

2017

**CITY OF
MEDICINE HAT
ANNUAL REPORT
2017**



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A low-angle, upward-looking photograph of a large, mature tree. The thick, textured trunk of the tree dominates the lower half of the frame, extending towards the top. The upper half is filled with a dense canopy of green leaves, through which bright sunlight is streaming, creating a strong lens flare and a warm, golden glow. The sky is a pale blue, visible through the branches.

CORPORATE GOVERNANCE



TED CLUGSTON
Mayor



ROBERT DUMANOWSKI
Councillor



JULIE FRIESEN
Councillor



DARREN HIRSCH
Councillor



JAMIE MCINTOSH
Councillor



KRIS SAMRAJ
Councillor



PHIL TURNBULL
Councillor



JIM TURNER
Councillor



BRIAN VARGA
Councillor

CITY COUNCIL

City Council consists of a Mayor and eight Councillors, elected for a term of four years.

The positions of Mayor and Councillor are elected at large, meaning that each person elected represents the City as a whole and not a particular ward or section of the city.

DID YOU KNOW?
CITY COUNCIL
HELD 23 REGULAR
MEETINGS IN 2017
AT CITY HALL.
MEETINGS ARE
TYPICALLY HELD THE
FIRST AND THIRD
MONDAYS OF THE
MONTH



MAYOR'S REPORT

When reflecting on 2017, it is easy to identify City of Medicine Hat milestones and achievements worth recognition.

On the construction front, the new Fire Station 2 opened on Trans-Canada Way SE and we began construction of Fire Station 1 on the north side of the river to increase our ability to provide timely response. Parts of the Veiner Centre were demolished to allow for the expansion and redevelopment of the facility. Berm construction continued as part of a multi-year plan to protect our city from flooding and Unit 16 was commissioned to begin providing new electric generation capacity for the community.

We introduced a fair entry program to help the most vulnerable in our community access City culture and recreation programming. A community garden pilot project was undertaken at Strathcona Centre and a series of diversity and inclusion events were held as part of Raising the Curtain.

A key focus for 2017 continued to be solidifying our financial foundation. We established a Heritage Reserve and continued to scrutinize City spending as part of our Financially Fit for the Future initiative to reduce reliance on volatile commodity revenues. Council adopted a new Utilities strategic plan and work continued to implement the Natural Gas and Petroleum Resources department's Growth Strategy.

In October, we said goodbye to three members of City Council after the municipal election and welcomed three new members. I would like to recognize the achievements of the previous Council, whose work you can see in the pages of this publication. I have full confidence the current Council will continue to show the same levels of courage, wisdom and commitment.

Please take a few minutes to read about our 2017 accomplishments within these pages. We have much to celebrate!

A handwritten signature in black ink that reads 'Ted Clugston'.

Ted Clugston
Mayor
April 17, 2018



TED CLUGSTON
Mayor

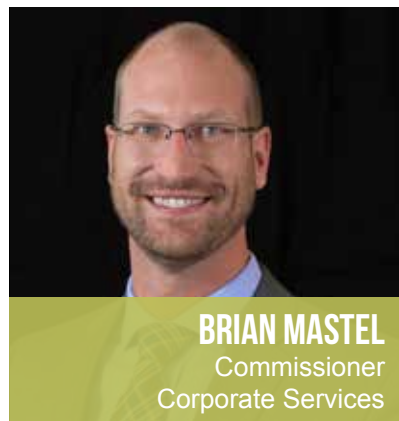


MERETE HEGGELUND
Chief Administrative Officer

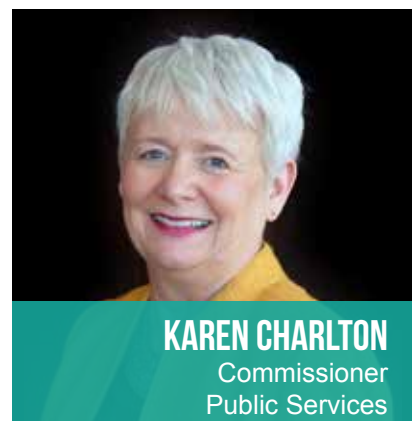
DID YOU KNOW?
19,000 MEALS
WERE DELIVERED BY
MEALS ON WHEELS
VOLUNTEERS IN
2017



CAL LENZ
Commissioner
Utilities



BRIAN MASTEL
Commissioner
Corporate Services



KAREN CHARLTON
Commissioner
Public Services



BOB SCHMITT
City Solicitor



ANGELA CRUICKSHANK
City Clerk



STAN SCHWARTZENBERGER
Commissioner
Development & Infrastructure

ADMINISTRATIVE COMMITTEE

Weekly Administrative Committee meetings provide the Mayor and senior executives a forum to discuss strategy, consider administrative matters, review items requiring Council approval and seek consensus on issues impacting the corporation.

BOARDS, COMMISSIONS & COMMITTEES

BOARDS & COMMISSIONS

Advisory Boards

Advisory Committee on Disability Issues
Arts & Heritage Advisory Board
Medicine Hat Public Library Board
Senior Citizens Advisory Committee
Social Development Advisory Board
Transit Advisory Committee
Urban Environment & Recreation Advisory Board
Youth Advisory Board

Assessment Review & Appeal Boards

Composite Assessment Review Board
Local Assessment Review Board
Subdivision & Development Appeal Board

Commissions

Combative Sports Commission

COUNCIL APPOINTMENTS

Canadian Badlands Ltd.

Councillor P. Turnbull
Councillor B. Varga
S. Blyth, Business Support Officer

Chamber of Commerce

Councillor J. Turner

City Centre Development Agency

Councillor K. Samraj

Cypress View Foundation

Councillor J. Friesen
Councillor J. Turner

Friends of Medalta Society

Councillor J. McIntosh

Medicine Hat Community Housing Society

Councillor K. Samraj

Medicine Hat Exhibition & Stampede

Councillor J. Turner

Medicine Hat Public Library

Councillor P. Turnbull

Municipal Names Committee

Councillor J. McIntosh

Municipal Planning Commission

Councillor B. Varga, Chair
Councillor D. Hirsch

Palliser Economic Partnership

Councillor J. Turner
S. Blyth, Business Support Officer

Police Commission

Councillor J. Friesen
Councillor R. Dumanowski

Shortgrass Library System

Councillor P. Turnbull

Subdivision & Development Appeal Board

Councillor J. McIntosh
Councillor J. Turner

Tourism Medicine Hat Committee

Councillor B. Varga

COMMITTEES

Administrative & Legislative Review

Councillor D. Hirsch, Chair
Councillor J. Friesen, Vice Chair
Councillor R. Dumanowski

Audit

Councillor D. Hirsch, Chair
Councillor P. Turnbull, Vice Chair
Councillor J. McIntosh

Corporate Services

Councillor R. Dumanowski, Chair
Councillor D. Hirsch, Vice Chair
Councillor B. Varga

Development & Infrastructure

Councillor R. Dumanowski, Chair
Councillor J. Turner, Vice Chair
Councillor J. McIntosh

Energy & Utilities

Councillor P. Turnbull, Chair
Councillor J. McIntosh, Vice-Chair
Councillor J. Turner

Heritage Resources

Councillor J. McIntosh

Public Services

Councillor J. Friesen, Chair
Councillor J. Turner, Vice Chair
Councillor K. Samraj



DID YOU KNOW?
THE ESPLANADE
MUSEUM AND
ARCHIVES COLLECTION
HAS 22,000
ARTIFACTS AND ONE
MILLION HISTORICAL
PHOTOGRAPHS

CHIEF ADMINISTRATIVE OFFICER'S REPORT

Safety has been a high priority focus for our organization for the past several years. We have put in place a new incident management system, updated and expanded our safety procedures, clarified safety requirements, significantly improved corporate reporting, and generally placed a greater visibility and emphasis on safety.

