

LOCAL GOVERNMENT FISCAL FRAMEWORK

Issue

Recently announced details of the Local Government Fiscal Framework will not provide the Town of Okotoks (Town) with sufficient funds to maintain core infrastructure and a data summary on how the continual year-over-year reduction in per capita funding impacts the Town, as well as some new information around the increasing cost of registered good is summarized, is provided to Council for information.

Motion Proposed by Administration

That the Local Government Fiscal Framework report be received as information.

Report, Analysis and Financial Implications

The recently announced details of the [Local Government Fiscal Framework](#) (LGFF) will not provide the Town with sufficient funds to maintain core infrastructure, meet the demands for service levels and affordable housing. The analysis in this report is focused on capital funding. The new LGFF program replaces the province's Municipal Sustainability Initiative (MSI) program this year. The new LGFF capital funding formula determines funding based on:

- population (65%);
- tangible capital assets (15%);
- amortization of tangible capital assets (10%); and
- kilometres of local roads (10%).

The LGFF is indexed to provincial revenues, therefore will change each year based on the provincial revenue formula.

Under the new LGFF formula, the Town will receive the following:

- 2024 capital funding: \$3,437,881;
- 2025 capital funding: \$3,968,225.

How much money does the Town get through the capital LGFF/MSI?

The capital funding for 2024 and 2025 is below the average the Town has received over the previous 17 years (from 2007 to 2023).

Figure 1 below shows the general trend (from 2007 to current) in total infrastructure funding provided from the Province of Alberta to the Town. While there has been some variability in a few instances, there is an overall decline in capital funding:

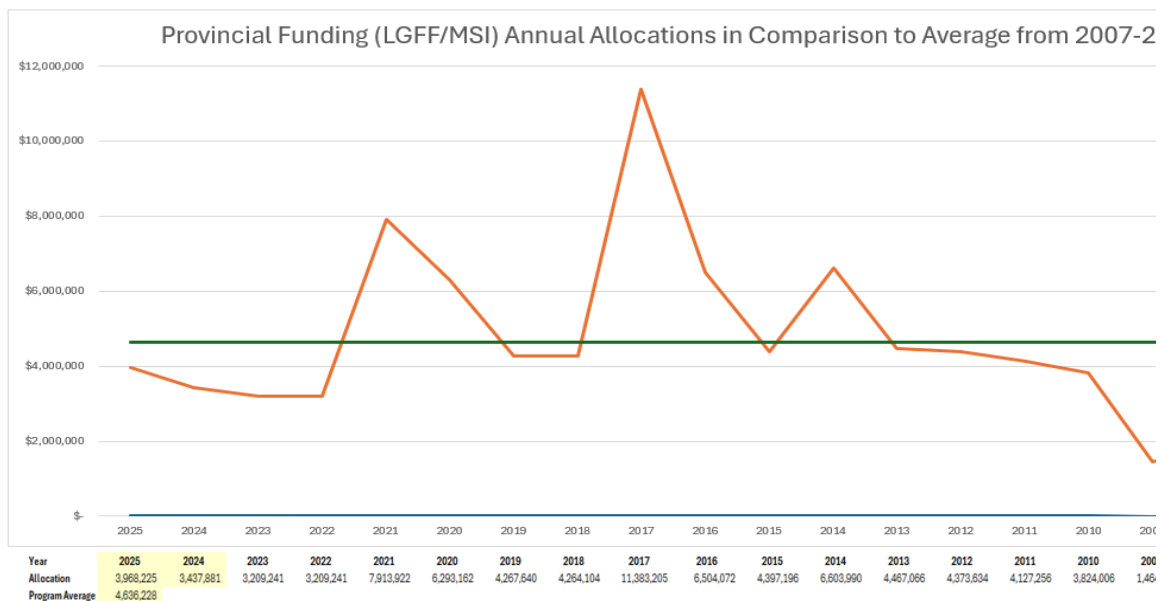


Figure 1: MSI/LGFF Transfers

How has the capital funding varied on a per capita basis?

Over the past 10 years, the average per capita funding to the Town has received from the province was \$193 per capita. Under the LGFF, the Town is now set to receive only \$105 per capita in 2024 and \$119 per capita in 2025.

