Fiscal Impact Analysis of the Annexation Proposed by the Town of Bon Accord

Town of Bon Accord

FINAL REPORT

January 3, 2017
January 3, 2017

Town of Bon Accord
5025 – 50th Avenue
Bon Accord, AB
T0A 0K0

Attention: Steve Madden, Assistant CAO
Subject: Town of Bon Accord Annexation Fiscal Impact Analysis

Please find enclosed our Final Report of the Fiscal Impact Analysis to reflect the financial implications of the annexation proposed by the Town of Bon Accord.

If you have any questions on this submission, please give me a call.

Sincerely,
Applications Management Consulting Ltd.
Per:

Darryl Howery
Principal
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I. Executive Summary

The Town of Bon Accord is proposing to annex 194.25 hectares (three quarter sections) of land from Sturgeon County to meet the Town’s long term growth requirements.

1.1. Purpose of the Analysis

The purpose of this analysis is to evaluate the potential financial impacts of the proposed annexation on all affected ratepayers. This includes consideration of three unique groups of ratepayers.

- **Town Ratepayers:** This perspective examines how the proposed annexation would affect the municipal tax rates for ratepayers who reside in the Town of Bon Accord.
- **County Ratepayers:** This perspective examines how the proposed annexation would affect the municipal tax rates for ratepayers who reside in Sturgeon County, but outside the proposed Annexation Area.
- **Ratepayers in the Proposed Annexation Area:** This perspective examines how the proposed annexation would affect the municipal tax rates for ratepayers who reside in the proposed Annexation Area.

1.2. Approach to the Analysis

The impact of the proposed annexation has been determined by comparing the financial forecast results for both the Town and County in each of a With and Without Annexation scenario. The ‘impact’ of annexation is measured by comparing the results for each of these scenarios. The key parameters of the analysis include the following:

- 30 year forecast period. The Base Year of the forecast is 2015.
- All projections are in ‘real’ 2015 dollars.
- Financial information provided by both the Town and County have been used as the basis of the financial forecasts.
- Future development in the proposed annexation area and future infrastructure requirements to support this development have been based on an engineering study completed by the Town.

1.3. Summary of the Analysis Results

The proposed annexation of 194.25 hectares is expected to result in a net benefit to the Town of Bon Accord. This benefit will result in real municipal property taxes being lower With Annexation than would be the case Without Annexation. Over the 30 year forecast period, it is estimated that municipal property
taxes With Annexation would be approximately 15.9% lower as compared to those Without Annexation. The result would be achieved as a result of the following:

- Operating expenditures would increase in the Town by an estimated $3,000 per year to maintain existing roadways in the proposed annexation area.
- Residential and non-residential growth would be accommodated in the Town as a result of annexation. The Town’s fiscal balance would improve to some degree, whereby the share of non-residential assessment would increase from approximately 4.2% of total assessment in 2015 to almost 6% by the end of the forecast period With Annexation.
- It is expected that all costs associated capital infrastructure required to support growth in the proposed annexation area would be recovered through levies. Additional maintenance and infrastructure life cycle costs have been incorporated in the analysis and are reflected in the resulting municipal property tax impact results.
- The Town’s debt load and debt servicing costs will be well within reasonable sustainable limits in both the With and Without Annexation scenarios.

The impact of the proposed annexation is expected to have a very minor impact on the financial position of Sturgeon County. The County would reduce its costs by the amount associated with the maintenance of roads in the proposed annexation area. The loss of municipal tax revenues as a result of the proposed annexation are estimated to represent approximately 0.02% of the County’s 2016 municipal tax requisition. On a net basis (revenue savings minus reduced expenditures), Sturgeon County will save an estimate $5,500 per year as a result of the proposed annexation.

Property owners in the annexation area could face higher tax rates as a result of annexation without tax protection. As a result, it is recommended that tax protection be provided to the property owners in the annexation area so they would continue to be taxed and assessed as if they were to have remained in the County, for a period of up to 20 years, or until such time as the property owner initiates connection to Town services or takes actions to subdivide or re-designate the land use of the property.
2. Introduction

The Town of Bon Accord is proposing to annex 194.25 hectares (three quarter sections) of land from Sturgeon County to meet the Town’s long term growth requirements.

In support of the Town’s annexation application, it undertook an Annexation Servicing Study. This study has been used as the basis for determining the additional investment that would be required to support development in the proposed annexation area.

2.1. Purpose of this Analysis

The purpose of this analysis is to evaluate the long term fiscal impacts of the Town’s proposed annexation on the ratepayers in both the Town of Bon Accord and Sturgeon County. The analysis considers the incremental effects the proposed annexation will have on the financial position of the Town and the County, including changes to municipal revenues and expenditures associated with providing services to the ratepayers in the proposed Annexation Area.

The potential financial impacts of the proposed annexation have been viewed from each of three perspectives:

- **Town Ratepayers:** This perspective examines how the proposed annexation would affect the municipal tax rates for ratepayers who reside in the Town of Bon Accord.

- **County Ratepayers:** This perspective examines how the proposed annexation would affect the municipal tax rates for ratepayers who reside in Sturgeon County, but outside the proposed Annexation Area.

- **Ratepayers in the Proposed Annexation Area:** This perspective examines how the proposed annexation would affect the municipal tax rates for ratepayers who reside in the proposed Annexation Area.

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1 Bon Accord Annexation Service Study, MPE engineering Ltd, Town of Bon Accord, September 20, 2016
3. Overview of the Proposed Annexation

The Town of Bon Accord has filed notice of its intent to proceed with a formal annexation of lands from Sturgeon County to accommodate its long term growth needs. While the Town currently has undeveloped land within its existing municipal boundary, development of these lands for growth of the Town has stalled. In addition, there is very little commercially zoned land currently within the Town that can support new development. As a result, annexation of additional lands for both residential and commercial development are included in the proposed annexation area. The location of the proposed Annexation Area is depicted in Figure 1.

