment purchases) and operating reserve transfers just under $1 million. The net impact is an estimated tax levy requirement for 2017 of $13.822 million.

	2017 (1000's)
Grant Revenue	$2,808
Operating Revenue	$1,271
Subtotal Revenue	**$4,079**
Administration	$2,832
Council	$333
Community Peace Officer	$342
Fire Protection	$594
Animal Control	$11
Public Works	$10,481
Water Supply	$58
Sewer	$138
Waste Collection	$5
FCSS	$137
CALC	$136
Planning & Development	$536
Agriculture	$1,316
Recreation	$871
Culture	$222
Subtotal Operating Expenses	**$18,013**
Required Property Tax Levy Without Reserves or Capital	($13,933)
Funded by Operating Reserve	$981
Capital Purchases from Levy	($870)
Total Levy Required	**$13,822**

4.5 Annual Municipal Inflationary Adjustments

Inflationary adjustments for municipalities can be a challenge at the best of times. With the uncertainty that comes with a slowly recovering economy this challenge is compounded. The most robust municipal benchmark for inflationary adjustments for the province is the Municipal Price Index created by the City of Edmonton's chief economist. The City of Edmonton publishes an Economic Insights document yearly (published at Edmonton.ca) which includes the municipal price index. In that report they show both actuals from 2010 and projection to 2020. The information clearly shows that municipal inflation (the inflation on the types of goods and services municipalities buy and use) has increased at a higher rate than the Consumer inflation over time with the one exception of 2014 where municipal inflation was actually lower by ¼ percent. The forecasts indicate inflation of 2.55% for 2017 increasing to 3.06% by 2020. MNPs financial models have taken the MPI rates into account.

4.6 Annual Budgets

MNP prepared a modeling tool for use by the County including a number of adjustable variables and assumptions. These assumptions are provided in detail in Section 5 of this report. The assumptions are also identified in the model. As described in earlier sections these assumptions underlie a number of the increases and inflation factors in the estimates below. The budget year for 2016 was reconciled to the Council Approved budget. Variables and assumptions were then applied to those base figures to create the estimates in the table below.

	2016	2017	2018	2019	2020	2021
Grants:	$ 2,896,296	$ 2,808,182	$ 2,808,182	$ 2,808,182	$ 2,808,182	$ 2,808,182
Operating Revenue:	$ 1,179,285	$ 1,271,018	$ 1,343,124	$ 1,443,144	$ 1,564,903	$ 1,712,315
Total Revenue:	$ 4,075,581	$ 4,079,200	$ 4,151,306	$ 4,251,326	$ 4,373,085	$ 4,520,497
Administration:	$ 2,759,300	$ 2,831,942	$ 2,871,219	$ 2,913,065	$ 2,958,475	$ 3,005,275
Council:	$ 324,782	$ 332,936	$ 334,928	$ 337,056	$ 339,375	$ 341,764
Community Peace Officer:	$ 322,494	$ 342,253	$ 357,034	$ 372,367	$ 388,385	$ 404,893
Fire Protection:	$ 579,466	$ 594,242	$ 610,762	$ 628,413	$ 647,643	$ 667,461
Animal Control:	$ 11,000	$ 11,281	$ 11,594	$ 11,929	$ 12,294	$ 12,670
Public Works:	$ 9,886,437	$ 10,481,012	$ 11,042,850	$ 11,625,703	$ 12,234,728	$ 12,862,390
Water Supply:	$ 57,025	$ 58,479	$ 60,105	$ 61,842	$ 63,734	$ 65,685
Sewer:	$ 134,691	$ 138,113	$ 141,252	$ 144,606	$ 148,260	$ 152,025
Waste Collection:	$ 5,000	$ 5,128	$ 5,270	$ 5,422	$ 5,588	$ 5,759
FCSS:	$ 133,451	$ 136,853	$ 140,605	$ 144,614	$ 148,981	$ 153,481
CALC:	$ 135,022	$ 135,856	$ 136,789	$ 137,786	$ 138,872	$ 139,991
Planning & Dev:	$ 522,238	$ 535,501	$ 547,290	$ 559,887	$ 573,610	$ 587,753
Agriculture:	$ 1,227,349	$ 1,315,937	$ 1,394,075	$ 1,474,805	$ 1,558,458	$ 1,648,061
Recreation:	$ 849,808	$ 871,477	$ 895,646	$ 921,471	$ 949,604	$ 978,599
Culture:	$ 216,031	$ 221,540	$ 227,688	$ 234,258	$ 241,416	$ 248,792
Total Expenditures:	$ 17,164,094	$ 18,012,550	$ 18,777,109	$ 19,573,223	$ 20,409,423	$ 21,274,598
Required Property Tax levy w/out reserves/capital:	$ (13,088,513)	$ (13,933,350)	$ (14,625,803)	$ (15,321,898)	$ (16,036,338)	$ (16,754,102)
Expected Capital Purchases from Levy (per 10 yr plan):	$ (940,000)	$ (870,000)	$ (880,000)	$ (890,000)	$ (1,040,667)	$ (910,000)
From Operating Reserve	$ 980,524	$ 980,524	$ 980,524	$ 980,524	$ 980,524	$ 980,524
Total Levy	$ (13,047,989)	$ (13,822,826)	$ (14,525,279)	$ (15,231,374)	$ (16,096,481)	$ (16,683,578)
Year to Year Levy Increase		**4.94%**	**4.24%**	**4.24%**	**4.28%**	**4.23%**

