Shelburne Municipal Council
November 23, 2015

STAFF REPORT

TO: Warden, Council

FROM: Kirk Cox, CAO

DATE : November 19, 2015

RE: Joint Financial and Infrastructure Studies

ORIGIN

The Town of Shelburne and the Municipality of Shelburne have agreed to assess the various implications of amalgamating its governments. Part of that analysis includes the completion of independent infrastructure and financial studies. These studies are complete and have been forwarded to Council for review.

Council must now decide whether to proceed with community consultations as the next phase of amalgamation. This report provides some advice on the studies that have been completed thus far.

RECOMMENDATION

It is recommended that due to the long term financial risk to the residents of the Municipality of Shelburne as outlined in the Nova Scotia Government's independent financial analysis, the Municipality not proceed with the next phase of amalgamation analysis until the financial risks are mitigated by the Town of Shelburne.

BACKGROUND

<u>Infrastructure Study</u>

After an RFP process, led by the Town, CBCL completed a study of Town and Municipal infrastructure, with recommendations on future costs of existing infrastructure. It should be noted that the Department of Transportation (Nova Scotia) also completed a study of the Town's roads and sidewalks, and those recommendations can be found in the DAM (Capital Budget tab). The recommendations from these studies are contained in the DAM.

Debt Affordability Model (Financial Analysis)

The Province of Nova Scotia, through the Municipal Finance Corporation, led the financial analysis, which is essentially the completion of their Debt Affordability Model template. This model has been used as an initial study component in cases where municipalities have dissolved in the recent past. This model takes existing operating and capital budget data from the Town and the Municipality and provides insight on what each municipal unit and an amalgamated unit might look like in the future.

The DAM clearly articulates the stark contrast in financial stability between the two municipalities. For example, MDS runs surpluses, builds reserves, and has one of the lowest debt ratios in the province. Comparatively, the Town uses reserves to balance the budget (deficits), has a huge capital/infrastructure burden, and is headed toward a debt ratio on the higher end within the province.

It should be noted that the DAM only forecasts obligations it knows. So, we only get a look at our obligations on our current capital and infrastructure, not new projects (unless already in the CIP). For example, if this study was done four years ago, it would not have factored in our ability to fund a new turbine, or upgrades to the Industrial Park, and an amalgamated government would not have been able to afford those projects.

So, if the DAM shows that we could barely meet our current obligations, we would find it difficult to fund new projects or services.

DISCUSSION/ANALYSIS

The financial outlook in the DAM for an amalgamated unit would have a huge negative impact on the ratepayers of the Municipality of Shelburne.

- Tax rates would need to increase to pay for the infrastructure needs in the Town of Shelburne.
- Our annual debt services charges would increase from $57,000 to $1 million.
- The amalgamated unit would have essentially no ability to pay for new projects in MDS.
- Our reserves would be depleted to pay for capital projects in the Town of Shelburne.
- We would have no ability to increase reserves.
- MDS debt service ratio would increase from 0.34% to 10-12%.

The DAM concludes that the financial fundamentals that have made MDS fiscally strong would not exist in an amalgamated municipality, namely:

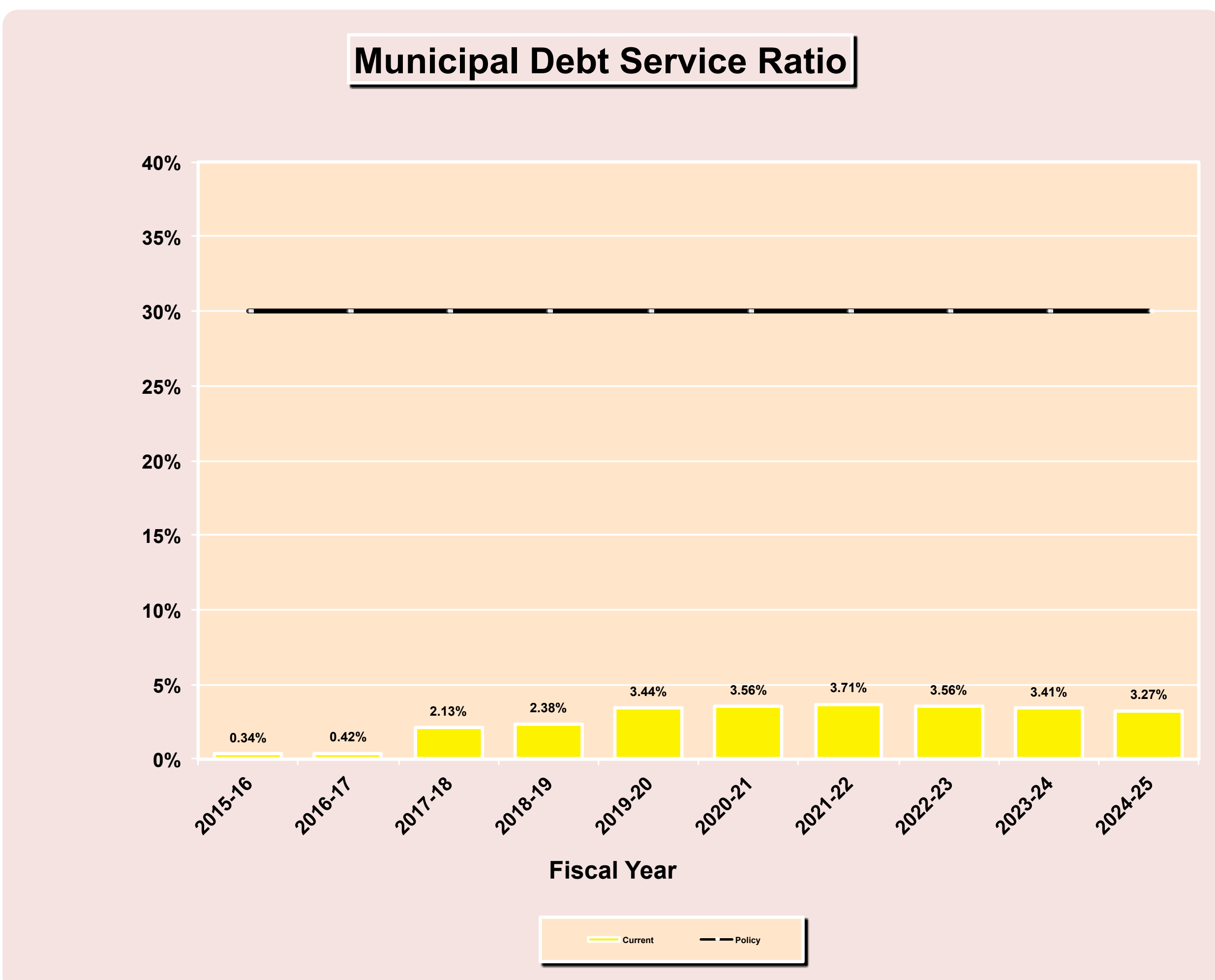
- Reduced or stable tax rates.
- Operational surpluses.
- Building reserves.
- Ability to fund new and innovative projects and services.