Figure 1: Town of Bon Accord’s Proposed Annexation Area

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The Annexation Area includes:

- Approximately 183.9 hectares of gross developable land to accommodate future residential and neighbourhood commercial growth. This area is expected to be defined as follows:
  - Net Residential Area: 116.3 hectares
  - Commercial Area: 27.6 hectares
  - Municipal Reserve / Schools / Storm Water Management / Roads: 40.0 hectares
  - Approximately 8.6 hectares of environmental reserve (natural area).
  - Approximately 1.8 hectares of utility/pipeline right-of-ways.

The proposed annexation area land use allocations are depicted in the figure below.\(^3\)

**Figure 2: Proposed Annexation Area Land Use Allocations**

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\(^3\) Bon Accord Annexation Service Study, MPE engineering Ltd., Town of Bon Accord, September 20, 2016, page 15.
3.1. **Current Development in the Proposed Annexation Area**

Based on information provided by Sturgeon County and other data developed by the consultant, the proposed Annexation Area is comprised of the following:

- **Population - 10 residents (estimate):** Based on assessment information provided by the County that indicates there are 4 residential dwelling units currently located in the proposed annexation Area.
- **Annexation Area 194.25 hectares.**
- **Total Assessment $1.5 million of which $1.38 million is taxable in the County.**
  - Farmland: $98,880
  - Residential: Taxable ($1.28 million) / Exempt ($86,900)
  - Farm Buildings: Exempt ($48,230)

The impact of the proposed annexation on selected dimensions for each municipality are summarized in the table below.\(^5\)

**Table 1: Existing Development in the Proposed Annexation Area (2015)**

<table>
<thead>
<tr>
<th>BASE FIGURES</th>
<th>ANNEX AREA</th>
<th>TOWN OF BON ACCORD BEFORE ANNEXATION</th>
<th>TOWN OF BON ACCORD AFTER ANNEXATION</th>
<th>STURGEON COUNTY BEFORE ANNEXATION</th>
<th>STURGEON COUNTY AFTER ANNEXATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>10</td>
<td>1,616</td>
<td>1,626</td>
<td>21,074</td>
<td>21,064</td>
</tr>
<tr>
<td>Dwelling Units</td>
<td>4</td>
<td>622</td>
<td>626</td>
<td>7,176</td>
<td>7,172</td>
</tr>
<tr>
<td>Area (ha)</td>
<td>194</td>
<td>205</td>
<td>399</td>
<td>214,425</td>
<td>214,231</td>
</tr>
<tr>
<td>Roads (km)</td>
<td>1.6</td>
<td>15.9</td>
<td>17.5</td>
<td>1,776.0</td>
<td>1,774.4</td>
</tr>
<tr>
<td>Assessment</td>
<td>$1,517,000</td>
<td>$146,277,690</td>
<td>$147,794,690</td>
<td>$6,034,439,170</td>
<td>$6,032,922,170</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change</th>
<th>% Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>0.62%</td>
<td>-0.05%</td>
</tr>
<tr>
<td>Dwelling Units</td>
<td>0.64%</td>
<td>-0.06%</td>
</tr>
<tr>
<td>Area (ha)</td>
<td>94.76%</td>
<td>-0.09%</td>
</tr>
<tr>
<td>Roads (km)</td>
<td>10.04%</td>
<td>-0.09%</td>
</tr>
<tr>
<td>Assessment</td>
<td>1.04%</td>
<td>-0.03%</td>
</tr>
</tbody>
</table>

Transferring jurisdictional control of the proposed Annexation Area to the Town of Bon Accord will have the following impacts on the Town (based on 2015 data):

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\(^5\) All comparisons are provided based on actual or estimated data for 2015. This is the Base Year of the financial forecast for each municipality.
The Town’s population will increase by 0.63 percent.\textsuperscript{6}

The dwelling unit count in the Town will increase by 0.65 percent.\textsuperscript{7}

The area of the Town will increase by 95 percent.

The kilometers of road in the Town will increase by 10 percent.

The Town’s Assessment Base will increase by 1.04 percent.

The impact of the Town’s proposed annexation on the the County (based on 2015 data) is summarized below:

The County’s population will decrease by 0.05 percent.\textsuperscript{8}

The dwelling unit count in the County will decrease by 0.06 percent.

The area of the County will increase by decrease by 0.09 percent.

The kilometers of road in the County will decrease by 0.09 percent.

The County’s Assessment Base will decrease by 0.03 percent.

\textsuperscript{6}The Town’s 2015 population is based on the 2014 Capital Region Board population figure of 1,600 plus an assumed 1% increase in growth to 2015.

\textsuperscript{7}The Town’s 2015 dwelling unit count is estimated based on an average household size of 2.6 as assumed in the Annexation Service Study.

\textsuperscript{8}The 2015 population of the County is based on the 2014 Capital Region Board approved population of 20,600 plus an assumed 2.3% increase in growth to 2015.
### 3.1.1. Estimate of Annexation Area Assessment

Assessment information for the proposed Annexation Area was provided by Sturgeon County for the 2015 tax year, excluding linear assessment.³