In the model above you will notice that the increase to the total tax levy required to fund operations peaks in 2017 just shy of 5% then stabilizes at approximately 4 ¼ % in future years. The County will need to make some serious decisions regarding programs and services and service levels if they want to keep tax increases down.

Note that these projections are estimates based on the best information provided by County staff and management, as well as the research conducted by MNP through interviews and secondary research. Many of the assumptions are made based on economic predictions and are subject to changes outside of the control of the County.

4.7 Reserve Balances

In section 3.1 of this report we have provided some guidance on the use of reserves by Municipalities. Although somewhat dated, information provided by Alberta Municipal Affairs on the use of reserves across Alberta indicates that almost 90% of the 344 municipalities in the province carried positive unrestricted surpluses. The table to the right shows that the average for Municipal Districts is almost $7 million.

This unrestricted surplus accounts for only a portion of the reserves that municipalities carry. Beaver County by policy also restricts reserves for specific uses, including capital replacement and strategic priorities.

Status	Total Unrestricted Surplus	Average
City	185,672,674	14,282,513
Improvement District	2,752,772	458,795
Municipal District	364,548,724	6,750,902
Special Area	22,403,297	22,403,297
Specialized Municipality	6,438,977	2,146,326
Summer Village	8,229,839	164,597
Town	190,835,926	2,120,399
Village	37,964,346	446,639
Total	818,846,555	

The current total reserve balance (restricted and unrestricted) in the 2016 budget is $19.9 Million, an increase of approximately $500,000 over the previous year. The transfers out to fund capital purchases and operations of $1.98 million are offset by transfers in of approximately $2.48 million. Each department sets aside reserve amounts in their budgets to account for costs expected in the future, or as a contingency for emergencies.

It should be noted that reserves are not a liquid source of cash or operational funding. Reserves are also used to help municipalities manage day to day operations and the cyclical nature of property tax payments. These reserves are also used to fund inventory which is expensed as it is used.

As discussed in section 3.1, the municipal reserve value is not driven by a best practice or a public sector standard (PSAB or CPAA standards for reserves are about process and accounting treatment not the value). However, from a governance perspective Municipalities should have a robust policy set that provides a balance between unrestricted reserves to provide the flexibility to manage financial challenges as well as contingency for emergency or unforeseen economic events, on the one hand. On the other, policy based restrictions on the use of reserves gives County Council the ability to provide guidance and oversight to the use of municipal funds.

Finally, the Province has indicated on more than one occasion that the size of some unrestricted reserves has become a concern. The perception that this is a “treasure chest” of cash that municipalities could use instead of provincial funding could impact future decisions. This perception also extends to the taxpayer who may see the size of the reserve as an indication of unnecessary taxation.

