

2005 BUDGET OVERVIEW

St. Albert is a dynamic, energetic city of 54,588, with vibrant arts and cultural scene, spectacular tree-lined boulevards, peaceful parks and trails, and a small-town atmosphere...all of which contribute to a superior quality of life for residents.

The City of St. Albert, as all urban municipalities, continues to face significant pressure in maintaining existing services within constrained fiscal resources. St. Albert prides itself on the vast array of services it provides at levels that, in most cases, exceed other municipalities within the Capital Region. St. Albert is unique among urban municipalities, in that it derives only 11% of its property tax assessment from commercial and industrial properties. The average for cities in Alberta is approximately 28%. As a result of this assessment mix and demand for such a wide array of services, St. Albert's residential property tax continues to be at the upper end of the Capital Region. This position is one that continues to challenge our economic development efforts in our community. Placing pressure on the Federal and Provincial Governments to provide cities, such as St. Albert, with additional revenue through options such as a percentage of the gas tax and infrastructure funding, is required for municipalities to maintain sustainability through alternate revenue sources. We cannot continue to rely on one main funding source and that is the property tax.

Residents have high expectations of the City of St. Albert to provide programs and services that not only meet basic needs, but also further contribute to this high quality of life. Over the years, the Corporation has responded and developed quality programs and services. These expectations, however, continue to grow, further placing strain on resources. This, coupled with the need to construct a major arterial road (West Road) and a multipurpose leisure facility, only increase pressures on existing resources.

Prior to development of the 2005 recommended budget, administration in consultation with Council created the 2005 – 2007 Corporate Business Plan. The business planning process is structured into an annual 12-month cycle that begins with a review of the previous year's process in January and ends with the final business plan and budget in December. The 2005 – 2007 Business Plan provides the overall direction for the 2005 Budget.

OVERALL DIRECTION

The 2005 Recommended Budget was drafted within the "Budget Guiding Principles" as approved by City Council September 2, 2003 (following).

Senior Leadership Team directed departments to prepare their 2005 Budget Submissions as follows:

- Link to the Business Plan as to the specific goals for quality of life, environmental protection, fiscal responsibility, long-term planning, economic development, municipal leadership, and governance and safety.
- Identify priorities and resources needed to carry out existing programs and services.

- Identify emerging needs and priorities, and provide information on the resources needed to manage service demand.
- Plan for the construction of the West Road.
- Manage growth and future land requirements through annexation.
- Address the City's existing infrastructure needs to ensure sustainability.
- Ensure that user fees and charges where market conditions allow pay for the services provided.

Through the Business Planning process and the above noted directives, the City of St. Albert has endeavored to balance the growing demand for services with the taxpayers' tolerance for tax increases. Over the period of the three-year Corporate Business Plan, specific strategies will be developed to phase-in the costs of these projects and to balance all financial pressures against the reasonableness of cost.

MULTIPURPOSE LIESURE CENTRE

On October the 18th, 2004 the residents of St. Albert through a long awaited plebiscite gave Council and administration direction to move forward with the development and completion of a Multipurpose Leisure Centre (the largest of its kind in Alberta). Council approved this project with a budget of \$42 million on November 3, 2004. As this capital project was approved outside the Budget Cycle and in 2004, **this 2005 Budget does not reflect the MPLC.** In addition to what Council will approve as part of the 2005 Budget process, residents can expect an additional 8% tax increase on the municipal portion of their tax bill related to the MPLC.