#### Table 2: Estimated Impact of Taxable Assessment in Proposed Annexation Area (2015)

<table>
<thead>
<tr>
<th>ANNEX AREA</th>
<th>TOWN OF BON ACCORD BEFORE ANNEXATION</th>
<th>TOWN OF BON ACCORD AFTER ANNEXATION</th>
<th>STURGEON COUNTY BEFORE ANNEXATION</th>
<th>STURGEON COUNTY AFTER ANNEXATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>$1,282,960</td>
<td>$139,428,770</td>
<td>$3,532,806,040</td>
<td>$3,531,523,080</td>
</tr>
<tr>
<td>Other Residential</td>
<td>$0</td>
<td>$646,220</td>
<td>$646,220</td>
<td>$0</td>
</tr>
<tr>
<td>Farmland</td>
<td>$98,880</td>
<td>$63,000</td>
<td>$161,880</td>
<td>$78,858,360</td>
</tr>
<tr>
<td>Non-Residential</td>
<td>$0</td>
<td>$4,390,100</td>
<td>$4,390,100</td>
<td>$1,454,368,420</td>
</tr>
<tr>
<td>Linear</td>
<td>$38,700</td>
<td>$1,702,970</td>
<td>$1,741,670</td>
<td>$3,172,510</td>
</tr>
<tr>
<td>Machinery &amp; Equipment</td>
<td>$0</td>
<td>$46,630</td>
<td>$46,630</td>
<td>$965,233,840</td>
</tr>
<tr>
<td>Total Taxable</td>
<td>$1,420,540</td>
<td>$146,277,690</td>
<td>$147,698,230</td>
<td>$6,034,439,170</td>
</tr>
<tr>
<td>Change</td>
<td>% Change</td>
<td>% Change</td>
<td>% Change</td>
<td>% Change</td>
</tr>
<tr>
<td>Residential</td>
<td>0.92%</td>
<td>-0.04%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Residential</td>
<td>0.00%</td>
<td>n/a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmland</td>
<td>156.95%</td>
<td>-0.13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Residential</td>
<td>0.00%</td>
<td>0.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Linear</td>
<td>2.27%</td>
<td>-1.22%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery &amp; Equipment</td>
<td>0.00%</td>
<td>0.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Taxable</td>
<td>0.97%</td>
<td>-0.02%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The impact of the Town’s proposed annexation on the the County (based on 2015 data) is summarized below:

- The Town’s taxable assessment is projected to increase by less than one percent (0.97%).
- The most significant change in the Town’s assessment will occur in Farmland, which is projected to increase by 157% and Linear, projected to increase by 2.3%.

The impact on the County’s assessment base is minimal, reflecting an overall change of -0.02%. Linear assessment is projected to decline the most for the County, 1.2%.

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³ Linear assessment in Alberta is regulated and assessed by assessors designated by the Province of Alberta (Alberta Municipal Affairs) and the estimate of linear assessment in the proposed annexation area was provided by the Province.
4. Long Term Fiscal Impacts of the Proposed Annexation

For each of the affected ratepayer groups, the approach and key assumptions used in the fiscal impact analysis along with the fiscal impact results are presented in this section.

4.1. Approach to This Analysis

The analysis provided in this section of the report has been prepared to estimate the potential fiscal impacts of the Town’s proposed annexation from each of the three perspectives: existing ratepayers in the Town, existing ratepayers in the County and ratepayers in the proposed Annexation Area.

4.1.1. Measuring the Impact of Annexation

To estimate the impact of annexation, a baseline analysis of the financial position of both the Town of Bon Accord and Sturgeon County has been developed. This baseline analysis is compared against an analysis that projects the financial position of each municipality which assumes the proposed annexation is approved.

4.1.2. ‘With Annexation Scenario’ Considerations

Typically the ‘With Annexation Scenario’ includes the financial implications of all development that occurs on lands to be annexed. In the case of Bon Accord, the Town currently has lands that are undeveloped, but the development of these lands has stalled, resulting in the Town not being able to effectively accommodate future residential growth. In addition, the Town has a limited available supply of commercial lands for non-residential development.

To evaluate the financial impacts of the proposed annexation, the following assumptions have been made.

- It has been assumed that annexation would be effective January 1, 2017. All adjustments associated with the boundary change have been assumed to occur in this year.
- Growth and development in the proposed Annexation Area have been assumed to begin in 2020. This would allow for three years from the proposed approval of the annexation to complete the required planning and infrastructure development required to support growth in the Annexation Area.
- Between 2016 and 2020 it has been assumed that limited growth would occur in the Town, where population would grow by an average of 1.0% per year.
- From 2020, it has been assumed that all growth in Bon Accord would occur in the proposed Annexation Area.

4.1.3. Key Study Assumptions

The fiscal impact analysis presented in this report incorporates the best data available to the consulting team at the time the analysis was undertaken. The following is a summary of the information utilized and the key assumptions employed in preparing the fiscal impact analysis.

- **Timeframe for the Analysis:** The Base Year for the fiscal impact analysis is 2015. It is assumed the annexation would be effective January 1, 2017. The fiscal impact analysis examines impacts over a 30 year forecast period beginning in the Base Year (2015) and ending in 2046.
Inflation: All projections of revenues, expenditures and assessment, along with corresponding impacts, are presented in Base Year (2015) dollars (real dollar terms).

2015 Town of Bon Accord Financial Information: The Town of Bon Accord’s 2015 operating financial detail (by account code) and financial statements were used as the basis for seeding the Town’s fiscal impact analysis with Base Year data.

2015 Sturgeon County Financial Information: Sturgeon County’s 2015 Base Year operating financial detail was obtained from the County’s 2015 Consolidated Financial Statement.

Capital Expenditures - Future Projects: The Town provided a 10 year capital infrastructure plan which was reviewed and extended to the end of 2046. This plan was amended with information from the Bon Accord Annexation Servicing Study, that provided the hard off-site infrastructure costs that would be required to support growth in the proposed Annexation Area.

Municipal Mill Rates: The analysis is limited to an examination of the fiscal impacts of the proposed annexation on municipal property tax rates, excluding education and other property tax rates. Base Year (2015) municipal tax rates from the Tax Rate Bylaws passed by each municipality for the 2015 tax year were used in the analysis. It was assumed that the current splits in municipal mill rates would remain in place over the forecast period.

Base Year Assessment: Current assessment data (2014 assessment for 2015 Tax Year) was based on detailed assessment information provided by the Town and obtained for the County from their website.

Projections of Growth and Development: Projections of growth and development in the Town and County have been based on the Capital Region Board High Scenario population and employment projections. It is acknowledged that these forecasts are in all likelihood high given the assumptions that have been incorporated in the forecasts and current economic conditions. However, as the need for land is not based on absolute growth but rather other factors, using these projections for the purposes of the fiscal impact analysis will yield reasonable results.

Annexation Area - Existing Development: The current assessment in the proposed annexation area was provided by Sturgeon County. Based on this information, an estimate was made of the existing population and dwelling unit count.

