



Medicine Hat



2025-2026 Budget

BALANCING THE NEEDS OF TODAY WITH THE
REQUIREMENTS OF TOMORROW

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LINKS TO OTHER DOCUMENTS

- Budget Highlights, New Growth opportunities, and Business Plans:
[2025-2026 City Budget and Financial Plan](#)
- Bylaws and Policies:
[Bylaws and Policies](#)
- Council Strategic Priorities and Objectives:
[Corporate Strategic Objectives 2024-2026](#)



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Medicine Hat
Alberta**

For the Biennium Beginning

January 01, 2023

Christopher P. Morill

Executive Director

Message from the CFO

It is my privilege to introduce the City of Medicine Hat budget for 2025 and 2026.

This budget is focused on balancing the needs of today with the requirements of tomorrow. It reflects our commitment to sustained prosperity and community well-being while ensuring fiscal sustainability and flexibility to address the challenges and opportunities in the future.

The 2025-2026 budget identified five key commitments:

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 financial reserves for future needs
5. Alignment with Council Strategic Priorities

The City faces many challenges and uncertainties, such as aging infrastructure, market volatility, inflationary pressures, reduced municipal funding from the province, and salary and wage increases for staff. Despite these obstacles, the City remains committed to providing high quality affordable services and amenities valued by our residents as reflected in the recent IPSO Community Survey in 2024. Thus, several factors were taken into consideration to create a budget that strikes the right balance for the City as a whole and supports Council's strategic plan and vision for our community, both today and into the future.

These commitments mirror those of the previous budget cycle but also include renewed focus on financial sustainability and proper use of financial reserves, which ties in with the 2025-2026 Budget theme of "Balancing the needs of today with the requirements of tomorrow".

Municipal revenues include an annual base property tax increase of 5.6% not only to offset municipal inflation and maintain fiscal sustainability, but also to meet regulatory and compliance requirements, support and improve organizational health and culture as well as responding to Council's strategic plan. Property taxes are a necessary component of municipal revenue used to fund services to the community such as: police and emergency services, parks, roads, trails, pools and rink facilities and related programs, culture and entertainment, transit, and library.

Our utility business is focused on ensuring a sustainable long-term infrastructure to effectively deliver natural gas and electricity as well as water, sewer and solid waste services to customers within the City's service area at competitive rates while meeting or exceeding industry standards.

Further, our integrated commodity business is impacted by commodity market price volatility and is facing a significant change that requires a strategic view on how the City will transition to a decarbonized market in the future. To that end, we continue to optimize the natural gas generation

assets, develop and implement an energy transition strategy, and continue the oil and gas well abandonments to reduce the annual losses from this business unit. Two new financial reserves were established with an initially funding of \$75M to each reserve to support the energy transition and the abandonment obligation program.

Our treasury management remains prudent (debt, portfolio investments and financial reserves) and has contributed to a strong and growing balance sheet which allows us to meet future challenges and fund our future capital requirements, obligations and strategic opportunities.

I want to acknowledge the commitment and dedication of the entire City team including Administration and Council in preparing this budget and providing value to the residents of Medicine Hat.



Jilian Campbell
Chief Financial Officer

Section 1

Overview

1.0 Executive Summary

The budget is one of the City of Medicine Hat's primary financial planning tools for aligning strategy with appropriate financial resources. It is a key accountability tool for ensuring the City's financial resources are being spent in alignment to the strategic vision of Council.

The City of Medicine Hat's 2025-2026 budget reflects administration's commitment to sustained prosperity and well-being of our community, including competitive taxes and utility charges, while ensuring fiscal capacity and flexibility to address the challenges and opportunities that lie ahead. This focus of **balancing the needs of today with the requirements of tomorrow** became the theme of this budget development process.

Budgeting in a municipality

Municipalities are unique, as they must budget to operate indefinitely, and by legislation they cannot run a deficit. If a municipality has savings, it can use them to cover costs, but to survive indefinitely it cannot rely on using savings forever – it must budget in a way that ensures it is financially sustainable and can live within its means.

Municipalities have a clear mandate outlined in Municipal Government Act which identifies the core services it must provide. At minimum, the municipality must provide the services as outlined within the act, which include things like providing safety, fostering good government, protecting the environment, and providing services and facilities and other things (such as roads and utilities). These are the basic foundational services that make it possible for people to live and work in Medicine Hat.

Creating value for residents

Typically, the City has several options when it comes to balancing its budget, increasing revenue including property taxes, reducing expenses, and corresponding services to the community, and accessing savings. The taxpayer's tolerance for paying property taxes puts an upper limit on how much the City is able to do – in other words, the City is limited in the services it can provide by the amount of property taxes and other revenue it is able to collect.

However, residents expect the City to maintain a vibrant and beautiful community, which means that careful consideration is required to allocate limited funds in a way that best meets this expectation. The City of Medicine Hat provides many services and amenities that provide value to the community, and the 2024 IPSOS Community Survey showed that:

- 89% of respondents expressed overall satisfaction with City services.
- The majority of taxpayers (73%) say that they receive **good value for their tax dollars**.
- 90% of residents still say that their **quality of life** in Medicine Hat is either good or very good.
- 89% would continue to recommend Medicine Hat as a **place to live**.

This budget was developed with a focus on maintaining high satisfaction levels with services and amenities, with appropriate consideration for future obligations and opportunities.

Budget at the City of Medicine Hat

The City's budget is broken up into four components:

Municipal

This component uses tax dollars to provide traditional municipal services (parks, transit, protective services, roads, airport, planning, customer service, community supports, economic development, and more).

Land Development and Real Estate

This component includes the City's land inventory, the costs associated with holding land and property, and the revenues from leasing and selling land and property.

Rate-based Utilities

This component of the budget includes water, sewer, solid waste, electric distribution and gas distribution and is funded through the utility rates and fees that are charged to customers that use these services.

Energy Production

This budget component covers the City of Medicine Hat's commodity-based energy production business including electric generation and gas production. It is funded through commodity charges to utility ratepayers, as well as revenue from selling excess electricity to the provincial grid.

Our budget commitments

The City of Medicine Hat identified five key commitments that underpinned budgetary planning for 2025-2026:

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 and maintain our city's infrastructure and operations. We must make prudent investments today to lay the groundwork for a prosperous tomorrow.
3. **Ensure financial sustainability of our municipality:** Our municipality's financial health, 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 financial reserves for future needs:** Our reserves represent a critical asset for addressing future challenges and seizing future opportunities, including energy transition, abandonment and reclamation obligations, and Facilities for the Future. We will exercise thoughtful discretion in utilizing 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. This year, 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 for funding allocation, and departmental business plans based on objectives, priorities and risk mitigation. This will help to ensure we are only undertaking projects that are needed for our community and create long-term value for the city.

Budget considerations

Several factors were considered when developing the 2025 –2026 budget.

Perhaps the greatest challenge facing municipalities today is aging infrastructure. Ensuring the reliability of assets like water and sewer pipes, roads, bridges, sidewalks, facilities, and more is critical to livability in our community but must be balanced with affordability. Currently, the City maintains \$3 billion in infrastructure (original value, replacement cost would be higher), including some original infrastructure, such as wooden water pipes.

The City also expects to see sustained market volatility and weaker energy prices. By 2025–2026, we are anticipating that the earnings from our energy production business unit will drop drastically, driven by a supply response in the electricity market as well as increased cost from carbon pricing and uncertainty of energy transition to net-zero carbon. This trend is correlated to an anticipated cash utilization across the city in the years where earnings are low resulting in lower investment income to offset property taxes.

These challenges – along with reduced municipal funding from the province, inflationary pressures, and salary and wage increases – were key factors in the development of this budget.

Conclusion

This budget ensures that the City of Medicine Hat continues to provide many services and amenities that provide value to the community.

It also reflects our commitment to sustained prosperity and well-being of our community, including competitive taxes and utility charges, while ensuring fiscal capacity and flexibility to address the challenges and opportunities that lie ahead.

In the end, we are **balancing the needs of today with the requirements of tomorrow.**

1.1 Mayor and Council



MAYOR
LINNSIE CLARK



COUNCILLOR
ROBERT DUMANOWSKI



COUNCILLOR
CASSI HIDER



COUNCILLOR
DARREN HIRSCH



COUNCILLOR
ALLISON KNODEL



COUNCILLOR
ANDY MCGROGAN



COUNCILLOR
RAMONA ROBINS

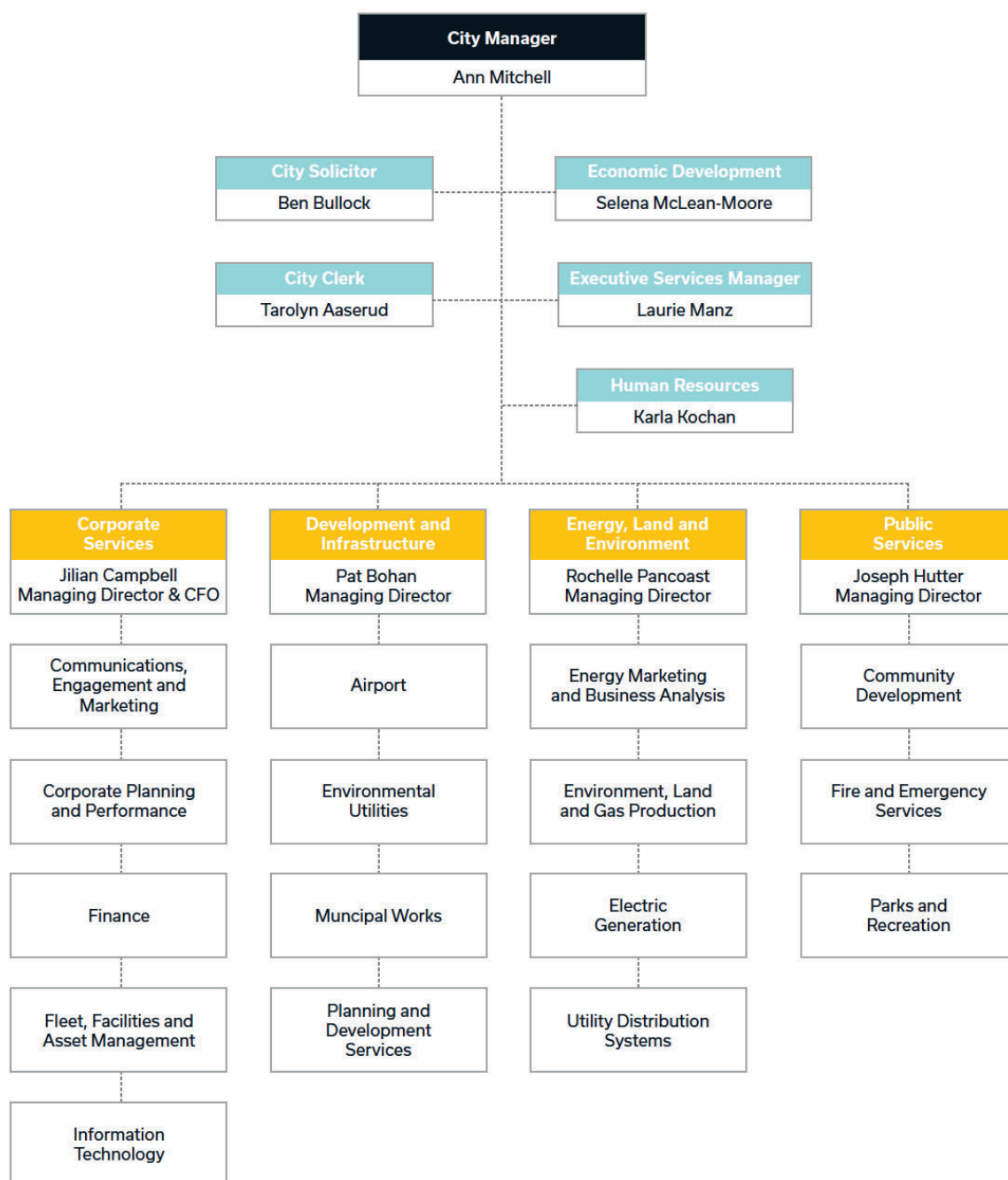


COUNCILLOR
SHILA SHARPS



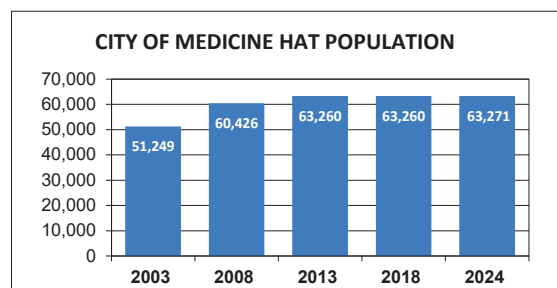
COUNCILLOR
ALISON VAN DYKE

1.2 Organizational Structure



1.3 Statistics & Demographics

Population



POPULATION AGE

	Medicine Hat	Alberta	National Average
0-14	10,635	809,640	6,012,795
15-24	7,075	498,505	4,215,230
25-34	7,420	598,725	4,940,345
35-44	8,555	646,610	4,910,750
45-54	7,330	540,540	4,672,520
55-64	8,985	539,390	5,218,910
65-79	9,775	486,680	5,319,491
80+	3,496	142,535	1,701,940
Total	63,271	4,262,625	36,991,981

LARGEST CORPORATE TAXPAYERS IN MEDICINE HAT

Medicine Hat Mall Inc
The Meadowlands Development Corporation
Skyline Retail Real Estate Holdings Inc
South Country Co-op Limited
Canadian Tire Properties Inc.

Avenue Living (2014) GP Ltd
Cancarb Limited
2105657 Alberta Ltd. (Bevo Farms)
Wal-Mart Canada Corp
Royop (Southlands) Development Ltd

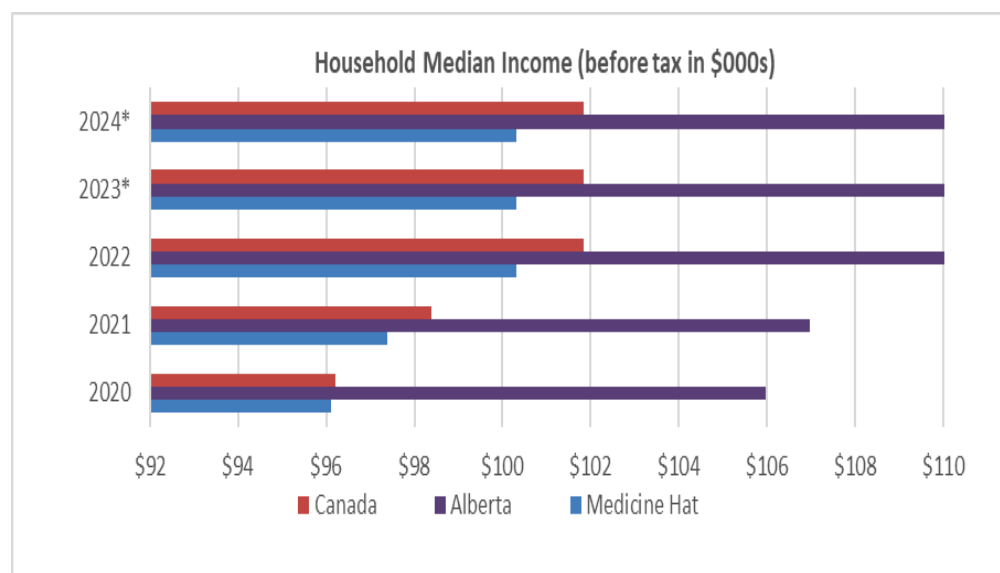
LARGEST EMPLOYERS IN MEDICINE HAT

Public

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

Private

South Country Co-op (all locations)
The Real Canadian Superstore
Canadian Pacific Railway
Wal-Mart
Goodyear



*Note: figures for 2023 and 2024 reflect total income figures for 2022 as data is not yet available

1.4 Council Strategic Priorities and Corporate Strategic Objectives (four key priorities)

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INTRODUCTION & PURPOSE

On October 21, 2024, Council accepted and ratified the City of Medicine Hat 2024 – 2026 Strategic Plan to focus efforts on four key priorities. The purpose of this document is to present the strategic plans and actions of the departments responsible for delivering these focused priorities from Council.

PRIORITY #1: CREATE ORGANIZATIONAL CAPACITY FOR EFFECTIVE & EFFICIENT SERVICE DELIVERY

Inventory/define the current service levels (*Corporate Planning and Performance*)

- Strategies to Achieve Key Objective:
 - Coordinate the development of a catalog of services provided by municipal departments to better assess organizational capacity and improve the efficiency and effectiveness of service delivery.
- Measurement of Success:
 - Coordinate and guide organizational efforts in the collection and detailing of current service levels for external operating departments. **Q1 2025**
 - Work with the Finance team to determine the cost of providing services to the community (from the current service level inventory). **Q4 2025**
- Risk for Achieving Objective and Mitigation Plan:
 - Risks:
 - Data availability and quality
 - Resource availability
 - Mitigations:
 - Communicate with project stakeholders and reallocate and prioritize resources as required

Define required and desired service levels (*Finance*)

- Strategies to Achieve Key Objective:
 - Assist the organization with defining existing service levels provided to the community.
 - Support discussions with Council on the desired service level provided to the community.
- Measurement of Success:
 - Work with City departments and Corporate Planning and Performance on the creation of a detailed list of costed services from external facing operating departments. **Q4 2025**

- Support the presentation to Council on the inventory and cost of current service levels, and make any adjustments based on the direction received from Council on the desired service level provided to the community. **Q4 2025**
- Risk for Achieving Objective and Mitigation Plan:
 - Risks:
 - Data availability
 - Internal resources
 - Competing projects and priorities
 - Mitigations:
 - Reallocate and prioritize resources as required
 - Retain external consultants to assist with projects if required

Implement a workforce strategy (*People Services*)

- Strategies to Achieve Key Objective:
 - As part of a three-year plan, within the first year conduct a comprehensive workforce assessment that will be participatory within the organization. This will enable the City to discover strengths, needs, challenges, fiscal repetitiveness, and delineation of organizational values. This will enable the City to have a clear idea of what is needed to implement improvements in terms of a modernized and streamlined workforce.
- Measurement of Success:
 - Evaluation and assessment of current workforce, including roles, responsibilities, performance metrics; identify critical and non-critical roles; identify thorough demographics; develop modernized plan; develop communication and change management strategy. Q4 2025
- Risk for Achieving Objective and Mitigation Plan:
 - Risks:
 - Uncertainty about job security and changes within the organization, along with voluntary leaves.
 - Mitigations:
 - Proactive change management project plan.

PRIORITY #2: BUILD A RESILIENT AND INCLUSIVE COMMUNITY

Lead a provincial/municipal/community urgent response to social disorder (*Community Development*)

- Strategies to Achieve Key Objective:
 - Lead a provincial/municipal/community urgent response to social disorder through establishment of a task force.

- Inform action plans through data, best practice and engagement, with a willingness to be innovative in creating made-in-Medicine Hat solutions.
- Work collaboratively with other levels of government and community partners to best address individual and community needs, including investigating the opportunity for a navigation centre.
- Measurement of Success:
 - A task force is established, populated and has terms of reference in place, including a definition of social disorder. **Q1 2025**
 - The public is informed of the work of the task force through regular updates. **Q1-Q3 2025**
 - An action plan is produced by the task force, with Council to approve implementation. **Q2 2025**
 - The City is effective in its role as lead in the facilitation of the task force. **Q1-Q3 2025**
- Risk for Achieving Objective and Mitigation Plan:
 - Risks:
 - Minimal interest from other organizations to participate in a collective effort.
 - Strategies and actions identified do not have a positive impact on individuals and community.
 - Mitigations:
 - Positively describe desired outcomes for individuals and community. Approach with optimism and resolve. Ensure City resources available to support others to participate.
 - Collaborate with a multitude of interest holders, including other levels of government, community organizations, and individuals. Seek the voice of individuals with lived experience.
 - Identify short- and long-term goals, with an eye to systemic solutions. Learn from other jurisdictions and be open to ideas.

PRIORITY #3: FOSTER A DYNAMIC AND THRIVING COMMUNITY ECONOMY

Action the Regional Economic Development Strategy (*Economic Development*)

- Strategies to Achieve Key Objective:
 - Develop and action Economic Development Strategy.
- Measurement of Success:
 - Regional economic development strategy is developed and includes regional priorities and competitive advantages. Strategy and optimal framework for implementation is presented to Council. **Q1 2025**

- Municipalities are supported, aligning their individual strategies with the regional strategy. Implement action items alongside regional partners over 2025-2026 with the goal of continued long-term engagement. **Q2 2025**
- Risk for Achieving Objective and Mitigation Plan:
 - Risks:
 - Framework for Regional Strategy is not adopted by all municipal partners.
 - Mitigation:
 - Maintain solid relationships with regional strategy partners and lean on senior leadership support to bring the municipalities together. Work with the willing.

Create opportunities to incentivize businesses and reduce barriers (Planning and Development Services)

- Strategies to Achieve Key Objective:
 - Inspire confidence in Administration by implementing an open inquiry and reporting system accessible by applicants and property owners.
 - Set expectations for performance and establish, publish and adhere to targeted timelines for services.
 - Ingrain the time value of money and the concept of shared risk.
- Measurement of Success:
 - Develop and implement a public facing inquiry application for all City development permit and business permit application status. Publish inquiry application on city web (Similar to Business License Query that is currently live). Beta test while we refine online interface, improve as necessary, and communicate accessibility to all users including builders and developers. **Q1 2025** anticipated completion of fulsome interface.
 - Collect data and develop a service level standard and determine with certainty actual time allocations needed for Staff to process 80% of the time and publish targeted timelines to the city website. **Q1 2025**
 - Ingrain the time value of money and the concept of shared risk.
 - Create a pilot project to evaluate a centre led process to shepherd strategic opportunities through multiple city departments to rapidly action opportunities for Commercial, Industrial and Residential that benefit the region. Coordinated by Economic Development. **Q1 2025**
 - Develop a plan to identify, advocate, and instill clarity of the process that will assist developers in having the confidence to determine if they want to invest in the community. **Q2 2025**
- Risk for Achieving Objective and Mitigation Plan:
 - Risks:
 - Ensuring regulatory compliance.
 - Overly ambitious timelines and missed targets.
 - Defining expectations with proponents.