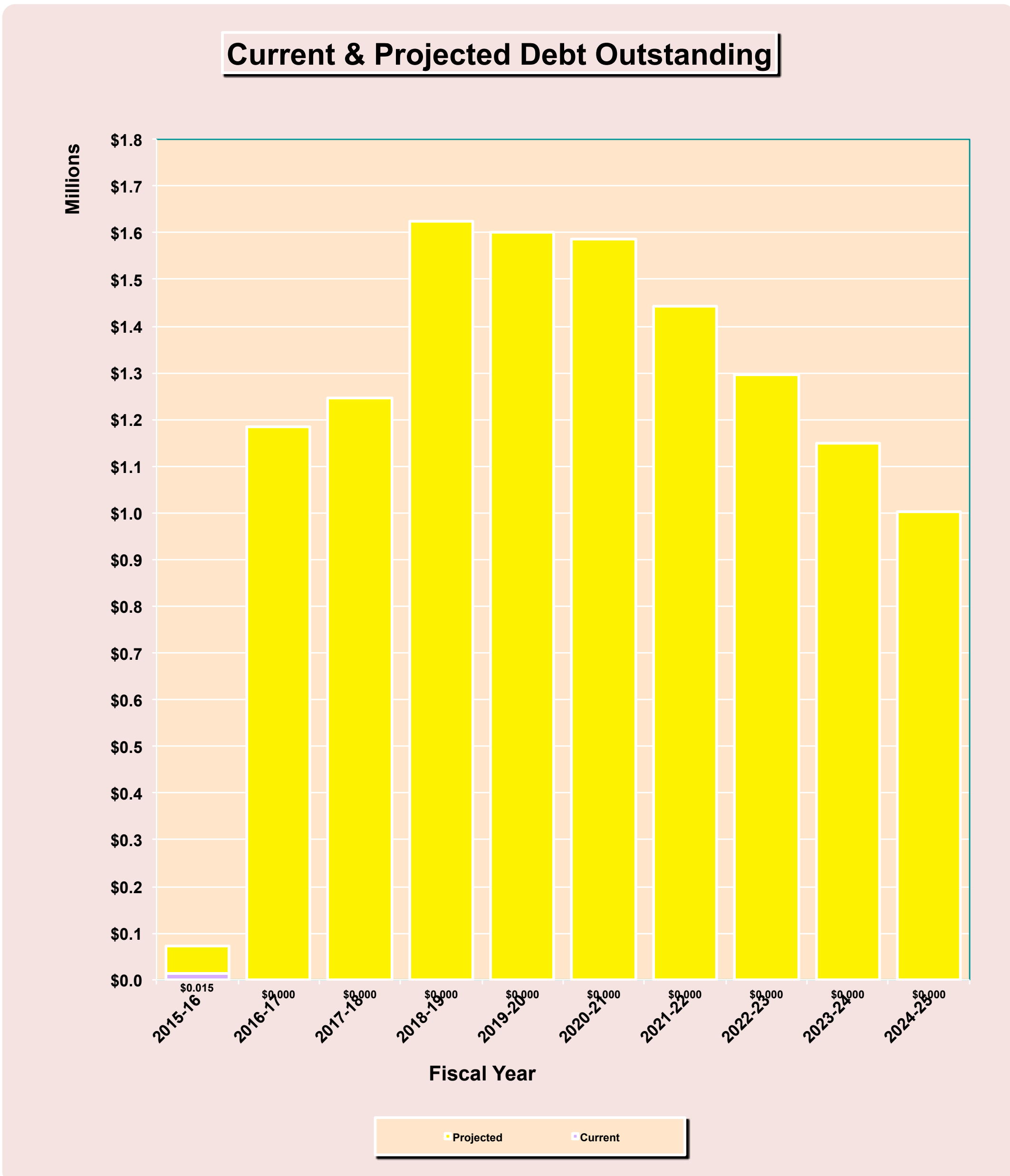
Essentially the amalgamated municipality would be primarily focussed on, from a financial perspective, dealing with the huge budgetary challenges that the Town currently faces, namely:

- operational deficits.
- deferred infrastructure maintenance.
- roads
- additional capital

Other key indicators found in the DAM:

- Amalgamated municipality has no reserves.
- All capital projects in amalgamated municipality 100% debt financed. No ability to contribute from operations without raising taxes.
- Debt servicing alone will represent almost $1 million per year (approximately 31 cents per $100 assessment)
- Capital project's financed over 20 years in most cases, a very long term, which makes the annual capital obligations look better than they actually are.
- DAM identifies over $10 million in capital obligations, virtually all from the Town of Shelburne. Amalgamation represents a new $10 million burden for MDS taxpayers.
- There is no financial ability to pay for new services and capital projects.





