

Mackenzie Region Municipal Restructuring Project Viability Assessment

A report concerning the viability of a proposed new municipality in the
Mackenzie Region

November 2021



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Executive Summary

Project Overview

This assessment, prepared by Municipal Affairs in response to an elector petition received in 2019, considers the viability of a proposed new municipality formed in the Mackenzie region by combining the Town of Rainbow Lake with Wards 9 and 10 of Mackenzie County, and the viability of the remaining Mackenzie County.

Municipal Affairs has been pleased to collaborate with both Mackenzie County and the Town of Rainbow Lake and would like to recognize the time and effort both administrations put into the study as their input has been essential in reviewing the viability of the proposed municipality. The key areas reviewed include local governance, municipal services and operations, finances, assessment, and taxation.

This report assesses the proposal by naming the proposed future-state municipalities as Eastside (Mackenzie County Ward 1-8), and Westside (Town of Rainbow Lake and Wards 9 and 10).

Project Background

The petition to form a new municipality in the Mackenzie region was submitted in 2019 with the required 30 per cent+ signatures of residents of both wards 9 and 10 and Rainbow Lake. Before this submission, previous ministers had conducted information meetings with the councils of both municipalities as well as the neighbouring Town of the High Level. The *Municipal Government Act* (MGA) provides direction to the Minister prior to the formation of a municipality. Section 86(b) provides that the Minister must consider the viability, including the financial viability of:

- (i) the proposed municipality operating as a separate entity, and
- (ii) any remaining municipality continuing to operate as a separate entity, and
- (iii) any agreements on common boundaries.

Section 87(1) addresses public input during the proposed formation process and states that before a municipality is formed, the Minister:

- a) must invite comments on the proposed municipality from all local authorities that the Minister considers would be affected by the formation of the proposed municipality and from any other person the Minister considers necessary,
- b) must invite comments on the proposed municipality from the public,

- c) may conduct one or more meetings of the public to discuss the probable effects of the formation, and
- d) may hold a vote of those people who would be electors of the proposed municipality.

In early 2021, the Minister directed the ministry to conduct a Municipal Restructuring Project (MRP). The MRP consists of two phases, with the assessment of viability being stage one. Subject to the demonstrated viability of two municipalities per section 86(b) of the *MGA*, the Minister may proceed to stage two, which would include seeking public input of the proposal to form a new municipality, as required under section 87 of the *MGA*.

What is ‘Municipal Viability’?

Determining if a municipality is viable requires a clear and shared understanding of what is meant by ‘viability’. Section 3 of the *MGA* states that the purposes of a municipality are to:

- a) to provide good government,
 - a.1) to foster the well-being of the environment,
- b) to provide services, facilities or other things that, in the opinion of council, are necessary or desirable for all or a part of the municipality,
- c) to develop and maintain safe and viable communities, and
- d) to work collaboratively with neighbouring municipalities to plan, deliver and fund intermunicipal services.

For the purposes of this report, to be determined ‘viable’ a municipality must be able to fulfill its duties and responsibilities per the applicable legislation both financially and operationally within the reasonable expectations of existing circumstances.

The province undertook this project in response to a locally organized citizen petition; however, the province believes municipal governments and their elected councils are strongly suited to understand and govern over the municipal issues facing their communities. Therefore, Municipal Affairs has worked closely with the town and county to explore the proposal to identify impacts and considerations. The ministry remains committed to supporting sustainable, responsive, and accountable municipal governments, including ensuring the two future municipalities that could result from the proposed formation would be sustainable into the future.

Assessment Framework

Mackenzie County and the Town of Rainbow Lake provided the foundation for analysis by providing the necessary background information to assess the viability of the two proposed municipalities. Existing information reviewed and considered included governance, services, administration and operations, regional cooperation, infrastructure, and financial positions. The intention of the assessment was not to be prescriptive regarding implementation of new municipalities, but to determine if two such municipalities would be viable.

Conclusions

- 1) The Eastside municipality would not be financially viable without a combination of:
 - a. a significant residential and non-residential tax increase;
 - b. a significant reduction in costs and service levels; and
 - c. ongoing funding from the Westside municipality.
- 2) Restructuring will create a have/have not relationship between the two municipalities resulting in inequitable treatment of the majority of the population situated within Eastside.
- 3) The current economic volatility in the region threatens the stability of a municipal viability that would be heavily reliant on revenue sharing.
- 4) Due to the long-standing issues and conflict contributing to the current request, it may be appropriate for Municipal Affairs to lead the Eastside ward boundary review, if the restructuring were to proceed.

Restructuring Implications

A question that must be answered is how the requested formation impacts residents and addresses the stated rationale of equitable representation and control of linear taxation revenue. This assessment highlights some of the major issues that would need to be determined, as well as identifying the potential impacts on residents.

