

2015
GAS TAX FUND
ANNUAL REPORT

MUNICIPAL AFFAIRS

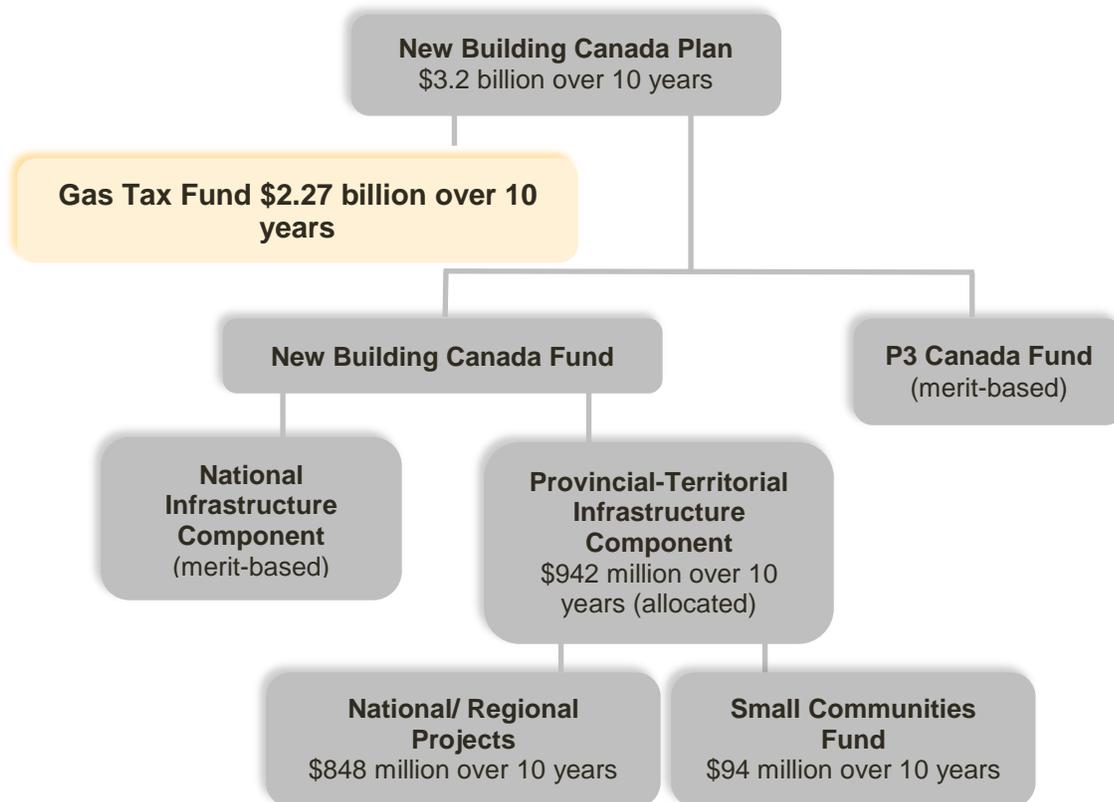
Table of Contents

1.	PROGRAM OVERVIEW	2
2.	PROGRAM HISTORY	3
3.	PROGRAM ADMINISTRATION	4
4.	DETERMINING FUNDING LEVELS	4
5.	2015 ACTIVITY AND EXPENDITURE SUMMARY	6
6.	FUTURE DIRECTIONS	11
7.	ADMINISTRATIVE ALLOCATION	12
8.	ADDITIONAL RESOURCES	12

1. Program Overview

The Gas Tax Fund (GTF) is a federal program that provides long-term funding for Canadian municipalities to help them build and revitalize their local public infrastructure while creating jobs and long-term prosperity.

The current GTF is a 10 year program that was introduced in 2014, as part of the *New Building Canada Plan*. Under the GTF, Alberta is expected to receive \$2.27 billion through the 2014-15 to 2023-24 period, of which \$416 million has been allocated in the first two years of the program.



Note: Amounts provided in the above chart reflect Alberta's funding only.

