

**DATE: 2024-04-23****DEPARTMENT: FINANCE****MEETING: COUNCIL COMMITTEE OF THE WHOLE****REPORT AUTHOR: AARON HOIMYR,  
Accounting Supervisor – Budget and Systems**

## 2025-2026 BUDGET PLANNING

### EXECUTIVE SUMMARY:

The 2025-2026 Budget Planning Council session is held at the beginning of the budget cycle to set the tone and direction for the initiation of budget development. The plans are Administration's response to the current environment to meet Council's strategic objectives and key fiscal targets. These plans will demonstrate how Administration seeks to enact the strategic priorities and goals of Council while striking a balance between financial sustainability and organizational effectiveness.

This communication is provided as supplementary material to the Council Committee of the Whole meeting on April 23<sup>rd</sup>, 2024, in which Administration intends to pose key strategic and principle-based questions to Council with the intention of provoking an insightful discussion about Council's vision for the 2025-2026 budget. Initial understanding and alignment with Council is vital to a successful budget process.

### STRATEGIC ALIGNMENT:

<b>INNOVATION</b> <input type="checkbox"/>	<b>ECONOMIC EVOLUTION</b> <input type="checkbox"/>	<b>SERVICE ORIENTATION</b> <input checked="" type="checkbox"/>
<b>PARTNERSHIPS &amp; GOVERNANCE</b> <input checked="" type="checkbox"/>	<b>COMMUNITY WELLNESS</b> <input checked="" type="checkbox"/>	<b>RESILIENCY &amp; SUSTAINABILITY</b> <input checked="" type="checkbox"/>

### RECOMMENDATION:

This report is provided for information only. Administration is seeking alignment with Council at the preliminary stages of 2025-2026 budget development. Incorporating the discussion with Council at the April 23<sup>rd</sup> Council Committee of the Whole, the city will begin budget development. Subsequent budget related touchpoints with Council have been planned for June/July and October/November ahead of formal approval in December at a regular council meeting.

### PREVIOUS COUNCIL MOTIONS / DIRECTIONS:

There are no previous Council motions directly pertaining to this request, however the presentation will refer to several exhibits from previous Council motions including the 2024 budget update (presented at Regular Council on November 20, 2023) and the previous 2023-2024 key budget assumption report (presented at Regular Council on July 4, 2022).

### BACKGROUND / ANALYSIS:

The 2025-2026 budget planning began in Q4 of 2023. In response to Council's strategic plan, Administration sets the corporate strategic objectives. It also takes time to consider the City's financial position, its financial outlook, and current external environment. As a result of these strategic reflections, Administration thoughtfully develops an initial budget plan including:

- **Budget Theme:** A short catch line which summarizes the overarching context and intent of the budget.
- **Budget Commitments:** the City’s philosophical principles that guide development and ultimately are the measures of a successful budget.
- **Key Assumptions:** financial assumptions used as a starting point for building the budget. Key assumptions uphold the budget commitments.
- **Fiscal Targets:** Establishes the definition of financial sustainability for the City and sets boundaries that must be maintained by the City over a 10-year planning horizon.

Following the Budget Planning discussion, Administration begins to build the budget, returning to Council at strategic points throughout the cycle for further deliberation (See appendix A for more details).

Today, the City of Medicine Hat is in a good financial position, however the City is anticipating electric generation revenues to return to normal historical earning levels by 2025 resulting in declining cash balances through 2031 (this excludes the impact of the Energy review). Other factors that may impact our long-term outlook include our response to energy transition of net-zero carbon regulations.

Like many cities across Canada, Medicine Hat is facing issues such as:

- High Inflation
- Aging infrastructure
- Stagnant population growth
- Declining Revenues

The 2025-2026 Budget theme is “Balancing the needs of today with the requirements of tomorrow”. The City budget is a balancing act, how much should we spend now to meet the needs of our community, versus how much should we set aside in reserves to address future challenges and opportunities. Equally challenging is managing the expectations of residents as it relates to city services and amenities with their understandably low tolerance for tax increases due to the affordability challenges we are all experiencing.

In alignment with this theme, we have identified five key commitments that will underpin our budgetary planning:

1. **Address community needs and ensure excellent service:** Our foremost obligation is to our community. We must prioritize initiatives that address the pressing needs of our residents and uphold a standard of excellence in the services we deliver.
2. **Balance affordability with the need to invest in City infrastructure and operations:** It’s important to strike the delicate balance between affordability for our residents and the requirement to invest in our city’s existing infrastructure and operations. We must make prudent investments today to lay the groundwork for a prosperous future.
3. **Ensure financial sustainability of our municipality:** Our municipality’s financial sustainability, without reliance on our energy production business unit, is essential for our long-term viability. We must be committed to reducing our reliance on volatile commodity revenues through responsible budgetary practices and prudent management of resources.

4. **Thoughtful use of reserves for future needs:** Our reserves represent a critical asset for addressing future challenges and seizing opportunities, including energy transition, abandonment and reclamation obligations, and Facilities for the Future. We will exercise thoughtful discretion in stewarding these reserves to meet the evolving needs of our community and clearly articulate the intent of these funds.

5. **Alignment with Council Strategic Priorities:** We also need to ensure that every dollar we spend aligns with Council's strategic priorities and our corporate strategic objectives. We've launched our integrated planning process that includes the long-range forecast, business cases for all new capital growth projects, a criteria-based process to rank all the projects, and departmental business plans based on objectives and priorities. This will help to ensure we are only undertaking projects that are needed for our community and create long-term value for the city.

The Key Budget Assumptions for 2025-2026 include the following highlights:

**Municipal Budget Gap Solution by 2026:**

- **\$8.0M** in annual contributions from business units and heritage savings reserve;
- **\$2.0M** in service level reductions and efficiency savings;
- **4.9%** annual tax increase in 2025 and 2026 plus 0.5% projected assessment growth.

**Projected Funding:**

- **\$37.4M** in growth capital;
- **\$5.0M** in new operating initiatives to expand services and programs across the City;
- **\$178.5M** in sustaining capital reinvested into existing infrastructure maintenance.

Longer term strategies include providing steady predictable tax increases to residents, reducing the reliance on business units and investments over the long-term, and maintaining sufficient cash reserves.

The City's fiscal targets establish the definition of what the City defines as a financially sustainable City and seeks to maintain within those boundaries over the 10-year planning horizon. The Fiscal targets that the City has set include:

- Municipal Budget gap solution (starting in 2026).
- Overall cash balances (including reserves) maintained between \$570M and \$870M.
- Free cash flow of \$38.1M per year on average from its business units.
- Debt to Revenue targets under 70% of the Municipal Government Act Limit.

**INTERNAL AND EXTERNAL ENGAGEMENT CONSIDERATIONS:**

All City departments are involved in the budget process and contribute to developing the 2025-2026 budget.

**POTENTIAL RISKS / IMPACTS:**

***Financial:***

Funding Request:	No	
Budgeted Item:	No	
Funding Explanation:	N/A	
Budget Amendment Form?	No	

The following assumptions are recommended by Administration to establish the initial direction for the 2025-2026 Budget development.

**Health, Safety and Environmental:**

No HSE impacts are anticipated.

**Legal / Legislative / Policy:**

The City’s budget must be developed with various legislation, bylaws, and policies established by the Municipal Government Act and City Council.

**PUBLIC PARTICIPATION REQUIRED FOR IMPLEMENTATION:**

There will be ongoing public communication efforts throughout the budget development process as building community awareness and understanding of this significant topic is important.

<b>INFORM</b> <input checked="" type="checkbox"/>	<b>CONSULT</b> <input type="checkbox"/>	<b>INVOLVE</b> <input type="checkbox"/>	<b>COLLABORATE</b> <input type="checkbox"/>	<b>EMPOWER</b> <input type="checkbox"/>
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**ALTERNATIVE OPTIONS / PROS AND CONS:**

There are no alternative options as this report is for information to seek Council’s alignment at the preliminary stages of 2025-2026 budget development.

**IMPLEMENTATION PLAN:**

After the budget planning council session on April 23<sup>rd</sup>, Administration will consider the incorporation of Council’s feedback into its budgeting process. The next steps for Administration will be:

- 1.) Return to Council with a recommendation for the establishment of dedicated reserves for abandonments and energy transition, as well as bylaw enhancements related to the use of the Heritage Savings Reserve.
- 2.) Council Capital Deliberations: June 25 and July 9<sup>th</sup>.
- 3.) Council Budget Deliberations: October 22 to November 13.
- 4.) Council’s approval of the 2025-2026 budget on December 2 with second and third readings of the rate bylaws on December 16.

<b>REVIEWED BY &amp; DATE:</b>	Lola Barta Director of Finance	2024-04-12
<b>APPROVED BY &amp; DATE:</b>	Dennis Egert Managing Director of Corporate Services & CFO	2024-04-12
<b>ATTACHMENTS:</b>	1: How the Budget is Built 2: How the Budget is Structured 3: 2025-2026 Budget Planning Presentation	

**Attachment 1: How the Budget is built**

The Budget is the city’s primary financial planning tool for aligning strategy with financial resources. It is a key accountability tool for ensuring the city’s financial resources are being allocated according to the strategic vision. The budget is the largest organizational-wide project that the City performs on a repetitive basis.

