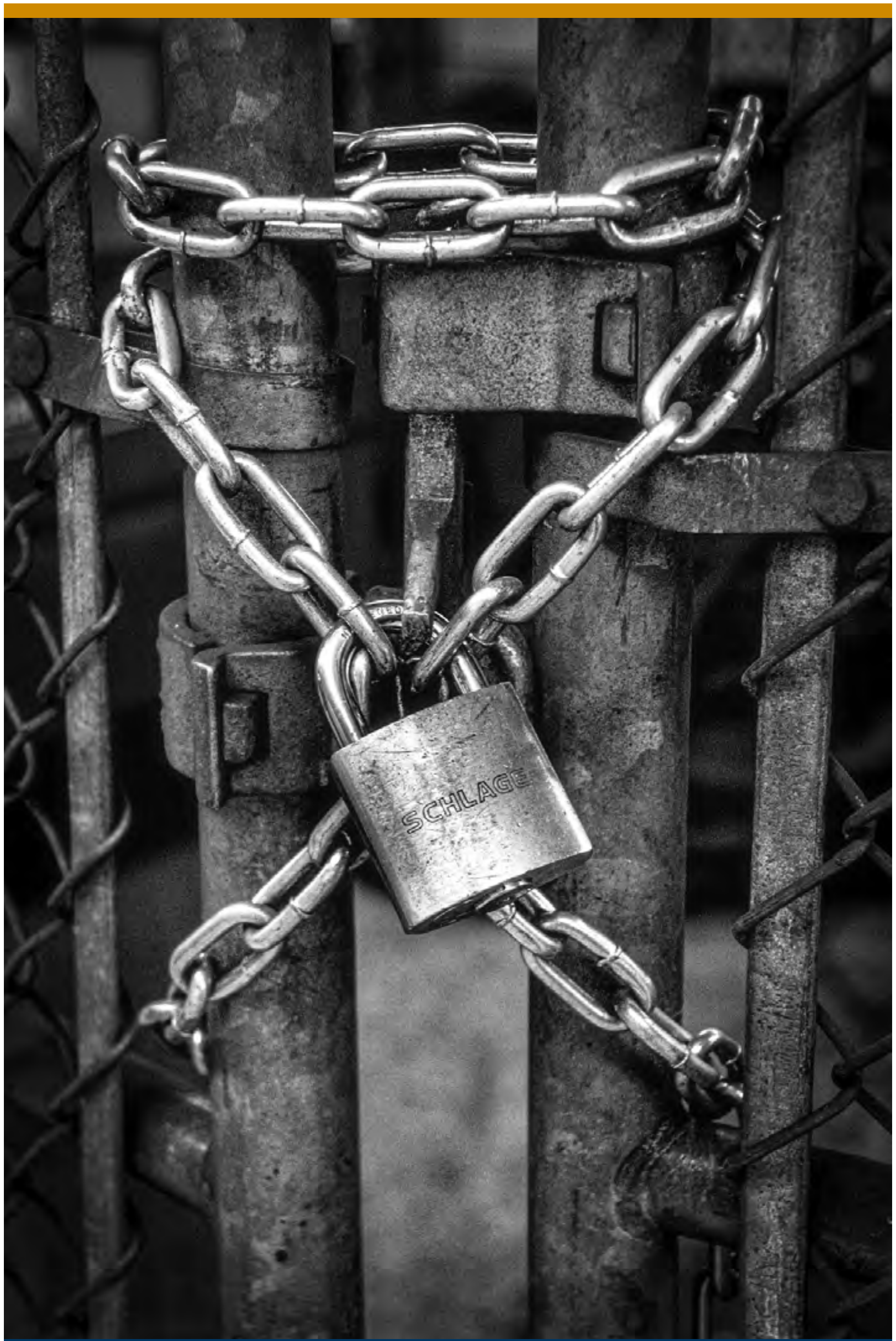
RMA
RURAL MUNICIPALITIES of ALBERTA

POST-DISSOLUTION IMPACTS STUDY

SUMMARY REPORT



CONTENTS

EXECUTIVE SUMMARY

Overview

As an extension to its previous studies in this area, and in response to an adopted resolution, the Rural Municipalities of Alberta (RMA) was looking to explore the process for absorbing municipalities in the event of a non-viable municipal dissolution. This was based on several important observations: first, that the tools and legislation regarding the dissolution process provide very little consideration for what occurs post-dissolution; and second, that there are few considerations for the impacts that a dissolution will have on the absorbing municipality. These observations, combined with the experiences of many RMA members, highlighted the need for further study into this area.

This study was intended to capture the real-world impacts, decisions, and compromises that rural municipalities must make following a dissolution of an urban neighbour. In order to capture these real-world impacts, the RMA structured the study around detailed case studies of recent dissolutions. This summary report provides a comprehensive overview of the dissolution impacts study and provides the key observations and recommendations that will guide the RMA's advocacy work in the future. The summary report includes an overview of all key phases of work conducted, including the detailed case studies and financial information collection phase of work.

Observations

A range of key observations regarding the current state of the dissolution process and its lack of considerations for the absorbing municipality were identified in this process. These observations are organized for each of the key phases of work.

Current Research Phase

- **Observation 1**: The existing processes effectively provide no considerations for the absorbing municipality except for the provided ACP grant funding.
- **Observation 2**: Over 50% of the workbook provided to the absorbing municipality involves information that requires more involved discovery processes, and nearly 30% could 'lock' absorbing municipalities into difficult scenarios before full details are known.
- **Observation 3**: The existing processes provide no guarantee of access to good information for the absorbing municipality.
- **Observation 4**: The existing processes provide no promotion to collaborate or set baseline expectations of collaboration and participation for all parties.

Case Study Interviews

- **Observation 5**: There is a pattern of increasing polarization in the 'tone' of recent dissolutions, which can impact the overall dissolution process.
- **Observation 6**: Dissolving councils are making material financial decisions after voting has occurred.
- **Observation 7**: Infrastructure audits have not provided comprehensive results required for good planning.

- **Observation 8**: Significant work has come from sorting out issues with records, bylaw, financial information, legal matters, etc. that have not been raised during viability review.
- **Observation 9**: Those with some sort of dedicated intermediary (transition resource) had a better time with the dissolution.

Financial Analysis

- **Observation 10**: The current ACP infrastructure funding is dramatically lower than the infrastructure liabilities that absorbing municipalities have had to address.
- **Observation 11**: Costs to absorbing municipalities extend beyond basic infrastructure renewal and replacement work.
- **Observation 12**: The 'cost' of absorbing dissolved communities is disproportionately placed on the broader county or MD population base rather than the urban node itself.

Recommendations

The recommendations were developed based on the various points of analysis and are intended to address all key observations identified above. The recommendations disproportionately call for changes to Municipal Affairs, given the lack of ability for the RMA to directly control or influence the viability review and dissolution process.

Financial Support

- **Recommendation 1**: Municipal Affairs should increase the ACP Infrastructure funding available to absorbing municipalities, with a formula that considers the cost identified in the infrastructure audit and emergency repairs.
- **Recommendation 2**: Municipal Affairs should reinstate ACP Transitional funding to previous levels.
- **Recommendation 3**: Municipal Affairs should provide expanded ACP Transitional funding for an optional dedicated administrative project resource.
- **Recommendation 4**: Municipal Affairs should provide new funding for emergent issues discovered during post-dissolution.
- **Recommendation 5**: Municipal Affairs should explore a 'tiered' funding model, with additional funding supports available to municipalities absorbing large, complex dissolutions.

Viability Review and Pre-Dissolution Process

- **Recommendation 6**: Municipal Affairs should implement strict guidelines for Infrastructure Audits to ensure comprehensiveness and requirements to incorporate the absorbing municipality's infrastructure standards.
- **Recommendation 7**: Municipal Affairs should adopt automatic appointments of an Official Administrator (supervisory only) for municipalities that have approved dissolution votes.
- **Recommendation 8**: Municipal Affairs should implement formal participation expectations and 'code of conduct' requirements for municipalities participating in viability reviews.
- **Recommendation 9**: Municipal Affairs should revise the existing workbooks to better enable absorbing municipalities to project potential impacts to them.

Post-Dissolution Process

- **Recommendation 10**: Municipal Affairs should implement a guidebook and resource directory for absorbing municipalities to inform them and provide dedicated staffing resource supports for questions and emergent issues.
- **Recommendation 11**: Develop RMA-specific resource materials, communities of practice, and other supports for absorbing municipalities to support members dealing with dissolution related issues.
- **Recommendation 12**: Municipal Affairs should implement a sustainability monitoring and supports program for RMA members deemed 'at-risk' of dissolution-related sustainability issues.

INTRODUCTION

Overview

As an extension to its previous studies in this area, and in response to an adopted resolution, the Rural Municipalities of Alberta (RMA) was looking to explore the process for absorbing municipalities in the event of a non-viable municipal dissolution. This was based on several important observations: first, that the tools and legislation regarding the dissolution process provide very little consideration for what occurs post-dissolution; and second, that there are few considerations for the impacts that a dissolution will have on the absorbing municipality. These observations combined with the experiences of many RMA members, highlighted the need for further study into this area.

As with many rural issues, the lack of consideration for absorbing municipalities in the current tools and legislations seems to stem from the assumption that rural municipalities have the financial capacity to easily address whatever issues are faced. Of course, not all rural municipalities have the same resources or financial capacity, and many are likely to face significant financial and operational impacts from dissolution. Further, rural municipalities are simultaneously facing the potential impacts of dissolutions at the same time they are dealing with a series of compounding factors, including: downloading of costs from the province, impacts on assessment and tax collection from the volatile energy sector, and recent adjustments to industrial assessment. The scale of these impacts may warrant additional support and consideration from the province. Currently, financial support for absorbing municipalities is limited to capped funding available through the Alberta Community Partnership (ACP) grant funding streams, as well as some limited taxation tools and grandfathering of grant allocations.

This study was intended to capture the real-world impacts, decisions, and compromises that rural municipalities must make following a dissolution of an urban neighbour. This included:

- Governance challenges
- Service and service level considerations
- Long-term planning impacts
- Capital planning impacts
- Corporate operational impacts
- Technology considerations
- Staffing considerations
- Infrastructure liabilities

In order to capture these real-world impacts, the RMA structured the study around detailed case studies of recent dissolutions. This summary report provides a comprehensive overview of the dissolution impacts study and provides the key observations and recommendations that will guide the RMA's advocacy work in the future. The summary report includes an overview of all key phases of work conducted, including the detailed case studies and financial information collection phase of work.

Methodology

The Dissolution Impact study involved a number of key phases of work to develop the key observations and recommendations. The work involved in this study included:

- **Phase One - Project Initiation**: Work was conducted with the RMA team to refine the objectives of the study and to identify the jurisdictions to invite as participants. Criteria considered for case study participation included: recency, anticipated financial information availability, regional diversity, dissolved community size diversity, and self-identified interest in participant (through a limited survey of interest conducted by the RMA).
- **Phase Two - Current Context Review**: To complete the phase two work, the RMA team reviewed a range of existing publicly available information regarding the dissolution process, including: current viability process documents, previous viability reviews, legislation such as the *Municipal Government Act* and *Local Government Fiscal*

Framework Act, grant program guidelines, and available grant lists curated by Municipal Affairs. Finally, the team engaged Municipal Affairs directly, first with a number of questions regarding current dissolution and viability information through a written submission and response process, and secondly with a follow-up meeting following the phase two work. This follow-up meeting also led to the team being provided with the templated worksheets that are completed during the viability review process, as well as the *Procurement Guide for Infrastructure Assessments* provided to municipalities entering a viability review.

- **Phase Three - Case Studies**: The third phase of work involved detailed interviews with each participating municipality. Interview questions ranged from the absorbing municipality's history and relationship with the dissolving community, to qualitative information on the types of infrastructure, administrative and service / operational costs, and challenges and issues they faced during dissolution. The participants included CAOs, who were also encouraged to include members of their management team who experienced the dissolution. Some participants had been involved with multiple dissolutions over their tenure, and were asked to compare experiences between past and more recent dissolutions. The participants were:

ABSORBING MUNICIPALITY	DISSOLVING MUNICIPALITY	DATE OF DISSOLUTION
Parkland County	Village of Wabamun (and Entwistle)	January 1, 2021
Camrose County	Village of Ferintosh (and New Norway)	January 1, 2020
MD of Willow Creek	Town of Granum	February 1, 2020
MD of Greenview	Town of Grande Cache	January 1, 2019
County of Grande Prairie	Village of Hythe	July 1, 2021

- **Phase Four - Financial Considerations**: The final phase of work involved fielding a detailed workbook to capture the full scope of financial costs associated with dissolution. The workbook encouraged participants to indicate current and future investments into infrastructure, as well as capture ongoing staffing and operational costs or revenue changes associated with the new urban node. The workbook also included the ability to indicate one-time costs that absorbing municipalities had to address for various administrative and governance issues associated with the dissolution. The resulting analysis considered the costs associated with dissolution compared to the new tax base of the community and identified an ongoing 'net' financial position for the community. These financial impacts were reviewed by the participants to ensure validity.

