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Presented by: Chris Jardine, Interim City Manager

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TAMRIMS#: B06

Growth Capital Budget

Presented by: Chris Jardine, Interim City Manager

RECOMMENDATION(S)

That the September 26, 2016 agenda report entitled "Growth Capital Budget" be received as information.

That, during the deliberations of the 2017 Budget, Council consider the following postponed motions:

- a. That the 2017 Capital Projects outlined in the attachment entitled "2017 Capital Project Prioritization" to the September 26, 2016 agenda report entitled "Growth Capital Budget" be advanced for commencement in 2017, subject to all funding alignment and conditions are approved.
- b. That the remaining unfunded 2017 Capital Projects of \$14,511,100, as detailed in the attachment entitled "2017 Capital Project Prioritization" to the September 26, 2016 agenda report entitled "Growth Capital Budget", be postponed to 2018 for consideration in the 2018 Growth Capital Budget.
- c. That the total project budgets, inclusive of the detailed planning components, for OA-005 Community Library Branch and SERV-004 6th Arena Ice Surface (\$17,000,000 and \$17,764,000 respectively) be advanced and funded through debt servicing; and that Administration be directed to prepare, for Council consideration, the required borrowing bylaw(s) in accordance with the provisions of the *Municipal Government Act*.

- d. That \$400,000 from the Capital Reserve be set aside to provide matching funds for the application of eligible grants and applied to the following projects. Commencement of these projects would be subject to grant approval:
- COUN-029 Solar Photovoltaics (PV) Program
 - CSS-007 Smart Building Monitoring Systems
 - CSS-006 Heat Recovery
 - CSS-005 Cogeneration

That Administration propose a project plan to Council on November 21, 2016 to develop and integrate long range financial strategies, policies, and funding that align with the 10 Year Municipal and Utility RMR and Growth Capital Plan.

PURPOSE OF REPORT

The purpose of the report is to provide Council with a recommended short term growth capital plan and related funding strategy to address the 10 Year (2017-2026) Municipal Growth Capital shortfall during the 2017 budget deliberations.

COUNCIL DIRECTION

On July 11, 2016 Council passed the following motion:

C461-2016

That Administration utilize the 2017- 2026 Growth Municipal Capital Plan, provided as Attachment 3 to the July 11, 2016 agenda report entitled “Review of 10 Year Municipal Growth Capital”, to provide financing options to Council on September 26, 2016 to support the 2017 capital budget shortfall.

Council Policy C-P&E-02, Capital Project Management, states:

“Council is responsible to review for decision any adjustments to the approved 10 Year Capital plan and the Capital Budget”

BACKGROUND AND DISCUSSION

The 10 Year Municipal and Utility RMR and Growth Capital Plan is a long-term planning document for the City that provides key strategic inputs for the upcoming budget year, a framework for the three-year budget plan, and a future outlook of long range capital requirements. Considering the infrastructure needs of the City, the funding associated with these initiatives have traditionally been available to fund the subsequent year through the City’s conservative approach on capital financing and investments through maintaining healthy reserve balances, nominal increases to the capital funding formula, debt aversion, and reprioritizing capital initiatives to latter years within the 10 year plan.

In recent years, the City has recognized the need to increase funding for the anticipation of municipal growth capital initiatives as approved within the 10 Year Growth Capital Plan. This has been accomplished through year-end surplus transfers, increase in the capital funding formula, and reserve policy changes, all whilst minimizing the impact on taxes. Although these decisions have provided additional funding, the City still faces a funding shortfall of approximately \$310 million over the next 10 years.

Council was first made aware of the City's capital funding deficit during the 2016 budget deliberations in November 2015. This deficit was centered on the municipal growth capital budget as the utility capital budget is fully supported through utility rates. On May 9, 2016, a financial outlook was presented to the Standing Committee of the Whole which identified a shortfall in the City's available funding to support growth capital initiatives and the potential tax impact for the next five years. This also highlighted the importance to establish priorities and fiscal strategies to ensure the City has the necessary resources to fund these growth requirements. A proposed 10 year Municipal Growth Capital Plan was then presented to Council on July 11, 2016 in order for Administration to prioritize and determine long-term financing strategies for Council consideration.

As such, the proposed 10 Year (2017-2026) Municipal Growth Capital Plan is detailed in Attachment 1 and overall 10 Year Funding Summary in Attachment 2.