- There is currently no indication the formation would benefit residents in Westside, and it may possibly be detrimental to residents in Eastside.
- The issue of equitable representation extends to wards in what would be both Eastside and Westside, and would be without remedy through the proposed formation. Population distribution and the ward boundaries contribute to long-standing conflict. This would continue in both Eastside and Westside as the underlying conditions of population spread and revenue source remain unchanged.
- It is evident that the process of negotiating the details and implementing a transition would require significant time and associated costs.

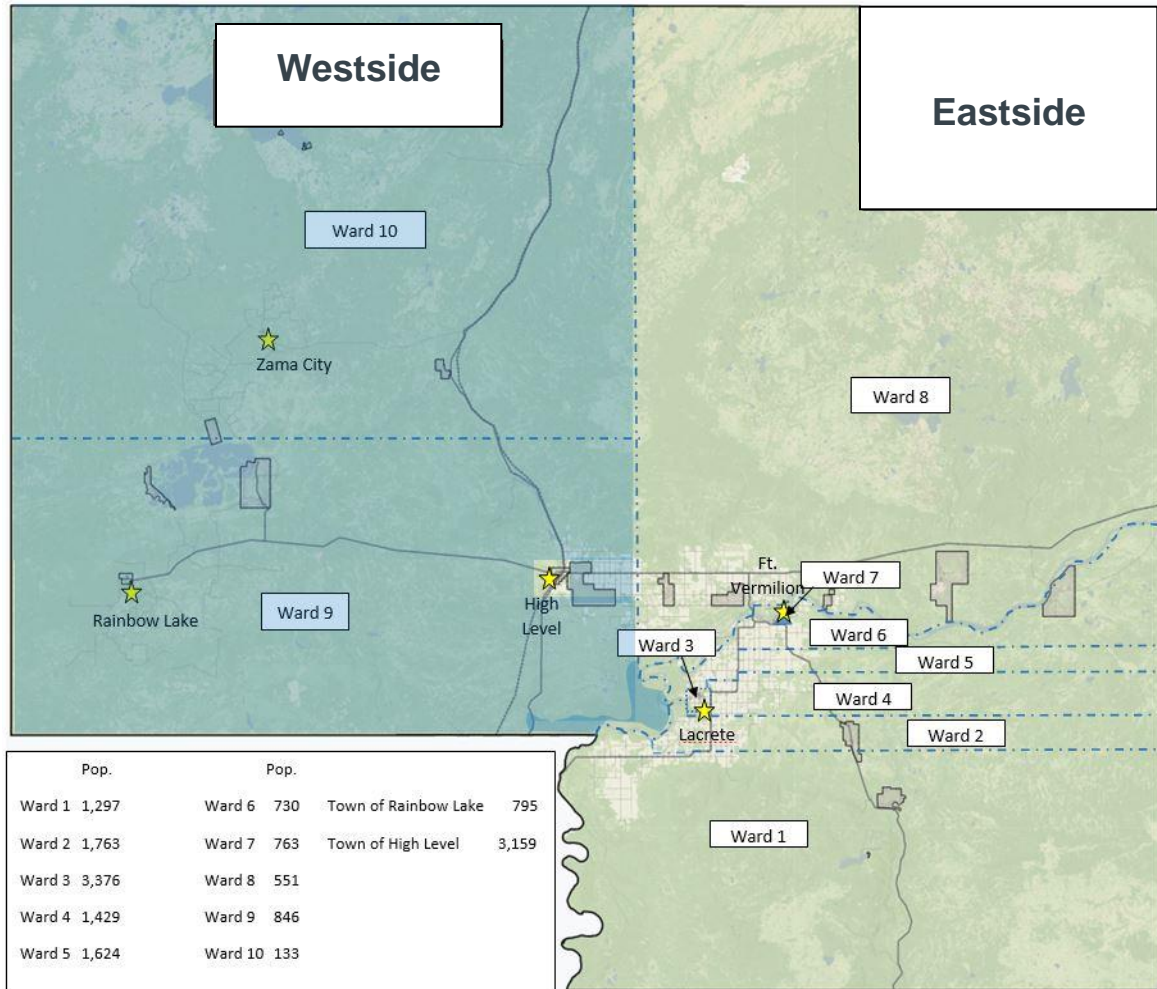
- While the transition of utility services could be achieved with minimal disruption of services to residents, the transition of utility invoicing and changes of municipal application processes is likely to cause frustration.
- There was little or no perceived gain in terms of service levels, and possibly a reduction in Eastside arising from the costs for the duplication of some services.
- Based on this review, financial viability for both municipalities can only be achieved with the imposition of an extra-ordinary revenue-sharing model by the province upon otherwise autonomous municipalities, and the increase of property taxes in Eastside.