Current & Projected Debt Outstanding
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$1.5
$1.4
$1.3
$1.2
$1.1
$1.0
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$0.7
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$0.4
$0.3
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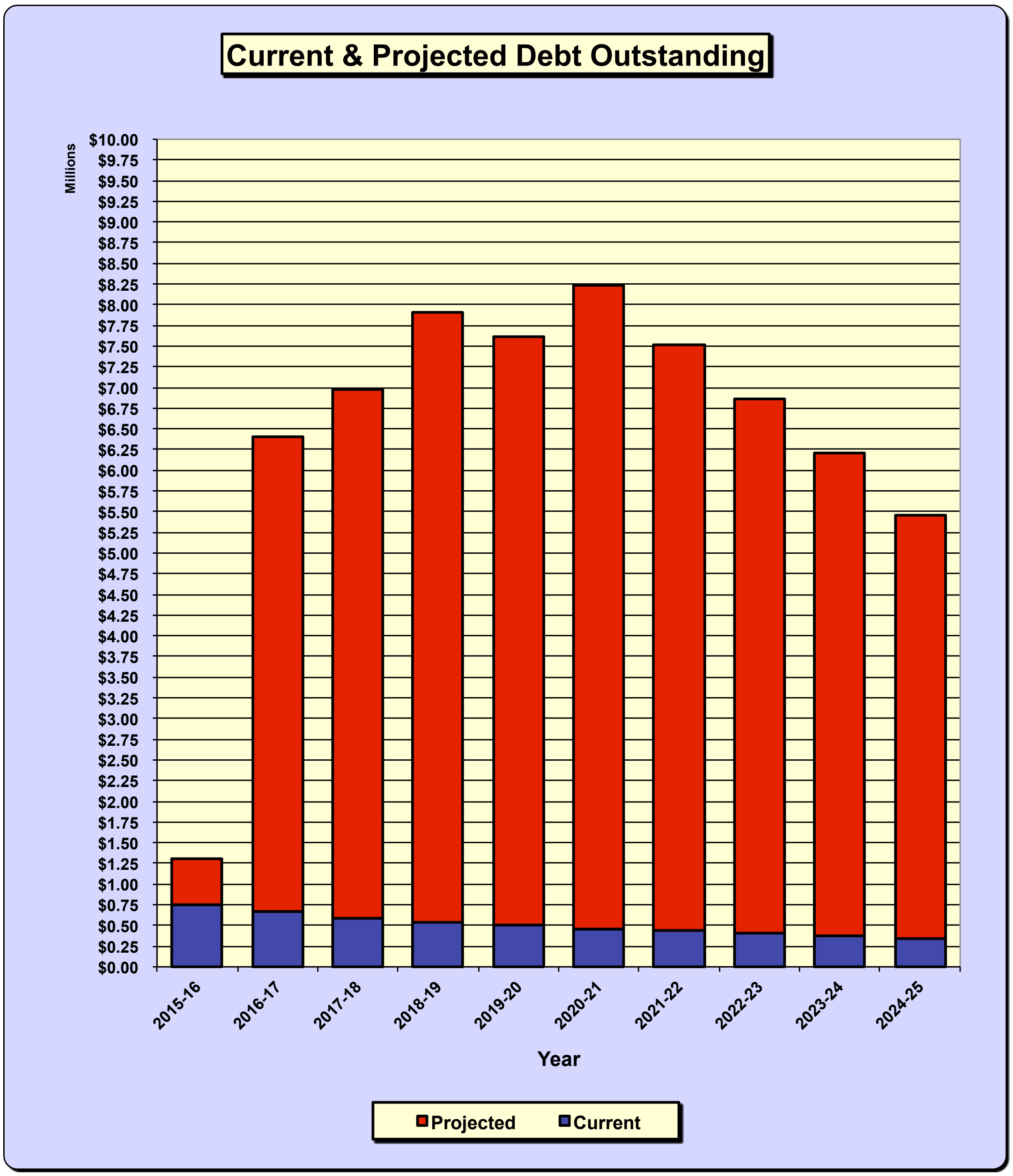
2023-24
2024-25
Fiscal Year
Projected
Current