- Community resistance and lack of familiarity.
- Capacity of staff.
- Mitigations:
 - Close attention to be paid to Municipal Government Act (MGA), Municipal Servicing Standards Manual (MSSM), Environment and Protected Areas (EPA) and other authorities to remain compliant. Agreement with the teams that variation from ethical, moral and legal standards will not be tolerated.
 - Continue to support that moving the dial, even a little, is better than stagnation.
 - Ensuring tactical plans are developed and supported. Continually set and reset expectations. Agree to pivot if tactics aren't working.
 - Determined information setting and communication.
 - Regularly reporting progress, tensions, and gaps.

PRIORITY #4: ACTION RECREATION AND WELLNESS OPPORTUNITIES

Develop a multi-faceted recreation complex on the south side (*Parks & Recreation*)

- Strategies to Achieve Key Objective:
 - Site determination and acquisition of required land. Finalize due diligence process and determination of other stakeholder impact for site.
 - Complete facility needs assessment and any required engagement to determine facility size and develop facility concepts.
 - Determine operating model and finalize funding for facility construction.
 - Commence tendering process for facility construction.
 - Communicate next phases of the Facilities for the Future Plan with City Council and the public.
- Measurement of Success:
 - Site determination and acquisition of required land:
 - Council approval on scope and vision for multi-faceted recreation complex on the south side. **Q1 2025**
 - City Council approval of the preferred site as the location, including required infrastructure for the proposed recreation facility construction. Exact configuration of land required is to be determined. **Q1 2025**
 - City Council approval for Administration to initiate land acquisition negotiations required to purchase land for construction of a recreation facility to be brought back to City Council for endorsement of funding request for purchase. **Q1 2025**
 - Ensure preferred site has no other future plans or easements and negotiate alternative arrangements, as needed. **Q1 2025**
 - Complete facility needs assessment and public engagement:

- Council approval of initial funding to complete high level planning and facility needs assessment to assist in the development of required facility drawings. **Q1 2025**
- Complete any required engagement to ensure public awareness and support. **Q1 2025**
- Determine operating model and finalize funding:
 - Presenting potential facility costs, and potential partnership funding arrangements to Council. **Q1 2025**
 - City Council decision on operating model of proposed recreation centre and implementation of potential partnership agreements based on Council direction. **Q2 2025**
 - City Council approval of a funding request for development of detailed drawings developed based on engagement. **Q4 2025**
 - City Council approval of funding for facility construction. **Q1 2026**
- City Council approval of terms, conditions and deliverables to issue a tender for construction. **Q1 2026+**
- Presentation to City Council and the public on other elements and sequencing of Phase I and Phase II of the Facilities for the Future Plan. **Q3 2025**
- Risk for Achieving Objective and Mitigation Plan:
 - Risks:
 - Available funding is not sufficient to cover anticipated construction costs.
 - Public support of recreation centre construction is highly dependent on available information to support site selection and rationale for construction.
 - Mitigations:
 - Explore funding partnerships with regional partners, the Province of Alberta and potential Federal grant opportunities.
 - Conduct a comprehensive public engagement campaign aimed actively including user groups and the public.

Determine the future of existing facilities (*Fleet & Facilities*)

- Strategies to Achieve Key Objective:
 - Determine the future of existing facilities
- Measurement of Success:
 - Facilities Management to prepare a schedule of existing recreational facilities including for each: (i) updated Facility Condition Assessment identifying anticipated sustaining capital for each of the next 25 years required to maintain operation of each facility as designed and constructed, (ii) potential demolition costs, and (iv) average annual operating cost – to be utilized and considered as part of Facilities for the Future analysis developed by Parks and Recreation – prepare schedule by Q4 2024, with further ongoing analysis and scenarios as required by Q1 2025.

- Risk for Achieving Objective and Mitigation Plan:
 - Risks:
 - Funding
 - Public Expectations
 - Council Election

1.5 Budget Calendar

Council Dates	Type	Date
Budget Planning	Committee of the Whole	April 23
New Growth Opportunities – Part 1	Committee of the Whole	June 25
New Growth Opportunities – Part 2	Committee of the Whole	July 9
New Growth Opportunities – Part 3	Regular Council	July 15
Final Deliberations – Rate-Based Utilities	Committee of the Whole	October 22
Final Deliberations – Energy Production	Committee of the Whole	October 30
Final Deliberations – Municipal	Committee of the Whole	November 5
Final Deliberations – Land Development & Real Estate	Committee of the Whole	November 13
Regular Council – Rate Bylaw, First Reading	Regular Council	November 18
Regular Council – Consolidated Budget and Deliberation	Regular Council	December 2
Regular Council – Budget Approval and Rate Bylaw Public Hearing, Second and Third Reading	Regular Council	December 16

1.6 Budget Highlights

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INTRODUCTION

The City's 2025-26 Budget includes a two-year budget and a 10-year fiscal plan and seeks to balance the needs of today with the requirements of tomorrow. To do this, the City must:

- Address community needs and ensure excellent service
- Balance affordability with the need to invest in City Infrastructure
- Ensure financial sustainability of our municipality
- Thoughtfully use reserves for future needs
- Align with Council Strategic Priorities

KEY HIGHLIGHT: BALANCING THE NEEDS OF TODAY WITH THE REQUIREMENTS OF TOMORROW

The 2025-2026 Budget Recognizes that decisions made for the next two years must acknowledge both the needs of today and the requirements of tomorrow.

Needs of today

- The impacts of social disorder in our downtown core;
- The rising cost of living for residents;
- High inflation over the past few years, increasing the costs of providing municipal services and maintaining facilities;
- The impact to City revenues including declining energy earnings, foregone property tax increases during the pandemic, reduced Alberta Government transfers and development fees; and,
- The city's historic municipal budget gap.

Requirements of tomorrow

- Remediating land connected to the City's depleting oil and gas wells;
- Transitioning to clean energy so that the City can continue to participate in energy profits;
- Addressing the challenge of low growth within the city's population, development, and economy;
- Addressing aging infrastructure including recreational infrastructure, airport runway and aging utility infrastructure;
- Preparing the city for electrification through expansion of the city's electric distribution network; and,

- Preparing the city to address environmental concerns such as drought.

This budget addresses this balance by:

- Realigning financial resources to where they can better serve the community;
- Ensuring property tax and utility increases are sustainable and predictable and take affordability into consideration;
- Continuing to provide supports for the most vulnerable through the City's Fair Entry programs improving access to certain facilities, programming and transit;
- Ear-marking reserves for future opportunities and challenges related to abandonment obligations and energy transition;
- Providing a pathway to balance the Municipal Budget Gap by 2028;
- Reducing reliance on volatile business unit revenue gradually over the 10-year planning horizon to lessen the risk related to declining energy production revenues;
- Maintaining sufficient financial reserves for future operations; and,
- Aligning new investments with Council's Strategic Priorities.

The 2025-2034 financial plan addresses this balance by:

- Identifying key investments required in the coming years related to airport and aging utility related infrastructure;
- Illustrating a reduced reliance on volatile business earnings over the planning horizon;
- Demonstrating the needed fiscal prudence concerning cost constraint and the resource requirements in the long-term to remain financially sustainable; and,
- Laying the baseline of the City's financial picture for further discussions related to facilities for the future and energy transition.

KEY HIGHLIGHT: FUTURE CONSIDERATIONS

Recommendations coming out of the budget and financial plan to ensure financial sustainability include:

- Continued focus on meeting financial targets;
- Consider the impact of new asks on fiscal targets (such as facilities for the future or energy transition);
- Strengthen cost containment efforts within the organization;
- Protect and strengthen earnings potential;
- Address growth issues; and,
- Maintain the Medicine Hat Advantage.

KEY HIGHLIGHT: NEW GROWTH OPPORTUNITIES

This budget demonstrates alignment to Council Strategic Priorities by executing all four of Council's focused priorities (as per section 1.1 Council Strategic Priorities and Corporate Strategic Objectives) as well as investing a total of \$29.3M in new growth opportunities to enact Council's more comprehensive strategic plan. New growth opportunities include \$19.3M in Growth Capital and \$10.0M in new operating initiatives.

Council Strategic Priority	2025 -2026 Capital	2025 Operating	2026 Operating
Innovation	89	750	636
Community Wellness	8,250	631	591
Economic Evolution	1,150	2,975	102
Partnerships and Governance	-	946	227
Resilience and Sustainability	3,538	1,255	342
Service Orientation	6,280	551	1,013
Total Funding	19,307	7,108	2,911

Key new operating initiatives include:

- \$2.6M for economic development incentives to support **economic evolution** and address issues related to low economic growth, downtown businesses and housing issues;

- \$1.1M for an Advanced Collaboration Ecosystem to support **innovation** to modernize the city's records management to support public access to information and improve security, automation, and data visualization;
- \$0.9M over two years in operating and \$0.8M in capital to support **service orientation** to increase the city's transit service hours to keep up with demand;
- \$0.9M for water environmental utilities to support **resilience and sustainability** to improve cybersecurity and update the City's master plan to support future efforts related to the environmental framework;
- \$0.6M over two years for two Downtown Patrol Unit/ Community Liaison officers to support **community wellness** and address social disorder and increase the feeling of safety in our downtown core;
- \$0.6M to support projects within the southern regional stormwater drainage committee to support **partnerships and governance** to mitigate the impact of flood related events for the region; and,
- \$0.3M to establish a city-wide water management strategy to support **partnerships and governance** address issues such as drought.

Key growth capital investments include:

- \$6.4M to twin the Kipling Street water transmission main to support **community wellness** and reduce the risk of failure to the water main servicing the south side of the City;
- \$3.6M for road, sidewalk, and streetlight initiatives focused on improving **community wellness**, supporting **economic evolution**, and enhancing **service orientation**;
- \$3.1M in Water utility projects related to transmission main improvements for 3 street SE and Harlow as well as cybersecurity upgrades to support **service orientation** and **economic evolution**;
- \$1.5M for the design of the Landfill Airspace optimization cell expansion, that will add approximately 15 years of airspace to our landfill supporting **resilience and sustainability**;
- \$1.1M for the Airport to purchase a materials storage shed and a grader (primarily paid for through grants) to enhance airport efficiency (**resilience and sustainability**) and improve service delivery (**service orientation**); and,
- \$1.0M to support **resilience and sustainability** to install high efficiency lighting and plumbing fixtures in city facilities with the aim of reducing emissions and water usage (partially funded through grants).

KEY HIGHLIGHT: OPERATING

- This budget's property tax and utility rates demonstrate an effort to balance affordability with the need to invest in city infrastructure while addressing community needs and ensuring excellent service delivery;
- In 2024, Alberta Living Wage Network rated Medicine Hat [the lowest living wage across 21 Albertan communities](#). Canada Living Wage Network rated Medicine Hat the [second lowest living wage across 55 Canadian communities](#).
- The average proposed increase to utility customers is 1% for residential, 5% for commercial and 4% for industry.
- Proposed 2025 utility rates for the average residential customer remain \$768 per year lower than the average current 2024 rates of Calgary, Edmonton, Grande Prairie, Wood Buffalo, Red Deer and Lethbridge.
- This budget calls for an increase in property taxes of 5.6% in 2025 and 2026.
- Property tax increases remain in alignment with the average of other municipalities
- Property tax rate increases will amount to an increase of \$10 per month in 2025 and again in 2026 for a single-family home with an assessable value of \$315,000.

This budget maintains all existing service levels and includes the following measures to keep taxes low:

- \$5M funding from the City's endowment fund to support the municipal budget gap and to help pay for new operating initiatives;
- \$3M in-year funding from business unit dividends to offset the need for tax increases;
- \$2M service level efficiency target set for 2026 (to be defined);
- \$1.9M by keeping the City's operating budgets at 2024 levels (except for unavoidable cost pressure increases.);
- Extending the budget gap resolution to 2028; and,
- In September, in response to Council's motion on July 15, City Administration was able to also find additional savings to reduce its budget ask to help offset tax and utility rate increases, including:
 - \$8M reduction in growth capital;
 - \$4.8M reduction in sustaining capital;
 - \$11.7M reduction in capital reserve funding;
 - \$0.2M reduction in new operating initiatives;

- \$2.6M reduction to base operating expenses; and,
- \$0.2M in additional revenue.

KEY HIGHLIGHT: CONTINGENCY FUNDS

- All contingency funds utilized are required to be publicly reported through the year-end audit processes and tri-annual reporting.
- This budget includes the following contingencies:
 - \$0.6M per year in CAO contingency funds (compared to \$1.0M per year in prior budgets) this includes:
 - \$100K per year in Operating Contingency; and,
 - \$500K per year in Capital Contingency;
 - \$0.5M per year for the introduction of a new Capital Grant Contingency pilot program.
 - This new contingency only commits \$250K of city funds per year with the other \$250K to be funded by grants;
 - Approval for new capital projects through formal Council channels can take months, often hindering applications for grants with tight deadlines. This pilot program aims to streamline the process for small capital grants by reducing red tape and allowing the CAO to approve certain funds when grant opportunities arise. Eligible projects must be recommended to the CAO through the City's treasury, and must:
 - Align with provincial or federal mandates and Council's strategic priorities; and,
 - Secure at least 50% of matching grant funds.
- Prior year contingencies totalled \$1.2M per year (\$1.0M capital and \$200K operating), the 2025-26 budget recommends only \$850K per year in city funding for contingencies (\$750K capital and \$100K operating).
- No contingency is proposed this year for wage negotiations. Any increases because of union contract negotiations would come to Council in the form of a budget amendment request.

KEY HIGHLIGHT: FULL-TIME EQUIVALENT SUMMARY

- Previous budget cycles reported on Permanent Employee Positions (PEP) which is a headcount of the number of positions that are permanent within the organization. For the 2025-2026 budget, City Administration has switched to Full-time equivalent (FTE), which is a universally recognized measurement of the size of the entire workforce, not just permanent employees.
- Switching to FTE required the City of Medicine Hat to re-establish its baseline in this budget for its workforce size (represented in the table below as "2024 Updated FTE"). There are no budgeted FTE comparators in previous budgets;
- Prior to this budget, the city's full-time equivalent workforce is approximately 1,261.0 FTE.
- The Full Time Equivalents for the City of Medicine Hat have decreased by 3.0 FTE because of the asks in this budget (from 1261.0 to 1,258.0 FTE). Administration was able to accomplish this while also requesting 8.5 new FTE positions through its new growth opportunities.

City of Medicine Hat Full-time Equivalent Summary

2025-2026 Budget

Division	2024 Updated FTE	2025 Base Budget Changes	2025 New Operating Initiatives	2026 New Operating Initiatives	2026 Budgeted FTE
Corporate Services	203.8	(2.0)	1.0	-	202.8
Development & Infrastructure	236.0	(3.0)	0.5	1.0	234.5
Energy, Land & Environment	193.4	(5.5)	-	-	187.9
General Government	77.0	(1.0)	-	-	76.0
Police Services	159.5	-	3.0	0.0	162.5
Public Services	391.4	-	2.0	1.0	394.4
Total	1,261.0	(11.5)	6.5	2.0	1,258.0

Full-time Equivalent FTE Changes Breakdown

	FTE Summary					Notes
	2024 FTE	Base Operating Budget Changes	2025 New Operating Initiatives	2026 New Operating Initiatives	2026 Budgeted FTE	
Corporate Services	203.8	(2.0)	1.0	-	202.8	
Finance	86.8	(1.0)	-	-	85.8	Municipal Accountant
Information Technology	46.0	-	1.0	-	47.0	OT/AMI Systems Analyst
Corporate Planning & Performance	8.0	(1.0)	-	-	7.0	Director of Corporate Planning and Performance
Development & Infrastructure	236.0	(3.0)	0.5	1.0	234.5	
Environmental Utilities - Water	59.2	(1.0)	-	-	58.2	Technical Assistant - City Assets
Municipal Works	59.5	(1.0)	-	-	58.5	Utility Worker
Airport	6.0	-	0.5	1.0	7.5	Airport Maintenance Specialist (0.5 FTE)
Planning & Development Services	38.8	(1.0)	-	-	37.8	Airport Safety and Security Coordinator (1.0 FTE) Manager - Safety Codes Services
Energy, Land & Environment	193.4	(5.5)	-	-	187.9	
Environment, Land & Gas Production - Gas	17.0	(2.0)	-	-	15.0	Admin Support Gas Field Operator
Utility Distribution Systems - Electric Distribution	68.5	(2.5)	-	-	66.0	Electrical Technologist (1.0 FTE TEMP) Electric Utility Helper (0.5 FTE TEMP), Powerline Technician - Apprentice (1.0 FTE TEMP)
Utility Distribution Systems - Gas Distribution	27.0	(1.0)	-	-	26.0	Gas Distribution Operator 1 (TEMP)
General Government	77.0	(1.0)	-	-	76.0	
City Clerk	5.0	1.0	-	-	6.0	Records Retention Manager position added
People Services	45.6	(2.0)	-	-	43.6	Specialist, People Experience Diversity, Equity and Inclusion
Police Services	159.5	-	3.0	0.0	162.5	
						Downtown Patrol Unit/ Community Liason Officers (2.0 FTE) School Resource Officer (1.0 FTE)
Public Services	391.4	-	2.0	1.0	394.4	
Community Development	107.5	-	2.0	1.0	110.5	Special Transit Operator (1.0 FTE - 2025 and 1.0 FTE 2026) Regular Transit Operator (1.0 FTE - 2025)
Total	1,261.0	(11.5)	6.5	2.0	1,258.0	

Section 2

2025-2034 Financial Plan

2.0 2025-2034 Financial Plan

IN THIS SECTION: 2025-2034 FINANCIAL PLAN

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FISCAL TARGETS

The city has established fiscal targets to measure the financial sustainability of budget decisions into the future years.

	Fiscal Targets	Results	Met/ Not Met
Cash	Greater than \$520M	\$653M (low point 2033)	✓ Met
Debt Limit	Less than 70%	69% (high point 2032)	✓ Met
Budget Gap	Closed by 2028	Closed by 2028	✓ Met
Free Cash Flow	\$30.8M Reserve Requirement	\$12.8M	✗ Not Met

**for more information see "Fiscal Targets Explained" later in this section*

The City of Medicine Hat has achieved 3 of 4 of its fiscal targets. The City's cash position low point is anticipated to be \$133M higher than the desired cash minimum. Nevertheless, cash is anticipated to decline \$115.4M from 2025 to 2034. Declining cash balances will reduce investment income and put pressure on property tax increases in the long run. The City is proposing a path to balance the municipal budget gap by 2028 through a mixture of spending constraint and revenue increases including property tax increases.

It is anticipated that the City will remain onside with its debt limit. However, the City has significant capital needs for future growth and replacement of aging infrastructure which, over the next 10 years, will put increasing pressure on the City's debt. The financial plan anticipates that the City's debt limit will rise to 69% by 2032 (before considering investments such as facilities for the future or energy transition). While this presents a risk of breaching the city's own debt limit of 70% by 2032, the debt limit still falls short of the 100% debt limit allowed by the Municipal Government Act.

While the City's total cash levels remain above the minimum threshold over the planning horizon, the City has not met its free cash flow requirement from its non-municipal business units (e.g., Land Development and Real Estate, Rate-Based Utilities, and Energy Production) which is anticipated to result in declining capital and operating reserves. Operating reserves are used by the City to pay for budget gaps and provide contingency funding for operations. Capital reserves are used to pay for sustaining and capital growth projects. These reserves also act as a primary source of investment income for the municipal component of city operations. Declining operating and reserve balances will reduce the amount of potential investment income that can be used to offset property taxes and close the budget gap. As these funds decline it will precipitate the need to replace investment revenue with other sources of revenue such as increased property taxes.

Between 2025 and 2034 the City is forecasting to draw down a combined amount of \$18.0M more per year from its capital and operating reserves than the amount it is contributing from free cash flow, leading to an overall decline in capital and operating reserves of \$180.1M (70.3%) by 2034. If efforts are not made to balance the reserve requirement and free cash flow, there is a risk that the city could deplete its reserves in the long run.

One of the opportunities to balance free cash flow with the financial reserves requirement is reducing the Municipal unit's reliance on volatile business earnings. The Municipal unit is the largest user of reserve funds. To do this the city must look at options to reduce service levels or increase revenue sources, which would include property taxes.

Over the planning horizon, the Financial Plan manages the Municipal's reliance on business unit dividends and Medicine Hat Endowment Funding to close the budget gap and also reduce the immediate impact to the taxpayer. It also calls for Medicine Hat to increase the amount of capital it is funding through property taxes to alleviate pressure on the capital reserve.

To reverse the negative trend of draws on reserves, the Financial Plan calls for two concurrent measures: (1) increased income including property tax revenue, and (2) financial constraint to expense growth. Over the planning horizon the City has forecasted a modest inflationary growth of 2%, in line with Bank of Canada inflationary targets. To achieve this target, the city will need to exemplify financial constraint, finding ways to absorb inflationary pressures and manage upcoming pressures. The city will also need to look at areas where service levels may be reduced.

The city's 2025 and 2026 budget already includes significant measures to achieve this such as:

- Holding departments to a 0% inflation on all non-salary related expenses except for unavoidable cost pressure increases;
- A \$2.0M service efficiency target in 2026 to be determined in 2025 with the completion of the service level inventory; and
- The City's workforce strategy. This is a three-year plan meant to optimize operations by identifying critical roles and ensuring the workforce is aligned with the levels of service the city offers to our community. It's designed to support a streamlined, innovative workforce by looking at our current state and predicting future needs.

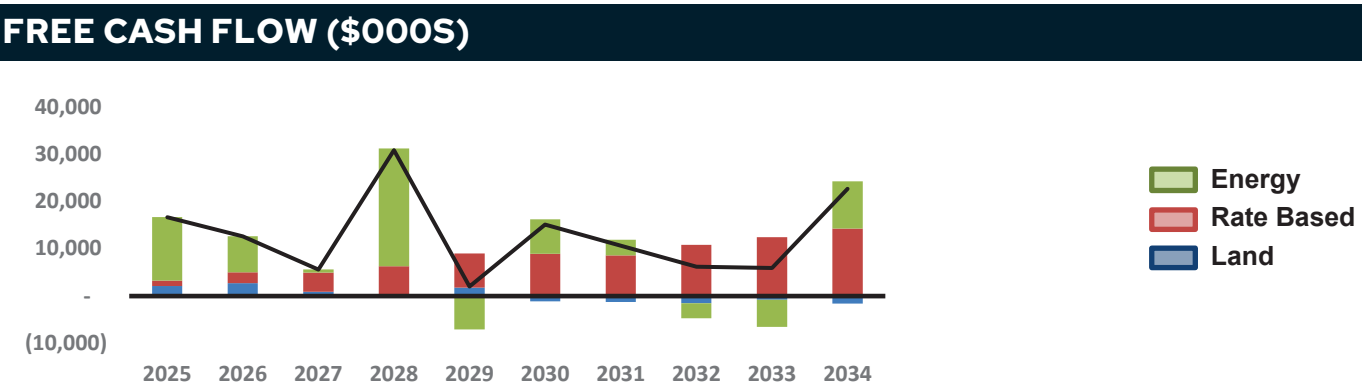
These measures are just the start of an organizational shift that must continue into 2027 and beyond for the City to be financially sustainable and reverse the negative impacts of draws on reserve.

