

Capital Planning**Report Purpose**

To seek Council approval of Administration's recommendation for a financially sustainable capital outlook.

Recommendation

THAT the Capital Planning Recommendations, as set out in enclosure 2 of the May 17, 2022, Financial and Strategic Services report, be approved.

THAT Option _____, as set out in enclosure 4 of the May 17, 2022, Financial and Strategic Services report, be approved.

Our Prioritized Strategic Goals

Goal 2 - Manage, invest and plan for sustainable municipal infrastructure

Goal 1 - Build strong communities to support the diverse needs of residents

Report

Capital planning is paramount in ensuring fiscal sustainability. The intention of this report is to provide recommendations from a financial and timing perspective to ensure Strathcona County balances the needs of maintaining our existing capital assets while supporting the requirement of growth.

Funding

The following are the types of funding sources that can be used to fund capital projects

- Taxes – has an immediate impact on the resident
- Grants – out of the County's control, considered unreliable
- Municipal Reserves – can be used immediately, requires a replenishment strategy
- Debt – capacity considerations and has a tax impact (debt repayments).

Municipal Reserves

Reserves are a key component of the long-term financial sustainability plan and are used to support the maintenance and renewal of the County's assets (\$2.7 Billion), support growth projects, and ensure funds are available for unexpected events.

As of December 31, 2021, the total balance in the municipal reserves is \$180.0M of which \$92.0M is committed (funding set aside for open projects), with \$88.0M remaining (designated). The International Government Finance Officers Association best practice recommends carrying a minimum balance of 8% (\$30M-\$35M) of the annual operating budget for tax smoothing, managing cashflows and to be able to respond to emergent events or impacts such as the COVID pandemic or hyper-inflation.

The designated reserve balance has been declining and this is mainly due to leaner budgeting practices resulting in fewer surplus funds replenishing the reserves. There was also a decrease because of the COVID pandemic. As a result, reserves will play a limited role in funding large capital projects moving forward in the short to medium-term.

Debt Capacity

Debt is used as an affordable source of financing that complements the sustainability of the County and supports a key foundational goal of intergenerational tax equity. The County has a healthy debt capacity with approximately \$140.0M in debt which translates to approximately \$275.0M available until reaching our internal debt limit. Careful consideration needs to be made to ensure that the County remains financially flexible, and debt is one of the main tools to support this. The downside with debt is that it takes a significant amount of time for debt capacity to replenish as debt terms are between 15-25 years, depending on the asset. This means that purposeful debt management and planning is important to ensure enough capacity is available in the longer term.

The other side to debt is the repayment obligation which is supported through tax dollars and impacts the tax requirement the year the debt is established. Balancing the use of debt is important as part of fiscal sustainability and is essential that the operating budget is not too heavily focused on debt repayment (currently, around 5% of the operating budget is applied annually to debt repayment).

Fiscal Sustainability Parameters

From a financial sustainability perspective, it is recommended that Council plan for no more than \$15M-\$20M of debentures per year, with no more than \$100M-\$120M over the next eight to 10 years. It is also recommended that Council plan for no more than \$30M of reserve usage within the next five years, not considering annual programs.

In order to plan within these parameters, Council must consider which projects, if any, move forward, and determine when the projects will move forward, which is even more critical from a financial sustainability perspective.

Projects Under Consideration

Development infrastructure carries significant capital costs, which are often shared between developers and the municipality. Planning the timing for construction can be challenging as development stages are market driven.

New Growth

North of Yellowhead/Bremner Interchange – Projected capital budget: Unknown **(not yet approved)**

The construction of an interchange at Highway 21/Township Road 534 will be required in the future dependent on traffic needs. This interchange will be cost shared between development in North of Yellowhead and Bremner as well as with the County and the province.

Bremner Reservoir – Projected capital budget: \$27.0M **(not yet approved)**

The first phase of Bremner does not anticipate the need for any significant offsite utility improvements as interim servicing can be accommodated with existing infrastructure systems (up to approximately 200 lots).

In accordance with the Design Brief for the Bremner Area Concept Plan area, the County is responsible for constructing several future reservoirs in Bremner within the next 40 years.

Ardrossan - Projected capital budget: \$11-13M (not yet approved)

Ardrossan is also experiencing growth. Depending on the timing of growth in the area, the expansion of the Ardrossan south water transmission main will be required within the next five to ten years.

In accordance with the Ardrossan Offsite Levies Bylaw, the future construction of this line will provide adequate supply for full build-out of Ardrossan. The costs of this facility and its required land (estimated \$11M-\$13M) will be shared between developers and the County based on the design capacity proportions.

The County will ultimately recover its proportionate share (44%) of the capital costs through water utility rates which includes the County truck fill, Lindale Park and the Hamlet of Josephburg. The remaining capital costs will be recovered through offsite levies from proportionate new development (56%).

