

# Sturgeon County Part 1: Contingency Reserve

**Debt Policy & Short-Term Borrowing Bylaw Amendments**

# Introduction

## **Recommendations require amending;**

1. Debt Management Policy
2. Short-Term Borrowing Bylaw

## **Overview & Background;**

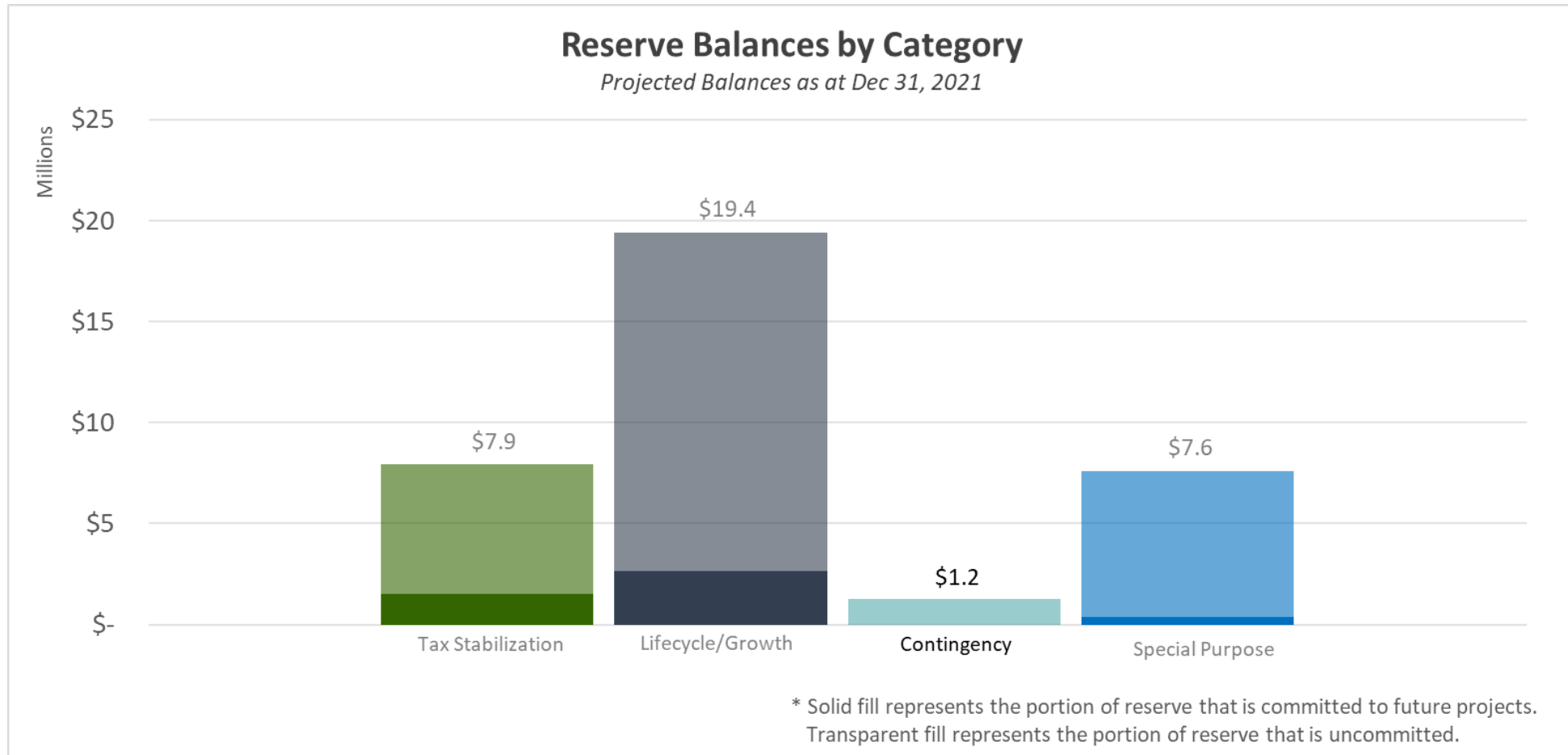
1. Reserve Summary
2. Contingency Planning
3. Financial Analysis
4. Recommendations