Current & Projected Debt Outstanding
Millions
$10.00
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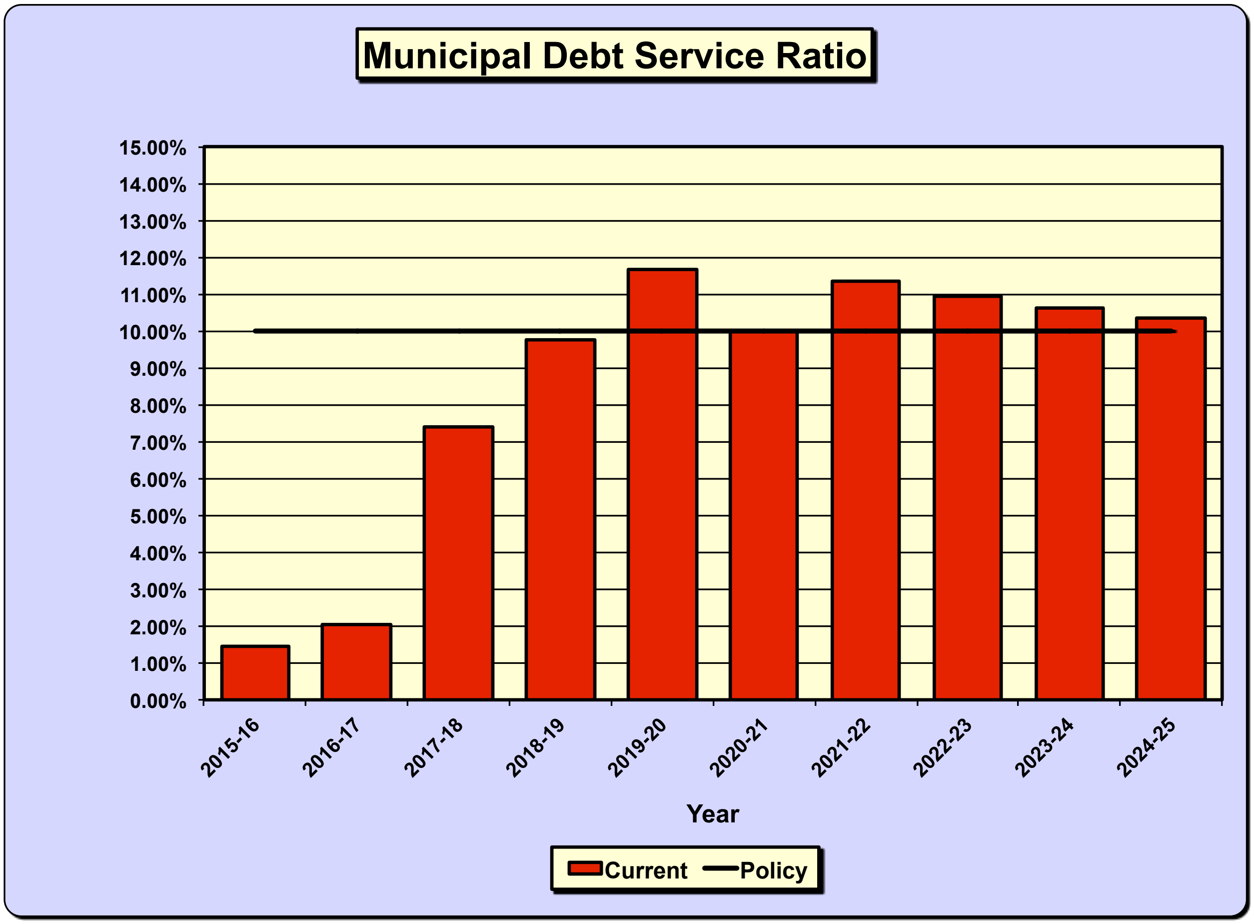
Current



ALTERNATIVES

Proceed with public consultations with the financial information available.

BUDGET IMPLICATIONS

Consultations could cost $10,000.

ATTACHMENTS

None, but council is encouraged to review the DAM file from last meeting.