Figure 2 shows the trend per capita for 2024 and 2025 is below the average the Town received over the past 17 years from 2007 to 2023:

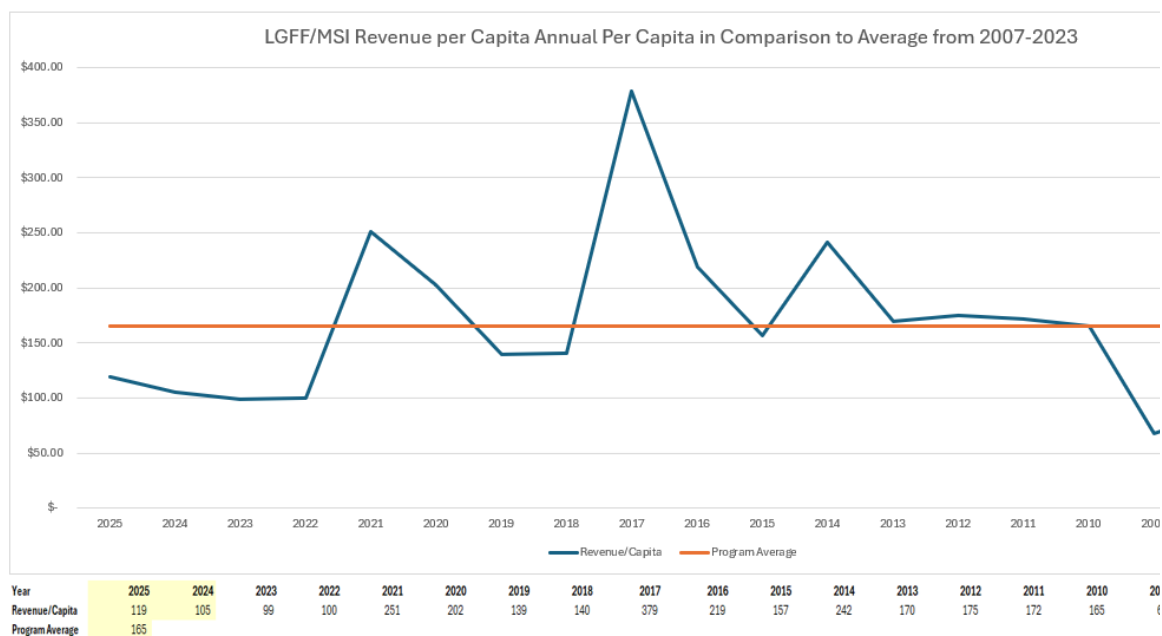


Figure 2: Per capital funding over time

How has the capital funding allocation % for the Town changed over the past 17 years?
Over the past 17 years, the average funding the Town received from the MSI program was 0.54% (2007 to 2023) of the total provincial funding pot. Under the new LGFF program the average for the Town will drop slightly to 0.48% for 2024 and 2025, as shown in Figure 3.

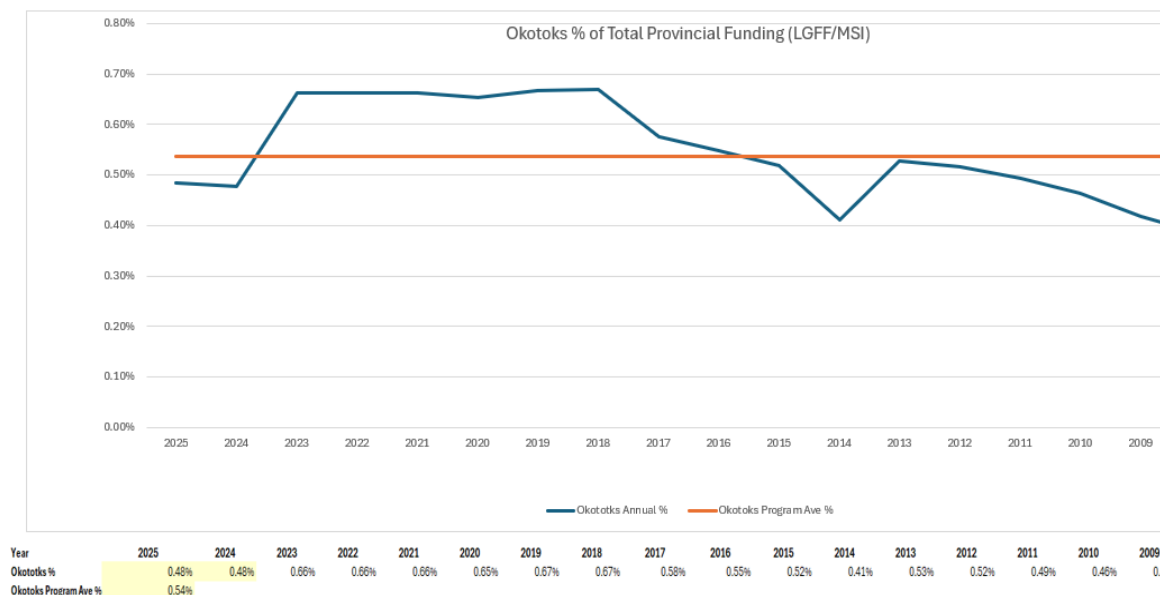


Figure 3: Percent in LGFF/MSI funding change over time

How has the LGFF/MSI capital fund varied using the average Town funding ratio over the last 10 years?