OBSERVATIONS AND CONCLUSIONS

Based on the various phases of work outlined above, the RMA team identified a range of key observations regarding the current state of the dissolution process and its lack of considerations for the absorbing municipality. These observations are organized for each of the key phases of work.

Current Research Phase

> ***Observation 1: The existing processes provide effectively no considerations for the absorbing municipality except for the provided ACP grant funding.***

In the publicly available information regarding municipal viability reviews and dissolutions, there are effectively no obvious considerations for the absorbing municipality, aside from the ACP grant funding streams and some limited information on the tax and grant funding specifics associated with post-dissolution time periods. The *Current Context Review* work reviewed the public information available for the viability review process, dissolution, and post-dissolution processes and noted an absence of specific information or considerations for the absorbing municipality. Further engagement with Municipal Affairs provided access to the standard workbook to be completed by absorbing municipalities, though analysis of that workbook noted that the vast majority of questions in the workbook relate to the outcomes for the community undergoing the viability review should they dissolve.

As noted above, only the ACP Grant funding specifically refers to absorbing municipalities and is the only element of the existing process designed to offer support, specifically the Transitional funding stream and the Infrastructure / Debt Servicing stream are explicitly intended to support absorbing municipalities. It should be noted that since 2020 / 2021, these streams have had significant caps placed on the maximum funding levels available.

> ***Observation 2: Over 50% of the workbook provided to the absorbing municipality involves information that requires more involved discovery processes, and nearly 30% could 'lock' absorbing municipalities into difficult scenarios before full details are known.***

As noted in Observation 1, ongoing engagement with Municipal Affairs led to access to the standard workbook that absorbing municipalities complete as a part of the viability review process. The workbook includes nearly 60 questions across the major categories of: Sustainable Governance, Bylaws and Policies, Strategic and Business Planning, Communications and Community Engagement, Regional Co-oper-

ation, Operational and Administrative Capacity, Financial Stability, Assessment and Taxation, Infrastructure, Service Delivery, and Community Well-being and Risk Management. Each question was 'scored' based on how likely absorbing municipalities are to be able to provide substantive information given the lack of detailed information available to them. The questions were also noted where a response from the absorbing municipality could lead to them committing themselves to a course of action prior to full information being available.

The most jarring finding from reviewing this workbook was the sole focus on what would happen to the urban and hamlet residents across these major categories, with a vast majority of the questions being focused on the impact to the urban node. The Financial Stability section does contain a question that poses the estimated financial impact to the absorbing municipality, but also pushes for an indication on whether these costs would be passed on to hamlet residents if dissolution does occur. At no point in the workbook is there a consideration for how current taxpayers in the absorbing municipality would be impacted by the various changes being considered.

Further, the overall value of the workbook can be questioned, as nearly 44% of the questions were noted as requiring information on the inner workings of the municipality facing a viability review that the absorbing municipality is highly unlikely to have had access to. It is unclear why the workbook assumes that the absorbing municipality will have access to insight about its neighbour beyond what is publicly available, given that no part of the viability review process prior to workbook completion would have provided it.

Finally, nearly 30% of the questions in the workbook were rated as providing undue risk to 'locking' the absorbing municipality into a particular course of action prior to having the pertinent information to make such a decision. This is not surprising as much of the workbook compels the absorbing municipality to provide assumptions as to what changes would occur in the 'hamlet' in the event of a dissolution. This includes detailed information on mill rates, user fees, and other highly sensitive financial commitments that are difficult to indicate without a more detailed understanding of the community being absorbed.

Observation 3: The existing processes provide no guarantee of access to good information for the absorbing municipality.

A review of existing processes highlighted the extent to which an absorbing municipality must rely on good faith by the municipality facing a viability review to provide effective information that enables planning. The existing processes rely on an urban municipality to provide fulsome information during the workbook and infrastructure audit portions of the viability review. Gaps in providing information could come from a motivation to conceal, or more likely from a lack of knowledge about what types of information would be pertinent to an absorbing municipality. The workbook allows significant flexibility for municipalities to indicate known issues but provides little in the way of prompting questions to flag potential issues.

In addition, the current processes are effectively silent on the period between an approved dissolution vote and the date of dissolution itself. There are no mechanisms in place that guarantee access to absorbing municipalities to allow for proactive planning. In instances where a dissolution was hostile or involuntary, there is nothing outside of ministerial intervention, which has not been utilized, to compel a dissolving municipality to provide reasonable access to information.

It is worth noting that Municipal Affairs indicated it is planning a range of enhancements to the viability review and post-dissolution process to address some of these gaps in information, including:

- "Administrative checklists and advisory support following a vote in favor of dissolution;
- Peer network to connect CAOs with CAOs of completed viability reviews;
- Regular check-ins from advisors with administration;
- Transition toolkit that includes best practices;
- Support of an Official Administrator when needed;
- Exit interviews with CAOs and elected officials; and
- Residents post-review survey"

While these improvements are welcomed, it is unclear how this will lead to guaranteed access to information for the absorbing municipality.

As a more general assessment of the planned improvements, a number of these improvements are already available to municipalities should they choose to utilize them — in particular, the peer network is something that exists informally and several case study participants noted seeking advice from other administrators. It is unclear how much benefit formalizing these

programs could provide. Ultimately, many of the planned improvements do not provide substantive improvement to addressing financial issues or guaranteeing access to good information to support planning.

> ***Observation 4: The existing processes provide no promotion to collaborate or sets baseline expectations of collaboration and participation for all parties.***

Similar to Observation 3, the current processes seem to assume a certain level of collaboration and good intent on the part of participating municipalities. There is nothing in the current processes that outlines expectations, code of conduct guidance, or participation minimums for the process. Again, only ministerial intervention, or other ‘behind-the-scenes’ encouragement from Municipal Affairs could be deployed to provide expectation clarity in the current processes.

It is worth noting that Municipal Affairs indicated that “review municipalities are encouraged to work with the potential receiving municipality when developing the RFP and reviewing proposal submissions” when the Infrastructure Audit is initiated. In addition, they indicated that they offer “meetings with both the council and CAO of the potential receiving municipality to introduce the process, answer questions about the process, and to identify initial concerns”. While this engagement provides encouragement of collaboration within the process, it stops short of setting clear expectations.

Case Study Interviews

> ***Observation 5: There is a pattern of increasing polarization in the ‘tone’ of recent dissolutions, which can impact the overall dissolution process.***

Case study participants were asked to describe the leadup to dissolutions, including the general ‘tone’ and sense of collaboration. While all dissolutions are expected to have some challenges, a clear pattern emerged of some dissolutions becoming exceedingly toxic and antagonistic compared to typical expectations. For one participant, the tone of the dissolving community was seen as mysteriously shifting after the dissolution vote, when the dissolving community suddenly became very combative and refused to collaborate. This general sense of combativeness was experienced by several participants, and it was seen as having a significant impact on the ability of the absorbing municipality to reasonably access information to enable planning for dissolution. One participant experienced high levels of combativeness from a recent municipality undergoing a viability review (but did not dissolve and was therefore not the focus of the case study), because staff and council undergoing a viability review were aware that in a previous dissolution, the urban staff had been let go.

It is worth noting that other participants indicated surprisingly positive interactions, particularly when the viability review process was initiated by the dissolving council. These positive dissolutions were strongly correlated with the absorbing municipality having access to good information to plan for dissolution, and generally having the dissolution proceed more favourably.

Observation 6: Dissolving councils are making material financial decisions after vote has occurred.

One of the most concerning situations that was raised during the case study interviews was the participant who noted that the dissolving council continued to make several materially significant financial decisions leading up to the dissolution date. This included continued decisions regarding the ownership and operations of a municipally-owned corporation, taking new debt related to the same municipally-owned corporation, and utilizing existing reserves to terminate staff with generous termination packages. It is important to note that only one participant identified this issue as having occurred, but the example highlighted the lack of meaningful checkpoints or guidelines in place in the current processes.

Municipal Affairs indicated a strong hesitation to intervene in any local democratic decision making, but the lag in time between an approved vote for dissolution and the actual date of dissolution creates an obvious gap in the understanding of democratic decision making. For case study participants, it was quite clear that once a municipality has voted to dissolve (and the minister has approved that vote), the lack of restrictions in place for dissolving councils created an obvious point where undemocratic or unreasonable decisions could be made with little consequence based on the gaps in the current processes.

Observation 7: Infrastructure audits have not provided comprehensive results required for good planning.

A consistent theme that was raised by most case study participants was the significant issues with the quality and comprehensiveness of Infrastructure audits conducted during the viability review process. Participants noted a range of issues with the current process, including that the current ACP funding of $120,000 may not be enough to conduct a detailed enough audit for some larger communities, resulting in a surface-level assessment. Other issues raised include an indication that municipalities undergoing a viability review are not including the potential absorbing municipality in procurement discussions (despite Municipal Affairs encouragement), leading to poor selection of vendors. In some cases, participants noted the scoring seemed to be manipulated to ensure that local vendors the community had worked with in the past were successful.

A more common reason offered was that the Infrastructure Audit was relying on existing municipal knowledge and data, which may simply be unreliable and would require far more intensive analysis to validate than the audits allow for. Regardless of the reasons, a consistent theme was that the results of the infrastructure audit were unreliable, and that serious infrastructure condition issues were being missed.

More concerning were the indications that the Infrastructure Audits were simply missing critical infrastructure that was only discovered post-dissolution. Examples of missing infrastructure included facilities that had previously not been indicated as having been municipally owned, as well as entire sections of underground water and wastewater utilities.

Municipal Affairs does define a limited number of requirements for the Infrastructure Audits, including the inclusion of:

- "An executive summary;
- Identification and assessment of municipally owned infrastructure;
- A prioritized action list with associated costs; and
- A 10-year capital and associated operational plans based on the prioritized action list."

Municipal Affairs also publishes a guide on how to procure Infrastructure Audits. However, none of these requirements speak to the quality or level of rigour that the work must meet, leaving room for gaps in information for the absorbing municipality. These gaps can cause significant issues for absorbing municipalities, and several participants noted that they may have indicated different information regarding what would occur to tax rates, the use of special levies, other user fee rates, or other information regarding addressing infrastructure liabilities had they known the true extent of the problem they were taking on.

Finally, the value of the 10-year capital plan is unclear as a current requirement. Infrastructure lifecycles can extend far beyond 10 years, so important long-term considerations may be left out of the assessment. In addition, the requirement for a 10-year plan does not necessarily provide a more detailed view of the first few years of the plan for addressing 'emergency-level' repair work that may need to occur. While case study participants did not directly question the value of the 10-year capital plan requirement, several of the issues identified point to it being an ineffective time span for the audit process.

> ***Observation 8: Significant work has come from sorting out issues with records, bylaw, financial information, legal matters, etc. that have not been raised during viability review.***

While infrastructure liabilities were a primary concern for case study participants, they indicated a surprising number of issues related to records, governance, legal issues, and other administrative issues post-dissolution. These issues required significant staff time and occasionally external legal or contractor costs to address. In many cases, these issues emerged unexpectedly and were not raised in the viability review process. Many of these issues were relatively minor in nature, but some involved significant costs to address, especially where external contractors or legal supports were required. Municipal Affairs raised potential confidentiality concerns as a reason that these administrative issues might not be raised during the viability review process, but there is no mechanism in the current processes to ensure absorbing municipalities can effectively identify and plan for these challenges.

> ***Observation 9: Those with some sort of dedicated intermediary (transition resource) had a better time with the dissolution.***

In two of the case studies, a dedicated intermediary was employed to help facilitate the dissolution process, and in each case, this resource was seen as a critical link to making the dissolution process relatively successful and 'easy.' What is notable, is that the current processes do not specifically promote an intermediary resource, though the ACP Transitional funding could be utilized for such a resource. In the case of the two case study participants, they received this intermediary resource in very different ways. The first was due to a Special Administrator being provided to support the dissolving community as the dissolving council had disbanded and could not meet quorum. This special administrator was seen as incredibly valuable to the absorbing municipality as they were very inclined to work with the absorbing community on information sharing and planning for dissolution. In this case, dissolution was a foregone conclusion based on the disbanding of council. In the second instance, the dissolving community had been facing staffing turnover, so the absorbing municipality funded an interim CAO to support the community through the transition. This funding of an interim CAO was conducted without ACP funding as it was in place prior to the viability review occurring. Based on the absorbing municipality contributing the funding for the role, this interim CAO was seen as critical in once again providing access to information ahead of dissolution to allow for effective planning. Notably, the dissolving council was collaborative and agreeable which allowed the interim CAO to operate in such a manner.