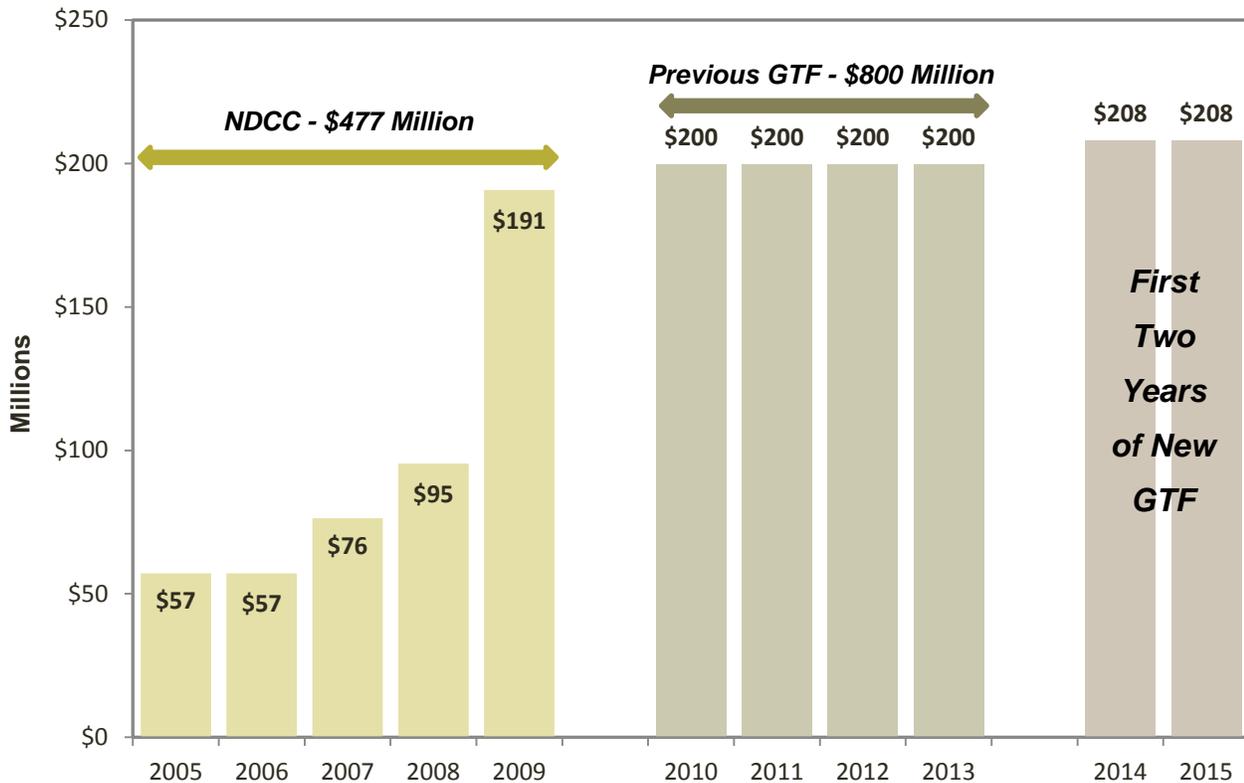
The main objectives of the GTF program are to provide municipalities with predictable long-term funding; support local infrastructure needs; and enhance economic, environmental and social well-being, which translates into strong and vibrant communities across Alberta. The funding provided is in addition to other provincial grant funding, such as the Municipal Sustainability Initiative (MSI) and Alberta Community Partnership.

Funding can be used for the construction, renewal, or material enhancement of municipal infrastructure in project categories such as local roads; public transit; drinking water; wastewater; community energy systems; and sport, recreational and cultural infrastructure.

2. Program History

The current GTF is an extension of the 2009 GTF Agreement and the original 2005 New Deal for Cities and Communities (NDCC).

The NDCC was first introduced in 2005 as a five year program under which Alberta's municipalities received about \$477 million. In 2010, the NDCC was extended and renamed as the GTF. Under the previous GTF, which expired in 2013, Alberta's municipalities received a total of \$800 million.



Similar to the current GTF, the original NDCC and the previous GTF focused on enabling environmentally sustainable municipal infrastructure projects including roads, bridges, public transit, solid waste, water, and waste water infrastructure.

However, under the current GTF additional flexibility to address specific local infrastructure priorities has been provided by expanding the range of eligible project categories to include, for example, sport, recreational and cultural infrastructure; disaster mitigation, and brownfield redevelopment. Other key changes introduced in 2014 to provide more flexibility, as well as to align with other key grant programs delivered by Municipal Affairs (MA), include adding borrowing costs as eligible expenditures and simplified requirements for award of contracts and use of municipal forces.

3. Program Administration

The GTF is a federal program that is administered by Alberta on behalf of Canada. This means that funding is provided to Alberta who is responsible for program delivery and for flowing the GTF funds to eligible municipalities. Municipalities are responsible for determining projects and activities to be funded by the GTF based on local priorities, within the general program criteria.

Program delivery is governed through an agreement between Canada and Alberta, and through agreements between Alberta and each municipality. These agreements obligate Alberta and the municipalities to meet a number of conditions, including program eligibility, reporting and communications requirements. Because the current GTF is an extension of previous programs, funding allocated to municipalities under the NDCC and the previous GTF and not spent as of December 2013 is governed by the rules of the new GTF agreement.

In 2014, the responsibility for the GTF administration, including the wind-down of the previous GTF, was transferred from Alberta Transportation (AT) to MA, to align with other grant program changes stemming from the Results-based Budgeting process. Project profiles are submitted by municipalities through the Municipal Grants Management Application (MGMA). MA approves project profiles, approves and makes payments of funding allocations, receives and approves reporting from municipalities, and is responsible for provincial reporting to Canada.

