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CITY OF ST. ALBERT

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Implications of Provincial Budget
Presented by: Diane McMordie, Director, Financial Services & Information Technology/CFO

RECOMMENDED MOTION
That the Community Growth & Infrastructure Standing Committee recommend to Council that the report titled “Implications of Provincial Budget” be received as information.

PURPOSE OF REPORT

To provide the Committee with key highlights from the Government of Alberta’s 2021-2024 budget called “Protecting Lives and Livelihoods” which was tabled in the Legislative Assembly on February 25, 2021.

This report seeks to communicate our understanding of the extent to which the provincial budget will impact the City and it’s residents in the near and longer term.

ALIGNMENT TO COUNCIL STRATEGIC PRIORITY

N/A

ALIGNMENT TO SERVICE DELIVERY

N/A

ALIGNMENT TO COUNCIL (OR COMMITTEE) DIRECTION OR MANDATORY STATUTORY PROVISION

N/A

BACKGROUND AND DISCUSSION

The City of St. Albert is committed to maintaining and improving our long term sustainability. Through initiatives such as the Operational and Fiscal Review and the pursuit of potential revenue sources such as waste to energy, solar farm and an energy corporation, the City strives to continue providing valued City services and maintain and grow our infrastructure with reduced impacts to property taxes.

The tax and political structure in Canada requires partnerships between Federal, Provincial and local governments to provide needed and desired services to Canadians. As residents physically live and work in our Cities, Towns, Villages and rural communities, municipal governments are in the position of having to directly provide or support almost all of these required services however at the same time have limited ability to generate revenues outside of traditional property taxes.

It has long been recognized that financial support from the provincial and federal governments is critical, most notably in the area of infrastructure management. Municipalities are responsible for 60% of all public infrastructure. A large portion of our capital funding is accessed through provincial and federal programs. The types of programs and the level of financial support varies from government to government and consistently leaves municipalities in a state of uncertainty.

AUMA (Alberta Urban Municipalities Association) has long been advocating on behalf of Alberta municipalities for long-term, stable and predictable funding. In 2019, the Local Government Fiscal Framework Act (LGFF) was passed. The move into this new framework, while not perfect, was getting us closer to a funding model that would allow municipalities to plan further into the future. This framework was originally planned for implementation for the 2022/23 provincial fiscal year.

On February 25, 2021, the Government of Alberta released it’s 2021-2024 budget named “Protecting Lives and Livelihoods”. The most significant impact to St. Albert (and all other municipalities) was the Government's decision to extend the MSI (Municipal Sustainability Initiative) program and delay implementation of the LGFF until 2024/25. It is important to note that while the Government speaks to the LGFF program the enabling legislation to create this program has not yet been proclaimed in force, thus leaving us further vulnerable and continuing to operate and plan in a state of uncertainty.

More concerning than the extension of MSI, were the significant changes (from the 2020/21 budget) to the funding allocations under this program.
The Province has front-ended a larger portion of this funding in the 2021/22 year in order to spur economic activity in response to COVID, while reducing allocations in the following 2 years. When considering the entire 3 year outlook, we are expecting a 25% reduction in capital funding from historical averages. This level of funding reduction (which is anticipated to continue if/when the LGFF is implemented) will have significant ramifications to our community in terms of our ability to properly maintain our existing infrastructure as well as to grow our community.

A couple of years ago, we began including a funding reduction in our longer term planning in anticipation of these provincial decisions. However, the funding cuts announced on February 25. 2021, were deeper than we had planned for. While our pro-active planning has ensured that we did not over-allocate dollars for capital projects (we have adequate resources for all projects currently approved by Council, barring significant increases in tender prices) the reduction in revenue from the

Province will limit our ability to fund our capital program in the future.

The chart provided in the attachment entitled “Capital Estimates” illustrates the reduction in capital funding that the City faces over the next 5 years as compared to our historical experience.

Specific impacts on our capital plan (RMR & Growth)

Required capital projects in the City are funded through three main sources:
-Tax Levy (PAYG)
-Tax Levy (Contributions to lifecycle reserves)
-Provincial & Federal Grants

Through Council Policy C-FS-05 Budget and taxation guiding principles, capital assets are classified under the following two categories:

Repair, Maintain, Replace (RMR) - Capital initiatives that relate to maintaining current service levels that are required by lifecycle plans and are considered a replacement or rehabilitation of existing infrastructure, facilities, and equipment.

Growth - Capital initiatives that are required to meet future demand relating to facilities, equipment, technology, and infrastructure for the development of cultivating and strengthening the community.

This differentiation is important as the RMR portion of our capital plan is governed by the principle that the City is committed to the preservation and long term viability of its current infrastructure and as such commits available capital dollars towards the repair, maintenance and replacement of existing assets prior to consideration of new capital growth projects and assets.