Annexation Area - Future Development: Growth in the proposed Annexation Area is assumed to begin in 2020. After this point, all growth of the Town is assumed to occur in the Annexation Area. Aggregate growth is projected to be consistent with the average annual growth rate for the Town as projected in the Capital Region Board High Scenario.

Net Operating Cost of Providing Services to the Annexation Area: For the purposes of this analysis, the net operating cost impacts of providing municipal services to the proposed Annexation Area have been estimated for both the Town and County based on the kms of road that are contained within the Annexation Area. Due to the relatively small number of ratepayers and associated development in the Annexation Area, it is assumed there will be no other financial implications for either the Town or County associated with the transfer of jurisdictional control.

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10 http://www.bonaccord.ca/financial.html


12 http://www.sturgeoncounty.ca/AboutSturgeon/CountyInformation/CountyBylaws/tabid/134/Default.aspx

13 http://capitalregionboard.ab.ca/Website/files/96/9673a809-4d44-474f-a663-65c6eac75a63.pdf

14 If development occurs at a rate slower than projected by the forecasts, as expected, the results of the fiscal impact analysis could be interpreted as those that would occur over a longer than 30 year forecast horizon.
Tax Protection: Municipal tax rates are significantly higher in the Town and County for residential and non-residential assessment. However, municipal tax rates for farmland are higher in the County by a wide margin. However, because of the exemption for farm buildings in rural municipalities, the net tax impact of farm properties with farm buildings could be expected to experience a tax increase as a result of annexation without some form of tax protection. As such, it is proposed that tax protection be afforded to ratepayers in the proposed Annexation Area that would allow each residential property to be assessed as if it were in the County and taxed at the lower of the Town or County municipal tax rate, until such time as some trigger to develop the land is initiated by the land owner, or 20 years following annexation (2036), whichever were to come first. Similarly, it is proposed that farm properties be taxed and assessed as if they were in the jurisdiction that provided them the best tax position. Those properties with farmland and no farm buildings would benefit from the Town’s lower municipal tax rate on farmland. Those ratepayers with farm buildings would have to calculate the net benefit of the farm building tax exemption as compared to the tax rate reduction afforded from the lower Town farm tax rates. Given the small number of properties included in the proposed Annexation Area (4) these calculations and exemptions would not impose a significant burden on the Town (or ratepayers) to determine and maintain. There are no non-residential ratepayers in the proposed annexation area and as a result there is no need for tax protection for this class of ratepayer.

Compensation for Tax Revenue Loss: The municipal taxes paid by properties in the proposed Annexation Area in 2016 is estimated to be less than $6,000. This represents less than 0.02% of the County’s 2016 municipal tax requisition of $41.18 million. As a result, because of the relatively small amount of municipal property tax revenues (and expenditures) involved, there would appear to be no need to provide the County compensation for lost tax revenues associated with the proposed Annexation Area.

4.2. Town of Bon Accord

The fiscal impact analysis presented for the Town of Bon Accord is based on how the proposed annexation will affect municipal operations of the Town as measured through the change in municipal property tax rates. This includes consideration of both the change in net operating costs, future capital investment, as well as the change in the Town’s assessment base.

4.2.1. Approach To Measuring Fiscal Impacts

The fiscal impacts of the proposed annexation on the municipal operations of the Town of Bon Accord result from a comparison of the fiscal position of the Town With Annexation to the Town Without Annexation. This analysis utilizes Applications Management Consulting Ltd.’s Municipal Fiscal Impact Model.

Without Annexation: The ‘Without Annexation Scenario’ defines growth and a financial forecast for the Town assuming there is no annexation. It also assumes that the existing constraints to growth within the existing boundary of the Town would continue, resulting in the the Town’s population increasing to 1,700 in 2020 people and remaining at that level over the forecast period.

With Annexation: The ‘With Annexation Scenario’ defines growth and a financial forecast for the Town assuming annexation occurs in 2017 and growth begins in the proposed Annexation Area in 2020. From this point forward, the Town is projected to grow at an annual rate of 2.5% per year as projected in the Capital Region Board High Scenario growth forecast.

The triggers to develop lands within the proposed Annexation Area could include: an initiative to subdivide, the land is re-designated at the request of the owner, or the parcel is (at the request of the owner) connected to the Town’s water and sewer services.
Impact of Annexation: The impact of annexation is the difference between the With and Without Annexation Scenarios.

4.2.2. POPULATION GROWTH

The fiscal impacts of the proposed annexation on the municipal operations of the Town of Bon Accord result from a comparison of the fiscal position of the Town With Annexation to the Town Without Annexation:

- **Town Without Annexation:** Without annexation, future growth in the Town is assumed to be constrained resulting in the Town’s growth increasing to just under 1,700 people and remaining at that level over the forecast period.

- **Town With Annexation:** With annexation, it is assumed that the Town is expected to continue to grow reaching 3,324 people by 2046. This is consistent with the growth projected for the Town in the Capital Region Board High Scenario growth forecast.

Figure 2: Town of Bon Accord - Population Growth
4.2.2.1. Dwelling Unit Growth

The number of dwelling units is projected for both the 'With' and 'Without Annexation' Scenario:

- **Town Without Annexation**: Without annexation the total number of dwelling units grows from 622 (2015) to 653 by 2020. No additional residential development is projected for the 'Without Annexation Scenario' beyond 2020.

- **Town With Annexation**: With annexation, it is projected that the total number of dwelling units will increase to almost 1,278. This assumes that the average number of persons per dwelling unit would average 2.6 over the forecast period.

![Dwelling Units - Bon Accord](image)

4.2.3. Operating Costs

Projections of municipal operating expenditures have largely been based on population growth and assumptions regarding marginal costs of service delivery. For each municipal service area, the percentage of Base Year operating expenditures assumed to be fixed (or constant) is estimated. The remaining portion of costs are deemed to be variable, and change with changes in population as the primary driver of all costs, except road costs. Changes in road costs are based on the changes in the length of roads the Town will have to maintain.

