

# REPORT TO COMMITTEE



**SUBJECT:** 2022 Operating Budget  
**PREPARED BY:** Tracey McKinnon, Senior Manager of Financial Services  
**PRESENTED BY:** Tracey McKinnon, Senior Manager of Financial Services  
**DATE:** October 25, 2021

FILE: 13/931

## **PURPOSE:**

To present, for Council's consideration, the proposed 2022 Operating Budget.

## **RELATED PRIOR MOTION(S):**

## **EXECUTIVE SUMMARY:**

The first draft of the 2022 proposed Operating Budget is presented to Council for discussion and deliberation.

The 2022 draft Operating Budget adheres to the following relevant Council policies:

[Annual Budget and Taxation Preparation Policy](#)

[Debt Management Fiscal Policy](#)

[Compensation Policy](#)

[Council Remuneration and Expenses Policy](#)

## **ANALYSIS:**

The City's [Compensation Policy](#) ties the staff Cost of Living Adjustment (COLA) to the Alberta Consumer Price Index as of June 1<sup>st</sup> (2.7%). Council's preliminary direction in August was to target a 2.0% COLA. After completing the preliminary budget, Administration recommends including a 2.2% COLA in the final budget. While this still varies from the Compensation Policy, the difference is relatively insignificant.

The increases to tax rate, salaries and utility rates have been limited to CPI or less.

As per Council's direction on August 16<sup>th</sup>, 2021, the proposed operating budget was prepared based on a 2.7% tax increase, 2.7% utility rate increase as well as a 1% Special Paving Tax.

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The 2.7% tax increase translates to approximately \$405,000 in additional tax revenue. The special paving tax represents an additional \$150,000 designated to maintain overall road conditions, supporting the Road Asset Management Plan that was presented to Council on May 3, 2021.

The 2022 proposed Operating and Capital Budget process started in March 2021, when Council was presented and adopted the 2021 budget schedule. Administration has prepared a 2022 provisional operating budget for each Department. Appendix 1 shows a comparison of total budget changes by major expense and revenue category.

## TAX FUNDED OPERATIONS

### Municipal Revenues Highlights

#### Municipal Taxes

In the proposed 2022 Operating Budget, municipal taxes are expected to increase by 2.7% based on Council's budget direction provided on August 16<sup>th</sup>, 2021.

#### Franchise Fees

In 2022, Administration continues the philosophy of matching franchise fees to the median rate charged by 'comparable' municipalities. On September 27, 2021, Council set the City of Lacombe's 2022 natural gas (ATCO Gas) and electricity (Fortis Alberta) franchise rates at 27.75% and 17.13%, respectively. This increase has an impact on residents, although franchise fees represent a very small portion of their natural gas and electricity bills. The proposed budget for franchise fee revenue is \$275,000 higher than in 2021 based on volume and the rate increases.

#### User Fees

In the 2022 proposed budget, Administration estimates user fees to rebound to pre COVID-19 levels. The 2022 Goods and services revenue budget is \$528,000 higher than 2021. Building permit revenue is \$45,000 higher than 2021 budget based on 2021 actuals and strong permitting forecasts.

## Municipal Expense Highlights

### Personnel

#### Wages and Benefits

In 2021, a salary survey was conducted to review compensation of 11 comparable municipalities for council and staff.

The Council Policy was amended, and salary adjustments have been included in the budget.

The City's salary bands have adjustments to reflect the median of the comparable municipalities.

The proposed budget includes a cost-of-living allowance (COLA) of 2.2% for 2022. The cost of benefits has risen due to CPP deductibles, health premiums and short-term disability premium increases partially offset by reduced LAPP and EI deductibles.

The Personnel changes includes a new proposed Community Standards Ambassador position under Bylaw Enforcement. Administration proposes the following part time positions change to full time status: IT Technician (tax supported), Administrative Assistant (tax supported) and a Solid Waste Operator Position (Utility Supported).

Appendix 2 provides a 2022 budget comparison of wages and benefits from the 2021 budget, by department.

### Grants to Organizations

The Community groups presented to Council at the September 27<sup>th</sup> and October 4<sup>th</sup> Council meetings. The additional funding requested are shown in Appendix 3 – Agency Request increases.

### Education Requisitions

Alberta Education requisitions have been maintained at the same levels as in 2021. In early 2022, the province will announce the education requisition amounts for the 2022 fiscal year, and Administration will adjust these amounts as a part of the 2022 spring budget adjustments.