Redevelopment

Centre in the Park – Projected capital budget: \$35-45M (not yet approved)

Centre in the Park has now reached wastewater servicing capacity, and any further densification within the Centre in the Park Basin will trigger the need to upgrade the existing wastewater infrastructure. Anticipated cost of the wastewater upgrades is in the range of \$35-\$45M.

Service Delivery Capital

Over and above the new growth areas approved by Council, there are also several other capital projects that need to be highlighted. The following is a list of large projects that Council has either approved or directed Administration to investigate. These projects are above and beyond our requirement to maintain and/or support growth with our current infrastructure as identified above.

The Pointe – Capital budget: \$71.9M (approved (\$60.4M remaining), on hold)

The facility will support the agriculture development in Strathcona County as well as act as a gathering place for all agriculture activities. The facility will be used by various groups, from small community groups and 4-H groups to larger provincial and national groups. A motion arose out of closed session around scope and budget that will be addressed later in Enclosure 2.

Fieldhouse – Projected capital budget: \$90M (\$8M design/land approved, construction not approved)

The proposed indoor fieldhouse is based on a concept that includes a full-size indoor turf field, multi-purpose court spaces, walking/jogging track, multi-purpose program rooms, and social gathering spaces. These spaces were all included in the top ten priorities in the community needs assessment completed in the Recreation and Culture Strategy. A motion arose out of closed session around scope and budget that will be addressed later in the report.

Broadband – Projected capital budget: \$35M (2021) (not yet approved, final cost not confirmed, in procurement)

Information Technology Services was tasked by Council to investigate whether Administration's role should change to help the community receive accessible and reliable internet connectivity. At the June 25, 2019 Council meeting, Council unanimously passed the following motion:

- THAT Administration bring forward a business case as part of the upcoming budget deliberations on options for broadband services, including becoming a retail service provider; and that the business case provide a cost benefit analysis of the options. The project received subsequent approval to proceed with procurement, and then return to Council for final approval. The procurement process may result in multiple emerging models with a variety of capital and operating scenarios and costs.

Seniors' Hub - Estimated capital budget: \$24M - \$38M (not yet approved)

Strathcona County is making efforts to respond to the needs of seniors in the community. Through a public awareness campaign and public engagement, Strathcona County is working with the community to identify what opportunities and services currently exist for seniors and where the County can provide further supports. The Seniors Supports and Services Project (Project) focuses on age-friendly approaches to mental health, well-being, recreation, transit, housing, volunteerism, facilities, and gathering spaces. The estimated capital budget which is based on 2021 construction market does not include site acquisition and/or servicing, nor are the operations and maintenance costs of the facility known.

bgc Strathcona County – Projected capital budget: unknown (not yet approved)

Based on the feasibility study done by bgc, it was concluded that the desired option is to construct a new facility on a new site. On January 25, 2022, Council approved the motion write a letter committing to provide land for a future bgc Strathcona facility and that this letter accompany the bgc Strathcona application to the Government of Canada Green and Inclusive grant application. It should be noted that there could be costs associated with the transfer of the land such as the servicing costs.

Affordable Housing Clover Bar Lodge Site – Projected capital budget: \$0 (land donation (not yet approved)

Although not approved at this time, the 2023-2026 Strategic Plan indicates that affordable housing is one of Council's priorities under the Healthy and Safe Communities strategic goal. The Pioneer Housing Foundation owns the former Clover Bar Lodge building and lands. A formal expression of interest process was held to redevelop the site to benefit the

community, including increasing the amount of affordable housing in Strathcona County. While there are no capital costs associated with this project, the assessed value of the Clover Bar land is \$5.2M.

Affordable Housing Habitat for Humanity – Projected capital budget: TBD (**not yet approved**)

Further to the affordable housing priority in the 2023-26 Strategic Plan, Council passed a motion on April 26, 2022, as follows:

- THAT Administration work with Habitat for Humanity and developers/builders on a pilot program to purchase suitable lots for construction of affordable housing, including exploration of options to purchase lots at cost and to reduce permit fees for development; and THAT Administration prepare a report, for Council's consideration by the end of the third quarter of 2022, on the outcome of the discussions and any required capital budget amendments.

Sherwood Park Event Centre Proposal – Sherwood Park Crusaders – Projected Operating: \$4.5M per year for 20 years (**not yet approved**)

The Crusaders presented to Council a proposal to build a new arena (valued around \$85M) and are asking the County to support a long-term operating lease (20 years) with an annual tax supported payment of \$4.5M per year. This lease will help sustain both the operating and the financing of the facility. After the 20 years there was discussion that the facility may be turned over to the County. Additional information can be found in Enclosure 3.

The uncertainty regarding economic benefits and modelling and the need for replacement and maintenance of existing county owned infrastructure must be considered.