Numbers help tell us the story of our progress. Our 2017 safety statistics illustrate how our efforts are paying off:

- The Total Recordable Incident Rate went from 6.32 in 2016 to 4.56 in 2017, a decrease of 33%.
- The Lost Time Incident Rate went from 2.33 in 2016 to 1.14 in 2017, a decrease of 69%.
- We achieved an overall score of 88% in our external COR Audit conducted in September 2017.

Why is this so important? Workplace injuries and lost hours impact productivity and morale, require investigation and can lead to workers' compensation premium increases and penalties under the Occupational Health and Safety Act, all of which cost the City time and money.

More importantly, failure to work safely and to create a safe working environment can have serious impact on the lives of our employees, volunteers and residents. We want everyone to get home safely after every shift and after every visit to a City facility.

Systems and processes can only take us so far. To really deliver results requires a cultural shift. When the right attitudes become embedded in an organization and set the norm for performance, we have a culture of excellence. It has been well documented that safety

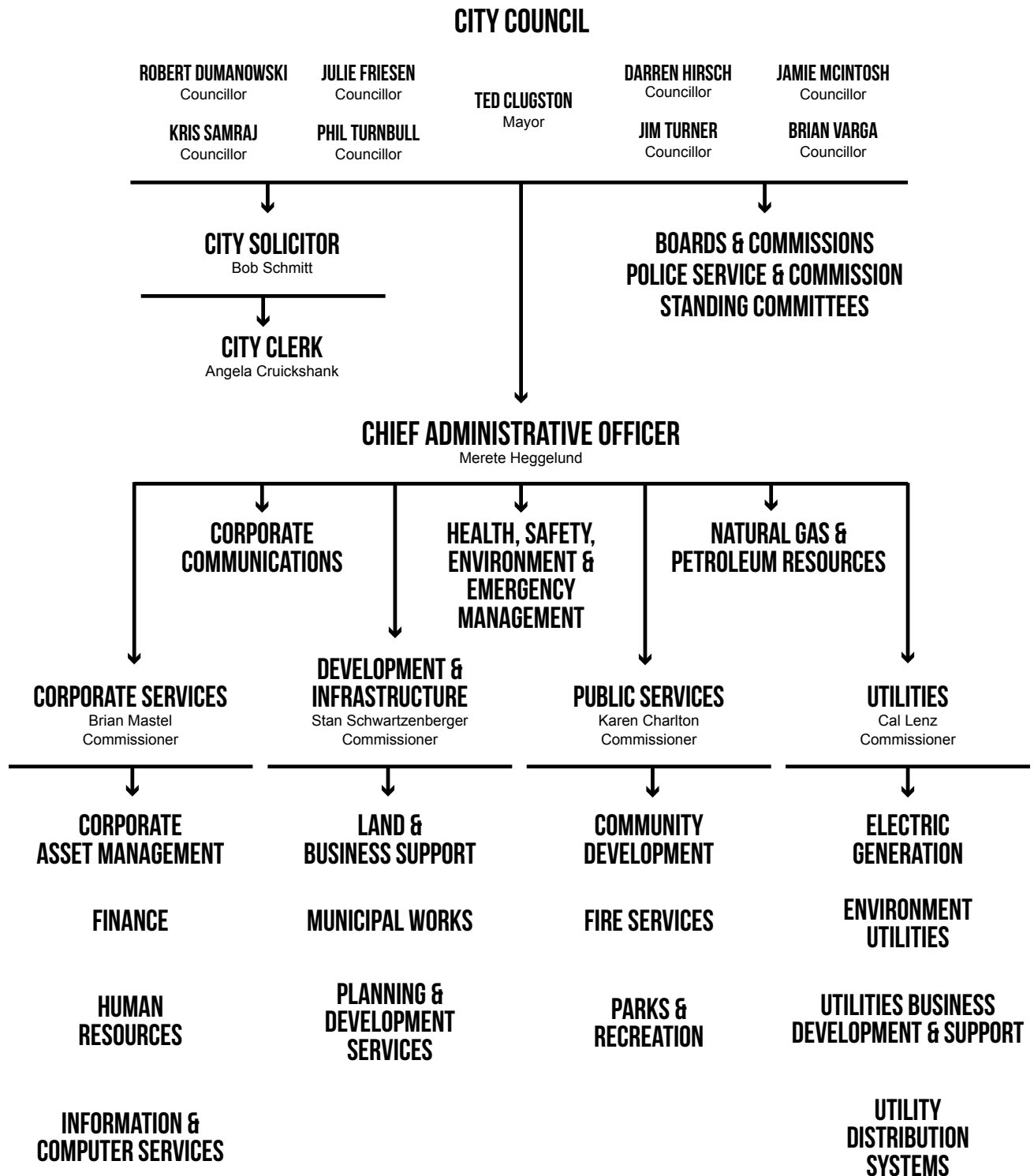
performance is a leading indicator of general performance. In other words, organizations that excel in safety are also the most effective and efficient at doing their work. Safety is not a burden on the organization; it drives a culture which benefits all aspects of our performance.

We will not waiver in our commitment to keeping our City safe. Every day our teams work together to fulfil our mission of delivering value through exceptional public service and I take great confidence and pride in the fact that we do so in a safer and better way today than yesterday.

Merete Heggelund
Chief Administrative Officer
April 17, 2018

ORGANIZATIONAL STRUCTURE

December 31, 2017





COUNCIL STRATEGIC PRIORITIES



DID YOU KNOW?
3,900 BUSINESS
LICENSES WERE
ISSUED IN 2017

ECONOMIC DEVELOPMENT



INVEST MEDICINE HAT CONTRACT FOR SERVICE

Attracting investment to and within the city

- 63 local businesses assisted
- Focused effort to increase investment in target sectors
- 30 lead opportunities
- 2 leads captured
- 30 estimated jobs created
- \$2.8M estimated investment
- Increased awareness of competitive advantages and investment opportunities within key target sectors

AIR SERVICE DEVELOPMENT

- Integra Air and Air Canada carried more than 36,000 passengers
- Aircraft activity of 19,000 takeoffs and landings including scheduled passenger flights, business charters, medevac, flight training, private aviation and an Air Cadet flight-training program.
- New Airport café operator providing full service menu, light snacks and catering
- WestJet air services secured, with scheduled service between Medicine Hat and Calgary beginning in June of 2018 with three daily flights on a 34-seat cabin class aircraft



DEVELOPMENT INVESTMENT READINESS TEAM (DIRT)

Fostering a streamlined business friendly environment that is globally competitive

- An organizational focus of meeting the needs of business / industry more efficiently and effectively to secure city and region investment
- 2 divisions and 9 departments engaged
- 22 industry developers assisted



STREAMLINED & EFFECTIVE DEVELOPMENT APPROVALS PROCESS

- Department brochures, application forms, checklists, procedures/processes, and website continuously updated and improved
- Amendments to Land Use Bylaw align with the actual use on the site, allowing land owners to develop their sites without separate lengthy rezoning process
- Met regularly with stakeholders to garner feedback and approval suggestions
- Validating and testing Cityview Permit System to further improve turnaround times



DOWNTOWN DEVELOPMENT INCENTIVE PROGRAM (DDIP) GRANT

Incentivize development for the revitalization and expansion of the city centre

- Budget \$284,000
- Total of 43 grants on 33 properties approved:
 - 31 architectural and visual enhancement
 - 10 commercial development
 - 1 environmental site assessment and remedial risk management
 - 1 live / work residential development

DID YOU KNOW?
OUR SAFETY
CODES OFFICERS
CONDUCTED 11,600
INSPECTIONS IN
2017



DID YOU KNOW?
THE CITY HAS
APPROXIMATELY
8,950 POWER POLES
AND 8,500 STREET
LIGHTS

INFRASTRUCTURE & AMENITIES



PURMAL & BALMORAL SANITARY LIFT STATION REPLACEMENTS

These aging and in need of replacement lift stations pump over half of the city's sanitary sewage.