# Municipal Reserves Overview



# Sturgeon County Reserve Summary



# Part 1: Contingency Reserves Overview



## Introduction

Issues and Background

Risk Management

Scope and Methodology

Funding and Financing Strategy



## Analysis

Reserve Groupings

Extraordinary Risks



## Recommendations

Multiple Events and Timing

Temporary Cashflow and Permanent  
Cost Impacts

# Introduction: Issues & Background



## Introduction

### Issues and Background

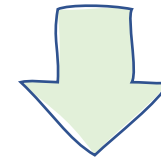
Risk Management

Scope and Methodology

Funding and Financing  
Strategy

## Major Flooding Events

### Disaster Recovery Program (DRP) Changes



“Risk based analysis to determine appropriate level of reserve funds”

- Government Financial Officers Associations (GFOA)
- Consideration of unique circumstances
  - Revenue or expense volatility
  - Exposure to expenditures for extraordinary events

# Introduction: Risk Management



## Introduction

Issues and Background

**Risk Management**

Scope and Methodology

Funding and Financing  
Strategy

## Financial Toolbox

- Insurance
- Reserves
- Interim-Financing
  - Debt limit impact

## Assessing the Appropriate Amount of Reserve Funds

- Challenges
  - Competing priorities
  - Optics
  - Tax rate impact
- Advantages
  - Nimble and Responsive (Flexibility)
  - Supporting multi-year planning
  - Ability manage unplanned events and other risks

# Introduction: Scope & Methodology



## Introduction

Issues and Background

Risk Management

**Scope & Methodology**

Funding and Financing  
Strategy

### In Scope

- Insurance
- Reserves
- Interim-Financing
  - Debt limit impact

### Out of Scope

- Overall disaster recovery planning
- Direct losses to private property
- Statistical analysis

### Methodology

- High, Medium, Low
- \$500K threshold
- High = double historical costs
  - Data limited
  - Conservative
  - Non-Statistical
- Regional Examples



# Introduction: Funding & Financing Strategy



## Introduction

Issues and Background

Risk Management

Scope and Methodology

**Funding and Financing  
Strategy**

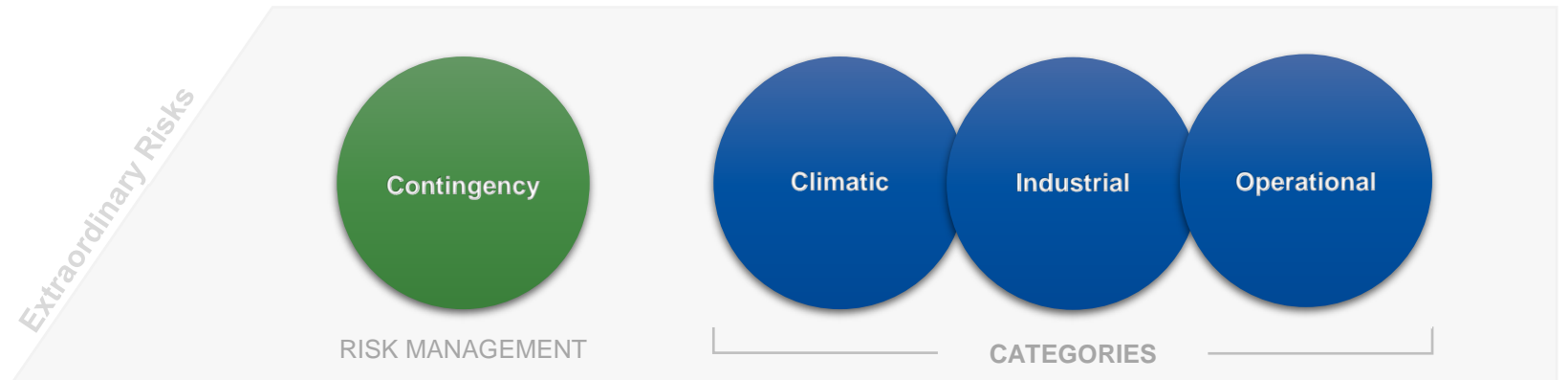
## Temporary Cashflow Impacts

- Recommendation: Short-term Financing
  - Practical approach
  - Opportunity cost
  - Debt capacity / Debt limit

## Permanent Costs

- Recommendation: Reserve funds on-hand
  - Reserve targets
  - Targeted transfers needed

# Analysis of Reserves & Extraordinary Risks



# Climatic Analysis

## Wildfires:

- Past Events (2001, 2003, 2006, & 2009)
- \$1M in costs (~\$1.5M presently)
- \$1.75 in costs (regional experience)
- Municipal Wildfire Assistance Program 25:75 cost share (~\$550K threshold)