Financial Analysis

> ***Observation 10: The current ACP Infrastructure funding is dramatically lower than the infrastructure liabilities that absorbing municipalities have had to address.***

The main consistent theme that came out of the financial workbooks was the significant costs related to infrastructure liabilities. Alarmingly, two clear patterns emerged for the municipalities that participated in the case studies: the first was the size of identified infrastructure liabilities compared to the ACP funding available; and the second was the size of infrastructure liabilities identified in the infrastructure audits compared to what has truly been identified post-dissolution.

The smallest amount of reported high-priority infrastructure investment required was $2.6 million, with a wide range reported, as the maximum amount exceeded $140 million. This greatly exceeds the current ACP Infrastructure / debt servicing grant funding, which has a base amount of $500,000, and a variably amount of $1,500 per person in the dissolving municipality.

This per capita amount is up to a maximum of 300 people, so the maximum grant funding is $950,000. It is notable that this maximum amount was reduced in 2020 / 2021 and used to be capped at $3,000,000. Another interesting pattern noted in the financial analysis is that per capita funding is not the most appropriate factor to base infrastructure funding on for the ACP grant. In terms of high-priority infrastructure identified per capita, the case study financial analysis shows a range of nearly $2,600 per capita to over $40,000 per capita.

The second pattern identified was the gap between what was identified in the infrastructure audit compared to what has been identified by the municipalities since dissolution. The average amount of discovered infrastructure liability compared to what was identified in the infrastructure audits was an average of nearly 2:1.

Observation 11: Costs to absorbing municipalities extends beyond basic infrastructure renewal and replacement work.

The financial workbooks confirmed that infrastructure liabilities are the largest financial burden for absorbing municipalities. However, some have experienced significant costs from administrative, governance, and other service related issues. Even disregarding ongoing service and operational costs, participants identified a range of issues to be addressed that reached nearly 9% of infrastructure liabilities for multiple participants.

It is worth noting that existing ACP Transitional funding provides a base amount of $100,000 plus $500 per capita, up to a maximum of 300 people and maximum funding of $250,000. Only one participant noted one-time administration costs less than this maximum amount, at $228,500. The highest amount was nearly $12.7 million. Similarly to the ACP infrastructure funding, the Transitional funding maximum funding amount was reduced from $1,500,000 in 2020 / 2021. In addition to not being sufficient to cover reported costs, the Transitional funding is often being used on redoing the infrastructure assessment given the inadequacies of the infrastructure audits, leaving little left over for addressing emergent administrative issues.

Observation 12: The 'cost' of absorbing dissolved communities is disproportionately placed on the broader county or MD population base rather than the urban node itself.

One novel element of the workbook was a section to determine how absorbing municipalities had addressed the costs of dissolution. The options included: direct investment from rural tax base (or reserves); direct investment from urban node designated tax base / user fees (or previous urban reserves); investment leveraging external grants (newly available due to urban node); deferred projects or reduced service levels (rural wide); asset retirement or reduced service levels (urban node). This allowed participants to indicate how much of the cost was being borne specifically by the urban residents or across the absorbing municipality overall. Only one participant opted to place a majority of new infrastructure costs on the urban node specifically. The vast majority of funding for infrastructure across the participants was addressed by utilizing net new funding available, as well as utilizing larger rural reserves and capital project planning. While other service and operational costs were more difficult to categorize for participants, these costs were also disproportionately borne by the larger rural tax base via direct investment or reduced service levels.

Observation 13: Many dissolved communities will have ongoing net negative financial impacts from dissolution.

The workbooks also expanded beyond one-time infrastructure investments to explore ongoing operational and service costs compared to revenues associated with the dissolved community. The results show that many dissolutions result in a net financial loss to the absorbing municipality. This is a major concern to some absorbing municipalities, as ACP funding is strictly one-time in nature. While no participants in the case studies noted the ongoing financial loss was a threat to their communities, it is foreseeable that some absorbing municipalities could have their sustainability threatened by taking on a net loss community in a dissolution. Of the case study participants, only one indicated a positive net financial position from their dissolution. The key attribution to this result was a decision to not take on existing municipal staff during the dissolution. This meant that dissolving municipality operations were absorbed by the existing staffing complement, and service levels across the community were reduced to address the operational 'cost' of the community. Despite this net positive financial position, the 'pay back' period from the infrastructure investments required was 27 years.

The highest ongoing annual 'loss' amount reported by the case study participants was over $7.2 million per year.

RECOMMENDATIONS

Recommendations were developed based on the various points of analysis and are intended to address all key observations identified above. The recommendations disproportionately call for changes to Municipal Affairs, given the lack of ability for the RMA to directly control or influence the viability review and dissolution process.

Financial Support

Recommendation 1: Municipal Affairs should increase the ACP Infrastructure funding available to absorbing municipalities, with a formula that considers the cost identified in the infrastructure audit and emergency repairs.

Municipal Affairs should review and renew the ACP Infrastructure / debt servicing grant for three key changes:

1. Increase the overall funding levels
2. Replace the population formula factor with other more relevant factors
3. Provide consideration for urgent emergency repairs

The analysis conducted demonstrated that ACP Infrastructure / debt servicing grant funding is simply too low to address the scale of infrastructure liability being taken on during dissolutions. In at least one case study, the maximum available ACP funding (in 2023) would cover less than 1% of the infrastructure liability taken on by the community. This discrepancy in funding available compared to the scale of liability taken on is highly likely to lead to situations where rural municipalities become unviable as a result of dissolutions in the future. Based on the analysis conducted, it is clear that even returning to pre-2020 / 2021 maximum funding levels is insufficient support for absorbing municipalities. With recent inflation in construction costs, these figures are likely to be even more drastic than our study demonstrated.

While increasing the amounts available should be the top priority, it is also important to consider a re-structured formula for ACP infrastructure funding. Currently the formula provides a base amount with a per capita variable component (with a cap). Analysis demonstrated that there is a loose connection between the size of the population base taken on and the infrastructure liability taken on. In fact, per capita infrastructure liability values of nearly $2,600 to over $40,000 were observed. While the predictability of per capita funding formulas is welcomed, a far better approach would be to incorporate the identified infrastructure liability totals from the infrastructure audits into the formula so funding can match the expected level of liability being taken on.

Another factor worth exploring is the relative size and capacity of the absorbing municipality. While additional work is required to refine exactly how this factor could be incorporated, a starting point would be to consider the expected annual infrastructure liability being taken on compared to the average annual capital expenditures of the absorbing municipality. A higher percentage would indicate a higher burden on the absorbing municipality and could trigger a higher 'tier' of ACP infrastructure funding.

Finally, the ACP funding should incorporate a 100% coverage of immediate, emergency infrastructure repairs related to health and safety, primarily for water utility infrastructure. Given the requirements for long-term capital planning, it is unreasonable to expect absorbing municipalities to adjust immediate term capital expenditures that may be required. In the majority of case studies conducted, the current ACP funding is already being used for emergency-priority repair work in the early years but is often insufficient. Note that this may require a change in the infrastructure audit requirements to identify emergency infrastructure investments over a shorter time frame than the 10-year capital plan currently required for high-priority infrastructure. As a blanket condition, any absorbing municipality that utilizes Transitional ACP funding to re-work the infrastructure assessment due to quality concerns should be able to substitute the updated study liability levels into a revised funding formula.

> ***Recommendation 2: Municipal Affairs should reinstate ACP Transitional funding to previous levels.***

As noted above, the 2023 ACP Transitional funding provides a base amount of $100,000 plus $500 per capita, up to a maximum of 300 people and maximum funding of $250,000. Prior to 2020 / 2021 the maximum Transitional funding $1,500,000. While this amount would not cover the highest amount of one-time costs identified in the financial analysis, it would provide additional support to a majority of dissolutions moving forwards. Currently, the reduced capped amount is seen as largely only being effective to redo the infrastructure assessment with improved rigour and detail and is not being directed to actual 'transitional' issues.

As an immediate-term initiative, Municipal Affairs should restore the previous funding cap, and that the per capita amount be revised upwards. Combined, this will provide enough funding for many dissolutions to address emergent issues with transition.

> ***Recommendation 3: Municipal Affairs should provide expanded ACP Transitional funding for an optional dedicated administrative project resource.***

Similar to Recommendation 2 above, Municipal Affairs should create an automatically available, though optional, funding stream through the ACP Transitional funding grant (or comparable program) to support a dedicated transitionary resource to support the dissolution process for absorbing communities that wish to use one. This neutral resource would provide project management supports and facilitate the exchange of information leading up to the dissolution date. This could significantly facilitate the ability for absorbing municipalities to identify and plan for emergent issues related to administrative, finance, governance, records, and other 'back-office' functions that have caused significant challenges to recent dissolutions.

Notably, this funding should be in addition to the increased amount advocated for in the previous recommendation. A support resource can help identify and plan for emergent issues but will not often be able to actually solve them, which the main ACP Transitional funding stream should support.

> ***Recommendation 4: Municipal Affairs should provide new funding for emergent issues discovered during post-dissolution.***

Regardless of any changes made to enhance the viability review process, the case study interviews identified a clear pattern of unexpected, emergent issues occurring post-dissolution. These can range from relatively minor operational matters to very significant financial or legal issues. In many cases, a dissolving municipality would be facing staff turnover, council turnover, and general levels of instability that means unexpected issues are highly likely to emerge post-dissolution.

To address these emergent issues, Municipal Affairs should provide new funding for emergent issues that are discovered post-dissolution. Critically, this would involve extending the current timelines for available funding. It is unclear if utilizing the existing ACP funding program would be preferable, or if a new funding stream is better. Based on the non-standard nature of emergent issues, it may make sense to structure the funding as an application-based process, though additional exploration to the preferred program structure would be required.

> ***Recommendation 5: Municipal Affairs should explore a 'tiered' funding model, with additional funding supports available to municipalities absorbing large, complex dissolutions.***

One participant in the case studies took on a particularly large urban centre through dissolution. The scale of costs related to this dissolution was notably outsized compared to others that were observed. The scale of cost associated with this larger centre is beyond any reasonably changes to current ACP funding levels and no standard formula could fairly address this, even if Recommendation 1 is implemented.

To address the future potential of other larger urban centres dissolving, Municipal Affairs should establish a tiering structure within the existing ACP funding or establish new funding programs that effectively create a 'tiered' outcome for funding. This tiering should be based on the size of the municipality facing dissolution, as well as considerations for complexity, outstanding legal and environmental issues, identified infrastructure liabilities, and other factors that could lead to outsized cost burdens on absorbing municipalities. This funding would rarely be utilized, given the relatively rare occurrence of a larger center dissolving, but would provide the necessary protections to absorbing municipalities, many of which would have their own viability threatened if forced to absorb the similar costs to what was identified in the case study financial analysis.

Viability Review and Pre-Dissolution Process

Recommendation 6: Municipal Affairs should implement strict guidelines for infrastructure audits to ensure comprehensiveness and requirements to incorporate the absorbing municipality's infrastructure standards.

As noted, the analysis conducted highlighted serious concerns with the quality of current infrastructure audits being conducted. Currently, Municipal Affairs provides advice upon request, requires certain content sections, encourages collaboration with the absorbing municipality, and publishes a procurement guide to support municipalities entering a viability review.

As a result of the current issues, Municipal Affairs should introduce strict requirements for infrastructure audits, as well as establishing the mandatory involvement of the potential absorbing municipality into the infrastructure audit process. The guidelines should outline expectations on the scope of infrastructure to be included in the audit, provide requirements on vendor eligibility, and provide requirements on the level of work required to ensure effective condition assessment. As noted above, the audit should also have a requirement to identify immediate, emergency-level improvements required to be addressed in the near-term.

The involvement of the potential absorbing municipality should be a requirement to ensure each municipality has a chance to participate in the procurement process as a primary stakeholder. The requirements for infrastructure audits should also mandate that asset replacement planning should incorporate the absorbing municipalities infrastructure standards, where they are available.

Recommendation 7: Municipal Affairs should adopt automatic appointments of an Official Administrator (supervisory only) for municipalities that have approved dissolution votes.