Next Steps

The Minister will consider the results of the viability assessment and determine whether to grant the request to form a new municipality. If the Minister decides to proceed to stage two, Municipal Affairs would invite the elected officials of Mackenzie County and the Town of Rainbow Lake for detailed discussion and negotiation on agreements, dividing assets, and future governance models.

If and when the details of a formation are in place, the information will be made public and all residents will be asked for input. At such time, a final report will be prepared for the Minister's review and Cabinet's decision. Please note, moving to the public consultation stage should not be interpreted as a decision to proceed with a new municipal formation.

Municipal Backgrounds



Mackenzie County

Mackenzie County was incorporated as a municipality in 1995, and designated a *specialized municipality* in 1999. The county is larger than the province of New Brunswick, with a population of 12,512 (2018 Municipal Census).

The *specialized municipality* status for Mackenzie County was intended to address existing concerns of inequitable treatment and representation arising from the distribution of population (population is higher in the southern and eastern portions of the county).



The hamlets of Fort Vermilion (pop. 639), La Crete (pop. 3642), and Zama City (pop. 74¹) are urban service areas within the county. When oil and gas extraction was in full operation, Zama City had a larger residential population and number of temporary workers.



Mackenzie County operates a satellite administration and public works operations in Zama City, managing road maintenance and utility service. Local services include a library, community building, outdoor rink and campground. Mackenzie County also operates a satellite office in the Town of High Level two days a week.

A large rural population is located within 40 kilometres of the Town of High Level. The county has a long-term agreement with the Town of High Level to provide \$1 million annually in recognition of the recreation services from which county residents benefit. The county has a similar agreement with the Town of Rainbow Lake in recognition that its residents serve the industries in the adjacent county.

Mackenzie County elects councillors for each of its ten wards. The reeve is appointed from within council.

Town of Rainbow Lake

The Town of Rainbow Lake is an urban municipality serving the oil and gas industry in western Mackenzie County. Its official population is 795 (2016). The majority of residential housing units are rentals owned by local industry to house workers and their families. Rainbow Lake offers a full range of community services for residents: Community hall, public library, health and fitness club, seasonal curling sheets and an arena. The town operates the Rainbow Lake airport, as well as provides TV and internet services.

Five councillors are elected, the mayor is appointed from within council.



¹ Statistics Canada 2016 Census. Oil and gas sector closures have reportedly resulted in a decrease to less than 50 residents.

Assessment & Findings



Local Governance

Proposed Municipal Governance Structures

The viability assessment recommends that, if restructuring were to proceed, both Eastside and Westside would be formed as municipal districts, as there is no apparent rationale to be specialized municipalities. It is suggested that two councils consisting of seven representatives each could be elected for each of the two new municipalities. This would address the demographic changes while providing an odd number of councillors.

Westside Municipality

On the basis of voter parity and democratic representation by population, representation in the Westside municipality could reflect that three councillors should be elected from the urban area of Rainbow Lake, three councillors should be elected from the rural areas surrounding the Town of High Level, and one councillor should be elected from the current Ward 10. The reeve would be appointed from within council annually.

This assessment suggests that any concern from residents of Rainbow Lake regarding the loss of municipal autonomy would be expressed through the required public consultation phase.

From a financial perspective, it should also be noted that the municipal compensation projected in this assessment for Westside council members is based on current Town of Rainbow Lake levels.

Eastside Municipality

Again on the basis of voter parity and democratic representation by population, the Eastside municipality could be represented by seven councillors, which would require the creation of seven new wards. The reeve would be appointed from within council annually.

Many of the ongoing concerns within Mackenzie County stem from perceived imbalances in representation and meeting the needs of all residents. Effective representation through voter parity, as expressed by the Supreme Court of Canada, suggests electoral districts typically should be of equal population, with a variable of up to +/- 25 per cent to address population distribution within rural areas.

Ward boundaries would be expected to reflect the voter parity principle. Previous attempts by the county to address governance concerns have been unsuccessful, leading to long-standing regional tensions. It may be appropriate for any restructuring of wards within Mackenzie County be undertaken by the province to ensure voter parity and mitigate future regional conflicts.

Regional Involvement

The assessment notes that many of the regional bodies currently involving Mackenzie County representation would require participation from both Eastside and Westside councils, increasing costs for participation and membership.



*Regional Economic
Development Initiative
Northwest Alberta*



*Mackenzie Frontier
Tourist Association*



Services

Under the *MGA*, each municipality determines what services are delivered as well as the levels of service provided. Council may consult residents in making decisions about what constitutes necessary or desirable services. Council must also consider the costs, including infrastructure and replacement costs, and the available revenue sources (e.g., utility fees and taxes) to finance those services.