Another opportunity for the City to reverse this negative trend is to invest in future business opportunities. The City has proposed opportunities such as the Saamis Solar Park, which if pursued, could increase free cash flow to satisfy the free cash flow target.

Today the City's financial reserves are sitting in a healthy position, even with these draws on cash the city will remain well above its targeted minimum cash balance of \$520M. This will allow the City to work

towards balancing its draws on reserve with free cash flow earnings over the planning horizon to smooth the impact of these changes on residents.

The targets for the City’s financial outlook demonstrate a picture that is financially sustainable between 2025-2034, however the fiscal targets demonstrate signals of significant risk, both for debt and free cash flow. The negative trends are also noted of decreasing cash levels and rising debt levels which will require an organizational shift to balance spending with revenue. Fortunately, the City’s financial position today is healthy, providing opportunity for the City to respond incrementally, making decisions to balance the needs of today with the requirements of tomorrow.



The City of Medicine Hat’s free cash flow earnings from its business units have allowed the City to keep taxes and utility rates low while also providing superior amenities comparable to other cities of similar size. The primary source of this advantage has historically been the production of oil, gas, and electricity in the Energy Production business unit. However, the city also earns free cash flow earnings from its Land Development and Real Estate business unit as well as its Rate-Based Utilities such as: water, sewer, solid waste, electric distribution, and gas distribution.

Free cash flow earnings are used by the City to pay for capital projects (both sustaining and growth) as well as cover municipal budget gaps. As of late, there has also been a need for free cash flow to be restricted for other purposes such as asset retirement and abandonment obligations as well as energy transition. In 2024, the City established two financial reserves to restrict funds towards these future costs, however both reserves remain underfunded.

It is because of the historic free cash flow that the City has been able to establish the Medicine Hat Endowment Fund. The Medicine Hat Endowment Fund is an inflation-protected perpetual endowment protected by bylaw, which aims to provide funds that can be reinvested into the community in perpetuity. At the end of 2024, the fund is estimated to have a balance of approximately \$200M.

Between 2025-2034 the City anticipates that it will continue to receive earnings from its business units (free cash flow). The City is anticipating an average free cash flow of approximately \$12.8M per year.

Energy Production: The Energy Production business unit is made up of two components: Electric Generation and Gas Production. The Electric Generation component of Energy Production is

anticipated to be the city's largest contributor of free cash flow between 2025 and 2034 providing, on average \$16.7M of free cash flow annually.

It is important to note that, while Electric Generation is the largest contributor of earnings, these earnings are highly volatile by the nature of the industry's boom and bust cycles. In some years, Electric Generation can be a net contributor to free cash flow and during bust cycles can be drawing from reserves to keep operations whole. Electric Generation is also a highly capital-intensive business requiring large dollar capital purchases to maintain operations.

There are also many risks and uncertainties on the horizon for Electric Generation. The electric market typically follows supply and demand economics. But the economics are changing in this industry as government policy is changing how suppliers and consumers participate. The draft net zero carbon emission regulations which are pending and subject to change with the upcoming federal election in 2025 could have a material impact on carbon policy moving forward. In addition, the Provincial Government is currently in discussions regarding an electricity market redesign in response to the changing supply mix with more green energy production coming online. Technology solutions to deliver affordable, clean and reliable supply do not yet exist, but with continued innovation new technologies could have the potential to disrupt the industry. The City is also facing its own energy business review which could alter how the City conducts its Electric Generation business. All these factors could drastically change the future outlook for Electric Generation.

Historically, the city has used Energy Production's free cash flow to help offset the Municipal budget gap and pay for capital projects. However, with the risks and uncertainties on the horizon for this business including its volatility in free cash flow, there is risk to the Municipality continuing to rely on Energy production as a source of income to provide fundamental municipal services. This financial plan demonstrates slowly reducing reliance on Energy Production over the planning horizon.

This forecast does not include any costs associated with energy transition. The City has proposals for energy transition investments forthcoming to Council, however these proposals will only be the beginning. If the City of Medicine Hat continues to be in the electric business, there could be a substantial cost over the next 10 years.

The benefits of the Electric Generation business are offset somewhat in the Energy Production Business Unit by Gas Production operating segment. Gas Production is anticipated to be in a negative free cash flow position of approximately \$11.6M annually. While it is anticipated that the component of Gas Production's active operations will be earning profit, this is offset by the continued costs of abandonment efforts within the business unit.

Rate Based Utilities: The Rate-based Utilities operate on a cost-recovery model that is governed by Council and aligns with the Alberta Utility Commission regulations that establishes the formula for calculating utility rates. Rates are calculated using a regulated rate of return which ensures that the City's rates will cover the costs of utilities, while earning a modest return on the capital invested. The return can be reinvested back into the utility or provided to the City to use towards other service needs within the community. Within the financial plan, Rate-Based Utilities are earning, on average \$7.6M per

year for the City. In 2025–2026, however free cash flow is averaging only \$1.7M but growing steadily thereafter.

Over the planning horizon it is anticipated that most utility groups will earn free cash flow contributions except for the electric distribution business unit. This business unit will be undergoing a period of large capital spend as its assets are aging and reaching the end of their lifecycle within the planning horizon. This business unit is also highly debt levered which plays a factor in the calculation of free cash flow.

For water, gas and electric there has been an effort by the City to encourage conservation through its Hat Smart program, City website and other financial incentives. While these efforts are necessary, reductions in consumption of utilities will also result in lower forecasted volumes. This could have an impact on utility rates and free cash flow in future budget cycles.

Overall, Rate-Based Utilities typically provide a more modest but more predictable source of free cash flow for the City of Medicine Hat. Over the planning horizon the city anticipates steady growth annual contributions from Rate-Based Utilities.

Land Development and Real Estate: The Land Development and Real Estate business unit is currently within a phase of rebuilding with the intention of coming back to Council in Q2 of 2025 with a strategic plan. The Land Development and Real Estate business unit has several mandates from being a profit centre, to a policy driven developer, to a provider of social value. Changes have happened within this market including a general slowdown to development. It is anticipated over the planning horizon that population growth will remain low and development needs within the community will be primarily industrial. Due to the rebuilding of this business unit, this forecast does not anticipate any large investment in new developments but rather anticipates the sale of land and properties currently owned by the city. As a result, land development and real estate does not have significant free cash flow over the planning horizon. The average cash flow over the planning horizon for land development and real estate is \$80K per year. However, this is subject to change with the strategic plan coming forward in Q2 of 2025.

Reliance on Free Cash Flow:

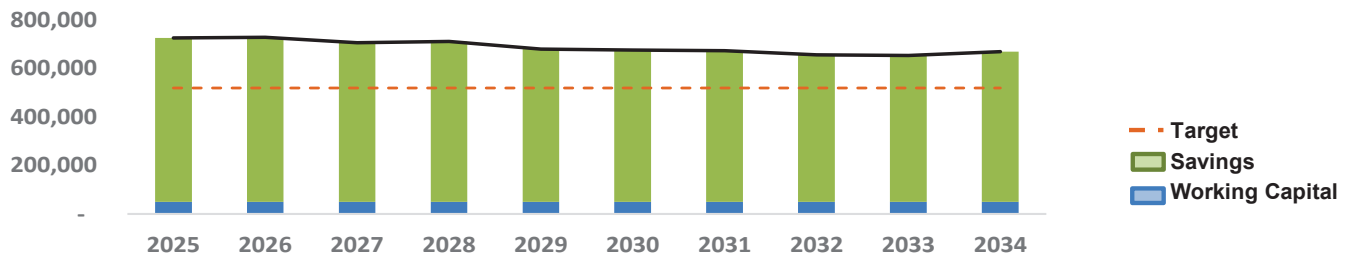
The City anticipates average free cash flow of \$12.8M per year over the planning horizon with a level of volatility year to year. However, to determine whether the City is remaining financially sustainable, the earnings must be compared to the draws on reserve which represent how much is being used annually to pay for things such as capital purchases and covering the municipal budget gap.

Average Annual Free Cash Flow Coverage (in millions)	Average 2025-2028	Average 2029-2034
Municipal Gap	\$4.3	\$0.0
Business Unit Dividends to Municipal Operations	\$2.8	\$0.9
Total Municipal Operations	\$7.1	\$0.9
Capital (Municipal)	\$27.9	\$24.8
Capital (Other Business Units)	\$8.4	\$10.4
Total Reserve Draws	\$43.4	\$36.1
Free Cash Flow	\$16.4	\$10.4
Net Draw on Reserves	\$27.0	\$25.7

Within our forecast period it is anticipated that the City's average annual free cash flow contributions will not be sufficient to cover the Capital and Operational draws on reserve resulting in reserves decline. Between 2025 and 2028 (the targeted year that the municipal budget gap will be resolved) the City anticipates draws from its operating and capital reserves for municipal gap coverage and capital purchases averaging approximately \$43.4M per year. When compared to free cash flow contributions of only \$16.4M there is an average annual discrepancy of \$27.0M. In 2028, the financial plan anticipates to no longer have a municipal budget gap. After that point, between 2029 and 2034 the reserve draws for municipal operations are anticipated to decrease from \$7.1M to \$0.9M per year on average as the business unit dividend is phased out over the planning horizon. Capital likewise within the municipality drops \$3.1M annually (from \$27.9M to \$24.8M) as the City slowly starts to cover more capital purchases through property taxes. This gain is offset somewhat by lower anticipated free cash flow and greater needs for capital reserve funding from Rate-Based Utilities to cover the cost of planned infrastructure rehabilitation, expansion and derisking projects (discussed below).

While the City's primary focus over the last number of years has been on solving the municipal budget gap. What this shows is that, going forward the City will also need to consider draws on reserve for capital and operating purchases if it is to remain financially sustainable.

CASH (\$000S)



The City's consolidated cash picture illustrates the impact of free cash flow being less than the reserve requirement. Between 2024 and 2035, the city's consolidated cash and investment balance is anticipated to drop \$115.4M (14.7%) from \$785.0M to \$669.6M. The draws on the capital and operating reserves mentioned in the free cash flow section above are being offset somewhat by increased cash related to new debt issuance as well as interest earnings for the Medicine Hat Endowment Fund and Energy Transition Reserve.

<i>In millions</i>	2024 Forecast	2034 Forecast	Change
Operating Reserve	27.0	16.2	(10.8)
Capital Reserve	229.2	60.0	(169.2)
MH Endowment Fund	200.0	259.2	59.2
Energy Transition Reserve	75.0	113.7	38.7
Abandonment Obligation Reserve	75.0	20.5	(54.5)
All other funds	178.8	200.0	21.2
Total Cash	785.0	669.6	(115.4)

Over the planning horizon operating and capital reserve funding is anticipated to decrease a combined total of \$180.0M (70.2%). This drop in operating and capital reserves over the long-term horizon drops capital below targeted levels and could result in the city needing to release other restrictions to pay for capital and operating reserves if the negative trend is not remedied.

Abandonment Obligation reserve is also anticipated to drop \$54.5M (72.7%) as this fund is used to fund the abandonment obligation expenditures within the city. This fund is not anticipated to be sufficient to cover all the needs of the city's obligations for abandonment in the long-run and additional funds will likely be required.

The Medicine Hat Endowment fund is not fully accessible to the city. Per bylaw, the principal amount invested in the fund is protected from erosion so that the endowment would remain available in perpetuity. Only the portion of the investment earnings that exceed the principal balance (adjusted for

inflation) is available to spend by the City. By the end of 2034 it is anticipated that approximately \$29.6M of Medicine Hat Endowment funds would be available for use while the remaining portion must remain within the perpetual endowment per bylaw. Thus, the total cash gains of \$59.2M from the table above are not all available for use by the City.

Energy Transition fund is expected to gain \$38.7M in investment earnings between 2025 and 2034. However, these earnings may not materialize if the City decides to utilize these funds for energy transition projects such as the Saamis Solar Farm.

The Energy Transition and Abandonment Obligations reserves were established in 2024 to recognize the need for funding towards these two activities. Both funds remain insufficient to cover the financial needs of abandonments or energy transition. The Abandonment obligations stated on the city's audited financial statements as of December 31, 2023, were \$254.6M and the costs related to energy transition remain uncertain but could exceed \$500M dependent on future developments within the industry and whether the City chooses to continue to participate in the business.

In the forecast model, all other funds represent the changes in working capital, offsite levy obligations, and unrealized gains and losses.

DEBT

The City of Medicine Hat maintains (3) types of debt obligations and corresponding repayment: Short-term Debt, Long-term Debt, and Loan Guarantees.

SHORT-TERM DEBT

A combined Municipal Operating Loan Facility (Revolving) and Letter of Credit Facility are available to the City up to a maximum of \$75.0M, by way of prime rate-based loans and/or Letters of Credit (in Canadian dollars). This facility is secured by Bylaw No. 4719.

The City has forecasted Letters of Credit in the amount of \$45.4M during the 2025-2026 budget period (2024 - \$63.6M). This leaves an available Municipal Operating Loan Facility of \$29.6M (2024 - \$11.4M).

A Line of Credit is also available to the City up to a maximum of \$1.5M, by way of Corporate Credit Cards. This facility is secured by Bylaw No. 4804. The City has forecasted Credit Card utilization in the amount of \$1.0M during the 2025-2026 budget period (2024 - \$0.6M).

LONG-TERM DEBT

The City of Medicine Hat borrows money to finance capital projects. These loans are primarily borrowed from the Loans to Local Authorities, a provincial authority, on a semi-annual repayment

schedule. The City has other long-term debt outstanding with a Financial Institution that was structured over a 10-year period with 5 years interest only followed by 5 years of blended payments.

Municipal external debt for the City of Medicine Hat primarily relates to borrowed funds for municipal infrastructure projects. The 2025-2026 budgeted municipal debt includes \$35.5M in carry forward projects from 2024 as well as \$3.4M new debt funded projects in 2025 and 2026.

There is no external debt for the Land Development and Real Estate Unit.

Rate-Based Utilities external debt primarily includes borrowings for the City of Medicine Hat to build, maintain and replace infrastructure for the City’s utility services. There are significant rate-based utility capital projects within the 2025-2026 budget cycle. The 2025-2026 budgeted rate-based utilities debt includes \$69.7M in carry forward projects from 2024 as well as \$48.4M new debt funded projects in 2025 and 2026.

Energy Production external debt includes borrowings for growth capital, optimization of existing facilities and production assets as well as abandonment and reclamation. The 2025-2026 budgeted energy production debt includes \$5.3M in carry forward projects from 2024.

LOAN GUARANTEES

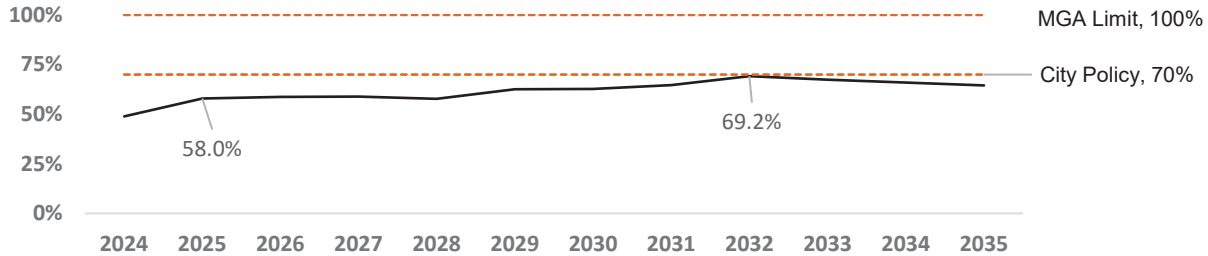
Section 266 of the Municipal Government Act allows municipalities to guarantee the repayment of a loan between a lender and a non-profit organization or one of its controlled corporations. The City of Medicine Hat has passed Bylaws guaranteeing loans to non-profit organizations to a maximum of \$1.7M (2024 - \$1.7M).

	Guaranteed Amount	Maturity (year)
Bylaw No. 4187	965	2034
Bylaw No. 4138	675	2034
Bylaw No. 4436	100	2027
TOTAL	\$ 1,740	

BOND RATINGS

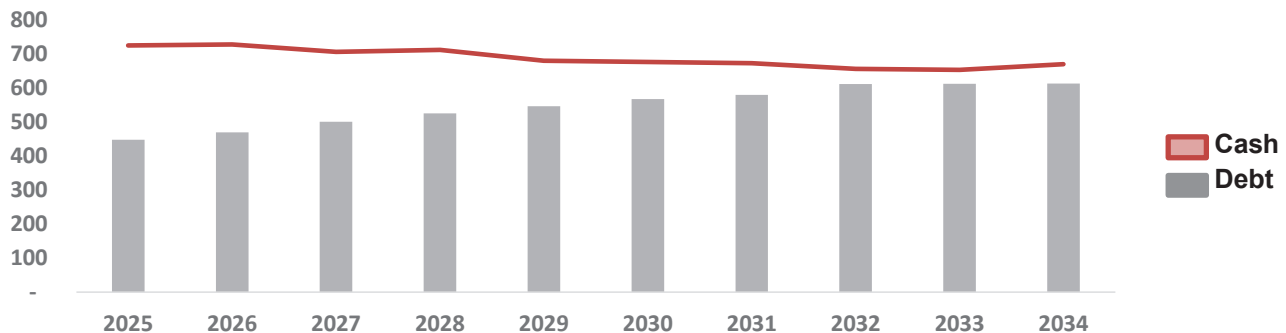
The City of Medicine Hat does not issue corporate bonds and therefore is not a rated Municipality.

DEBT LIMIT (\$000S)



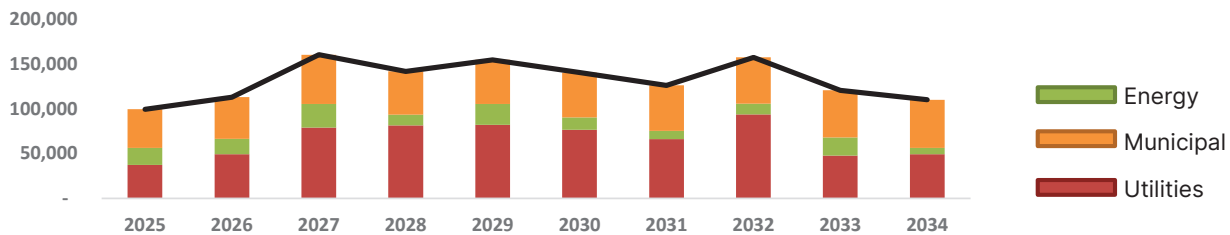
The Municipal Government Act prescribes a debt limit that states that total debt cannot rise above two times the City's consolidated revenue. The City has established a policy to target 70% of the Municipal Government Act limit. Between 2025 and 2032 the City's debt is anticipated to climb up to the 70% threshold primarily due to rising debt levels to fund the City's capital needs. This is before considering energy transition or facilities for the future.

Debt and Cash Balances (\$millions)



The city's cash picture remains above minimum cash targets however cash is on a steady decline while its debt levels are on a gradual rise. While the City is meeting its cash targets, future efforts are required to balance the reserve requirement to ensure the City has sufficient funds to meet its future obligations and remain financially sustainable. There are also many unknowns and future decisions regarding facilities for the future and energy transition that could drastically impact the city's cash and debt. It will be important for the city to consider both debt and cash when it makes large spending decisions.

CAPITAL (\$000S)



Between 2027 and 2033 the City is anticipated to average approximately \$139M per year in capital acquisition costs compared to the current budgeted \$106M per year in 2025-2026. The rise in costs is primarily due to the rehabilitation or replacement of aging infrastructure.

- Electric Distribution has several transformers, substations and transmission lines that are reaching end of life. There is also a need to invest in an East Ring enhancement to upgrade current infrastructure to support growth on the east side of the city. It is anticipated that these improvements will cost approximately \$88M between 2027 and 2034.
- Water is planning on several projects to derisk the water distribution network through mainline twinning to avoid a massive waterline failure like Calgary in 2024. For example, The Kipling Street transmission main twinning proposed in the 2025-2026 budget. Twinning costs are anticipated to be approximately \$34M between 2027 and 2032. There are also several major projects on the horizon related to ultraviolet disinfection, transmission line, booster station and reservoir expansions to continue providing service and anticipate new growth within the city.
- Sewer has several major projects, the largest of which being the Box Springs lift station and force main project anticipated to be required for 2031-32 at a cost of approximately \$28M. There are also more near-term plans related to the Brier Park gravity bypass (which has been deferred to 2027) and Southlands/ River Ridge Lift Stations.
- Solid Waste will be seeking approximately \$8.5M in funding in the upcoming years to continue landfill airspace optimization to extend the useful life of the City landfill. Solid Waste is also pursuing the building of a food waste compost facility which was not approved as part of the 2025-26 budget but requested to come back as a separate request once more information was gathered.
- On the Municipal side, the City has deferred the replacement of the Airport's crosswind runway this year however has requested funds within this budget to plan for the replacement with the anticipation of coming back in 2027 for funding (estimated at \$7.5M).
- The impacts of aging recreational facilities are the focus of the facilities for the future project which is set to come to council in 2025. The impacts of facilities for the future are unknown and therefore have not been included in the financial plan. The financial plan establishes the baseline from which decisions about facilities for the future can be discussed.

KEY ASSUMPTIONS

Major Assumptions for Forecast Period: 2027 through 2034:

- Property Taxes: 5.6% to 2028 and 3.5% 2029 through 2034
- Municipal Fees: 3.0% to 2026, 2.0% through 2034
- Municipal Expense Inflation of 2.0%
- Inflation on capital acquisitions of 2.0%

Funding Assumptions:

Funding profiles have been established using city benchmarks for debt-to-equity funding. As follows:

Sustaining Capital

	Debt	Reserve	Working Capital
Municipal	25%	See Note*	Remainder
Land Development and Real Estate	0%	0%	100%
Rate-Based Utilities	63%	0%	37%
Energy Production	0%	0%	100%

*72% in 2027, 70% in 2028, and a 1% decline thereafter.