Program oversight is provided by the Oversight Committee established under the *Canada-Alberta GTF Administrative Agreement*. The committee, co-chaired by a federal and a provincial appointee, monitors the overall implementation of the agreement and serves as the principal forum to address and resolve any arising issues.

4. Determining Funding Levels

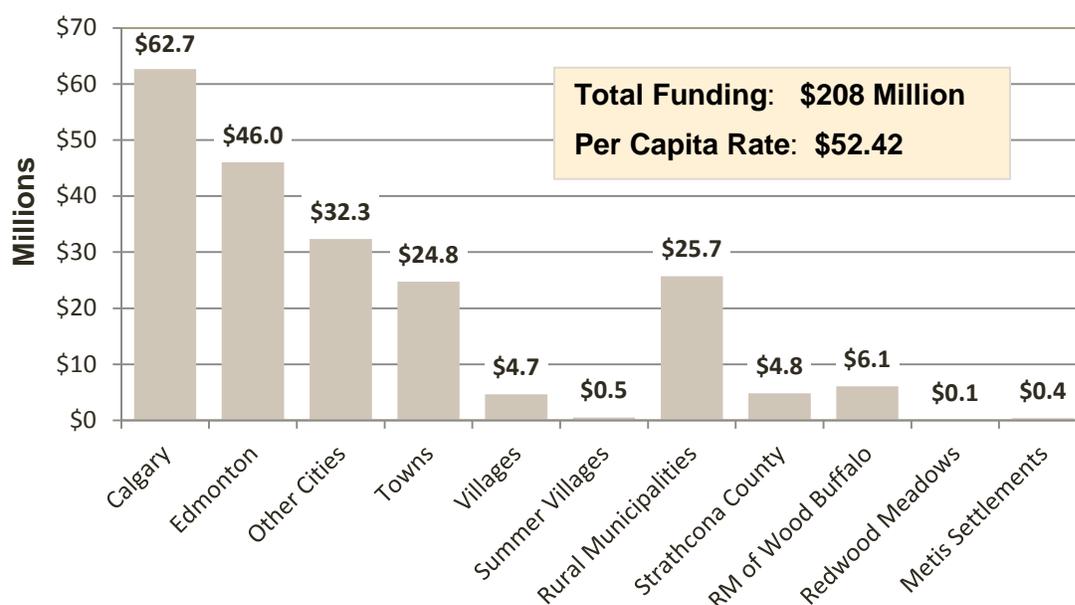
The GTF is allocated to provinces on a per capita basis. Alberta's allocations from 2014-15 to 2018-19 are presented below and are based on the federal census 2011 data. For 2019-2020 to 2023-2024 the allocations will be updated to reflect the 2016 federal census data.

	2014-15	2015-16	2016-17	2017-18	2018-19
Total Canada GTF Funding	\$2.0 Billion	\$2.0 Billion	\$2.1 Billion	\$2.1 Billion	\$2.2 Billion
Alberta's GTF Allocation	\$208.65 Million	\$208.65 Million	\$219.08 Million	\$219.08 Million	\$229.52 Million

The annual allocation amounts are confirmed each year by Canada through a funding letter, typically received in spring. Once confirmed, the funding is then transferred to Alberta in two equal payments.

Alberta allocates GTF funding to municipalities on the basis of a per-capita formula that was developed under the previous GTF. Under this formula, municipalities (with the exception of summer villages) receive a minimum allocation of \$50,000 per year and summer villages receive a base allocation of \$5,000 per year, in addition to the per capita amount.

Funding allocations are re-calculated annually, according to the previous year's *Municipal Affairs Population List*. For example, the 2015 allocation amounts were calculated using the population data from the *2014 Municipal Affairs Population List*. The funding amounts for each municipality are provided on the provincial program website at municipalaffairs.alberta.ca/gastaxfund. A high-level summary of the 2015 allocations by municipality type, and a funding to population size comparison, are provided below.