The Multipurpose Leisure Centre which will be attached to the existing Campbell Arenas, will include:

- Fitness and wellness center
- Leisure aquatics center (water slide, tube slide, hot tub, sauna and steam)
- 1,700 seat ice-arena/event center
- Family skating rink
- Twin indoor soccer fields
- Gymnasium/field house
- Jogging/walking track
- Premier outdoor football field (with lights and bleacher seating)
- Revenue generating commercial space for food concession, sporting goods sales/services

This facility will be built for a guaranteed maximum price of \$42,755,000 of which up to \$38,755,000 will be borrowed and \$4,000,000 will be raised through sponsorships and fundraising. It will cost taxpayers an additional \$74 a year in municipal property taxes per \$100,000 of assessed value for the construction of this facility. The impact of this facility on sample properties is as follows:

- Condo with a market value of \$125,000 = \$93
- Home with a market value of \$180,000 = \$134
- Home with a market value of \$375,000 = \$279

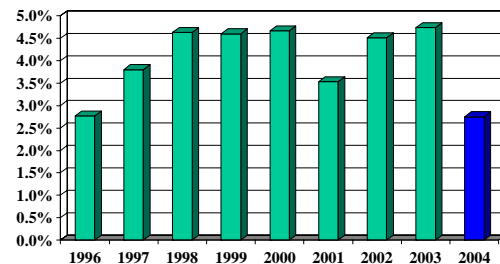
For further information see www.stalbert.ca

ASSESSMENT GROWTH PROJECTIONS

Development of the City's annual budget is a lengthy process, which begins in June and is based on various projected internal and external factors, with one of the major factor being property assessment growth. The City's average assessment growth over the past 8 years has been over 4% with 2002 and 2003 at 4.51% and 4.74% respectively. As always the City's 2005 Budget was developed on a conservative basis of 3.5% growth. In the past with actual assessments coming in slightly higher, an opportunity during the budget process to improve services has been the case. For the 2004 Budget process this allowed Council the opportunity to establish the \$825,000 infrastructure legacy fund.

As the Budget process develops this growth projection is reviewed monthly to determine if it can be increased or should be decreased. Subsequent to the printing of this document, the City's Assessment department in consultation with the Planning department has advised that development within St. Albert for 2004 will not meet original projections. In fact we will fall significantly short of the 3.5% with only 2.75% projected for 2004. This shortfall will result in approximately \$318,000 less revenue than anticipated. The reason for the shortfall is a significant decrease in subdivision development which for 2004 to date is 4 subdivisions compared to an average of 12 to 15 over the past years.

Annual Assessment Growth



As this information was received subsequent to this document going to print, administration will be recommending that the shortfall be met by delaying the \$300,000 planned transfer to Stabilization Reserve.

MUNICIPAL BUDGET

The recommended 2005 Budget has municipal expenditures of \$67.5 million with additional new business cases of \$1.0 million funded by \$45.5 million in taxes. This compares to the 2004 budget, which included expenditures of \$63 million with \$41 million funded by taxes. The increases related to 2005 are required due to increased costs associated with service contracts, staffing, inflation, and capital. Where increases for 2005 were known those have been factored into this budget, such as contract costs for the RCMP, the Transit Driver contract and repair and maintenance contracts. Municipal staffing costs to include the annualization of new positions approved in 2004, merit increases, economic adjustment increases and employee benefit increases. All other commodities have received a 2.3% increase for inflation.

Significant Changes

Operating Business Cases for 2005 totaled 40 with 26 being recommended to Council for inclusion in the 2005 Budget. The overall increase in gross municipal expenditures is \$5.5 million. The following highlights a number of these business cases along with other significant changes taking place in 2005:

