

Municipal Sustainability Initiative Grant Reconciliation (D. Iveson)

Recommendation:

That the June 24, 2013, Financial Services and Utilities department report CR_196, be received for information.

Report Summary

This report provides a response to a Council Inquiry regarding the reconciliation of the City's Municipal Sustainability Initiative grant. The report provides key background information on the Municipal Sustainability Initiative program and addresses how City borrowing against future Municipal Sustainability Initiative funding and the associated debt servicing costs affect our Municipal Sustainability Initiative cash flow over the life of the grant and impact the next capital budget cycle (2015-2018) and beyond.

Previous Council/Committee Action

At the March 20, 2013, Council meeting, Councillor D. Iveson made the following inquiry:

When the Municipal Sustainability Initiative Program was initially announced, it was expected to ramp up over several years to \$1.4 billion annually. The 2009 downturn led the province to scale back and stretch out the grants but

encouraged cities to borrow against future Municipal Sustainability Initiative grants to keep projects going. In July of 2010, Council passed Bylaw 15522, authorizing a five-year deal debenture borrowing of up to \$200,000,000 against future Municipal Sustainability Initiative grants, to ensure funding for committed infrastructure projects.

Given this, I would appreciate it if Administration could provide the following:

1. An accounting of any Municipal Sustainability Initiative-related debt incurred under this bylaw including repayment implications.
2. An accounting for how Municipal Sustainability Initiative grants have been "cash-flowed" between budget years.
3. An indication of how much, if any, the City will be behind on Municipal Sustainability Initiative going into the next capital budget cycle (2015-2018), once debenture repayment and/or making the whole "cash-flowing" is accounted for.

Report

Launched in 2007, the Municipal Sustainability Initiative program was designed to provide Alberta municipalities with sustainable infrastructure funding over a 10-year timeframe until 2016-2017.

The province-wide program is valued at \$11.3 billion over the life of the program; Edmonton's allocation is projected to be approximately \$2.1 billion.

Based on the program contribution

agreement, Edmonton received \$77 million in 2007, \$91.8 million in 2008-2009, and was to receive \$111.1 million in 2009-2010, ramping up to \$260.7 million annually in 2010-2011.

As a result of the provincial government's fiscal constraints, Municipal Sustainability Initiative revenues have been lower than anticipated since 2009, and have never fully ramped up to the \$260.7 million annually that was projected. For Edmonton this reduction has resulted in annual Municipal Sustainability Initiative allocations of \$71.8 million for 2009-2010, \$161.4 million in 2010-2011, \$164.6 million in 2011-2012, \$167 million in 2012-2013, and \$170.4 million in 2013-2014.

Despite the adjustment to the Municipal Sustainability Initiative payment schedule the province has continued to reiterate its commitment to Municipal Sustainability Initiative and has maintained that municipalities will receive their full program allocations – albeit over a timeframe that extends beyond the original 10-year term of the program. Currently, program funding in any given year is based on the annual provincial budget.

Since the start of the Municipal Sustainability Initiative program the province has also made a number of program guideline changes that have been favourable to municipalities. For example:

- Interest costs became an eligible expenditure.
- Limits on the amount of program funding that can be used for interest costs increased from 5

percent to 7 percent of a municipality's total allocation, and the maximum amount of eligible borrowing increased from one-third of the estimated program allocation to one-half. This move was intended to give municipalities' added flexibility and increased borrowing power to leverage future grant dollars with short-term debt.

- More recently a number of program enhancements were adopted to give municipalities greater administrative flexibility, less burdensome documentation requirements, and broader eligibility guidelines. And, while municipalities currently receive no advance notice of their annual or future allocations, the province has made a public commitment to move to predictable three-year funding cycles to give municipalities' greater funding stability and to enhance program planning.

To manage the Municipal Sustainability Initiative reductions the City made the decision (under Bylaw 15522) to fast track up to \$200 million against future Municipal Sustainability Initiative and provincial fuel tax allocations, so that approved capital projects could proceed as planned. To bridge the gap between timing of construction and receipt of funding, the City to date has borrowed \$85 million (\$25 million in 2010 and \$60 million in 2012) against future Municipal Sustainability Initiative and \$35 million against future provincial fuel tax, for a total of \$120 million of the \$200 million Council has approved for short-term borrowing. It is expected that no further borrowing will be required to

complete the projects as it can be accomplished within existing grant cash flows.

For the 2015-2018 budget cycle and beyond, it is expected that about \$814 million of the City's total Municipal Sustainability Initiative allocation would remain available for capital projects from 2015-2021, after debt repayment charges (and interest) of the \$85 million of total short-term borrowing.

The table shown in Attachment 1 indicates the City's actual and approved Municipal Sustainability Initiative expenditures and projected Municipal Sustainability Initiative funding at this time.

Corporate Outcomes

- The City has well managed and sustainable assets and services.
- The City has a resilient financial position.
- The City has balanced revenue streams that are sustainable.

Attachment

1. Municipal Sustainability Initiative Expenditures and Funding