



VILLAGE OF RYLEY

Perspective Future Financial Analysis Report

FEBRUARY 7, 2018

SENIUK & COMPANY CHARTERED ACCOUNTANTS

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EXECUTIVE SUMMARY

This report discusses the budgeting guidelines that every municipality in Alberta must follow in accordance with the Municipal Governance Act and Alberta Municipal Affairs. Three differing property tax revenue proposals were then analyzed with a 5 year perspective. The final results are then presented with recommendations.

MUNICIPALITY BUDGET GUIDELINES

In regards to budgeting, all municipalities in Alberta are regulated under the following guidelines:

Municipal Government Act:

Per the Municipal Government Act, as of January 1, 2018, Revised Statutes of Alberta 2000 published by Alberta Queen's Printer; contents of operating budget 243:

- (1) An operating budget must include the estimated amount of each of the following expenditures and transfers: (a) the amount needed to provide for the Council's policies and programs; (b) the amount needed to pay the debt obligations in respect of borrowings made to acquire, construct, remove or improve capital property; (b.1) the amount of expenditures and transfers needed to meet the municipality's obligations as a member of a growth management board; (c) the amount needed to meet the requisitions or other amounts that the municipality is required to pay under an enactment; (d) if necessary, the amount needed to provide for a depreciation or depletion allowance, or both, for its municipal public utilities as defined in section 28; (e) the amount to be transferred to reserves; (f) the amount to be transferred to the capital budget; (g) the amount needed to recover any shortfall as required under Section 244.*
- (2) An operating budget must include the estimated amount of each of the following sources of revenue and transfers: (a) property tax; RSA 2000 Section 244 Chapter M-26 MUNICIPAL GOVERNMENT ACT 140 (b) business tax; (c) business improvement area tax; (c.1) community revitalization levy; (d) special tax; (e) well drilling equipment tax; (f) local improvement tax; (f.1) community aggregate payment levy; (g) grants; (h) transfers from the municipality's accumulated surplus funds or reserves; (i) any other source.*
- (3) The estimated revenue and transfers under subsection (2) must be at least sufficient to pay the estimated expenditures and transfers under subsection (1). (3.1) For the purposes of subsection (3), the estimated expenditures referred to in that subsection do not include any amortization of tangible capital assets unless the amortization is an amount required to provide for amortization of the tangible capital assets of a municipality's municipal public utilities as defined in Section 28.*
- (4) The Minister may make regulations respecting budgets and that define terms used in this section that are not defined in Section 241. RSA 2000 cM-26 s243;2005 c14 s3;2015 c8 s34; 2016 c24*

s19.1;2017 c13 ss1(19), 2 Financial shortfall 244(1) If the accumulated surplus, net of equity in tangible capital assets, is less than zero, the municipality must include a budgeted expenditure in the next calendar year that is sufficient to recover the shortfall. (2) If a municipality has a shortfall referred to in subsection (1), the municipality may, with the Minister's approval, allocate the expenditures to cover the shortfall over more than one calendar year. (3) If, for any given year, a municipality has a shortfall referred to in subsection (1), the Minister may, if the Minister considers it necessary to do so, establish that municipality's annual budget for the next calendar year and that annual budget RSA 2000 Section 245 Chapter M-26 MUNICIPAL GOVERNMENT ACT 141 (a) is for all purposes the municipality's annual budget for that calendar year and (b) may not be amended or replaced by Council. RSA 2000 cM-26 s244;2015 c8 s35.

Based on the above information found in the [MUNICIPAL GOVERNMENT ACT](#), it is apparent that evaluating a deficit must be done annually. A municipality's budget should be forward-looking and consider any unplanned events in which reserve funds can be used. Such unplanned events include: natural disaster, heavy snowfalls and unplanned repairs and maintenance costs of municipal assets that could result in an unplanned financial statement deficit.