- Addition of 2 RCMP officers -\$100,000 - \$200,000 for two officers, reduced by \$100,000 as City will budget for one less due to actual complement not being filled (based on historical actuals).
- RCMP contract increase-\$100,000
- Transit contract increase -\$400,000
- Insurance premiums -\$300,000
- Increase in transfers to reserves -\$680,000 for transit replacement plan
- Increased contribution from taxation to Pay-As-You-Go-Capital \$500,000
- Increase in annual debt payments \$100,000
- Staffing costs \$1.6
 - \$.3 million related to annualization of positions approved in 2004 and merit increases
 - \$.8 economic increases
 - \$.5 in LAP pension premium increases
 - \$.2 in all other statutory and benefit premiums
- Increases to outside agencies - \$300,000 – Library (123,500), AHF (87,500), NABI (\$100,000)
- Business cases
 - Affordable Housing - \$50,000 in staff/consulting resources to plan for implementation of the recently completed Affordable Housing Study
 - Addition of police mobile work stations - \$164,000 – Equipment (\$109,000) Manpower (55,000)
 - Bus maintenance - \$60,000 towards structural and interior refurbishment to ensure buses last 15years as planned
 - Community Project Coordinator - \$50,400 to help manage the growing needs of not-for-profits and recreation groups, as well as the myriad of upcoming projects
 - Friends of FCSS - \$50,000 – for staff resources to assist non-profit service providers with Human Resource and Information Technology staffing resources
 - Space needs - \$165,000 for leasehold improvements and lease costs to accommodate the City's administrative growth
 - Balance of business cases \$450,000 related mainly to staffing identified below

Municipal Property Taxes

The Recommended 2005 Municipal Budget reflects an overall property tax increase of 5.73%, both for residential and non residential properties. The impact of this tax increase is as follows:

- Condominium valued at \$100,000 - \$54
- Home valued at \$180,000 - \$96
- Home valued at \$375,000 - \$201

Municipal Operating Grants

In addition to the limited commercial/industrial property assessment noted above, a decline in operating grants to municipalities over the past decade has placed additional pressure on the City's fiscal resources. This decline has not been offset by other new provincial or federal sources of funding and therefore has had an impact on user fees and property taxes.

This Budget includes grant increases totaling \$1.4 million and is made up of the following:

- Policing - \$600,000 (came into effect in 2004 following budget approval)
- Ambulance - \$800,000 (anticipated cost recovery for service provision for April – Dec. 2005).

While the policing grant has increased to \$16/capita this has been partially offset through the loss of the Unconditional Municipal Grant, resulting in a net of only \$11/capita. With Capital Health taking over governance responsibility for Ambulance Services effective April 1, 2005, the City has included an estimated cost recovery for 9 months. It is not clear how this transition will take place, as the options include:

- Ambulance services governed, operated, and funded by Capital Health or
- Ambulance services operated by St. Albert, with governance and funding from Capital Health

In addition the Provincial Government has announced \$3 billion in funding (over three years) that may be available to municipalities across Alberta however with no details at this time, administration has not included any estimates related to this announcement. Administration estimates that if this is per capita, St. Albert would receive \$55 million.

The Federal Government has also announced possible funding for existing infrastructure that may take the form of a 3 to 5 cents per liter gas tax, however again with no details having been forthcoming; this budget does not include any estimates related to this announcement. Administration's estimate of this funding should it materialize is between \$2 to \$3.5 million.

Should either higher levels of government announce funding related to the above, administration's recommendation will be to utilize this new funding to address the infrastructure findings, to ensure that the City's infrastructure is in the condition required to ensure the City's ongoing sustainability.

Municipal Fees, Charges & Recoveries

During the past three years through the business planning process, Council has adopted a user-pay model, which continues to see program users pick up a greater portion of the cost associated with various non-universally delivered programs and services. 2002 through 2004 saw significant increases in fees and charges and therefore as a result of these significant increases which have positioned St.

Albert either at or very near the highest in the Capital Region, administration is not recommending significant increases for 2005.

This Budget includes fee increases in the following areas:

- Cemetery - net additional revenues - \$12,000
- Utility fund - increase in municipal charges to the Utility fund (ABC) - \$200,000
- FCSS – new provincial funding for additional human resources -\$100,000

In addition to the above the Planning and Engineering fee structure has changed significantly. However the overall result is a reallocation of fees rather than an overall increase. Finally, Tax Enquiry fees have been adjusted to reduce on-line fees from \$30/enquiry to \$25/enquiry to encourage on-line usage.