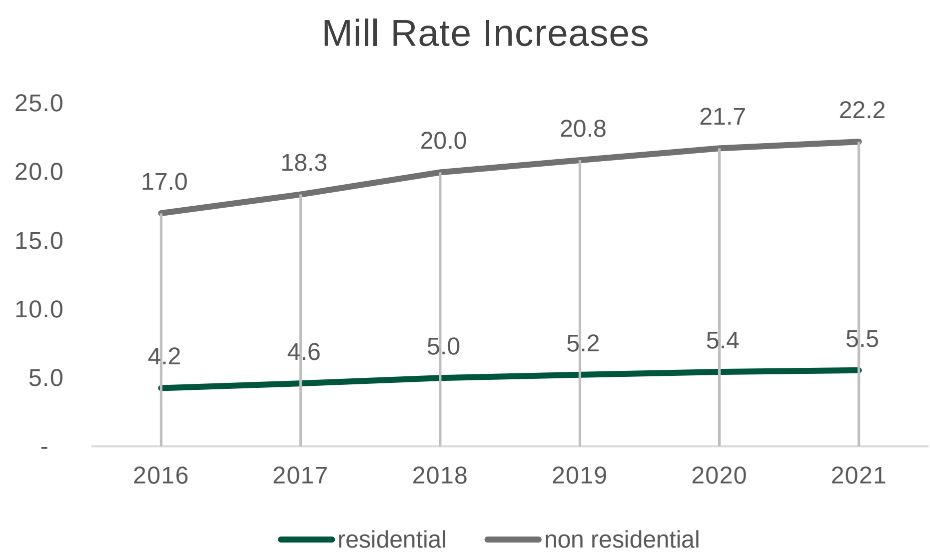
- *Recommendation (repeated from Section 3.1 above):* Review the existing reserve policy and provide more specific restrictions and guidance from Council as to on what reserve amounts can be used for by administration. Develop a guideline for the percentage of the reserve funds that can be set aside as unrestricted funds for the purposes of cash flow, emergent needs and the ability of administrative financial flexibility

- *Recommendation (repeated from Section 4.2 above)*: Conduct a service costing analysis to determine the degree of subsidization of citizen services. Use the results to develop a deliberate service and revenue policy.

4.8 Mill Rate Increases

Based on the assumptions in the model, the mill rate has to continue to increase throughout the period of the model. One of the key factors in the model is the historical 4:1 ratio that is used and a single uniform increase of both non-residential and residential assessment. This reinforces the spread between business and residential taxes which continues to widen.

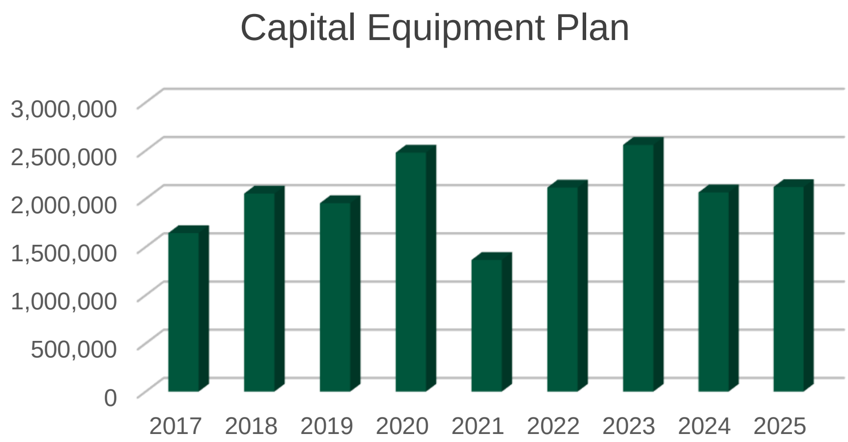
This increase is in effect a roughly 8% increase in the mill rate (4.2 to 4.6 for residential rate payers) and an inequivalent percent increase for non-residential rate payers in 2017. As described in section 4.1 the assessment base is also changing over time with residential assessment projected to exceed non-residential by 2018 without significant new development in the County. The impact is a double impact in that residential payers have to shoulder more of the tax burden over time, while the remaining non-residential mill rates continue to climb.



- *Recommendation*: Review the approach to increasing mill rates and consider the implications of a change in proportion of residential vs. non-residential assessment. Council needs to consider the impact on attracting business of steadily growing non-residential tax levies, especially as the residential portion of the assessment base continues to grow.

4.9 Long-Range Capital Plan

There are three aspects to any organization's capital plan: the equipment that the organization needs to buy or replace over time; capital maintenance upgrades and new construction of buildings and engineered structures; and, the operational impacts of that construction. The County does a good job on the equipment side of the capital plan but needs to work on the other two.