The budget presents to the public how the City intends to purposefully allocate its financial resources to meet the needs of its residents and accomplish the strategic priorities of City Council. It identifies all authorized spending including financial outlay associated with operations and capital expenditures. The budget also presents a forecast of city debt and reserves to ensure financial sustainability in the long-term.

Council is required under the *Municipal Government Act* 242(1) and 245 to approve the City’s operating and capital budget before January 1<sup>st</sup>. This takes place in an open Council meeting where Council votes to approve the budget. This approval is the concluding act of a long stream of deliberations and decisions made by Council.

Throughout the budget preparation year Council will meet to deliberate on various aspects of the budget, beginning with the Key Budget Assumptions presented on April 23<sup>rd</sup>, 2024.

The meetings in the table below outline the planned pathway to 2025-2026 budget finalization:

2024 Planned Council Dates	
Budget Planning	April 23
Capital Deliberations – Part 1	June 25
Capital Deliberations – Part 2	July 9
Operating Deliberations – Part 1	October 22
Operating Deliberations – Part 2	October 30
Operating Deliberations – Part 3	November 5
Operating Deliberations – Part 4	November 13
Regular Council – Rate Bylaw, First Reading	November 18
Budget Approval	December 2
Regular Council – Rate Bylaw Public Hearing, Second and Third Reading	December 16

At budget deliberations, Council does not formally approve the budget, rather, deliberations are an opportunity for Council to understand, ask questions, and to scrutinize Administration’s proposed budget plans in a public setting. Administration facilitates these meetings to gain insight into Council’s vision for the 2025-2026 budget so that they can design a budget that meets the needs of the organization and Council. Council’s primary role is to represent the needs of the residents of Medicine Hat.

In addition to deliberations, Council makes other decisions that directly impact the budget. Council will set forth bylaw and policy that establish principles that Administration follows during the budget process. Many of these decisions are not revisited during the budget process but impact the way that Council goes about its budget. For example, the Heritage Savings Reserve Bylaw sets the rules regarding how the Heritage Endowment funds can be used.

After the budget is approved in December, certain bylaws must be drafted that allow Administration to (1) issue debt, and (2) collect property taxes. Typically, Council will reconvene months after the budget is passed to enact these bylaws. It is important for Council to be aware that, the decisions made during the budget will establish the assumptions used to create these bylaws. However, until the bylaws have passed Administration does not have the authority to issue debt or collect taxes related to the 2025-2026 budget.

## **Budget Deliberations**

Items discussed during budget deliberations include:

- Major Revenue Sources: Utility Rates, Commodity Rates, and Property Taxes
- Growth Opportunities to Enact Council's Strategic Plan
- Expenditures (operating and capital)
- Use of Reserves
- Issuance of Debt
- Future strategies for financial sustainability

During budget deliberations the major revenue sources receive special attention as they are tied to bylaws that Council must enact. They also represent major levers that Council has which can impact the budget. Other revenue sources can be discussed if they appear relevant to Council, however in most cases other revenue sources are either (1) immaterial, (2) calculated in accordance with existing City policy/bylaw, or (3) are forecasted assumptions (i.e., government grants).

## **Attachment 2: How the Budget is Structured**

The City of Medicine Hat breaks down its budget into four main business units:

1. Municipal
2. Land Development & Real Estate
3. Rate-based Utilities
4. Energy Production

All business units are fully owned and operated by the City of Medicine Hat. Segmenting the City's activities in this way provides a logical structure where operating activities with similar economic characteristics are grouped together for decision making purposes.

For example, the Municipal unit performs activities typically associated with a municipality as defined in *Municipal Government Act Part 1 Section 3*. The Municipal unit is in the business of improving the "quality of life" for its residents by providing items such as governance, safety, roads, amenities, and facilities that residents rely upon for their daily lives.

The Municipal unit is distinct from all other business units because it operates on a cost-recovery model. In other words, the City will first determine the costs related to operating and providing services then raise property taxes to pay for the amenities and services shared by its residents. Some expenditures are also covered by ticket and admission sales, investment revenue, government grants and other fees.

While the city could choose to invest or divest its interest in other business units. The City must continue to provide Municipal services. Thus, it is prudent for the city to ensure that its Municipal unit is financially sustainable independent of its other business units. Segmenting Municipal financial activities creates a spotlight on its financial activities which allows Administration and Council to make decisions to ensure its long-term sustainability.

Other Business Units are typically grouped by the nature of the cash inflows. For example, Rate-based utilities (water, sewer, solid waste, electric/gas distribution) set rates to align with the Alberta Utilities Commission (AUC) rate-making principles that establish a formula for calculating utility rates. Energy Production is primarily focused on the City's electric generation and gas production businesses whose revenues are driven by market rates. Land Development and Real Estate's revenues are driven primarily from the real estate market.

### **Types of Budgets**

Each Business Unit within the City has two main budgets: **Capital** and **Operating**.

The **Capital budget** is for projects that result in capital assets as classified under Public Sector Accounting Standards and the City's capitalization policy. Typically, capital projects are large one-time projects that result in an asset that can be utilized by the city for multiple years. For example, the building of a new arena or the purchase of new transit busses. Capital projects in the budget must identify a funding source.

The **Operating Budget** consists of the day-to-day expenses and operating activities performed by the City. This budget is conceptually like an Income Statement (Revenue minus Expense) with some "below the line" cash adjustments. The elements of the Operating Budget are dictated by *MGA 243(1)*.

The Municipal Government Act stipulates that the consolidated City operating budget must be balanced. Conceptually, however the City of Medicine Hat tends to focus the MGA 243 discussion towards balancing the Municipal Budget separated from its other Business Units as a fiscal target of financial sustainability. The assumption being that the other business units should be operating in a positive earnings position year-to-year and should not be in violation of the Act.

### **Components of the Capital Budget**

The capital budget includes two main components: Sustaining and Growth. Sustaining Capital is the capital invested into existing infrastructure to maintain current service levels within the city. Growth Capital are strategic investments in new infrastructure to increase the service levels of the city and enact the Council’s strategic plan. Growth is discretionary by nature.

### **Components of the Operating Budget**

The Operating and Capital budgets must be approved by vote in a Regular Council Meeting before the year that the budget is in effect. Administration is legislatively required to maintain spending within the spending limit of the approved budget. According to MGA 248(1), “a municipality may only make an expenditure that is included in an operating budget, interim operating budget or capital budget or otherwise authorized by the council...”

## **City of Medicine Hat**

### **Budgeted Operating Expenses**

For the year ended December 31st

*In thousands*

	<b>Prior Budget 2024</b>	<b>Budget 2025</b>	<b>Budget 2026</b>
<b>Expenses</b>			
<b>Base Operating</b>			
<b>New Initiatives</b>			
<b>Other Items</b>			
Cost of Goods Sold <sup>1</sup>			-
Internal Charges <sup>2</sup>			-
Amortization			-
Interest			-
<b>Total Expenses</b>	-	-	-

Note:

<sup>1</sup> *Cost of Goods Sold includes direct costs related to the sale of electricity and gas. Such costs are excluded from base budgets due to their variable nature and direct tie to revenue.*

<sup>2</sup> *Internal Charges exclude internal cost recoveries.*

The City’s Operating Expenses can be categorized into the following categories.

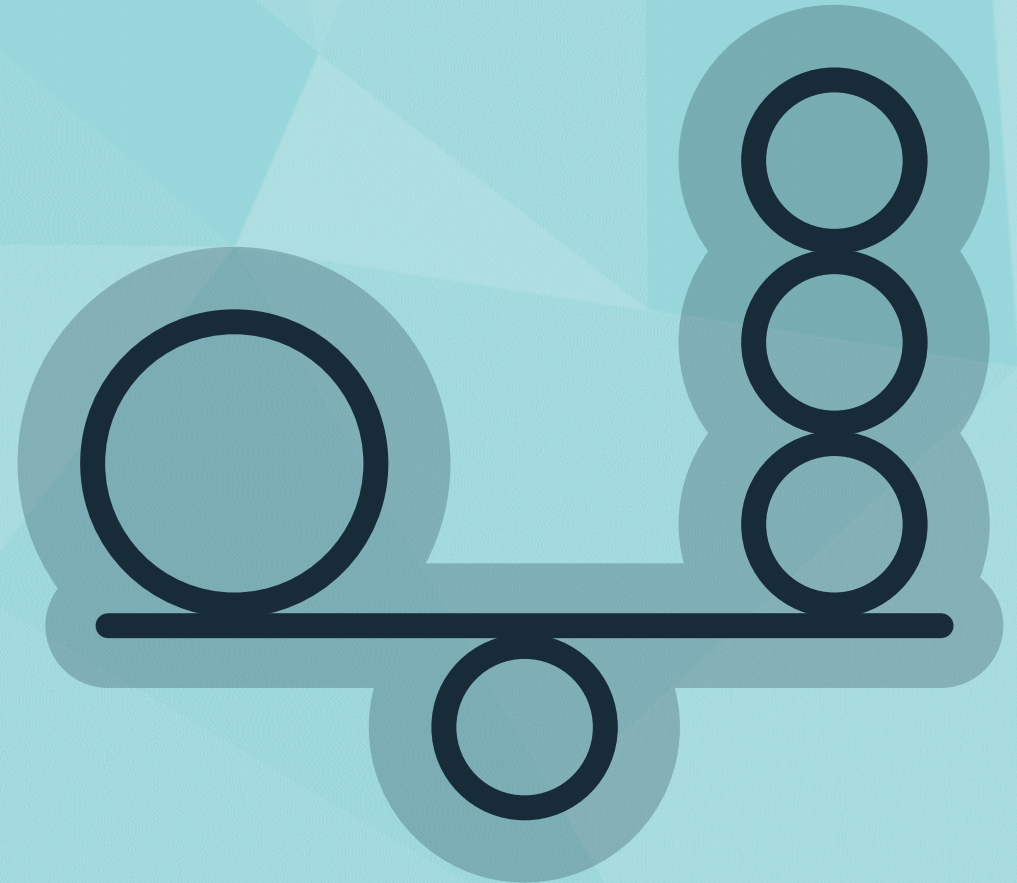
- **Base Operating:** Funds required by the city to maintain status quo services.
- **New Initiatives:** Funds invested in expanding City services to enact Council Strategic priorities.
- **Other Items:**
  - **Cost of Goods Sold:** variable costs tied directly to revenue.
  - **Internal Charges:** Expenses related to charges from other departments within the City.
  - **Amortization:** Accounting estimated cost of deterioration of assets.
  - **Interest:** Cost of Debt-financed capital.