Municipal Affairs should revise its current practices to automatically implement an Official Administrator, in a supervisory role, for municipalities that have a Cabinet-approved vote for dissolution for remaining council meetings until the date of dissolution. Municipal Affairs states that the use of an Official Administrator is typically reserved as “an extraordinary measure,” but the post-vote, pre-dissolution date surely fits this definition and Municipal Affairs already notes “to support an orderly transition of governance in cases of municipal restructuring such as amalgamations or dissolutions” as a typical use of this tool. While there is no need to replace existing councils with an Official Administrator (hence the supervisory role), an appointment would limit the extraordinary circumstances where dissolving councils are making material financial decisions leading up to dissolution. The appointment of an Official Administrator ensures that:

- “No bylaw or resolution that authorizes the municipality to incur a liability (borrow money) or to dispose of its money or property has any effect until the bylaw or resolution has been approved in writing by the official administrator, and
- The official administrator may at any time within 30 days after the passing of any bylaw or resolution disallow it, and the bylaw or resolution so disallowed becomes and is deemed to have always been void.”

While the mere presence of an Official Administrator is expected to reduce any problematic council decisions, it is worth noting that the Official Administrator may be forced to accept ‘problematic’ decisions if they are technically allowed within legislation. Additional changes to the *Municipal Government Act* (MGA) may be required to further limit dissolving council’s ability to make material financial commitments after an approved dissolution vote, should the presence of an Official Administrator prove to not be an effective deterrent.

Recommendation 8: Municipal Affairs should implement formal participation expectations and 'code of conduct' requirements for municipalities participating in viability reviews.

While Municipal Affairs indicated it currently encourages municipalities to collaborate during the viability review and dissolution processes, it should strengthen the ministry's position. Specifically, Municipal Affairs should implement a code of conduct and clear expectations for collaboration, transparency, honesty, participation, and information sharing for all parties involved in the process. A code of conduct will provide far clearer expectations on how to approach the viability review and dissolution process and will act as a de facto protocol guideline for how viability reviews and dissolutions are 'supposed to' work. Finally, the existence of a guideline will improve the ability of the ministry to initiate ministerial interventions should participants engage in sufficiently problematic behaviour during the process.

Once developed, the RMA commits to work to educate and notify its own members of these expectations, as all parties will be subjected to them.

Recommendation 9: Municipal Affairs should revise the existing workbooks to better enable absorbing municipalities to project potential impacts to them.

There is little appetite for the current viability review process to extend beyond its current timelines. However, a restructuring of the viability review process to provide the absorbing municipality better information to be able to complete the workbook would provide value to the process. Analysis of the current workbooks highlighted the extent to which it would be difficult to provide useful information as an absorbing municipality, and the case studies highlighted the risk of absorbing municipalities 'locking' themselves into financial decisions prior to knowing the full implications of those decisions. As a result, Municipal Affairs should adjust several elements regarding the current workbook:

- The sequencing should be adjusted to provide more information to the absorbing municipality: rather than fielding each workbook concurrently, the absorbing municipality should conduct its workbook after the infrastructure audit and the viability review municipality has completed its workbook. This will provide better context for the absorbing municipality and will support its ability to reasonably forecast the financial impact of potential responses to reduce the chances of indicating regrettable outcomes.
- The workbook should include additional considerations for the financial impact a dissolution could have on the absorbing municipality: questions should extend beyond the "options analysis" that focuses on impact to the municipality under review, to include additional questions that project financial, operational, and service impacts to the absorbing municipality. As an example, when asking about potential decisions regarding mill rates should the municipality under review become a hamlet, a follow-up question can get the absorbing municipality to forecast potential tax revenue from the indicated mill rates and confirm long-term financial impact of the decision.

Note that this change relies on other recommendations to improve the quality of information available to the absorbing municipality, including the re-sequencing outlined above. It is pointless to expand the workbook questions if absorbing municipalities do not have access to improved information to enable better projections.

The "option analysis" in the viability review report should include clear language that indications made by the absorbing municipality are not binding in any way: Municipal Affairs should evaluate the viability review process and include expectations in the code of conduct recommended above, to ensure that information provided by absorbing municipalities during the viability review is not represented as binding in any way. The establishment of a formal evaluation point after the initial viability review process could include a follow-up workbook that enables absorbing municipalities to document new information and update indications that were made previously for the options analysis work.

Post-Dissolution Process

Recommendation 10: Municipal Affairs should implement a guidebook and resource directory for absorbing municipalities to inform them and provide dedicated staffing resource supports for questions and emergent issues.

Municipal Affairs has indicated that additional support resources, including a guidebook, were part of the recommendations made to improve the viability review and dissolution process and indicated positively that the ministry was working towards the implementation of:

- Administrative checklists and advisory support following a vote in favour of dissolution;
- Peer network to connect CAOs with CAOs of completed viability reviews;
- Regular check-ins from advisors with administration;
- Transition toolkit that includes best practices;
- Support of an Official Administrator when needed;
- Exit interviews with CAOs and elected officials; and
- Residents post-review survey.

The RMA should work closely with Municipal Affairs to support the development of these materials and ensure that they reasonably incorporate resources for absorbing municipalities. Without additional information about the planned improvements, RMA intervention into the development process provides the highest chance of successfully supporting absorbing municipalities.

> ***Recommendation 11: Develop RMA-specific resource materials, communities of practice, and other supports for absorbing municipalities to support members dealing with dissolution related issues.***

As an extension of Recommendation 10 above, the RMA is committed to developing its own supportive resource material for members engaging with the dissolution process. Guidebooks, communities of practice, other on-demand support resources, and regular member surveys and engagement are all likely required to supplement the changes Municipal Affairs indicated positively towards to ensure effective support for absorbing municipalities. Specific actions should be continually explored and implemented to target gaps that the RMA sees in the Municipal Affairs support resources, so some change from this list is expected.

Finally, the RMA will also explore the feasibility of providing direct advisory supports to members engaging in the dissolution process, given that case study participants indicated that generally Municipal Affairs staff have not been providing valuable, timely advice when requested.

> ***Recommendation 12: Municipal Affairs should implement a sustainability monitoring and supports program for RMA members deemed 'at-risk' of dissolution-related sustainability issues.***

Municipal Affairs indicated that the current Municipal Indicators are the key tool used to track at-risk municipalities. However, the current indicators will do little to 'flag' an at-risk absorbing municipality until the financial impacts have already occurred. There is little ability to combine the existing indicators from a dissolving municipality with the absorbing municipality to gain an understanding of whether the dissolution will prove to be a threat to the absorbing municipality's viability.

As a result, Municipal Affairs should develop a monitoring program initiated at the point of an approved dissolution vote to analyze threat factors and project potential viability concerns for an absorbing municipality. While further exploration is required, this program will likely need to include information beyond what is currently collected via the MFIS returns or for the current Municipal Indicators. The program should extend for a period of several years post-dissolution to ensure stability and a high likelihood of financial viability. This monitoring period should build on the financial analysis work conducted for this review and track the true cost of dissolutions to better inform future grant funding levels and overall program design.

This analysis highlighted the very real threat of an absorbing municipality becoming unviable itself due to a dissolution. The current processes assume rural viability as a given and neglects the fiscal reality of many rural municipalities. A sophisticated monitoring program tailored to absorbing municipalities is the best course of action given the high likelihood of numerous dissolutions occurring in the near future — several case study participants noted that there are enough potential dissolutions in their jurisdictions in the near future to cause serious disruption and financial impact.

APPENDICES

Appendix A: Current Research Work

Methodology

To complete the initial assessment, a number of documents and information were reviewed, including:

- Current viability process documents
- Previous viability reviews
- Legislation such as the *Municipal Government Act* and *Local Government Fiscal Framework Act*
- Grant program guidelines
- Available grant lists curated by Municipal Affairs.

To develop the first component of this review, current viability process documents and previous viability reviews were analyzed to identify areas of deficiency in regard to information surrounding post-dissolution activities or considerations for absorbing municipalities. Previous work with the RMA was leveraged where possible to provide detailed descriptions of the current viability review process.

The second component of this review (current options for financial supports), was completed through extensive research on the availability, allocation, and conditions of existing funding sources. The primary goal of this review was to identify direct funding sources to support the restructuring of amalgamating municipalities. This review also focused on identifying current funding sources and whether these funding sources clearly indicated options or conditions in the event of municipal restructuring. In instances where current funding sources had no indication of conditions for restructured municipalities, current allocation methodologies were reviewed to determine if restructuring may impact how funds are calculated. A list of financial supports was compiled and any relevant funding sources are included below.

The RMA and its consulting team engaged Municipal Affairs to field a number of questions regarding current dissolution and viability information. The response from Municipal Affairs is included below at the end of this section.

Research Overview

Current Viability Process

Alberta has laid out a clear process for dealing with typical viability reviews and dissolutions. However, these processes are entirely on the viability of the dissolving municipality and there are no clear processes or considerations specifically related to the absorbing municipality's viability. In addition, recent changes have meant expedited viability reviews have been occurring more frequently, bypassing the detailed steps of a full viability review.

Assessment

Viability Review[1]

Alberta's viability review process was initially adopted as part of a greater Municipal Sustainability Strategy in June 2012. The process was adopted to encourage sound decision making, as well as collaboration and cooperation among municipalities in the province. The viability review process is comprised of three key pieces:

- **A self-assessment toolkit** designed to help municipalities address current challenges and identify where or how they could improve
- **A viability review** including infrastructure and engineering studies, as well as an analysis of municipal administration, services, administrative capacity, finances, and salaries
- **A viability plan** developed with community members and other stakeholders to identify options for achieving viability

A viability review can be initiated by:

- **Council Request** – A municipal council may request the Minister of Municipal Affairs undertake a viability review if the municipality believes it is in jeopardy that cannot be mitigated through the use of the self-assessment tool
- **Citizen Petition** – The residents of a municipality may petition the minister to instigate a viability review. The petition must include the signatures of eligible voters totaling 30% of the population (50% for summer villages)
- **Minister's Discretion** – The minister may undertake a viability review if a municipality is flagged on its performance with the key measures set out in the Municipal Sustainability Strategy.

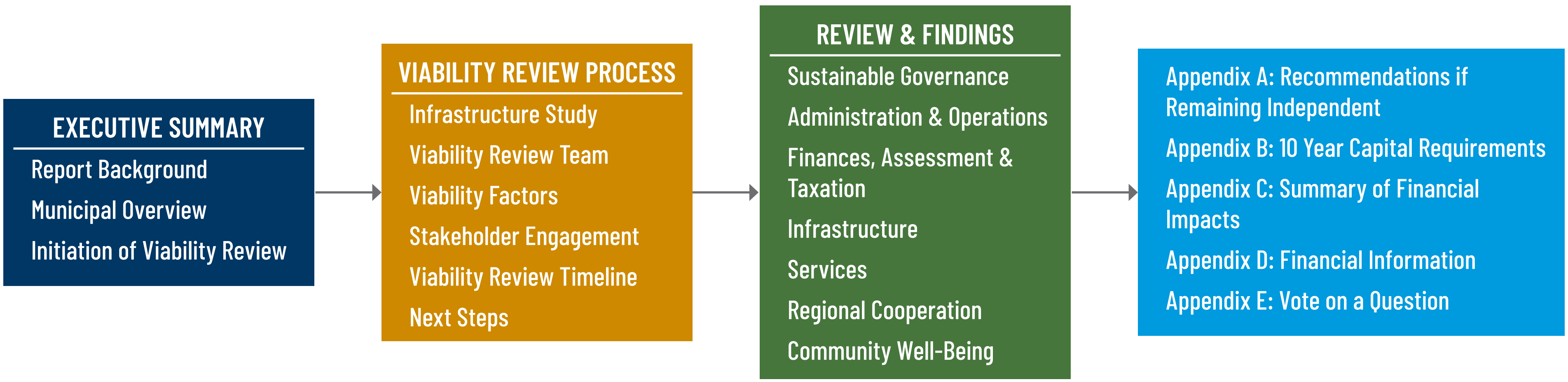
Once a review has been initiated, the process will be led by a viability review team and will include representatives from Alberta Municipal Affairs, elected officials, and administrators from the affected municipalities or municipal associates. This standard review process can take between 12 and 16 months.

[1] The Viability Review Process (Government of Alberta; N/A)

Generic Process[2]

The generic review process document is comprised of multiple key sections. An overview and analysis of municipal operations in recent years is included along with interviews with elected officials and administration. An assessment of infrastructure is performed including development of a multi-year infrastructure plan. And finally, a description of two options typically available for the municipality (dissolution or continued operation) with impacts highlighted for both potential options. In a typical review, the absorbing municipality is engaged to determine the changes necessary to amalgamate the reviewed municipality. This includes comments on changes to finances, representation, and infrastructure among a number of other factors. The reports do not examine the impacts of amalgamation on the absorbing municipality.

The generic review structure is shown below:



2 Various completed viability reports

Each component or recommended option in the viability review process is focused almost entirely on the dissolving municipality. Information about the absorbing municipality is mentioned, but only as far as it relates to immediate support, future decisions, or services impacts about the dissolving municipality. For example, in the case of financial supports, a full accounting of supports provided is listed, but the recommended options do not speak to the cost implications of dissolution vs continued operations for the absorbing municipality.