The [MUNICIPAL GOVERNMENT ACT](#) requires that every municipality adopt an annual operating and a capital budget; property and business tax bylaws cannot be passed until both budgets have been adopted. Total actual revenues over a four-year period must be equal to or greater than total actual expenditures.

Public Sector Accounting Standards

Based Public Sector Accounting Handbook, public sector organizations including municipalities are expected to operate within legislative or fiscal frameworks that allow for a balanced budget and established debt targets.

According to the actual standard: Public Sector Accounting Standard - PS 1100.43, *"Government budgeting is an iterative process whereby a government considers both its revenue-raising capacity for the period in looking at what expenses it can budget for as well as estimating the expenses that should be incurred in the period and the **revenues that would need to be raised to cover those costs as well as any other needs such as debt retirement.**"*

The Village, when budgeting, must take into consideration the revenues that need to be raised in order to cover expenses thus, a balanced budget is the standard that needs to be met.

Per Alberta Municipal Affairs

At Alberta Municipal Affairs, the Assessment Audit Unit reviews the assessment procedures of municipalities to see that they are consistent with assessment legislation. As well, the unit reviews the property assessment reports of municipalities each year to determine that the regulated standards have

been met for assessment quality.¹ An assessment is an estimate of a property's value. Annually, municipalities account for and prepare an assessment for each property in the municipality. Land and improvements to land (buildings, structures and any machinery or equipment affixed to the land) are assessed. The purpose of assessment is to distribute property tax among taxpayers based on the relationship of their property value to the total property value of the municipality.

Accurate and equitable assessed values are important so that property owners pay only their fair share of property taxes. A taxpayer should expect that properties of similar value should pay similar property taxes within the municipality. Property owners who feel their assessment is inaccurate or inequitable in relation to other properties in the municipality can appeal to the Assessment Review Board. Thus, it would be unreasonable that taxes are reduced with insufficient reserve funds.

REPORT ANALYSIS PROCEDURES

In preparing this report, the following procedures were followed:

- Analysis was performed based on draft operating budget provided by management.
- Amounts were extrapolated over five years with an anticipated inflation rate of 2.5% annually except for the annual proposed increase in property taxes, debenture payment, and amortization expense.
 - Property taxes were kept consistent based on options provided throughout the analysis.
 - Amortization expense was kept consistent based on 2017 budgeted amount. Amortization is subject to additions and disposals each year as well as the amortization method. Therefore, purchase of tangible capital assets, unplanned events and other developments were not accounted for in the draft operating budget risk assessment from 2018 to 2022.
 - Debenture payment was kept consistent based on 2017 unaudited actual amount.
 - An estimated engineering cost of \$4.958 million over 10 years was taken into consideration over a 5 year forecast of \$495,800 annually.² Note, the estimated engineering cost does not include contingency costs budgeted in the engineers report.
- Three options have been proposed and an analysis has been completed for comparison purposes. Options include:
 - Option 1 - No reduction in property tax levy – See Appendix A for the detailed analysis.
 - Option 2 - \$100,000 proposed annual reduction in property tax levy – See Appendix B for the detailed analysis.

¹ *Municipal Affairs Handbook*. Retrieved from <http://municipalaffairs.alberta.ca/municipal-resource-handbook>

² *Village of Ryley Infrastructure Assessment and Ten-Year Capital Plan drafted by MPE Engineering Ltd. Jan 22.2018*

- Option 3 - \$425,000 annual reduction in property tax levy proposed by the Ryley Public Advisory Council (RPAC) – See Appendix C for the detailed analysis.
- The net assets opening balance is based on the figures obtained from the audited 2016 financial statements.
- The analysis does not take into consideration any future unplanned events.