MGA 248(1) Limits Administration's ability to spend beyond the limits established by the approved budget. However, Administration considers "Other Items" to be under the "otherwise approved by council" caveat for the following reasons:

- **Cost of Goods Sold:** is an estimated expense related to anticipated sales volumes. Cost of Goods Sold is commonly tied to sales within the Energy Production Business Unit (e.g., electricity sales). An expenditure limit is not an effective financial control mechanism for the cost of goods sold since it could hinder the City's ability to operate its business effectively. The administration's intention is to optimize power assets while maximizing exports when possible. Thus, increases in the Cost of Goods Sold typically are the result of opportunities to increase earnings.
- **Internal Charges:** This is an accounting mechanism to share expenses from one internal department to another when one department uses the resources from another department. While money is moving between accounts there is no actual cash outlay or expense taking place. This mechanism is used to ensure the city can understand the true cost of its operations. From a consolidated perspective, internal charges are eliminated and therefore would not be represented on a consolidated operating budget. Therefore, internal charges are not applicable to the expenditure limit since they do not represent an actual cash outlay and are eliminated at a consolidated level having no overall impact on the city's operating performance.
- **Amortization:** Amortization is a non-cash accounting estimate represented in the City's Budget for compliance with Public Sector Accounting Standards. Since this is a centralized accounting adjustment managers are not typically held responsible for maintaining within amortization limits. Furthermore, the primary driver of amortization is capital spending. Since Council approves capital spending through the Capital budget applying the expenditure limit to amortization does not provide any value to the organization from a cash control perspective. Further, within the definition of operating budget in the MGA 243(1)(d) amortization is considered optional. For these reasons amortization should not be considered within the City's expenditure limit.
- **Interest:** Interest charges are directly tied to debt. The City Council authorizes the issuance of debt through bylaw. The interest expense is considered otherwise approved by Council because Council has approved the debt that will result in the interest expense.

# Balancing the needs of *today* with the requirements of *tomorrow*



# Budget Planning 2025-2026

*Balancing the needs of today  
with the requirements of  
tomorrow*

FINANCE  
April 23<sup>rd</sup>, 2024

 Medicine Hat

# *In 1883...*





*Drilling for Gas,  
Medicine Hat, Alberta*

*drills  
a ccidentally  
struck gas...*

*Spurred on  
by bounty...*



*“Pittsburgh  
of the West”*

*“Chicago  
of the West”*

*“Little  
Pittsburgh”*

*“Minneapolis  
of Canada”*

*“The Town  
that was  
Born Lucky”*



*stand up in the  
face of a dversity...*







# *Forward*

# *Drive...*

**Budget Planning**  
FINANCE

**Introduction – Opening Remarks | Slide 9**



# Edmonton, Alberta

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- City staff projecting a \$73.8-million deficit for year-end budget forcing Edmonton to dip into reserves  
*Edmonton Journal, Sept 12, 2023*
- Edmonton taxes may rise 7% in 2024, police salary key to jump  
*Edmonton Journal, Oct 26, 2023*



# Calgary, Alberta

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City council heard that Calgary faces an average annual funding gap of \$311 million; city officials said the figures date back to 2007 and can be attributed to the city “stepping in to fund provincial responsibilities.”

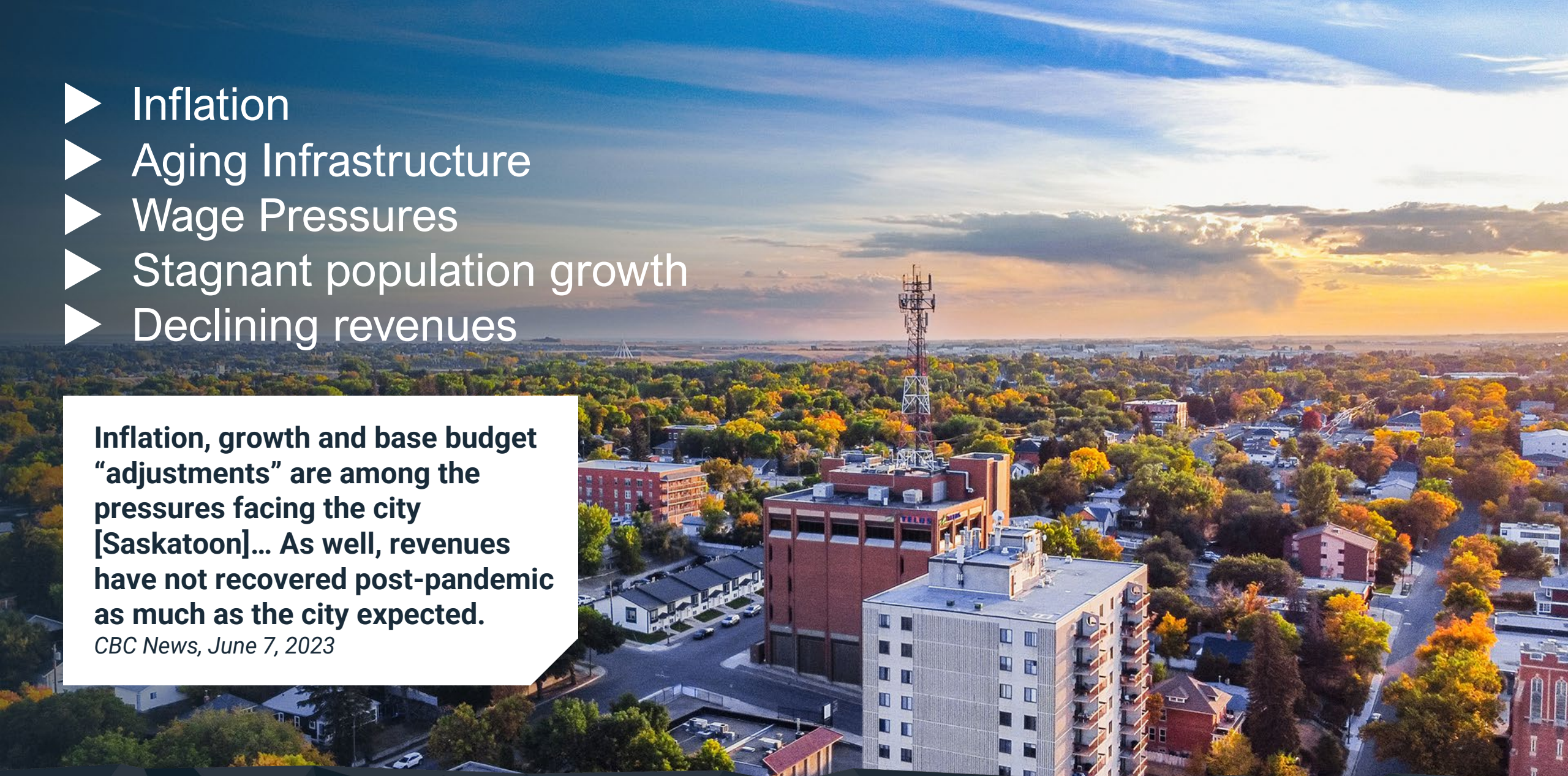
*Global News, Sept 27, 2023*

# Toronto, Ontario

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Toronto has proposed a 10.5 per cent property tax increase, which could balloon to 16.5 per cent if the federal government doesn't reimburse costs.