- Project investment \$8.5M (\$5M Purmal, \$3.5M Balmoral)
- Designed to remain in service during flood events

OCTOBER 2017 WIND STORM

Sustained winds gusting to 135 km/hr toppled trees causing broken power poles and downed electrical lines. Approximately 25% of City owned trees sustained damage and 147 public trees were lost. Multiple departments worked around the clock to:

- Restore services to 11,417 customers
- Maintain public safety, including fire suppression, police presence and road closures
- Provide social assistance to those individuals most impacted
- Conduct Safety Codes inspections to ensure impacted homes and buildings were safe
- Clean up downed trees and branches



SOUTH RAILWAY ST. DOWNTOWN WATER & SEWER REPLACEMENT

Replacing aging infrastructure improves reliability and resiliency of water and sanitary systems.

- Project investment \$5.5M
- Replacement of water, sanitary sewer mains, and storm mains along South Railway St. downtown between 2nd St SE and 5th St SE



AIRPORT RUNWAY 03-21 AND TAXIWAY A REHABILITATION

- Maximize the life cycle performance of the asphalt pavement by controlling the drainage of water (Phase 1)
- Budget \$12.9M for two phase project from Transport Canada's Airport Capital Assistance Program
- Installation of over 3,400 metres of perforated sub drain and 39 catch basins
- Nearly 4 kilometres of electrical conduit and cabling
- 57 LED runway edge lights and 16 threshold-end lights
- 7 new illuminated guidance signs



OVERLAND FLOW PROTECTION STRATEGY

City continued to implement the \$33M strategy with Riverside Phase 1

- Budget \$3.3M
- 380 metres of engineered earthen berm and 3.3 metre high demountable flood barrier constructed
- Over 1,160 properties now protected from peak flows of 5480 m³/s on the South Saskatchewan River plus an additional 1 metre of freeboard
- City personnel complete annual training



STORM WATER MANAGEMENT

Extend the life of the system to ensure appropriate storm water drainage is maintained

- Closed Circuit TV (CCTV) inspection to determine infrastructure condition
- \$3.5M worth of replacement/renewal of storm mains, catch basins, catch basin leads, and manholes
- Trenchless options such as road boring and lining of existing storm pipes/manholes used where possible to minimize public disturbance and reduce overall costs

TRANSMISSION AND DISTRIBUTION UPGRADES

A more robust transmission service with fewer line losses

- Budget total approximately \$38M
- Upgrades our provincial grid tie-in to meet peak load demands if local capacity unavailable

NEW GENERATION

Commissioning and operation of Unit 16 adds 43 megawatts to the City's power supply

- Original budget of \$65M, final cost \$55M
- Provides backstop to our peak load demand if a unit is unexpectedly shut down at the power plant
- Located in the Box Springs area, Unit 16 operates on a separate supply of natural gas than the Power Plant





DID YOU KNOW?

**350 COMMUNITY
MEMBERS
VOLUNTEER
6,000 HOURS
ANNUALLY THROUGH
COMMUNITY
DEVELOPMENT**

SOCIAL WELLNESS

RIVERSIDE NEIGHBOURHOOD PLAN (RIVERSIDE AREA REDEVELOPMENT PLAN)

Plan created to help guide the neighbourhood's future

- Two open houses, a public engagement survey, and a project website for the public to review project-related information
- Will address the core concerns of an aging yet popular neighbourhood
- Aims to improve the daily lives of residents and increase long-term resiliency
- The draft Plan will be presented to City Council in spring 2018



HISTORIC PRESERVATION & INTERPRETATION

- Two plaque ceremonies held
- Medicine Hat's last Civil Defence Siren designated as Municipal Historic Resource
- 10 Centennial Certificates issued



RAISING THE CURTAIN

A collaborative community event promoting diversity and inclusion

- Budget \$12,500 including a \$10,000 Community Inclusion Grant
- Activities in art, culture, dance, recreation, and education
- 900 community members participated



FIRE SERVICE RESPONSE COVERAGE OPTIMIZATION PLAN IMPLEMENTATION

Avoids need for fourth station and additional \$3M in annual operating costs

Fire Station 2 Opening

- Budget \$9.5M funded by provincial grant
- Opened February 2017 at 1303 Trans Canada Way SE, relocated from Dunmore Road
- Houses suppression, prevention, training, and administration branches
- Improves response coverage into South Ridge, Saamis Heights, Vista, and the Hamptons

Fire Station 1 Construction

- Budget \$8.25M funded by provincial grant
- Relocated from Maple Avenue SE to 401 Parkview Drive NE
- Station will house a suppression crew
- Improves response coverage into Riverside, NW and NE Crescent Heights, Ranchlands and Parkview



SENIOR CENTRE DEVELOPMENT

Development of a multi-facility Senior Centre to support the well-being of older adults

- Budget \$11.6M
- Will include a combination of renovated space and new expansion space at the Veiner Centre as well as some minor renovations at the Strathcona Centre
- Veiner Centre to be complete Summer 2018
- Design and amenities will permit flexible multi-purpose use and programming of spaces for existing and future generations



2017 VEGETABLE GARDEN PILOT PROJECT

Volunteer-tended vegetable gardens at Strathcona Centre and Parks & Recreation office building

- Parks & Recreation provided maintenance
- Medicine Hat & District Food Bank supplied volunteers for planting, maintenance and harvest
- Pilot project extended into 2018

DID YOU KNOW?
OUR URBAN FOREST
IS MADE UP OF
28,000 TREES



DID YOU KNOW?
7,053 TONNES OF
YARD WASTE WAS
COMPOSTED IN 2017

IMAGE & PROFILE



HERITAGE TRAIL NETWORK MAP

- Launched in May 2017
- Includes suggested routes, trail names and park amenities
- Introduction of "TrailForks" online experience that includes all City trails. Users can now incorporate existing online applications to track distances and workouts

HAT SMART 2017

Connects residents to tools and information to help save money and energy

- Budget \$210,000
- 513 rebates awarded for attic insulation, solar panels, drain water heat recovery systems, and smaller energy efficient items
- Knowledge Saves Power project made possible by a financial contribution from Natural Resources Canada
- HAT Smart website updates make it easier to access available rebates



CITY WEBSITE CONTENT MANAGEMENT SYSTEM UPDATED

- Cleaner look adhering to City brand standards
- More options to feature a variety of content and quick access to most commonly sought information



SHOWCASING MEDICINE HAT

Rogers Hometown Hockey

- Downtown Medicine Hat in front of City Hall Plaza from March 4-5, 2017
- Community festival saw NHL alumni Lanny McDonald, Trevor Linden and others attend
- Friday night kick-off street party included bands and vendors and ended with a fireworks display

2017 National Little League Championships

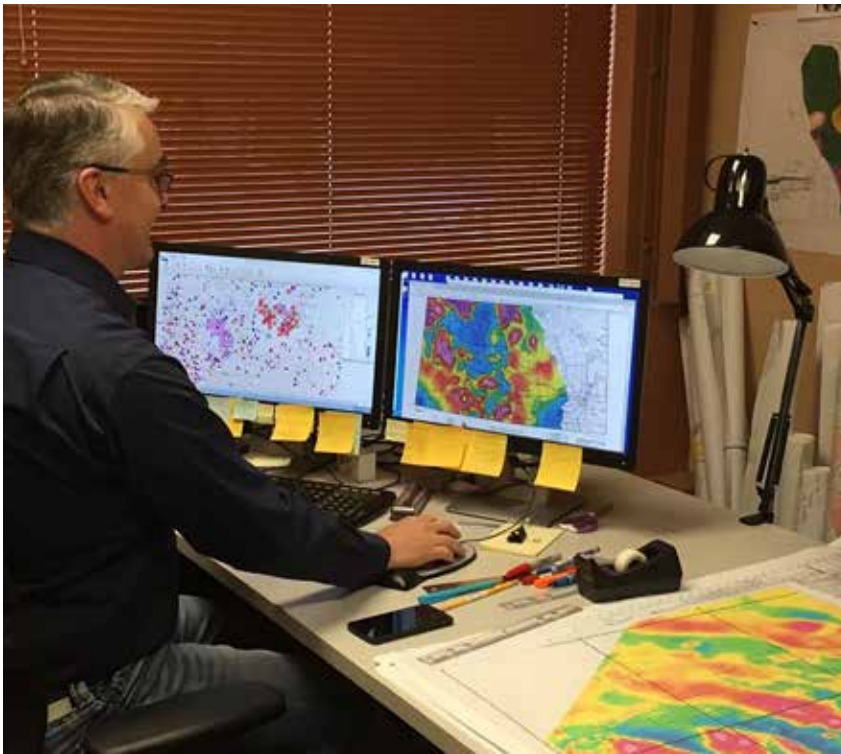
- Lovell McDonnell Ball Field in Strathcona Island Park from Aug. 2-12, 2017
- In addition to the Medicine Hat host team, other teams included Alberta, B.C., Ontario, Prairies, Quebec and Atlantic
- Tournament semi-finals and finals broadcast by CBC, round robin games streamed online