The 9 years remaining on the 10 year Capital Plan from 2015-2025 include $18.4 million in capital equipment purchases, $8.6 million supported by tax levy and an expected $5 million in MSI grants. The remaining costs are intended to be covered by trade-in value on the equipment and $4.7 million of capital reserves that have been set aside for the purpose of replacing equipment. At an average of $2 million in capital costs per year there is a steady and coherent replacement of the equipment needed to run the County.

However, there are gaps that need to be addressed. The capital plan does not take into account any long term planning for the buildings and engineered structures in the County. Maintenance seems to be addressed on an ad hoc basis as issues come up and does not seem to be planned out in advance. Road construction is planned on a yearly basis based on need and condition; however, the volume of construction varies based on the funding available as such long term capital planning in total is not addressed. In a similar fashion, capital investments that would come with residential or industrial developments have not been identified. While these developments may not be guaranteed, the County continues to grow and will need to invest in critical infrastructure, and a robust capital plan would set out the investment requirements with the best information on timing that they have.

The other gap is closely connected to the issue above; operational impacts of capital construction are not identified. The overall budget model developed by MNP does not address capital impacts on operations because there is not a clear capital plan that would be identified when the new engineered structures come on board. The assumption has been made that the capital equipment identified is replacement equipment and would not create additional operational impacts for maintenance and operation.

- *Recommendation*: Develop a comprehensive capital plan that expands well past the equipment needs of Public Works and Agriculture to include all capital investments required for equipment, buildings, roads, and engineered structures as well as the operational impacts of those investments.

4.10 Municipal Government Act Changes

The Province has proposed a number of amendments to the Municipal Government Act that will directly affect Beaver County. There are a number of interested parties in this review, and several of those have developed independent overviews of the issues and concerns that Municipalities and the business community may have regarding the changes. MNP reviewed the MGA changes as well as overviews by both AAMDC and the Edmonton Chamber of Commerce. The comments below are not legal opinions regarding the MGA changes and are not comprehensive. We have focused our discussions on those issues that could have an impact on the financial and planning activities of the County that are within the scope of this project.

- A key focus of the changes is on intermunicipal collaboration and planning. This has created the requirement for municipalities to create several planning and relationship documents internally and with their neighbours. The three interconnected documents are the Intermunicipal Collaboration Framework (ICF), the Intermunicipal Development Plan (IDP), and the Municipal Development Plan (MDP). Each of these documents will be required for all municipalities under the new MGA. The better prepared from a financial management and reporting point of view the County is, the better the outcome that it can achieve when it begin to work with its neighbours both within its borders and on the edges of the County. The plans can also identify opportunities to work together to reduce costs, share infrastructure and manage revenues in a much more coordinated fashion. The IDP and ICF documents in particular will require significant County attention as it is required to establish agreements with each of the municipal entities it is adjacent to.
- Mentioned earlier in the report, municipal corporations are further enabled through the amendments. The MGA changes may provide for fewer approval steps to create a municipal engagement, but they still will require a fairly comprehensive level of due diligence and financial modeling. The County will need to work with BMS to make sure a robust business case and financials has been developed prior to making a decision on whether to change the current not for profit model.
- With regard to regional funding the proposed changes have deliberately not created a mandate for regional pooling of taxes. However the ICFs are seen as an important tool for getting municipalities to resolve questions on how costs of services are fairly shared amongst regional partners.
- The MGA changes do require multiyear planning for both operational and capital expenses. The County has moved ahead of the curve with this initiative to develop a multiyear plan for operational finances. There is still work to do to get a five year capital plan in place that fully addresses the County’s needs.

5.0 ASSUMPTIONS

The preceding financial projections are predicated upon a number of assumptions. These assumptions were carefully developed and reflect MNP's best understanding of all applicable factors at the time of the compilation of this report. Since the financial projection is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. The Excel-based model has also been developed in a way that allows the County to adjust these assumptions and conduct their own scenario modeling should conditions change or they wish to assess the impact of changing one or several assumptions.

