

## **Presentation by the City Manager On the Proposed Budget for 2023 and 2024 November 7<sup>th</sup> Council Meeting**

Let me briefly introduce the proposed budgets for 2023 and 2024 before passing things over to Managing Director Egert for a more complete introduction.

Through the budgetary process we balance the needs, priorities, and aspirations of the city, against revenue sources and fiscal sustainability. The proposed budget reflects re-investments in operations and capital of the City of Medicine Hat. It reflects a desire by our community to maintain our current high levels of service.

Our budgetary process is extensive. The process is informed by each department in the City. Departmental business plans are developed which set out operational and capital needs, in alignment with Council's Strategic Plan. We further examine and make recommendations on municipal tax revenues, and utility rates and fees.

An important question for any organization, particularly during a budgetary process is, are we living within our means – that is, are we financially sustainable? A study by KPMG recently defined financial sustainability as follows:

“Financial sustainability is the ability to meet current and future expenses as they arise and the capacity to respond to foreseeable changes and emerging risks.”  
KPMG, 2020

Sustainability for the city is not defined by a single revenue source or activity. In considering the sustainability of the City of Medicine Hat, it is useful to consider our activities in four categories:

- General municipal operations,
- Utilities and distribution,
- Energy generation (COMCO), and
- Investments.

General municipal operations are funded primarily through property tax revenues, utilities through rates, COMCO through the sale of energy, and investments from our savings (our reserves).

While three of the four streams are relatively stable and sustainable, the level of historic earning from COMCO is not. COMCO has two primary business lines: gas, and electric production. Neither, in the longer term, may be sustainable. Gas production is diminishing annually – simply stated, our gas fields are mostly played out. Earning from electrical generation also have longer term vulnerability. Almost all of our current electric generation is from gas. The Federal policy is a net-zero grid by 2035.

So, an appropriate question to ask is whether the City of Medicine Hat is financially sustainable without COMCO? I believe the answer is **yes**. Our expected earnings on utilities and investments are sufficient to offset shortfalls in municipal services. And we have a strong and growing balance sheet that allows us to meet future challenges and fund our future.

My answer 7 years ago, or even two years ago, would have been that we were not sustainable without COMCO. So, what has changed? We largely eliminated our losses from the production of Oil and Gas (\$30-50 million a year). Further, our expected investment income has increased markedly. This resulted from greater amounts under investment (from profits from COMCO) and a change in investment policy.

I stated that our expected earnings on utilities and investments are sufficient to offset shortfalls in municipal services But we present a municipal operating cash shortfall \$11 million in 2023, and \$6 million in 2024 (similar to the \$9 million shortfall budgeted from this year). Why?

This occurs for two reasons. First, our existing reserve policies do not flow all the earnings from utilities and investments to municipal services. Rather, much of these earnings are transferred into reserves, with a transfer back from reserves to municipal operations. Second, in the short-term accounting earnings and our cash position may vary significantly.

While sustainable, we must be prudent and vigilant. It is important that we continue to focus on our costs, both operating & capital. It is also important that we continue to focus on revenue generation – this includes both municipal taxes, and utility rates

I would like to briefly discuss the importance of municipal taxes in our sustainability. Municipal taxes are the primary means to pay for ongoing municipal operations. They are central to sustainability. Where these rates are not raised to reflect increased costs (municipal inflation) the municipality may be at risk. This is particularly an issue if a lower rate is paid for through a non-sustainable revenue source.

Let me close by thanking everyone involved in the budgetary process – this included many people from across the organization. Your efforts are greatly appreciated.