DESTINATION MARKETING ORGANIZATION (DMO) CONTRACT

Development and promotion of Medicine Hat tourism products and services to target markets

- Budget \$389,750
- Expanded tourism events and services
- 8.85% increase of visitors to the Information Centre
- 23% increase in print distribution to 187 locations across western Canada and United States
- 57% increase in views of tourism stakeholder profile pages

DID YOU KNOW?
THE FAMILY
LEISURE CENTRE
HAD 159,000 PAID
VISITORS THROUGH
ITS DOORS IN 2017



DID YOU KNOW?
LOCALS ACCOUNT
FOR 50% OF ALL
CAMPER NIGHTS
AT GAS CITY
CAMPGROUND

FISCAL MANAGEMENT



UTILITIES STRATEGIC PLAN

Future of Utilities focused on sustainability, cost effectiveness and use of a balanced approach to investment

- Division restructure to manage costs more effectively and focus on key areas
- All Utilities contributed toward a dividend in 2017



FEES & CHARGES MODEL

New framework for determining fees and charges for programs, services and use of public facilities

- Level of subsidy is based on the relative community benefit versus individual benefit
- New Fair Entry policy ensures residents have access to specific public services regardless of their income status

INVESTMENTS & TREASURY MANAGEMENT

Alberta Investment Management Corporation (AIMCo.) administers investments on behalf of the City.

- Invested \$130M longer-term treasury holdings over a 12-month period
- Investment Advisory Panel members include senior finance personnel as well as three public members versed in investment strategy and performance management
- Investments are diversified to balance the rate of return and risk to capital
- During 2017 the fund earned a rate of return of 7.08%

FINANCIALLY FIT FOR THE FUTURE

Long-term plan to reduce reliance on volatile commodity based revenues for the delivery of municipal services

- A \$23M shortfall was reduced by \$7M through cost containment, service level adjustments (closure of The Arena and Heald Pool) and increases to fees and taxes
- The framework will guide future budget cycles through community engagement, debate and difficult choices



2017 LED STREETLIGHT CONVERSION

All remaining City-owned streetlights, approximately 5,000, have been converted.

- Budget \$2.3M funded through Municipal Sustainable Infrastructure grant
- Conversion of High Pressure Sodium (HPS) to Light Emitting Diode (LED) streetlights benefits:
 - Reduced energy consumption (up to 50%)
 - Reduced maintenance costs due to longer life span of LEDs (3-4 time less)
 - Improved visibility of illuminated objects
 - Reduced carbon footprint
- Return on investment potentially realized in eight years



HERITAGE SAVINGS FUND

Capture earnings from the City's business enterprises into an endowment for the residents of Medicine Hat

- Initial contribution of \$1M
- Capital will remain intact, only investment earnings exceeding inflation will be utilized to support City Council priorities
- Some of future dividends from Electric Generation and NGPR will build a sustainable long-term savings plan to diversify away from the current dependency on volatile commodity revenues



CYBER SECURITY PROJECT

Enhanced security and protection from cyber related risks

- Budget \$1.2M
- Outline strategies and standard operational procedures in key areas such as user awareness, next generation firewalls, physical security, cyber intrusion detection and incident response
- Following best practices developed by the National Institute of Standards and Technology



DID YOU KNOW?
15.8 BILLION LITRES
OF SAFE DRINKING
WATER WAS
PRODUCED IN 2017

CITY GOVERNMENT

HEALTH, SAFETY & ENVIRONMENT MANAGEMENT SYSTEM

Formalize and modernize a consistent system across all City departments

- Streamlined approach to identify, assess, evaluate and control workplace hazards
- Introduction of electronic incident reporting and investigation tool
- Systematic investigation process, ensuring causes are identified and corrective actions are completed
- 69% decrease in injuries resulting in time away from work compared to 2016



2017 EXTERNAL CERTIFICATE OF RECOGNITION (COR) AUDIT

Administered by the Alberta Municipal Health and Safety Association

- Included all City departments with site observations at numerous City work sites
- Received an overall score of 88%. The highest score was 92% Organizational Commitment; lowest was 85% Formal Workplace Inspections

ELECTION 2017

Plan and execute the Municipal and School Board elections

- Budget \$250,000
- Voting station location bookings and contract negotiations to lease 69 voting tabulator machines, ballot printing and results calibration
- Advertise, recruit, train and place 253 workers with materials and supplies at 27 regular, 13 institutional and 6 advanced polling stations
- Voter turnout was 36%

**FUND DEVELOPMENT POLICY**

Manage solicitation, acceptance, control, and reporting of private sponsorship to City facilities, programs, and services.

- Funds, goods, facilities or services are provided to support a particular City program or service in exchange for some appropriate non-monetary benefit of approximately equal value
- Honours and reflects overriding principles of ethics, public scrutiny and accountability

**ENTERPRISE RESOURCE PLANNING SYSTEM**

- Business management software better collects, stores, manages and interprets data from many City operational activities
- Staff are able to work more efficiently and effectively
- Connects many business processes on a single software platform
- Improves timeliness and access to financial information

DID YOU KNOW?
COMMUNITY WARMTH
HAS ASSISTED
OVER 300 FAMILIES
IN MEDICINE HAT
EXPERIENCING
FINANCIAL HARDSHIP
OR CRISIS



FINANCIAL REPORT



BRIAN MASTEL
Commissioner, Corporate Services

DID YOU KNOW?
20% OF OUR UTILITY
CUSTOMERS ARE
NOW PAPERLESS VIA
E-UTILITY, ENABLING
THEM TO ACCESS
THEIR ELECTRONIC
UTILITY STATEMENTS
AND CONSUMPTION
HISTORY ONLINE

TREASURER'S REPORT

I am pleased to submit the City of Medicine Hat Consolidated Financial Statements for the fiscal year ended December 31, 2017. Most of the information in this report is drawn from the financial information appearing in the 2017 City of Medicine Hat Consolidated Financial Report, a more detailed and complete financial presentation prepared in conformance with Public Sector Accounting Standards (PSAS) and audited by independent auditors, KPMG LLP, receiving an unmodified opinion. The statistical, economic and demographic data are taken from various sources and are not PSAS-basis data. Both reports are available for viewing at www.medicinehat.ca/reports.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Canadian Award for Financial Reporting to the City for its Financial Report for the fiscal year ended December 31, 2016, the fifteenth year in a row.

Administration strives to ensure that this report presents fairly the financial position of this City. The report compares how financial resources were used against budgets and past financial performance.

A handwritten signature in black ink, appearing to read 'B. Mastel'.