Overall, it has been assumed that approximately 45% of the Town's operating costs are fixed with the remaining 55% of operating costs varying with changes to population or road length. Operating

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16 Interest payments associated with the Town’s existing debentures have been included in capital expenditures (Section 3.2.4), for the purposes of this analysis.
expenditures exclude transfers to reserves and capital-related expenditures (i.e. capital funded from operations and debentures payable on capital projects that have been debt financed).

The Town’s projected operating costs associated with servicing existing development in the proposed Annexation Area are based on the marginal cost assumptions used for the Town with consideration of the costs that would more likely be incurred to service the more rural nature of the existing development. The operating cost assumptions for the Town to service the existing development in the proposed Annexation Area are summarized in the following table.

Table 3: Estimated Annual Town Operating Costs to Service Existing Development in Proposed Annexation Area

<table>
<thead>
<tr>
<th>SERVICE AREA</th>
<th>TOWN - ESTIMATED OPERATING COSTS (ADJUSTED)</th>
<th>NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 - Fiscal Services</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>11 - Council &amp; Other Legislative</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>12 - General Government Services</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>21 - Police Protection</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>23 - Fire Protection</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>26 - By-Law Enforcement</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>31 - Transportation Common Services</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>32 - Road, Streets, Walks, Lighting</td>
<td>$3,000</td>
<td>Annual maintenance includes grading, dust control and gravel replacement. Gravel replacement estimated to be $3,000 and done every 3 years. Dust control estimated to be approximately $2,800 for the entire length of road. Average ‘as needed’ estimate to be $1,000 per year. Annual grading estimated to be $1,000 per year.</td>
</tr>
<tr>
<td>34 - Public Transit System</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>37 - Storm Sewer &amp; Drainage</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>41 - Water Supply &amp; Distribution</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>42 - Wastewater</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>43 - Solid Waste</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>50 - Community</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>60 - Planning &amp; Development</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>70 - Recreation &amp; Culture</td>
<td>$0</td>
<td>No impact until connection to the Town’s system</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$3,000</td>
<td></td>
</tr>
</tbody>
</table>

It is estimated that the cost of delivering municipal services to the Annexation Area would total approximately $3,000 per year. As these lands are developed, the costs of delivering municipal services have been adjusted to reflect the projected growth and the full cost of delivering municipal services.

17 All figures are estimates based on desktop analysis completed by the consultant.
4.2.3.1. Operating Expenditure Impacts

The projection of operating expenditures for the With and Without Annexation Scenarios are summarized below:

- **Town Without Annexation**: Without annexation the Town’s operating expenditures are projected to increase with the increase in population to the year 2020 (in real 2015 $). From 2021 to the end of the forecast real operating expenditures are projected to remain at $3.1 million per year.

- **Town With Annexation**: With annexation, it is projected that total operating expenditures will continue to increase in real terms over the forecast with growth. This projection includes the growth factors, with growth increasing on the variable portion of expenditures in each function area, as well as an operating cost allowance for new infrastructure that is projected to be required to service the growth in the ‘With Annexation Scenario.’ Based on these assumptions, real (2015 $) operating expenditures in the ‘With Annexation Scenario’ are projected to increase to $4.6 million per year by the end of the forecast (2046).  

![Operating Expenditures - Bon Accord - (Real 2015 $)](image)

4.2.4. Capital Costs

Capital costs include all expenditures on the refurbishment and replacement of existing assets as well as the investment in new assets. The total cost of these expenditures has been estimated, as has the source of

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18 Note that average operating expenditures per capita are projected to decline in the With Annexation Scenario from approximately $1,800 in 2015 to under $1,400 by the end of the forecast period, reflecting the ability of the Town to capture economies of scale in the delivery of municipal services with growth in the Annexation Area.
funding. Only capital expenditures that are funded through ongoing expenditures (Pay-As-You-Go) and
debt will have an impact on the Town’s budget. Capital projects, or portions thereof, funded from reserves
or externally through grants, developer contributions and other non-municipal revenue sources will not have
a direct financial implication for the Town. The capital expenditures included in this analysis include principal
repayments on debentures issued to fund capital projects as well as capital costs that are expensed from
operations.

4.2.4.1. **Town Capital Expenditures Without Annexation**

Projections of municipal capital expenditures for the Town of Bon Accord for the ‘Without Annexation
Scenario’ are based on the Town’s most current capital plan, listing of existing debentures and projected Life
Cycle Costs associated with existing and new assets purchased and acquired to reach a population of 1,700
people in 2020.

4.2.4.2. **Town Capital Expenditures With Annexation**

With annexation, the capital costs included in the ‘Without Annexation Scenario’ are supplemented with
additional projects required to support growth in the Town beyond a population of 3,500 and development
in the proposed Annexation Area. These additional capital costs are as follows:

The timing and magnitude of the capital expenditures outlined above for both the With and Without
Annexation Scenarios is summarized in the figure below.

- **Town Without Annexation:** Without annexation the Town’s capital expenditures reflect the
  incremental capital expenditures required to support growth to 2020 and life cycle costs associated
  maintaining the Town’s infrastructure from that point to the end of the forecast period.

- **Town With Annexation:** With annexation, it is projected that total capital expenditures, in real 2015
  Base Year dollars, will increase from approximately $750,000 per year (2016-2020) to over $1 million
  per year by the end of the forecast. This includes the capital costs associated with new infrastructure
  required to support growth as well as the life cycle and replacement costs on purchased assets as well
  as assets contributed to the Town through the development process.
4.2.4.3. Implications of Capital Expenditures for Town Taxes

A portion of the required capital expenditures discussed above will be funded from sources external to the Town (e.g., grants, development levies, developer contributions). Where the capital projects are funded from operations (Pay-As-You-Go), including contributions to reserves from operations, and debt, there will be a requirement for the Town to recover these costs from operations or the tax base.

With annexation, the Annexation Service Study has identified some significant expenditures that would be required in the areas of Water, Sanitary Sewer and Storm Water Management, that would be required to support growth in the proposed annexation area. These expenditures are identified as follows:

- **Water Supply and Distribution System:**\(^\text{19}\)
  - Phase 1 (expansion to 2076): $4.46 million
  - Phase 2 (expansion 2076-2117): $5.35 million

- **Sanitary Sewer System:**\(^\text{20}\)
  - Phase 1 (expansion to 2076): $1.95 million
  - Phase 2 (expansion 2076-2117): $1.04 million

\(^\text{19}\) Bon Accord Annexation Service Study, page 23.