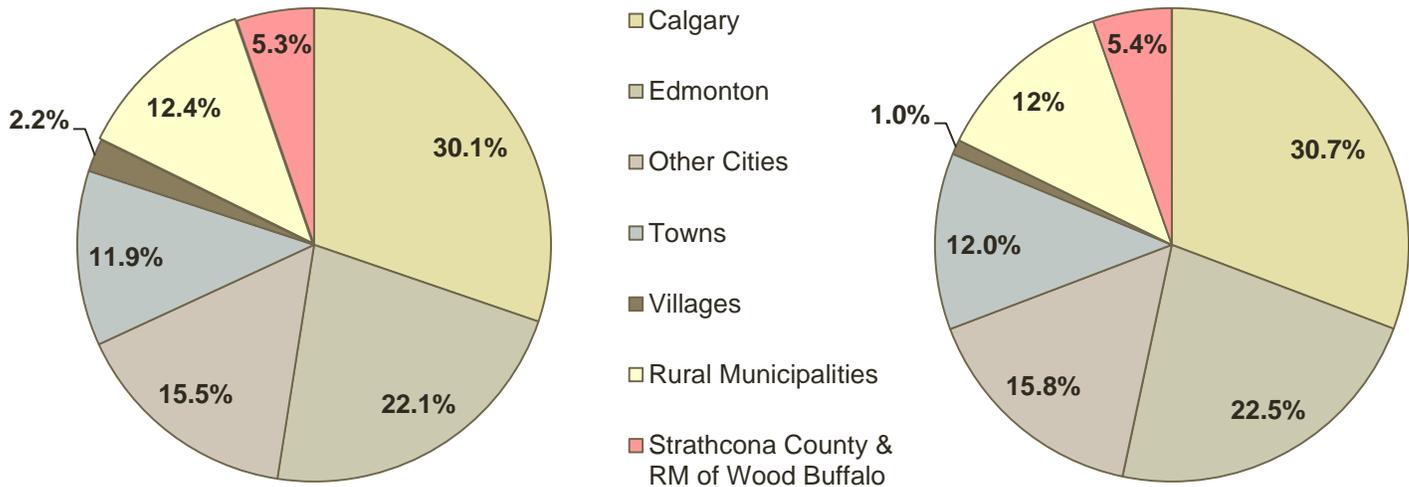
Under the previous GTF, funding allocations for the 2010 to 2013 period were calculated only once, in 2010, based on the *2009 Municipal Affairs Population List*. With the implementation of the current GTF, the decision was made to re-calculate the allocations on an annual basis to better reflect municipalities' changing circumstances, and to be consistent with the practice of updating the MSI formula factors on an annual basis. Because many Alberta municipalities experience significant year-to-year population growth, it is important to take this growth into account when determining funding levels.

While the current funding formula provides proportionately more funding to those municipalities that grow faster, it also ensures that smaller municipalities are protected through the minimum \$50,000 funding amount. In 2015, 88 of the 92 villages each received the \$50,000 minimum. As a result, in aggregate, villages received approximately 2 per cent in funding, while comprising only 1 per cent of Alberta's total population (see the charts below).

In addition to the 88 villages, 12 towns and 10 rural municipalities (mostly improvement districts), all with small populations, and all eight Metis Settlements also qualified for the minimum funding amount.

2015 GTF Funding Distribution

2014 Population Distribution



Note:

Summer Villages, Metis Settlements and the Townsite of Redwood Meadows have a combined GTF funding of less than 0.5% and a combined population of less than 0.3% and are not captured in the above charts.

Annual allocations to municipalities are confirmed each year through funding letters, after Alberta’s funding has been confirmed by Canada and specific allocations have been authorized by the Minister of MA. Funding allocations are paid to the municipalities subject to municipalities meeting project commitment and prior year reporting requirements.

5. 2015 Activity and Expenditure Summary

Provincial – Municipal Agreements

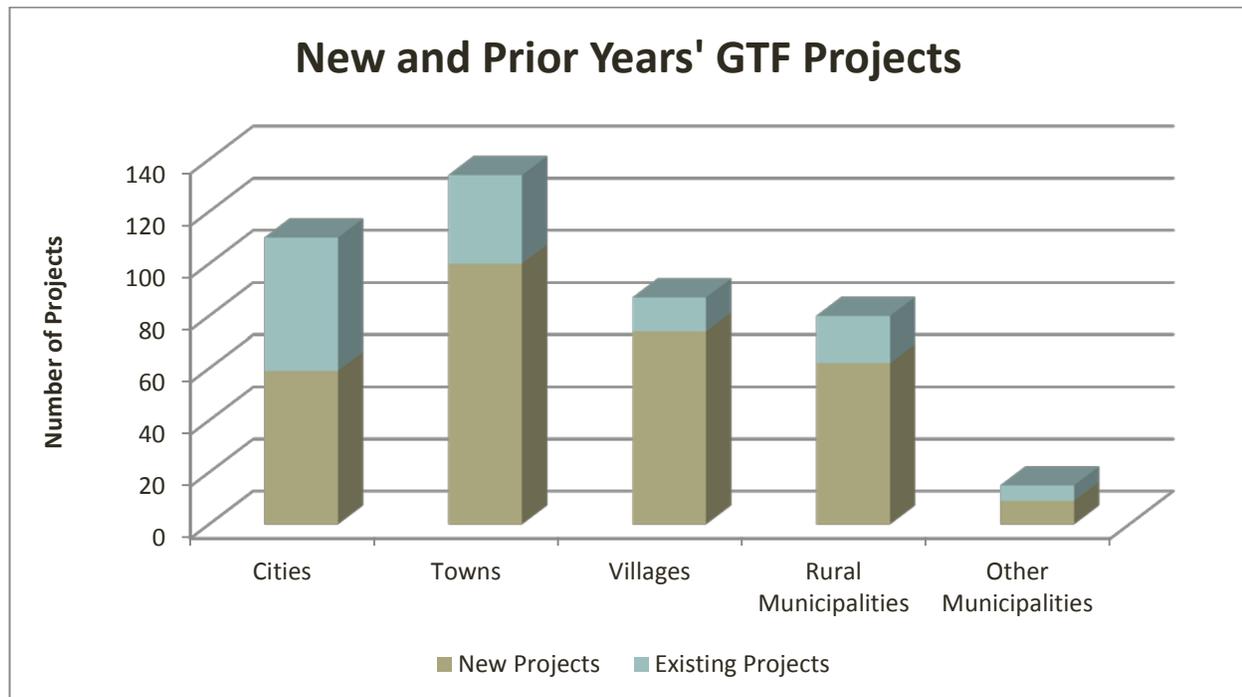
In 2015, there were 355 municipalities (cities, towns, villages, summer villages, municipal districts and counties, improvement districts, Metis Settlements, and the Townsite of Redwood Meadows) eligible to receive GTF funding.