Brian Mastel
Commissioner
Corporate Services
April 17, 2018

STRATEGIC PLANNING & BUDGETING

City Council develops a Strategic Plan highlighting priorities, strategies and goals for the planning period. Based on the direction set out by the Strategic Plan, two-year departmental Business Plans are prepared. These Business Plans communicate each department's alignment with the Strategic Plan and identify:

- the core activities of the department and the aim of each activity.
- departmental primary customers.
- opportunities, trends and challenges faced by the department.
- goals and objectives to be achieved by the department.

Budget guidelines and high level financial projections are developed. Based on these guidelines and departmental Business Plans, departments develop their budget requests.

City Council has approved the adoption of a two year operating budget together with a two year projection, and a two year capital budget with an eight year projection.

The Administrative Committee reviews departmental budgets and when satisfied that budgets are aligned with the Business Plans, the budget recommendation is presented for City Council approval.

Medicine Hat's Operating Budget lays out the revenues and expenses for the planning periods that will be required to deliver City services to residents.

A ten year Capital Improvement Plan is developed for all departments. The Capital Improvement Plans identify proposed capital project expenditures and their sources of funding.

For the 2017 - 2018 budget period the City employed a capital ranking process for the tax supported departments. This process is intended to ensure that limited capital funding is allocated to the projects that will provide the highest value and benefit to the municipality.

FINANCIAL HIGHLIGHTS

The financial highlights provide an overview of key financial information over the past two years. Readers should read this report in conjunction with the accompanying Consolidated Financial Statements and Note Disclosures located on the City's website at www.medicinehat.ca/reports.

Due to the decline in gas and oil commodity prices as well as the related economic downturn, the City is experiencing lower revenues from its Gas and Electric business. As a result, there is a \$23 million annual shortfall in the energy subsidy to the City's municipal operating budget. This shortfall was reduced by \$7 million in the 2017/18 budget period through a combination of cost containment measures, service level adjustments and increases to fees and taxes.

In 2016, Council adopted the key guiding principles of Financially Fit for the Future as a response to this financial challenge. Over the next decade, this framework will facilitate discussion around fiscal management and delivery of core services with a goal of becoming sustainable through reduced reliance on commodity based revenues for the delivery of municipal services.

GOVERNANCE

Our Business Cycle

1. Planning

*Municipal Development Plan
Strategic Planning*

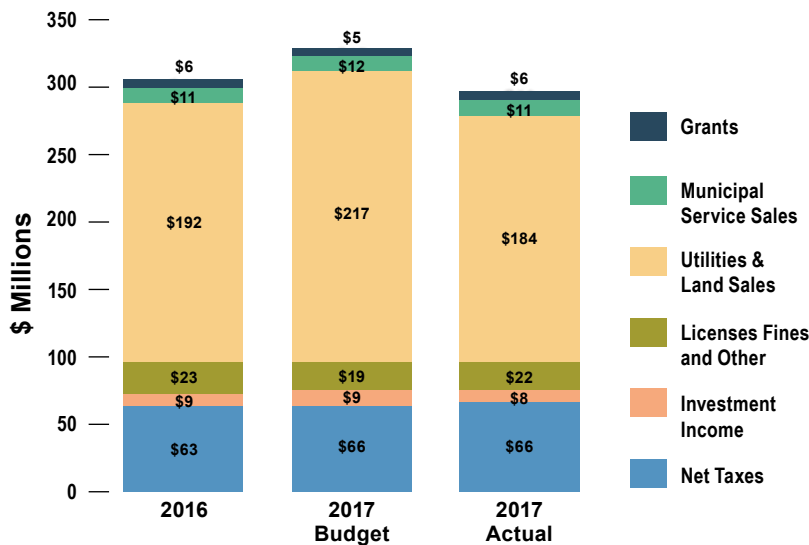
2. Business Planning

3. Budgeting

4. Reporting

*Monthly Reports
Annual Report*

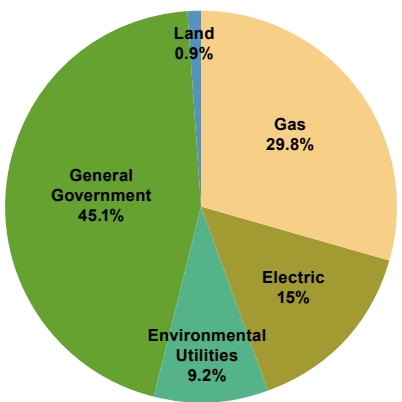
REVENUES



Revenue before capital contributions and grants was \$296.8 million versus budget of \$327.7 million. Sale of services was \$32.7 million lower than budget mainly due to divestiture of gas producing assets and continued pressure on commodity prices for gas and electric. Gas revenues were \$31.0 million lower than budget primarily due to gas prices at \$2.04 per gigajoule versus budget at \$2.73 per gigajoule and 26% lower volumes related to the divestitures. Electric revenues were \$5.2 million lower than budget due to prices at \$39.29 per megawatt hour versus budget at \$41.24 per megawatt hour.

2017 actual revenues were lower than 2016 due primarily to lower gas revenues as a result of the divestiture.

EXPENSES

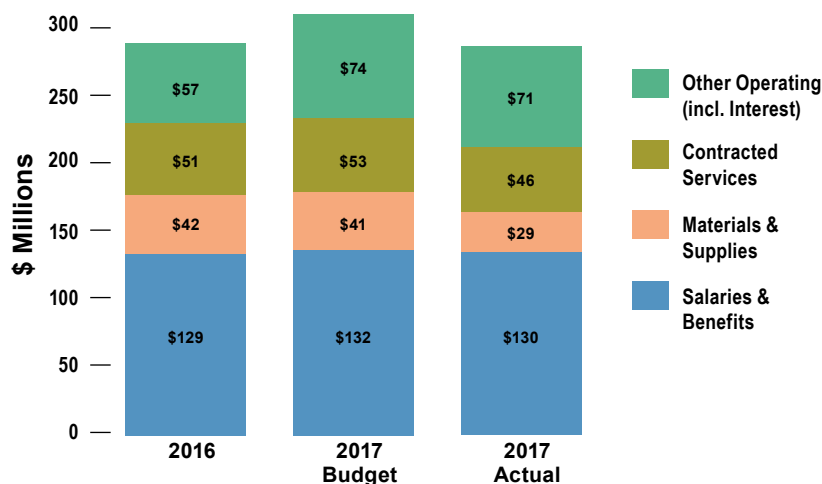


Overall the City operating expenses for the year were \$51.3 million lower than budget mainly due to lower gas expenses as a result of divested assets; lower operating and maintenance activities as a result of lower activity; lower electric expenses as a result of lower commodity prices and lower volumes of electric energy purchases.

2017 expenses are lower than 2016 actual expenses by \$11.5 million mainly due to lower gas expenses primarily due to the divested assets.

DID YOU KNOW?
THE CITY MAINTAINS
932 KILOMETRES OF
ROADWAY

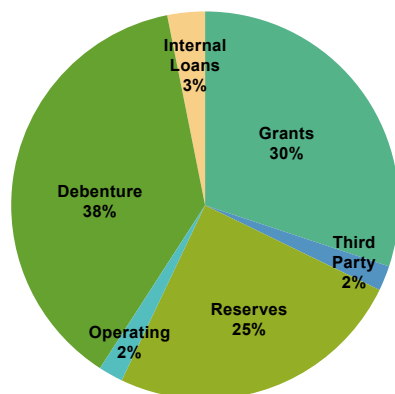
EXPENSES BY TYPE



The Consolidated Expenses by Object Schedule details 2017 actual (\$346.2 million) and budget (\$397.9 million) by expense type. The chart to the right excludes amortization, impairments, and disposal expenses. Variances from budget for other operating expenses, contracted services, materials and supplies, and salaries and wages are mostly related to the asset divestiture and lower activity due to lower gas and electric commodity prices.

The 2017 actual expenses by type are lower than 2016 due to lower contracted services and materials and supplies as a result of divested assets. Other operating expenses are higher due to higher gas purchases as a result of higher gas consumption.