\(^\text{20}\) Bon Accord Annexation Service Study, page 23.
Storm Water Management System: Phase 1 (expansion to 2076): $2.73 million
Phase 2 (expansion 2076-2117): $4.04 million

Based on the growth projected to 2046, only the expansions for Phase 1 in each of the service areas would be required. This would allow the Town to meet its projected population growth of 3,324 by that year. Further, it has been assumed that each of these expansions would be funded from off-site development levies and have no direct net financial impact on the Town at the time they are built. The lifecycle costs associated with maintaining each of these assets has been assumed to be an incremental cost associated with annexation and has been included as an annual amount in each year of the forecast beginning in 2020.

4.2.5. Operating Revenues

Operating revenues in the analysis are based on assumptions made using cost recovery rates for municipal services. For each municipal service area, the portion of costs (net of operating grants and reserve transfers) recovered by operating revenues in the Base Year was calculated. These calculated cost recovery rates were assumed to be maintained over the forecast period. Overall, departmental operating revenues in the Town recover approximately 40% of the departmental operating budget expenditures.

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21 Bon Accord Annexation Service Study, page 23.

22 Cost recovery rates are defined for each operating function area. The Base Year cost recovery rate has been generally adopted as the rate used for the forecast period. This assumes that the Town’s user fees and charges will be similar into the future as they are in the Base Year.
Operating revenue projections are calculated for both the Town Without Annexation and the Town With Annexation scenarios using the same cost recovery rates.

- **Without Annexation**: It is projected that the Town’s real (2015 $) operating revenues will increase from $19.4 million in 2015 to $22.5 million in 2020, and remain at that level to the end of the forecast.
- **With Annexation**: It is projected that the Town’s real (2015 $) operating revenues will increase by $49.4 million in 2073.

### 4.2.6. Other Considerations for the Financial Forecast

Several other items were considered for the forecast. Each of these are briefly described below.

- **Penalties and Costs on Taxes**: The revenues collected from penalties and costs on property taxes are based on a percentage of the previous year’s municipal property taxes. The percentage assumed in the analysis is calculated based on the 2015 Base Year data.

- **Return on Investment**: For the purposes of the analysis, it was assumed that investment income would remain constant over the forecast period. This includes interest income on investments and dividends the Town would receive from third parties.  

- **Operating Grants**: Operating grants have been assumed to remain at their per capita Base Year values in both the With and Without Annexation Scenarios.

- **Transfers To/From Reserves**: No net transfers to/from reserves have been assumed in the forecast period. This has the effect of pushing all revenue and expenditure impacts of annexation to municipal tax rates and debt.

- **Other Operating Revenues**: Other operating revenues, including Franchise Fees, Rentals and Disposal of fixed Assets are based on their per capita Base Year values in both the With and Without Annexation Scenarios.

### 4.2.7. Assessment

The Town’s current assessment base includes properties subject to municipal property tax rates. Assessment projections for the Town incorporate only new growth in the assessment base. Consistent with conducting the analysis in real Base Year (2015) dollars, no appreciation or depreciation factors were applied to existing or projected assessment. Projections of assessment over the forecast period are based on the following factors:

- **Residential**: This assessment category includes residential development. Assessment per dwelling unit has been assumed to be average $250,000 per unit.

- **Farmland**: It was assumed that farmland assessment value per hectare would remain constant over the forecast period.

- **Commercial**: Commercial assessment has been assumed to grow at a rate above that assumed for the growth in population allowing for the Town to become more self sufficient in providing goods and services to the community. This would occur as the community grows and business opportunities would become commercially viable, and accommodated by the availability of commercial lands within the Town with highway access.

- **Industrial / Machinery and Equipment (M&E)**: The Town does not have industrial development and is not expected have over the forecast period.

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23 Future dividends and other returns on investment are dependent on the financial performance of the investment generating sources.
Linear: For the purposes of the analysis, it was assumed that linear assessment would grow at a rate of 15% of the linear assessment per capita rate calculated for the Base Year (2015) as applied to the population growth projection for both the With and Without Annexation Scenarios. This assumption acknowledges that only a portion of the existing linear assessment in the Town is related to services provided to development (e.g. telephone, cable, power, etc.).

4.2.7.1. Assessment Projections for With and Without Annexation

A summary of the Town's assessment projections for the Without Annexation and With Annexation scenarios are provided below.

Without Annexation: Without annexation, the Town's assessment base is projected to grow from $144 million in 2015 to $147 million in 2020 and remain at that level for the remainder of the forecast period.

With Annexation: With annexation, the Town's assessment base is projected to grow from $144 million in 2015 to $219 million in 2046.

4.2.8. Compensation

Often in annexations, the annexing municipality will provide some compensation to the annexed municipality to ease the financial transition resulting from annexation by providing compensation in the form of a transfer of some or all of the lost tax revenues from the annexation area, for some period of time. In this instance, it is estimated that the taxes generated by Sturgeon County from the proposed Annexation Area are less than...
$6,000 (2016) per year. This represents a small fraction (0.02%) of the County’s total municipal tax requisition of approximately $41.2 million (2016). The impact of tax losses would be reduced on a net basis by an estimated $750 per year associated with the costs of road maintenance the County would not be responsible for with Annexation. As a result, it is not expected that compensation for lost tax revenues from the Annexation Area would be required in this situation.

4.2.9. Tax Protection for Annexed Properties

In this analysis, it has been assumed that all existing residential and farm properties (excluding linear) in the proposed Annexation Area would receive tax protection for a period of up to 20 years, or until such time as some trigger to develop the land is initiated by the land owner; whichever comes first. Development triggers that could be considered would include:

- An initiative is undertaken to subdivide;
- The land use is re-designated at the request of the owner; or;
- The parcel is connected to the Town’s water and sewer services.