Growth Capital

	Debt	Reserve	Working Capital
Municipal	50%	50%	0%
Land Development and Real Estate	60%	40%	0%
Rate-Based Utilities	63%	37%	0%
Energy Production	50%	50%	0%

FINANCIAL TARGETS EXPLAINED

The City's financial targets include Debt, Cash, Budget Gap and Free Cash Flow.

Debt: The city's Debt limit is based on the Provincial Regulation *Debt Limit Regulation, Alta Reg 255/2000 (2)(a)* which requires Medicine Hat's Debt to not exceed two times its annual consolidated revenue and City Policy 0176 "Debt Management Policy" 6.01(d)(i) which requires the City to remain within 70% of that target.

Cash: the City's cash target is estimated based on what the City expects to require to remain financially stable in the long run. The City desires to keep on hand enough cash (on average over the planning horizon) to cover the following items:

	Amount (\$M)
Medicine Hat Endowment Fund (Principle)	215
Operating (15% of Municipal Expenses)	30
Capital (5 years of Reserve Needs)	180
Day-to-Day Operations	50
Deferred Revenue	45
Total	\$520

Note: Deferred Revenue are cash items where the City has an obligation to spend funds for a specific purpose such as capital grant funding, offsite levies, and other designated assets.

Note that the City's Minimum desired cash balance is based on regular operating conditions and does not include future requirements for items such as the energy transition, facilities for the future or abandonment obligations.

Budget Gap: The Municipal Budget gap applies the formula of the Municipal Government Act 243 specifically to the Municipal Unit of the City's operations (excluding Energy Production, Rate-Based Utilities, and Land Development and Real Estate). This is to ensure that the Municipal component of the city (whose legislated activities must continue indefinitely) is financially sustainable. The Municipal budget is what is used to determine the City's property tax requirements. The goal of this target is to ensure that the city is bringing in enough cash annually to cover its operations. The Municipal Budget gap does not account for the changes in cash related to capital or other business units such as Energy Production, Rate-Based Utilities, and Land Development and Real Estate.

Free Cash Flow: The free cash flow target measures how much funding must be deposited into the reserves from the City's non-municipal business units to balance off the amount that is being withdrawn for operating and capital. The reserves requirement is calculated by using the average withdrawals from the capital and operating reserves before free cash flow.

APPENDICES

Appendix A: 10-Year Capital Plan

City of Medicine Hat 10-Year Capital Plan

In thousands of dollars

	2025 Budget	2026 Budget	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	2031 Forecast	2032 Forecast	2033 Forecast	2034 Forecast
New Capital Acquisitions										
Municipal	43,227	46,408	54,899	48,247	49,112	49,995	50,894	51,812	52,749	53,704
Land	-	-	-	-	-	-	-	-	-	-
Rate-Based Utilities										
Water	11,150	16,578	16,274	22,692	25,790	24,545	24,050	30,733	8,326	7,800
Sewer	9,587	13,008	19,518	17,590	20,750	24,090	24,056	34,336	10,519	12,250
Solid Waste	180	1,630	10,733	8,285	2,138	141	144	146	149	152
Electric Distribution	11,583	13,672	28,268	28,513	28,764	23,019	13,279	23,545	23,816	24,092
Gas Distribution	4,737	4,292	4,299	4,385	4,472	4,562	4,653	4,746	4,841	4,938
Total Utilities	37,237	49,180	79,091	81,465	81,914	76,356	66,181	93,506	47,651	49,232
Energy Production										
Electric Generation	18,975	17,280	26,280	12,000	23,500	14,000	9,000	12,000	20,200	7,000
Gas Production	-	-	-	-	-	-	-	-	-	-
Total Energy Production	18,975	17,280	26,280	12,000	23,500	14,000	9,000	12,000	20,200	7,000
Total New Capital Acquisitions	99,439	112,868	160,270	141,712	154,526	140,351	126,075	157,318	120,599	109,936
Funding										
External Debt	21,005	30,727	59,564	57,215	55,394	57,404	51,218	68,660	40,004	41,238
Grants	13,642	18,848	12,779	12,784	12,789	12,795	12,800	12,806	12,811	12,817
Third Party	900	900	-	-	-	-	-	-	-	-
Reserves	30,234	31,369	44,734	39,031	38,024	39,145	33,527	43,814	28,461	28,641
Offsite Levy	-	-	1,260	4,721	8,400	-	-	-	-	-
Operating / Working Capital	33,658	31,024	41,933	27,962	39,918	31,007	28,531	32,038	39,323	27,240
Total New Funding Request	99,439	112,868	160,270	141,712	154,526	140,351	126,075	157,318	120,599	109,936

*Totals may not add due to rounding

Note: Capital Plan does not include carryforward capital from previous Council Decisions.

For information on capital carryforward please see the Cash Schedule.

Appendix B: 10-Year Operating Plan

City of Medicine Hat
10-Year Operating Plan
In thousands of dollars

	2025 Budget	2026 Budget	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	2031 Forecast	2032 Forecast	2033 Forecast	2034 Forecast
SURPLUS (DEFICIT)										
Municipal	(50,435)	(43,177)	(38,020)	(36,362)	(31,116)	(31,616)	(31,094)	(30,489)	(30,503)	(29,813)
Rate-Based Utilities										
Water	3,290	4,714	5,154	4,862	4,428	4,325	4,064	3,704	2,297	2,994
Sewer	3,880	3,895	4,208	3,876	3,694	3,259	2,665	2,392	1,095	1,698
Solid Waste	909	1,075	1,979	1,294	925	1,120	1,282	1,455	1,661	1,858
Electric Distribution	2,246	1,579	1,177	487	16	(210)	312	1,939	3,010	4,274
Gas Distribution	1,297	1,145	1,420	1,666	1,942	2,259	2,604	2,961	3,361	3,840
Rate-Based Utilities Surplus (Deficit)	11,621	12,407	13,937	12,184	11,005	10,753	10,927	12,452	11,424	14,664
Energy Production										
Electric Generation	25,869	18,445	31,054	40,318	15,430	24,164	14,953	8,293	14,101	15,687
Gas Production	(19,899)	(17,840)	(16,314)	(15,185)	(14,339)	(13,549)	(13,085)	(13,528)	(13,082)	(13,008)
Energy Production Surplus (Deficit)	5,970	605	14,740	25,133	1,091	10,615	1,868	(5,235)	1,019	2,679
Land Development & Real Estate	(1,136)	521	(1,289)	(1,448)	(1,736)	(1,549)	(1,582)	(1,619)	(2,019)	(1,676)
Reserves										
Realized Investment Revenue	14,020	14,408	13,649	13,682	18,321	18,427	18,961	19,520	20,161	20,861
Management Fees	(2,279)	(2,529)	(2,310)	(2,315)	(2,321)	(2,335)	(2,402)	(2,473)	(2,554)	(2,643)
Reserve Investment Income	11,740	11,879	11,339	11,366	16,000	16,092	16,558	17,047	17,607	18,218
Consolidation Adjustments	(576)	(641)								
Operating Surplus (Deficit)	(22,815)	(18,406)	706	10,874	(4,756)	4,295	(3,322)	(7,845)	(2,472)	4,071
Capital Revenue										
Government transfers for Capital	13,642	18,848	12,779	12,784	12,789	12,795	12,800	12,806	12,811	12,817
Carryforward Capital - Revenue	1,470	1,089	-	-	-	-	-	-	-	-
Offsite Levy Revenue Recognized	-	-	1,260	4,721	8,400	-	-	-	-	-
Third Party Capital Revenue	900	900	-	-	-	-	-	-	-	-
Total Capital Revenue	16,012	20,837	14,039	17,505	21,189	12,795	12,800	12,806	12,811	12,817
Consolidation Adjustments	576	641								
City Surplus (Deficit)	(6,227)	3,072	14,745	28,379	16,433	17,089	9,478	4,960	10,339	16,888
Change in Accumulated remeasurement gains/losses	16,931	16,511	16,104	15,568	-	-	-	-	-	-
Opening Accumulated Surplus	1,561,857	1,572,561	1,592,145	1,622,994	1,666,940	1,683,374	1,700,463	1,709,941	1,714,901	1,725,240
Ending Accumulated Surplus	1,572,561	1,592,145	1,622,994	1,666,940	1,683,374	1,700,463	1,709,941	1,714,901	1,725,240	1,742,128

*Totals may not add due to rounding

Appendix C: 10-Year Cash Flow Statement

City of Medicine Hat
10-Year Cash Flow Statement

In thousands of dollars

	2024 Forecast	2025 Budget	2026 Budget	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	2031 Forecast	2032 Forecast	2033 Forecast	2034 Forecast
CASH FLOW STATEMENT											
City Surplus (Deficit)		(6,227)	3,072	14,745	28,379	16,433	17,089	9,478	4,960	10,339	16,888
New Capital Acquisitions		(99,439)	(112,868)	(160,270)	(141,712)	(154,526)	(140,351)	(126,075)	(157,318)	(120,599)	(109,936)
Change in Carryforward Capital		(112,233)	(8,558)	(7,255)	(6,046)	-	-	-	-	-	-
Total Capital Acquisitions		(211,672)	(121,426)	(167,526)	(147,758)	(154,526)	(140,351)	(126,075)	(157,318)	(120,599)	(109,936)
External Debt Issuance (New Capital)		21,005	30,727	59,564	57,215	55,394	57,404	51,218	68,660	40,004	41,238
External Debt Issuance (Carryforward Capital)		60,209	19,160	3,350	-	-	-	-	-	-	-
External Debt Repayment		(24,814)	(27,825)	(31,853)	(32,654)	(34,434)	(36,509)	(38,788)	(36,713)	(39,052)	(40,861)
External Debt Issuance (Repayment)		56,400	22,062	31,061	24,561	20,960	20,895	12,430	31,948	952	377
Amortization		88,090	87,911	87,662	93,047	96,074	99,582	103,088	105,271	108,914	110,210
Changes in Working Capital		13,409	11,084	12,643	7,119	(10,404)	(1,111)	(2,272)	(1,896)	(2,110)	(1,343)
Decrease in Long Lived Assets		0	(0)	-0	0	0	(0)	0	0	0	0
Other Cash Adjustments		101,499	98,995	100,305	100,166	85,670	98,471	100,816	103,375	106,805	108,867
Total Change in Cash and Investments		(60,000)	2,703	(21,415)	5,347	(31,463)	(3,895)	(3,352)	(17,035)	(2,503)	16,196
Cash and Investments, Beginning		785,000	725,000	727,703	706,288	711,635	680,173	676,278	672,926	655,891	653,388
Cash and Investments, Ending		725,000	727,703	706,288	711,635	680,173	676,278	672,926	655,891	653,388	669,584
City Targeted Balance (More than)		520,000	520,000	520,000	520,000	520,000	520,000	520,000	520,000	520,000	520,000
CASH BALANCE BREAKDOWN											
Day-to-Day Operations	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Savings (Cash Held for Future Purposes)											
Reserves	556,967	628,411	612,499	574,905	567,545	542,639	536,348	531,272	511,685	507,479	521,358
Operating	27,007	15,265	9,568	9,496	9,932	12,250	13,806	15,259	15,809	16,095	16,151
Capital - Uncommitted	229,229	222,302	209,589	175,170	172,592	143,441	125,888	109,187	77,389	60,178	59,957
Capital - Restricted	100,731	50,177	61,868	57,963	51,917	51,917	51,917	51,917	51,917	51,917	51,917
MH Endowment	200,000	201,709	203,742	205,712	207,749	214,727	222,041	229,706	238,739	248,706	259,152
Abandonment Obligation	0	61,443	47,512	43,601	39,556	30,383	28,456	26,436	24,319	22,101	20,487
Energy Transition	0	77,516	80,219	82,963	85,801	89,922	94,241	98,768	103,511	108,483	113,694
Unrestricted Cash/Investments	178,033	46,589	65,204	81,384	94,090	87,534	89,930	91,655	94,206	95,909	98,226
Total Savings	735,000	675,000	677,703	656,288	661,635	630,173	626,278	622,926	605,891	603,388	619,584
Total Cash and Investments, Ending Balance	785,000	725,000	727,703	706,288	711,635	680,173	676,278	672,926	655,891	653,388	669,584

¹ Day-to-Day Operations are used to fund day to day expenses and operating obligations
² Reserves are funds that have been earmarked through the approval of Council per the Financial Reserves Policy #0168
³ Capital Carryforward represents the total amount of cash outlay expected from ongoing projects related to previous Council approvals
⁴ Abandonment Obligation Reserve is to support the funding of the City's Asset Retirement Obligation
⁵ Totals may not add due to rounding

Appendix D: External Debt

City of Medicine Hat
External Debt

In thousands of dollars

	2025 Budget	2026 Budget	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	2031 Forecast	2032 Forecast	2033 Forecast	2034 Forecast
EXTERNAL DEBT										
External Debt										
Municipal	50,185	55,768	66,700	72,151	77,767	83,349	88,704	93,882	99,102	104,086
Land	-	-	-	-	-	-	-	-	-	-
Rate-Based Utilities	292,956	314,991	344,604	373,283	398,383	423,615	440,587	473,225	475,011	476,646
Energy Production	104,495	98,938	89,454	79,885	70,129	60,210	50,313	44,444	38,391	32,149
Total External Debt	447,635	469,697	500,758	525,319	546,279	567,174	579,604	611,552	612,504	612,881
Letters of Credit Outstanding	45,360	45,360	45,360	45,360	45,360	45,360	45,360	45,360	45,360	45,360
Credit Cards Outstanding	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Loan Guarantees	886	789	689	599	506	411	313	212	107	-
Other Debt Instruments	47,246	47,149	47,049	46,959	46,866	46,771	46,673	46,572	46,467	46,360
Total Debt (for Debt Limit Calculations)	494,882	516,846	547,807	572,278	593,145	613,945	626,276	658,123	658,971	659,241
External Debt, Beginning	391,235	447,635	469,697	500,758	525,319	546,279	567,174	579,604	611,552	612,504
Issuance	81,214	49,887	62,914	57,215	55,394	57,404	51,218	68,660	40,004	41,238
Repayment	(24,814)	(27,825)	(31,853)	(32,654)	(34,434)	(36,509)	(38,788)	(36,713)	(39,052)	(40,861)
External Debt, Ending	447,635	469,697	500,758	525,319	546,279	567,174	579,604	611,552	612,504	612,881
Debt Repayment	24,814	27,825	31,853	32,654	34,434	36,509	38,788	36,713	39,052	40,861
Debt Interest	12,737	16,021	17,357	19,090	20,535	21,827	23,119	24,072	25,775	26,074
Total Debt Servicing	37,551	43,847	49,209	51,744	54,969	58,337	61,907	60,784	64,827	66,936
DEBT LIMIT										
Estimated Consolidated Revenue	426,764	439,604	464,743	495,521	474,347	488,847	484,255	475,704	488,881	499,822
Debt to Revenue Limit										
Estimated Consolidated Revenue (Multiplied by Two)	853,529	879,208	929,486	991,043	948,694	977,695	968,510	951,409	977,761	999,643
Total Debt	494,882	516,846	547,807	572,278	593,145	613,945	626,276	658,123	658,971	659,241
Debt to Revenue Ratio	58%	59%	59%	58%	63%	63%	65%	69%	67%	66%
City Target (Less than)										
MGA Limit (Less Than)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Debt Service to Revenue Limit										
Estimated Consolidated Revenue (Multiplied by 0.35)	149,368	153,861	162,660	173,432	166,021	171,097	169,489	166,496	171,108	174,938
Total Debt Servicing	37,551	43,847	49,209	51,744	54,969	58,337	61,907	60,784	64,827	66,936
Debt Service to Revenue Ratio	25%	28%	30%	30%	33%	34%	37%	37%	38%	38%
MGA Limit (Less Than)										
MGA Limit (Less Than)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

*Totals may not add due to rounding

Appendix E: Municipal Budget Gap

City of Medicine Hat
Municipal Budget Gap

In thousands of dollars

	2025 Budget	2026 Budget	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	2031 Forecast	2032 Forecast	2033 Forecast	2034 Forecast
MUNICIPAL BUDGET GAP										
Municipal Operating Surplus (Deficit)	(50,435)	(43,177)	(38,020)	(36,362)	(31,116)	(31,616)	(31,094)	(30,489)	(30,503)	(29,813)
Adjustments										
Add Back: Amortization Expense	43,505	42,925	41,776	42,528	42,878	43,259	43,670	44,111	44,554	45,051
Add Back: Operating Transfers From (To) Reserves	(5,883)	(5,145)	(5,776)	(5,686)	(5,607)	(5,535)	(5,471)	(5,410)	(5,355)	(5,320)
Total Adjustments	37,623	37,780	36,001	36,841	37,271	37,724	38,199	38,701	39,199	39,731
Adjusted Operating Surplus (Deficit)	(12,812)	(5,397)	(2,019)	479	6,154	6,108	7,104	8,212	8,695	9,918
Tax Funded Capital Acquisitions	(1,075)	(1,075)	(1,264)	(1,773)	(2,179)	(2,976)	(3,809)	(4,681)	(5,192)	(5,724)
Loan Principal Repayments										
External Loan Principal Repayments	(2,209)	(3,427)	(2,948)	(3,415)	(3,464)	(3,718)	(4,169)	(4,573)	(4,765)	(5,237)
Internal Loan Principal Repayments	(3,020)	(3,176)	(2,571)	(2,355)	(2,193)	(1,857)	(1,673)	(1,408)	(953)	(900)
Total Loan Principal Repayments	(5,229)	(6,602)	(5,519)	(5,771)	(5,657)	(5,575)	(5,842)	(5,981)	(5,718)	(6,137)
In-Year Contributions										
Medicine Hat Endowment Contribution	5,000	5,000	5,000	5,000	3,000	3,000	3,000	2,000	1,500	1,500
Business Unit Dividends	3,000	3,000	2,500	2,500	1,000	1,000	1,000	1,000	1,000	500
Total In-Year Contributions	8,000	8,000	7,500	7,500	4,000	4,000	4,000	3,000	2,500	2,000
Municipal Budget Gap	(11,116)	(5,075)	(1,302)	436	2,318	1,557	1,453	550	285	57
Budget Gap Coverage/ (Contribution)										
Operating Reserve	11,116	5,075	1,302	(436)	(2,318)	(1,557)	(1,453)	(550)	(285)	(57)
Medicine Hat Endowment	-	-	-	-	-	-	-	-	-	-
Total Budget Gap Coverage/ (Contribution)	11,116	5,075	1,302	(436)	(2,318)	(1,557)	(1,453)	(550)	(285)	(57)

*Totals may not add up due to rounding

Appendix F: Free Cash Flow

City of Medicine Hat
Free Cash Flow

In thousands of dollars

	2025 Budget	2026 Budget	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	2031 Forecast	2032 Forecast	2033 Forecast	2034 Forecast
Land Development & Real Estate	2,103	2,704	918	(376)	1,739	(1,124)	(1,263)	(1,539)	(767)	(1,596)
Rate-Based Utilities	1,126	2,315	4,036	6,279	7,279	8,910	8,597	10,846	12,448	14,249
Water	(1,000)	302	1,949	2,714	3,850	3,279	3,824	3,720	4,272	4,829
Sewer	(1,396)	991	(160)	1,335	942	2,533	667	1,246	798	302
Solid Waste	1,934	2,401	2,500	2,150	1,976	2,046	2,088	2,157	2,201	2,245
Electric Distribution	1,006	(1,400)	(1,164)	(1,133)	(1,025)	(847)	(262)	988	2,041	3,153
Gas Distribution	583	20	911	1,212	1,536	1,899	2,280	2,735	3,137	3,720
Energy Production	13,454	7,599	647	24,910	(7,045)	7,332	3,317	(3,140)	(5,772)	10,013
Electric Generation	20,563	14,201	16,302	40,620	3,129	21,205	17,437	7,680	5,345	20,640
Gas Production	(7,108)	(6,603)	(15,655)	(15,710)	(10,174)	(13,872)	(14,121)	(10,820)	(11,117)	(10,627)
Total Free Cash Flow	16,683	12,618	5,601	30,812	1,973	15,119	10,650	6,167	5,909	22,666
Municipal Operations (Business Unit Divided)	(3,000)	(3,000)	(2,500)	(2,500)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(500)
Total Free Cash Flow Distributed to Reserve*	13,683	9,618	3,101	28,312	973	14,119	9,650	5,167	4,909	22,166

*Municipal Operations (Business Unit Dividend) are deposited to the Municipal Unit and therefore are not distributed to reserves.

*Totals may not add due to rounding

Section 3

2025-2026

Consolidated Budget

3.1 Operating Budget

City of Medicine Hat Consolidated Operating Budget

2025-2026 Operating Budget

In thousands of dollars



	Actual 2023	Actual 2024	Budget 2025	Budget 2026
Revenue				
Municipal Taxes	78,137	81,988	89,174	94,342
Investment Income	23,332	53,140	30,094	29,539
Sale of Services	364,028	253,414	282,548	289,891
Municipal Consent and Access Fee	4,999	6,332	6,189	6,363
Licenses, Fines and Penalties	4,464	5,351	5,172	5,355
Government Transfers for Operating	12,947	7,984	5,399	5,410
Other Revenue	22,930	20,273	8,138	8,591
Total Revenue	510,837	428,482	426,714	439,491
Operating Expenses¹				
General Government	44,815	16,487	19,106	16,060
Corporate Services	38,987	42,910	45,236	46,302
Public Services	52,371	57,599	54,551	55,942
Development and Infrastructure	42,396	43,497	40,378	39,120
Energy, Land & Environment	28,589	41,345	52,989	54,146
Police	25,828	26,972	28,028	28,666
Other Organizations	2,472	2,883	2,794	2,795
Total Operating Expenses	235,458	231,693	243,083	243,031
Other Expenses²				
Investment Management Fees	2,475	3,578	5,112	5,383
Interest on Long-term Debt	980	869	12,737	16,021
Amortization and Provision for Abandonment	92,623	92,345	96,037	94,529
Cost of Sales	82,072	58,684	89,581	99,009
Cost of Lots Sold	2,115	2,531	2,979	1,924
Other Adjustments	57,706	(75,154)	0	0
Total Other Expenses	237,971	82,853	206,446	216,866
Total Expenses	473,429	314,546	449,528	459,897
Efficiency Target	-	-	-	2,000
Operating Surplus/(Deficit)³	37,408	113,936	(22,815)	(18,406)
Cash Adjustments⁴				
Amortization and Provision for Abandonment	92,623	92,345	96,037	94,529
Cost of Lots Sold	2,115	2,531	2,979	1,924
External Loan Principal	(28,928)	(26,536)	(24,814)	(27,825)
Transfer to Capital Projects	(33,651)	(54,657)	(33,658)	(31,024)
Total Cash Adjustments	32,159	13,683	40,544	37,603
Total Cash Increase/(Decrease)⁵	32,159	13,683	17,730	19,198

*Totals may not add due to rounding.