Investment in Human Resources

The services provided to our residents rely heavily on the human resource component. During the 1990's local governments across Alberta scaled back on human capital forcing greater workloads on remaining staff. During the past three years Council through the Business Planning process, in an effort to address these ever increasing workloads enhanced the City's staffing complement from 6.39 to 7.03/1,000 population. This budget proposes continuation of this process in an effort to continue to meet the growing population and demands on services, with an additional 8.8 full time equivalents (FTE) being added in the following areas:

- Security Information Technology Specialist – implementation of RCMP mobile work stations
- Fire Prevention Officer
- Bylaw Enforcement Supervisor
- Community and Protective Services Administrative Support
- Community Project Coordinator
- General Accountant
- Transit Servicemen
- Stores Foreman
- Webmaster from ½ time to fulltime

This improvement of 2.2% in overall staffing will maintain the City's staff per 1,000 population at approximately 7.0, enabling the City to maintain existing services and continue to provide for growth.

In addition to improvements related to staffing, employee benefit costs continue to rise, with the major contributor being the Local Authorities Pension Plan (LAPP). Due to lack luster financial markets this plan has suffered investment losses for the past two years resulting in increases in premiums of approximately 20% for 2004 and 2005. These losses are cost shared between employee and employer with the City's portion for 2005 being approximately \$600,000 (municipal and utility).

Investment In Municipal Capital

St. Albert is planning significant investment in capital facilities and infrastructure over the three-year plan. Most notably:

- the construction of the West Regional Road (\$32 million for two lanes) which will tie Villeneuve Road to the North, to 137th avenue on the South and
- the Multipurpose Leisure Centre (\$42 million), on the Campbell Arena site.

Both of these projects while taking place over the coming 2 to 3 year period are not captured within the recommended budget as they were both approved in 2004.

Significant municipal capital projects recommended for Council consideration include the following:

- Fire Station #3 will begin development in 2005, with \$500,000 in this budget and the remaining \$2.5 million being spent by the completion date in 2007.
- Space Needs Study \$120,000 to determine the best use for St Albert Place as a cultural centre and the need to relocate City government services
- Public Works equipment replacements \$748,000 (as per replacement plan)
- Transit Fleet replacement of three buses totaling \$1.2 million (as per replacement plan)
- Sturgeon Road – Boudreau Rd to Burnham East, full rebuild, \$867,000
- Neighbourhood sidewalk replacements \$164,800
- Construction of Campbell road from Poirier to Kingswood \$1.3 million

In total \$6.6 million will be invested in capital projects for 2005 with \$1.3 funded from taxation, \$2.1 from reserves, \$2.5 from grants and \$.7 from debt.

It is important to note that the City's taxation or Pay-As-You-Go (PAYG) component of capital financing has increased from \$800,000 in 2004 to \$1.3 million for 2005 due largely to the results of the City's focus on the Capital Re-engineering Process which has begun to close out outstanding capital projects, and has transferred monies earmarked for debt financing towards PAYG financing.

Municipal Debt

Council's debt policy emphasizes Pay-As-You-Go as the preferred financing option followed by internal financing and external debt financing. External borrowing terms are to be limited to a maximum of 15 years, with the exception of major capital projects that may require a longer term of up to 25 years.

In 2004 Council approved the two major capital projects noted above, the West Road and the MPLC. These two projects alone due to their significance resulted in approval of 20-year external borrowings and will increase the City's debt by \$22 million and \$38 million respectively. Funds for these projects will be drawn as required over the term of financing. Expected interest rates for 20-year borrowings at this time are 5.1%.

For 2005 this budget recommends only one new municipal capital project that will require external financing and that is Fire hall #3 for \$500,000. All other capital projects will be financed through either PAYG or internal financing, which are met through the City's reserves.

Council's debt policy related to internal financing has resulted in approximately \$8 million in current capital projects which have been financed internally resulting in estimated annual interest savings of over \$1/4 million in 2005.

While the two major projects approved in 2004 are significant, the City will remain within the debt limits established through City policy and as set out by the Province.

