

Municipal Funding Policy Review

February 26, 27, 2014

Stakeholder Workshop #2 –

Workshop Report

All Workshop Outcomes Identified in
Red

Agenda

1. Opening Remarks (MACA and NWTAC)
2. Meeting Objectives (Facilitator)
3. Recap of Workshop #1 Discussion (Facilitator)
4. Option Evaluation Criteria (Open Discussion)
5. Options Overview (Facilitator)
6. Option Evaluation (Break Out Groups)
7. Preferred Options (Open Discussion)
8. Preferred Option Development Work (Break Out Groups)
9. Next Steps
10. Closing Comments (MACA and NWTAC)

The Workshop Agenda was accepted

Workshop Objectives

1. To develop the criteria by which the policy options will be evaluated
2. To review and discuss the policy options presented in the context of the evaluation criteria
3. To identify and discuss possible adjustments to the options presented
4. To select the preferred options for further development
5. To identify the additional research and analysis necessary to make a final decision on options

The Workshop Objectives were accepted

Recap Workshop #1 - Discussion

The Recap of Workshop #1 was circulated in advance and Workshop Participants were asked to review the Recap and raise any errors or omissions at Workshop #2. No errors or omissions were raised.

Recap Workshop #1

Things to Keep

1. Community flexibility to set priorities and allocate funding
2. Stability of funding to facilitate planning and service consistency
3. Keep the focus on the community government's accountability to community residents

Recap Workshop #1

Things to Change

1. Make the funding needs based (e.g. adequate funding) and responsive over time to community cost drivers
2. Improve the “equity” among communities (e.g. funding to provide consistent service levels and similar treatment of Own Source Revenues)
3. Better link the policies to core capacity and essential services
4. Improve linkages between the policies (e.g. CPI and O&M)
5. Increase the consistency between the policies
6. Address legacy infrastructure

Recap Workshop #1

Things to Change (Cont'd)

7. Address “shadow” populations and role of regional centers
8. Make the policies more responsive to the actual circumstances in the communities
9. Simplify the policies
10. Fix the NCI to better reflect community cost structure
11. Create an ongoing policy review process to keep the policies current

Recap Workshop #1

Desired Policy Outcomes

1. Communities have the infrastructure necessary to deliver core programs and services and improve the quality of life in the community
2. CPI (both legacy and new) is well maintained and meets functionality and useful life expectations
3. CPI is energy efficient
4. Communities are planning effectively and are able to set priorities and allocate funding accordingly
5. Communities are healthy (e.g. potable water standards, recreational programming) and safe (e.g. fire protection, by-law and emergency measures)

Recap Workshop #1

Desired Policy Outcomes (cont'd)

6. All regulatory and licensing standards are met and contractual obligations adhered to
7. Core and essential programs and services are always maintained
8. Community residents have equitable access to programs and services
9. Community governments are accountable to their residents
10. O&M funding is responsive to community needs

Recap Workshop #1

Desired Policy Outcomes (cont'd)

11. Communities have the HR capacity to carry out their functions well (e.g. governance and administration)
12. Own Source Revenue (OSR) is equitably factored into funding levels
13. Community debt levels are manageable
14. Communities meet environmental and conservation standards
15. There are adequate supports and checks and balance to assist communities to manage well
16. NCI reflects actual community cost structure
17. Services outside municipal boundaries are provided on a full cost recovery basis

Option Evaluation Criteria - Discussion

Proposed option evaluation criteria were discussed. Workshop Participants had numerous changes and additions to the proposed evaluation criteria. The Participants also decided that it was important to have a formal Evaluation Matrix applied to all the options under consideration. The revised evaluation criteria and matrix are illustrated in the following 3 slides

Option Evaluation Criteria

1. How well does the option address the issues?
2. What is the probability that the option will achieve the desired outcomes?
3. Will the option be affordable?
4. Will the option be defensible to communities and decision makers?
5. Is the effort required to implement the option reasonable?
6. Will the option be maintainable?
7. Can the option be easily explained and understood? Is it transparent?

Option Evaluation Criteria (cont'd)

8. Is the option equitable/scaleable?
9. Is the option responsive over time to changes?
10. Does the option meet the test of time?
11. Does the option respond to diversity?
12. Is the data required for the option available and reliable?