Currently the City relies heavily on grants to support its RMR requirements putting us in a precarious situation as grants from other levels of government become less reliable and stable. To ensure a sustainable community, financial plans should ensure that existing assets can be properly and fully maintained through the existing tax base and that capital grants should be utilized to support growth related projects.

There is currently a large delta between what we should be funding through the tax base and what we are actually contributing. With a municipal asset base valued at over $700 million, we would need to be contributing approximately $32 million per year to support those assets in the future. This delta also continues to grow each year as we continue to add assets, both built and contributed from developers, without a corresponding funding source to support their future needs for maintenance & replacement. Our current annual tax supported contribution as of the 2021 budget is ~$12 million. Previous analysis suggests that with the current shortfall and continued growth at historical rates, a 1.5% tax increase every year for over 20 years would be required every year to completely close this gap or alternate revenue sources should be pursued to reduce this tax burden.

On June 24, 2019 Council passed the following motion:
CB-19-012

That Council Policy C-FS-05 Budget and Guiding Principles be amended to incorporate the following:

That effective for the 2020, 2021 and 2022 budget, the equivalent of a 1.50% property tax increase be included in the municipal tax requirement and specifically targeted to capital reserves to support the repair, maintenance and replacement of existing capital assets.

This decision was made to support increased contributions to our lifecycle reserves to slowly begin to fill this gap. In 2020, Council decided to reduce the RMR tax increase for 2020 from 1.5% to 0.5% due to COVID impacts on the community, but subsequently moved ahead with the planned 2021 increase.

With a philosophy of supporting RMR needs prior to growth, the current estimated reduction in provincial grant funding does not, at this point, negatively impact our RMR program but what it does is directly (dollar for dollar) impact the remaining funding available for growth projects. As we currently need to use a large portion of our grants to backfill the RMR funding shortfall, without continued increase contributions to our PAYG/Lifecycle reserves, further reductions in grant funding may impact our ability to carry out these critical projects.

<u>Other Tertiary Impacts from the Provincial Budget</u>

1. Education Tax

The province has budgeted a freeze in education property tax levies for the 2021/22 fiscal year however there are budgeted increases apparent in future years. The City is required to include this levy in the annual assessment and property tax notice and while completely outside the control of the City, it impacts the overall amounts that residents and businesses are required to pay.

2. Disaster Recovery Program

There are planned changes to this program that will see a significant transferring of costs to municipalities. Details on these changes will be coming in the future and will be assessed at that time.

3. Affordable Housing

While province intends to implement the Affordable Housing Review Panel's recommendations to increase the affordable housing supply, provincial capital funding in this area is projected to decrease by 79% over two years. AUMA expects that the non-profit and private sectors will be asked to take on a greater role.

4. Senate elections and referendums will be held in conjunction with municipal elections this fall.

There is concern among municipalities that this will detract from local issues. While limited details are available at this time, $10 million has been budgeted by the province through the Alberta Community Partnership Grant (ACP) to support municipal initiatives related to supporting this additional requirement.

5. Provincial Public Sector Wage Spending

There is an intention to cut public sector wage spending by $800 million. Given that roughly 30% of St. Albert's employment base work within government, there could be tertiary impacts to the local economy.

6. Chargeback for Biology Casework Analysis Agreements (BCAA) expenses

Beginning in 2021, municipalities will be charged back for the provincial portion of costs (46% provincial, 54% federal) related to DNA analysis requests submitted by police services. St. Albert's proportion of this billing is ~$25,000.

Additional analysis and commentary on the provincial budget can be found on the Alberta Urban Municipalities Association (AUMA) website at the following link:

<https://www.auma.ca/sites/default/files/aumas_preliminary_analysis_of_albertas_budget_2021_final.pdf>

Conclusion

All levels of government and every resident and business in the province, country and globally has been impacted in some way by Covid-19. The Government of Alberta's 2021/22 budget focuses on lives and livelihoods with investments in health and the recovery of jobs and the economy while at the same time trying to manage the fiscal realities. The Province has chosen to partially manage this through reduced capital allocations and further downloading of costs to the municipalities.

The City of St. Albert, over the last several years, has started to shift the conversation to long term sustainability. Increased financial pressures related to asset management, community desires for growth, and downloading of costs from the Province alongside a legislated structure that limits municipalities' ability to generate revenues, threatens our ability to meet the needs of our residents without significant tax increases or potential service reductions. We need to recognize that we cannot tax our way out of these challenges and we must commit resources to the pursuit of expansion of our non-residential tax base and aggressively pursue alternate revenue sources.

STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

None

IMPLICATIONS OF RECOMMENDATION(S)

Financial:

As this report is only being provided as information, there are no direct financial implication to this report; however, reductions in capital funding in the future will put more pressure on the City in its efforts to maintain its existing assets and to grow the City.

Legal / Risk:

None at this time

Program or Service:

None at this time

Organizational:

None at this time

ALTERNATIVES AND IMPLICATIONS CONSIDERED

None

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