*National Post, Jan 21, 2024*

- 
- ▶ Inflation
  - ▶ Aging Infrastructure
  - ▶ Wage Pressures
  - ▶ Stagnant population growth
  - ▶ Declining revenues

**Inflation, growth and base budget “adjustments” are among the pressures facing the city [Saskatoon]... As well, revenues have not recovered post-pandemic as much as the city expected.**

*CBC News, June 7, 2023*









# Budget Theme

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*Balancing the needs  
of **today** with the  
requirements of **tomorrow***

# *Budget Commitments*

**Budget Planning**

BALANCING THE NEEDS OF TODAY WITH THE REQUIREMENTS OF TOMORROW

Slide 19

# Budget Commitments

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*Balancing the needs of today with the requirements of tomorrow*

1. Address community needs and ensure excellent service
2. Balance affordability with the need to invest in City infrastructure and operations
3. Ensure financial sustainability of our municipality
4. Thoughtful use of reserves for future needs
5. Alignment with Council Strategic Priorities

# Budget Commitments

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1

Address *community*  
needs and *ensure*  
excellent service

# Budget Commitments

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2

**Balance *affordability***  
**with the need to invest**  
**in City infrastructure**  
**and operations**

# Budget Commitments

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3

**Ensure the financial  
*sustainability* of  
our municipality**



# Budget Commitments

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4

*Thoughtful* use of  
**reserves for future  
needs**

# Budget Commitments

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## *Alignment* with **Council Strategic Priorities**

# Agenda

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1. Budgeting 101
2. Environmental Scan and Fiscal Outlook
3. Key Budget Assumptions
4. Fiscal Targets



# Budgeting 101



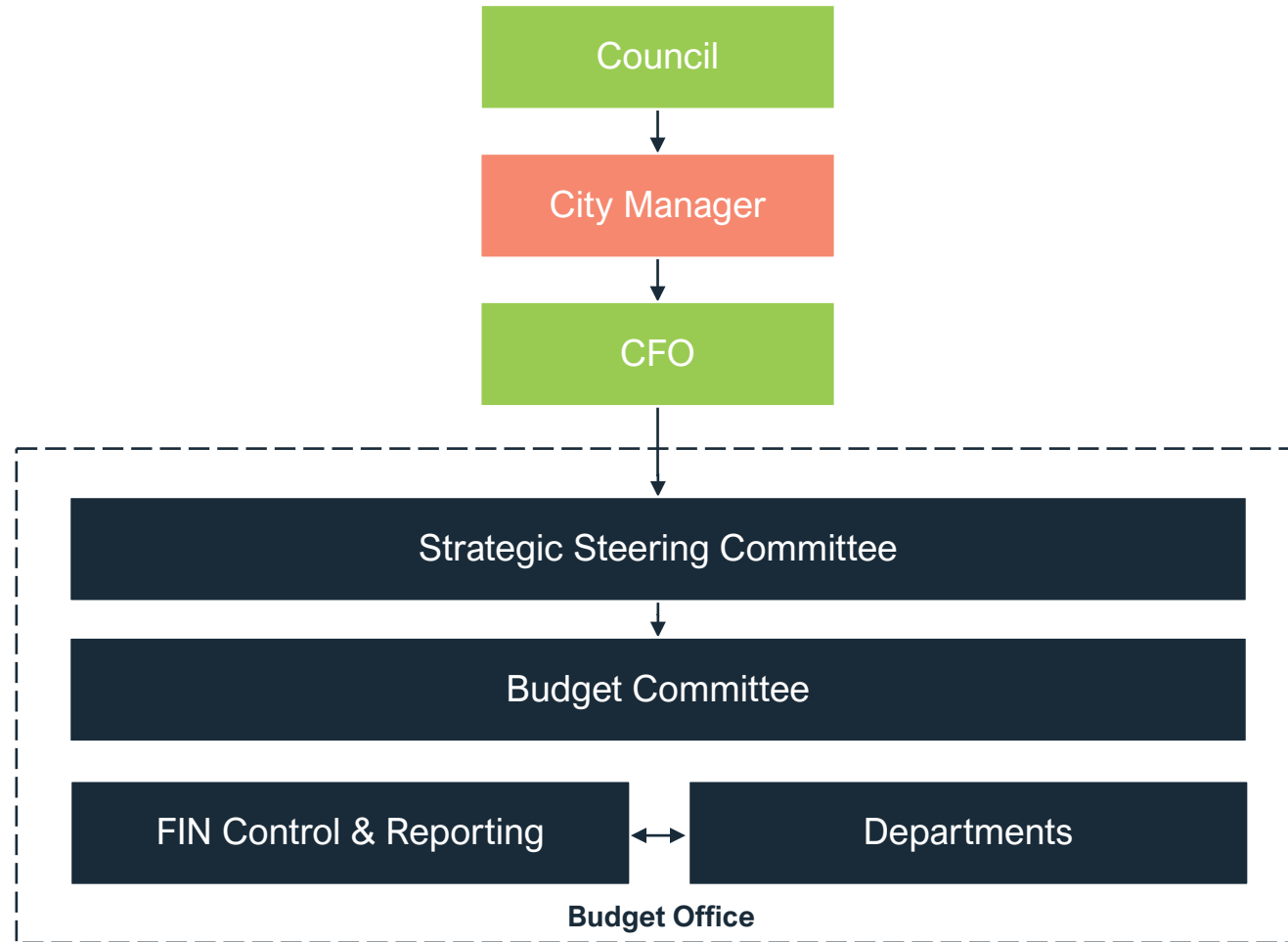
## Budget Planning

BALANCING THE NEEDS OF TODAY WITH THE REQUIREMENTS OF TOMORROW

Slide 27

# Governance Structure

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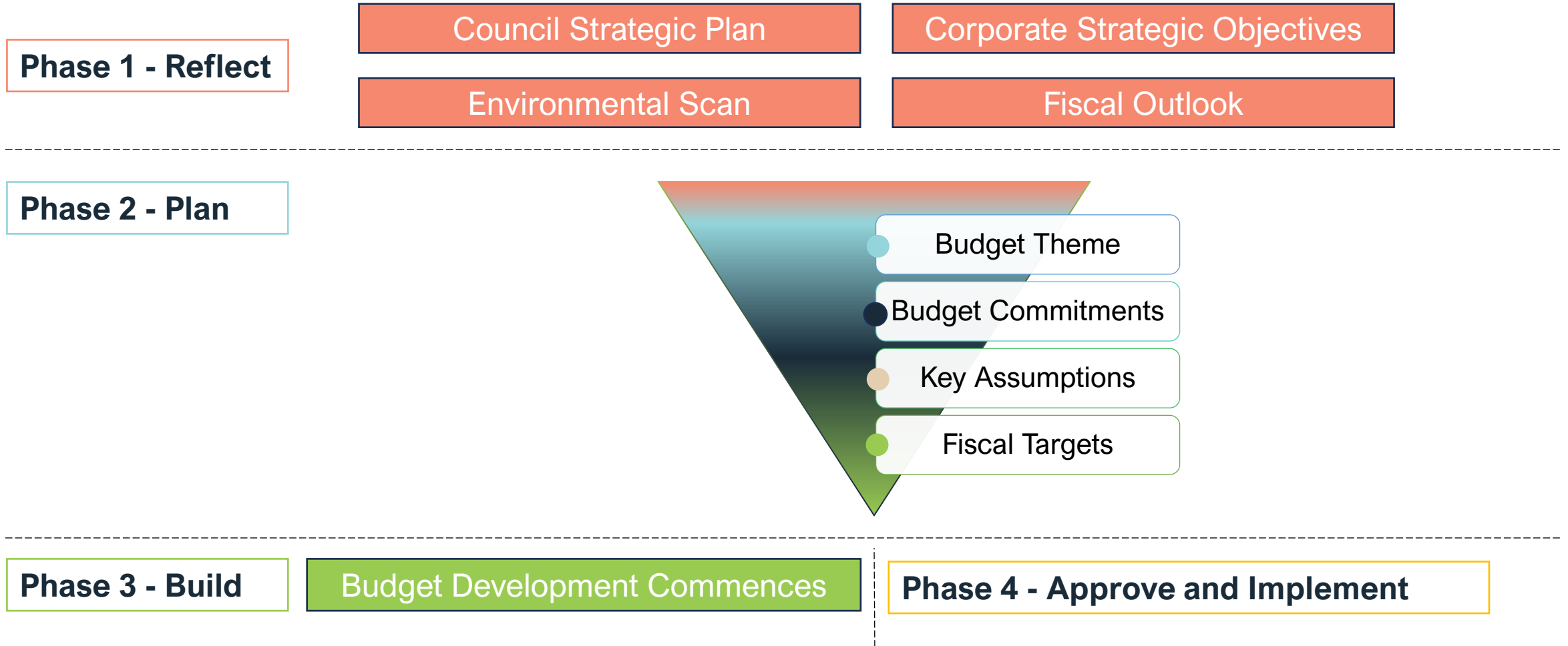
# Budgeting in a Municipality

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- Municipality must budget as if we are to operate indefinitely
- Cannot run a deficit
- Limited in scope on the amount of property taxes we can collect
- Cannot issue debt for operations
- Must deliver core services established in the MGA



