Municipal & Land Budget
2019-2022
Presentation to Council

December 17, 2018
Agenda

• Introduction and Planning Process
• The MH Story – our Advantage
• The Target – property taxes
• The Challenge – balancing act
• The Response – Financially Fit
• The Result – municipal budget (operating, capital)
• Treasury – external debt and reserves
• Land & Business Support – budget (operating, capital)
• Conclusion and Recommendation
Planning Process – from vision to reality

City Vision

Strategic Priorities

Business Plans

Budget
Introduction – Four year budget

• Advances Council Priorities as outlined in the 2019-2022 Strategic Plan
• Financially Fit initiatives pursuing a sustainable municipal budget
• Seeks to achieve right balance for Medicine Hat
Introduction (continued)

- Focus from Land & Business Support on Economic Vitality
- Continue to progress Financially Fit principle
  - “reduce municipal services reliance on commodity-based revenue”
- Energy Subsidy gap is reduced from $23 million to $7 million
  - 2016 = 21% of municipal services revenue
  - 2022 = 5% of municipal services revenue
- Assumptions built into budget left to solve & execute
  - requires collective commitment
Key Guiding Principles – July 2018

• Financial sustainability and resilience
  – Eliminate municipal services reliance on volatile commodity revenues (Energy subsidy)
  – Heritage Savings Reserve to capture value from commodity based businesses
  – Enhanced investment returns from longer term treasury holdings

• Stable and predictable tax environment
• User pay principle
• Market based pricing for utilities
• Continue rehabilitation of aging infrastructure
The MH Story – our Advantage

• CMH – City is open for business
• Infrastructure – well managed and reliable
• Facilities & amenities – high quality (Esplanade, Canalta, FLC, Senior Centre, Echo Dale, parks & trail network)
• Community safety – highly competent and versatile emergency and protective services
• Programs & service delivery – competitive benchmarking results compared to other municipalities
• Resources – leverage economic growth (land, water, gas, electricity)
• Heritage Saving Reserve – creating an endowment for residents
• Taxes & utilities – continued advantage compared to peers
**Taxes & Utility Charges – comparison**

* Source: City of Calgary - 2017 Residential Property Taxes & Utility Charges Survey

Revenue increase if comparable total tax & utilities:

- **$16M** additional tax revenue
  - ~ $550 increase per house
  - = $5,159 per house total
**The Target – property taxes**

- Net tax increase = 4.0%
- Assessment growth = 0.5%

  - estimated 4% annual increase for a $266,300 home
    = $99 ($8.25 per month)
The Challenge – balancing act

Challenges

- Inflation
  2% = $9M

- Economic Development Incentives
  $0.6M

- New & Expanded Facilities
  $1.5M

- Lost Energy Subsidy
  $23M

- Preserving Existing Programs & Services

- Stable & Predictable Property Tax Increases
  4% per year
# The Response – Financially Fit

## Grants & Investments
- AIMCo manage long-term assets – most investment returns allocated to capital projects or reserves, not operating
- Capture available grants

**2019-2022**

$3.2 million

## Property Tax Adjustments
- Energy Contribution Replacement Amount 2% per annum
- 2019 to fund expanded Senior Centre

$6.3 million

## Utility Rates
- Municipal Consent & Access fee

$3.0 million

## Service Level Examination
- Council direction to examine service areas
- Stakeholder engagement

$1.6 million

## User Fee Review
- User pay fees & charges model
- Revenue opportunities

$1.0 million

## Cost Containment
- Offset 2% general inflation in 2019-2022
- Reallocate resources to create efficiencies

$2.0 million

## Financial Reserves
- Need total gap funding of $91 million over 10 years

$44 million
Financially Fit Achievements

2017-2018 Accomplishments

- $2.8M Property Tax Adjustments
- $1.0M Service Level Examination
- $1.0M User Fee Review
- $1.4M Cost Containment

Energy subsidy gap is reduced from $23M to $7M
The Result – Operating Revenue

- Property tax = 4.0% annual increase + assessment growth
  $77.5M / $80.9M / $84.5M / $88.2M

- Fees & charges = $1.0M increase

- Introduction of Municipal Consent & Access Fee = $3.0M

- Fine revenues = $1.1M decrease

- No annual subsidy from Energy (NGPR)

- Energy Subsidy gap reduced by $9.3M
Operating Expenses

- New & expanded facilities (FLC, Senior Centre) = $1.5M net increase
- Wages & benefits = $8.0M inflationary increase
- Fuel contract = $1.1M increase
- Service Level/Cost Containment = $1.6M
- Innovation target = $1.8M
- Municipal Assist incentive = $0.6M increase
Tangible Capital Assets
($ millions)

Total of $98.9M
$45.3M grant funded (46%)
$12.9M debt funded (13%)

Council Strategic Priorities
1. Fiscal Responsibility
2. Infrastructure Renewal
3. Community Safety & Vibrancy
4. Sunshine Hospitality

- Community Safety & Vibrancy, $1.1
- Sunshine Hospitality, $0.9
- Fiscal Responsibility, $8.1
- Infrastructure Renewal, $88.8
Major Operating Expense
($ millions)

Total of $5.2M
$1.5M grant funded (30%)