SUMMARY RESULTS

The results of the various options included in Appendixes A, B, C are summarized below:

Proposed Budget Property Tax Options	Beginning Net Assets Position – January 1, 2017	Estimated Ending Net Assets Balance 3-Year Forecast (December 31, 2020)	Estimated Ending Net Assets Balance 5-Year Forecast (December 31, 2022)	Estimated Operating Surplus (Deficit) Balance 3-Year Forecast (December 31, 2020)	Estimated Operating Surplus (Deficit) Balance 5-Year Forecast (December 31, 2022)
No reduction in annual property taxes See Appendix A	\$160,270	\$(379,015)	\$(840,499)	Deficit of \$(202,143)	Deficit of \$(240,433)
\$100,000 annual property tax reduction – See Appendix B	\$160,270	\$(679,015)	\$(1,340,499)	Deficit of \$(302,143)	Deficit of \$(340,433)
\$425,000 annual property tax reduction – See Appendix C	\$160,270	\$(1,654,015)	\$(2,965,499)	Deficit of \$(627,143)	Deficit of \$(665,433)

**Figures used as an estimate only for summary purposes; based on budgeted analysis for 2018.*

CONCLUSION

After reviewing the various option outcomes, we would recommend Option A, no reduction in property taxes and that council consider increasing property taxes that result in no future deficits. With any proposed reduction in tax levy, the Village will be put into a deficit which would not comply with the Municipal Government Act to ensure operations are always budgeted in a balanced manner. Once reserves are used up to cover deficits, funds will be unavailable should any unpredictable events occur in the future for the Village. As well, in compliance with the regulations and standards noted on pages 2-3, the Village must account for future financial obligations and services and ensure that revenues raised in the period are sufficient to meet the expenses of current and future periods.

The budget analysis shows that a reduction in tax levy would result in non-plausible financial conditions. If the accumulated surplus, net of equity in tangible capital assets, is less than zero, the municipality

must include a budgeted expenditure in the next calendar year that is sufficient to recover the shortfall. Recovering the financial shortfall in a future perspective would be unlikely should property taxes be reduced.

Meaning of Deficit and Importance of Reserve Funds: The operating budget is a detailed estimate of how much the municipality needs to spend to meet its ongoing financial obligations and provide programs and services to the residents. The capital budget is money set aside for buying or building fixed assets such as buildings, equipment, vehicles, water and sewer facilities, and land. If the Village is in a deficit position and fails to maintain a sufficient reserve fund, the Village may need to reduce Village services and other recreational programs provided, to provide for operating funds needed should unforeseen events occur. It is unpredictable what unforeseen events the Municipality may encounter and maintain a sufficient amount of property taxes in beneficial budget control. The Village should ensure the financial stability is maintained and reserve funds are stable.

RECOMMENDATIONS

After reviewing the results of the analysis, we have the following recommendations:

- Provide information about property assessment and taxation purposes in a manner that is understood by the Village property owners.
- Provide residents with information outlining how municipal funding is spent and the importance of maintaining reserve funds.
- Include projected events (unforeseen natural disasters, local improvements and deteriorating industry conditions) in annual budget process to ensure future financial position is in net revenue.
- As any reduction in tax levy results in deficit, it is recommended that the Village maintain or increase property tax levies to ensure financial stability of the Village for the future.

Property tax is a main source of revenue for financing municipal operations. Once Council completes the budget process, the property tax rate set should be reasonable in order to meet its future obligations to the Village. Maintaining sufficient balances in reserves and reserve funds is a critical component of a municipality's long term financial plan as it strengthens its long term financial sustainability and helps to minimize fluctuations in the tax rate and provides funding to sustain future operations and services.