Municipalities are not required to provide any specific services, but often provide services such as water and wastewater management, roads, fire protection, and waste management. Services such as water or waste management are provided more often in urban than in rural municipalities. Municipalities may also join with one or more municipalities to create a regional service commission that jointly provides water, wastewater, waste, emergency, or other services to its municipal members.

The effective delivery of services and the setting of utility rates (fees for service) based on a full-cost recovery model are crucial to the operations of a municipality. In addition to utility services, the municipality may also provide such services as emergency and fire, bylaw enforcement, and snow removal. These costs are often accounted for in the general municipal property tax rate rather than an associated fee-for-service.



Zama Fire Rescue in Mackenzie County

The viability assessment is predicated on current service levels. This does not preclude service reviews and alternate service delivery, should a council undertake these in the future. For example Westside agricultural services could be conducted by Eastside under a fee-for-service agreement.

One noteworthy item is that Westside anticipates operating the Zama City library as part of the Peace Library System, in line with the Rainbow Lake library.

Economic Development

Within the parties involved there are differing understandings of what economic development activity is, ranging from general promotion, to participation on regional bodies, to targeted discussions with business stakeholders, to providing financial incentives and seed money to attract new businesses.

Economic development strategies undertaken by the Town of Rainbow Lake and Mackenzie County have focused on railway upgrades, geothermal exploration, a caribou migration project, regional economic development partnerships and tourism, and an industrial park within Rainbow Lake.

Some proponents of the new formation suggest that one outcome would be an increased focus on municipally driven economic development in Westside, with special attention to resource extraction. It must be noted that the level of municipal economic development activity would be at the discretion of the elected councils. The financial viability projected later in this assessment does not include increased expenses arising from increasing municipal economic development activity.



Municipal Library in the Hamlet of La Crete



Administration & Operations

Municipal administration implements the policy and directions of council. Councillors, including the mayor or reeve, are not permitted to undertake administrative functions. All municipalities in Alberta must appoint a chief administrative officer (CAO) who is responsible for all municipal operations.

The CAO advises and informs the council on the operations and affairs of the municipality and implements, or directs staff to implement policies and programs. Many administrative functions require specialized training, skills, and/or certification. Investing in professional development and training of the CAO and staff is central to effective municipal operations and service delivery. Diverse functions for the administration of a municipality include: general administration (implementing policies and procedures), governance processes (supporting council), property assessment and taxation, budgeting and accounting, payables and receivables, audit and legal functions, risk management, occupational health & safety, public relations, election processes, and public works (such as maintaining water and wastewater systems).

The municipal operations Westside would be based out of the current municipal facilities in the Town of Rainbow Lake and Hamlet of Zama City, while those in the Eastside would be maintained out of the current facilities located in the Hamlet of Fort Vermilion and the Hamlet of La Crete.



Mackenzie County Community Building in Zama City

Municipal Staffing

It is important to note that this assessment does not address specific changes to any existing positions in Mackenzie County or Rainbow Lake. Discussions about and with impacted employees would need to be undertaken if restructuring is undertaken.

Employees would continue to be governed by provincial labour standards and existing contracts. The Town of Rainbow Lake operates with 10.5 full-time equivalent (FTE) positions, a decrease from 13 in 2016 due to financial restrictions. The staffing decrease is attributed to revenue decreases resulting from the impact on tax revenues from the downturn in the oil and gas sector. Workload requires employees to function across different business functions including municipal administration, airport, cable/internet utility, etc.

The municipality's remote location has required higher than average compensation and benefits to attract and retain qualified employees. Benefits included housing and utility subsidies.

Mackenzie County has 92 employment positions, including seasonal staff, working within a unionized environment. Three positions are located in Zama City. Several employees based in Fort Vermilion and La Crete regularly provide public works (e.g., roads, water, building/equipment maintenance, and emergency repairs), agriculture, and administrative services (High Level satellite office) in Wards 9 and 10. Existing alternate service delivery includes contracting work such as road grading.

Staffing projections of the viability assessment are based on maintaining current service levels for all residents. Westside projects a staff complement of 17.5 FTES, plus seasonal workers, while Eastside anticipates a need for 88.57 FTES. The overall net increase of employees is due to the current deployment of employees in Mackenzie County who serve the needs across the entire municipality. Westside would need to increase its financial and project management function, as well as its public works and administrative capacity. Eastside would need to maintain the capacity and skillsets to maintain services for its residents.

The net increase of 13 employees is reflected in the proposed Eastside budget at a cost of \$1,235,000.

The viability assessment does not preclude the possible contracting of services from Eastside, the Town of High Level, or third-party private contractors, but within the limitations of the budget.