Municipal Reserves

Reserves are one of the tools used by local governments to set aside funds for replacement of existing capital, provide for emergent needs, stabilize tax rates and fund future capital projects to reduce the reliance on debt financing. When reviewing a local governments balance sheet the level of reserves is often confused with the financial health of the municipality. In fact when used to effectively manage the municipalities funding needs, reserve balances may increase for a time and then decrease significantly to address planned capital requirements. The 2005 Budget is a reflection of the City building its reserves over the past few years from \$12 million in 2000 to \$23 million in 2003 for planned capital expenditures in 2005 and beyond. Based on the capital needs outlined in the budget, the City's overall reserves (municipal and utility) will decrease from \$24 million in 2004 to \$14 million in 2005. The municipal portion of reserves is expected to increase by \$1 million from \$12 million in 2004 to \$13 million in 2005. The following highlights the significant changes to municipal reserves:

- Transfers from reserves
 - \$4.4 million for internal financing of capital projects
 - \$2.2 million for replacement of existing vehicles and equipment
- Transfers to reserves
 - \$2.5 million for internal financing repayments and tax support
 - includes \$825,000 specifically earmarked for existing infrastructure
 - \$2.4 million from taxation to support vehicles and equipment replacement plans
 - includes \$680,000 increase to public transit to fully fund transit equipment replacements
 - \$1.9 million towards the revolving land fund mainly resulting from the MPLC land purchase
 - \$.6 million for developer contributions for Major recreation lands and facilities

UTILITY BUDGET

Utility User Fees & Charges

Many utility organizations are dealing with the replacement of aging infrastructure and improving environmental standards. These changes are creating significant pressure to increase utility rates. As a result of our infrastructure study and new environmental standards the City of St. Albert is now facing substantial infrastructure costs as well as higher costs for water supply and for wastewater transmission. The challenge is to minimize utility rates while making sure the City's infrastructure is reliable and meets environmental standards.

Utility Rate-Setting Model

The utility rate setting model uses the overarching fiscal policy that utility operations should be self-sustainable. Utility fees are calculated using the following Council policies:

- Utilities are self sustaining
- Includes full costing recovery for the Municipal Operating Budget
- Includes full replacement of existing infrastructure
- No negative reserve balances
- No new debt financing of capital projects after 2005

The rate-setting model was redeveloped with the following improvements:

- Development of a Long-Term Financial Model for utility rate setting.
- Implementation of full costing in which the Utility Fund pays for all costs associated with its operations.
- Addresses current infrastructure gap by incorporating projects, as a result of the Infrastructure Strategy and the Storm Water Master Plan.
- Greater opportunity for the municipality to borrow from its reserve funds to internally finance future capital projects.

Utility Operating Grants

Infrastructure costs are not likely to be funded solely by municipalities. The City of St. Albert is working with other municipalities to secure new Provincial and Federal funding and recent announcements indicate the Province and Government of Canada are considering new funding. However, with no commitment yet to fund the urgent capital work scheduled for 2005 the budget does not reflect these funding possibilities.

Increased costs will increase utility bills over the next few years; customers will bear the whole burden if Provincial and Federal assistance is not obtained. There are options to minimize utility bill increases until the City knows if assistance will be available.

Utility Rates/Financing

There are several options available for financing utility infrastructure costs. Debt financing options include combinations of internal and external debt that can be borrowed in 2005 or subsequent years. There is also pressure to increase rates but there are options for the timing and rate of increase. Using the City of St. Albert rate-setting model, the current estimate of the long-term rate for all City utilities in 2004 dollars is a minimum of \$78/month per household (currently \$54). Further increases in the cost of water purchases and wastewater processing may cause rates to increase even more for all municipalities.

Following are just three of many possible options to illustrate some of the choices available. The 2005 draft budget uses the first option in the calculation of the 2005 recommended utility budget. This option maintains Council utility policy direction.

