



## Request for Decision

<b>Title</b>	<b>Bylaw 1444/19 – Loan for Significant Tax Revenue Growth Funded Projects (Third Reading)</b>
<b>Proposed Motion</b>	That Council give third reading to Bylaw 1444/19 as amended.
<b>Administrative Recommendation</b>	Administration recommends that Council give third reading to Bylaw 1444/19 as amended as an interim measure to fund Significant Tax Revenue Growth Funded projects. The loan will be paid off when the County receives tax revenues from the Sturgeon Refinery subject to the Significant Tax Revenue Growth Policy.
<b>Previous Council Direction</b>	<p><u>May 14, 2019:</u> Motion 167/19: That Council give first reading to Bylaw 1444/19.</p> <p>Motion 168/19: That Council give second reading to Bylaw 1444/19.</p> <p>Motion 169/19: That Council give unanimous consent to proceed to third reading of Bylaw 1444/19. <i>**Note, this motion did not pass with unanimous consent.</i></p> <p>Motion 170/19: That Council amend the 2019 Capital Budget to fund the Range Road 230 from Highway 37 reconstruction project from Municipal Sustainability Initiative (MSI) Grant (\$1,000,000) and Road Network Reserve - \$841,500 (7.18).</p> <p><u>December 11, 2018:</u> Motion 386/18: That Council approve the 2019 Operating and Capital Budget as amended by motions passed at the November 30, 2018 and December 11, 2018 Council Budget Meetings represented by a 0% change to tax rates.</p> <p><u>November 27, 2018:</u> Motion 333/18: That Council approve the amended Significant Tax Revenue Growth Policy to allocate \$2 million (7%) annually for five years to a new Priority Area 8 – Off-site Infrastructure Investment.</p> <p>Motion 334/18: That Council direct Administration to bring forward to budget deliberations the amended 2019-2021 Refinery Funded Road Project Budget in accordance with the "Impact of Proposed Amendment" attachment.</p>

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March 28, 2017

Motion 131/17: That Council approve the Significant Tax Revenue Growth Policy.

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**Report** Background Information

- The 2019 Capital Budget contains 11 road infrastructure projects with funding tied to 2019 Significant Tax Growth Revenue. The total budget for these projects is \$13,865,800.
- The timing of receiving tax revenues from the Sturgeon Refinery and how much will be received in 2019 remains uncertain at this time. Administration anticipates approximately 50% of the tax revenues will be received in 2019.
- Council has expressed the desire to move ahead on Significant Tax Revenue Growth funded projects in 2019 in addition to the \$11 million in road infrastructure projects funded by grants and general taxes.
- To advance work on these projects in 2019, Administration has explored alternative interim financing options for these projects considering the impact on the County's reserve, debt and taxes.
- At the May 14, 2019 Regular Council Meeting, Council amended the 2019 Capital Budget to fund the Range Road 230 from Highway 37 reconstruction project from Municipal Sustainability Initiative (MSI) Grant (\$1,000,000) and Road Network Reserve - \$841,500 (7.18). This has left 10 Significant Tax Revenue Growth projects unfunded.
- This Request for Decision proposes funding options for moving ahead on 6 out of the remaining 10 projects as per Schedule "A" of Bylaw 1444/19.
- The recommended interim funding is a \$6 million short-term loan (3 years) loan from CIBC. The merits of this option are:
  - ◆ Provides flexibility to the County – interest-only payment is required for the 3-year term. Interest is charged only when loan is withdrawn and no penalty for paying outstanding balance within the term.
  - ◆ Minimal impact on reserve and taxes as debt servicing is restricted to annual interest.
  - ◆ The County currently invests its reserve balance. The opportunity cost of using reserve balance is almost same as the cost of the short-term borrowing. The interest rate on the County's investment ranges from 2.1% - 3%, while the current interest rate on the short-term loan is at 2.5%.
  - ◆ Option to convert to a long-term debenture after the 3-year term.
  - ◆ It reflects the conservative principle of the Significant Tax Revenue Growth Policy – significant tax revenue growth is only committed when there is certainty of receiving the revenues.
- The annual interest on the loan is estimated at \$150,000 (total of \$450,000 if the loan spans the 3-year term).