Finances, Assessment & Taxation

Integrating rural and urban service levels is a challenge. It is important to note that rates and residential property value assessments do not easily address tax equality due to wide varieties in property values. For example, rural properties currently located close to the Town of High Level may be assessed significantly higher than a property in either Zama City or Rainbow Lake.

It is also noted that the oil and gas sector, which historically has provided significant property tax revenue for both the Town of Rainbow Lake and Mackenzie County, has experienced a decline which could have potential negative impacts on the economies of both Eastside and Westside. The oil and gas sector has significant outstanding property taxes throughout the province.

Draft budgets were developed for both Eastside and Westside to examine the issue of financial viability. These high-level budgets were grounded on the presumption of maintaining current service levels for residents. Section 243(3) of the *MGA* requires municipalities to establish annual balanced operating budgets. Other key considerations were:

- The Mackenzie County and Town of Rainbow Lake 2021 approved operating budgets formed the basis for the budgets.
- The budgets used the 2021 Mackenzie County tax property rates to determine tax revenue.
- The budgets attribute property tax revenue to the municipality in which the property is located; revenue sharing is examined separately.
- Municipal Sustainability Initiative and Federal Gas Tax Fund revenues reflect 2021 allocations as *if* determined by the proposed formation. Actual provincial funding levels may vary depending on future program changes.
- The annual \$1,000,000 transfer to the Town of High Level is maintained, ostensibly for services/benefits received by rural residents surrounding the town.
- Alternate service delivery options, such as contracted services and intermunicipal service agreements, may be considered within the budgets.
- Westside council compensation and travel allowances is based on current Town of Rainbow Lake policies.
- Net overall staffing increases are included to maintain service levels in Eastside.
- Requisitions are not included, as revenue and expenses should net out.

| Draft Operating Budget (without revenue sharing) | | |
|--|---------------|--------------|
| | Eastside | Westside |
| Revenue | \$18,648,545 | \$17,773,561 |
| Expenses | \$28,076,706 | \$9,548,663 |
| Surplus (Deficit) | (\$9,428,161) | \$8,224,898 |

It is noted that there is a projected net deficit of the two municipalities arising from:

- Decreased residential property taxes through aligning Rainbow Lake with remainder of Westside – (\$210,000)
- Increased staffing costs to maintain Eastside services (\$1,235,000)

Draft Budgets

| Revenue | Eastside (Wards 1-8) | Rainbow Lake | Wards 9&10 | Westside |
|-----------------------------------|----------------------|--------------------|---------------------|---------------------|
| Residential Property Tax | \$4,194,276 | \$296,718 | \$ 432,488 | \$729,206 |
| Farm | \$2,326,837 | | \$246,960 | \$246,960 |
| Commercial/Industrial Prop Tax | \$2,637,383 | \$199,599 | \$220,341 | \$419,940 |
| Machinery/Equipment | \$208,592 | | \$4,369,313 | \$4,369,313 |
| Sub-total | \$9,367,088 | \$496,317 | \$5,269,102 | \$5,765,419 |
| Designated Industrial Prop Tax | \$0 | \$155 | \$79,549 | \$79,704 |
| Linear | \$508,556 | \$23,780 | \$8,365,760 | \$8,389,540 |
| Property Taxes | \$9,875,644 | \$496,472 | \$13,714,411 | \$14,210,883 |
| Franchise | \$0 | \$155,000 | | \$155,000 |
| All Utilities | \$0 | \$1,283,680 | | \$1,283,680 |
| 421-Sale of water - metered | \$3,333,367 | | \$124,028 | \$124,028 |
| 422-Sale of water - bulk | \$893,713 | | \$21,516 | \$21,516 |
| 124-Frontage | \$81,100 | | \$18,350 | \$18,350 |
| 261-Ice Bridge | \$140,000 | | | \$0 |
| 420-Sales of goods and services | \$1,027,841 | \$455,000 | \$8,740 | \$463,740 |
| 424-Sale of land | \$10,000 | | \$0 | \$0 |
| 510-Penalties on taxes | \$250,000 | \$72,500 | \$250,000 | \$322,500 |
| 511-Penalties of AR and utilities | \$27,550 | | \$1,450 | \$1,450 |
| 520-Licenses and permits | \$45,000 | | | \$0 |
| 521-Offsite levy | \$20,000 | | | \$0 |
| 522-Municipal reserve revenue | \$80,000 | | | \$0 |
| 526-Safety code permits | \$200,000 | | | \$0 |
| 525-Subdivision fees | \$60,000 | | | \$0 |
| 530-Fines | \$5,000 | | | \$0 |
| 531-Safety code fees | \$8,000 | | | \$0 |
| 550-Interest revenue | \$400,000 | \$145,750 | \$100,000 | \$245,750 |
| 560-Rental and lease revenue | \$115,303 | \$166,170 | \$38,400 | \$204,570 |
| 597-Other revenue | \$65,000 | \$180,000 | | \$180,000 |
| 598-Community aggregate levy | \$45,000 | | \$5,000 | \$5,000 |
| MSI Operating | \$94,342 | | | \$45,393 |
| From Op Reserves | \$1,871,685 | | \$467,921 | \$467,921 |
| Total Operating Revenue | \$18,648,545 | \$2,954,572 | \$14,749,816 | \$17,749,781 |