In 2014, the first year of the program, each municipality was required to sign an agreement. By the end of calendar year 2015 all but three municipalities had returned their signed agreements to MA. Program staff worked closely with the three municipalities with outstanding unsigned agreements and as of April 2016, all GTF agreements have been duly executed.

Project Profiles

Under the GTF, municipalities are required to submit project profiles for all projects for which GTF funding is being used. Project profiles provide basic project information, such as project description and location, project category, an estimate of the total project cost, and an estimate of annual GTF funding to be used.

From January 1, 2015 to December 31, 2015, there were 426 active projects. 304 of these were new projects that were submitted and accepted for GTF funding, while 122 projects were carried over from the previous GTF.



Statements of Funding and Expenditures

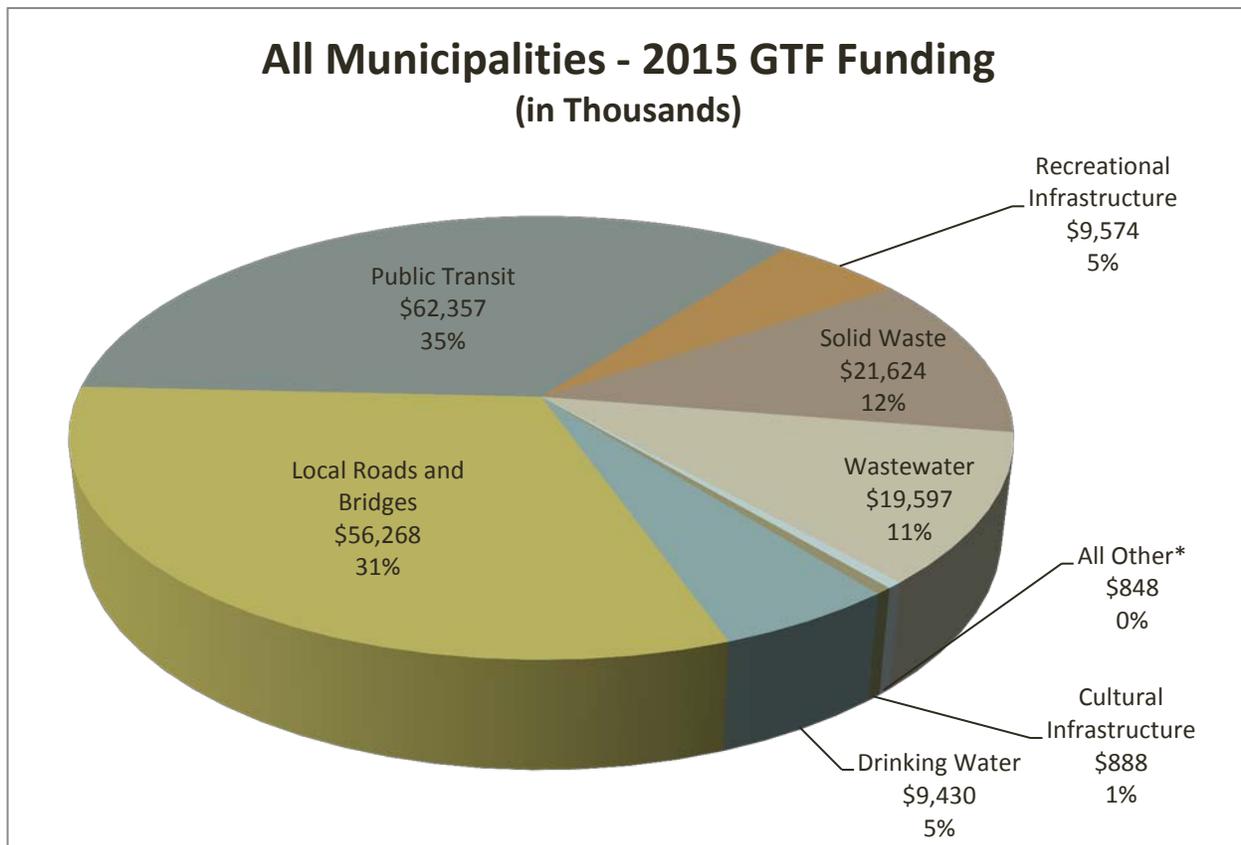
As part of the GTF reporting requirements, all municipalities are required to submit their Statements of Funding and Expenditures (SFEs) for the prior year of the program. SFEs include, for example, the carry-forward amount from the previous year, the amount of funding received, expenditures by project, and funding available to carry forward to the next year. The information reported by municipalities on their SFEs is used to generate this report which must be submitted to Canada by September 30 of each year.

