



Request for Decision

Title	Bylaw 1444/19 – Loan for Significant Tax Revenue Growth Funded Projects
Proposed Motion	<ol style="list-style-type: none">1. That Council give first reading to Bylaw 1444/19.2. That Council give second reading to Bylaw 1444/19.3. That County Council give unanimous consent to proceed to third reading of Bylaw 1444/19.4. That Council give third reading to Bylaw 1444/19.5. That Council direct Administration to proceed with the projects listed in Attachment 2 to be funded by loan proceeds.6. That Council direct Administration to proceed with 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).
Administrative Recommendation	Administration recommends that Council approve the three readings of the Loan Bylaw as an interim measure to fund these projects. The loan will be paid off when the County receives tax revenues from Sturgeon Refinery subject to the Significant Tax Revenue Growth Policy.
Previous Council Direction	<p><u>December 11, 2018 – Motion 386/18:</u> 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>

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.
- This Request for Decision proposes funding options for moving ahead on 7 out of the 11 projects as per the proposed project list attached.
- The recommended interim funding is a \$6 million short-term loan (3 years) loan from CIBC and \$1,841,500 from grants and reserve. 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).
- 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.
- The Road Network Reserve has an uncommitted balance of \$1,694,370.

- Available MSI Grant funds from Range Road 241 – Cameron Park to Township Road 552 project will be reallocated to fund the Range Road 230 project. Range Road 241 – Cameron Park to Township Road 552 came significantly under budget due to lower than estimated grading prices and lower than estimated acquisition and legal costs.
- Moving ahead with the entire 11 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 seven selected projects will result in a high annual servicing cost of about \$680,000 per year for ten years. Further, the County will incur penalties for early repayment on long-term debt.
- Funding the seven 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.

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 7 out of the 11 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 short-term loan facility and \$1,841,500 from MSI Capital grants and Road Network Reserve.

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
Seven 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.

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- 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
Planned Growth and Prosperity			
<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"> • <i>Supports a strong thriving business environment to strengthen our economic foundation</i> 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> • <i>Plans for responsible growth through the MDP and regional growth plan.</i> 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> • <i>Manages growth for current and future developments through: <ul style="list-style-type: none"> ○ <i>transparent bylaws, policies and processes to enable responsible land development</i> ○ <i>targeting growth around existing and identified future growth areas</i> </i> 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Maintain and Enhance Strong Communities			
<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"> • <i>Provides access to programs and services that have a positive impact on residents' quality of life</i> 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> • <i>Provides access to safe and reliable infrastructure assets</i> 	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<ul style="list-style-type: none"> • <i>Supports the safety of people and property</i> 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Strong Local and Regional Governance			
<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"> • <i>Provides effective leadership and management consistent with Strategic Plan, MDP, master plans, bylaws, policies, community engagement</i> 	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<ul style="list-style-type: none"> • <i>Considers fiscal stability and sustainability</i> 	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<ul style="list-style-type: none"> • <i>Fosters collaborative intergovernmental partnerships</i> 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Community Identity & Spirit			
<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"> • <i>Promotes and/or enhances residents' identification with Sturgeon County</i> 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> • <i>Support and/or collaborate with voluntary organizations in the region</i> 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Environmental Stewardship			
<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"> • <i>Plans and partnerships that minimize environmental impact on natural areas</i> 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> • <i>Provides awareness of environmental issues impacting the County</i> 	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>