Councillor Engagement

In order for Administration to develop a recommendation, data was gathered from each Councillor by asking a focused question in each of the following categories:

- Strategic alignment
 - Looking at the project, does the project align to a specific 2023-2026 priority in the strategic plan?
- Financial considerations
 - Looking at the capital, operating and tax requirements, would you:
 - Stop the project
 - Delay the project
 - Continue the project
- Other considerations (timing and responsibility)
 - Looking at the other information, would you:
 - Stop the project
 - Delay the project
 - Continue the project
- Community response

- When considering the diverse needs along with the realities of limited financial resources, what would the community response be if Strathcona County were to delay or say no to this project at this time?

Developing the Recommendation

When developing a capital plan, there are a number of factors and considerations to consider, including reserve position and management, debt position management, asset management, construction timing, tax impacts, financial flexibility, and more. In addition, assessment of the environment and factors specific to both the growth and service capital will influence the plan.

The economic environment is particularly challenging currently. Hyper-inflation exists regionally, provincially, nationally and globally. Year over year inflation in Alberta is currently at 4.32%, and the latest (March 2022) CPI is 6.5% and trending up. Supply chain management issues run rampant across the globe, making construction timing challenging to plan and difficult to adhere to. Cost escalations can occur and staying within budget may result in a final product that doesn't reflect the original vision. To help Council navigate, Administration is in the process of developing a 10-year capital outlook, to try and identify any additional pressures or triggers that may not be known at this time. Development of the plan will better position Council and the County for long-term planning and associated planning strategies.

Current growth spans multiple areas within the County, including Cambrian/North of Yellowhead, Bremner, Ardrossan, Centre in the Park, and more. As mentioned earlier, development costs are often significant, and regardless of who ultimately pays for the infrastructure, use of debentures by the County (to fund or finance construction) has an impact on the County's debt position and capacity. Strathcona County cannot afford to develop all the identified projects simultaneously, and must take a focused and strategic approach, while recognizing that there are various construction triggers that make planning and staging difficult.

Demand for service within the County is felt across a broad spectrum, including recreation, agriculture, social supports, technology and more. As service capital can also have significant cost, it is important to recognize that the County cannot independently afford to develop all infrastructure in the short and medium-term and would need to explore creative alternatives and partnerships to accelerate the development schedule. Focus on continued advocacy for projects that are eligible for specific grant funding (provincial and federal) can enable acceleration of the time frame if the funding supports a large portion of the project. In addition to delivering service capital, maintaining financial sustainability and flexibility is also critical, and must balance known considerations against unknown future needs.

Please refer to Enclosure 2 for the capital plan recommendation and Enclosure 3 for the capital plan staging visual.

Council and Committee History

April 11, 2022	Council directed that Administration prepare, for Council's consideration by May 17, 2022, a revised scope and budget for the agricultural facility (The Pointe).
April 11, 2022	Council directed that Administration prepare, for Council's consideration by May 17, 2022, a revised scope for the Indoor Fieldhouse that could be achieved within a reduced budget.
April 11, 2022	Council directed that Administration prepare, for Council's consideration by May 17, 2022, analysis of possible options for the Crusaders Organization's event centre proposals
January 25, 2022	Council directed that the January 25, 2022 Sherwood Park Event Centre Proposal report be referred to Administration to work with the Crusaders organization to complete an analysis of the proposal, including an analysis of the economic impacts and benefits, in the February 22, 2022 Capital Project report.
January 18, 2022	Council directed that the motion on the floor be referred to the February 22, 2022 Council meeting and that Administration provide a report on open capital projects to be dealt with prior to this motion. Council further directed that an amendment to the 2022 Capital Budget in the amount of \$2,000,000 to fund the Seniors' Hub site assessment and design, to be funded from Municipal Reserves, be approved.

Other Impacts

Policy: FIN-001-004 Expenditure and Budget Management

Legislative/Legal: N/A

Financial/Budget:

The Municipal Government Act stipulates that a municipality must have a five-year Capital Plan. This report will heavily influence subsequent budget processes and the capital plan going forward, where a paramount consideration is ensuring fiscal sustainability. The recommendations within are from a financial and timing perspective to ensure Strathcona County balances the needs of maintaining our existing capital assets while supporting the requirement of growth.

Interdepartmental:**Master Plan/Framework:****Communication Plan**

A public news release will be sent out explaining the outcome from Council's discussion on this report (May 17 or 18 depending on timing of meeting). The news release will also be shared on social media and posted to the County's website. Council will also be supported with messaging to explain Council's decision to residents. In addition, Communications will support departments with their internal and external stakeholder communications for all capital related projects in the report to help explain Council's decision and assist with any subsequent communications required (such as messages for stakeholder meetings, website updates, newsletters, columns).

Enclosures

- 1 Capital planning presentation
- 2 Capital plan recommendation
- 3 Capital plan staging
- 4 Sherwood Park Event Centre