In the case of infrastructure, there is no consideration for the current infrastructure portfolio of the absorbing municipality. Options presented in the viability review highlight some of the funding sources identified further below in this report, but do not investigate or discuss long-term structural, operational, or financial impacts of inherited infrastructure on absorbing municipalities.

During the generic review process, stakeholders from the absorbing municipality are engaged as members of the viability review team. However, these stakeholders are primarily brought in to discuss how the absorbing municipality would maintain or modify services and infrastructure in the dissolving municipality, rather than as advocates for the unique problems of municipal restructuring on the absorbing municipality.

Expedited Process

Recently, the province has implemented 'expedited' versions of the viability review process. Typically, during the review process, a viability review team is established with a range of stakeholders from municipal associations, the municipalities, and Municipal Affairs. In the new expedited process, the viability review team is not established, and the ministry instead conducts the review by itself. A common problem cited from the expedited reviews is a lack of detail regarding infrastructure and the impact of absorption on the absorbing municipality.

Municipal Dissolution[3]

Pending the completion of a viability review, a municipality has several options to proceed. One likely option is dissolution. After the completion of a viability review, electors of the municipality must hold a vote to determine if the municipality should dissolve or not.

If the electors vote the municipality should be dissolved, the minister recommends to the Lieutenant Governor in Council that the municipality be dissolved. A dissolution order is then issued directing all or part of the land to become part of another municipal authority. While not historically observed, there is potential at this stage for the establishment of a specialized municipality if the dissolved municipality would represent a significant urban node in a rural municipality, as well as potential for appointing a liquidator with specified powers, duties, and functions, similar to the liquidation of a private corporation. Finally, if the liabilities of a dissolved municipality exceed its assets, and the absorbing municipality does not pay down the outstanding liabilities, an additional (local improvement) tax may be placed on property located within the area of the dissolved municipality to pay for the excess liabilities.

Post-Dissolution

After a successful dissolution, there is no further information regarding recommended actions in, or as an extension of, the municipal viability review process. The viability review documents do not discuss post-dissolution in any specific detail, the only instance where actions after dissolution are mentioned are in the cases where potential opportunities for Alberta Community Partnership funding is identified, or where changes in service delivery or asset management should occur. There is no indication of how these changes should occur or what impacts they may have on the absorbing municipality.

Current Dissolution Financial Supports

The dissolution process has a lack of consideration regarding the financial impacts of amalgamation on the absorbing municipality. Currently there appears to be an assumption baked into the existing processes that the absorbing municipality will always be able to handle the amalgamation with little to no adverse financial impacts, based on the lack of clear, formalized financial support options in place.

However, there are some options currently in place to ease the transition or post-dissolution of a municipality. These supports provide limited

[3] Alberta *Municipal Government Act* (2020)

funding to aid immediate integration funding support, or immediate infrastructure or debt servicing support to the absorbing municipality. There is little formalized funding support available for absorbing municipalities later into the lifecycle of absorption. In some cases, previous funding agreements can be grandfathered for a short period of time into the newly restructured municipality. But in many cases, this is not sufficient to account for the significant capital and/or operating impacts of amalgamation, or the impact of restructuring is not considered as part of funding program guidelines.

An overview of the various funding streams and options can be seen below:

Alberta Community Partnership – Schedule 2 Municipal Restructuring[4]

The primary support for municipalities prior to, during transition, and post dissolution is the Alberta Community Partnership (ACP) grant, specifically Schedule 2 Municipal Restructuring. This grant provides three streams of support for municipalities along the lifecycle of restructuring. Each stream has unique funding amounts, requirements, and conditions. Before application to any stream a number of basic conditions must be met including:

- Agreement from any other municipalities impacted by municipal restructuring.
- Municipalities involved in restructuring must not have applied separately.
- Unused funds cannot be applied to other streams.
- Applicants that received restructuring grant funding prior to January 2014 are not eligible for funding.

The funding streams are as follows:

Exploratory Viability Review Studies

This stream is intended for municipalities to explore options for municipal restructuring and includes the development of specifically regional governance studies and/or infrastructure studies and asset management plans.

There is $120,000 available for infrastructure studies and $200,000 is available for regional governance and/or amalgamation studies. Any applicant wishing to explore the exploratory viability review study stream is required to use the Viability Review Infrastructure Terms of Reference Template obtained by contacting a Municipal Viability Advisor.

Transitional Stream (Post-Restructuring)

Transitional stream funding is intended for municipalities following the effective date of a dissolution or amalgamation to support the integration of administration, governance, and legislation of the restructured municipalities. A large number of projects are supported at this stage including: financial audits, community engagement activities, system migration, legal and legislative consultation, organizational reviews, etc.

The total amount of funding available for this stream is a base amount of $100,000 plus $500 per capita (to a maximum of 300 persons per municipality) for each dissolving municipality, or for each amalgamating municipality excluding base and per capita funding for the municipality with the largest population. Note that this was previously capped at a maximum of $1,500,000 prior to 2020 / 2021, so the new cap is significantly reduced.[5]

All grant funding applied for following restructuring must be accounted for separately by the receiving municipality.

Infrastructure / Debt Servicing Stream (Post Restructuring)

The Infrastructure / Debt Servicing Stream is intended to support the upgrade to existing municipally owned capital infrastructure assets and equalization of any outstanding non-utility debt obligations of the dissolved municipality.

The total amount of funding available for this stream is a base amount of $500,000 plus $1,500 per capita (to a maximum of 300 persons per municipality) for each dissolving municipality, or for each amalgamating municipality excluding base and per capita funding for the municipality with the largest population. Note that this was previously capped at a maximum of $3,000,000 prior to 2020 / 2021, so the new cap is significantly reduced.

There are a number of conditions for this stream including:

[4] Alberta Community Partnership (2022 – 2023) [Schedule 2]

[5] Alberta Community Partnership Guide (2020 – 2021)

- Funding is conditional upon completion of an infrastructure study or asset management plan within the past five years. If a plan does not exist eligible municipalities may apply for funds through the transitional stream to support an infrastructure study or an asset management plan
- Infrastructure projects must be located within the geographic boundaries of the dissolved municipality, or must directly benefit residents and property owners of the dissolved municipality
- Debt servicing funding requires receipt of the audited financial statements of the dissolved or amalgamated municipalities
- Debt reduction or servicing may only be applied to the debt of the former municipality transferred to the receiving or newly formed municipality
- If grant funding was applied for following restructuring, grant funds must be accounted for separately by the receiving municipality (dissolution) or newly formed municipality (amalgamation) in accordance with the Order-in-Council that dissolved or amalgamated the former municipality(ies)

Municipal Government Act – Tax Incentives

There are several special taxes and tax incentives that are available to restructured municipalities. However, these options are broadly available to all municipalities and not necessarily designed or tailored to support municipal dissolution. These include:

- Implementation of a Special Tax Bylaw for a specific area. Special taxes are not petitionable and must be passed annually by a Special Tax Bylaw.[6]
- Implementation of Class 1 (Residential) assessment sub classes that allow for the imposition of a different residential tax rate in specific areas of a municipality.[7]

There is one option uniquely available to restructured municipalities. Post-dissolution, if the dissolved municipality's liabilities exceed their assets, the Lieutenant Governor in Council may authorize the successor of the dissolved municipality to impose an additional tax on property located within the area of the dissolved municipality to pay for excess liabilities.[8]

Extended / Other Funding Sources

As noted, there are a range of other municipal funding sources that may impacted by a dissolution. Depending on the allocation formulas, the resulting combined entity may be eligible for lower funding than each would receive if they remained separate entities. The following overview covers a range of granting programs that have allocations that could be impacted by dissolution. Programs with considerations for dissolutions and restructuring have been highlighted:

- **Municipal Sustainability Initiative (MSI) / Local Government Fiscal Framework (LGFF)** – In the event of municipal restructuring, the restructured municipality will receive the equivalent allocation of MSI for a subsequent five years (or until the end of the MSI program).[9] However, MSI is ending and transitioning to the new LGFF. Municipal Affairs did indicate that the treatment of restructured municipalities is not anticipated to change as the province moves to the new *LGFF Act*.[10]
- **Canadian Community-Building Fund (CCBF)**[11] – Currently CCBF is allocated on a per capita basis to municipalities with a minimum allocation of $50,000 per year. Restructuring does not negatively affect funding to restructured municipalities. Restructured municipalities will receive a funding allocation equivalent to what would have been calculated pre-restructuring for the subsequent five years of the program.
- **Fire Services Training Program (FSTP)**[12] – Currently $500,000 in grant funding is distributed to successful applicant organizations dependant on approved applicant scoring that can fluctuate based on the quality of training provided by the municipality, community resources, and community risks. Currently program guidelines do not specifically discuss the impact of restructuring on funding. However, restructuring would have impacts

6 *Municipal Government Act* (2023)[382.1]
7 *Municipal Government Act* (2023)[297.2]
8 *Municipal Government Act* (2023)[134.1]
9 MSI Program Guidelines (2022) [6.1]
10 Appendix A – Municipal Affairs Response
11 Canadian Community-Building Fund Program Guidelines (2022)
12 Fires Services Training Program Guidelines (2022 – 2023)

on availability of resources, and potentially community risks.

- **Policing Support Grant**[13] – This grant amalgamates the Municipal Policing Assistance Grant (MPAG), and the Police Officer Grant (POG). There is no indication of the impacts of Municipal Restructuring.
  - **MPAG**[14] – Under the MPAG urban municipalities with their own police service with a population greater than 5,000 but less than 16,666 receive a base funding amount of $200,000 and an additional $8 per capita (dollar value changes for municipalities with populations greater than 16,667 and for municipalities with populations greater than $50,000).
  - **POG**[15] – Municipalities with populations greater than 5,000 that provide their own police force are eligible for $100,000 per police officer
- **Basic Municipal Transportation Grant (BMTG)**[16] – Currently, the BMTG allocates grant funding to urban municipalities based on population, and to rural municipalities based on a distribution formula of: length of open roads, population, equalized assessment, and terrain. There is no indication of the impacts of municipal restructuring on BMTG funding in the program guidelines. However, restructuring of an urban / rural municipality into another type would impact the allocation factors for the absorbing municipality. BMTG will be replaced by LGFF pending its formal implementation.
- **Family and Community Support Services (FCSS) Program**[17] – Currently, funding is provided to municipalities based on population with a median income level adjustment each year programs receive adjusted funding based on a 2% increase in existing funding or a reapplication of the funding formula (whichever is higher). There is no indication of the impacts of municipal restructuring on FCSS funding.

Municipal Affairs Response

On June 8, 2023, the Rural Municipalities of Alberta (RMA) reached out to Municipal Affairs with a series of questions regarding the impact past dissolutions have had on rural municipalities. The following responses have been prepared for the RMA and Tantus Solutions Group to support the research project.

1. ***Will the new LGFF funding differ from MSI in any meaningful way regarding municipal restructuring, including extending funding post re-structuring for five years? The* LGFF Act *lacks clarity on municipal restructuring that was provided for the MSI program.***

The main objective of funding provided under the *Local Government Fiscal Framework (LGFF) Act* is to deliver infrastructure support to all local governments, while targeted funding for municipal restructuring continues to be delivered through the Alberta Community Program (ACP).

- Under the ACP, financial support is provided for projects associated with processes such as amalgamation, dissolution, and viability reviews through three streams: the Restructuring Study Stream, Transitional Stream, and Infrastructure / Debt Servicing Stream.

While administrative details of the LGFF program and the allocation funding formula have not yet been finalized, treatment of restructured municipalities is not anticipated to change significantly from the MSI.

- LGFF is expected to focus on ensuring that municipalities are not unduly punished for or disincentivized from going through the restructuring process, rather than duplicating provision of targeted restructuring funding, which is already available though the ACP.

Irrespective of the exact design of the LGFF allocation formula, rural municipalities will be compensated for the make-up of the dissolved urban municipalities when formula input factors are applied in the calculation of funding allocations post restructuring.

13 Policing Support Grant
14 Municipal Policing Assistance Grants to Urban Municipalities (2020 – 21)
15 Police Officer Grant Allocation to Municipalities (2019 – 2020)
16 Basic Municipal Transportation Grant (2013)
17 FCSS Handbook (2010) [5]

- For example, if a village dissolves and population is confirmed to be one of the formula components, the village's population will be added to the absorbing rural municipality's population, an approach that is implicitly used under the MSI as well.

2. Can you detail the full scope of municipal authorities to apply special, additional taxes to account for post-dissolution financial challenges? Are there specific limitations or requirements outside of what is outlined in Part 10 of the MGA?