| Expense | Total East | | Rural High Level | West (ZAMA) | Rainbow Lake | Total West |
|---|---------------------|--|--------------------|--------------------|--------------------|--------------------|
| Council | \$689,502 | | \$76,709 | \$110,680 | \$155,315 | \$200,000 |
| Administration | \$3,770,497 | | \$1,109,319 | \$495,127 | \$328,305 | \$1,932,751 |
| Fire Services | \$608,567 | | \$32,385 | \$90,131 | \$76,946 | \$199,462 |
| Ambulance | \$4,997 | | \$2,306 | \$384 | \$0 | \$2,690 |
| Bylaw & Safety | \$391,497 | | \$73,406 | \$24,469 | \$14,585 | \$112,460 |
| Public Works | \$9,907,459 | | \$603,789 | \$563,224 | \$512,157 | \$1,679,170 |
| Airports | \$251,655 | | \$0 | \$0 | \$295,781 | \$295,781 |
| Water Services | \$2,881,803 | | \$0 | \$323,768 | \$738,283 | \$1,062,051 |
| Sewer Services | \$1,023,124 | | \$0 | \$100,354 | \$74,832 | \$175,186 |
| Solid Waste | \$632,513 | | \$95,380 | \$47,947 | \$115,206 | \$258,533 |
| Gas Services | | | | | \$449,506 | \$449,506 |
| Cable Services | | | | | \$209,769 | \$209,769 |
| Planning & Development | \$920,080 | | \$172,515 | \$57,505 | \$48,081 | \$278,101 |
| Subdivisions | \$401,865 | | \$75,350 | \$25,117 | \$0 | \$100,467 |
| Agriculture | \$1,062,118 | | \$386,299 | \$96,780 | \$0 | \$483,079 |
| Parks & Playgrounds | \$329,152 | | \$72,479 | \$25,083 | \$0 | \$97,562 |
| Recreation | | | | | \$471,912 | \$471,912 |
| Rec Boards | \$1,084,258 | | \$0 | \$156,964 | \$0 | \$156,964 |
| Economic Development | | | | | \$13,600 | \$13,600 |
| Tourism | \$31,400 | | \$5,888 | \$1,963 | \$0 | \$7,851 |
| FCSS & Community Groups | \$752,807 | | \$28,100 | \$16,941 | \$78,224 | \$123,265 |
| Housing | | | | | \$104,633 | \$104,633 |
| Library | \$185,191 | | | \$79,368 | \$37,404 | \$116,772 |
| Non TCA Projects | \$1,613,221 | | \$158,549 | \$158,549 | | \$317,098 |
| Grant to Town of High Level | \$300,000 | | | | | \$700,000 |
| Additional Eastside Staffing to Maintain Services Levels (13 @ \$95k) | \$1,235,000 | | | | | |
| TOTAL | \$28,076,706 | | \$2,892,473 | \$2,374,352 | \$3,724,539 | \$9,548,663 |

The quality of input from Mackenzie County and the Town of Rainbow Lake contributes to the validity of these draft budgets. Each administration provided operational details for consideration and checked the veracity of the financial projections.

Property Assessment and Taxation

The formation of the Eastside and Westside municipalities leads to a large imbalance of tax revenues, primarily arising from linear property taxes. It is noted that a significant portion of oil & gas sector property taxes are unpaid, which would negatively impact actual tax revenue in

Westside. Mackenzie County reports that a significant amount of linear infrastructure (pipelines and transmission lines) have been permanently removed, with the trend continuing. This will reduce revenues for both municipalities.

The restructuring, if implemented, would result in a large surplus in Westside and a large deficit in Eastside. The significant amount of linear assessment would result in Westside having the ability to greatly reduce residential and non-residential tax rates, and retain a sizable annual operating surplus. Eastside would need to increase residential and non-residential tax rates nearly 200 per cent to address the lost revenue. Decreased provincial transfers and the increasing need to finance capital projects would also negatively impact Eastside's financial position.

It would be expected that a combination of increased taxation and user fees, and reduced service levels would be required for Eastside to achieve a balanced budget. Impacts could include personnel lay-offs, reduced snow removal and rural grading, reduced or no transfers to reserves, impacts to parks and playgrounds, and a limited ability to support Family and Community Support Services (FCSS), community groups, and recreation boards.