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## Transfers to Reserves - tax supported

The reserve contributions have been increased to minimize future borrowing.

The proposed transfers to tax supported reserves has increased by approximately \$520,000 from the 2021 budget. The 1% Special Paving tax is offset by a \$150,000 increase in the transfer to the road reserve. The other significant increase is the transfer to the General Capital Reserve. This reserve is a funding source for many capital projects identified in the City of Lacombe's 10 Year Capital Plan, that are not eligible for utility, information technology or fleet related funding.

LPS added a \$40,000 /year transfer in 2022-2024, to the Police Capital Reserve to fund the 2024 capital cost for the 911 Communication System Upgrade.

Appendix 4 shows the Transfer to Reserves comparison from 2021 to 2022 proposed budget.

## Debt Servicing Costs

The proposed 2022 budget includes debt servicing costs that are \$10,000 lower than in 2021, largely due to lower interest rates on new debt. In the next 5 years, the City anticipates borrowing for the new Public Works building, new Fire Hall, Fire Ladder truck replacement and construction of a new water reservoir for the west side of the City of Lacombe.

## UTILITY FUNDED OPERATIONS

### Water

The proposed 2022 budget for revenues and expenses in the water department is higher than the 2021 approved budget. The proposed budget includes a 2.7% or \$89,000 increase in user fees. The water rate will increase from \$2.56 per cubic meter in 2021 to \$2.63 per cubic meter in 2022. Similarly, the flat utility rate will see an increase from \$27.82 per month to \$28.57 per month on all active accounts.

On the expenditure side the 2022 budget includes an \$85,000 increase in contract services for a contracted Data Analyst and the City of Lacombe water Loss Assessment Study.

### Wastewater

The overall proposed 2022 revenue and expenditure budget for the wastewater department is approximately 2% lower than the 2021 approved budget.

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The proposed 2022 wastewater budget includes a 2.7% increase in user fees. The one-time \$159,000 transfer from reserves for franchise fee revenue in 2021, is no longer required in 2022. Budgeted expenses were reduced by \$90,000 to reflect actual charges from the Wastewater Commission. The wastewater rate will increase from \$2.75 per cubic meter in 2021 to \$2.82 per cubic meter in 2022. Similarly, the flat utility rate will see an increase from \$20.79 per month to \$21.35 per month on all active accounts.

## Solid Waste

The proposed 2022 budget for the solid waste department is approximately 1.4% or \$36,000 higher than the 2021 approved budget. A Solid Waste Operator position is proposed to increase from Casual to Full-Time position.

## Transfers to Reserves

As seen in Appendix 4, transfers to utility reserves are proposed to decline by approximately \$17,000 in 2022.

## BORROWING CAPACITY

### Long Term Debt

As of Dec 31, 2020, the total debt outstanding was \$25,841,769 (Dec 2019 - \$25,813,044).

Council's [Debt Management Fiscal Policy](#) limits the municipality:

*to 75% of the debt limit established by provincial regulation. A*

### Borrowing Capacity

Currently, the City's debt stands at 59% of the municipal debt limit (or 45% of the MGA limit), as compared to 68% in Dec 2019 (51% of the MGA debt limit). The City has the following debt capacity based on both the City's [Debt Management Fiscal Policy](#) and the Municipal Government Act:

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## As of August 2021:

Debt Limit	Council Policy	MGA
Debt Limit (2021)	\$40,174,040	\$53,565,387
Total Outstanding Debt	\$23,932,737	\$23,932,737
Debt Limit Available	\$16,241,303	\$29,632,650
Debt as a % of Debt Limit	59.6%	44.7%
Percent of Debt Limit Available	40.4%	55.3%

Debt Servicing	Council Policy	MGA
Debt Servicing Limit (2020)	\$6,695,674	\$8,927,565
Debt Servicing	\$2,082,074	\$2,082,074
Debt Servicing as a % of Debt Servicing Limit	31.1%	23.3%
Debt Servicing Limit Available	\$4,613,600	\$6,845,491

### Maximum debt service costs for tax supported debt

The maximum debt service costs (DSC) for tax supported debt are calculated by:

Maximum DSC = Taxes available for municipal purposes x 20%

The maximum DSC for City of Lacombe is \$3,065,594 (\$15,327,972 x 20%)

The City is compliant with both its self-imposed debt servicing limit as well as debt servicing limit imposed by the Municipal Government Act.