Council Strategic Priorities:
1. Fiscal Responsibility
2. Infrastructure Renewal
3. Community Safety & Vibrancy
4. Sunshine Hospitality
5. Economic Vitality
6. City Government
Treasury – CMH External Debt

- Utilities/Energy Existing Debt
- Utilities/Energy New Debt
- Municipal Existing Debt
- Municipal New Debt
- Total Debt
- Debt Limit - % of revenue

Years: 2018, 2019, 2020, 2021, 2022

- 2018: $347
- 2019: $353
- 2020: $370
- 2021: $378
- 2022: $397

- 2018: 50%
- 2019: 47%
- 2020: 47%
- 2021: 46%
- 2022: 47%
### Treasury – CMH Dedicated Reserves

($ millions)

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<tr>
<th>DESCRIPTION</th>
<th>Projected Balance 31-Dec-18</th>
<th>Projected Balance 31-Dec-22</th>
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<td><strong>DEDICATED RESERVES</strong></td>
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<tr>
<td>Employee Development</td>
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<td>Victim Assistance</td>
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<td>Second Street S.E. - Remand Centre</td>
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<td>Fleet Replacement</td>
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<td>Art Acquisition</td>
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<tr>
<td>Infrastructure</td>
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<td>6.7</td>
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<td>Community Capital</td>
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<td>Heritage Reserve</td>
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<td>Tax Rate Stabilization</td>
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<td>Natures Best</td>
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<td>Gas Depletion</td>
<td>19.6</td>
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<tr>
<td>Electric Facility and Equipment</td>
<td>25.2</td>
<td>-</td>
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<tr>
<td><strong>TOTAL RESERVES</strong></td>
<td>$ 119.4</td>
<td>$ 116.7</td>
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<tr>
<td><strong>Unrestricted Surplus - NGPR</strong></td>
<td>$ 183.0</td>
<td>$ 98.1</td>
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Land & Business Support Overview

1. Base Direction

2. Capital Budget

3. Operating Budget
Base Direction (L&BS)

1. Capital & Operating Budgets developed based upon 2019-2022 Business Plan

2. Business Plan built from:
   - 2019-2022 Council Strategic Priorities
   - 2014 Business Model
   - Council Approved Policies
   - L&BS Strategic Objectives set for Core Services:
     - Cost effective Land Dev’t
     - Marketing & Sales
     - Property Management
     - Internal Real Estate Consulting
     - Business Support Functions
     - Staff Engagement, Safety & Succession Planning
L&BS Capital Budget

**Key Development Nodes 2019-2022**

- **Residential:**
  - Ranchlands 3C (**$3.6M** added to existing $12.5M approved)
  - Brier Run (included below)

- **Commercial:**
  - Airport North Node (**$2M** added to existing $2M approved)
  - Brier Run (**$10M** added to existing $5.5M approved)

- **Industrial:**
  - North West Industrial Phase 1 (**$14M**)

**Total New Projects Proposed: $29.9M**

**Future: 2023-2028**

- **Residential:** Riverwalk
- **Commercial / Industrial:** Airport East / Airport South / NW Industrial Ph2
L&BS Operating Budget

Key Assumptions:

- **Business Support:**
  - DDIP / CCDA / Other Contracted Services – remains @ ~$1M/yr
  - Funding for Sport & Event Council – add $75K/yr

- **Sales:**
  - Sales Projections considered by anticipated volumes and pricing in each category
  - R-LD – 40 lots in 2019; 50 per year thereafter
  - R-MD – at least one parcel each year
  - Commercial – 2 acres/yr at Airport
  - Industrial – Brier Run and NWIP sales start in 2021 @ 10 acres/yr
L&BS Operating Budget

Key Assumptions (cont’d):

➢ Property Administration:
  ➢ 2% inflation on Leases
  ➢ No revenue from services to internal dep’ts

➢ Interest computed annually at year-end on any balance “due-to” General Fund and applied to following year

➢ Additional interim Temp Resources (1.4 FTE’s) in 2019 & 2020 supporting:
  ➢ Business Support, Marketing and Sales functions
  ➢ Part of succession plan

➢ Other budget guidelines as per Corporate Finance direction
## L&BS Operating Budget Overview

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<td><strong>Total Exp’s</strong></td>
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<td><strong>Net Earnings</strong></td>
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<td><strong>Projected Dividend</strong></td>
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<td><strong>Due (To) From General Fund</strong></td>
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<td>(3.1)</td>
<td>(12.3)</td>
<td>(12.8)</td>
<td>(5.7)</td>
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<td>0.5</td>
<td>0.8</td>
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Land Contributions to Community Capital (Dividends)

Average dividends 1998-2017 = $2.2M/yr

Projected Average 2018–2027 = $2.2M/yr
Conclusion

✓ Aligned plan with Council Strategic Priorities
✓ Met Council approved principles and assumptions
✓ Funded Asset Rehabilitation programs
✓ Assumptions built into budget left to solve & execute
✓ Achieved right balance for Medicine Hat:
  - facilities, amenities, programs and services
  - taxes & fees
✓ Preserved the “Medicine Hat Advantage”
Recommendation

That City Council Approves 2019-2022 Budgets:

• Municipal – Capital (TCA) and Major Operating Expenditures (MOE)

• Municipal – Operating

• Land & Business Support – Capital (TCA)

• Land & Business Support – Operating
End