Section 382 of the *Municipal Government Act* (MGA) lists the purposes that municipalities can and cannot implement a special tax. However, unlike local improvement taxes, special taxes are not petitionable and must be passed annually by a special tax bylaw.

In relation to section 297 of the MGA, municipal authorities can also implement assessment sub-classes to the main assessment classes. The main assessment sub classes are residential, non-residential, farmland, and machinery and equipment. Further details of assessment sub-classes can be found in the Matters Relating to Assessment Sub-Classes Regulation (Alberta Regulation 202 / 2017).

A council may by bylaw divide class 1 (residential) into sub-classes on any basis it considers appropriate, enabling a receiving municipality to impose a different residential tax rate for a new hamlet. Division of class 2 (non-residential) applies to the municipality as a whole.

Beyond Part 10, sections 134 and 135(4) of the MGA provide provisions for the Lieutenant Governor in Council to authorize additional taxes to cover excess liabilities or borrowing obligations through an Order in Council. Section 137(2) of the MGA allows for rights, obligations, liabilities, assets, and any other thing that the Lieutenant Governor in Council considers appropriate, to be dealt with in the order.

3. Are there any historical instances of ministerial discretionary funding being applied during the restructuring or post-dissolution process to account for unique or exceptional financial burdens? Does Municipal Affairs maintain discretionary funding that could address unique or exceptional restructuring situations?

The Strategic Initiatives component of the ACP program provides funding for short-term initiatives where the project outcomes are of ministry or provincial strategic significance. Funding provided under this component does not typically align with other program components within the ministry.

4. Are there any historical instances of absorbing municipalities raising concerns during the viability review process, including (but not limited to) issues with the rigor associated with the infrastructure assessment? How are such issues addressed in the current processes?

Receiving municipalities historically express concern during the viability review process with respect to:

- Debt and potential infrastructure costs;
- Service delivery not traditionally offered in a rural environment; and
- Concerns with administrative capacity.

Infrastructure Costs

- An infrastructure audit is required to be completed as part of the viability review process.
- Municipalities with limited administrative capacity in creating an RFP for the infrastructure audit are offered advisory support and tools such as the Guidebook for Procuring Services: Infrastructure Audits and associated Infrastructure Audit - Terms of Reference template. Review municipalities are encouraged to work with the potential receiving municipality when developing the RFP and reviewing proposal submissions.
- The infrastructure audit is funded by an ACP grant up to a maximum of $120,000 as part of the process.
- The infrastructure audit must include:
  - An executive summary;
  - Identification and assessment of municipally owned infrastructure;
  - A prioritized action list with associated costs; and
  - A 10-year capital and associated operational plans based on the prioritized action list.
- The viability review report contains a section on infrastructure including identified projects found in the infrastructure audit along with comparative information on remaining a village or dissolving into a hamlet.
- Each receiving municipality is asked to analyze the information from the infrastructure audit and determine how the infrastructure deficit would be addressed and how it would

be funded should the review municipality dissolve into the receiving municipality. This information is included in the infrastructure section of the viability report for the review municipality.

- Infrastructure / debt servicing (post-dissolution) funding included in the ACP grant program supports upgrades to existing, municipal-owned capital infrastructure assets and equalization of any outstanding non-utility debt obligations of the dissolved municipality. Per the 2022 / 2023 ACP program guidelines, the total amount available following the effective date of the restructuring, is a base amount of $500,000 plus $1,500 per capita (to a maximum of 300 persons per municipality) for each dissolving municipality. This works out to maximum available funding in the amount of $950,000.

Service Delivery

- The viability review report includes content focused on services along with comparative information.
- Comparative information is a potential picture, based on information provided in the review process, on remaining a village and implementing changes to achieve viability, or dissolving and becoming a hamlet in the potential receiving municipality.
- Comparative information may include what services may or may not continue, if service delivery may need to be modified, if fees may be required or increased to see cost recovery, potential impacts on duplicated services and facilities, and any other significant changes that may be identified.

Administrative Capacity

- The viability review report contains a section on administration and operations along with comparative information on how those may be affected if the community remains a village or dissolves into a hamlet.
- Transitional (post-dissolution) funding related to integration of administration, governance, and legislation of the dissolved municipality is included in the ACP grant program. Per the 2022 / 2023 ACP program guideline, the total amount available following the effective date of the restructuring is a base amount of $100,000 plus $500 per capita (to a maximum of 300 persons per municipality) for each dissolving municipality. This works out to

maximum available funding in the amount of $250,000.

5. ***Does Municipal Affairs currently maintain data or information on the post-dissolution process beyond the reporting all municipalities are required to submit annually? If so, what type of information is gathered and how is it used?***

Municipal performance indicators measure specific aspects of each municipality's governance, finances, and community. Information used to calculate the indicator data comes from submitted financial statements and information returns, municipal election results, municipal censuses, and when ministerial intervention is required. These indicators evaluate the current and long-term finances of a municipality, examine whether a municipality is investing in maintaining infrastructure critical to the health and safety of residents, and assesses the ability of the municipality to provide services desired by the community.

If the municipality does not meet the indicator benchmark for being 'not at risk', the municipality is encouraged to review the circumstances giving rise to the indicator results to ensure it is not exposed to potential or emerging risks. Multiple indicator benchmark exceptions may indicate an increased concern for exposure to potential or emerging risks. In cases where multiple exceptions are identified, the ministry will offer advisory supports to the municipality.

In December 2021, Municipal Affairs engaged KPMG to independently evaluate the ministry's municipal viability review process. Information was collected through a stakeholder engagement process that included digital surveys, focus groups, and interviews. Stakeholders engaged included residents of the municipalities that went through a viability review, officials and administration of municipalities reviewed, and participating and neighbouring municipalities.

The resulting report, completed in March 2022, identified opportunities for improvement for the ministry to consider in order to increase stakeholder engagement in and support for the review process, help residents to make informed voting decision, manage stakeholder expectations, and support a smooth transition following the viability review.

6. ***Does Municipal Affairs provide specific guidance, expectations, or direction to absorbing municipalities after the dissolution process?***

Engagement of the potential receiving municipality occurs early in and during the process including:

- Offering meetings with both the council and CAO of the potential receiving municipality to introduce the process, answer questions about the process, and to identify initial concerns.
  - Gathering input from the potential receiving municipality focuses on information collection for building comparative information within the viability review report but also assists in identifying potential areas of concern regarding viability of the review municipality or potential challenges if the review municipality were to dissolve.
- Additional support as requested. It is important note, the amount of support requested varies between the rural municipalities following dissolution of a municipality to become a hamlet.

The ministry is enhancing existing post-review supports as well as developing new supports based on key findings from the KMPG report such as:

- Administrative checklists and advisory support following a vote in favour of dissolution;
- Peer network to connect CAOs with CAOs of completed viability reviews;
- Regular check-ins from advisors with administration;
- Transition toolkit that includes best practices;
- Support of an Official Administrator when needed;
- Exit interviews with CAOs and elected officials; and
- Residents post-review survey.

7. ***Has Municipal Affairs ever explored introducing ongoing, post-dissolution funding support programs to address systemic financial issues arising from restructuring? If yes, what challenges have impacted their adoption?***

Municipal Affairs periodically reviews municipal grant programs to ensure they remain responsive to the needs of municipalities.

Appendix B: Case Study Interview Summaries

As noted, the third phase of work involved detailed interviews with each participating municipality. Interview questions ranged from the absorbing municipality's history and relationship with the dissolving community, to qualitative information on the types of infrastructure, administrative and service / operational costs, challenges, and issues faced during dissolution. The participants included CAOs, who were also encouraged to include members of their management team who experienced the dissolution. Some participants had been involved with multiple dissolutions over their tenure, and were asked to compare experiences between past, and more recent dissolutions. The participants were:

ABSORBING MUNICIPALITY	DISSOLVING MUNICIPALITY	DATE OF DISSOLUTION
Parkland County	Village of Wabamun (and Entwistle)	January 1, 2021
Camrose County	Village of Ferintosh (and New Norway)	January 1, 2020
MD of Willow Creek	Town of Granum	February 1, 2020
MD of Greenview	Town of Grande Cache	January 1, 2019
County of Grande Prairie	Village of Hythe	July 1, 2021

Upon completion of the interviews, we engaged the representatives to complete a detailed workbook to capture key financial information associated with the dissolution process and the impacts on the community and organization post-dissolution. Once initial information was compiled, we worked with the representatives to review the information until they were reasonably comfortable with the information, at least within the limitations of the analysis.

This section provides an overview of the results of the interviews and workbook processes.

Data Sources Leveraged

Financial information in this report has been collected from a number of sources including:

- An information workbook collected from each of the identified absorbing municipalities.
- A 2-hour post-dissolution discussion with each of the identified absorbing municipalities.

- Public Municipal Financial and Statistical Data (MFIS) collected for the dissolved and absorbed municipalities from the fiscal year prior to dissolution.
- Publicly available viability reviews for each of the identified dissolved municipalities

Assumptions and Disclaimer

Based on the nature of the work, there are a number of key assumptions that have been made. Assumptions include:

- Municipal workbooks accurately include all revenue and expense impacts (one-time and ongoing) from dissolution (where possible), though some potential data challenges existed for:
  - Specific information on if and to what extent special levies have been implemented to raise funds beyond base mill rate changes.
  - Specific information to confirm the infrastructure liabilities expected and identified. Some figures were collected from case study interviews or viability review reports but not reflected in workbooks.
  - Specific information on ongoing non-staffing costs. It appears many non-staffing operating costs, including materials and equipment, are missing from ongoing figures.
- Municipal information workbooks were interpreted and completed consistently between identified municipalities.
- Municipal Financial and Statistical Data (MFIS) accurately reflected the state of each municipality (dissolved and absorbing) at dissolution.

Future property tax revenues were based on an applied formula to apply new mill rates onto the previous assessment base of dissolved communities based on an absence of community level tax or assessment information from case study participants.

There are also recommended cautions to the use of this information, even with the review and clarification process undertaken with the participants. Most notably, the participants noted that in many cases, financial information regarding the dissolved community was hard to separate, particularly after the first year of operations post-dissolution. **It is widely expected that high-level estimates were used by case study participants to determine costs of dissolutions**, or that costs occurring in subsequent years were simply excluded from consideration. **In either case, the true cost values of dissolution could vary from what is presented here.**

In a similar caution, it appears that many case study participants were **unable to capture the true ongoing cost of operations that were absorbed, and instead focused on more obvious net-new cost areas**. As an example, a case study participant may have noted the cost of a new peace officer position, as that hiring decision was specifically tied to the dissolution process, but may not have captured the more subtle increase of operations costs that resulted in additional materials, other consumables, contract services, and increased hiring since dissolution. Again, **there is a strong chance that the true cost of dissolution has been understated in these figures**.

In all cases of caution, these limitations highlight the need for Municipal Affairs to engage in a more active monitoring program to better determine the true impacts of dissolution.

Camrose County – Village of Ferintosh

Overview

The Village of Ferintosh was dissolved on January 1, 2020, becoming a part of Camrose County. While dissolution was promoted by residents of the community (who ultimately voted to dissolve), Ferintosh's active council was not favourable to dissolution. Ultimately, dissolution occurred but without collaboration from the outgoing council, largely leaving the county unaware of potential administrative, legal, or contractual issues and obligations.

Overall, Camrose County felt the dissolution was satisfactory. However, following the dissolution, the county identified additional infrastructure liabilities beyond what was identified in the infrastructure study. In addition, the county noted significant concerns regarding the limited levels of mandated engagement between absorbing administration and dissolving residents. Specifically, a recent (non-successful) viability review within the county's borders involved a much more confrontational approach, where the county was 'locked out' of engagement with dissolving residents during the viability review process.

Key Themes / Issues

- As the outgoing Ferintosh council was uncooperative throughout the dissolution process, the county had little opportunity to proactively prepare for dissolution.
- There were significant issues identified with water and wastewater systems within the village that were not captured during the infrastructure component of the viability review.
- The county's pre-existing Hamlet Servicing Strategy alleviated some issues around urban / rural service delivery by providing easy-to-implement service level and service expectations for urban residents. This was due to the large number of hamlets already in the county.
- Staff from the village were not retained and all operations were absorbed into the county, leading to slightly reduced service levels for all residents across the county.
- The county had no input on the engineering firm selected to perform the infrastructure study. The chosen firm had worked with the village extensively and had a close personal relationship with Ferintosh council.
- The county noted concerns regarding the lack of guaranteed access to information prior to dissolution.
- The county expressed interest in having mandated supports to assist throughout the dissolution process.