APPENDIX A

Option 1 - No reduction in Property Tax Levy

	Five year Forecast						
	Audited Actual 2016	Unaudited Actual 2017	Budget 2018	Budget 2019	Budget 2020	Budget 2021	Budget 2022
REVENUE:							
Property Taxes	492,144	521,700	500,000	500,000	500,000	500,000	500,000
Operating grants	363,470	54,618	54,000	55,350	56,734	58,152	59,606
BMS and Clean Harbours Income***		478,000	250,000	250,000	250,000	250,000	250,000
All other revenue sources	484,255	221,798	194,350	199,209	204,189	209,294	214,526
Total anticipated revenue	1,339,869	1,276,116	998,350	1,004,559	1,010,923	1,017,446	1,024,132
EXPENSES:							
Business Tax Rebate Program		(22,043)	(20,000)	(20,500)	(21,013)	(21,538)	(22,076)
Council	(44,023)	(51,837)	(59,500)	(60,988)	(62,512)	(64,075)	(65,677)
Administration	(294,391)	(336,758)	(299,600)	(307,090)	(314,767)	(322,636)	(330,702)
Planning & Economic Development	(24,664)	(18,254)	(33,000)	(33,825)	(34,671)	(35,537)	(36,426)
Public Works/Roads	(238,568)	(222,724)	(215,594)	(220,984)	(226,508)	(232,171)	(237,975)
Parks & Recreation	(195,068)	(220,306)	(213,094)	(218,421)	(223,882)	(229,479)	(235,216)
Sewer & Garbage	(41,678)	(40,850)	(45,450)	(46,586)	(47,751)	(48,945)	(50,168)
Bylaw & Emergency Services	(86,887)	(67,689)	(82,010)	(84,060)	(86,162)	(88,316)	(90,524)
Transfer to Allowance for doubtful accounts	(17,848)						
Amortization expense*	(307,723)	(308,169)	(308,169)	(308,169)	(308,169)	(308,169)	(308,169)
Total anticipated expense	(1,250,850)	(1,288,630)	(1,276,417)	(1,300,623)	(1,325,435)	(1,350,866)	(1,376,934)
Net operating income (loss)	89,019	(12,514)	(278,067)	(296,064)	(314,512)	(333,420)	(352,802)
Capital grants (MSI and FGTF grants)	390,842	258,888	251,071	251,071	251,071	251,071	251,071
BMS and Clean Harbours Income***			250,000	250,000	250,000	250,000	250,000
Purchase of TCA in 2016	(2,074,192)						
Other net changes in financial assets per 2016 FS	18,403						
Addback: Noncash amortization expense	307,723	308,169	308,169	308,169	308,169	308,169	308,169
Anticipated projects							
Sidewalks		(58,000)					
Lift Station		(88,444)					
Infrastructure Audit		(66,777)					
Curling Rink		(103,000)					
Columbarium		(25,000)					
Engineering Report estimate over 10 years****			(495,800)	(495,800)	(495,800)	(495,800)	(495,800)
Debtenture payment **	(1,357,224)	24,765	112,369	112,369	112,369	112,369	112,369
Surplus (Deficit)	(1,268,205)	12,251	(165,698)	(183,695)	(202,143)	(221,051)	(240,433)
Net assets beginning of the year	1,428,475	160,270	172,521	6,823	(176,872)	(379,015)	(600,067)
Net assets at the end of the year	160,270	172,521	6,823	(176,872)	(379,015)	(600,067)	(840,499)

* Amortization kept at the same for budgeting (subject to change depending on additions, declining vs. straight-line)

** Debtenture payment kept consistent for forecast

*** Funding is unique to the Village and is included at a fixed additional income rate for the budget forecast

**** Estimated engineering cost of \$4.958 million over 10 years; \$495,800 for five year forecast annually

2016 actual audited balances have been reformulated using 2016 audited financial statements