Each of these triggers would be initiated by the land owner, and result in an end to tax protection.

Tax protection for the properties in the proposed Annexation Area could be designed to result in no net increase in the property owner’s tax bill as a result of annexation. In this situation, this would involve the following:

- All properties, properties, including residential and farmland (except linear), would be assessed as if they were in the County and taxed at the lower of the Town’s or County’s municipal tax rate. Currently (2016) the Town’s residential tax rate is 2.45 times higher than that of the County. The Town’s farmland tax rate is currently 54% lower than that of the County.
- In the County, farm residences and buildings receive exemptions that result in lower municipal property tax bills than would be the case as if they were assessed in the Town. As a result, it is important that tax protection include the provision they be assessed as is currently practiced in the County.

These possible tax protection provisions have been incorporated in the fiscal impact analysis presented below.
4.2.10. Fiscal Impact Analysis Results

The impact of the Town’s proposed annexation is presented using two metrics: change in municipal tax rates and municipal debt.

4.2.10.1. Municipal Tax Rate Impacts of Annexation on Bon Accord

A comparison of the real (2015 $) municipal tax rates for Bon Accord for both the With and Without Annexation Scenarios is provided below.

As noted, the real residential municipal tax rate for the Without Annexation Scenario is projected to remain relatively constant over the forecast period (2015 $). With Annexation, the Town’s assessment base is expected to both grow and diversify, and operating expenditures per capita are projected to decline with growth, reflecting the capture of economies of scale in the delivery of municipal services. As a result, the real residential municipal tax rate for the With Annexation Scenario is projected to decline over the forecast period. This rate of decline in real terms averages approximately 0.5% per year.  

The impact of annexation on the Town’s real municipal tax rate is presented below. Over the forecast period, the Town is projected to benefit from annexation as reflected lower municipal tax rates. The impact of annexation would be a 15.9% reduction in real municipal tax rates by the end of the forecast period.

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24 The results for other tax rates (farmland and non-residential) are the same as those presented for residential municipal tax rates, as the tax rate splits for each of these rates has been assumed to remain constant over the forecast period.
As annexation is assumed to be approved in January of 2017, development in the proposed Annexation Area is not expected to start until 2020. Between 2017 and 2020, there is a small net benefit of annexation to the Town as reflected by the assessment and municipal tax revenues being slightly higher than the expected incremental costs of delivery municipal services to the area.

Over the longer term, as growth begins in the proposed Annexation Area, the Town is projected to experience an improvement in its fiscal capacity through non-residential development which is projected to occur at a slightly higher rate than residential growth. In addition, the Town is projected to experience the benefit of reduced operating costs per capita through the capture of economies of scale. As a result, there is a net financial benefit to the Town resulting from annexation and development in the proposed Annexation Area.
4.2.1.0.2.**BALANCED GROWTH WITH AND WITHOUT ANNEXATION**

The following chart depicts the share of non-residential assessment in the Town for both the With and Without Annexation Scenarios. Without annexation, the Town’s share of non-residential assessment is projected to remain at approximately 4% over the forecast period. With annexation, the share of non-residential assessment increases to almost 6% by the end of the forecast (2046). While this increase is modest and may understate the potential for non-residential development in the Town, it does help to directly improve the Town’s fiscal capacity.
4.2.10.3. MUNICIPAL DEBT

The annexation is also expected to have an impact on the Town’s level of debt and utilization of its debt limit and debt service limit as compared to the Without Annexation Scenario. In the Base Analysis, utilization of both the Town’s debt limit and debt service limit increase With Annexation.

- **Without Annexation:** Without annexation, the Town’s debt per capita is projected to increase slightly over the forecast period from its current level of approximately $500 per capita. This increase is a result of the capital expenditures required to maintain the Town’s infrastructure over the forecast period.

- **With Annexation:** With annexation, the Town’s debt per capita is expected to be reduced over the forecast period. While total debt increases as result of increased capital expenditures, the rate of increase in the Town’s population and assessment base is greater. This puts the Town in a better overall financial position With Annexation.
4.2.10.4. Debt Limit Utilization Impacts of Annexation

The annexation is expected to have an impact on the Town’s utilization of its debt limit as compared to the Without Annexation Scenario. In the Base Analysis, utilization of both the Town’s debt limit and debt service limit increase With Annexation.

- **Without Annexation**: Without annexation, the Town’s utilization of its debt limit is projected to range between 14% and 15% over the forecast period.

- **With Annexation**: With annexation, the Town’s utilization of its debt limit is projected to fall from approximately 15% to 12.5% by the end of the forecast period.

The Town’s utilization of its debt limit is manageable in both the With and Without Annexation Scenarios.
4.2.11. Debt Service Limit Utilization Impacts of Annexation

The annexation is also expected to have an impact on the Town’s utilization of its debt service limit as compared to the Without Annexation Scenario.

- **Without Annexation**: Without annexation, the Town’s utilization of its debt limit is projected to range around the 10% level over the forecast period.
- **With Annexation**: With annexation, the Town’s utilization of its debt limit is projected to fall from approximately 10% to just over 8% by the end of the forecast period.

The Town’s utilization of its debt service limit is manageable in both the With and Without Annexation Scenarios.

### Debt Service Limit Used - Bon Accord - (Real 2015 $)

<table>
<thead>
<tr>
<th>Year</th>
<th>With Annexation</th>
<th>Without Annexation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>20.3%</td>
<td>20.3%</td>
</tr>
<tr>
<td>2020</td>
<td>20.3%</td>
<td>20.3%</td>
</tr>
<tr>
<td>2025</td>
<td>20.3%</td>
<td>20.3%</td>
</tr>
<tr>
<td>2030</td>
<td>20.3%</td>
<td>20.3%</td>
</tr>
<tr>
<td>2035</td>
<td>20.3%</td>
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</tr>
<tr>
<td>2040</td>
<td>20.3%</td>
<td>20.3%</td>
</tr>
<tr>
<td>2045</td>
<td>20.3%</td>
<td>20.3%</td>
</tr>
</tbody>
</table>

4.2.12. Conclusions

Overall, the proposed annexation will result in Town ratepayers paying lower municipal taxes over the forecast period. The benefit of annexation in terms of reduced taxes is projected to reach 16% by 2046.