Evaluation Matrix

Criteria	Good	Medium	Poor
1. Addresses Issues			
2. Achieves Outcomes			
3. Affordable			
4. Defendable			
5. Effort			
6. Data Available			
7. Explainable/Understandable			
8. Equitable			
9. Responsive Over Time/ Diversity			
10. Scaleable			

Option Overview – O&M Discussion

The Workshop Participants reviewed the three O&M options and noted that they all shared some common shortfalls:

1. None of the options addressed shadow populations adequately;
2. None of the options addressed social programming that communities are under increasing pressure to support (e.g. homelessness, day care, employment);
3. None of the options adequately addressed planning resources.

The Participants concluded that the issues of shadow populations and planning resources needed more work but that social programming was outside the municipal mandate and would have to be addressed through either community Own Source Revenue or other funding sources.

Options Overview – O&M

Option 1 – Zero Based Approach

- Step 1 - Establish NWT-Wide Service Level Standards for all significant expenditure areas
- Step 2 - Assess the funding required by each community to meet those standards – Community Expenditure Need (CEN)
- Step 3 - Estimate the amount of revenue each community can raise on its own – Community Own Source Revenue (COSR)
- Step 4 - Funding based on the difference between Community Expenditure Need and “included” Community Own Source Revenue
- Step 5 - Escalate the CEN annually by an index sensitive to price and volume changes. Rebase every 5 years

This option was rated low as it was deemed too complex, would be controversial (e.g. service standards), very expensive and time consuming and would restrict community flexibility. It was not affordable.

Options Overview – O&M

Option 2 – Adjusted Actuals Approach

- Step 1 - Take the actual expenditures of each community for 2013 and remove extra-ordinary items, one-time items, third party funded items and non-municipal items
- Step 2 - Calculate the difference between national municipal spending growth over the last 5 or 10 years (from StatsCan National Accounts) and MACA's municipal funding pool growth over the same period.
- Step 3 - Adjust upwards the community actual expenditures by the difference between National Accounts growth and MACA funding pool growth – Community Expenditure Need (CEN)
- Step 4 - Estimate the amount of revenue each community can raise on its own – Community Own Source Revenue (COSR)
- Step 5 - Funding based on the difference between Community Expenditure Need and “included” Community Own Source Revenue
- Step 6 - Escalate the CEN annually by an index sensitive to price and volume changes. Rebase every five years

This option was rated low as it was not felt that actuals represented need nor were they equitable as using them would ingrain poor practices, underfunding and other flaws into the ongoing funding arrangements.

Option Overview – O&M

Option 3 – Hybrid Approach

- Step 1 – Determine an estimated average useful life for each CPI category (e.g. buildings, equipment, roads, other)
- Step 2 – Using total community CPI replacement value and average useful life estimates calculate an annual O&M requirement based on capital vs O&M ratios
- Step 3 – Determine the national per capita spending on protection and recreation services and adjust it to NWT levels. Multiply the adjusted per capita amounts by community population.
- Step 4 – Take the output of the amended water/sewer policy by community
- Step 5 – Based on analysis of community actual General Government expenditures develop an overhead rate as a percent of non-overhead spending for categories of communities. Apply this rate to the sum of Step 2, Step 3 and Step 4 to determine community overhead funding need – Community Expenditure Need (CEN) then equals the sum of Steps 2 through 5
- Step 6 - Estimate the amount of revenue each community can raise on its own – Community Own Source Revenue (COSR)
- Step 7 - Funding based on the difference between Community Expenditure Need and “included” Community Own Source Revenue
- Step 8 - Escalate the CEN annually by an index sensitive to price and volume changes. Rebase every five years

The highest rated option. See following slide

O&M Option 3 - Discussion

Rated highest of the 3 O&M options presented there is still some need to improve on the option. The following changes were felt necessary:

1. For the recreation and protective services component gather data from more northern communities such as Fort Nelson, High Level, Fort St John, Peace River, Whitehorse, Watson Lake, Manning and Meadow Lake.
2. When gathering data from these additional communities check with them to see how they address shadow populations.
3. Inventory all the planning obligations of communities and quantify the resources required to carry this planning out. When addressing the General Government component of Option 3 ensure these planning resources are considered.
4. Add cemeteries into the CPI base used to calculate related O&M.
5. Develop an equitable approach to OSR.
6. Ensure O&M calculations take into account NWT salary and benefit costs

Option Overview – CPI Discussion

Based on the initial review by Workshop Participants none of the 3 CPI options presented were felt to be an adequate solution. However, upon further discussion, the CPI Group identified a number of modifications to one of the options that, if made, could make that option work