The tax differential with Westside could deter future economic development in Eastside. This scenario results in financial and service 'winners' and 'losers'. "Property taxes are not a fee for service, but a way of distributing the cost for local government services and programs fairly throughout a municipality."²

Revenue Differential

The Westside surplus and Eastside deficit that would result from the proposed formation presents a complex situation. Inherent to a municipality is the authority to collect and use taxes for its budgeted purposes (section 353 of the *MGA*). Section 55(1) of the *MGA* authorizes a municipality, on a voluntary basis, to enter into agreements with another municipality regarding the sharing of taxes. Traditionally, such sharing is based on a recognition of revenue earned in part due to another community's active support, or due to benefits received by the contributing municipality. The "straw dog" Westside-Eastside situation does not fit either of these scenarios.

Additionally, a general principle of fair taxation is that the ratepayer receives a benefit in return for the taxes paid in that jurisdiction. Property tax revenue generated for another jurisdiction without direct benefit to the payer may be hard to defend.

Linear property taxes acknowledge the use of property within a municipality to conduct business.

² *Guide to Property Assessment and Taxation in Alberta*, Alberta Municipal Affairs, 2018, P.26

Supporters of the proposed formation suggest a large annual transfer from one municipality to another. This would need to be implemented by way of the Government of Alberta including the terms of such an arrangement in the formation order; otherwise, each municipality would retain full autonomy to set their own annual budgets and Westside could choose not to include the revenue transfer to Eastside.

Direct provincial involvement in implementing revenue sharing could set a precedent whereby other municipalities across the province ask the Government of Alberta to impose mandatory revenue sharing by their neighbours.

In the event that the proposed restructuring moves forward with the concept of tax sharing to address the revenue differential, possible options to determine the amount include:

- annual fixed amount;
- a base amount, plus a an amount based on a formula;
- an amount determined similar to the sphere of influence used with the Town of High Level;
- a set proportion of property taxes collected; or
- a set proportion based on the oil & gas assessment.

Asset and Liability Division

Mackenzie County and the Town of Rainbow Lake would each bring their assets and liabilities into the new municipalities. As the entire town would be part of Westside, this assessment presupposes that all of the town's assets and liabilities would simply become part of the new municipality (Eastside).

The division for Mackenzie County considers tangible capital assets and financial holdings separately:

Tangible Capital Assets (TCA)

- A. Simple division of real property according to its location in Eastside or Westside.
- B. Equipment used solely in Eastside or Westside would belong to that municipality.
- C. Equipment that is used in both municipalities to be determined prior to transition.

Financial liabilities would remain with the TCAs with which they are associated. Mackenzie County's long-term debt at this time is all attributable to TCAs that would be located in Eastside.

Financial

- A. Restricted reserves from the Town of Rainbow Lake and Mackenzie County to Westside would be restricted for use within the Town and Wards 9 & 10 respectively (this could also have a five- or 10-year time limit).

- a. Restricted reserves specific to Eastside or Westside purposes, would be deducted from the total prior to division (e.g., water treatment plant).
- B. Mackenzie County general and reserve funds could be divided by one or a combination of the following methods:
 - a. Population % (Eastside 92%, Westside 8%);
 - b. Proportion of total property tax revenues raised in each municipality (Eastside 42%, Westside 58%);
 - c. Proportion of linear property tax revenues raised in each municipality (Eastside 10%, Westside 90%).
- C. Liabilities reasonably attributed to all wards would be divided using the same method used to divide financial assets.

The division of unearned and/or previously allocated MSI Capital funding will require further discussions with the Municipal Affairs Grants and Education Property Tax team. Possible options for dividing this revenue could include:

- a) Population (Eastside 92%, Westside 8%);
- b) The current MSI allocation formula, based on a mixture of population, equalized assessment and kilometres of local road (resulting in Eastside 76%, Westside 24%, based on 2021 figures).



Infrastructure

Municipal infrastructure includes buildings and land, equipment, roadways, water and sewage systems, and utility transmission lines that a municipality owns. For the purposes of this assessment, the ownership and responsibility for infrastructure would belong to the municipality where it is located.

It is important to understand how the size of Mackenzie County impacts maintenance and major repair and replacement costs.

2,060 kms maintained roads (City of Edmonton 4,097 kms, City of Grande Prairie 448 kms)
170.68 kms water mains (City of Grande Prairie 402 kms)
68 kms wastewater mains (City of Grande Prairie 379 kms)

Capital Projects

Capital projects are funded by a combination of municipal surpluses, property taxes, grants, and special levies. There is an overarching risk of reduced municipal revenue stemming from:

- a) the large amount of unpaid taxes from the oil and gas sector,
- b) possible changes to the linear assessment model, and
- c) sector economic uncertainty.