Review of 2017-19 Municipal Growth Capital Budget

In the subsequent three years 2017-19, the City faces a funding deficit of:

2017	-\$10.9 million
2018	-\$54.8 million
2019	-\$56.5 million

To first approach the shortfall, Administration established two different metrics and criteria to prioritize each capital project to ensure varying aspects were considered. The projects were prioritized first based on Criteria 1, then again based on Criteria 2.

Criteria 1:

1. Addresses significant safety issues.
2. Government regulation/order.
3. Provides established community service standard/level in a developing area.
4. Commencement of the development process has begun or is already under contract to proceed.
5. Council determined resolution to accomplish in the specific timeframe.
6. Enhancement to public infrastructure for improved functionality, effectiveness or efficiency.
7. Special consideration for advancement if;
 - a) Council approves the funding allowance put forward to provide seed funds to support a projects within an identified list; and
 - b) Where a grant application has successfully been applied for and approval has been provided by council to proceed.
8. Projects that did not meet sub points 1-7 in criteria.

Criteria 2:

- A. Legislated - mandated or required by law
- B. Consequence of Growth - required to enable or as a result of growth demands
- C. Impact of Growth - required to plan or support for future growth to create a "complete" community
- D. Enhancement - improve on functionality that supports other strategic plan or approved long-term planning document and is discretionary ("nice to have")

- E. Grant Funded Opportunities - projects identified as eligible for potential new grants
- S. Administration (Senior Leadership Team) recommended adjustments

In using the two methods, the 2017-2019 capital projects were scrutinized and sorted to reflect the prioritization and is outlined in the Attachment titled 2017 Capital Project Prioritization, 2018 Capital Project Prioritization, and 2019 Capital Project Prioritization.

Understanding the limitations of funding availability and the long term effects on financing strategy, Administration is recommending a series of actions to address this concern.

1. 2017 Capital Budget Funding

For the upcoming 2017 budget deliberations, Administration is recommending that projects up to sub-criteria "C - Impact" in 2017 (in the attachment titled 2017 Capital Prioritization) be funded. These projects represent the essential services and infrastructure required to sustain and plan for the City's growth. Although important, projects deemed as "D - Enhancement" would augment existing infrastructure but may not be required to meet the emerging demands of growth at this time. These projects (D - Enhancement) are recommended to be postponed for 2018 and further reevaluated in the following year, while maintaining the same ranking criteria of "D".

2. Borrowing Bylaw

Within the 10 year capital plan, two major projects are scheduled for 2017/18:

	<u>2017</u>	<u>2018</u>	<u>Total</u>
OA-005 Community Library Branch	\$2.0	\$15.0	\$17.0
SERV-004 6th Arena Ice Surface	\$1.8	\$16.0	\$17.8
Total	\$3.8	\$31.0	\$34.8

(in millions)

To support these initiatives, Administration is proposing that two separate borrowing bylaws be approved for a total of \$34.8 million to support the project costs. As the financial impact of debt servicing cannot be sustained through the City's current capital funding formula and its total available funding, a tax rate increase would be required.

In addition, the total budget for both projects would need to be approved in 2017 to reflect the commitment of the project and the amount required for debt servicing. Understanding the entire amount may not be necessary in the first year (2017), individual draws would occur (as required) to ensure the impact is spread throughout the duration of the two projects. Assuming a 20 year debenture, using August 1, 2016 ACFA rate of 2.465%, the annual payment and tax increase would be as follows:

	<u>2017 Proposed</u>	<u>2018 Planned</u>
2017 Debt Payment	241,125	241,125
2018 Debt Payment		1,981,481
% Tax Impact	0.3%	2.1%

The impact on municipal tax rates would result in associated increases of 0.3% for the 2017 funds withdrawal, and 2.1% for 2018 funds draw. While the withdrawals would occur in 2017 and 2018, the impact of each draw would likely not impact the budget until the subsequent respective year. In implementing a phased approach, the impact on taxes would be gradual, totaling about 2.4% when fully implemented in 2019.

3. Special Consideration

In reviewing and prioritizing the 2017-19 projects, several projects originally deemed as “C - Impact” was changed to “E - Grant Funded”:

COUN-029 Solar Photovoltaics (PV) Program	505,000
CSS-005 Cogeneration	60,600
CSS-006 Heat Recovery	65,700
CSS-007 Smart Building Monitoring Systems	<u>30,300</u>
Total	\$661,600

These projects represent initiatives that may be funded from potential new grants. To capitalize on this opportunity, Administration is recommending that \$400 thousand be set aside in 2017 from the capital reserve in preparation of the grant application process. These funds will serve as a matching component to the applicable grant, and commencement of these projects would only occur subject to grant approval. This allows the City to pursue these new funding sources without committing the total project costs. The projects and associated opportunity have been selected as each has the potential to generate longer term operational savings relating to reduced energy costs and also in reduced carbon tax costs. If this allowance is approved and the grant has been awarded to the City, Administration would still report back to Council and seek confirmation to advance the respective project. In the event the City was unsuccessful in obtaining these grants, the projects listed above would not move forward for commencement.