Notes:

¹ Operating Expenses represent authorized operating budget expenditures per MGA 248(1)(a). This line item does not include capital spending.

² Other Expenses and Net Internal Recovery (Charges) are considered "otherwise authorized by the council" under MGA 248(1)(a).

³ Operating Surplus does not include revenue related to capital such as government grants for capital, third party capital revenue or contributed capital.

⁴ Cash Adjustments are subject to Capital Budget and funding approval and therefore are considered "otherwise authorized by Council" under MGA 248(1)(a).

⁵ Total Cash Increase (Decrease) is the total change in cash as a result of operating budget decisions. Note that City's actual cash position can also be impacted by prior budget decisions (e.g., carryforward capital), use of capital reserves (not represented here), and by other unbudgeted changes to assets and liabilities.

3.1.1 2025 OPERATING BUDGET BY BUSINESS UNIT

City of Medicine Hat

Operating Budget by Business Unit

2025 Budget

In thousands of dollars



	Reserves	Municipal	Land	Rate-Based Utilities	Energy Production	Consolidation Adjustments	2025 Total
Revenue							
Municipal Taxes	-	94,585	-	228	-	(5,640)	89,174
Investment Income	14,020	16,074	-	-	-	-	30,094
Sale of Services	-	12,477	3,279	1,031,73	170,196	(6,576)	282,548
Municipal Consent and Access Fee	-	6,189	-	-	-	-	6,189
Licenses, Fines and Penalties	-	5,169	3	-	-	-	5,172
Government Transfers for Operating	-	5,399	-	-	-	-	5,399
Other Revenue	-	6,520	844	930	(156)	-	8,138
Total Revenue	14,020	146,414	4,126	1,04,331	170,039	(12,216)	426,714
Operating Expenses¹							
General Government	-	19,106	-	-	-	-	19,106
Corporate Services	-	45,236	-	-	-	-	45,236
Public Services	-	54,551	-	-	-	-	54,551
Development and Infrastructure	-	16,196	-	24,182	-	-	40,378
Energy, Land & Environment	-	4,963	1,233	18,017	28,608	168	52,989
Police	-	28,028	-	-	-	-	28,028
Other Organizations	-	2,794	-	-	-	-	2,794
Total Operating Expenses	-	170,875	1,233	42,198	28,608	168	243,083
Other Expenses²							
Investment Management Fees	2,279	2,833	-	-	-	-	5,112
Interest on Long-term Debt	-	794	-	8,775	3,169	-	12,737
Amortization and Provision for Abandonment	-	43,505	308	20,429	31,795	-	96,037
Cost of Sales	-	-	-	-	89,581	-	89,581
Cost of Lots Sold	-	-	2,979	-	-	-	2,979
Total Other Expenses	2,279	47,132	3,287	29,204	124,544	-	206,446
Total Expenses	2,279	218,007	4,520	71,402	153,153	168	449,528
Net Internal Recovery/(Charges)	-	21,008	(741)	(21,308)	(10,917)	11,958	-
Efficiency Target	-	-	-	-	-	-	-
Operating Surplus/(Deficit) Before Transfers	11,740	(50,585)	(1,136)	11,621	5,970	(426)	(22,815)
Transfer From/(To) Reserves							
Business Unit Dividend	13,683	3,150	(2,103)	(1,126)	(13,454)	(150)	-
Contribution from Medicine Hat Endowment	(5,000)	5,000	-	-	-	-	-
Operating Reserve Transfer	(11,116)	11,116	-	-	-	-	-
Other Transfers From/(To) Reserves	5,883	(5,883)	-	-	-	-	-
Net Transfer From/(To) Reserves	3,450	13,383	(2,103)	(1,126)	(13,454)	(150)	-
Operating Surplus/(Deficit)³	15,191	(37,202)	(3,239)	10,495	(7,484)	(576)	(22,815)
Cash Adjustments⁴							
Amortization and Provision for Abandonment	-	43,505	308	20,429	31,795	-	96,037
Cost of Lots Sold	-	-	2,979	-	-	-	2,979
External Loan Principal	-	(2,209)	-	(17,269)	(5,335)	-	(24,814)
Internal Loan Principal	3,115	(3,020)	(48)	(47)	-	-	-
Transfer to Capital Projects	-	(1,075)	-	(13,608)	(18,975)	-	(33,658)
Total Cash Adjustments	3,115	37,202	3,239	(10,495)	7,484	-	40,544
Total Cash Increase/(Decrease)⁵	18,305	-	-	-	-	(576)	17,730

*Totals may not add due to rounding

Notes:

¹ Operating Expenses represent authorized operating budget expenditures per MGA 248(1)(a). This line item does not include capital spending.

² Other Expenses and Net Internal Recovery (Charges) are considered "otherwise authorized by the council" under MGA 248(1)(a).

³ Operating Surplus does not include revenue related to capital such as government grants for capital, third party capital revenue or contributed capital.

⁴ Cash Adjustments are subject to Capital Budget and funding approval and therefore are considered "otherwise authorized by Council" under MGA 248(1)(a).

⁵ Total Cash Increase (Decrease) is the total change in cash as a result of operating budget decisions. Note that City's actual cash position can also be impacted by prior budget decisions (e.g., carryforward capital), use of capital reserves (not represented here), and by changes to assets and liabilities.

3.1.2 2026 OPERATING BUDGET BY BUSINESS UNIT

City of Medicine Hat

Operating Budget By Business Unit

2026 Budget

In thousands of dollars



	Reserves	Municipal	Land	Rate-Based Utilities	Energy Production	Consolidation Adjustments	2026 Total
Revenue							
Municipal Taxes	-	99,882	-	228	-	(5,768)	94,342
Investment Income	14,408	15,130	-	-	-	-	29,539
Sale of Services	-	12,811	3,886	1,06,896	173,108	(6,810)	289,891
Municipal Consent and Access Fee	-	6,363	-	-	-	-	6,363
Licenses, Fines and Penalties	-	5,352	3	-	-	-	5,355
Government Transfers for Operating	-	5,410	-	-	-	-	5,410
Other Revenue	-	6,904	872	985	(170)	-	8,591
Total Revenue	14,408	151,853	4,762	108,108	172,938	(12,578)	439,491
Operating Expenses¹							
General Government	-	16,060	-	-	-	-	16,060
Corporate Services	-	46,302	-	-	-	-	46,302
Public Services	-	55,942	-	-	-	-	55,942
Development and Infrastructure	-	15,741	-	23,380	-	-	39,120
Energy, Land & Environment	-	4,722	1,249	18,795	29,211	168	54,146
Police	-	28,666	-	-	-	-	28,666
Other Organizations	-	2,795	-	-	-	-	2,795
Total Operating Expenses	-	170,228	1,249	42,175	29,211	168	243,031
Other Expenses²							
Investment Management Fees	2,529	2,854	-	-	-	-	5,383
Interest on Long-term Debt	-	2,074	-	10,706	3,242	-	16,021
Amortization and Provision for Abandonment	-	42,925	308	21,465	29,831	-	94,529
Cost of Sales	-	-	-	-	99,009	-	99,009
Cost of Lots Sold	-	-	1,924	-	-	-	1,924
Total Other Expenses	2,529	47,853	2,232	32,171	132,081	-	216,866
Total Expenses	2,529	218,081	3,481	74,345	161,292	168	459,897
Net Internal Recovery/(Charges)	-	20,901	(760)	(21,356)	(11,041)	12,255	-
Efficiency Target	-	2,000	-	-	-	-	2,000
Operating Surplus/(Deficit) Before Transfers	11,879	(43,327)	521	12,407	605	(491)	(18,406)
Transfer From/(To) Reserves							
Business Unit Dividend	9,618	3,150	(2,704)	(2,315)	(7,599)	(150)	-
Contribution from Medicine Hat Endowment	(5,000)	5,000	-	-	-	-	-
Operating Reserve Transfer	(5,075)	5,075	-	-	-	-	-
Other Transfers From/(To) Reserves	5,145	(5,145)	-	-	-	-	-
Net Transfer From/(To) Reserves	4,689	8,079	(2,704)	(2,315)	(7,599)	(150)	-
Operating Surplus/(Deficit)³	16,568	(35,248)	(2,183)	10,093	(6,994)	(641)	(18,406)
Cash Adjustments⁴							
Amortization and Provision for Abandonment	-	42,925	308	21,465	29,831	-	94,529
Cost of Lots Sold	-	-	1,924	-	-	-	1,924
External Loan Principal	-	(3,427)	-	(18,842)	(5,556)	-	(27,825)
Internal Loan Principal	3,271	(3,176)	(49)	(47)	-	-	-
Transfer to Capital Projects	-	(1,075)	-	(12,669)	(17,280)	-	(31,024)
Total Cash Adjustments	3,271	35,248	2,183	(10,093)	6,994	-	37,603
Total Cash Increase/(Decrease)⁵	19,839	-	-	-	-	(641)	19,198

*Totals may not add due to rounding

Notes:

¹ Operating Expenses represent authorized operating budget expenditures per MGA 248(1)(a). This line item does not include capital spending.

² Other Expenses and Net Internal Recovery (Charges) are considered "otherwise authorized by the council" under MGA 248(1)(a).

³ Operating Surplus does not include revenue related to capital such as government grants for capital, third party capital revenue or contributed capital.

⁴ Cash Adjustments are subject to Capital Budget and funding approval and therefore are considered "otherwise authorized by Council" under MGA 248(1)(a).

⁵ Total Cash Increase (Decrease) is the total change in cash as a result of operating budget decisions. Note that City's actual cash position can also be impacted by prior budget decisions (e.g., carryforward capital), use of capital reserves (not represented here), and by changes to assets and liabilities.

3.1.3 ONE-TIME COST PRESSURE

City of Medicine Hat One-time Cost Pressure Summary

2025-2026 Budget

In thousands of dollars

Business Unit	2025 Budget	2026 Budget	Total
Municipal	1,390	1,248	2,638
Corporate Services	378	983	1,361
Information Technology	378	983	1,361
ESRI Geographic Information System (GIS) Utility Network Upgrade	306	491	797
Unit4 Enterprise Resource Planning (ERP) Cloud Migration	72	367	439
End User Computer Refresh	-	125	125
Development & Infrastructure	250	-	250
Municipal Works	250	-	250
Stormwater Pond Maintenance	250	-	250
General Government	722	265	987
City Clerk	450	50	500
Records Retention	50	50	100
Municipal Election	400	-	400
General Municipal Revenues	100	100	200
City Manager Contingency	100	100	200
Mayor & Councillors	100	-	100
Municipal Affairs Inspection	100	-	100
People Services	72	115	187
Safety Training, Testing & Auditing	72	75	147
Municipally Legislated Full-scale Emergency Exercise	-	40	40
Police Services	40	-	40
Uninterrupted Power Supply (UPS) Battery Refresh	40	-	40
Total	\$ 1,390	\$ 1,248	\$ 2,638

¹ One-time cost pressure funding remains available to spend until the completion of the project.

² One-time Cost Pressures are included in "Operating Expense" in Section 3.1, 3.1.1, and 3.1.2.

3.1.4 NEW OPERATING INITIATIVES

City of Medicine Hat

New Operating Initiative Summary

2025-2026 Budget

In thousands of dollars

Business Unit	Council Priority	Project Type	2025 Budget	2026 Budget	Total
Municipal			6,322	2,795	9,117
Corporate Services			1,256	1,053	2,309
Corporate Planning & Performance			100	100	200
Data & Analytics Strategy & Development	Innovation	One-time	100	100	200
Finance			250	-	250
Business Process Optimization & Enhancements	Resilience & Sustainability	One-time	250	-	250
Information Technology			906	953	1,859
Advanced Collaboration Ecosystem	Innovation	One-time	610	536	1,146
Cybersecurity Maturity Program	Service Orientation	One-time	110	123	233
Cybersecurity Maturity Program	Service Orientation	Ongoing	70	175	245
Operational Technology/Automated Metering Interface Systems Analyst	Resilience & Sustainability	Ongoing	116	119	235
Development & Infrastructure			942	453	1,395
Airport			197	263	460
Socio-Economic Impact Study	Innovation	One-time	40	-	40
Air Service and Commercial Attraction & Retention	Economic Evolution	Ongoing	100	102	202
Airport Maintenance Specialist	Resilience & Sustainability	Ongoing	48	49	97
Airport Operations Grader ¹	Service Orientation	Ongoing	4	7	11
Materials Storage Shed ¹	Resilience & Sustainability	Ongoing	5	8	13
Airport Safety and Security Coordinator	Service Orientation	Ongoing	-	97	97
Municipal Works			745	190	935
Southern Regional Stormwater Drainage Committee Update	Partnerships & Governance	One-time	399	-	399
Traffic Safety Enhancements	Community Wellness	One-time	200	-	200
Southern Regional Stormwater Drainage Committee Update	Partnerships & Governance	Ongoing	146	149	295
Asphalt Recycler ¹	Service Orientation	Ongoing	-	16	16
Street Light Improvements ¹	Community Wellness	Ongoing	-	2	2
Unit 337 Hot Box Upgrade ¹	Service Orientation	Ongoing	-	23	23
Energy, Land & Environment			325	-	325
Environment, Land & Gas Production			325	-	325
Water Management Strategy	Partnerships & Governance	One-time	325	-	325
General Government			2,875	-	2,875
Economic Development			2,875	-	2,875
Business Retention & Expansion	Economic Evolution	One-time	75	-	75
Development Incentives	Economic Evolution	One-time	2,600	-	2,600
Investment Attraction Strategy & Action Plan	Economic Evolution	One-time	200	-	200
Police Services			372	382	754
Downtown Patrol Unit / Community Liaison Officers	Community Wellness	Ongoing	296	304	600
School Resource Officer	Partnerships & Governance	Ongoing	76	78	154
Public Services			552	907	1,459
Community Development			427	782	1,209
Community Vibrancy Grant Funding	Community Wellness	Ongoing	60	60	120
Regular Transit Service Adjustment ¹	Service Orientation	Ongoing	161	161	322
Special Transit Service Adjustment	Service Orientation	Ongoing	206	411	617
Community Wellbeing Plan Implementation	Community Wellness	Ongoing	-	150	150
Fire & Emergency Services			50	50	100
Health and Wellness Program	Resilience & Sustainability	Ongoing	50	50	100
Parks & Recreation			75	75	150
Trail Crack Sealing	Community Wellness	Ongoing	75	75	150

Continued on next page...

New Operating Initiatives Continued...

Business Unit	Council Priority	Project Type	2025 Budget	2026 Budget	Total
Rate-Based Utilities			786	116	902
Development & Infrastructure			786	116	902
Environmental Utilities - Solid Waste Utility			5	5	10
Larger Capacity Tandem Water Truck ¹	Resilience & Sustainability	Ongoing	5	5	10
Environmental Utilities - Water Utility			781	111	892
Water Treatment Plant Supervisory Control & Data Acquisition (SCADA) Requirements	Resilience & Sustainability	One-time	105	35	140
Water Treatment Plant Master Plan Update	Resilience & Sustainability	One-time	600	-	600
Water Treatment Plant Supervisory Control & Data Acquisition (SCADA) Requirements	Resilience & Sustainability	Ongoing	76	76	152
Total			\$ 7,108	\$ 2,911	\$ 10,019

¹ Operating costs due to Growth Capital Initiatives

² Detailed descriptions of Operating Initiatives can be found in the Business Case Compendium

³ One-time New Operating Initiative funding remains available to spend until the completion of the project

⁴ New Operating Initiatives are included in "Operating Expense" in Section 3.1, 3.1.1, and 3.1.2

Project Type	2025 Budget	2026 Budget	Total
One-time	5,614	794	6,408
Ongoing	1,494	2,117	3,611
Total	\$ 7,108	\$ 2,911	\$ 10,019

Council Priority	2025 Budget	2026 Budget	Total
Community Wellness	631	591	1,222
Economic Evolution	2,975	102	3,077
Innovation	750	636	1,386
Partnerships & Governance	946	227	1,173
Resilience & Sustainability	1,255	342	1,597
Service Orientation	551	1,013	1,564
Total	\$ 7,108	\$ 2,911	\$ 10,019

3.2 Capital Budget

Capital Budget Summary

2025-2026 Budget

In thousands of dollars

	2025 Budget	2026 Budget	Total
Sustaining Capital	91,835	101,165	193,000
Growth Capital	7,604	11,703	19,307
Total Capital	\$99,439	\$112,868	\$212,307

Funding Sources	2025 Budget	2026 Budget	Total
Grants	13,642	18,848	32,490
Third party	900	900	1,800
Debt	21,005	30,727	51,732
Reserve	30,234	31,369	61,603
Working Capital	33,658	31,024	64,682
Total Funding Sources	\$99,439	\$112,868	\$212,307

3.2.1 SUSTAINING CAPITAL

City of Medicine Hat Sustaining Capital Project Summary

2025-2026 Budget

In thousands of dollars

Business Unit	2025 Budget	2026 Budget	Total
Energy Production	18,975	17,280	36,255
Energy, Land & Environment	18,975	17,280	36,255
Electric Generation	18,975	17,280	36,255
Plant 7 Storage Tank System Optimization	575	-	575
Power & Energy Meter (PML) Upgrade	400	-	400
Unit 10 Turbine Major Overhaul	11,000	-	11,000
Unit 17 Turbine Hot Section	7,000	-	7,000
Unit 10/11 Gas Chromatograph Upgrade	-	150	150
Unit 11 Turbine Control System Upgrade	-	2,200	2,200
Unit 14 Gas Chromatograph Upgrade	-	150	150
Unit 15 Automated Voltage Regulator (AVR) Exciter Upgrade	-	500	500
Unit 15 SR 489 Generator Protection Relay Upgrade	-	80	80
Unit 15 Turbine Major Overhaul	-	14,200	14,200
Municipal	38,247	44,889	83,136
Corporate Services	15,704	17,271	32,975
Fleet & Facilities	14,404	14,746	29,150
Accessibility Program	289	1,000	1,289
Ancillary Infrastructure Rehabilitation Program	1,750	1,000	2,750
Big Marble Go Centre Components	1,000	396	1,396
Facilities Management Infrastructure Rehabilitation Program	2,750	2,750	5,500
Fleet Services Mobile Asset Replacement Program	7,000	7,000	14,000
Police Station	750	1,800	2,550
Utilities Infrastructure Rehabilitation Program	800	800	1,600
Fleet Services Fuel Pump Replacement	65	-	65
Information Technology	1,300	2,525	3,825
Co-op Place Data Networking Equipment Refresh	250	-	250
Operation Technology (OT) Data Centre Technology Refresh	750	-	750
Telephony Technology Refresh	300	-	300
Corporate Cybersecurity Infrastructure Refresh	-	650	650
Corporate Data Centre Technology Refresh	-	1,800	1,800
Remote Access Technology Refresh	-	75	75

Continued on next page...

Sustaining Capital Project Summary Continued (page 2 of 4) ...

Business Unit	2025 Budget	2026 Budget	Total
Development & Infrastructure	12,118	17,557	29,675
Airport	-	575	575
Apron 1 Preliminary Design	-	75	75
Runway 09-27 Rehabilitation	-	500	500
Municipal Works	12,118	16,982	29,100
3rd Street NE/NW Rehabilitation	1,368	4,632	6,000
Bridge Infrastructure Program	250	250	500
Downtown 3rd Street SE (3rd-5th Avenue SE) Rehabilitation	500	1,850	2,350
Stormwater Infrastructure Rehabilitation Program	3,250	3,690	6,940
Streetlight Replacement Program	190	250	440
Traffic Signal Program	310	60	370
Transportation Infrastructure Rehabilitation Program	6,250	6,250	12,500
General Government	1,000	1,000	2,000
City Manager & Managing Directors	1,000	1,000	2,000
City Manager Capital Contingency	500	500	1,000
Grant Contingency	500	500	1,000
Police Services	324	11	335
Approved Screening Devices (ASD) Replacement	35	-	35
Firearms Replacement	225	-	225
Fuming Chamber Replacement	12	-	12
Tactical Carbine Rifles Replacement	52	-	52
Patrol Laser Replacement	-	11	11
Public Services	9,101	9,050	18,151
Community Development	240	-	240
Co-op Place Control Room	100	-	100
Esplanade Public Address System	140	-	140
Fire & Emergency Services	161	150	311
Gas Detectors Replacement	110	-	110
Mobile Data Terminal (MDT) Replacement	51	-	51
Station 3 Apron Replacement	-	150	150
Parks & Recreation	8,700	8,900	17,600
Accessibility Program	350	357	707
Bridges & Boardwalks Infrastructure Program	428	250	678
Community Partnerships Program	300	306	606
Dog Off-Leash Development Program	50	50	100
Drainage & Erosion Remediation Infrastructure Program	75	250	325
Indoor/Outdoor Facilities Infrastructure Program	1,075	1,075	2,150
Irrigation Infrastructure Program	3,410	3,310	6,720
Outdoor Lighting Infrastructure Program	204	300	504
Parking Lots Infrastructure Program	540	507	1,047
Playgrounds Infrastructure Program	220	245	465
Trail Infrastructure Program	1,500	1,500	3,000
Urban Parks Redevelopment Program	548	750	1,298

Continued on next page...

Sustaining Capital Project Summary Continued (page 3 of 4) ...