2018 budgeted numbers used as provided by management

Future-oriented budget based on estimated 2.5% inflation rate/year

APPENDIX B

Option 2 - \$100,000 reduction in Property Tax Levy

	Five year Forecast						
	Audited Actual 2016	Unaudited Actual 2017	Budget 2018	Budget 2019	Budget 2020	Budget 2021	Budget 2022
REVENUE:							
Property Taxes	492,144	521,700	500,000	500,000	500,000	500,000	500,000
\$100,000 reduction in proposed levy			(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Operating grants	363,470	54,618	54,000	55,350	56,734	58,152	59,606
BMS and Clean Harbours Income***		478,000	250,000	250,000	250,000	250,000	250,000
All other revenue sources	484,255	221,798	194,350	199,209	204,189	209,294	214,526
Total anticipated revenue	1,339,869	1,276,116	898,350	904,559	910,923	917,446	924,132
EXPENSES:							
Business Tax Rebate Program		(22,043)	(20,000)	(20,500)	(21,013)	(21,538)	(22,076)
Council	(44,023)	(51,837)	(59,500)	(60,988)	(62,512)	(64,075)	(65,677)
Administration	(294,391)	(336,758)	(299,600)	(307,090)	(314,767)	(322,636)	(330,702)
Planning & Economic Development	(24,664)	(18,254)	(33,000)	(33,825)	(34,671)	(35,537)	(36,426)
Public Works/Roads	(238,568)	(222,724)	(215,594)	(220,984)	(226,508)	(232,171)	(237,975)
Parks & Recreation	(195,068)	(220,306)	(213,094)	(218,421)	(223,882)	(229,479)	(235,216)
Sewer & Garbage	(41,678)	(40,850)	(45,450)	(46,586)	(47,751)	(48,945)	(50,168)
Bylaw & Emergency Services	(86,887)	(67,689)	(82,010)	(84,060)	(86,162)	(88,316)	(90,524)
Transfer to Allowance for doubtful accounts	(17,848)						
Amortization expense*	(307,723)	(308,169)	(308,169)	(308,169)	(308,169)	(308,169)	(308,169)
Total anticipated expense	(1,250,850)	(1,288,630)	(1,276,417)	(1,300,623)	(1,325,435)	(1,350,866)	(1,376,934)
Net operating income (loss)	89,019	(12,514)	(378,067)	(396,064)	(414,512)	(433,420)	(452,802)
Capital grants (MSI and FGTF grants)	390,842	258,888	251,071	251,071	251,071	251,071	251,071
BMS and Clean Harbours Income***			250,000	250,000	250,000	250,000	250,000
Purchase of TCA in 2016	(2,074,192)						
Other net changes in financial assets per 2016 FS	18,403						
Addback: Noncash amortization expense	307,723	308,169	308,169	308,169	308,169	308,169	308,169
Anticipated projects							
Sidewalks		(58,000)					
Lift Station		(88,444)					
Infrastructure Audit		(66,777)					
Curling Rink		(103,000)					
Columbarium		(25,000)					
Engineering Report estimate over 10 years****			(495,800)	(495,800)	(495,800)	(495,800)	(495,800)
Debtenture payment **		(201,071)	(201,071)	(201,071)	(201,071)	(201,071)	(201,071)
	(1,357,224)	24,765	112,369	112,369	112,369	112,369	112,369
Surplus (Deficit)	(1,268,205)	12,251	(265,698)	(283,695)	(302,143)	(321,051)	(340,433)
Net assets beginning of the year	1,428,475	160,270	172,521	(93,177)	(376,872)	(679,015)	(1,000,067)
Net assets at the end of the year	160,270	172,521	(93,177)	(376,872)	(679,015)	(1,000,067)	(1,340,499)

* Amortization kept at the same for budgeting (subject to change depending on additions, declining vs. straight-line)

** Debtenture payment kept consistent for forecast

*** Funding is unique to the Village and is included at a fixed additional income rate for the budget forecast

**** Estimated engineering cost of \$4.958 million over 10 years; \$495,800 for five year forecast annually

2016 actual audited balances have been reformulated using 2016 audited financial statements