The 2015 SFEs were due on May 1, 2016 and 97 per cent of municipalities met the SFE reporting requirement. As of September 8, 2016, there were 10 outstanding SFEs from the 2015 program year and no outstanding SFEs from prior program years.

This is an improvement from last year, largely attributed to the success of the follow-up compliance strategy. This strategy is aimed at addressing outstanding reporting and includes letter and phone call reminders to municipalities at escalating levels of authority.

Expenditures

In 2015, municipalities spent about \$181 million on GTF projects. Most of this funding was spent in the Public Transit (35 percent) and Local Roads and Bridges (31 percent) categories. This is very similar to the percentages spent in each category in prior years.

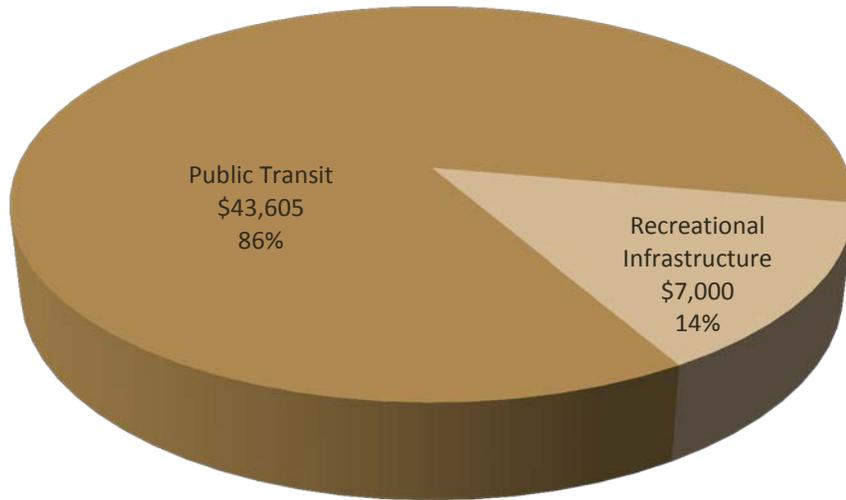


*All Other includes the following project categories: Broadband Connectivity; Brownfield Redevelopment; Capacity Building; Community Energy Systems; Disaster Mitigation; and Tourism Infrastructure.

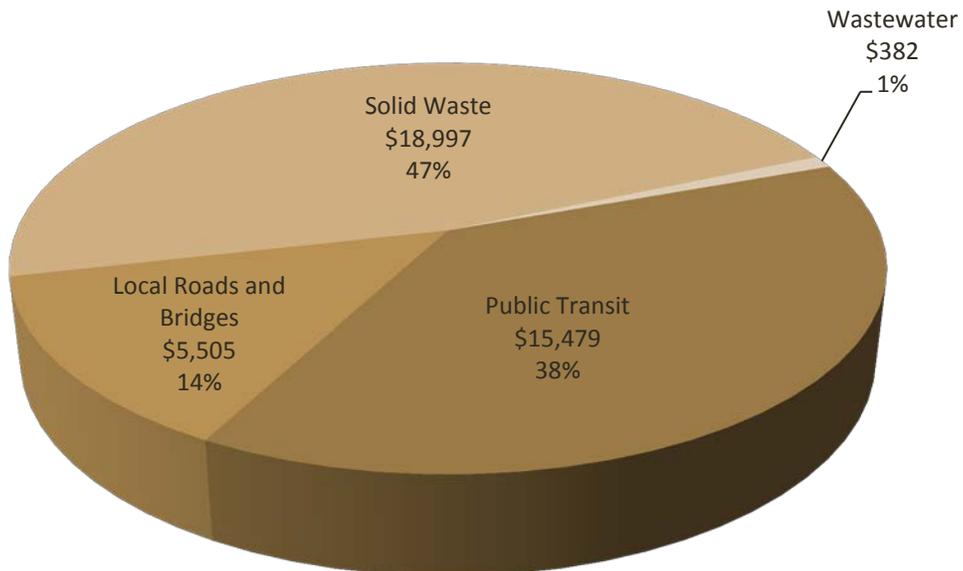
Edmonton reported that of the \$51 million the city spent on GTF projects in 2015, the majority was directed toward Public Transit, followed by a much smaller proportion of funding directed to Recreational Infrastructure.