### Borrowing Rates and Servicing Costs

With borrowing costs at historic lows, servicing costs and interest costs to the City when using borrowed funds to fund capital projects are relatively affordable. The following table illustrates that annual servicing costs and tax impact when borrowing one million dollars.

Estimated cost of borrowing \$1,000,000 today:

Loan term	25 years	30 Years
Annual servicing cost	\$55,283	\$49,585
Loan rate	2.703 %	2.815 %
Tax impact	0.37%	0.33%

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## **STRATEGIC PLAN ALIGNMENT:**

Adherence to Council's adopted [Annual Budget and Taxation Preparation Policy](#) shows Council's commitment to strategic goals:

4.1.4 Fiscal Prudence – To manage the City to allow for property tax increase near inflation

Variance from the City's [Compensation Policy](#) is not in alignment with strategic goal 4.16

Building Capacity – To maintain or build capacity within the City structure.

## **PUBLIC ENGAGEMENT/COMMUNICATION STRATEGY:**

The following engagement strategies have or will take place to inform Council's deliberations:

- Advertise that the Council budget workshops are available for public to attend
- Post Budget information on website and social media
- Budget Discussions at the Lacombe Farmers' Market and Coffee with Council sessions
- Budget suggestions received at [Budget2022@lacombe.ca](mailto:Budget2022@lacombe.ca) and [Councilconnect@lacombe.ca](mailto:Councilconnect@lacombe.ca)
- Budget Information updates through Council Connect videos

## **ATTACHMENTS:**

[Annual Budget and Taxation Preparation Policy](#)

[Debt Management Fiscal Policy](#)

[Compensation Policy](#)

[Council Remuneration and Expenses Policy](#)

Appendix 1 – Comparison – 2022 Proposed Budget vs. 2021 Approved Budget

Appendix 2 – Departmental Wages and Benefits Budget – 2022 vs. 2021

Appendix 3 – Grants to Organizations – 2022 vs. 2021

Appendix 4 – Transfers to Reserves – 2022 vs. 2021

Appendix 1  
City of Lacombe  
Comparison 2022 Proposed Budget vs. 2021 Approved Budget

	2021 Approved Budget	2022 Proposed Budget	Increase/ (Decrease)	% Increase/ (Decrease)
<b>Revenues</b>				
Franchise Fees	2,254,833	2,529,834	275,001	12.2%
Goods & Services Sold	13,440,505	13,968,747	528,242	3.9%
Grants	951,250	1,044,810	93,560	9.8%
Interest & Penalties	529,000	578,500	49,500	9.4%
Local Agencies	1,081,041	1,147,561	66,520	6.2%
Other Sources	165,153	178,057	12,904	7.8%
Permits, Fines & Licenses	795,200	779,950	(15,250)	-1.9%
Taxation & Grant in Lieu	20,502,454	21,135,545	633,091	3.1%
Transfer from Other Operating	3,335,227	3,102,195	(233,032)	-7.0%
Transfer from Capital	64,000		(64,000)	-100.0%
Transfer from Reserves	114,800	93,099	(21,701)	-18.9%
<b>Total Revenues</b>	<b>43,233,463</b>	<b>44,558,298</b>	<b>1,324,835</b>	<b>3.1%</b>
<b>Expenses</b>				
Allowances & Cancel	38,600	20,415	(18,185)	-47.1%
Debt & Banking Charges	2,290,025	2,086,630	(203,395)	-8.9%
Funding To Others	8,125,433	8,086,635	(38,798)	-0.5%
Goods & Services	4,948,721	5,317,429	368,708	7.5%
Personnel	15,082,192	15,997,726	915,534	6.1%
Requisitions	5,163,480	5,159,075	(4,405)	-0.1%
Transfer to Other Operating	3,335,227	3,102,195	(233,032)	-7.0%
Transfer to Reserves	2,396,335	2,898,777	502,442	21.0%
Upgrading & Replacement	353,875	431,958	78,083	22.1%
Utilities	1,499,575	1,457,458	(42,117)	-2.8%
<b>Total Expenses</b>	<b>43,233,463</b>	<b>44,558,298</b>	<b>1,324,835</b>	<b>3.1%</b>



Appendix 2  
City of Lacombe  
Departmental Wages and Benefit Budgets - 2022 vs. 2021