# Budget Process



# Budget Timelines

2024 Planned Council Dates		
Budget Planning	April 23	★
Capital Deliberations – Part 1	June 25	
Capital Deliberations – Part 2	July 9	
Operating Deliberations – Part 1	October 22	
Operating Deliberations – Part 2	October 30	
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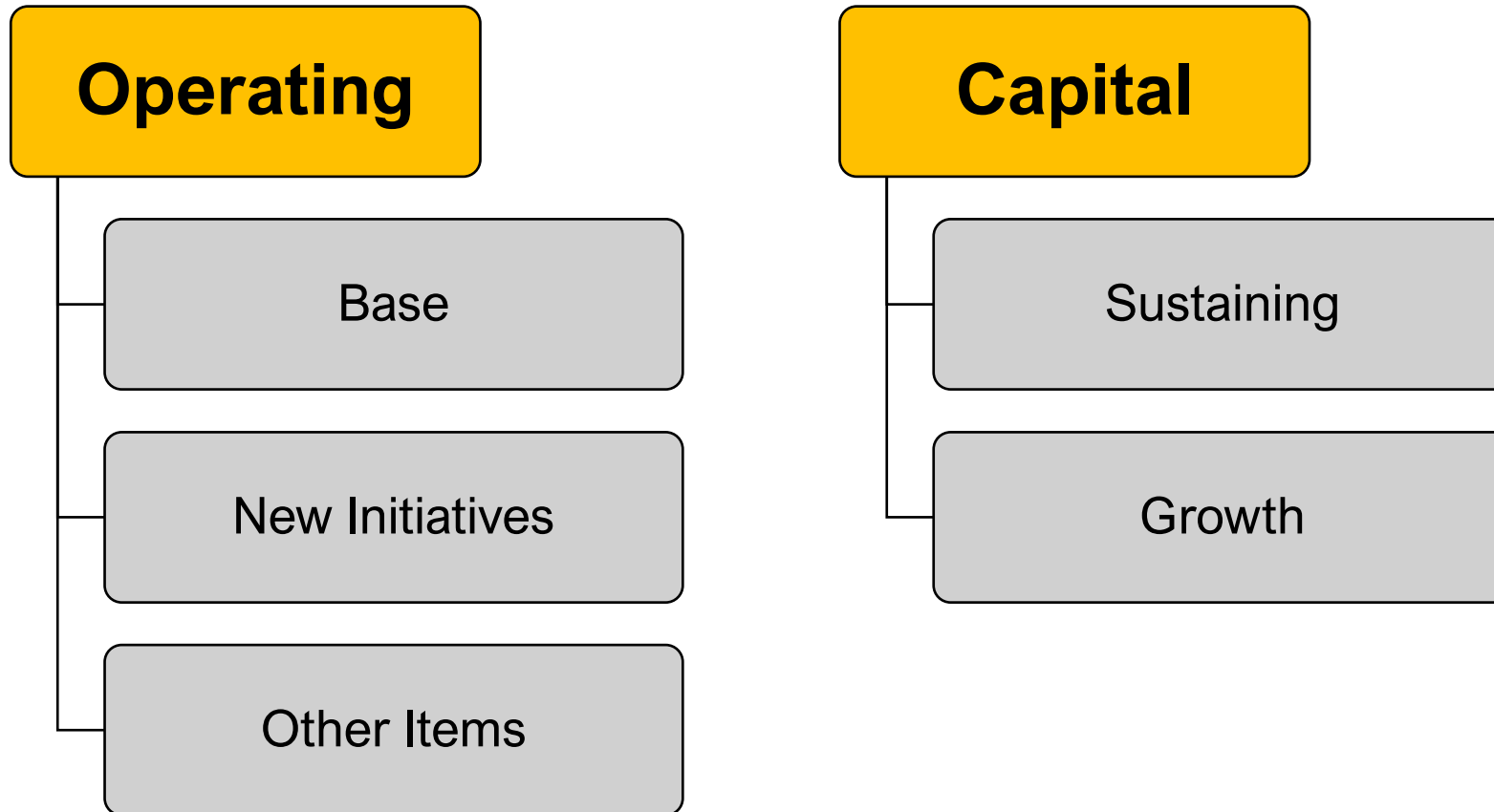


**Budget must be passed by December 31<sup>st</sup> under the Municipal Government Act**



# How is the Budget Structured?

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# Financial Segments

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	Business Unit	Operating Segment
1	Municipal	Municipal
2	Land Development & Real Estate	Land Development & Real Estate
3	Rate-Based Utilities	Water Sewer Solid Waste Electric Distribution Gas Distribution
4	Energy Production	Electric Generation Gas Production

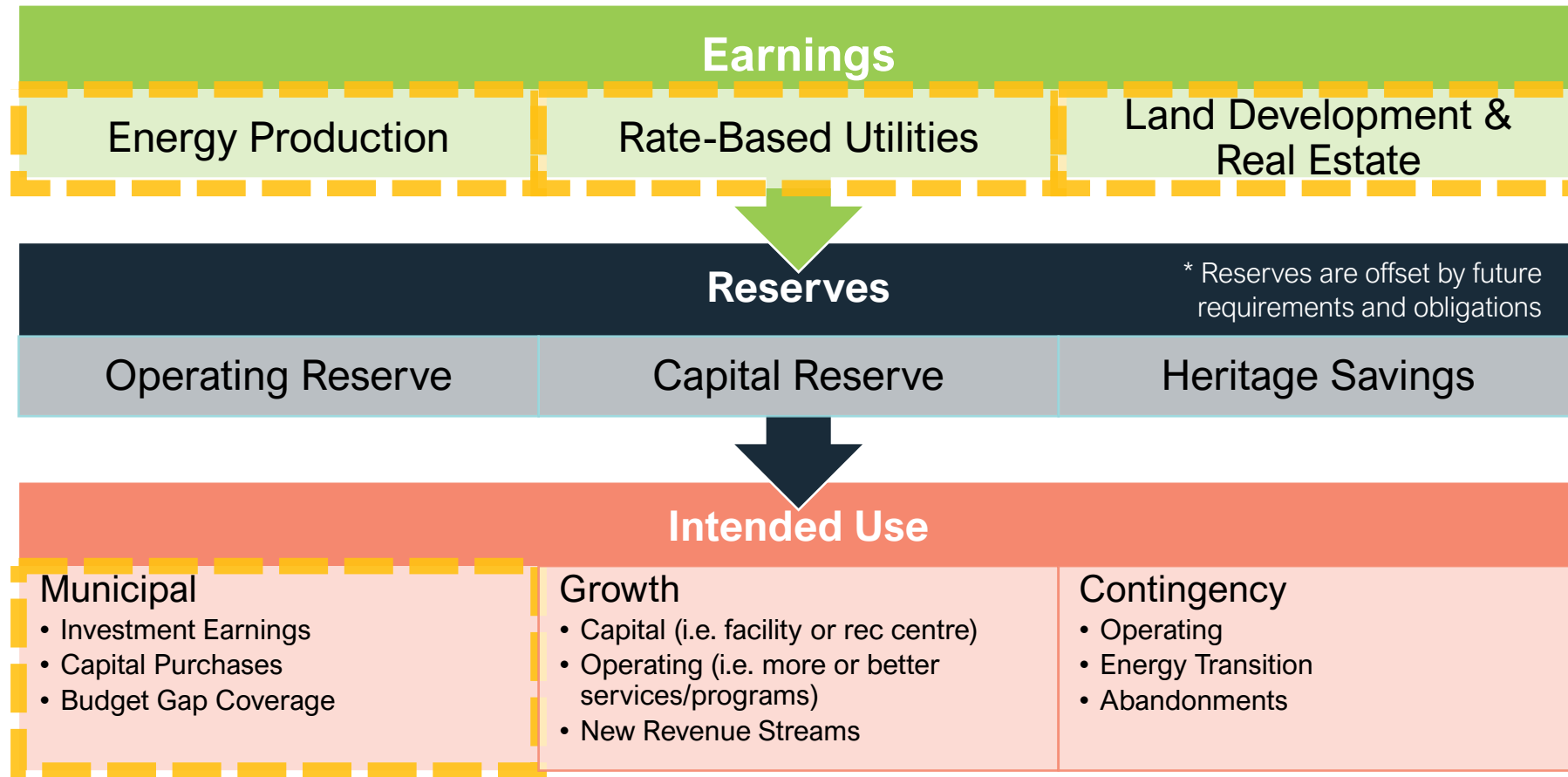
# Reserves

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- ✓ Future Asset Planning
- ✓ Help the City to Grow
- ✓ Provide Contingency
- ✓ Reduce City Debt
- ✓ Offset liabilities
- ✓ Steady predictable tax increases
- ✓ Reduce the budget gap



# How Earnings Flow



Denotes financial business units

# How do the Business Units benefit the Municipality?

## Municipal Support from Business Units and Reserves

	2024	2025	2026	2027	2028	2029	Average
<b>Operating Revenue</b>							
Net Investment Income	13,382	15,852	17,233	14,794	12,296	10,846	<b>14,067</b>
Business Unit Dividends	3,150	3,000	3,000	3,000	3,000	3,000	<b>3,025</b>
Heritage Reserve	0	5,000	5,000	4,500	4,000	3,500	<b>3,667</b>
<b>Budget Gap Funding</b>	10,675	6,964	-	-	-	-	<b>2,940</b>
<b>Capital Project Funding</b>	11,906	27,174	22,106	26,886	27,537	28,201	<b>23,968</b>
<b>Total Municipal Support</b>	<b>39,114</b>	<b>57,990</b>	<b>47,339</b>	<b>49,180</b>	<b>46,833</b>	<b>45,548</b>	<b>47,667</b>

**The Municipality benefits, on average, \$47.7M per year from its business and investments. This is the equivalent of a 53% tax increase.**

**Does Council support the strategy to reduce the City's reliance on non-sustainable business and investment earnings over the long-run?**

# Rate-Based Utilities

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- Rate-Based Utilities include **Water, Sewer, Solid Waste, Electric Distribution, and Gas Distribution.**
- Rates are calculated using a cost-of-service model to ensure the financial sustainability of each utility.
- These utilities are considered natural monopolies; therefore, regulations are in place to ensure fair rates for customers.
- The rate methodology is aligned with Alberta Utilities Commission principles.