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- The short-term loan will be paid off when the County receives tax revenues from the Sturgeon Refinery subject to the Significant Tax Revenue Growth Policy. The County will be able to pay off the debt in 2019 if it receives 50% of anticipated annual tax revenue from Sturgeon Refinery.
  - Moving ahead with the entire 10 projects with a short-term loan of \$12 million is not consistent with the conservative approach of the Significant Tax Revenue Growth Policy as the County will be spending more than it anticipates receiving in 2019. This may affect future projects or impact taxes in the long-run depending on when tax revenues are received. The servicing cost (interest only) on this option is \$300,000 per year.
  - Using long-term debenture of \$6 million to fund the 6 selected projects will result in a high annual servicing cost of about \$680,000 per year for 10 years. Further, the County will incur penalties for early repayment on long-term debt.
  - Funding the 6 projects with reserve will deplete the County's general operating reserve. This impacts the ability of the County to respond to emerging items in the future. The general operating reserve balance is \$7,865,482 as per the 2018 Audited Financial Statements.
  - The total outstanding debt principal as of December 31, 2018 was \$30,814,015 (audited).
  - Sturgeon County's debt limit as of December 31, 2018 per the *Municipal Government Act* (MGA) is \$102,997,562.
  - Sturgeon County's debt limit as of December 31, 2018 per Sturgeon County's Debt Policy is \$82,393,049.
  - Remaining debt limit available based on MGA regulations is \$72,183,547; based on Sturgeon County Policy it is \$51,584,035.
  - At the May 14, 2019 Regular Council Meeting, Council gave first and second readings to Bylaw 1444/19. A resolution to proceed with third reading at the same meeting did not receive unanimous consent in accordance with section 187(4) of the *Municipal Government Act* (MGA) and therefore Council could not consider third reading of the Bylaw at the same meeting.
  - The next Regular Council Meeting is scheduled for June 11, 2019. Bringing Bylaw 1444/19 to the June 11<sup>th</sup> meeting would not provide sufficient time for Administration to procure these projects and complete them in the 2019 construction year.
  - Therefore, the Mayor has called a Special Council Meeting for May 17, 2019 to allow Council to consider third reading of Bylaw 1444/19.
  - The Special Council Meeting was called in accordance with section 194(1) of the MGA. Members of Council were advised of the Special Council Meeting on May 14, 2019, and Administration has posted notice of the Special Council Meeting on the County website and at Sturgeon County Centre.

- Administration is proposing an amendment to the Bylaw, specifically the addition of Schedule “A” to identify the projects that will be funded by the loan bylaw.

External Communication

- None.

Relevant Policy/Legislation/Practices:

- Municipal Government Act* (MGA), RSA 2000 c.M-26. Under section 257 of the MGA, a borrowing bylaw for borrowing not exceeding five years does not have to be advertised if it is included in a budget. Bylaw 1444/19 meets these requirements.
- Debt Management Policy (PLY\_Debt\_Management\_Policy\_2015)

**Implication of Administrative Recommendation**

Strategic Alignment:

**Maintain and Enhance Strong Communities** – Starting these projects in 2019 as planned demonstrates a commitment to providing safe and reliable infrastructure assets to residents.

Organizational:

It is expected the contracts for these projects will be awarded by July 2019 in order to start construction/design this year. In all, the County will be able to move ahead on 6 out of the 10 remaining projects in 2019.

Financial:

The total cost for the projects as per the 2019 Budget is \$13,865,800 with funding from Significant Tax Revenue Growth.

The interim funding proposed is \$6 million from the short-term loan.

Interest rates can fluctuate until a loan is taken out; however, the current interest rates and implications are below.

The current interest rate for a 3-year facility loan is 2.5%. Payments will be based on amount withdrawn.

Project	Loan \$	Total Interest (3-Year)	Annual Payment
6 Projects	\$6,000,000	\$450,000	\$150,000

**Alternatives Considered**

1. Fund the entire projects using \$12,000,000 from short-term loan.
2. Fund \$6,000,000 of the projects from long-term debenture.
3. Fund \$6,000,000 of the projects from reserves.