Climatic Event Severity	Wildfire			Flood			Storm (Utility Operations)		
	Temporary Cashflow Impacts	Permanent Costs	Frequency	Temporary Cashflow Impacts	Permanent Costs	Frequency	Temporary Cashflow Impacts	Permanent Costs	Frequency
Low (L)	-	-	-	-	1.00	10%	0.50	0.50	10%
Medium (M)	1.50	0.80	20%	7.50	0.80	5%	1.50	-	5%
High (H)	3.00	1.20	1%	15.00	1.50	1%	3.00	-	1%
<b>Recommendations:</b>	-Short-term financing \$3 million -Reserve target \$.8 million (M)			-Short-term financing \$15 million -Reserve target \$1.8 million (L + M)			-Short-term financing \$3 million -Reserve target \$0.5 million (L)		

# Industrial Analysis

## Sturgeon County Industrial Activity

- Petro-chemical refining, fertilizer, and energy value chain
- Supported by rail, pipeline, and trucking
- Past event
  - Significant Train Derailment (2017)

## Hazardous materials event

- Private Firm Responsibility

Event Severity	Industrial		
	Temporary Cashflow Impacts	Permanent Costs	Frequency
Low (L)	-	-	-
Medium (M)	2.00	-	5%
High (H)	4.00	-	1%
Recommendations:	-Short-term financing \$4 million		

# Operational Analysis

## Reduced Revenue

High revenue concentration  
Practical limitations to self-insuring  
GFOA recommendation  
Two months budgeted operating costs