1. Fund Urgent Capital Costs with Internal Borrowing and \$8 Increase in 2005 Bills

- Complies with existing financial policies: self sustaining with no new debt
- Funds urgent capital projects
- Utilizes the full \$825,000/yr contributions to internal financing reserve for Utility Infrastructure
- Internal financing for 2005 at \$1.6 million
- External financing for 2005 at \$1.8 million (as per plan)
- Average increase in monthly bill = \$8.07 (90% of Edmonton bill)

This recommended option allows time to pursue Provincial and Federal sources of funding prior to placing the full burden on the rates.

There are numerous options for combinations of financing and rate increases and even more when government funding is considered. Following are two options that the utility rate-setting model estimates can maintain a self-sustaining utility fund with new borrowing and phased in rate increases.

2. Fund Capital Costs with \$9 Million of Borrowing and Phased Rate Increase Starting with \$8 Increase in 2005 Bills

- Does not comply with existing financial policies: self sustaining with no new debt
- Funds all capital projects
- Utilizes the full \$825,000/yr contributions to internal financing reserve for Utility Infrastructure
- Internal financing for 2005 at \$1.6 million
- External financing for 2005 at \$9 million (plan projected \$1.8million)
- Average increase in monthly bill = \$8.07 (90% of Edmonton bill)

This option uses debt and possible future Provincial/Federal funding to phase in rate increases.

3. Fund Capital Costs with \$11 Million of Borrowing and Phased Rate Increase Starting After 2005

- Does not comply with existing financial policies: self sustaining with no new debt
- Funds all capital projects
- Utilizes the full \$825,000/yr contributions to internal financing reserve for Utility Infrastructure
- Internal financing for 2005 at \$1.6 million
- External financing for 2005 at \$11 million (plan projected \$1.8million)
- Average increase in monthly bill = no increase (82% of Edmonton bill)

This option uses debt and possible future Provincial/Federal funding to phase in rate increases.

Developer Levies

Developers will be picking up the full construction cost of utilities within the expansion or annexation area through increased offsite levies for utilities from \$19,800/ha in the existing boundaries to \$63,200/ha within the expansion area. These levies will pay for 100% of new reservoirs, new water mains and sewer trunks that benefit this area of growth.

Investment in Human Resources

There are no proposed changes in staffing.

Investment in Utility Capital

When the utility fiscal policies were adopted it was noted that the infrastructure review might identify additional capital costs. Phase 1 of the infrastructure review identified \$38 million of deferred utility maintenance costs. The 2005 utility capital budget of \$4.8 million is limited to the completion of the Lacombe Park Reservoir (\$2.5 million) and the cost of the most necessary capital programs:

- Grit interceptor retrofit program (\$550,000)
- North Campbell storm pond expansion (\$300,000)
- Storm main replacement program (\$380,000)
- Wastewater rehabilitation program (\$946,000)

With the City's utilities operating as a separate fund, all costs associated with operations, replacement of existing infrastructure, and the addition of new infrastructure will be funded either through utility rates, grants, or developer contributions. The proposed 2005 rates still result in the City's utility rates falling within the range of Capital Region comparators.

Utility Reserves

The annual contribution to reserves begins to achieve the full replacement of all existing infrastructure and will address the funding of all existing and future utility infrastructure requirements. Once the new infrastructure costs are funded reserves will grow in anticipation of future capital requirements.

The utility portion of reserves is expected to decrease by \$10.6 million from \$10.9 million in 2004 to \$.3 million in 2005. This significant reduction is part of the City's plan and the following highlights the significant changes to utility reserves:

- Transfers from reserves
 - \$7.2 million related to the sanitary trunk main phase 1
 - \$5.0 million related to Lacombe Park reservoir
 - \$.6 million related to a hydrocarbon grit separator
 - \$.4 million related to storm main replacement
 - \$.3 million related to North Campbell dry pond
 - \$.3 million related to purchase of compost land site
- Transfers to reserves
 - \$3.1 million from developers and utility fund planned surpluses

Comparative Utility Bills

All municipalities are facing cost pressures to increase utility rates. With option #1 the overall utility rates for the City of St. Albert are expected to be in the mid-range of the capital region.