# *Environmental Scan and Fiscal Outlook*



# Environmental Scan

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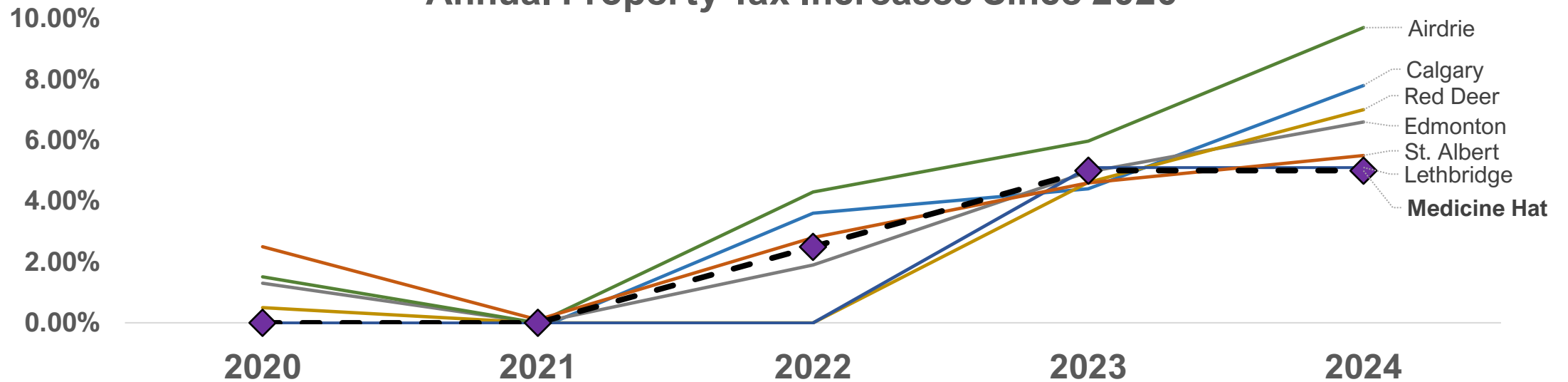
## Post-Pandemic External Environment:

- Property tax rate freeze from 2020 - 2022 resulted in foregone revenue (\$7.5M)
- Reduced municipal funding from the province
- Increased demand for community support
- Inflationary pressures
- Higher interest rates
- Changing energy landscape



# Property Taxes

## Annual Property Tax Increases Since 2020

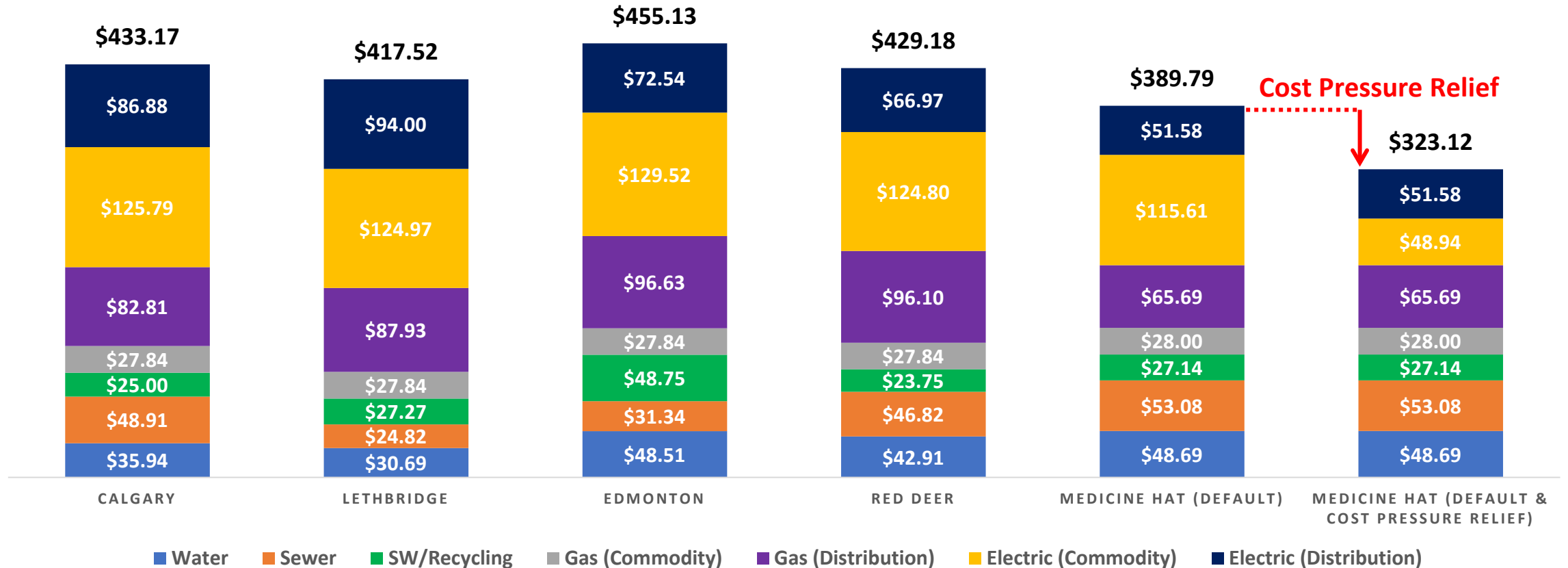


	Lethbridge	Red Deer	Medicine Hat	Edmonton	Calgary	St. Albert	Airdrie
Increase since the Pandemic	10.46%	12.49%	13.00%	15.50%	16.36%	16.40%	23.08%

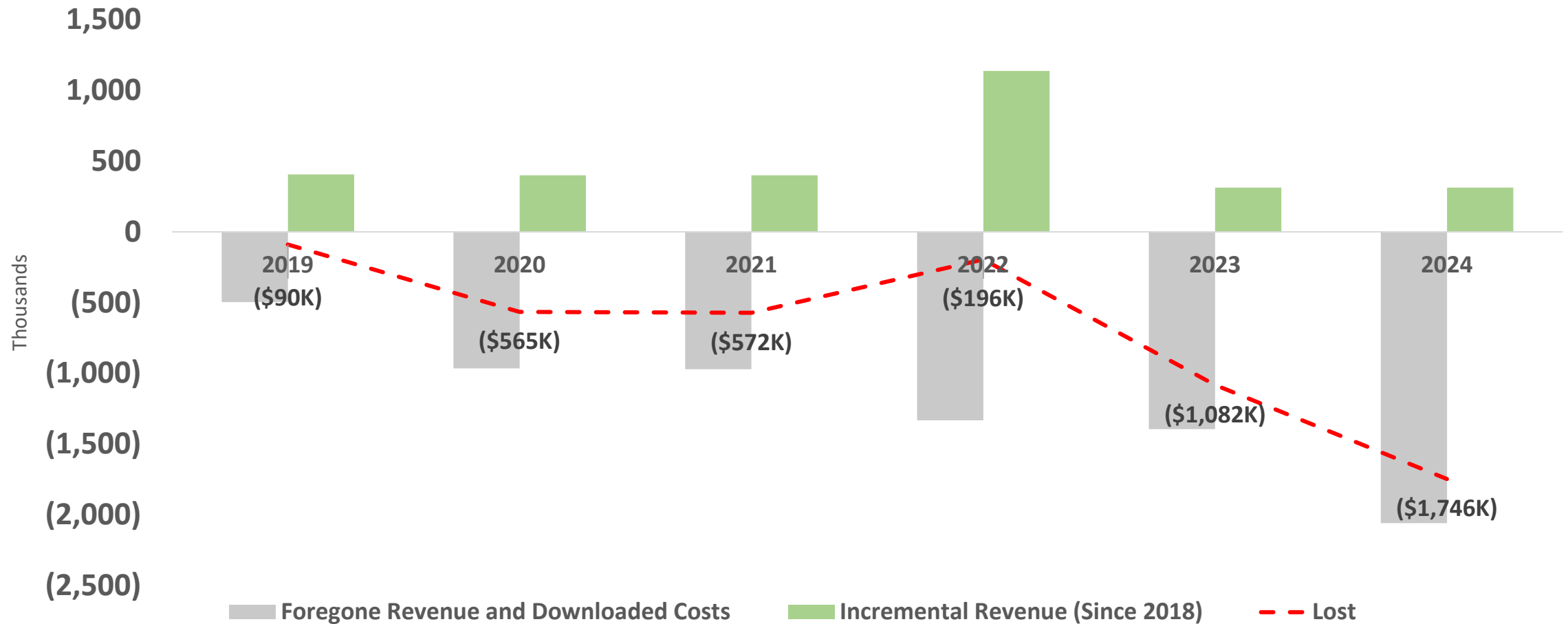
The city's annual tax revenue is about \$7.5M lower than planned because of taxpayer relief efforts during the pandemic.