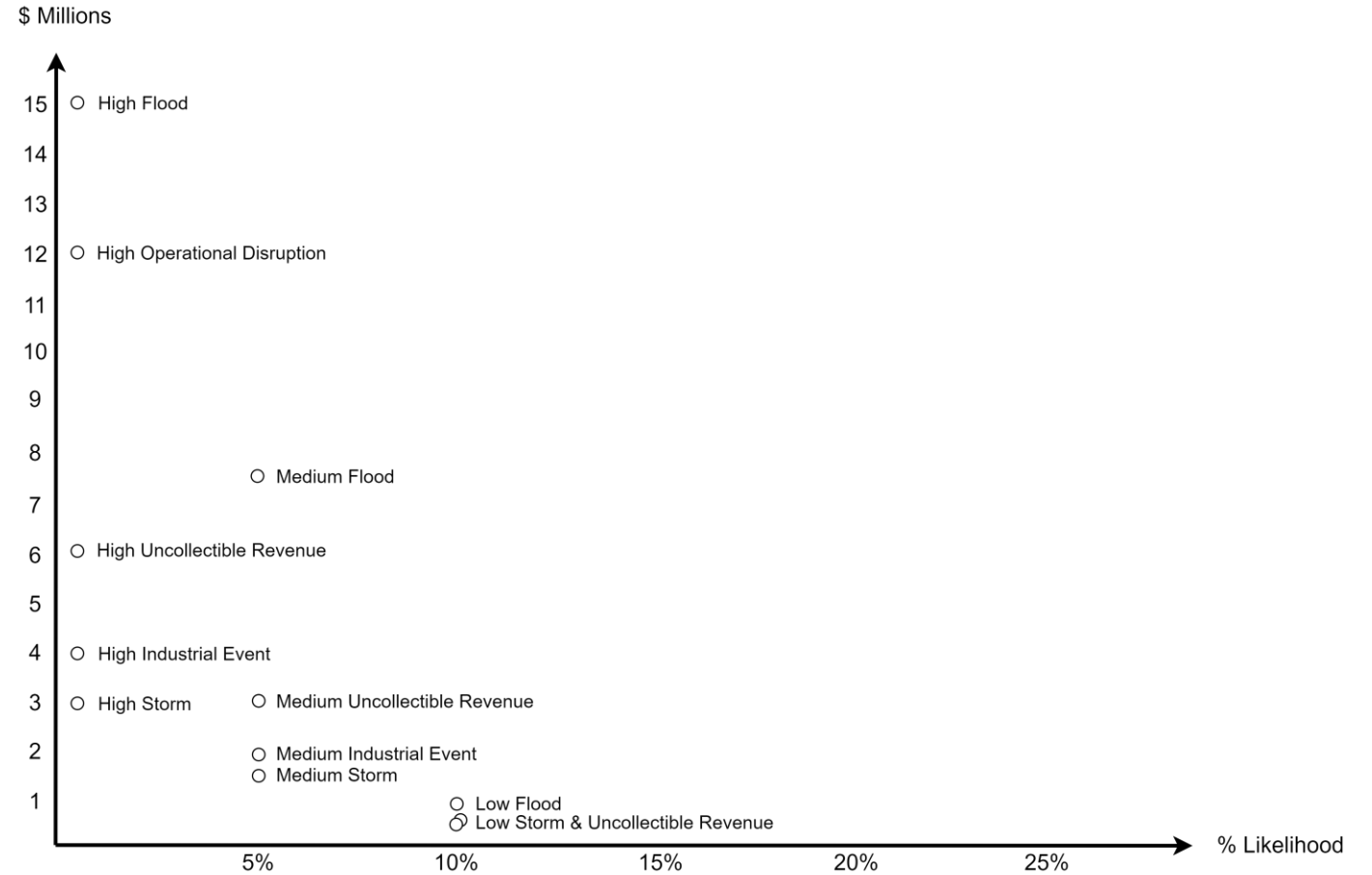
## Uncollectible revenue

Past experience (2019 to 2021)  
Ranging from \$0.6 million to \$3.1 million  
New legislation may mitigate permanent costs

Event Severity	Operational		
	Temporary Cashflow Impacts	Permanent Costs	Frequency
Low (L)	0.60	0.30	10%
Medium (M)	3.10	1.60	5%
High (H)	6.20	3.10	1%
Recommendations:	<ul style="list-style-type: none"><li>- Short-term financing \$4 million</li><li>- Reserve target \$1.9 million</li><li>- Short-term financing \$4 million</li><li>- Uncommitted reserves 2 months or \$12.2M</li></ul>		

# Financial Analysis of Extraordinary Risks

**Forecast Extraordinary Events**



# Basis for Recommendations

**Target  
Contingency  
Measures**

**Multiple Events  
& Timing  
Assumptions**

Permanent Costs

Temporary Cash  
Flow Impacts

Only one event each  
year & event will not  
recur

Three years of  
timing for cashflows  
(i.e. cumulative)

Three years of  
consecutive events



# Recommendations: Temporary Cash Flow Impact

Extraordinary Event	Temporary Cashflow Impacts
Climatic: Flood	15.00
Operational	6.20
Industrial	4.00
<b>Total</b>	<b>25.20</b>
<b><u>Recommendations:</u></b>	
-Establish short-term financing \$25M	
-Set uncommitted reserve balance target at \$12M	

## Basis for Recommendations:

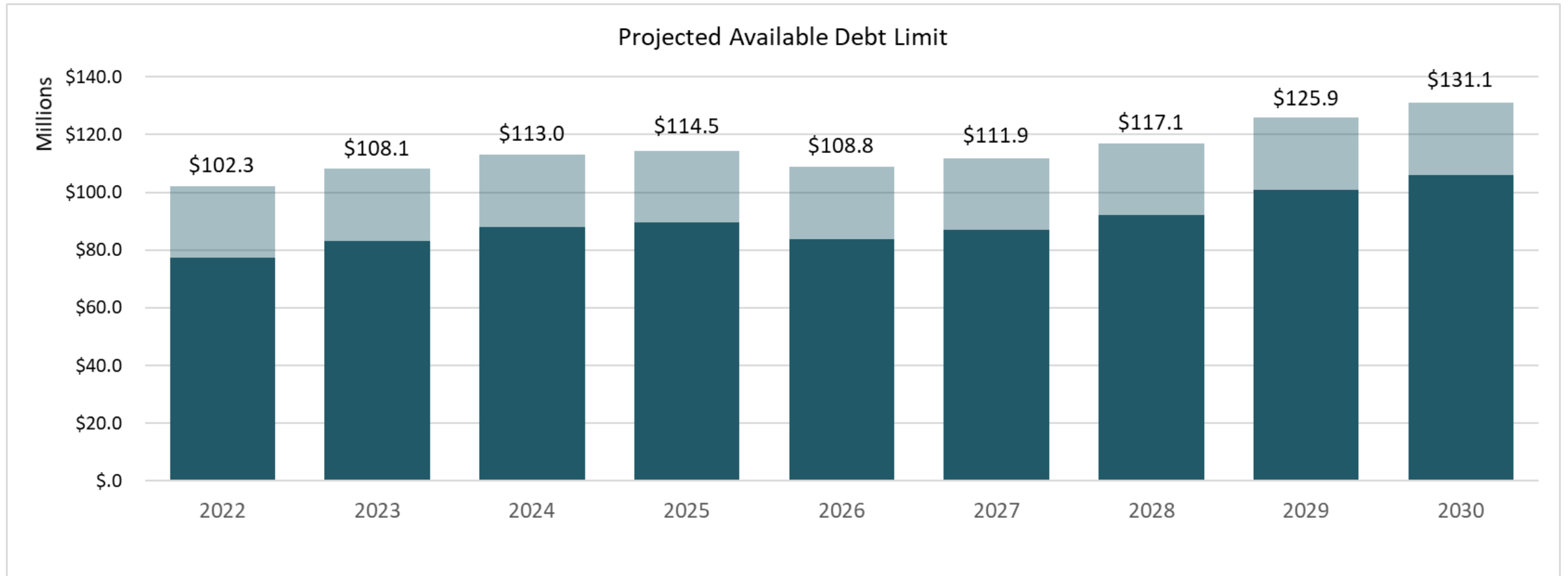
- Bank financing available up to \$60M
- No immediate cost impact
- Constrains overall borrowing capacity