2017 CAPITAL

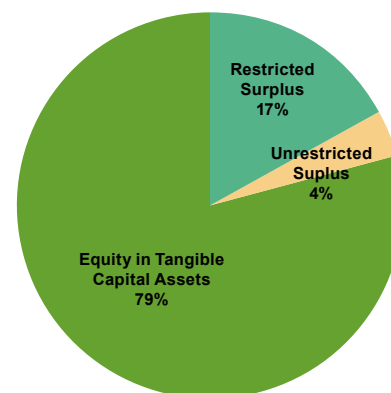


Capital expenditures for the year were \$137.2 million plus contributions from developers of \$690 thousand. While the City's approved 2017 budget for capital items was \$141.2 million, the current expenditures include \$89.0 million for projects carried forward from previous budget years.

The 2017 capital expenditures were funded by grants received from the Province of Alberta and the Federal Government of Canada, as well as reserves, operating funds, debenture borrowing, third party contributions and internal loans.

ACCUMULATED SURPLUS 2017

\$1,268.7 million

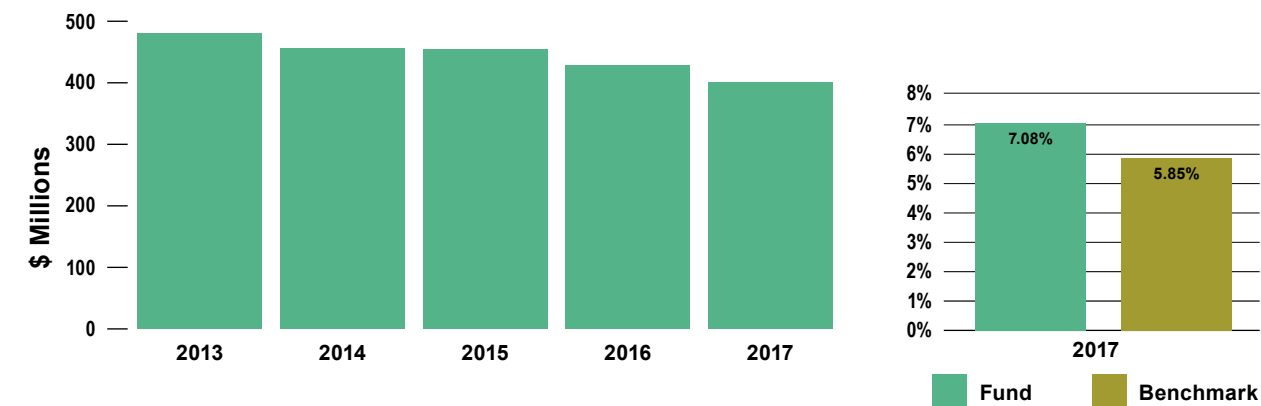


The accumulated surplus on the Consolidated Statement of Operations represents the total change in all fund and equity balances for the City of Medicine Hat. During 2017 the consolidated fund and equity balances decreased by \$8.2 million to \$1,268.7 million.

\$55.0 million of the accumulated surplus is unrestricted. This unrestricted amount is used as working capital to fund day to day operating activities of the City. The restricted amount is \$213.2 million and is largely dedicated to capital activities of the organization.

Equity in the City's tangible capital assets increased by \$16.4 million to \$1,000.5 million this year as a result of an increase in City assets, offset by accumulated amortization and debt.

INVESTMENTS

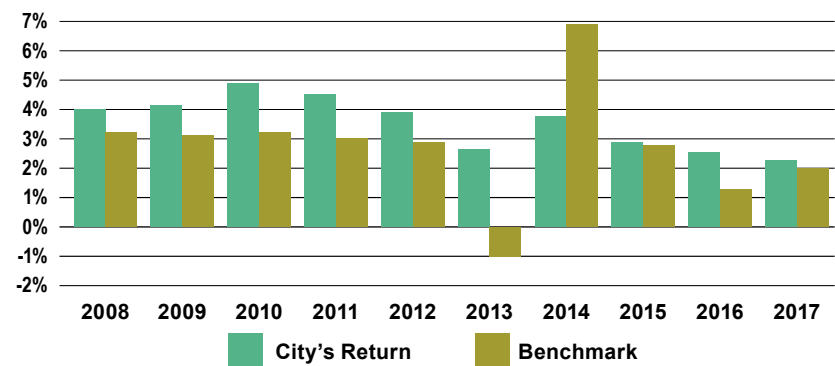


Investment Portfolio - Market Value

Investments, Loans and Advances decreased \$39.9 million from 2016 to \$393.7 million largely as a result of funds being used for community projects including South Railway Flats, Crescent Heights Lift Station, Seniors Centre and the construction and relocation of Fire Hall #1 and #2.

Balanced Portfolio Returns

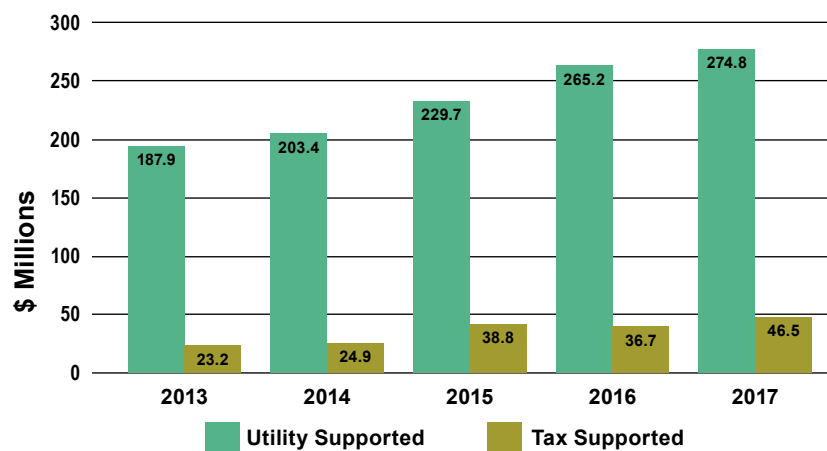
2017 was the first year the City had externally managed investments, managed by the Alberta Investment Management Corporation (AIMCo). The return for the year ended December 31, 2017 was 7.08 per cent, higher than the benchmark of 5.85%, which is a composite of money market, fixed income, and Canadian, global and emerging market equities. These funds are managed in a balanced asset class portfolio. Over the course of 2017, beginning in March, monthly deposits of \$11.08 million were made to this investment portfolio. At year-end the book value balance of AIMCo managed funds was \$110.8 million.



Rate of Return

The City of Medicine Hat's return on internally managed investments for the year ended December 31, 2017 averaged 2.31 per cent, higher than the FTSE TMX Canada Universe Bond benchmark index of 2.02 per cent. The City's average portfolio return has outperformed the stated benchmark over the last ten years with the exception of 2014 due to the City's term to maturity being less than the benchmark.

LONG TERM DEBT



During 2017, total Long Term Debt increased \$19.4 million to \$321.3 million with debt principal repayments of \$22.5 million being more than offset by new debt issued of \$41.9 million. New debt represents \$7.5 million for improvements to Environmental Utility assets, \$19.6 million relate to Electric Utility assets, \$1.5 million for Gas Utility assets, and \$13.3 million for municipal infrastructure.

The Minister of Municipal Affairs has prescribed limits for total debt and debt servicing for municipalities in the province. The debt limit is defined as two times revenue net of government transfers, and the debt servicing limit is limited to 35 per cent of revenue net of capital government transfers. For purposes of these calculations, actual total debt includes long and short term debt as well as loan guarantees in the amount of \$2.2 million.