2018 budgeted numbers used as provided by management

Future-oriented budget based on estimated 2.5% inflation rate/year

APPENDIX C

Option 3 - \$425,000 reduction in Property Tax Levy

	Five year Forecast						
	Audited Actual 2016	Unaudited Actual 2017	Budget 2018	Budget 2019	Budget 2020	Budget 2021	Budget 2022
REVENUE:							
Property Taxes	492,144	521,700	500,000	500,000	500,000	500,000	500,000
RPAC ¹ suggestion \$425,000 reduction in proposed levy			(425,000)	(425,000)	(425,000)	(425,000)	(425,000)
Operating grants	363,470	54,618	54,000	55,350	56,734	58,152	59,606
BMS and Clean Harbours Income***		478,000	250,000	250,000	250,000	250,000	250,000
All other revenue sources	484,255	221,798	194,350	199,209	204,189	209,294	214,526
Total anticipated revenue	1,339,869	1,276,116	573,350	579,559	585,923	592,446	599,132
EXPENSES:							
Business Tax Rebate Program		(22,043)	(20,000)	(20,500)	(21,013)	(21,538)	(22,076)
Council	(44,023)	(51,837)	(59,500)	(60,988)	(62,512)	(64,075)	(65,677)
Administration	(294,391)	(336,758)	(299,600)	(307,090)	(314,767)	(322,636)	(330,702)
Planning & Economic Development	(24,664)	(18,254)	(33,000)	(33,825)	(34,671)	(35,537)	(36,426)
Public Works/Roads	(238,568)	(222,724)	(215,594)	(220,984)	(226,508)	(232,171)	(237,975)
Parks & Recreation	(195,068)	(220,306)	(213,094)	(218,421)	(223,882)	(229,479)	(235,216)
Sewer & Garbage	(41,678)	(40,850)	(45,450)	(46,586)	(47,751)	(48,945)	(50,168)
Bylaw & Emergency Services	(86,887)	(67,689)	(82,010)	(84,060)	(86,162)	(88,316)	(90,524)
Transfer to Allowance for doubtful accounts	(17,848)						
Amortization expense*	(307,723)	(308,169)	(308,169)	(308,169)	(308,169)	(308,169)	(308,169)
Total anticipated expense	(1,250,850)	(1,288,630)	(1,276,417)	(1,300,623)	(1,325,435)	(1,350,866)	(1,376,934)
Net operating income (loss)	89,019	(12,514)	(703,067)	(721,064)	(739,512)	(758,420)	(777,802)
Capital grants (MSI and FGTF grants)	390,842	258,888	251,071	251,071	251,071	251,071	251,071
BMS and Clean Harbours Income***			250,000	250,000	250,000	250,000	250,000
Purchase of TCA in 2016	(2,074,192)						
Other net changes in financial assets per 2016 FS	18,403						
Addback: Noncash amortization expense	307,723	308,169	308,169	308,169	308,169	308,169	308,169
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Curling Rink		(103,000)					
Columbarium		(25,000)					
Engineering Report estimate over 10 years****			(495,800)	(495,800)	(495,800)	(495,800)	(495,800)
Debenture payment **		(201,071)	(201,071)	(201,071)	(201,071)	(201,071)	(201,071)
	(1,357,224)	24,765	112,369	112,369	112,369	112,369	112,369
Surplus (Deficit)	(1,268,205)	12,251	(590,698)	(608,695)	(627,143)	(646,051)	(665,433)
Net assets beginning of the year	1,428,475	160,270	172,521	(418,177)	(1,026,872)	(1,654,015)	(2,300,067)
Net assets at the end of the year	160,270	172,521	(418,177)	(1,026,872)	(1,654,015)	(2,300,067)	(2,965,499)

* Amortization kept at the same for budgeting (subject to change depending on additions, declining vs. straight-line)

** Debenture payment kept consistent for forecast

*** Funding is unique to the Village and is included at a fixed additional income rate for the budget forecast

**** Estimated engineering cost of \$4.958 million over 10 years; \$495,800 for five year forecast annually
2016 actual audited balances have been reformulated using 2016 audited financial statements

2018 budgeted numbers used as provided by management

Future-oriented budget based on estimated 2.5% inflation rate/year

¹ RPAC: Ryley Public Advisory Council

QUESTIONS

For further information, please contact:

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