Under the MSI funding program, the Town's 10-year average allocation rate was 0.06% of the total funding. Using the average allocation rate would result in an increase in 2024 of \$894,119 (for a total of \$4,332,000) and in 2025 of \$954,022 (for a total of \$4,922,247).

Has provincial funding kept pace with inflation?

Unfortunately, the cost of goods in 2023 is between 25% and 30% higher than in 2007ⁱ. This means that over the last 15 years, the share of infrastructure maintenance funded directly by the municipality has grown significantly.

The registered goods that municipalities are required to purchase across the board, including goods for capital projects, are increasing at a rate that is much greater rate than inflation. The Town understands the province has a limited budget; however, the Town is seeing inflationary rates that significantly impact municipal budgets.

Below are several examples of significant price increases for capital costs of goods:

1. Fleet Vehicles

- a. All base model brands of trucks have gone up by approximately 33% since 2018, with an average annual increase of 5.55%.
- b. For models that require newer technology and safety features, which have become standard for Town fleet vehicles, prices have increased even more dramatically with market price increases of approximately 57%, since 2018.

- c. Fleet costs have further increased since 2018 due to the discontinuation of a manufacturers' program that gave an up to 20% price reduction to municipalities.

2. Concrete and Construction Costsⁱⁱ

Item	Description	Unit	2020	2023	% Increase
Concrete	Class C - sidewalk, curb & gutter	cubic metre	\$900.48	\$2,047.25	127%
Stainless Reinforcing Steel	Supply	kilogram	\$5.28	\$10.55	100%
Plain Reinforcing Steel	Supply	kilogram	\$1.61	\$3.16	96%
Underground Electrical Conduit	Supply & Install - Trench Excavation	metre	\$11.81	\$85.02	620%
Underground Electrical Conduit	Supply & Install - pushed conduit	metre	\$56.62	\$141.79	150%

3. Fire Trucks and Fire Equipment

The largest cost increases are being seen in apparatuses, like engines; however, equipment and clothing are following suit:

Item	Description	2021	2024	% Increase
Rescue Engine	Timeframe to build has increased from 12-18 months to 36-48 months	\$800K	\$1.2M	50%
Aerial Ladder	Budgeted cost; however still increasing and timeframe to build has increased from 2 to 4 years	2020	2024	73%
		\$1.5M	\$2.6M	
Bush Truck		2022	2024	42%
		\$300K	\$425K	

How does the new funding formula affect the Town of Okotoks?

Through the budget process, Administration forecasts less funding through the LGFF than was allocated through the MSI. As a result, the Town will have less grant funding available to

invest in capital expenditures and more draw down funding of reserves. In the long-term, municipal taxes will need to increase to cover shortfalls in reserve funding.

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- i. <https://economicdashboard.alberta.ca/dashboard/consumer-price-index/>
 - ii. taken from Alberta Government website "Unit Prices and Cost Adjustments" - <https://www.alberta.ca/unit-prices-and-cost-adjustments> - *Price averages and indexes for Alberta Transportation and Economic Corridors highway, bridge and water management construction tenders (based on provincial weighted unit price averages)*

Strategic Plan Goals

<input checked="" type="checkbox"/>	Responsibly Managed Growth	<input checked="" type="checkbox"/>	Demonstrated Environmental Leadership
<input checked="" type="checkbox"/>	Strong Local Economy		
<input checked="" type="checkbox"/>	Organizational Excellence	<input checked="" type="checkbox"/>	Enhanced Culture & Community Health

Equity/Diversity/Inclusivity Impacts and Strategy

n/a

Environmental Impacts

n/a

Public Participation Strategy

n/a

Alternatives for Consideration

n/a

CAO Comments

Long-term sustainable funding has been a key priority for municipalities. While the province has moved forward on enshrining LGFF in legislation, the actual amount of money being set aside by the province is simply not enough. Further, the province is indicating they have put measures in place to keep municipalities whole in the first year of transition. While this principle is appreciated, it should be noted that the base amount to keep municipalities whole is based on the lowered 2022 and 2023 MSI allocation which is about half the allocated amount from 2020 and 2021. This grant is used not only for new assets but also asset management, ensuring we can take care of the assets currently within the municipality. Without an increase to the LGFF pot, municipalities will be further required to increase taxes.

Attachment(s)

1. Letter from Minister McIver – December 15, 2023
2. Town of Okotoks News Release – January 4, 2024

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January 18, 2024