DID YOU KNOW?
OUR CITY BOASTS
115 KILOMETRES OF
PAVED TRAILS

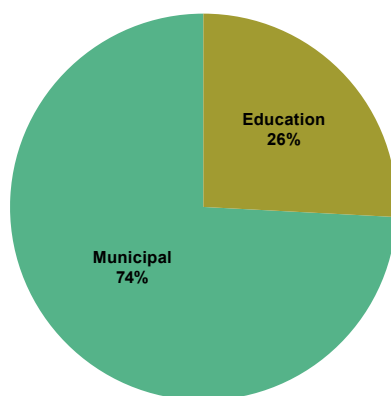
City Debt Limits

	2017
Debt Limit	\$ 593.6
Actual Total Debt	323.5
Amount Under Limit	\$ 270.1 46%
Debt Servicing Limit	\$ 103.9
Actual Debt Servicing	36.2
Amount Under Limit	\$ 67.7 65%

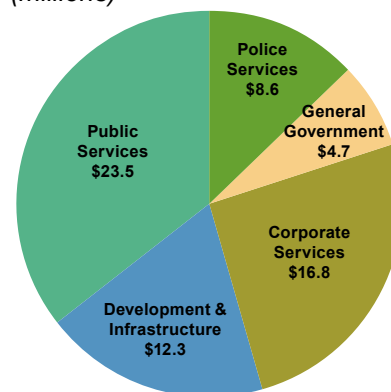
USE OF MUNICIPAL TAX REVENUE

Municipal property taxes contributed \$65.9 million (42.3%) of the consolidated General Fund operating expenses of \$155.8 million. Other revenue sources mainly include investment interest, sales, government grants, fees and permits.

Where Property Tax Dollars Went

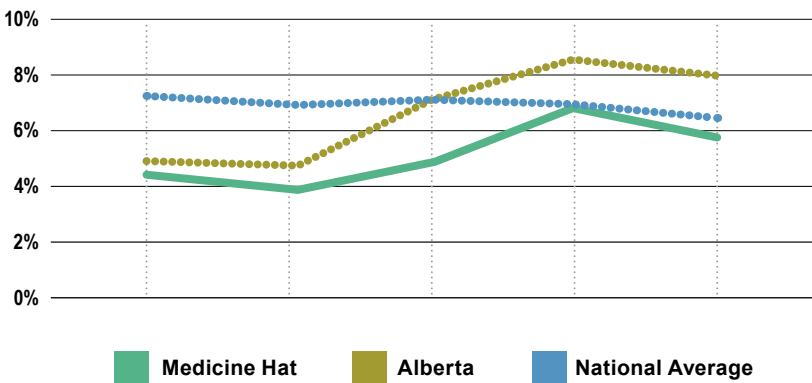


Use of Municipal Tax Revenue (millions)



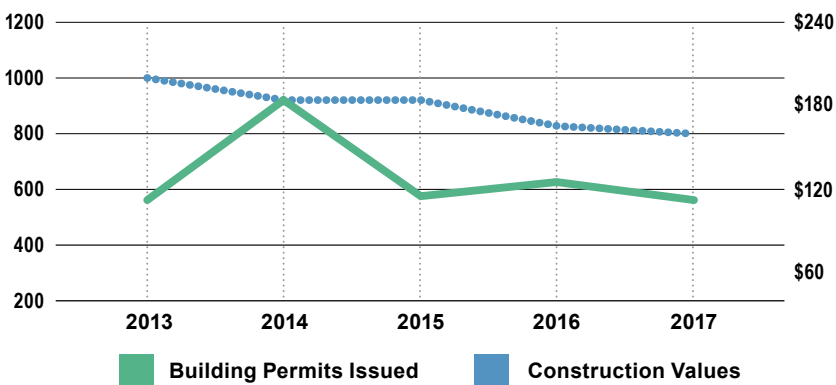
DID YOU KNOW?
TRANSIT PROVIDES
APPROXIMATELY
750,000 RIDES ON
REGULAR TRANSIT
ANNUALLY

UNEMPLOYMENT



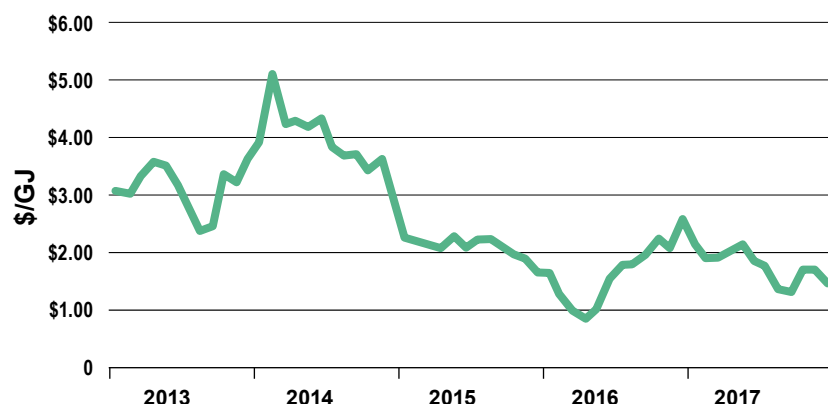
The combined unemployment rate for Medicine Hat and Lethbridge at the end of 2017 was 5.9%, while the 2017 average was 5.7%. The average Alberta unemployment rate for 2017 was 8.0% compared to 6.4% for Canada.

**BUILDING PERMITS &
RELATED CONSTRUCTION VALUES**



In 2017 the number of building permits issued was at a five year low at 809 primarily due to the economic downturn; however the estimated value of construction in 2017 was still moderately strong at \$113 million nearly attaining the same level set in 2016 of \$125 million.

GAS



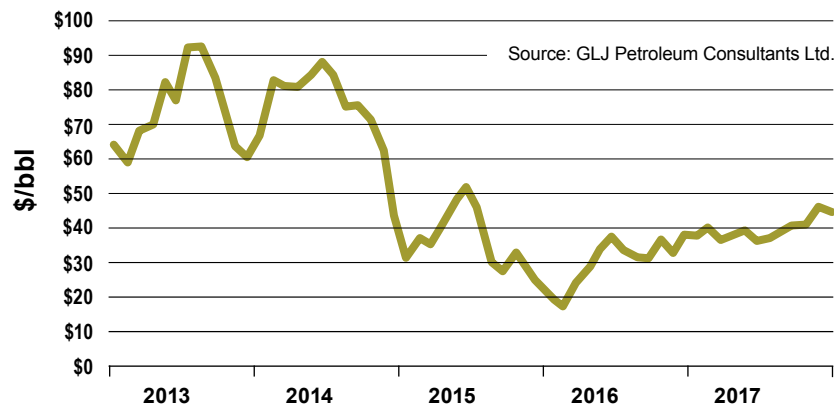
In first half of 2017 gas prices averaged above \$2.60 per gigajoule (GJ). This was primarily due to gas storage in the US and Canada and US dry gas production being relatively stable. However, in the last half of the year two factors influenced the decline of the price of natural gas to average \$1.49 per GJ. The first was maintenance on the NOVA Gas Transmission Limited pipeline, this stranded gas in Alberta creating a significant price drop. The second was due to an increase of US dry gas production.

2017 sales gas volume from production for the City of Medicine Hat was 11.0 billion cubic feet (11.4 million GJ's). A \$1 per GJ change in the commodity price would affect annual gross revenue by \$11.4 million.

2017 sales gas volume from production for the City of Medicine Hat was 11.0 billion cubic feet (11.4 million GJ's). A \$1 per GJ change in the commodity price would affect annual gross revenue by \$11.4 million.