Operating Costs
Capital coded accounts are excluded from operating costs.
Salary and benefits rates are based on the Collective Agreement between the Local Union No.955 and Beaver County that ends August 19, 2017.
The current model uses an amortization increase of 2.5% which is roughly the average increase over the past 3 years.
Salaries and benefits have been adjusted to increase by 2.5% in the years of the contract.
Amortization has be worked out further to include the expected capital purchases and then recalculate the amortization each year.

Expenditures
These expenditures have been calculated to rise by the Municipal Price Index (MPI) through to 2021 - with the exception of gravel prices - they will stay the same each year, given that gravel costs are locked in. As the City of Edmonton's current MPI forecast is presented only up to 2020, the forecasted MPI for 2020 was also used for 2021.
Pipeline assessment is anticipated to decrease 10% in 2017 and again in 2018.

Tax Revenues and Rates
Well assessment is expected to decrease by 15% in January 2017 and again in 2018.
Pipeline assessment is anticipated to decrease 10% in 2017 and again in 2018.
The ratio of residential to non-residential taxes is 1:4 which is based on a historical average for the past five years.

Grant Funding

The Beaver Municipal Solutions Dividend was assigned a conservative value of $500,000, a moderate value of $750,000, and an optimistic value of $1,000,000. The optimistic value was used for the Year 1 projection while the moderate value was used for Years 2-5.

Other grant funding was similarly assessed across values ranging from $0 (conservative) to $500,000 (optimistic). The current model uses a value of $250,000 for Year 1 and $350,000 for Years 2-5.

Operating Revenue

Inflation growth reflects historical rates from 2012-2015. The rates over those years range from a decrease of 2% to an increase of 5%. For this model, a flat rate was used for all years.

Growth in planning revenue is expected to increase from years 2-5. In Year 2 a conservative rate of 10% growth in projected, in Year 3 this rises to 15% and in Year 4 and 5 it is set at 25%. This numbers are based on historical figures from the past three years.

CALC levels are assumed to be the same as present value throughout the projected period.

Bylaw/enforcement revenue will grow by 5% in Year 1 and then fall to 2.5% growth each of the subsequent years.

Public works revenues will hold flat at 2.5% annually.

Waste, sewer, water, agriculture, and recreation have historically remained flat from year to year. The Municipal Price Index and other sources were used to set the values applied to this projection.

APPENDIX A – TERMS OF REFERENCE FOR THE LONG-RANGE FINANCIAL PLAN

TERMS OF REFERENCE

LONG-RANGE FINANCIAL PLAN

Beaver County is a rural municipality southeast of Edmonton. It is ideally located along the Province's High-Load Corridor and has a diversified tax base, ranging from acreage development in the west, to mixed farming in the centre and east, and gravel/oil/gas extraction in the east.

Beaver County taxpayers expect County Council to use property tax dollars prudently for the efficient and economical delivery of municipal services, while meeting the changing needs of its citizens. Council takes this responsibility very seriously and thoroughly reviews the municipal budget each year to ensure that essential services are properly funded, levels of service meet the needs of County residents, and the County continues to build towards social, economic, and environmental success.

The County's property tax base experienced a significant reduction in 2015 (taxable in 2016). With the decline in oil and gas prices, companies that own pipelines and oil/gas wellsites in the County have either slowed production significantly, or suspended or abandoned wells. This, in addition to the annual depreciation and material/construction inflationary costs, resulted in a loss of assessment of almost $34 million.

Fortunately, there was some growth in the residential assessment throughout the County ($19.6 million), however it wasn't enough to offset the loss for non-residential properties. The total assessment base decreased $14 million dollars, which is the equivalent of almost $475,000 in taxes.

The County's 2016 budget, with a 3.77% mill rate, continues to provide for the levels of service that were set by Council. Special projects, including infrastructure improvements, are being funded from grants which are uncertain or declining.

With the continued economic slowdown, the County anticipates that the non-residential assessment base will decline again in 2016. In addition to the budget challenges this presents, the residential assessment base has, and will continue to bear the brunt of the impact. These financial pressures coupled with increasing service level expectations highlight the need for a long-range financial plan.

Council is seeking the services of a consultant to develop a five-year plan that will guide its strategic and operational planning, now and into the future. Generally, the planning process will identify and confirm critical issues, analyze trends, develop forecasts, and identify gaps. More specifically, the financial plan will include the following tasks:

1. **Property assessment projections.** The consultant will consider the short and long-term economic forecasts, in particular the oil/gas industry predictions, and advise of the potential impact on the County's assessment base over the life of the financial plan. An assessment base for each year of

the life of the financial plan will be projected. The consultant may wish to meet with Alberta Municipal Affairs, Assessment Branch, regarding this task.