Wage & Benefits Budget		2022 Budget (2.2% COLA/2% LPS)			2021 Budget (0% COLA)			
Department Name	Dept. #	Wages	Benefits	Total	Wages	Benefits	Total	Increase / (decrease)
Council	Dept. 11	308,300	22,860	331,160	250,124	11,288	261,412	69,748
Administration	Dept. 12	1,767,417	397,016	2,164,433	1,709,438	377,430	2,086,868	77,565
Information Services	Dept. 15	483,433	102,264	585,697	416,087	92,169	508,256	77,441
Police Dept.	Dept. 21	3,474,416	818,966	4,293,382	3,359,262	743,212	4,102,474	190,908
Fire Dept.	Dept. 23	575,070	65,502	640,572	557,582	65,897	623,479	17,093
Enforcement Services	Dept. 26	184,266	38,520	222,786	140,369	34,218	174,587	48,199
Common Services	Dept. 31	293,589	67,685	361,274	275,654	59,792	335,446	25,828
Streets & Roads	Dept. 32	913,444	210,653	1,124,097	890,917	192,797	1,083,714	40,383
Storm Sewer	Dept. 37	30,679	7,470	38,149	26,789	6,315	33,104	5,045
Engineering Services	Dept. 38	209,790	48,971	258,761	185,612	42,585	228,197	30,564
Water	Dept. 41	637,640	145,341	782,981	613,244	133,045	746,289	36,692
Wastewater	Dept. 42	415,440	96,886	512,326	397,750	88,214	485,964	26,362
Solid Waste	Dept. 43	376,361	79,559	455,920	340,555	73,621	414,176	41,744
Cemetery	Dept. 56	100,168	22,660	122,828	96,443	20,450	116,893	5,935
Planning & Development	Dept. 61	446,290	101,849	548,139	415,779	87,305	503,084	45,055
Economic Development	Dept. 62	260,999	59,856	320,855	268,573	57,715	326,288	(5,433)
Recreation Services	Dept. 71	63,974	16,762	80,736	62,036	15,492	77,528	3,208
Lacombe Memorial Centre	Dept. 72	366,723	84,243	450,966	333,247	74,074	407,321	43,645
Aquatic Centre	Dept. 73	959,493	168,606	1,128,099	929,859	151,732	1,081,591	46,508
Arena	Dept. 74	483,156	116,792	599,948	479,822	106,318	586,140	13,808
Parks & Playgrounds	Dept. 75	806,387	141,883	948,270	752,326	122,248	874,574	73,696
Library	Dept. 77	18,342	4,445	22,787	17,292	3,955	21,247	1,540
	<b>Totals</b>	<b>13,175,377</b>	<b>2,818,789</b>	<b>15,994,166</b>	<b>12,518,760</b>	<b>2,559,872</b>	<b>15,078,632</b>	<b>915,534</b>

Appendix 3  
City of Lacombe  
Agency Request Increases

Agency	2021 Approved Budget	2022 request (ongoing)	2022 request (one-time)	2022 Total Request	Total Increase	Percentage Increase
Lacombe Police Commission	\$ 3,529,458	\$ 3,779,698		\$ 3,779,698	\$ 250,240	7.1%
Lacombe & District FCSS (Municipal Contribution above the 20% grant matching; one time for Strategic Plan)	\$ 437,914	\$ 449,914	\$ 10,000	\$ 459,914	\$ 22,000	5.0%
Connex Operating	\$ 87,847	\$ 96,021		\$ 96,021	\$ 8,174	9.3%
Heritage Resources Committee (one time for Places of Interest List (POIL))	\$ 14,250	\$ 11,400	\$ 22,500	\$ 33,900	\$ 19,650	137.9%
Mary C Moore Public Library	\$ 331,071	\$ 340,010		\$ 340,010	\$ 8,939	2.7%
Lacombe & District Historical Society	\$ 48,000	\$ 55,900		\$ 55,900	\$ 7,900	16.5%
Lacombe Regional Tourism Operating Grant	\$ 55,960	\$ 61,566		\$ 61,566	\$ 5,606	10.0%
Lacombe Days Operating Grant (prior to covid19, grant was \$25,000)	\$ 18,000	\$ 30,000		\$ 30,000	\$ 12,000	66.7%
Lacombe Performing Arts Center Foundation	\$ 26,000	\$ 30,000		\$ 30,000	\$ 4,000	15.4%
Lacombe Athletic Park Association (LAPA)	\$ 50,000	\$ 50,000		\$ 50,000	\$ -	0.0%