DID YOU KNOW?
THE CITY HAS OVER
1,200 HECTARES OF
ENVIRONMENTAL
RESERVE AND
NATURAL AREAS

OIL

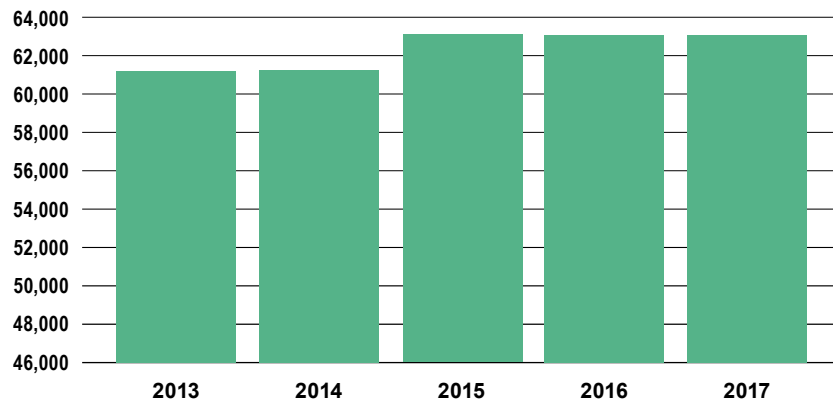


In 2017, oil pricing in Canada varied widely due to fluctuations in base West Texas Intermediate (WTI) pricing, reduced production in Canada due to a fire at the Mildred Lake Bitumen facility, and currency fluctuations with the increase in US Federal Reserve and Bank of Canada interest rates. Another factor was the restriction of South American oil entering the US. The South American oil was replaced with Canadian oil making Western Canadian Select (WCS) more valuable even though the WTI price was in decline through the summer and into the fall.

2017 oil production for the City of Medicine Hat was 514,385 barrels. A \$1 per barrel change in the commodity price would affect annual gross revenue by \$514,385.

DID YOU KNOW?
THE CITY MAINTAINS
16,900 STREET
SIGNS

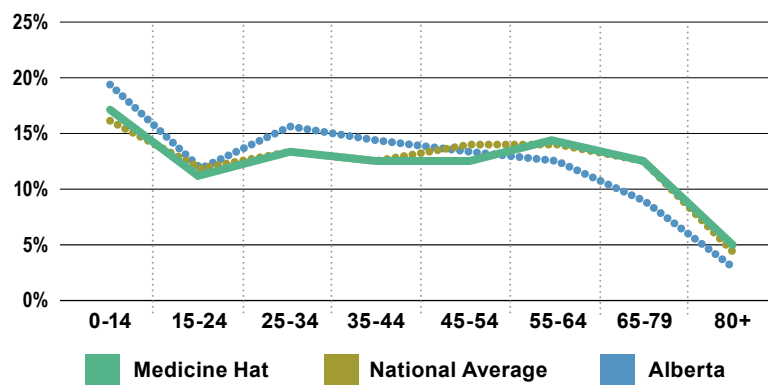
POPULATION



DID YOU KNOW?

SARATOGA DOG PARK OPENED IN 2017. THE FULLY FENCED FACILITY HAS A BRIDGE, FIRE HYDRANT AND PICNIC TABLES

POPULATION AGE DISTRIBUTION



PRINCIPAL EMPLOYERS

Medicine Hat Regional Hospital
City of Medicine Hat
Medicine Hat School District
Medicine Hat College
Province of Alberta

Medicine Hat Co-op
The Real Canadian Superstore
CF Industries
Canadian Pacific Railway
Wal-Mart

CITY OF MEDICINE HAT PERMANENTLY ESTABLISHED POSITIONS

	2013	2014	2015	2016	2017
General Government	27	36	39	43	43
Corporate Services	171	167	170	173	172
Public Services	264	259	268	274	275
Police	154	154	152	150	150
Development & Infrastructure	87	88	88	89	89
Total Tax Supported Permanent Positions	703	704	717	729	729
Gas Utility *	153	148	144	134	-
Electric Utility **	97	91	102	107	-
Utility Distribution Systems ***	-	-	-	-	93
Natural Gas and Petroleum Resources	-	-	-	-	97
Electric Generation	-	-	-	-	46
Utility Business Development & Support	-	-	-	-	11
Environmental Utilities	103	102	105	105	107
Land & Business Support	5	5	6	6	6
Total Utility Permanent Positions	358	346	357	352	360
Total Permanent Positions	1,061	1,050	1,074	1,081	1,089

2017 information has been represented to reflect the change as a result of a major organizational restructuring in the Utility Division.

* 2013 - 2016 included Gas Distribution and Natural Gas and Petroleum Resources

** 2013 - 2016 included Electric Distribution, Electric Generation, and Utility Business Development and Support

*** 2017 includes Gas Distribution and Electric Distribution

DID YOU KNOW?
THE 9-1-1
COMMUNICATIONS
CENTRE PROCESSES
160,000 CALLS
ANNUALLY

DID YOU KNOW?

**FIRE SERVICES
RESPONDS TO
APPROXIMATELY
2,000 CALLS
ANNUALLY**

DEFINITIONS

Net Financial Assets are when the financial assets are greater than the the municipalities liabilities. A net financial asset position indicates that the municipality has the necessary financial resources on hand for future operations.

Net Financial Debt is when the financial assets are less than the municipalities liabilities. A net financial debt position indicates that the municipality requires future revenues to pay for past transactions and events.

Annual Surplus is the excess of revenues over expenses.

Annual Deficit is when expenses exceed the revenues.

The annual surplus or deficit shows whether the revenues raised in the year were sufficient

Accumulated Surplus is the amount by which all assets (financial and non-financial) exceed all liabilities. An accumulated surplus indicates that the municipality has net resources that can be used to provide future services.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	2017	2016
Assets	\$ 494,256	\$ 527,217
Liabilities	649,962	669,380
Net financial debt	(155,706)	(142,163)
Non-financial assets	102,591	133,122
Tangible capital assets	1,321,773	1,285,951
Accumulated surplus	\$ 1,268,658	\$ 1,276,910

CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)

	2017 Budget	2017	2016
Revenue	\$327,657	\$296,801	\$304,208
Expenses	397,882	346,237	356,900
Deficiency of revenue over expenses - before other revenue	(70,225)	(49,436)	(52,692)
Other revenue			
Capital contributions and grants	20,318	41,184	22,938
Annual deficit	(49,907)	(8,252)	(29,754)
Accumulated Surplus (beginning of year)	1,276,910	1,276,910	1,306,664
Accumulated Surplus (end of year)	\$1,227,003	\$1,268,658	\$1,276,910

CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL DEBT (UNAUDITED)

	2017 Budget	2017	2016
Annual deficit	\$ (49,907)	\$ (8,252)	\$ (29,754)
Acquisition of tangible capital assets	(141,159)	(137,876)	(125,506)
Amortization/Disposal of tangible capital assets	75,205	133,342	81,243
	(115,861)	(12,786)	(74,017)
Acquisition/Consumption of inventories and supplies	64	(937)	(260)
Net transfers (acquisition) of land held for future development	(2,038)	(264)	(3,653)
Acquisition/Consumption of prepaid assets	(178)	444	957
	(2,152)	(757)	(2,956)
Increase in net financial debt	(118,013)	(13,543)	(76,973)
Net financial debt, beginning of year	(142,163)	(142,163)	(65,190)
Net financial debt, end of year	\$ (260,176)	\$ (155,706)	\$ (142,163)

CONSOLIDATED STATEMENT OF CHANGE OF CASH FLOWS (UNAUDITED)

	2017	2016
Operating		
Annual deficit	\$(8,252)	\$(29,754)
Non-cash items included in annual surplus	113,013	74,963
Non-cash items relating to capital and investing activities	(1,002)	1,002
Non-cash changes to operations (net change)	(48,263)	20,809
Cash provided by operating transactions	55,496	67,020
Cash applied to capital transactions	(117,547)	(119,226)
Cash provided by investing transactions	46,794	20,936
Cash provided by financing transactions	19,426	33,421
Change in cash and equivalents during the year	4,169	2,151
Cash and cash equivalents, beginning of year	6,772	4,621
Cash and cash equivalents, end of year	\$10,941	\$6,772
Cash and cash equivalents consist of the following:		
Cash	\$42,654	\$45,394
Less: restricted portion of cash and temporary investments	(31,713)	(38,622)
Total	\$10,941	\$6,772

CITY OF MEDICINE HAT

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Cover photo by
Bryan Leitch



Medicine Hat
The Gas City