# Utility Rates and Commodities

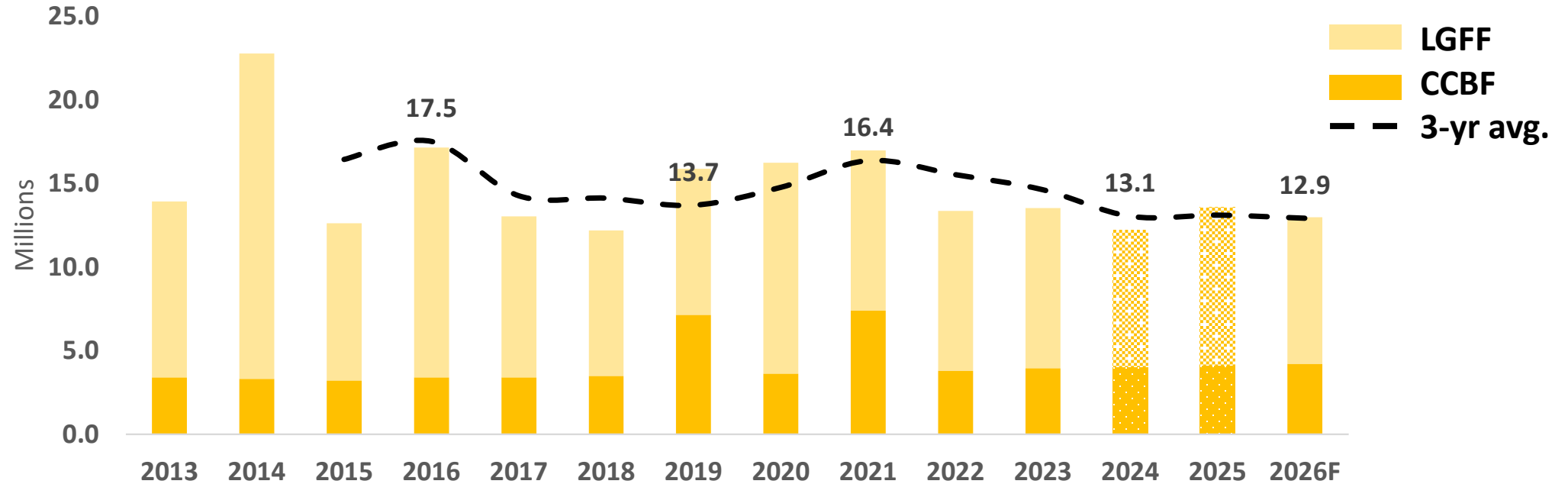
## AVERAGE MONTHLY RESIDENTIAL UTILITY BILL 2023



# Intergovernmental Transfers – Operating



# Intergovernmental Transfers – Capital



	10-year Average	Allocation 2024	Allocation 2025	Forecast 2026
<b>Major Capital Grant Allocations</b>				
Canada Community Building Fund (CCBF)	4,275	4,039	4,120	4,203
Local Government Fiscal Framework (LGFF)	11,112	8,196	9,461	8,788
<b>Total Major Grant Allocations</b>	<b>15,388</b>	<b>12,235</b>	<b>13,582</b>	<b>12,990</b>

← 21% LGFF Reduction



# City Grants to the Community



<u>2019</u>	<u>2023</u>
<b>\$3.3M</b>	<b>\$4.8M</b>

# Inflation

	2019	2023	4 Year Increase
Fire Truck	\$0.9M	\$1.5M	↑ 60.2%
Garbage Truck	\$285K	\$389K	↑ 36.4%
Special Transit Bus	\$182K	\$260K	↑ 43.0%
Rooftop Air Unit	\$17K	\$31K	↑ 85.2%
Fire Hydrant	\$11,372	\$15,643	↑ 37.6%
Sanitary Manhole (\$/m)	\$2,705	\$3,403	↑ 25.8%
Water & Sewer Main (\$/m)	\$4,013	\$7,276	↑ 81.3%
Road Paving (\$/m)	\$18.90	\$23.00	↑ 21.7%
Road Crack Sealing (\$/m)	\$4.56	\$8.50	↑ 86.4%
Commercial Transformer	\$17,725	\$29,953	↑ 69.0%
Transmission Power Pole	\$2,704	\$5,229	↑ 93.4%
6" Steel Pipe (\$/m)	\$33.46	\$79.57	↑ 137.8%

# Borrowing Interest Rates

	2019	Current*	Increase
<b>5 year</b>	2.161%	5.13%	↑ 137.4%
<b>10 year</b>	2.397%	5.20%	↑ 116.9%
<b>15 year</b>	2.552%	5.39%	↑ 111.2%
<b>20 year</b>	2.683%	5.50%	↑ 105.0%
<b>25 year</b>	2.691%	5.58%	↑ 107.4%
<b>30 year</b>	2.710%	5.60%	↑ 106.6%

*\*Rates are current as of April 15, 2024*

In 2023, outstanding debt has interest payable at rates ranging from 1.79% to 6.25% with an average annual interest rate of 3.48%

# Current Financial Position

## City of Medicine Hat Statement of Financial Position

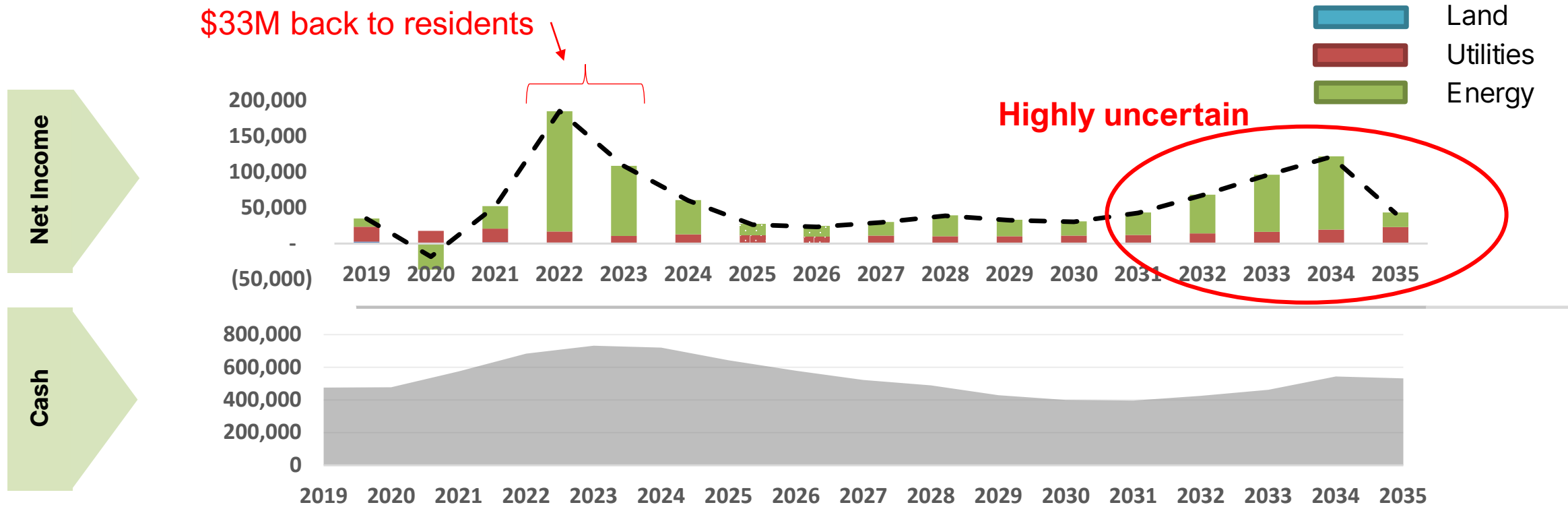
*in thousands*

*(Subject to Council Approval on April 22, 2024)*

	<b>2022 Actual</b>	<b>Change</b>	<b>2023 Actual</b>
Financial Assets	792,497	7,853	800,350
Financial Liabilities	(803,907)	31,089	(772,818)
<b>Net Financial Assets (Debt)</b>	<b>(11,410)</b>	<b>38,942</b>	<b>27,532</b>
Non Financial Assets	1,465,843	9,496	1,475,339
<b>Accumulated Surplus</b>	<b>1,454,433</b>	<b>48,438</b>	<b>1,502,871</b>



# Fiscal Outlook – Business Unit Earnings



**Reduced net income from the Energy Production Business Units is anticipated to result in cash burn over the 10-year planning horizon.**

# *Fiscal Targets*

## **Budget Planning**

BALANCING THE NEEDS OF TODAY WITH THE REQUIREMENTS OF TOMORROW

Slide 49

# Fiscal Targets

Commitment to the Key Budget Assumptions ensures we are on track to meet these targets...

Target Name	Definition	2025-2026 Fiscal Target
<b>Municipal Budget Gap</b>	The annual cash deficit from <u>municipal</u> operations	Budget gap solution by 2026
<b>Cash Holdings</b> <i>(includes Reserves)</i>	The targeted cash balance to remain be financially sustainable	Maintain sufficient cash levels (est. between \$570 and \$870 million)
<b>Free Cash Flow</b>	The cash the city earns from its business units that flows to reserves	Generate enough to fund capital reserve needs and municipal gap (est. \$38 million per year)
<b>Debt to Revenue</b>	A target of the City's level of debt	< 70% of MGA limit

Uncertainties could negatively impact our fiscal targets.