2. **Revenue challenges.** While the main source of revenue for the County is property taxes, the County also relies on user fees and grants to fund operations and special projects. The consultant will review these sources of funding, evaluate user fees vs subsidies, review revenue consistency and predictability, and consider the impact that loss of grants will have on the County over the life of the financial plan. The consultant may wish to meet with the grantors (e.g. Beaver Municipal Solutions, Alberta Municipal Affairs, etc.) regarding this task.

3. **Alternate sources of revenue.** The *Municipal Government Act* sets the parameters regarding the types of partnerships, investments, and business arrangements in which the County can participate. The consultant will outline alternate sources of revenue that are supported by the Act, advise of other municipalities with related experience, and assess the expected level of success given the County's size, location, and any other relevant factors.

4. Base budget. The consultant will develop a base budget (revenue and expenses) for the 2017 year and identify outliers (i.e. special projects). The County has prepared a base budget for 2016 and will work with the consultant on this task.

5. **Annual municipal inflationary adjustments.** The consultant will review various factors that influence inflation and determine those which are applicable to goods and services purchased by the County. The consultant will recommend an annual inflationary adjustment to be applied each year of the financial plan. Other municipalities (e.g. City of Edmonton) have calculated "municipal inflation" and the consultant may wish to review their formula for applicability to the County.

6. **Annual budgets.** Based on assessment projections, probable revenue sources, and inflationary adjustments to the base budget, the consultant will project base budgets for each year of the life of the financial plan. The consultant may wish to review the County's polices regarding levels of service, capital financing, and debt financing to assist with this task.

7. **Reserve balances.** The consultant will review the County's *Operating and Capital Reserves Policy* and recommend changes based on the research and findings of other tasks in this financial plan.

8. **Mill rate increases.** Based on assessment projections, probable revenue sources, and base budget calculations, the consultant will advise of potential mill rate changes for each budget included in this financial plan.

9. **Long-range capital plan.** The consultant will update the County's long-range plans for vehicles, equipment and buildings, and the usual sources of funding. Road and utility infrastructure will not be included. The capital plan will span the life of the financial plan. It is the County's intent to stabilize the tax levy needed from year to year for capital purchases. The County will supply a list of assets and condition of assets to assist the consultant with this task.

10. *Municipal Government Act* changes. The consultant will review the proposed changes to the *Municipal Government Act* and identify the financial impact on the County over the life of the financial plan. Specifically, the impact of the proposed carbon tax/levy will be calculated.

11. Although not directly related to the development of a long-range financial plan, the consultant will calculate the cost of services vs tax revenue generated for each of three areas in the County: high-density residential development, the agricultural community, and the east end of the County where oil/gas development predominates. The consultant may wish to refer to studies conducted by other rural municipalities (e.g. Red Deer County) for applicability to Beaver County.

12. The consultant will prepare a final report which will address all areas listed above as well any recommendations for future financial planning.

The County's liaison for the project will be Margaret Jones, Assistant CAO, and Ed Bujnowicz, Director of Finance.

The project will commence upon Council approval (anticipated in June 2016) and will be completed by the Fall. The consultant will be expected to present the final report to Council at the November Committee of the Whole meeting (tentatively scheduled for November 2).

APPENDIX B –INTERVIEW CONTACTS

Name	Title	Municipality
Sheila Kitz	Chief Administrative Officer	County of St. Paul
Mark Oberg	County Manager	County of Barrhead
Derek Krizsan	Municipal Administrator	Municipal District of Taber
Johanne Hannas	Director of Finance	Municipal District of Willow Creek
Shelly Armstrong	Chief Administrative Officer	Flagstaff County
*John Dance	Manager, Corporate Planning	Strathcona County

NOTE (*): Beaver County requested MNP to conduct a phone interview with Strathcona County (e.g. obtain additional information and insight on Priority Based Budgeting).

In addition MNP spoke with several people from Alberta Municipal Affairs including JD Kliewer (Accountability and Funding Analysis) and Chris Risling (Linear Assessment).

ABOUT MNP

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