Calgary spent \$40 million in GTF funding in 2015 and used the funding primarily for Public Transit and Solid Waste projects.

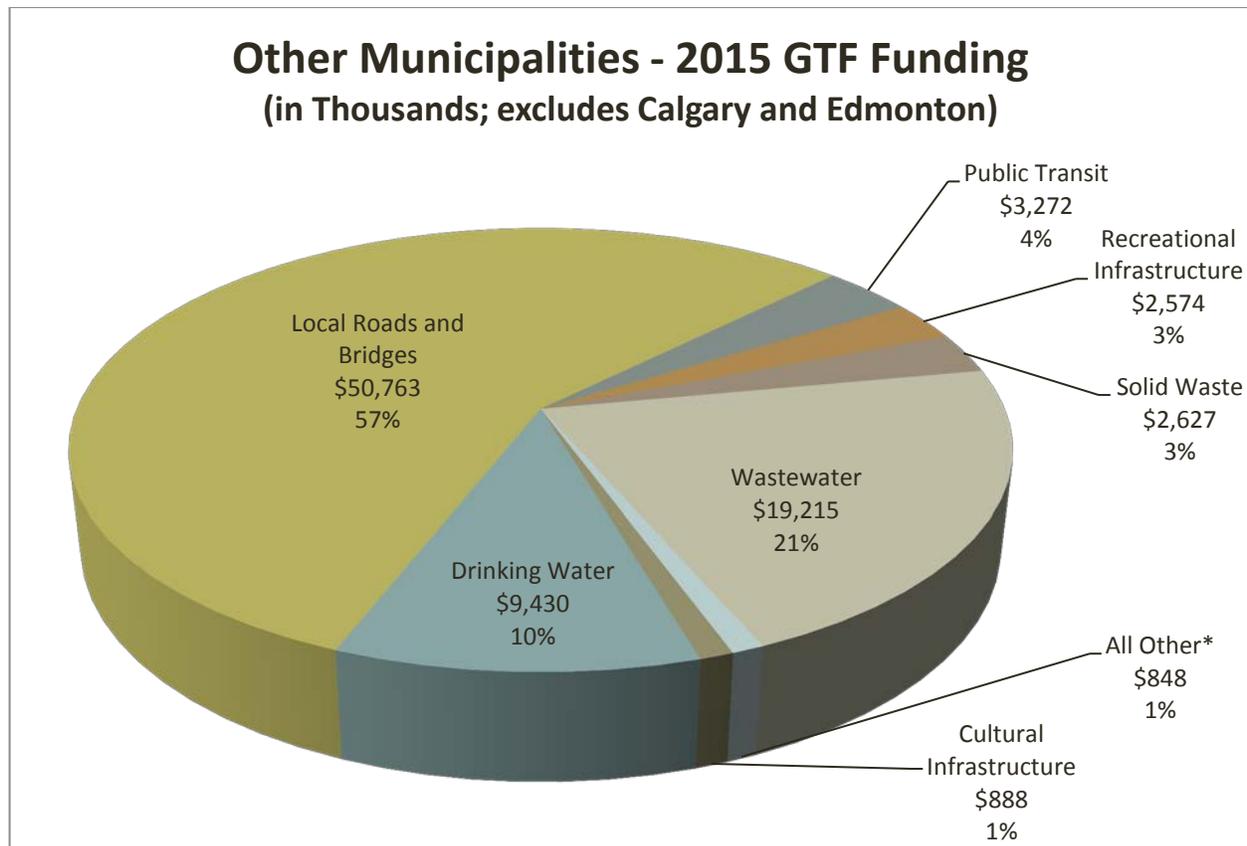
City of Edmonton - 2015 GTF Funding (in Thousands)



City of Calgary - 2015 GTF Funding (in Thousands)



Other municipalities, excluding Edmonton and Calgary, spent \$90 million in GTF funding in 2015, with the majority of their funding directed to Local Roads and Bridges, Wastewater, and Drinking Water infrastructure.