Business Unit	2025 Budget	2026 Budget	Total
Rate-Based Utilities	34,613	38,996	73,609
Development & Infrastructure	19,193	21,932	41,125
Environmental Utilities - Sewer Utility	9,587	13,008	22,595
3rd Street SE Downtown Sewer Mains Replacement	295	1,840	2,135
Miscellaneous Collection System Upgrades Program	250	250	500
Sewer Collection Asset Management Program	3,205	2,603	5,808
Harlow Lift Station Generator & Building Upgrade	850	-	850
Influent Channel Screens and Grit Removal Upgrades	4,737	-	4,737
Lift Stations Electrical & Mechanical Upgrades Program	250	-	250
Asset Management Program	-	50	50
Cake Conveyor Rebuild	-	250	250
Damaged Tunnel Repairs	-	50	50
Flow Equalization and Bypass Study	-	75	75
LED Lighting Upgrade	-	250	250
Northlands Lift Station Rehabilitation	-	550	550
Site Improvements - Eroding South Bank (Stages 1 & 2)	-	6,200	6,200
Solids Contact Channel Blower Rehabilitation	-	175	175
Solids Equipment Repairs/Replacement Study	-	75	75
Trickling Filter Recirculation Improvements	-	640	640
Environmental Utilities - Solid Waste Utility	130	130	260
Replacement Carts & Bins Program	80	80	160
Waste Management Facility Litter Control Fencing & Wind Screens	50	50	100
Environmental Utilities - Water Utility	9,476	8,794	18,270
3rd Street SE Downtown Water Mains Replacement	295	1,840	2,135
Miscellaneous Water Distribution Upgrades Program	250	250	500
PLC/Cyber Security Upgrades (Field Operations & Plants)	350	350	700
Southview Reservoir Rehabilitation	150	1,650	1,800
Water Distribution Asset Management Program	4,061	3,639	7,700
Water Meters Program	250	250	500
Asset Management Program	100	-	100
Booster Station Electrical & Mechanical Upgrades Program	250	-	250
Instrumentation Upgrades Plant 5	100	-	100
Lab Upgrade	150	-	150
North Reservoir Rehabilitation	1,200	-	1,200
Plant Air Scour Piping Upgrade	250	-	250
Plant Filter Structural Repairs	600	-	600
SCU Upgrade Study	50	-	50
Southridge Reservoir Rehabilitation	1,000	-	1,000
UV Assessment Study	70	-	70
UV Ballast Replacement	350	-	350
Caustic System Upgrades	-	375	375
Instrumentation Upgrades Plant 2/3	-	120	120
LED Lighting Upgrade	-	250	250
SCU 4/5 Drive Replacement/Rebuild Study	-	70	70

Continued on next page...

Sustaining Capital Project Summary Continued (page 4 of 4) ...

Business Unit	2025 Budget	2026 Budget	Total
Energy, Land & Environment	15,420	17,064	32,484
Utility Distribution Systems – Electric Distribution	10,983	13,072	24,055
Control Systems Cyber System Renewal	447	571	1,018
Distribution Fiber System Renewal	55	40	95
Distribution Overhead System Renewal	1,940	2,040	3,980
Distribution Underground System Renewal	591	621	1,212
Revenue Meters	250	350	600
Substation Renewal	2,000	2,900	4,900
Substation Replacements	4,000	5,100	9,100
Substation Spare Equipment	150	150	300
Switchgear Replacement (Medium Voltage)	250	250	500
Underground Cable Replacement	300	300	600
East Ring Enhancement Project Phase 2	1,000	-	1,000
Interdepartmental Replacements	-	750	750
Utility Distribution Systems – Gas Distribution	4,437	3,992	8,429
Cathodic Protection Upgrades	150	150	300
Custody Transfer Meter Program	683	679	1,362
High Pressure (HP) System Pipeline River Crossings	628	299	927
High Pressure (HP) System Valving Upgrades	190	235	425
Interdepartmental Coordination Replacements	930	748	1,678
Norwood System Upgrades	750	1,216	1,966
Redcliff Medium Pressure (MP) Upgrades	578	258	836
Regulator Replacements	92	169	261
Rural East Medium Pressure (MP) Upgrades	436	238	674
Total	\$ 91,835	\$ 101,165	\$ 193,000

Funding Sources	2025 Budget	2026 Budget	Total
Debenture	21,005	24,877	45,882
Government Grants	10,553	17,398	27,951
Operating/Working Capital	33,658	31,024	64,682
Reserves	26,619	27,866	54,485
Total	\$ 91,835	\$ 101,165	\$ 193,000

3.2.2 GROWTH CAPITAL

City of Medicine Hat Growth Capital Project Summary

2025-2026 Budget

In thousands of dollars

Business Unit	Council Priority	2025 Budget	2026 Budget	Total
Municipal		4,980	1,519	6,499
Corporate Services		1,000	-	1,000
Fleet & Facilities		1,000	-	1,000
Energy Efficiency Component Upgrades	Resilience & Sustainability	1,000	-	1,000
Development & Infrastructure		3,170	1,450	4,620
Airport		1,070	-	1,070
Grader Purchase	Service Orientation	550	-	550
Materials Storage Shed	Resilience & Sustainability	520	-	520
Municipal Works		2,100	1,450	3,550
Asphalt Recycler	Service Orientation	250	-	250
Downtown Surface Upgrades	Economic Evolution	1,150	-	1,150
Pedestrian Connectivity	Community Wellness	300	-	300
Street Light Improvements	Community Wellness	150	-	150
Unit 337 Hot Box Upgrade	Service Orientation	250	-	250
3rd Street NE-NW Roadway Upgrades	Community Wellness	-	1,450	1,450
General Government		40	-	40
People Services		40	-	40
Emergency Management Equipment Trailer	Service Orientation	40	-	40
Police Services		20	69	89
Uncrewed Aerial Vehicle (UAV)	Innovation	20	-	20
Public Safety Camera	Innovation	-	69	69
Public Services		750	-	750
Community Development		750	-	750
Regular Transit Bus Purchase	Service Orientation	750	-	750

Continued on next page...

Growth Capital Project Summary Continued...

Business Unit	Council Priority	2025 Budget	2026 Budget	Total
Rate-Based Utilities		2,624	10,184	12,808
Development & Infrastructure		1,724	9,284	11,008
Environmental Utilities - Solid Waste Utility		50	1,500	1,550
Larger Capacity Tandem Water Truck	Resilience & Sustainability	50	-	50
Landfill Airspace Optimization Southeast Expansion Cell Design	Resilience & Sustainability	-	1,500	1,500
Environmental Utilities - Water Utility		1,674	7,784	9,458
3rd Street SE Water Mains Replacement	Service Orientation	190	1,200	1,390
Water Treatment Plant Supervisory Control & Data Acquisition (SCADA) Requirements	Resilience & Sustainability	234	234	468
Harlow Water Transmission Main Interconnect	Service Orientation	1,250	-	1,250
Kipling Street SE Transmission Main Twinning	Community Wellness	-	6,350	6,350
Energy, Land & Environment		900	900	1,800
Utility Distribution Systems - Electric Distribution		600	600	1,200
New Services	Service Orientation	600	600	1,200
Utility Distribution Systems - Gas Distribution		300	300	600
New Services	Service Orientation	300	300	600
Total		\$ 7,604	\$ 11,703	\$ 19,307

Funding Sources	2025 Budget	2026 Budget	Total
Debenture	-	5,850	5,850
Government Grants	3,089	1,450	4,539
Reserves	3,615	3,503	7,118
Third Party	900	900	1,800
Total	\$ 7,604	\$ 11,703	\$ 19,307

Council Priority	2025 Budget	2026 Budget	Total
Community Wellness	450	7,800	8,250
Economic Evolution	1,150	-	1,150
Innovation	20	69	89
Resilience & Sustainability	1,804	1,734	3,538
Service Orientation	4,180	2,100	6,280
Total	\$ 7,604	\$ 11,703	\$ 19,307

Section 4

2025-2026

Budget by Business Unit

4.1 Municipal

IN THIS SECTION: MUNICIPAL

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KEY OPERATING BUDGET ASSUMPTIONS

The key operating assumptions used to develop the Municipal budget include:

Description	2025	2026
Assessable Growth	0.0%	0.5%
Property Tax Increase	5.6%	5.1%
Property Tax Revenue	5.6%	5.6%
Fees and Charges Revenue	3.0%	3.0%
Inflation (expenses)	0%	0%
<u>Salaries and Wages</u>		
Inflationary Increases	2.25%	2.0%
Benefit Rate (% of Salary) *	21.0%	21.0%
Vacancy Adjustment (% of Salary)	(4.2%)	(4.2%)

Note: Police Union Benefits are 24.25%.

OPERATING BUDGET

Municipal

Operating Budget (\$000s)

	APPROVED 2024 BUDGET	FINAL 2025 BUDGET	FINAL 2026 BUDGET	24 - 26 CHANGE
Revenue	144,129	146,414	151,853	7,723
Base Operating Expense	153,802	163,164	166,186	12,384
Cost Pressures	2,950	1,390	1,248	(1,702)
New Operating Initiatives	-	6,321	2,794	2,794
Other Expenses	48,279	47,132	47,853	(426)
Total Expenses	205,031	218,007	218,081	13,050
Net Internal Recovery (Charges)	21,701	21,008	20,901	(800)
Efficiency Target	-	-	2,000	2,000
Surplus/(Deficit) Before Transfers	(39,201)	(50,585)	(43,327)	(4,126)
Transfers From/(to) Reserves	(2,899)	2,267	3,004	5,903
Surplus/(Deficit)	(42,100)	(48,318)	(40,323)	1,777
Cash Adjustments	34,151	37,202	35,248	1,097
Municipal Budget Gap	(7,949)	(11,116)	(5,075)	2,874

**Totals may not add due to rounding*

Note: The operating budget table above has been adjusted to show the municipal budget gap which is shown as a transfer from operating reserve in the consolidated budget in section 3.1.

The Municipal Budget Gap for 2025 and 2026 is \$11.1M and \$5.1M respectively after accounting for the \$5.0M contribution from the Medicine Hat Endowment Fund and \$3.0M business unit dividend from in-year earnings. This represents an improvement in the budget gap from 2024 to 2026 of \$2.9M (36.2%).

Revenues increased by \$7.7M (5.3%) from 2024 to 2026, primarily due to:

- \$10.3M for an annual increase to property tax revenue of 5.6%;
- \$1.7M for an annual increase to municipal fees and charges of 3.0%;
- \$1.2M for adjustments to certain sales of service revenues including concession, Big Marble Go Centre admission, campground and transit revenue to reflect historical actuals;

offset by:

- \$4.5M decline in investment earnings primarily due to lower cash balances (offset somewhat by a decrease in investment management fees);
- \$0.5M lower permit and development fee revenue to reflect lower development activity within the city; and,

- \$0.5M lower fine revenue from the provincial government due to policy changes resulting in lower revenue.

Base Operating Expenses have increased by \$12.4M (8.1%) from 2024 to 2026, primarily due to:

- \$6.3M for the application of key budget assumptions and employee step increases to salaries and wages in 2025 and 2026;
- \$1.3M related to union supplemental income categories (i.e., holiday pay, service pay, and stat pay adjustments) for IAFF Local Fire Fighters and Police Patrol Personnel (not previously budgeted);
- \$1.7M related to adjusting temporary staff wages to match historical utilization in Parks and Recreation, Community Development, Police Services, Fire and Emergency Services, Municipal Works and People Services;
- \$1.6M for other ongoing cost pressures including software licensing, inflationary pressures for building and fleet maintenance;
- \$0.9M to realign budgets to reflect the results of the recently settled CUPE union negotiation; and,
- \$0.6M of other salary and wage adjustments to realign budget with current salaries.

This budget also includes:

- \$9.1M in New Operating Initiatives invested into Council's Strategic Plan between 2025 and 2026 (see 'Appendix A' for a detailed breakdown).
- \$2.6M in One-time Cost Pressures between 2025 and 2026 (see 'Appendix B' for a detailed breakdown).
- \$2.0M efficiency target in 2026, to be revisited in 2025 after the completion of the service level inventory project;
- \$5.0M in Medicine Hat Endowment Fund dividends to invest in New Operating Initiatives; and,
- \$3.0M in in-year dividends from the City's Business Units to reduce the amount of tax the City must collect to balance the budget.

CAPITAL BUDGET

Municipal

Capital Budget (\$000s)

	2023-24 Budget	2025 Budget	2026 Budget	Total	23/24 - 25/26 CHANGE
Sustaining Capital	89,620	38,247	44,889	83,136	(6,484)
Growth Capital	4,140	4,980	1,519	6,499	2,359
Total Capital	\$93,760	\$43,227	\$46,408	\$89,635	(4,125)

Funding Sources	2025 Budget	2026 Budget	Total
Grants	13,642	14,048	27,690
Debt	-	3,350	3,350
Reserve	28,510	27,935	56,445
Working Capital	1,075	1,075	2,150
Total Funding Sources	\$43,227	\$46,408	\$89,635

The Municipal Capital budget is \$89.6M for the 2025-2026 Budget. This Budget includes:

- \$83.1M of Sustaining Capital, including:
 - \$29.2M to support ongoing fleet and facility rehabilitation;
- \$29.1M to support the rehabilitation of roads, bridges, streetlights and traffic signals;
 - \$17.6M to support the maintenance and rehabilitation of parks, trails, irrigation, and other recreational facilities;
 - \$3.8M to support the maintenance of Information Technology infrastructure;
 - \$0.6M to support Airport maintenance;
 - \$0.3M to support Police Services equipment;
 - \$0.3M to support Fire and Emergency Services equipment;
 - \$0.2M to support upgrades to the Co-op Place control room and Esplanade Arts and Heritage Centre Public Address (PA) system; and,
 - \$2.0M in contingency funding. This includes \$0.5M in CAO contingency and \$0.5M in grant contingency funding in both 2025 and 2026.
- \$6.5M of Growth Capital, including:

- \$3.6M for Municipal Works for road, sidewalk, and streetlight initiatives focused on improving community wellness, furthering economic evolution, and enhancing service orientation;
- \$1.1M for the Medicine Hat Regional Airport to purchase a materials storage shed and a grader (primarily paid for through grants) to increase efficiency and improve service delivery;
- \$1.0M to install high efficiency lighting and plumbing fixtures in City facilities with the aim of reducing emissions and water usage (partially funded through grants);
- \$0.7M for the purchase of an additional transit bus to increase transit service hours; and,
- \$0.1M for the purchase of public safety related equipment in Fire and Emergency Services, Police Services, and Emergency Management.

PROPERTY TAXES

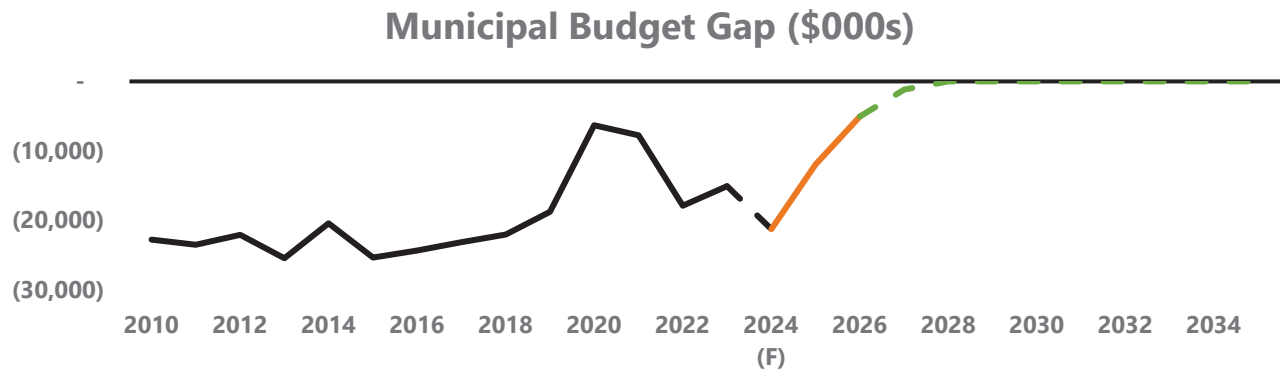
The city is proposing a 5.6% property tax revenue increase in 2025 and 2026.

	2025	2026
Base Revenue Increase	5.6%	5.1%
Growth to Assessable Value	0.0%	0.5%
Total Revenue Increase	5.6%	5.6%

The proposed tax rate helps the city to achieve:

- Steady predictable tax increases to protect residents from unexpected spikes in property tax;
- Catching up on forgone property tax revenue during the pandemic and helping to reduce the budget gap since the pandemic;
- Helping the Municipal business unit to become self-sufficient by providing a path to closing the historic budget gap by 2028; and,
- Allowing the City to invest in new growth opportunities that advance Council's Strategic Priorities.

BALANCING THE MUNICIPAL BUDGET



The Municipal Budget Gap has been a fiscal concern for the City for many decades. This budget establishes a path to balance by 2028 with the application of a 5.6% property tax revenue increase from 2025 through 2028.

Starting in 2016 the City of Medicine Hat launched an initiative to close the budget gap called Financially Fit. The original initiative committed to finding \$23M in annual net cost reductions in response to the loss of the City's commodity-based revenues. The 2019-2022 budget included an annual 4.0% tax revenue increase amongst other cost reduction efforts to reduce the budget gap.

The 4.0% budgeted property tax increases did not materialize due to the global pandemic. In 2020, the City decisively acted to help residents by freezing property taxes in 2020 and again in 2021. In 2022, tax revenue increased by 2.5% as opposed to the planned 4.0%. Coming out of 2022, the City's property tax revenues were \$7.5M less than originally anticipated by the Financially Fit Initiative, slowing down efforts to close the budget gap. Many other municipalities in Alberta followed suit and responded to the pandemic by freezing property tax increases.



In 2024, after the pandemic had ended, many other municipalities found the property tax freezes and rising costs of inflation to be unsustainable and sought to balance out the consecutive years of

property tax freezes through property tax increases. For example, the City of Lethbridge in its 2023-2026 budget instituted a four-year annual change in municipal property tax of 5.1% to maintain service levels and address public safety concerns after three years of zero increases and a global pandemic.

In 2020, the City of Medicine Hat had already anticipated the future property tax freezes and was actively trying to find ways to respond. As a result, the City implemented a new initiative called Accelerated Financially Fit. This initiative sought to push against the headwinds of the pandemic through cost containment and service level adjustments and shorten the time the City had planned to execute its solutions of the former Financially Fit Initiative. Some of the accelerated initiatives included:

- A reduction of staff positions across the City (both Municipal and Non-Municipal);
- Negotiated agreements with unions such as CUPE to hold staff annual wage increases in 2020 through 2022 at 0%, 0%, and 2% respectively;
- The closure of City owned facilities like the Crestwood Recreation Centre and Moose Recreation Centre (reversed by Council);
- A corporate restructuring in 2021 which aimed to take advantage of operational synergies to create efficiency within the organization;
- The development of the Medicine Hat Endowment Fund (formerly Heritage Savings Reserve) which sought to turn past resource earnings into a perpetual endowment fund to earn investment revenue. To date, that Fund has approximately \$200M in its portfolio;
- Moving the City's investments from primarily fixed income to a growth-plus model, which includes public equities and alternatives to diversify the investment portfolio so that higher returns can be achieved;
- Self-insuring certain components of the City's insurance program to save on insurance premiums; and,
- several other initiatives.

The Municipal budget gap improved from \$22M in 2018 to only \$6.3M in 2020. While a component of this improvement could be related to the Accelerated Financially Fit efforts, the true impact was somewhat obscured by the pandemic. In 2020, many City facilities were shutdown leading to temporary cost savings that would not be repeated in future years. In addition, the City received \$6.95M in one-time temporary support from the provincial government through the Municipal Operating Support Transfer (MOST) to help with operational impacts during the pandemic.

By 2022, the budget gap increased from \$6.3M to \$17.9M with two concurrent trends: the City's municipal revenues declined, and expenses had risen.

Revenues were in decline primarily due to:

- Provincial support returning down to normalized levels,
- Declining investment revenue because of the financial impacts from the war in Ukraine and destabilized markets as well as higher inflation rates, and,
- stagnation in property tax revenue due to property tax freezes.

Expenses were going up due to City facilities coming back online after the pandemic and inflationary pressures, most notably for fuel, building and fleet maintenance, capital purchases, and utility costs.

After 2022, the budget gap would be further impacted by:

- Decisions to reverse Accelerated Financially Fit efforts. The most noticeable reversal to the public would be the decision to reopen the Moose and Crestwood Recreation Facilities (estimated currently at a cost of over \$1M per year);
- Sustained high inflationary pressures felt across the organization;
- Fundamental changes to the organization that required response including the shifting needs of employees, a greater emphasis placed on technology, and data-driven strategic management;
- Further investments in Municipal Services in the 2023-24 budget. For example, investment into 7 new firefighter positions within the City to achieve National Fire Protection Association (NFPA) standards for coverage. This has allowed the City of Medicine Hat to have a response time that exceeds national standards and has reduced overtime by an estimated \$288K between 2022 and 2025. Nevertheless, this investment in the safety of our residents and property puts further pressure on the bottom line.

Community Supports

Since the pandemic the City has responded with historic levels of community support. While these efforts are noble and needed during unprecedented challenges, they do represent an opportunity cost against closing the budget gap. Some of these efforts included:

- \$33.2M provided to residents as a cost pressure relief credit in 2023;
- \$7.5M in annual forgone tax revenue to freeze property taxes in 2020 and 2021 as well as reduce the budgeted increase of 4.0% down to 2.5% in 2022;
- \$2.3M forecasted for the Fair Entry Relief Credit Program to help low-income individuals with rising costs;
- \$1.0M provided to help fund HALO Air Ambulance operations from 2023 to 2024;
- \$0.9M provided to purchase the Medicine Hat Curling Club building in 2023;
- \$0.8M land donated to Medicine Hat Community Housing Society; and,

- \$0.3M to increase annual funding to the Medicine Hat Public Library to help with costs related to inflation, staffing pressures, and security.

The City also continues to operate:

- Fair entry subsidies to assist individuals with the costs of transit, recreational facilities and education programs;
- Community warmth program to help those struggling with paying their utility bills;
- Pay What You Will program at the Esplanade Arts and Heritage Centre;
- Affordable and subsidized housing contracted through Medicine Hat Community Housing Society; and,
- Newcomer's transit and recreation support program.

Outside of these notable efforts the City of Medicine Hat has contributed approximately \$21.7M from 2019 through 2024 to support towards:

- The ongoing operations of community organizations such as the Medicine Hat Public Library, Shortgrass Library System, Medalta, SPCA, YMCA, etc.;
- Capital grants for community organizations primarily related to sports and recreation;
- City festivals such as Canada Day, Spectrum, Tongue on the Post, Jazz Fest, Rise Up! Hot Air Balloon Festival, etc.; and,
- Other community grants include Family and Community Support Services (FCSS), Community Vibrancy Grants, microgrants, etc.