# Risks to meeting Fiscal Targets

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## Uncertainties:

- Facilities for the Future
- Energy Business Review
- Energy Transition
- Asset Retirement Obligations
- Requests for funding from external parties

## Risks:

- Market Volatility
- Further reductions to Provincial funding



# *Key Budget Assumptions*

## **Budget Planning**

BALANCING THE NEEDS OF TODAY WITH THE REQUIREMENTS OF TOMORROW

Slide 52

# Budget Commitments

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*Balancing the needs of today with the requirements of tomorrow*

1. Address community needs and ensure excellent service
2. Balance affordability with the need to invest in City infrastructure and operations
3. Ensure financial sustainability of our municipality
4. Thoughtful use of reserves for future needs
5. Alignment with Council Strategic Priorities

# Highlights

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## Municipal Budget Gap Solution by 2026:

- **\$8.0M** in Business Unit Dividends and Heritage Savings Reserve
- **\$2.0M** target for service level reductions and efficiency savings
- **4.9%** annual tax increases plus 0.5% projected assessment growth

# Highlights

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## Projected Funding:

- **\$178.5M reinvested into existing infrastructure** (17.2% increase from 2023-24 budget)
- **\$37.4M in Growth Capital** invested in Council Strategic Priorities in 2025-26 (8.4% increase from 2023-24 budget)
- **\$5.0M in New Operating Initiatives** invested in Council Strategic Priorities in 2025-26



# Highlights

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## Long-term Strategies:

- Steady and predictable tax increases
- Reducing the reliance on Business Units and Investments
- Maintain sufficient reserves
  - Investment earnings reduce property taxes
  - Protect the resident against volatile property tax increases

# Operational Assumptions

## Key Assumptions

	2025	2026
Inflation (expenses)	0%	0%
Fees and Charges <sup>1</sup>	3.00%	3.00%
<b>Salaries and Wages</b>		
Inflationary increases	2.25%	2.00%
Benefit Rate (% of Salary) <sup>2</sup>	21.00%	21.00%
Vacancy Adjustment (% of Salary) <sup>3</sup>	(4.20%)	(4.20%)

<sup>1</sup> Sale of Services, Licences, Fines and Penalties

<sup>2</sup> Police Unions at 24.25%

<sup>3</sup> Previously called Managed Manpower

- ✓ **\$2.0M** in service level reductions and efficiency savings.
- ✓ **\$8.0M** in annual contributions from business units and heritage savings reserve.
- ✓ **\$5.0M** preliminary funding cap for new operating initiatives.
- ✓ **\$11.0M** in estimated cost pressures.

**How likely is Council to support initiatives to reduce service levels to eliminate the budget gap?**

# Capital Funding

	23-24 Original Budget	25-26 Proposed
Sustaining Capital	\$152.3M	\$178.5M
Growth Capital	\$34.5M	\$37.4M
<b>Total Capital</b>	<b>\$186.8M</b>	<b>\$215.9M</b>
Debt	\$96.9M	\$70.8M
Capital Reserves	\$26.6M	\$59.2M
Grant Funding	\$23.3M	\$26.6M
Working Capital	\$40.0M	\$59.3M
<b>Total Funding</b>	<b>\$186.8M</b>	<b>\$215.9M</b>

- ✓ **17.2%** increase in capital investment from 23-24 original budget.
- ✓ Less debt and more reliance on earnings:
  - ✓ Capital Reserve
  - ✓ Working Capital
- ✓ Optimized Debt to Equity funding for Rate-based Utilities.

# Heritage Endowment

<i>In \$ millions</i>	2025	2026	Total
One-time Community Wellness Initiatives	1.5	1.5	3.0
One-time Economic Evolution Initiatives	1.5	1.5	3.0
Municipal Gap - Taxpayer Support	2.0	2.0	4.0
<b>Total</b>	<b>5.0</b>	<b>5.0</b>	<b>10.0</b>

**2025-26 Budget contributes \$10.0M over two years from the Heritage Endowment Fund back into the Community.**

**Does Council agree with the use of Heritage Reserve Endowment Funds for the 2025-26 budget period?**

# Funding the Municipality

## Property Taxes

	Annual	2025 (\$000s)	2026 (\$000s)
Municipal Inflation	2.3%	2,060	4,168
Planned Growth	0.5%	448	918
<b>General Increase</b>	<b>2.8%</b>	<b>2,508</b>	<b>5,086</b>
Closing the Budget Gap	1.2%	1,075	2,223
New Operating Initiatives	1.4%	1,251	2,620
<b>Total</b>	<b>5.4%</b>	<b>4,834</b>	<b>9,929</b>

## Fees and Charges

	Annual	2025 (\$000s)	2026 (\$000s)
Municipal Inflation	2.3%	844	1,708
<b>General Increase</b>	<b>2.3%</b>	<b>844</b>	<b>1,708</b>
Closing the Budget Gap	0.7%	257	528
<b>Total</b>	<b>3.0%</b>	<b>1,101</b>	<b>2,236</b>

**How likely is Council to consider a tax increase higher than inflation to support balancing the budget by 2026?**

# Fiscal Targets – Revisited

Commitment to the Key Budget Assumptions ensures we are on track to meet these targets...

Target	Objective	Met	Risk
<b>Municipal Budget Gap</b>	Budget gap solution by 2026	Yes	Medium
<b>Cash Holdings</b> <i>(includes Reserves)</i>	Maintain sufficient cash levels (est. between \$570 and \$870 million)	Yes	High
<b>Free Cash Flow</b>	Generate enough to fund capital reserve needs and municipal gap (est. \$38 million per year)	Yes	High
<b>Debt to Revenue</b>	< 70% of MGA limit	Yes	High

Uncertainties could negatively impact our fiscal targets.

# Reserves and Future Considerations

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## *Thoughtfully consider use of reserves:*

- ✓ Come back to council with plans for designating funds for future considerations:
  - Abandonment Obligations
  - Energy Transition
- ✓ Amendments of the Heritage Savings Reserve Bylaw to clarify use of endowment funds.
- ✓ Provide recommendations regarding Facilities for the Future

# Conclusion – Next Steps

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- Provide a recommendation for the establishment of dedicated reserves for abandonment obligations and energy transition.
- Provide Amendments for the Heritage Savings Reserve Bylaw.
- Council Capital Deliberations: June 25 and July 9.



# Question to Council

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**Does Council have any thoughts that they would like to provide before we end?**

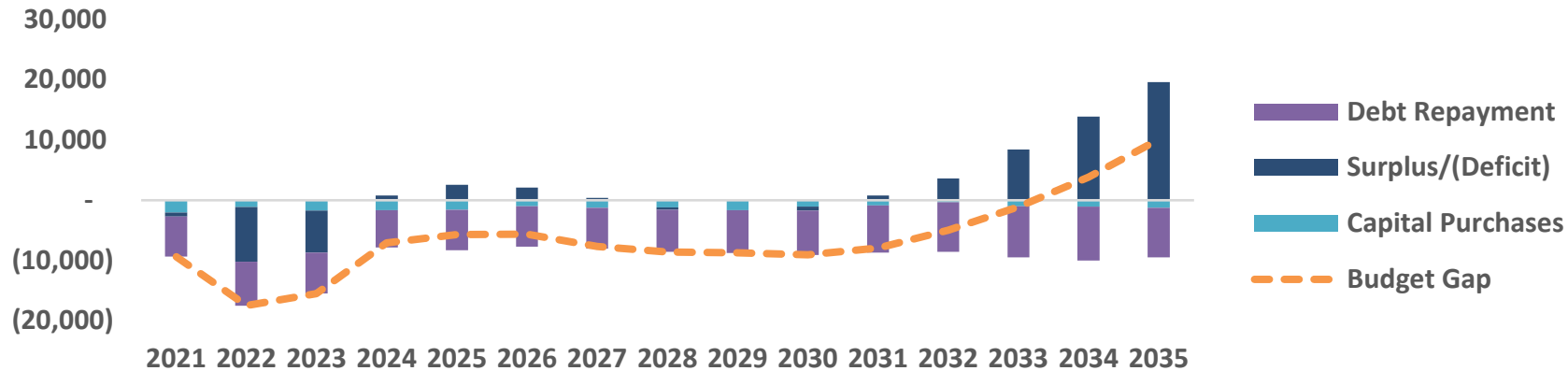
# Conclusion

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*Balancing the needs  
of **today** with the  
requirements of **tomorrow***

*End*

# Fiscal Targets: Municipal Budget Gap



*\*Chart is For illustration purposes only*

- ✓ Issuing Debt (Principal repayments + Interest)
- ✓ Cash/ Reserve Balances (Investment Income)
- ✓ Capital Purchases (funded through property taxes)
- ✓ Surplus Deficit, including:
  - Property Taxes
  - Fees and Charges
  - Inflation
  - One-time Purchases

# Fiscal Targets: Cash Holdings

## How Much Cash Should the City Have?

Reserve	Description			Min Target (\$M)	Max Target (\$M)
		Low	High		
Operating Reserve	% of Municipal Expenditures	10%	30%	19	56
Capital Reserve	# of Years worth of funding	5	10	159	319
Heritage Savings Reserve	Annual Accessible Earnings (\$X.XM)	7.5	10.0	246	351
Unrestricted Cash	Needed to Maintain Operations	-	-	146	146
<b>Total</b>				<b>570</b>	<b>872</b>

The City must maintain at least \$570M per year in cash to remain financially healthy.

# Fiscal Target: Cash

## Why do we need Unrestricted Cash?

Cash Designation	Description
Restricted Capital	Funds designated to specific capital projects by council (including carry forward capital projects).
Working Capital	Funds required to cover cash fluctuations in day-to-day operations
Sustaining Capital	Funds accumulated ahead of time to help pay for large capital purchases
Deferred Revenue	Funds the City has in its possession that it has not yet earned (i.e., grants)
Offsite Levy	Offsite Levies have been collected from developers for specific projects
Undesignated commitments	Funds that the City knows it will need to pay out but have not been designated (i.e., ARO, Land inventory, energy transition, etc.)

**Unrestricted funds are needed to cover many different things.**