Reduced tax revenue has the potential to impact residential taxes, operational expenditures, and the completion of critical infrastructure projects.

Draft capital budgets and plans are not included in this assessment as they would be entirely speculative in nature.



Town of Rainbow Lake Multi-Use facility

Next Steps

Stage 1 of the Mackenzie Region Restructuring Project instituted an analysis of the viability of forming a new municipality in the Mackenzie region. Significant discussion with elected officials would be appropriate prior to a determination of whether there is merit in moving to the public consultation envisioned in Stage 2 of the project.

Following is a detailed outline of what steps would likely be involved, if direction is received to proceed to Stage 2.

Formation Considerations and Implementation Timeline

Moving forward with the formation of a new municipality typically consists of four stages:

- A. Detailed discussion and negotiation with existing municipalities focusing on details
- B. Public consultation based on the detailed discussions
- C. Preparatory steps prior to formation date
- D. Transition period following formation

Consistent with the principles of local governance, the proposed formation requires significant discussion and input from the region's elected officials arising from dissolving a specialized municipality and town to form two new municipalities. Success is in the details.

A. Detailed discussion and dialogue with existing municipalities focusing on details (6-8 months)

- Identify initial councils & CAOs
- Determine new ward boundaries
- Establish budgeting, tax rate, and revenue sharing principles
- Division of assets and liabilities
- Dialogues with other stakeholders – Town of High Level, Mackenzie Regional Waste Management Commission, First Nations, regional boards and committees, Mackenzie Municipal Services Association
- Housing Foundations
- Employment discussions
- Determine municipality names

B. Public consultation would overlap with Stage A, and extend another 2-4 months

Public engagement conducted by Municipal Affairs will follow the International Association for Public Participation principles of *informing, consulting, involving, collaborating, and empowering* residents.

Engagement activities will include:

- Print
- Websites & social media
- In-person and virtual open houses/town halls
- Surveys

C. Preparatory steps prior to formation date (2-6 months)

- Confirm fire services agreements
- Negotiating other service agreements
- Develop employment change plans
- Develop communication plans
- Drafting of the Order In Council by Municipal Affairs

D. Transition period following formation (12 – 18 months)

- Implement employment changes
- Records & documents transfer – infrastructure, planning, as-builts, etc.
- Conduct User Fees Review
- ICF and IDP Reviews – with Eastside, Westside, Town of High Level, and County of Northern Lights
- Transition of utility accounts
- Integrate Westside services
- Dialogue with Mackenzie Waste Management Commission
- Conduct service levels reviews
- New assessment contracts for both Eastside and Westside
- Integration of Mackenzie Municipal Services Association for development and planning of new areas, inclusive of transfer of land files, maps shape files for all properties in Wards 9 & 10
- Regional boards and committees will need to rewrite their terms of reference and determine split of membership fees
- Transfer of any regional studies (e.g., economic, engineering, or environmental) applicable to wards nine and ten.

Appendix A - Current and Projected FTE Levels

| | Rainbow Lake | Wards 9 & 10 | Westside | | Mackenzie County | Eastside |
|-----------------------------|---------------------|-------------------------|-----------------|---------------------------|---|---|
| Admin | 0.65 | 3.5 | | Leg & Support Services | 12 1 Seasonal | 12 1 Seasonal |
| Common Services | 0.4 | 0 | | Projects & Infrastructure | 2 Admin 1 Seasonal | 2 Admin 1 Seasonal |
| Streets | 0.55 | 2.5 | | Planning & Dev't | 8 | 8 |
| Water, Sewer, & Solid Waste | 2.35 | 0.5 | | Finance Services | 8 | 8 |
| Development | 0.15 | 0 | | Community Services | 1 Admin 1 Facility Maintenance 3 Seasonal | 1 Admin .67 Facility Maintenance 3 Seasonal |
| Housing | 0.6 | 0 | | Operations | 4 Admin 23 Public Works 5 Seasonal | 3 Admin 22 Public Works 5 Seasonal |
| Recreation & Facilities | 2.5 | 0.25 | | Utilities | 2 Admin 6 Utility Officers 2 Seasonal | 2 Admin 5 Utility Officers 2 Seasonal |
| Natural Gas System | 0.8 | 0 | | Agriculture Services | 3 Admin 2 Seasonal | 3 Admin 2 Seasonal |
| Cable & Internet | 0.6 | 0 | | Fleet Services | 1 Admin 3 Mechanics 2 General Maintenance 2 RAP Students | 1 Admin 3 Mechanics 2 General Maintenance 2 RAP Students |
| FCSS | 0.45 | 0.25 | | | | |
| Airport | 1.45 | 0 | | | | |
| Total | 10.5 FTE | 7 FTE | | Total | 92 FTE | 88.67 FTE |

Zama references where the employees are based