Despite the historic levels of support, demand for support continues to rise within our community and other community organizations are now looking for the City of Medicine Hat to support their efforts as well. While these requests are noble and benefit the community, they do put additional pressure on the efforts to close the municipal budget gap.

Investment Income

One of the favourable trends since 2022 that has overshadowed many of the cost pressures the City is facing has been a rise in investment income. In 2022, the City had consolidated investment income of \$7.0M. By 2023, this amount has grown to \$23.3M (an increase of \$16.3M). One of the primary contributors to this trend was the temporary spike in Electric Generation earnings in 2022 and 2023. These earnings were a primary factor in the City's total cash and investment portfolio rising \$255.4M (53%) from \$507.4M in 2021 to \$733.0M in 2023. Because of this increase in investment income, the City has been able to reduce the urgency of raising property taxes after the pandemic like other cities have. However, there are two risks with investment income that must be noted:

- Unlike property taxes, investment income can be volatile. While in the long run investment income will provide a good return, in the short run investment income can fluctuate dramatically.
- Investment income is driven by the City's reserve balances, as reserves go down, so will investment income. It is anticipated in this 2025-26 budget for Electric Generation earnings to decline from their historic high. The City anticipates drawing more out of its reserves than it is contributing over the coming years which will put pressure on the amount of reserves the City can invest.

	2018	2019	2020	2021	2022	2023	2024
Portfolio Return	0.92%	6.72%	3.63%	6.05%	-6.86%	8.84%	14.34%

The above table demonstrates the volatility in the portfolio balance over the last number of years. Investment earnings are further complicated by accounting revenue recognition policies that only allows income to be recognized when it is "realized."

In this budget, the Municipal component of investment income declines by \$4.5M from 2024 to 2026.

	2024 Budget	2025 Budget	2026 Budget
Portfolio Balance	\$440.0M	\$390.0M	\$339.3M
Realized Earnings	\$19.6M	\$16.1M	\$15.1M
Realized Return (%)	4.46%	4.12%	4.46%

Note: the table above does not show the entire portfolio for the City of Medicine Hat, only the portion of the investment portfolio attributable to the municipal unit.

Between 2024 and 2026 the investment portfolio for the City of Medicine Hat is anticipated to decline by \$100.7M. This is primarily due to reduced Electric Generation earnings as well as greater draws on reserve. This trend will continue to grow if efforts are not made to close the budget gap so the municipality can be self-sustaining.

Interjurisdictional Scan

The City of Medicine Hat is not the only city to face these sorts of challenges. Cities right across Canada are likewise experiencing financial difficulty. Even major cities across Canada such as Edmonton, Ottawa, Toronto, Saskatoon, have all signaled significant levels of financial distress in their 2024-25 budget discussions.

Many of the cities in Alberta are looking at higher than normal property tax increases to respond to the social and economic trends.

In a confidential survey conducted in November 2024, 22 municipalities within Alberta indicated an average tax increase forecasted for 2025 was 5.64%. Medicine Hat's property tax increase remains in alignment with other Municipalities.

The issues facing municipalities appear to be very similar, they include:

- High inflationary pressures
- Aging infrastructure
- Wage pressures
- Stagnant population growth (more prominent in small to medium sized cities)
- Declining revenues
- Forgone property tax revenue during the pandemic

These headwinds impact the City of Medicine Hat as well. The City is currently seeing massive inflationary increases for some of its major capital inputs.

	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%

The City has likewise been experiencing an increased liability related to aging infrastructure from water mains to airport runways. More notable for many residents might be the aging recreational facilities such as the Crestwood Recreation Centre, the downtown YMCA, and the Curling Club building.

During the pandemic some union groups such as CUPE experienced very low wage increases. However, the rise of inflation has increased the cost of living for residents, and this has put pressure on wages. Union groups such as CUPE and IBEW have negotiated increases during 2023-2024 that exceeded budget expectations. CUPE has an impact on the Municipal component of the City's operations. It is anticipated that the 2025-2026 budget is experiencing a pressure beyond what was budgeted of approximately \$900K because of the union negotiations for the 2023-2024 budget years.

The City of Medicine Hat's population has remained at stagnant levels since 2016. The Canadian census in 2021 recorded a population of 63,271 an increase of only 11 from the 2016 census (63,260). [During this same period the working age population in Medicine Hat dropped by 1,500.](#) The number of businesses in Medicine Hat has been declining as well, according to the Alberta regional dashboard, since 2015 the number of businesses in Medicine Hat has dropped 6.8% from 2,431 to 2,265. The City relies on population growth to fuel new development and increase property tax revenue.

This trend is being felt by many smaller cities. In the March 2024 paper called '*Assessing the Viability of Smaller Municipalities: The Alberta Model*,' some of the noted trends include:

- Young people leaving for bigger cities to pursue job opportunities;
- The growth of international trade has resulted in the relocation of much manufacturing activity that has previously been in small and mid-sized cities. In facilities still located in Canada automation has greatly reduced the size of the workforce;
- Environmental concerns and opposition from communities where the resources are located have sometimes inhibited new investments and limited employment opportunities;
- low birth rates;
- Immigrants to Canada tend to be more attracted to moving to bigger cities;
- The fastest growing parts of the economy are focused in large urban areas such as technology, finance, communications and advanced education drawing people from smaller communities.

While this article, in general, discusses rural communities smaller than Medicine Hat, our city faces similar pressures. The City has been impacted by a regional decline in the oil and agriculture industries and natural population growth (defined as the number of births minus the number of deaths, is no longer sufficient to maintain the local population).

Provincial Support

Operating Support

Since 2019, the Government of Alberta has made changes to its revenue sharing and subsidies that has had a negative impact in the City financially. It has also made policy decisions which have resulted in costs being shifted to the municipality. By 2024, it is estimated that the City of Medicine Hat will be losing \$1.5M per year in operating when compared to 2018. These losses are offset somewhat by increases to the province's Local Government Fiscal Framework (LGFF) operating grant and 9-1-1 Mobility Grant during that time.

It is estimated that between 2019 and 2024, the City has lost approximately \$5.1M due to government policy changes.

in thousands

	2019 Impact	2020 Impact	2021 Impact	2022 Impact	2023 Impact	2024 Impact
Incremental Revenue						
Local Government Fiscal Framework (LGFF)	(2)	23	34	34	451	451
911 Mobility Grant	0	(18)	(18)	302	312	312
	(2)	5	16	336	763	763
Foregone Revenue and Downloaded Costs						
Increase in AB service fees for fine revenue	482	411	411	411	279	279
Grants in Place of Tax Cancellation	277	457	457	518	717	711
Change in interest calculation for loans	0	0	0	292	292	292
Greenhouses exempt from taxation	14	22	28	36	36	38
Affordable Housing Property Tax Exemption						153
DNA/Case Biology Costs	0	75	75	75	75	75
	773	964	971	1,332	1,400	1,548
Annual Loss	(775)	(959)	(955)	(996)	(636)	(785)
Accumulated Loss	(775)	(1,734)	(2,689)	(3,685)	(4,321)	(5,106)

*Totals may not add due to rounding

- Increase in Alberta **service fees for fine revenue**. Starting in 2019, the Alberta Government reduced the City's share of fine revenues (e.g., traffic violations) from 70% to 60%. The \$279K in 2024 reflected in the above table only represents the estimated opportunity cost of the shift in the City's share of fine revenues from 70% to 60% on the City's budgeted revenues. This estimate does not factor in the impact of other policy decisions made by the Government of Alberta which will have an impact on the City's overall fine revenues.

City of Medicine Hat Fine Revenue

(\$000s)	2019	2020	2021	2022	2023	2024 Forecast	2025 Budget	2026 Budget
Actual	3,043	2,174	2,394	1,663	872	1,032		
Budget	2,895	2,464	2,464	2,464	1,676	1,676	1,200	1,200

Between 2019 and 2024 the City's annual fine revenue has decreased \$2.0M (66.1%). It is difficult to discern the total cause of the slowdown of revenue. However, changes to Government of Alberta policies have been a major contributing factor. In 2022, the Government introduced new regulations that limited the locations that photo radar could be set up and required vehicles to be more visible. This policy change has contributed to the slowdown in fine revenue by reducing the total number of photo radar tickets that have been issued by the City. The total number of photo radar tickets issued by the City has decreased by 84% between 2021 and 2023. As a result, in 2025 and 2026 the City is decreasing its estimated fine revenue budget by approximately \$0.5M equating to a total reduction in budget since 2019 of \$1.7M (58.6%).

In December of 2024, the Alberta Government announced further restrictions on photo radar including the ending of ticketing on all numbered provincial highways with a goal of shutting down 70% of the current 2,200 photo radar sites in the province. It is anticipated that the new restrictions will further reduce fine revenue for the City of Medicine Hat.

Grants in place of tax (GIPOT) cancellation. In the 2019–20 Provincial budget, the Province reduced the amount of GIPOT provided to the City from 100% to 75%. The following year the Government decreased the amount to only 50% of the eligible amount for provincial buildings owned within City limits.

In the 2025–26 budget address, the Provincial Government announced that they would be restoring GIPOT funding between the 2025–26 and 2026–27 fiscal years.

Change in interest calculation for loans. Prior to 2022, the Government of Alberta used to lend money to municipalities at below market interest rates. However, that policy changed so that municipalities were charged market rates.

In September of this year the Government announced that it would be reversing its policy and restoring preferential rates to municipalities in 2025. While this had a different impact on cities depending on their average term for loans they typically issue, it is estimated that the impact for the City of Medicine Hat was approximately a 0.7% increase to the annual interest rate on new debt issued between 2022 and 2024.

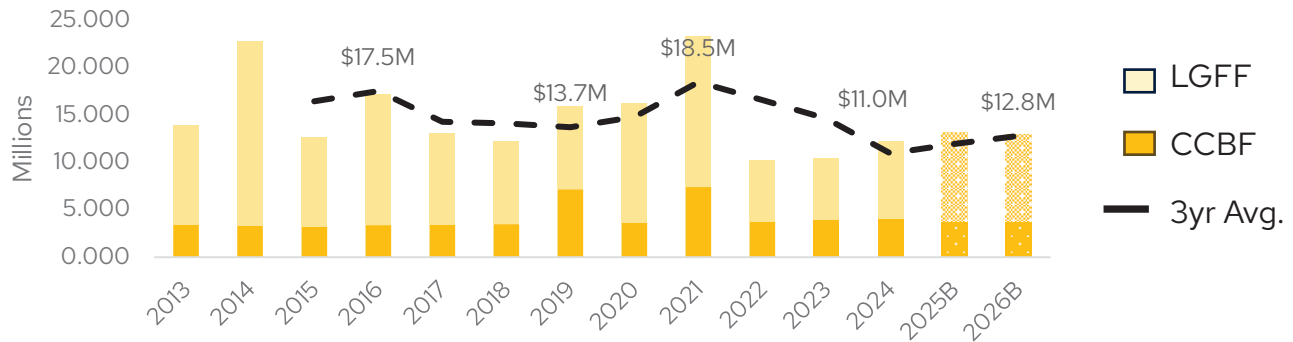
Greenhouse tax exemption. Starting in 2018, the Government of Alberta began to phase out a 50% assessment for farm buildings in urban municipalities which includes some greenhouses (MRAT, 2019 AR 203/2017). This exemption will increase 10% each year to become 100% fully exempt in 2022.

Affordable housing tax exemption. In May of 2024, the Government of Alberta passed the Municipal Affairs Statutes Amendment Act which included a full exemption of non-profit subsidized affordable housing from property tax starting in 2025.

DNA/Case biology costs. Starting in 2020, the Government of Alberta ceased to pay for DNA/Case biology costs on behalf of the Medicine Hat Police Service. Instead, these costs are charged to the police force that orders the test. For the City of Medicine Hat these costs fluctuate year to year and are estimated to be approximately \$75K per year on average.

Capital Support

Provincial funding has fluctuated over the past 10 years reaching a high of \$22.8M in 2014. The decline in funding has been gradual, reaching its lowest point in most recent periods when looking at funding on a 3-year average basis.



	10-year Average	Allocation 2024	Allocation 2025	Forecast 2026
Major Capital Grant Allocations				
Canada Community Building Fund (CCBF)	4,275	4,039	3,736	3,736
Local Government Fiscal Framework (LGFF)	11,112	8,196	9,461	9,217
Total Major Grant Allocations	15,388	12,235	13,197	12,953

Over the past 10 years, the average funding provided from CCBF and LGFF (the two main recurring and stable capital grants) has been \$15.4M. In 2024 through 2026 the 3-year average funding is anticipated to be \$12.7M (a decrease of \$2.7M or 17.2% compared to the 10-year average).

Prospectively the City faces uncertainty and risk related to future LGFF funding. The reason for this is that the new LGFF formula (which represents about 70% of total funding) increases or decreases based on the revenue growth of the Province of Alberta. At the time when this program was locked in, Alberta revenues were at an all-time high because of commodity-based revenues. The volatile nature and risks in this industry create uncertainty regarding the future prospect of Alberta revenues and therefore the funding to the City from LGFF.

2025-2026 Budget Gap Mitigation Efforts

In the 2025-2026 budget the efforts to close the budget gap must be balanced against:

- The desire of residents to continue receiving services at similar levels to previous years;
- The City's commitment to avoid large spikes in tax revenue requirements to provide citizens with steady predictable tax increases.

Some of the efforts made in this budget to close the budget gap include:

- \$10.3M for a 5.6% property tax revenue increase in 2025 and 2026;
- \$5.0M increase for Medicine Hat Endowment Funding to help fund New Operating Initiatives;
- \$3.0M to continue providing in-year business unit dividends to the municipality;
- \$2.0M service level reductions in 2026;

- \$1.7M for an increase to municipal fee revenue of 3.0% in 2025 and 2026;
- \$1.9M for holding departments to 2024 budget spending levels for 2025 and 2026 except for unavoidable cost pressure increases;
- Maintaining capital spending at the 7-year historic levels despite extraordinary inflationary increases;

After completing the budget compilation, City administrators revisited the budget to look for additional ways to reduce expenditure either through finding other ways to complete work, cost absorption or deferral. City administrators were able to reduce budget asks by a further:

- \$8.0M in growth capital;
- \$4.8M in sustaining capital;
- \$11.7M reduction of capital reserve funding requests because of capital reductions;
- \$0.2M to municipal new operating initiatives;
- \$2.6M in base operating expenses; and,
- \$0.2M in additional revenue.

Through these efforts, City administrators were also able to offset the Full-Time Equivalent (FTE) asks within this budget by proposing the repurposing of vacant positions within the organization towards the new growth opportunities (contingent upon budget approval).

Municipal Budget Gap: Conclusions

In conclusion, the Municipal budget gap has been a concern for the City for decades. The large-scale changes made during the Accelerated Financially Fit Initiative were largely successful at reducing the budget gap. Since then, there has been rising social and economic trends as well as declining provincial supports which have resulted in rising costs and needs across the organization. Many of these costs have been overshadowed by high investment income because of non-recurring high Electric Generation earnings. Over the coming years, it is anticipated that the City will be seeing the opposite trend as Energy Production earnings decline resulting in an annual draw down of cash which will reduce investment income and therefore put pressure on the budget gap. The proposed budget has significant budget cuts included to attempt to slow down expense increases within the control of management while proposing a 5.6% tax increase, partly to close the gap from previous years, but also to offset lower investment income because of the draw down of cash. If the 5.6% tax increase is extended to 2028, it is anticipated that the budget gap could close, eliminating at least one major source of cash loss within the City. Future mitigation efforts will need to be focused on closing the reserve requirement gap and meeting the free cash flow target.

Major risks will continue to be the volatility in the energy market which could result in further losses. The City is also facing several outstanding union negotiations which could result in higher than

budgeted salaries and wages. The City continues to experience rising inflationary costs and within information technology primarily due to increased software licensing and maintenance costs putting pressure on the budget gap. The work that began with Financially Fit must continue as a corporate-wide ongoing discipline to reduce costs within the City to balance out the declining cash trend over the planning horizon if the City is going to have capacity to address other issues it is facing such as energy transition and aging infrastructure.

APPENDICES

APPENDIX A - New Operating Initiatives

Operating Initiatives Summary

Municipal

2025-2026 Budget

In thousands of dollars

Project Description	Council Priority	Project Type	2025 Budget	2026 Budget	Total
Corporate Services			1,256	1,053	2,309
Corporate Planning & Performance			100	100	200
Data & Analytics Strategy & Development	<i>Innovation</i>	<i>One-time</i>	100	100	200
Finance			250	-	250
Business Process Optimization & Enhancements	<i>Resilience & Sustainability</i>	<i>One-time</i>	250	-	250
Information Technology			906	953	1,859
Advanced Collaboration Ecosystem	<i>Innovation</i>	<i>One-time</i>	610	536	1,146
Cybersecurity Maturity Program	<i>Service Orientation</i>	<i>One-time</i>	110	123	233
Cybersecurity Maturity Program	<i>Service Orientation</i>	<i>Ongoing</i>	70	175	245
OT/AMI Systems Analyst	<i>Resilience & Sustainability</i>	<i>Ongoing</i>	116	119	235
Development & Infrastructure			942	453	1,395
Airport			197	263	460
Socio-Economic Impact Study	<i>Innovation</i>	<i>One-time</i>	40	-	40
Air Service and Commercial Attraction & Retention	<i>Economic Evolution</i>	<i>Ongoing</i>	100	102	202
Airport Maintenance Specialist	<i>Resilience & Sustainability</i>	<i>Ongoing</i>	48	49	97
Airport Operations Grader	<i>Service Orientation</i>	<i>Ongoing</i>	4	7	11
Airport Safety and Security Coordinator	<i>Service Orientation</i>	<i>Ongoing</i>	-	97	97
Materials Storage Shed	<i>Resilience & Sustainability</i>	<i>Ongoing</i>	5	8	13
Municipal Works			745	190	935
Southern Regional Stormwater Drainage Committee Update	<i>Partnerships & Governance</i>	<i>One-time</i>	399	-	399
Southern Regional Stormwater Drainage Committee Update	<i>Partnerships & Governance</i>	<i>Ongoing</i>	146	149	295
Traffic Safety Enhancements	<i>Community Wellness</i>	<i>One-time</i>	200	-	200
337 (Hot Box)	<i>Service Orientation</i>	<i>Ongoing</i>	-	23	23
Asphalt Recycler	<i>Service Orientation</i>	<i>Ongoing</i>	-	16	16
Street Light Improvements	<i>Community Wellness</i>	<i>Ongoing</i>	-	2	2
Police Services			372	382	754
Police			372	382	754
Downtown Patrol Unit / Community Liaison Officers	<i>Community Wellness</i>	<i>Ongoing</i>	296	304	600
School Resource Officer	<i>Partnerships & Governance</i>	<i>Ongoing</i>	76	78	154

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APPENDIX A - New Operating Initiatives continued

			2025 Budget	2026 Budget	Total
Public Services			552	907	1,458
Community Development			427	782	1,208
Community Vibrancy Grant Funding	Community Wellness	Ongoing	60	60	120
Community Wellbeing Plan Implementation	Community Wellness	Ongoing	-	150	150
Regular Transit Service Adjustment	Service Orientation	Ongoing	161	161	321
Special Transit Service Adjustment	Service Orientation	Ongoing	206	411	617
Fire & Emergency Services			50	50	100
Health and Wellness Program	Resilience & Sustainability	Ongoing	50	50	100
Parks & Recreation			75	75	150
Trail Crack Sealing	Community Wellness	Ongoing	75	75	150
General Government			2,875	-	2,875
Economic Development			2,875	-	2,875
Business Retention & Expansion	Economic Evolution	One-time	75	-	75
Investment Attraction Strategy & Action Plan	Economic Evolution	One-time	200	-	200
Development Incentives	Economic Evolution	One-time	2,600	-	2,600
Energy, Land & Environment			325	-	325
Environment, Land & Gas Production			325	-	325
Water Management Strategy	Partnerships & Governance	One-time	325	-	325
Total			\$6,322	\$2,795	\$9,116

	2025 Budget	2026 Budget	Total
Breakdown by Type			
One-time	4,909	759	5,668
Ongoing	1,413	2,036	3,448
Total	\$6,322	\$2,795	\$9,116

*Totals may not add due to rounding

	2025 Budget	2026 Budget	Total
Breakdown by Council Priority			
Innovation	750	636	1,386
Resilience & Sustainability	469	226	695
Partnerships & Governance	946	227	1,173
Community Wellness	631	591	1,222
Economic Evolution	2,975	102	3,077
Service Orientation	551	1,013	1,563
Total	\$6,322	\$2,795	\$9,116

APPENDIX B – One-Time Cost Pressures

One-time Cost Pressure Summary

Municipal

2025-2026 Budget

In thousands of dollars

	2025	2026	Total
Corporate Services	378	983	1361
Information Technology	378	983	1361
End User Computer Refresh	-	125	125
ESRI GIS Utility Network Upgrade	306	491	797
Unit4 Cloud Migration (SaaS)	72	367	439
Development & Infrastructure	250	-	250
Municipal Works	250	-	250
Stormwater Pond Maintenance	250	-	250
General Government	722	265	987
City Clerk	450	50	500
Municipal Election	400	-	400
Records Retention	50	50	100
General Municipal Revenues	100	100	200
City Manager Contingency	100	100	200
Mayor & Councillors	100	-	100
Municipal Affairs Inspection	100	-	100
People Services	72	115	187
Safety Training, Testing & Auditing	72	75	147
Municipally Legislated Full-scale Emergency Exercise	-	40	40
Police Services	40	-	40
Police	40	-	40
UPS Battery Refresh	40	-	40
Total	\$1,390	\$1,248	\$2,638