**Implications of Alternatives**

Strategic Alignment:

- These options do not align very well with the County’s commitment to maintaining fiscal stability and sustainability.

Organizational:

- The County anticipates receiving less than the annual tax revenues projections from Sturgeon Refinery in 2019; hence, moving ahead on

the entire projects will require that future projects be shifted or budget considerations in the future.

- On long-term debenture, the bylaw borrowing must be advertised after the first reading. Administration may not be able to award contract for the projects by July 2019 as planned without a special council meeting.
- Using reserve funding impacts the County's ability to respond to emerging issues and reduce revenue from investment income.

Financial:

- Under alternative 1, the annual servicing cost will increase from \$150,000 (under the recommended option) to \$300,000 per year.
- High annual servicing cost of the long-term debenture of \$680,000.
- Penalty on long-term debenture for early repayment.
- Using reserve funding will deplete the County's operating reserve.
- The interest rate on the County's investment ranges from 2.1% - 3%, while the current interest rate on the short-term loan is at 2.5%.

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- Follow up Action**
1. Administration will sign the loan facility agreement with CIBC.
  2. Engineering will tender and award the contracts by July 2019.

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- Attachment(s)**
1. Loan Bylaw 1444/19
  2. Proposed Projects List (Attachment 2)
  3. Debt Management Policy
  4. Significant Tax Revenue Growth Policy
  5. Summary of Fiscal Principles, Practices and Policies

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**Report Reviewed  
by:**



Ed Kaemingh Manager, Financial Services



Rick Wojtkiw, General Manager, Corporate Support



Reegan McCullough, County Commissioner - CAO

## Strategic Alignment Checklist

**Vision:** *Sturgeon County: a diverse, active community that pioneers opportunities and promotes initiative while embracing rural lifestyles.*

**Mission:** *Provide quality, cost effective services and infrastructure to meet the diverse needs of the Sturgeon County community, while improving competitiveness and sustainability.*

Focus Areas	Not consistent	N/A	Consistent
<b>Planned Growth and Prosperity</b>			
<i>We encourage varied and integrated enterprises that enhance our strong economic base, while balancing the needs of the community and natural environment. (Strategic Plan and MDP pg. 36)</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Supports a strong thriving business environment to strengthen our economic foundation</i></li> </ul>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Plans for responsible growth through the MDP and regional growth plan.</i></li> </ul>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Manages growth for current and future developments through:                             <ul style="list-style-type: none"> <li><i>transparent bylaws, policies and processes to enable responsible land development</i></li> <li><i>targeting growth around existing and identified future growth areas</i></li> </ul> </i></li> </ul>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Maintain and Enhance Strong Communities</b>			
<i>We are committed to a safe and viable community, where our residents are provided with access to opportunities and quality of life. (Strategic Plan and pg. 27 MDP)</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Provides access to programs and services that have a positive impact on residents' quality of life</i></li> </ul>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Provides access to safe and reliable infrastructure assets</i></li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Supports the safety of people and property</i></li> </ul>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Strong Local and Regional Governance</b>			
<i>We promote consistent and accountable leadership through collaborative and transparent processes (Strategic Plan and pg. 27 MDP)</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Provides effective leadership and management consistent with Strategic Plan, MDP, master plans, bylaws, policies, community engagement</i></li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Considers fiscal stability and sustainability</i></li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Fosters collaborative intergovernmental partnerships</i></li> </ul>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Community Identity &amp; Spirit</b>			
<i>We will build upon our strengths, where together we will create an inclusive, caring community (Strategic Plan and MDP pg. 27)</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Promotes and/or enhances residents' identification with Sturgeon County</i></li> </ul>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Support and/or collaborate with voluntary organizations in the region</i></li> </ul>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Environmental Stewardship</b>			
<i>We foster a healthy environment and minimize our impact on ecosystems. (Strategic Plan and MDP pg. 27)</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Plans and partnerships that minimize environmental impact on natural areas</i></li> </ul>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li><i>Provides awareness of environmental issues impacting the County</i></li> </ul>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>