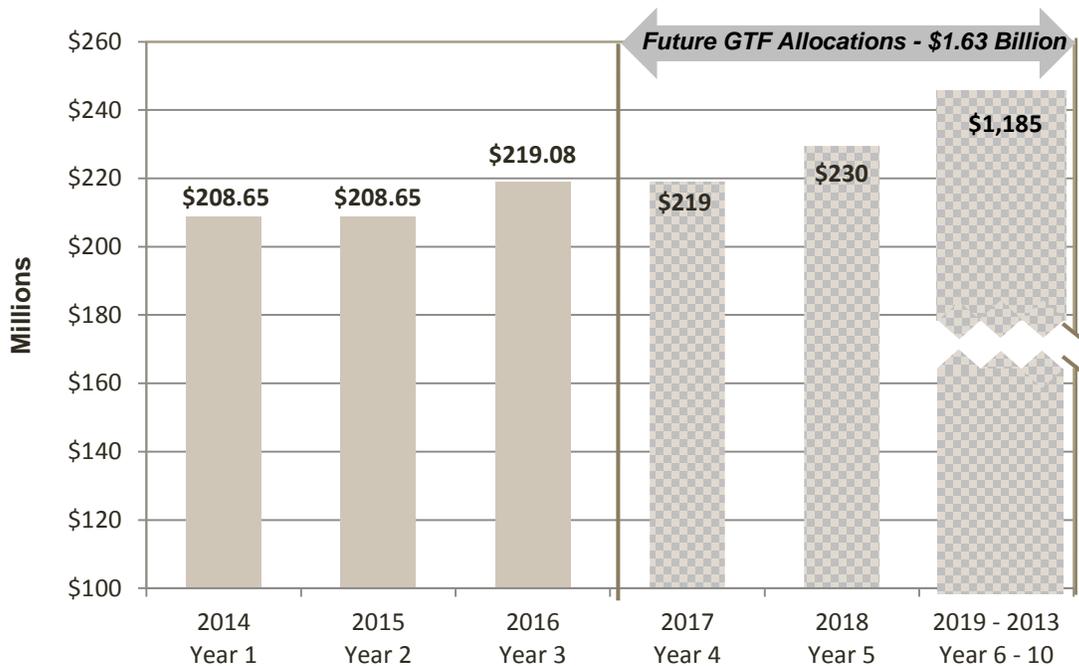
*All Other includes the following project categories: Broadband Connectivity; Brownfield Redevelopment; Capacity Building; Community Energy Systems; Disaster Mitigation; and Tourism Infrastructure.

This information is based on 2015 SFEs accepted as of September 8, 2016.

KPMG has carried out an independent financial audit of the GTF for submission to Canada.

6. Future Directions

The GTF is now in its third year. To date; \$208.65 million has been allocated in each of 2014 and 2015, and \$219.08 million in 2016. This means that approximately another \$1.63 billion of the estimated \$2.27 billion remains to be allocated over the next seven years.



Alberta's focus over the next years will be to ensure continued progress is being made in the area of asset management. In line with the requirements of the *Canada-Alberta GTF Administrative Agreement*, an approach to enhance asset management planning has been developed and approved by Infrastructure Canada. The approach is currently envisioned in two phases over seven years, until the end of the GTF program in 2023-24. The activities of the first phase include completing an inventory of current asset management tools and resources, development of new tools and enhancements to existing advisory services and training opportunities. The activities of the second phase include assistance in implementing corporate planning regulatory requirements and further expansion of asset management tools and resources. More information on the approach is available on the GTF program website, at municipalaffairs.alberta.ca/gastaxfund.

Alberta will also be working on the performance measurement methodology, which once approved by the Oversight Committee, will support the development of the *2018 Outcomes Report* on how GTF investments are supporting progress toward achieving program benefits. This will include the development of category indicators for the GTF.

In addition to the key initiatives on asset management and performance measurement, MA will continue to ensure that program delivery is streamlined and, where possible, aligns with other grant programs delivered by the Ministry, so that municipalities have timely access to funding that supports their infrastructure priorities. One of the recent changes facilitating a more

streamlined program delivery was moving full responsibility of all GTF project submissions completed through MGMA to MA. It is expected that in 2017, MA will implement its own grant administration system for the GTF. The new system will not only further streamline the MA grants application process but also provide additional functionality (e.g., online access, enhanced reporting, etc.) and improve the quality of submissions.

7. Administrative Allocation

Alberta has been approved to use 0.3% of its annual GTF funding to cover a portion of the costs of delivering the program on behalf of the federal government. These funds are used to fund administration of the GTF agreement, including review and approval of GTF projects, fulfillment of reporting requirements from municipalities and to Canada, administration of the GTF funds, and provision and maintenance of the IT system used to administer the GTF.

In 2015, \$625,952 was allocated to cover the administration cost, in addition to \$625,952 carried-forward from 2014. Of that, \$89,853 was spent, with the remaining funds carried forward to 2016.

8. Additional Resources

Additional information for the GTF program is available on Municipal Affairs and Infrastructure Canada program websites:

- Municipal Affairs: www.municipalaffairs.alberta.ca/gastaxfund
- Infrastructure Canada: www.infrastructure.gc.ca/plan/gtf-fte-eng.html