## Bylaw & Policy implications

Short-term debt bylaw  
Debt Management Policy



# Projected Debt Limit Available



# Recommendations: Permanent Costs

Extraordinary Event	Permanent Costs
Operational	1.90
Flood	1.80
Wildfire	0.80
<b>Total</b>	<b>4.50</b>
<b><u>Recommendations:</u></b>	
-Set contingency reserve target at \$4.5M	
-Fund contingency reserve balance to target level	
-Set separate \$0.5M contingency reserve target for utilities	

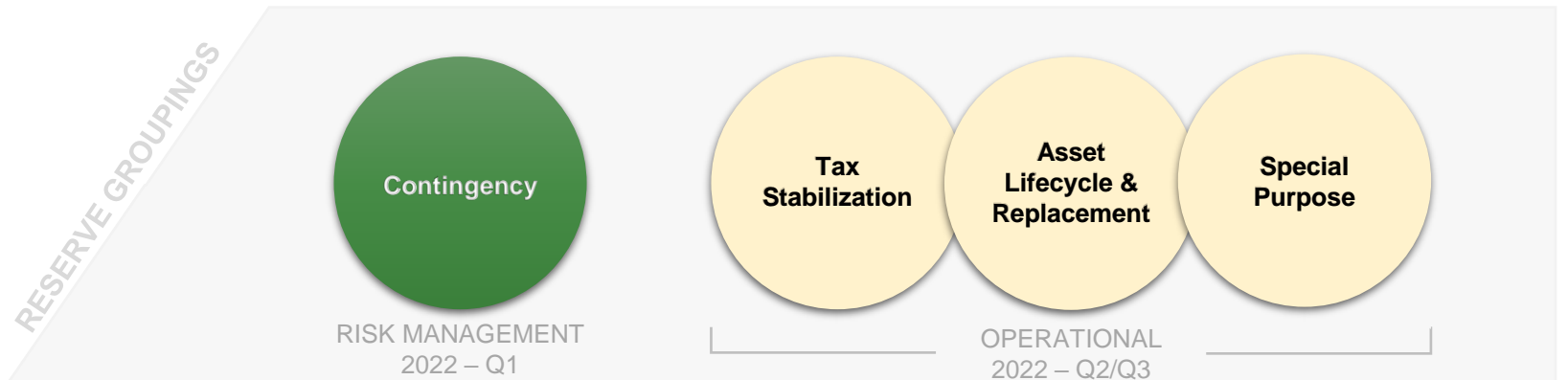
## Basis for Recommendation(s):

- Current balance of the contingency reserve is \$1.2 million
- \$3.3 balance below target

## Replenishment Options:

- Budgeted reserve transfer
- \$660 thousand (Five years)
- Reserve reallocation
- Anticipated DRP settlement - Recommended
- Combination of the above

# Current & Future Analysis of Reserves



# In Conclusion

## **Proposed Motions:**

- 1. That Council approve the amended debt management policy.**
- 2. That Council give first reading of Bylaw 1583/22.**