Financial Analysis – Dissolution Financial Impacts

COMMUNITY PROFILE			
Date of Dissolution:	1-Jan-20		
# of Fiscal Years since Dissolution:	3		
Population:	202		
Dwellings:	113		
Annual Grants and Transfers Revenue:	$220,317		
Pre-Dissolution Franchise Fees:	$-		
	Pre- Dissolution	**Post-Dissolution**	**Change**
Change in Property Tax Revenue:	$130,976	$81,342	-$49,634
Viability Study Infrastructure Deficit:	$2,290,100	$2,600,000	$309,900
Residential Mill Rate:	7.1	3.38	-52%
Non-Residential Mill Rate:	7.1	14.4	103%
Utility Rates:	Garbage collection $17.25Basic Monthly Water $30.00, Water consumption $5.25 per cube, Wastewater usage $1.50 per cube	2020 Garbage Collection rate $20.75, Basic Wastewater Monthly Charge $30.00, Sewer Usage Rate $2.58, Basic Water monthly charge $30,Water Consumption Rate $5.15 = monthly bill approximately $100 - 125 inclusive of all utilities	Neutral

AREAS OF FINANCIAL BENEFIT FROM DISSOLUTION				
Financial Benefits	**Upon Dissolution**	**Category**	**Benefit to Date**	**Comments/Assumptions**
Net Municipal Property Tax:	$81,341.64	Ongoing	$244,025	Pre-dissolution annual tax revenue was split into a ratio of Residential) vs Non Residential Assessment Ratios. Each ratio of annual tax revenue was modified by the change in residential and non-residential mill rates
Reserves:	$494,987.00	One-Time	$494,987	Excludes share of West Dried Meat Lake Reserves
Facility Revenue:	$10,000.00	Ongoing	$30,000	Lease facility revenue
Provincial Grant Funding:	$800,000.00	One-Time	$800,000	ACP/MSI grant funding
Contract/Support Savings:	$58,295.00	Ongoing	$174,885	West Dried Meat Lake dividend payment, Planning Service Contract, Protective Services Contract, Utility Service Assistance, Regional Fire Services
FINANCIAL EXPENSES OF DISSOLUTION				
Financial Expenses	**Upon Dissolution**	**Category**	**Expenses to Date**	
High Priority Infrastructure:	$2,600,000.00	One-Time	$2,600,000	Utilities repair and renewal, Facility demolition/disposal, Road/ Sidewalk Renewal
Internal Staff Cost (One-Time):	$153,500.00	One-Time	$153,500	Infrastructure Repair and Renewal, inventory, maintenance, disposal, keys, paperwork, Policy, Bylaw and Records issues
Internal Staff Cost (Ongoing):	$20,000.00	Ongoing	$60,000	Public works, Utilities, Transporation staff
Contract Cost (One-Time):	$-	One-Time	$-	
Contract Cost (Ongoing):	$5,000.00	Ongoing	$15,000	Public works, Utilities, Transporation support
Direct Service Investment (One-Time):	$-	One-Time	$-	
Direct Service Investment (Ongoing):	$76,500.00	Ongoing	$229,500	Annual investment in Public Works, Utilities, Transportation, Recreation, Culture, FCSS
Debt taken on:	$-	One-Time	$-	

NET BENEFIT/EXPENSE			
	Dissolution Specific	**Ongoing Annual Net Benefit/Expense**	**Calculated Total to Date**
Financial Benefits:	$1,444,624	$149,637	$1,743,897
Financial Expenses:	$2,855,000	$101,500	$3,058,000
Net Benefit/Expense:	-$1,410,376	$48,137	-$1,314,103
Expected Payback Period (Years):	27		

Parkland County – Village of Wabamun

Overview

The Village of Wabamun was dissolved on January 1, 2021, becoming a part of Parkland County. The outgoing Wabamun council was strongly in favour of dissolution, leading to a collaborative and open viability and dissolution process. Both municipalities agreed to form an intermunicipal collaboration committee to guide the review process further solidifying collaboration.

The committee, as well as an interim CAO position in Wabamun (funded by the county), resulted in significant access and engagement for Parkland County throughout the process. This allowed the county to proactively prepare for dissolution and ease the transition for staff of both municipalities and village residents. Overall, the county experienced a successful dissolution.

Key Themes / Issues

- Parkland County and Wabamun collaborated beyond the extent mandated by the traditional viability and dissolution process.
- The county felt that short-term ACP funding was sufficient to support the transition but identified a need for additional long-term funding to address infrastructure issues identified post dissolution.
- The county identified that the viability review process did not identify ongoing legal issues.
- The county was relatively prepared to deliver services to an urban node due to the existence of other hamlets within the county. However, the village did add several net new services to the county (spray park operations and maintenance, boat launch operations and maintenance).
- The addition of a tourism node to the county was identified as a significant benefit.
- The county placed significant emphasis on the value of the interim CAO and Collaboration Committee for future dissolutions.
- The county noted significant administrative effort to harmonize the village's Land Use Bylaw and digitize village records.

Financial Analysis – Dissolution Financial Impacts

COMMUNITY PROFILE			
Date of Dissolution:	1-Jan-21		
# of Fiscal Years since Dissolution:	2		
Population:	682		
Dwellings:	303		
Annual Grants and Transfers Revenue:	$928,225		
Pre-Dissolution Franchise Fees:	$-		
Financial Profile	**Pre- Dissolution**	**Post-Dissolution**	**Change**
Change in Property Tax Revenue:	$824,920	$443,278	-$381,642
Viability Study Infrastructure Deficit:	$4,631,269	$21,555,600	$16,924,331
Residential Mill Rate:	7.5	4.1	-45%
Non-Residential Mill Rate:	16	8.1	-49%
Utility Rates:	Water Monthly (Res): $60; Water Consumption $3.90 per cube; Wastewater Monthly: $22 Wastewater Usage: N/A	Water Consumption: 3.90 per cube; Water Monthly (Res): $60; Wastewater Monthly: $22 Wastewater Usage: N/A	Neutral

AREAS OF FINANCIAL BENEFIT FROM DISSOLUTION			
Financial Benefits	**Upon Dissolution**	**Category**	**Benefit to Date**
Net Municipal Property Tax:	$443,278	Ongoing	$886,556
Reserves:	$3,767,363	One-Time	$3,767,363
Facility Revenue:	$-	N/A	$-
Provincial Grant Funding:	$1,200,000	One-Time	$1,200,000
Contract/Support Savings:	$-	Ongoing	$-
FINANCIAL EXPENSES OF DISSOLUTION			
Financial Expenses	**Upon Dissolution**	**Category**	**Expenses to Date**
High Priority Infrastructure:	$21,555,600	One-Time	$21,555,600
Internal Staff Cost (One-Time):	$279,660	One-Time	$279,660
Internal Staff Cost (Ongoing):	$500,880	Ongoing	$1,001,760
Contract Cost (One-Time):	$35,850	One-Time	$35,850
Contract Cost (Ongoing):	$-	N/A	$-
Direct Service Investment (One-Time):	$1,140,430	One-Time	$1,140,430
Direct Service Investment (Ongoing):	$-	N/A	$-
Debt taken on:	$-	N/A	$-
NET BENEFIT/EXPENSE			
Dissolution Specific		**Ongoing Annual Net Benefit/Expense**	**Calculated Total to Date**
Financial Benefits:	$5,410,641	$443,278	$5,853,919
Financial Expenses:	$23,512,420	$500,880	$24,013,300
Net Benefit/Expense:	-$18,101,779	-$57,602	-$18,159,381
Expected Payback Period (Years):	N/A		

MD of Greenview – Town of Grande Cache

Overview

The Town of Grande Cache was dissolved on January 1, 2019, becoming a part of the MD of Greenview. The town had a history of significant financial issues including struggles to maintain operations and payroll. The MD had been providing significant support to Grande Cache through the Community Development Initiative (CDI) agreement funding to support the town's viability.

The viability process was an "expedited review", leaving limited opportunity for engagement during the process. The county had little opportunity to proactively plan for dissolution due to limited engagement and access provided after the successful viability review. The dissolution and viability process provided several challenges for the MD, and the financial impacts of dissolution have significantly altered the MD's financial performance.

Key Themes / Issues

- The MD has experienced significant issues regarding the infrastructure of the community. It was indicated that the town had prioritized social, recreation, and community-centric investments over core infrastructure maintenance. Significant investment was, and continues to be, required to align equipment and capital to MD standards.
- The MD felt the viability process focused too heavily on financial statements with little consideration for standards or physical conditions. The expedited process exacerbated this lack of focus on infrastructure assessment.
- The town had limited records to back up financial information. Records in the town were entirely paper based and improperly stored, leading to significant damage.
- The physical distance between the community and MD offices created change management issues, which were exacerbated by challenges with technology compatibility and even road condition and maintenance issues.
- MD CAO turnover created change management issues. It was noted that the rural partner is often assumed to be stable and without its own issues during the dissolution process, but this is not always the case.
- A lack of planning expertise in Grande Cache led to ongoing land management issues was emphasized, but a general lack of 'back-office' administrative expertise was noted across multiple functions.
- The size of the town upon dissolution required the MD of Greenview to inherit multiple new urban services and urban service standards. The MD inherited a large staffing compliment and noted significant challenges merging two different work cultures.
- The MD noted the benefits of inheriting a potential tourism node.
- The MD identified significant value in a provincially provided project management expert to guide the dissolution process.

Financial Analysis – Dissolution Financial Impacts

COMMUNITY PROFILE				
Date of Dissolution:	1-Jan-19			
# of Fiscal Years since Dissolution:	4			
Population:	3571			
Dwellings:	1826			
Annual Grants and Transfers Revenue:	$5,889,000			
Pre-Dissolution Franchise Fees:	$644,014			
Financial Profile	**Pre- Dissolution**	**Post-Dissolution**	**Change**	
Change in Property Tax Revenue:	$4,904,654	$3,325,089	-$1,579,565	
Viability Study Infrastructure Deficit:	N/A*	143269300.00	N/A	* (Previous Town Infrastructure Assessment in 2016 estimated $62.9 million in critical infrastructure and 35 million in non critical)
Residential Mill Rate:	9.0	7.12	-21%	
Non-Residential Mill Rate:	19.5	7.828	-60%	
Utility Rates:	water 1.610 per m3 to 1.85 per m3 and sewer .98 per m3 to 1.00 per m3	water 3.50 per m3 to 4 per m3, sewer 1.25 per m3 with minimum	Increased	

* Due to the expedited nature of the Viability Review, an Infrastructure Assessment was not completed as part of the review. A previous Town Assessment completed in 2016 identified $62.9 million of critical infrastructure repairs required within 10 years, and $35 million in noncritical repairs required within 20 years.

** This figure includes all current and future renewal work identified across a range of asset types, including: Water Storage, Gravel Pit, Pump House Demo. And Replacement, Sewer Pipes, Asbestos Pipe Removal, Airport Removal, Landfill closure, and Emergency Fleet additions. Notably it also includes asset retirement obligation liability amounts.

AREAS OF FINANCIAL BENEFIT FROM DISSOLUTION				
Financial Benefits	**Upon Dissolution**	**Category**	**Benefit to Date**	**Comments/Assumptions**
Net Municipal Property Tax:	$3,325,089	Ongoing	$13,300,357	Pre-dissolution annual tax revenue was split into a ratio of Residential vs Non Residential Assessment Ratios. Each ratio of annual tax revenue was modified by the change in residential and non-residential mill rates
Reserves:	$2,900,000.00	One-Time	$2,900,000	Note: MFIS reported reserves were $3.75 million, but the cash had been drawn down from that figure by the time of dissolution
Facility Revenue:	$464,744.00	Ongoing	$1,618,811	Provided by M.D. as direct figures - does not utilize same 4 year multiplier as other calculations
Provincial Grant Funding:	$3,300,000.00	One-Time	$3,300,000	Note: Partial Grant was obtained by the County for Master Plan Study, but was not tied to dissolution
Contract/Support Savings:	$2,700,000.00	Ongoing	$10,800,000	Represents the average $ transferred (pre-dissolution) to the Town prior to dissoluction, including through the M.D. CDI funding transfers, which are no longer required.
FINANCIAL EXPENSES OF DISSOLUTION				
Financial Expenses	**Upon Dissolution**	**Category**	**Expenses to Date**	
High Priority Infrastructure:	$143,269,300	One-Time	$143,269,300	For a range of projects already taken on, identified and planned, and asset retirement obligations for: Water Storage, Gravel Pit, Pump House Demo, Sewer Pipes, Asbestos Pipe Removal, Airport Removal, Landfill closure, and Emergency Fleet additions. Total borrowing by the M.D. to date has been over $40 million for high priority infrastructure
Internal Staff Cost (One-Time):	$1,496,400	One-Time	$1,496,400	Costs related to Fleet and Equipment Repair and Renewal, Policy, Bylaw and Records issues and/or harmonization, taking on existing staffing, finance, technology and daily administration issues
Internal Staff Cost (Ongoing):	$13,234,862	Ongoing	$52,939,448	2019 Grande Cache Operating Budget + CPO Staff cost estimate
Contract Cost (One-Time):	$-	One-Time	$-	
Contract Cost (Ongoing):	$-	Ongoing	$-	
Direct Service Investment (One-Time):	$11,192,100	One-Time	$11,192,100	Community Centre, and other direct investments in public works/utilities/road operation services, protective services, parks, cemeteries, Recreation, Culture, FCSS, upgrades to IT infrastructure, policy and record harmonization, and outstanding legal issues
Direct Service Investment (Ongoing):	$-	Ongoing	$-	
Debt taken on:	$2,611,932	One-Time	$2,611,932	Note: this section only accounts for Debt previously held by the Town. As noted, significant new debenture has been required by the M.D. for infrastructure work.