In addition to lower municipal tax rates the Town’s debt load will also be lower With Annexation. In the ‘Without Annexation Scenario’, it is projected that utilization of the available debt limit would average between 14% and 15% per year. With Annexation, utilization of the debt limit would drop to approximately 12.5%. Similarly, utilization of the Town’s debt service limit is expected to drop from approximately 10% to 8.3%.
4.3. **Sturgeon County**

The fiscal impact analysis presented for Sturgeon County is based on how the proposed annexation will affect municipal operations of the County as measured through the change in municipal property tax rates.

4.3.1. **Municipal Tax Impacts of Annexation on Sturgeon County**

The key variables affecting the financial forecast for the County both With and Without Annexation are as follows:

- The proposed Annexation Area represents a very small portion of the County which is reflected in the relatively small associated population, assessment and tax revenues.
  - Total assessment is estimated to be $1.5 million.
  - Taxable assessment is estimated to be $1.4 million.
  - Total municipal tax revenues generated from the area is less than $7,000 per year.
  - The County has reported that the annual costs associated with road maintenance in the proposed annexation area include $2,743.50 for the 0.8 km service road west of Range Road 240 and $9,797.99 for the portion of Range Road 240 north of Highway 28 in the proposed annexation area. These costs include regular road maintenance as well as annualized cost associated with graveling. The total road maintenance costs for the County are $12,541.49 per year.  

As a result of the relatively small amount of area and development on the proposed Annexation Area lands, the tax revenue and associated municipal service costs are very small. It is estimated that the tax loss represents 0.02% of the County’s 2016 municipal tax requisition. On a net basis (revenue loss minus reduced expenditures), the County will save approximately $5,500 per year as a result of the annexation.

The negligible financial implications of this proposed annexation for Sturgeon County results in a conclusion that there is no need for tax compensation to be paid to the County by the Town.

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25 Correspondence from Sturgeon County December 21, 2016.
4.4. ANNEXATION AREA RATEPAYERS

The potential impact of annexation on ratepayers in the proposed Annexation Area is dependent upon the relative municipal tax rates between the two municipalities. For farm properties, there is also the potential for loss of property tax exemptions related to farm residence and farm buildings.

4.4.1. TAX RATE AND ASSESSMENT PRACTICE IMPACTS

There are significant differences in the tax rates (2016) between the Town and County as follows:

- Residential: The Town’s municipal residential tax rate is 2.45 times greater than that for the County.
- Farmland: The Town’s municipal farmland tax rate is 53% lower than that for the County.
- Non-Residential: The Town’s municipal non-residential tax rate 70% higher than that for the County.

The proposed annexation area has only residential and farm development. As a result, the differential in non-residential tax rates is not currently an issue with this annexation.

In addition to the potential tax rate impacts, farm properties and associated residential and building assessments receive exemptions in the County that would not be available in the Town without tax protection.

4.4.2. TAX PROTECTION

Tax protection is proposed to be established for up to 20 years, but be conditional on the property status not changing at the request of the property owner. This could include the following:

- At the request of the landowner, the parcel is subject to subdivision or separation of title;
- At the request of the landowner the parcel is re-designated under the Town’s Land Use Bylaw, or;
- At the request of the landowner, the parcel is connected to the Town’s water and sewer services.

Each of these ‘triggers’, if invoked by the landowner, would result in the parcel being assessed and taxed as any property in the same class in the Town.

4.4.2.1. FORMULATION OF TAX PROTECTION

It is proposed that tax protection be defined as the following:

- All properties in the proposed Annexation Area be assessed as if they were in the County,
- All properties in the proposed Annexation Area would be taxed at the lower of the municipal tax rate in either the Town of County.

These provisions would ensure that all property owners in the proposed Annexation Area would not pay higher municipal taxes as a result of annexation. Tax protection is proposed to continue until such time as 20 years has passed, or the property status has changed (at the request of the property owner).

These proposed tax protection provisions have been incorporated in the fiscal impact analysis presented above.
5. Conclusions

The proposed annexation of 194.25 hectares is expected to result in a net benefit to the Town of Bon Accord. This benefit will result in real municipal property taxes being lower With Annexation than would be the case Without Annexation. Over the 30 year forecast period, it is estimated that municipal property taxes With Annexation would be approximately 15.9% lower as compared to those Without Annexation. The result would be achieved as a result of the following:

- Operating expenditures would increase in the Town by an estimated $3,000 per year to maintain existing roadways in the proposed annexation area.
- Residential and non-residential growth would be accommodated in the Town as a result of annexation. The Town’s fiscal balance would improve to some degree, whereby the share of non-residential assessment would increase from approximately 4.2% of total assessment in 2015 to almost 6% by the end of the forecast period With Annexation.
- It is expected that all costs associated capital infrastructure required to support growth in the proposed annexation area would be recovered through levies. Additional maintenance and infrastructure life cycle costs have been incorporated in the analysis and are reflected in the resulting municipal property tax impact results.
- The Town’s debt load and debt servicing costs will be well within reasonable sustainable limits in both the With and Without Annexation scenarios.

The impact of the proposed annexation is expected to have a very minor impact on the financial position of Sturgeon County. The County would reduce its costs by the amount associated with the maintenance of roads in the proposed annexation area. The loss of municipal tax revenues as a result of the proposed annexation are estimated to represent approximately 0.02% of the County’s 2016 municipal tax requisition. On a net basis (revenue savings minus reduced expenditures), Sturgeon County will save an estimate $5,500 per year as a result of the proposed annexation.

Property owners in the annexation area could face higher tax rates as a result of annexation without tax protection. As a result, it is recommended that tax protection be provided to the property owners in the annexation area so they would continue to be taxed and assessed as if they were to have remained in the County, for a period of up to 20 years, or until such time as the property owner initiates connection to Town services or takes actions to subdivide or re-designate the land use of the property.