Option Overview - CPI

Option 1 - 25 Year Capital Needs Assessment Approach

- Step 1 – Determine the current replacement value of each piece of community CPI
- Step 2 – Determine the remaining useful life of each piece of community CPI
- Step 3 – Develop a 25 year Capital Needs Assessment (CAN) for each community
- Step 4 – Determine annual CPI funding for each community based on the communities' CAN

This option was rated low as although it responded to need it took too much flexibility away from communities

Option Overview - CPI

Option 2 – Average Annual Replacement Rate Approach

Step 1 – Determine the total replacement value of each communities' infrastructure by major category (e.g. buildings, equipment, roads, other)

Step 2 – Develop an average useful life for each major category of infrastructure

Step 3 – Divide the replacement value (Step 1) by the average life (Step 2) to arrive at an annual average CPI replacement requirement for each community. This becomes the annual community infrastructure funding need (CIFN)

Step 4 – Escalate the CIFN annually by the national Construction Price Index

This option was rated highest but needed further modifications to work well. The next slides outlines the changes required.

CPI Option 2 - Discussion

The CPI Group felt that with the following changes Option 2 could be made to work:

1. Validate the community replacement values (CRV) used with communities;
2. Investigate the utilization of regional center infrastructure by shadow populations (e.g. Yellowknife recreation facilities and Hay River utility and fire protection infrastructure) to determine if some form of funding adjustment can be made to account for these factors;
3. Review and rebase the CRVs every 3 years to: a) align the physical appraisal updates with the Norcix cycle; b) add new infrastructure; c) consider population change; and d) pick-up changing standards;
4. Consider means that would provide incentives to manage infrastructure investment responsibly and not just add infrastructure to get more funding;
5. Index funding to the Alberta Non-Residential Construction Price Index;
6. Address demographic shifts through provided community flexibility in making investments;
7. Look at ways to address concerns over communities making poor capital investment decisions
8. Look at ways to encourage investment and growth in communities

Option Overview - CPI

Option 3 – Relative Needs Distribution Approach (Note: not a needs based approach)

- Step 1 – Determine the total replacement value of each communities' CPI
- Step 2 – Divide the total CPI replacement value for all communities by the CPI replacement value for each community yielding a ratio of community need to total need
- Step 3 – Apply the community ratio from Step 2 to MACA's CPI funding pool for that year to arrive at community CPI funding allocations
- Step 4 – Determine if a base amount should be applied before distribution and if so how the base should be determined

As CPI Option 3 was not a Needs-Based model it rated low.

Option Overview – Water/Sewer Discussion

The 3 Water/Sewer options all had the flexibility to include or exclude water/sewer CPI from the formula. The Water/Sewer Group concluded that CPI should be excluded from the formulas as including CPI would have reduced the flexibility available to communities in making capital investment decisions

The Water/Sewer Group also concluded that maintaining a needs based approach to water/sewer was appropriate

Option Overview – Water/Sewer

Option 1 – Status Quo with Updated Data

- Step 1 – Update the standards (e.g. liters per person per day) and data used in the current formula
- Step 2 – Recalculate representative water charges
- Step 3 – Recalculate community funding levels

This option rated well and should be maintained but modified as proposed in Water/Sewer Option 3

Option Overview – Water/Sewer

Option 2 – Include Water/Sewer CPI

- Step 1 – Take the calculations from Option 1
- Step 2 – Remove the water/sewer CPI data from the CPI formula
- Step 3 – Divide the replacement value of each communities' water/sewer CPI by the remaining life of the CPI assets to arrive at an annualized water/sewer CPI rate
- Step 4 – Add the annualized CPI requirement from Step 3 to the calculations from Step 1 to arrive at the new community water/sewer funding levels

This option was not rated well as including CPI in the water/sewer policy with its inherent restrictions on using funding for other purposes was deemed to take too much flexibility away from communities.

Option Overview – Water/Sewer

Option 3 – Update Water/Sewer Data and Add in Garbage Collection and Solid Waste Site Management (with or without CPI). Rename to Environmental Services Policy

- Step 1 – Take the output from Water/Sewer Option 1
- Step 2 – Develop service standards (e.g. number of pick-ups per month) and standard costing for garbage pick-up and solid waste site management (with and without CPI)
- Step 3 – Apply the service standards and standard costing from Step 2 to each communities' circumstances
- Step 4 – Determine an appropriate garbage collection and tipping fee structure
- Step 5 – Add the net cost of adding garbage pick-up and solid waste site management to the water/sewer funding and rename it the water and sanitation funding policy

This option was rated highest (excluding CPI). It was felt that the addition of garbage and solid waste sites into the water/sewer policy would secure and protect funding for these essential services.