Levy Debt Repayment Reserves Adjustment

Report Purpose
To increase the Levy Debt Repayment reserves to adjust for an estimated shortfall in interest revenues and an interest correction due to the transition and subsequent administrative processes.

Recommendation
THAT a transfer of up to $4,500,000 to the Municipal Levy Debt Repayment reserve (1.3804) from the Municipal Projects reserve (1.3773) and up to $500,000 to the Utility Levy Debt Repayment reserve (11.4435) from the Utility Infrastructure Lifecycle, Maintenance and Replacement reserve (11.4440), be approved.

Council History
November 28, 2016 – Council approved the 2017 operating budget.
February 25, 2014 – Council approved a new Municipal Levy Debt Repayment reserve and the allocation of $21 million of recasted levy funds which are committed and designated to repay municipal levy supported debt.
February 25, 2014 – Council approved a new Utility Levy Debt Repayment reserve and the allocation of $5.7 million of recasted levy funds which are committed and designated to repay utility levy supported debt.
May 20, 2008 – Council approved first reading to Bylaw 2-2008 being enacted for the purpose of providing for the application and collection of offsite development levies.
May 24, 2008 – Council approved an amendment to Bylaw 2-2008.
May 24, 2008 – Council approved second and third reading of Bylaw 2-2008.

Strategic Plan Priority Areas
Economy: n/a
Governance: Addressing the adjustment to the Levy Debt Repayment Reserves contributes to good governance through strong fiscal planning and management.
Social: n/a
Culture: n/a
Environment: n/a

Other Impacts
Policy: FIN-001-024: Financial Reserves, FIN-001-025: Debt Management
Legislative/Legal: Section 648 of the Municipal Government Act requires that any off-site levy collected and any interest earned from the investment of the levy be accounted for separately and may only be used for the purpose for which it is collected.
Interdepartmental: Financial Services, Planning and Development Services, Utilities, Transportation Planning and Engineering

Summary
Current off-site development levy philosophies, the rate model and processes were developed and initially implemented in alignment with the 2008 levy rates. The levy update project utilized the expertise of administration, a third party consultant, and the Urban Development Institute. Implementing the updates required a number of decisions that were made in the context of the risks and circumstances as understood at that time.

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Lead Department: Financial Services

For many years, it was Strathcona County practice to front-end infrastructure always utilizing debt financing to better align revenues being collected with debenture payments and reduce the risk of not having funds to make the payments. However, development had been quite active and a significant amount of funds were on-hand, yet, Strathcona County continued to bear the risk of making future debt payments. To address this risk, levy funds were transferred to a Strathcona County account to make the future payments for existing debentures. The Municipal Government Act requires that levy funds are to earn interest; an estimate of future earnings on the cash balance was required for these transfers. An average interest rate based on the best estimate of future rates over the next 10 – 25 years was used to determine the cash balance required to retire the outstanding levy debt obligations.

Now that almost ten years have passed since the levy changes were implemented, some impacts are now evident. Actual interest rates since 2009 have fallen dramatically and have yet to fully recover resulting in interest income earnings below estimates. For the existing 65 debentures that have terms ending between 2017 and 2037, the final position is unknown.

In addition, further correction is required due to an oversight resulting from the complexity of the initial transfer of funds and a subsequent practice of reducing interest earned by a nominal amount (0.5%) for administration which was applied to the debt repayment funds in error. The administrative practice has since been eliminated to avoid the need for further corrections in the future.

It is recommended that funds be committed at this time to ensure a sustainable position moving forward. The projected shortfall is between $3.5 million and $5 million. The final position will be realized over the remaining terms of the debentures and will be impacted by the future interest rates. Any funding that is not required will be returned to the original source.

There is no opportunity to go back to the development levies for further funding as the current developers are not the same as the historical developers thus they would be paying an unfair portion of the infrastructure.

Municipal funds were previously reallocated and designated for this adjustment during the 2017 Business Planning and Budget process therefore they are available with minimal impact if this transfer is approved by Council.

In order to ensure continued due diligence regarding the off-site development levies, a review and update of the levy model, processes and philosophies is being put forward for consideration in the 2018 Business Planning and Budget process. This review will require third party expertise and will address any changes put forward in the Municipal Government Act.