A summary of the recommended 2017 capital budget and funding allocation is as follows:

2017 Capital Summary

2017 Recommended Funded Projects (up to "C")	7,729,200
OA-005 Community Library Branch	17,000,000
SERV-004 6th Arena Ice Surface	17,764,000
Grant Matching Funds	<u>400,000</u>
Total Budget	42,893,200

Funding:	
Available Capital Funding	15,065,950
Debenture	<u>34,764,000</u>
Total Funding	49,829,950

Surplus/(Deficit)	\$6,936,750
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As a result, \$6.9 million in capital funding would remain as unallocated. This ensures that adequate funding is made available for prioritized 2017 projects, while considering the future year's funding

requirements.

If the same consideration of funding up to priority “C” was made for 2018 projects, sufficient funds would be available to support these initiatives with no tax implications.

However, in 2019, the deficit for funding expands not only within growth projects but for repair, maintain, and replace (RMR) projects. For 2020 and beyond, the deficit continues to grow, as does the importance of long-term financing strategies.

Recognizing the significant shortfall over the 10 year period, Administration is recommending that a full review of the City’s Long Range Financial Plan and Strategies be completed. With Council direction, the assessment would include the review of asset management, master plans, examination of investments, reserves, capital resources, policies, revenue and expense projections, and the impacts on the City’s long term planning. This would assist in identifying funding gaps, establish associated strategies and improve the City’s financial sustainability. The intent is to establish an overall, holistic approach in determining the City’s governance policy. Key outcomes would ensure:

- Improved development, methodology, and timing of prioritizing capital projects
- Alignment with master plans, development plans, and other planning models
- Service levels and standards are achieved through the RMR portfolio
- Review of strategies and policies to align with long-term planning and the capital plan

As such, Administration is proposing a presentation of a project plan to Council for November 21, 2016. This proposed financial planning project will be a significant body of work and will likely to take upwards of three years to complete. Once finalized, the City will have a much more comprehensive, fully integrated, well refined Capital Budget program that will be supported by appropriate planning documents, tools, policy frame work and funding strategies.

With these proposed recommendations, the City will be able to address its short term needs, while ensuring that adequate time is made available to establish long term financing strategies and planning to achieve Council’s direction and the community vision.

STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

N/A

IMPLICATIONS OF RECOMMENDATION(S)

a) Financial:

The capital projects that have been identified as “Growth” are required to meet future demand and strengthen the community. Without the consideration of the proposed amendments, long term planning could be adversely affected.

b) Legal / Risk:

None at this time.

c) Program or Service:

None at this time.

d) Organizational:

None at this time.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

If Council does not wish to support the recommendation, the following alternatives could be considered:

- a) Alternative 1. Council 'do nothing' and no funding options would be made available during the 2017 budget deliberations.
- b) Alternative 2. The City would continue to face a funding deficit relating to capital infrastructure for subsequent years with no financial long-term strategies in place to ensure adequate funding can be made available.

STRATEGIC CONNECTIONS

a) City of St. Albert Strategic Plan (Policy C-CG-02)

Pillars of Sustainability

BUILT ENVIRONMENT - We build our community towards the future to sustain balanced development, with a reverent eye to the past, honouring our unique settlement history and distinct identity.

Governance Strategy

Council is committed to ensuring that the City of St. Albert is a responsive, accountable government that delivers value to the community.

Service Delivery Strategy

Council is committed to ensuring that the City of St. Albert is engaging residents to identify opportunities to improve delivery of services to the community.

b) Long Term Plans (e.g. MDP, Social Master Plan, Cultural Master Plan, etc.)

Municipal Development Plan
All Divisional Action Plans
Facility Matrix Model

c) Corporate Objectives (See Corporate Business Plan)

Deliver programs and services that meet or exceed our standards
Exercise strong fiscal management

d) Council Policies, Bylaws or Federal/Provincial statutes

Budget and Taxation Guiding Principles C-FS-05
Capital Project Management C-P&E-02

e) Other Plans or Initiatives (Business Plans, Implementation Strategies, etc.)
N/A

Report Date: September 26, 2016
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