NET BENEFIT/EXPENSE			
	Dissolution Specific	**Ongoing Annual Net Benefit/Expense**	**Calculated Total to Date**
Summary Areas of Financial Benefit:	$12,689,833	$6,489,833	$31,919,168
Summary Financial Expenses:	-$171,804,594	-$13,234,862	-$211,509,180
Net Benefit/Expense:	-$159,114,761	-$6,745,029	-$179,590,012
Expected Payback Period (Years):	N/A		

MD of Willow Creek No. 26 – Town of Granum

Overview

The Town of Granum was dissolved on February 1, 2020, becoming a part of the Municipal District (MD) of Willow Creek No. 26. The town had a long history of sustainability concerns with multiple viability reviews and sustainability challenges over the past decade. The last viability review was triggered due to multiple vacancies on town council, leading to the appointment of a Special Administrator.

The appointment of a Special Administrator gave the MD a high level of engagement and significant access to town information after the vote to dissolve, prior to dissolution. This access was critical to proactively prepare for dissolution.

Key Themes / Issues

- The Special Administrator appointed by Municipal Affairs prior to dissolution assisted the transition and was valued by the MD.
- A special levy on the former town was instituted to raise funds to resolve identified infrastructure liabilities.
- The MD noted significant gaps in historic town information, including finance and records.
- The MD noted the lack of environmental assessments and ongoing legal issues as components of the viability review.
- The MD felt the viability process focused too heavily on financial statements with little consideration for standards or physical conditions.
- The town had undergone numerous viability reviews and was struggling with sustainability for a long time.
- The MD noted the benefits of inheriting an urban node along a major transportation corridor.
- In recognition of the significant infrastructure deficit at the time of dissolution, the MD implemented a special tax to fund infrastructure replacement and repair in the Hamlet of Granum, and was valued at the difference between the Town of Granum residential mill rate and the MD residential mill rate at the time of dissolution.

Financial Analysis – Dissolution Financial Impacts

COMMUNITY PROFILE			
Date of Dissolution:	1-Feb-20		
# of Fiscal Years since Dissolution:	3		
Population:	406		
Dwellings:	205		
Annual Grants and Transfers Revenue:	$514,703		
Pre-Dissolution Franchise Fees:	$-		
Financial Profile	**Pre- Dissolution**	**Post-Dissolution**	**Change**
Change in Property Tax Revenue:	$402,102	$370,750	-$31,352
Viability Study Infrastructure Deficit:	$6,993,000	$7,068,000	N/A
Residential Mill Rate:	10.8	3.06 (plus levy)	Levy included to offset base reduction
Non-Residential Mill Rate:	18.0	14.4	-20%
Utility Rates:	2.00m3	2.50m3	Increased

AREAS OF FINANCIAL BENEFIT FROM DISSOLUTION				
Financial Benefits	**Upon Dissolution**	**Category**	**Benefit to Date**	**Comments/Assumptions**
Net Municipal Property Tax:	$370,750	Ongoing	$1,112,250	Pre-dissolution annual tax revenue was split into a ratio of Residentialvs Non Residential Assessment Ratios. Each ratio of annual tax revenue was modified by the change in residential and non-residential mill rates. Special Tax bylaws in 2020 and 2021 raising $235,000 each, and are anticipated to continue
Reserves:	$470,000	One-Time	$470,000	
Facility Revenue:	$911,002	One-Time	$911,002	
Additional Grant Funding:	$770,000	One-time	$770,000	Totalled 1,670,000 for stormwater work - had been 900k and negotiated an increase of $600K. Also Gas tax and MSI.
Contract/Support Savings:	$1,371,400	One-Time	$1,371,400	
FINANCIAL EXPENSES OF DISSOLUTION				
Financial Expenses	**Upon Dissolution**	**Category**	**Expenses to Date**	
High Priority Infrastructure:	$6,943,000	One-Time	$6,943,000	Waterline Loop, sanitary extension, tri-services facility, Road and Sidewalk repair and renewal, Garbage Truck and Garbage Cans
Internal Staff Cost (One-Time):	$185,000	One-Time	$185,000	Infrastructure repair and renewal, Staffing, finance, technology and daily administration issues
Internal Staff Cost (Ongoing):	$1,398,219	Ongoing	$4,194,657	100% of Town operating costs absorbed by the MD, including costs to absorb 1 FTE
Contract Cost (One-Time):	$-	N/A	$-	
Contract Cost (Ongoing):	$-	N/A	$-	
Direct Service Investment (One-Time):	$324,400	One-Time	$324,400	Legacy issues for: Utility Bylaw, Land Use Bylaw, Legal, Human Rights (prior to dissolution), Wrongful dismal (prior to dissolution), staffing, finance, administration
Direct Service Investment (Ongoing):	$-	N/A	$-	
Debt taken on:	$-	N/A	$-	

NET BENEFIT/EXPENSE			
	Dissolution Specific	**Ongoing Annual Net Benefit/Expense**	**Calculated Total to Date**
Financial Benefits:	$3,893,152	$370,750	$4,634,652
Financial Expenses:	$8,850,619	$1,398,219	$11,647,057
Net Benefit/Expense:	-$4,957,467	-$1,027,469	-$7,012,405
Expected Payback Period (Years):	N/A		

County of Grande Prairie – Village of Hythe

Overview

The Village of Hythe was dissolved on July 1, 2021. Outgoing Council of the Village of Hythe had made the dissolution study a top priority for a number of years. This resulted in initial support by residents prior to dissolution and a standard level of engagement during the viability review. Prior to the viability review, the village recommended having an amalgamation study and not a dissolution study, and the county declined. The Village attempted to use the threat of dissolution as a tactic during ICF negotiations to leverage additional funding from the county. This may have been the county's perception. However, in discussions with county administration the village administration recommended a minimum $500,000 annual ICF contribution in order to keep the village sustainable.

While engagement during the viability review was 'typical,' following the vote to dissolve, the relationship between the village and county administration slightly soured due to misaligned expectations, perceptions, assumptions, and promises (real or perceived) to the employees and to the community set by the outgoing village council. From this point, the county was largely "locked out" of the village with minimal access or little engagement until the dissolution date as identified in the Ministerial Order. It should be noted that the viability review results were delivered by Municipal Affairs via web tools. The presenter was poorly prepared to answer the questions and did not have a hard copy on hand to direct public to a specific page of the review.

In addition, the outgoing council continued to engage in community financial decision-making prior to the vote to dissolve. It was communicated to the research team that they were advised by Municipal Affairs viability advisors to "proceed with business as usual". The village approved a significant 50-year debenture for a municipal-owned corporation during the viability review period. Most notably, the outgoing council approved termination and payouts to a number of key village administrative and finance staff prior to the dissolution date. The remaining staff members were successfully integrated into the county and significantly contributed to the transition.

A municipality considering dissolution should be as forthcoming as possible. It should own its challenges and shortcomings to make the transition as smooth as possible. While it was likely not intended, county councillors and staff felt like villains for even considering systems and procedures that also protected the county residents prior to dissolution. There were many questions and concerns about what dissolution would cost county taxpayers. Any and all verbal and contractual agreements between third parties, such as non-profit societies, school divisions, and private business, should be disclosed to the receiving municipality regardless of the cost or obligation during the viability review, which did not happen in this case.

Key Themes / Issues

- The outgoing village council made 'promises' (real or perceived) to residents about service and tax impacts that the county was not aware of and couldn't uphold, whereby souring the relationship. One example, was snow clearing expectations.
- The village did not want to conduct an additional infrastructure assessment due to the completion of a similar assessment several years earlier and attempted to remove the requirement from the viability review, but was unsuccessful.
- Departing village staff were given significant payouts by the outgoing council after the successful vote to dissolve. Lack of knowledge transfer made the transition more challenging.
- The infrastructure assessment missed major components and focused on operational assets while failing to account for other assets.
- The village used a number of water wells for its water system. The county was not aware that all wells were unlicensed under Alberta Environment regulations until after the dissolution.
- The lack of meaningful engagement by the county led to perceptions by some village residents that the county was a villain. The county speculates this was likely due to a lack of clarity and support in interpreting the viability review.
- The village poorly maintained contract records.
- The county was denied timely access to some of major infrastructure agreements (fiber) in the village that the county is now liable for.
- The county expressed interest in having mandated supports to assist throughout the dissolution process.
- Lack of decision-making trails (i.e., council minutes, bylaws, policies).

Financial Analysis – Dissolution Financial Impacts

COMMUNITY PROFILE			
Date of Dissolution:	1-Jul-21		
# of Fiscal Years since Dissolution:	2		
Population:	854		
Dwellings:	326		
Annual Grants and Transfers Revenue:	$1,168,564		
Pre-Dissolution Franchise Fees:	$-		
Financial Profile	**Pre- Dissolution**	**Post-Dissolution**	**Change**
Change in Property Tax Revenue:	$827,493	$825,953	-$1,540
Viability Study Infrastructure Deficit:*	$14,211,371	$30,000,000	$15,788,629
Residential Mill Rate:	8.2	8.2	0%
Non-Residential Mill Rate:	18.1	18	-1%
Utility Rates:	Water - 35, Sewer - 30, Garbage - 30 (Monthly for all)	Water - 35, Sewer - 30, Garbage - 30 (Monthly for all)	Neutral

AREAS OF FINANCIAL BENEFIT FROM DISSOLUTION				
Financial Benefits	**Upon Dissolution**	**Category**	**Benefit to Date**	**Comments/Assumptions**
Net Municipal Property Tax:	$825,953	Ongoing	$1,651,906	Pre-dissolution annual tax revenue was split into a ratio of Residentialvs Non Residential Assessment Ratios. Each ratio of annual tax revenue was modified by the change in residential and non-residential mill rates
Reserves:	$1,740,058	One-Time	$1,740,058	
Facility Revenue:	$102,498.89	One-Time	$102,499	Campground Fees and Land Sales
Provincial Grant Funding:	$950,000	One-Time	$950,000	
Contract/Support Savings:	$-	N/A	$-	
FINANCIAL EXPENSES OF DISSOLUTION				
Financial Expenses	**Upon Dissolution**	**Category**	**Expenses to Date**	
High Priority Infrastructure:	$28,212,028	One-Time	$28,212,028	Sewer Repair, SCADA system renewal, Road Assessment, Arena and Curling Rink Repairs, Fleet Equipment and Facilities Repair, FCSS Office Renovations, expected future infrastructure needs
Internal Staff Cost (One-Time):	$297,924	One-Time	$297,924	Finance staff effort, Parks Rec and Cemetery Finance/Admin costs
Internal Staff Cost (Ongoing):	$206,760	Ongoing	$413,520	1.5 new FTEs, additional fire services staff hours, increase in enforcement patrolling hours
Contract Cost (One-Time):	$360,000	One-Time	$360,000	Enforcement Services Unsightly Premises contract
Contract Cost (Ongoing):	$33,579	Ongoing	$67,158	Loss in Enforcement Revenue
Direct Service Investment (One-Time):	$1,755,365	One-Time	$1,755,365	Fire Services Direct Investment including Brush Truck, Freightliner Tender, PPE Extractor , Staffing, finance, technology and daily administration issues, Parks and Rec direct Service Investment, Temporary Records Support
Direct Service Investment (Ongoing):	$545,257	Ongoing	$1,090,514	Fire Services Ongoing Service Costs and operational needs, Increased FCSS service costs
Debt taken on:	$1,189,686	One-Time	$1,189,686	

NET BENEFIT/EXPENSE			
	Dissolution Specific	**Ongoing Annual Net Benefit/Expense**	**Calculated Total to Date**
Financial Benefits:	$3,618,510	$825,953	$4,444,463
Financial Expenses:	$32,600,599	$785,596	$33,386,195
Net Benefit/Expense:	-$28,982,089	$40,357	-$28,941,732
Expected Payback Period (Years):	717		