APPENDIX C – Sustaining Capital Projects

Sustaining Capital Budget Summary

Municipal

2025-2026 Budget

In thousands of dollars

Project Description	2025 Budget	2026 Budget	Total
Corporate Services	15,704	17,271	32,975
Fleet & Facilities	14,404	14,746	29,150
Facilities Management Infrastructure Rehabilitation Program	2,750	2,750	5,500
Utilities Infrastructure Rehabilitation Program	800	800	1,600
Ancillary Infrastructure Rehabilitation Program	1,750	1,000	2,750
Police Station TCA	750	1,800	2,550
Big Marble Go Centre Components	1,000	396	1,396
Accessibility Program	289	1,000	1,289
Fleet Services Mobile Asset Replacement Program	7,000	7,000	14,000
Fleet Services Fuel Pump Replacement	65	-	65
Information Technology	1,300	2,525	3,825
Operation Technology(OT) Data Center Technology Refresh	750	-	750
Corporate Information Technology(IT) Data Center Technology Refresh	-	1,800	1,800
Telephony Technology Refresh	300	-	300
Remote Access Technology Refresh	-	75	75
Information Technology (IT) Corporate Cybersecurity Infrastructure Refresh	-	650	650
Co-op Place Data Networking Equipment Refresh	250	-	250
Development & Infrastructure	12,118	17,557	29,675
Airport	-	575	575
Runway 09-27 Rehabilitation	-	500	500
Airport Apron 1 Preliminary Design and ACAP Application	-	75	75
Municipal Works	12,118	16,982	29,100
Transportation Infrastructure Rehabilitation Program	6,250	6,250	12,500
Stormwater Infrastructure Rehabilitation Program	3,250	3,690	6,940
3rd Street NE/NW Rehabilitation	1,368	4,632	6,000
Bridge Infrastructure Program	250	250	500
Traffic Signal Program	310	60	370
Streetlight Replacement Program	190	250	440
Downtown 3rd Street SE (3 Ave to 5 Ave SE) Rehabilitation	500	1,850	2,350
General Government	1,000	1,000	2,000
General Municipal Revenue	1,000	1,000	2,000
CAO Contingency	500	500	1,000
Grant Contingency	500	500	1,000

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APPENDIX C – Sustaining Capital Projects continued

	2025 Budget	2026 Budget	Total
Police Services	324	11	335
Police	324	11	335
Firearms Replacement	225	-	225
TACT Carbine Rifles Replacement	52	-	52
ASDs Replacement	35	-	35
Fuming Chamber Replacement	12	-	12
Patrol Laser Replacement	-	11	11
Public Services	9,101	9,050	18,151
Community Development	240	-	240
Co-op Place Control Room	100	-	100
Esplanade PA System	140	-	140
Fire & Emergency Services	161	150	311
MDT Replacement	51	-	51
Gas Detection Replacement	110	-	110
Station 3 Apron Replacement	-	150	150
Parks & Recreation	8,700	8,900	17,600
Irrigation Infrastructure Program	3,410	3,310	6,720
Trail Infrastructure Program	1,500	1,500	3,000
Bridges & Boardwalks Infrastructure Program	428	250	678
Accessibility Program	350	357	707
Indoor/Outdoor Facilities Infrastructure Program	1,075	1,075	2,150
Drainage & Erosion Remediation Infrastructure Program	75	250	325
Urban Parks Redevelopment Program	548	750	1,298
Playgrounds Infrastructure Program	220	245	465
Parking Lots Infrastructure Program	540	507	1,047
Outdoor Lighting Infrastructure Program	204	300	504
Dog Off-Leash Development Program	50	50	100
Community Partnerships Program	300	306	606
Total	\$38,247	\$44,889	\$83,136

	2025 Budget	2026 Budget	Total
Funding Sources			
Debenture	-	3,350	3,350
Government Grants	10,553	12,598	23,151
Reserves	26,619	27,866	54,485
Working Capital	1,075	1,075	2,150
Total	\$38,247	\$44,889	\$83,136

APPENDIX D – Growth Capital Projects

Growth Capital Budget Summary

Municipal

2025-2026 Budget

In thousands of dollars

Project Description	Council Priority	2025 Budget	2026 Budget	Total
General Government		40	-	40
People Services		40	-	40
Emergency Management Equipment Trailer	Service Orientation	40	-	40
Corporate Services		1,000	-	1,000
Fleet & Facilities		1,000	-	1,000
Energy Efficiency Component Upgrades	Resilience & Sustainability	1,000	-	1,000
Development & Infrastructure		3,170	1,450	4,620
Airport		1,070	-	1,070
Materials Storage Shed	Resilience & Sustainability	520	-	520
Purchase of Grader for Airport Operations	Service Orientation	550	-	550
Municipal Works		2,100	1,450	3,550
Pedestrian Connectivity	Community Wellness	300	-	300
Roadway Upgrades 3rd Street NE-NW	Community Wellness	-	1,450	1,450
Street Light Improvements	Community Wellness	150	-	150
Downtown Surface Upgrades	Economic Evolution	1,150	-	1,150
337 (Hot Box)	Service Orientation	250	-	250
Asphalt Recycler	Service Orientation	250	-	250
Police Services		20	69	89
Police		20	69	89
Public Safety Camera	Innovation	-	69	69
Uncrewed Aerial Vehicle (UAV)	Innovation	20	-	20
Public Services		750	-	750
Community Development		750	-	750
Regular Transit Service Adjustment	Service Orientation	750	-	750
Total		\$4,980	\$1,519	\$6,499

Funding Sources	2025 Budget	2026 Budget	Total
Government Grants	3,089	1,450	4,539
Reserves	1,891	69	1,960
Total	\$4,980	\$1,519	\$6,499

Breakdown by Council Priority	2025 Budget	2026 Budget	Total
Innovation	20	69	89
Resilience & Sustainability	1,520	-	1,520
Community Wellness	450	1,450	1,900
Economic Evolution	1,150	-	1,150
Service Orientation	1,840	-	1,840
Total	\$4,980	\$1,519	\$6,499

4.2 Land Development & Real Estate

IN THIS SECTION: LAND DEVELOPMENT AND REAL ESTATE

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BUSINESS PLAN

Land Development and Real Estate's business plan outlines its mandate as *the delivery of effective land management, acquisition, development, leasing, marketing, and sales with a focus on leveraging strategic assets to maximize return on investment within a competitive environment.*

Historically, the City had two departments managing land-related functions: the 'Land and Properties Department,' which managed the City's land portfolio, and 'Surface Land Administration,' which supported Gas Production operations. These departments were merged to create a more efficient land service with diverse expertise.

Land and Real Estate is part of the Energy, Land, and Environment Division within the Environment, Land, and Gas Production Department. It shares complementary priorities and functions with these departments. Collaboration with Environmental Strategy and Compliance ensures environmental stewardship and due diligence for the City's land holdings. Land and Real Estate also supports the Gas Production Department, including surface lease administration and processing of various approvals for reclamation, abandonment, and operations.

BUDGET

Land Development & Real Estate

Operating Budget (\$000s)

	Approved 2024 BUDGET	DRAFT 2025 BUDGET	DRAFT 2026 BUDGET	24 - 26 CHANGE
Revenue	4,271	4,126	4,762	491
Cost of Lots Sold	3,073	2,979	1,924	(1,149)
Gross Profit	1,199	1,147	2,838	2,788
Base Operating Expense	893	1,233	1,249	356
Net Internal Charges (Recovery)	556	741	760	204
Total Operating Expenses	1,449	1,974	2,009	560
EBITDA*	(251)	(828)	829	1,080
Other Revenue (Expense)	(300)	(308)	(308)	(7)
Net Income Before Transfers	(551)	(1,136)	521	1,072
Transfers From/(to) Reserves	-	(2,103)	(2,704)	(2,704)
Net Earnings/(Loss)	(551)	(3,239)	(2,183)	(1,632)
Cash Adjustments	3,306	3,239	2,183	(1,123)
Total Cash Increase (Decrease)	2,755	-	-	(2,755)

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

*Totals may not add due to rounding

Base Operating Expense includes:

- Salaries and Wages budgets, with a 2.25% increase in 2025, and 2.00% increase in 2026; and,
- Materials and Contracted Services budgets with a 0% increase from 2024.

Other Expenses represent amortization on assets.

Net Internal Charges (Recovery) are internal transfers between departments – these represent the departments' cost of receiving internally provided services. This ensures costs are being applied to the correct funding source (i.e. property taxes vs Land Business Unit) and aids in capturing full costs of the organization's internal services to support business decision-making.

Transfers From/(to) Reserves are Business Unit Dividends transferred to Reserves. The Department is projecting Business Unit Dividends of \$2.1M in 2025, and \$2.7M in 2026.

The 2025-2026 Land Development and Real Estate budget aims to support land development, sales, and leasing activity in the current economic environment. Sales forecasts are updated to reflect current economic conditions, with a strategic focus on de-risking City owned lands to market industrial, commercial, and multi-use land opportunities. The budget does not include proposed increases to operating, new capital, or growth capital due to the establishment of the Land and Real Estate unit within the Environment, Land and Gas Production department which consolidated land functions across the City. This new unit is developing an overarching land strategy, set for completion in early 2025, to inform budget requirements and re-alignment.

Operations

The 2025-2026 budget does not include any new base operating expenses, initiatives, or cost pressures. Land management will continue with ongoing maintenance, administration, obligations, and requirements. Revenues from leases are expected to be maintained over the two-year period, with sales forecasts aligning with modest market trends from the past five years. Marketing efforts will prioritize existing inventory, with ongoing costs reflected in the cost of sales. The existing inventory for sale is projected to be spread over a 10-year forecast.

Growth Capital

The department has deferred a growth capital request for an underutilized land acquisition, and de-risking initiative. This request aimed to advance initiatives supported by the underutilized land analysis and overarching land strategy, however, was deemed relatively low priority at present and deferred.

Since Land Development and Real Estate is not requesting any new operating initiatives, new capital, or growth capital, it is acknowledged that budgetary considerations may be re-aligned following the completion of the Land Strategy.

The focus of the November 13th, 2024, Council Committee of the Whole presentation was to provide a broader understanding of the value of a land transaction in terms of financial

considerations, social value, and strategic alignment while providing an initial look into the department's work on a real estate gap analysis and the foundation of a land strategy.

1. Land as a Strategic Asset:

The City is one of the largest landowners within municipal boundaries, and over time has positioned itself strategically with a healthy land bank. This asset is important to ensure the ability to adapt and remain ready for future needs and growth of the community, while also filling gaps in the market. It gives our community a competitive advantage and ensures our ability to meet short and long-term goals and the vision of the Municipal Development Plan.

- **History of Land:**

There is a long history related to City-owned land, including the City's role as a landowner, property manager, and developer.

Landowner: Since the 1930's the City has planned to meet growth needs by acquiring and annexing a healthy land bank. This asset requires ongoing management and maintenance. The City has optimized its land holdings through interim leasing including agricultural leases, community uses, and other short and long-term opportunities.

Property Manager: The City has acquired key properties to support infrastructure projects such as land required for utility infrastructure, roadway projects, and community development related initiatives. The City has played an essential role in filling gaps in the market, for example, acquiring low density residential properties in the 2013 floods to create infill opportunities and redevelopment in the River Flats.

Developer: The City has been a long-standing land developer since at least the 1980's, providing industrial, commercial, and residential developments. While the City was once considered a leader in land development, it holds approximately 20% of the greenfield market today, a much lesser share than previously.

- **Municipal Growth:**

In September of 2024, the Province of Alberta published population growth projections for the Medicine Hat area, indicating an annual growth between 0.1% to 0.5% due to natural growth and immigration. Other Alberta municipalities, such as Calgary and Edmonton are projected to see greater than 2% growth, and Lethbridge at 1.1% to 2.0%.

Medicine Hat's modest population growth is also reflected within the regional area, with Cypress County, Oyen, Dunmore, Redcliff and Swift Current experiencing negative or low growth as a part of the 2021 census data.

All previous population projections were over-forecasted and have yet to be met or exceeded, which leads to growth expectations not aligning with market drivers or realities that would ensure a return on investment. To mitigate this, Land Development and Real Estate engaged Colliers to complete an updated population forecast. This updated forecast shows that the most likely scenario is a **medium growth scenario** at 0.5% growth annually. This aligns with the provincial projections. It highlights that Medicine Hat is experiencing dissimilar trends to other areas of the Province and Canada. Our decisions and the creation of a foundational strategy need to be rooted in an understanding of growth and market conditions for our specific community.

- **Return on Investment:**

As a strategic asset, there is value in the land as it is today, and this value is likely to be maintained. The land also holds broader social and community value. Medicine Hat, however, is not experiencing increases in land value as are other jurisdictions that are influenced by a speculative market rooted in higher growth. A modest market means that in considering a forward-looking forecast on land development, sales, and revenues and expenses, Land Development and Real Estate is proceeding cautiously and intentionally. The benefits and risks below introduce the need for a strategy based on current data and facts to provide guidance in future land development decisions.

- **Benefits:**

Land development and investment into redevelopment opportunities is a 'long game' in Medicine Hat. Development areas have taken 10-15 years to build out to completion. The City completed the Saamis Heights development in 2016, two phases in Southlands in 2012 and 2014, and Ranchlands in 2009. Inventory from these developments remains on the market today and land values have remained the same. Unlike other commodity-based business units, there is further benefit that the strategic land asset brings, such as long-term tax base growth, providing opportunities that are socially driven, and investment readiness. In this modest market, while immediate return on investment is drawn out, the land department over time has provided dividends back to the City totaling \$27M since 2008. These dividends contributed to projects like the Big Marble Go Centre (then known as the Family Leisure Centre).

- **Risks:**

The City as a land developer is held to a high standard, often higher than a private developer, while requiring the same regulatory approvals, process, and timelines. Further, the City shares the same risks as private development; being influenced by the market and growth of the community to fulfill a return on investment. The City must also be astute to the overall market, ensuring it is playing a balanced role and not undermining market conditions while remaining

competitive. The City is also heightened to community influences and is not typically able to navigate these community influences, or a challenging community environment, with the same ease, options, or tools as a private developer. This can put the City at odds with strategic priorities of intensification and redevelopment.

In some areas where a financial investment has been made, assumptions at the time of the development relating to a return on investment took into consideration a higher uptake in the sale of lots related to project growth than occurred. As time passes on these existing lots, carrying costs continue to be incurred (reflected in the Costs of Goods Sold), and the return on investment sought becomes marginal, or in some circumstances unattainable.

- **Current Inventory:**

The City's land bank totals approximately 5,000 acres and includes around 200 unique properties. The inventory consists of both greenfield and infill land. While some of this land is required for municipal purposes, some is no longer required and can be redeveloped or sold to increase the tax base. The City's landholdings serve multiple purposes: interim use until future development, current use as they exist today, and long-term use. Lands that are not needed for development in the next 25+ years or in the near term are leased to generate interim revenue. The City has about 150 leases for various uses, including agricultural, airport, community, laydown sites, parking, storage, and surface leases. Additionally, the City has land actively listed for sale, including 68 low-density residential lots, 3 multi-family properties, 1 mixed-use property, 6 commercial properties, and 2 former City facilities. The inventory also includes near-term development areas like the residential greenfield Ranchlands 3C, the residential and commercial Brier Run, and the industrial Northwest Industrial Park, as well as longer-term development areas such as Burnside and Westvue. To achieve strategic priorities related to the City's land inventory, internal alignment is necessary.

- 2. **Role of Council:**

Transactions by a municipality related to transferring an estate or land is governed by the Municipal Government Act (MGA) Division 8 Section 70. Further, the City has two policies that guide transactions and leasing. The Acquisition and Sales Policy 0151 outlines Council's role of approving all real estate transactions that align with Council's signing authority. It also outlines Council's role to approve a list price and sales strategy for all real estate, as well as approving the sale of land or real estate not formally listed for sale on the open market. This policy is from 2014, and Land and Real Estate has work underway to update it. The Lease and License Policy 0152 provides guidance on leasing and licensing and Council's approval authority. This is also from 2014 and requires a rewrite; this review is scheduled to follow.

3. **Land Strategy:**

The Land and Real Estate Department and the land portfolio have undergone several transitions over the past 2-3 years, requiring a reset and continuity in land management of existing land holdings, and administrative updates to bring this asset back up to date. This reset is well underway and given the strategic nature and importance of the City's land holding, the modest growth and market within the community, it has also become apparent that it is imperative to create an overarching Land Strategy to provide guidance and a foundation for data driven decision making relating to land management and development.

4.3 Rate-Based Utilities

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KEY OPERATING BUDGET ASSUMPTIONS AND ECONOMIC FACTORS

- Population Growth:
 - 0.5% for 2025 and 2026
- Volume:
 - **Sewer** - 5-year average volumes
 - **Solid Waste** – 5-year average volumes
 - **Water** – 2% reduction of the 5-year average volumes
 - Year-to-date 2024 volumes have been lower than budget by approximately 17% which is attributed to increased precipitation in June as well as voluntary water restrictions that were put in place
 - **Electric Distribution** – 5-year average volumes
 - 2.6% reduction in volumes attributed to less cooling degree days and customers being more energy conscious
 - **Gas Distribution** – 5-year average volumes
 - 1.4% reduction in volumes attributed to less heating degree days and customers conserving energy
- Completion of Capital Projects
 - Water – Residuals Handling Facility – operational in Q1 2025
- Return on Equity Update (AUC Decision - 28585-D01-2023)
- Carbon Credits
 - Current crediting period for composting program expires December 31st, 2024
 - 5-year extension application for the composting program submitted Q3 2024
 - Assumption is that the extension will be approved providing the Solid Waste Utility with credits at an estimated value of \$650,000 in 2025 and \$700,000 in 2026.

2025-2026 OPERATING BUDGET

Rate-Based Utilities

Operating Budget (\$000s)

	Approved 2024 BUDGET	FINAL 2025 BUDGET	FINAL 2026 BUDGET	24 - 26 CHANGE
Revenue	100,702	104,331	108,108	7,407
Base Operating Expense	38,288	41,413	42,059	3,771
New Operating Initiatives	-	786	116	116
Other Expenses	30,902	29,204	32,171	1,269
Total Expenses	69,190	71,402	74,345	5,156
Net Internal Recovery (Charges)	(22,148)	(21,308)	(21,356)	792
Surplus/(Deficit) Before Transfers	9,364	11,621	12,407	3,043
Transfers From/(to) Reserves	(784)	(1,126)	(2,315)	(1,531)
Surplus/(Deficit)	8,580	10,495	10,093	1,512
Cash Adjustments	(2,949)	(10,495)	(10,093)	(7,144)
Total Cash Increase (Decrease)	5,631	-	-	(5,631)

**Totals may not add due to rounding*

Base Operating Expense includes:

- Salaries and Wages budgets, with a 2.25% increase in 2025, and 2.00% increase in 2026.
- Materials and Contracted Services budgets with a 0% increase from 2024.

New Operating Initiatives are either one-time or ongoing operating initiatives.

Other Expenses represent interest on long-term debt, amortization on assets as well as asset retirement obligations.

Net Internal Recovery (Charges) are internal transfers between departments – these represent the utility's cost of receiving internally provided services. This ensures costs are being applied to the correct funding source (i.e., property taxes vs. utility rates) and aids in capturing full costs of the organizations internal services to support business decision-making.

Transfers from/(to) Reserves are Business Unit dividends transferred to reserves. See breakdown below:

Net Free Cash Flow:

	2025	2026	Total
Sewer	(1,397)	992	(405)
Solid Waste	1,934	2,401	4,335
Water	(1,000)	302	(698)
Electric Distribution	1,006	(1,400)	(394)
Gas Distribution	583	20	603
Net Free Cash Flow	1,126	2,315	3,441

Rate-Based Utilities - Sewer

Operating Budget (\$000s)

	Approved 2024 BUDGET	FINAL 2025 BUDGET	FINAL 2026 BUDGET	24 - 26 CHANGE
Revenue	24,337	25,224	25,935	1,599
Base Operating Expense	6,839	7,496	7,609	770
Other Expenses	8,601	8,145	8,544	(57)
Total Expenses	15,440	15,641	16,153	713
Net Internal Recovery (Charges)	(5,609)	(5,703)	(5,887)	(277)
Surplus/(Deficit) Before Transfers	3,288	3,880	3,895	608
Transfers From/(to) Reserves	-	1,396	(991)	(991)
Surplus/(Deficit)	3,288	5,276	2,904	(384)
Cash Adjustments	(2,241)	(5,276)	(2,904)	(663)
Total Cash Increase (Decrease)	1,047	-	-	(1,047)

**Totals may not add due to rounding*

Sewer Operating Notes

- Revenue increase relates to increased operating and capital expenditures for the utility. The revenue requirement ensures the utility is financially sustainable now and into the future.
- The Base Operating Expense increase is related to inflationary salary and wage assumptions built into the budget as well as union STEP increases.
- Other Expenses' modest decrease is the result of no large capital projects in the 2025-2026 budget cycle; as a result, interest and amortization expenses remain relatively unchanged.
- The change in Net Internal Charges relate to organizational cost changes.

Rate-Based Utilities - Solid Waste

Operating Budget (\$000s)

	Approved 2024 BUDGET	FINAL 2025 BUDGET	FINAL 2026 BUDGET	24 - 26 CHANGE
Revenue	10,998	9,822	9,573	(1,425)
Base Operating Expense	5,836	4,651	4,242	(1,594)
New Operating Initiatives	-	5	5	5
Other Expenses	830	1,378	1,556	726
Total Expenses	6,666	6,034	5,803	(863)
Net Internal Recovery (Charges)	(2,965)	(2,879)	(2,695)	270
Surplus/(Deficit) Before Transfers	1,367	909	1,075	(292)
Transfers From/(to) Reserves	-	(1,934)	(2,401)	(2,401)
Surplus/(Deficit)	1,367	(1,025)	(1,326)	(2,694)
Cash Adjustments	518	1,025	1,326	808
Total Cash Increase (Decrease)	1,885	-	-	(1,885)

**Totals may not add due to rounding*

Solid Waste Operating Notes

- Revenue decrease relates to a transfer of the recycling obligation from the consumer to the producer of the product. Although the revenue requirement is decreasing, the utility is financially sustainable now and into the future.
- The Base Operating Expense decrease is related to the change in the residential recycling delivery model. The Extended Producer Responsibility (EPR) framework comes into effect on April 1st, 2025, at that time the current contract will transition to a 3rd party provider.
- See 'Appendix A' for a listing of the New Operating Initiatives.
- Other Expenses increase relates to higher amortization due to the larger capital projects in this budget cycle.
- The change in Net Internal Charges relates to organizational cost changes.

Rate-Based Utilities - Water

Operating Budget (\$000s)

	Approved 2024 BUDGET	FINAL 2025 BUDGET	FINAL 2026 BUDGET	24 - 26 CHANGE
Revenue	26,355	28,035	29,358	3,003
Base Operating Expense	9,543	11,250	11,413	1,870
New Operating Initiatives	-	781	111	111
Other Expenses	8,807	8,871	9,382	575
Total Expenses	18,351	20,902	20,906	2,556
Net Internal Recovery (Charges)	(4,291)	(3,843)	(3,738)	553
Surplus/(Deficit) Before Transfers	3,714	3,290	4,714	1,000
Transfers From/(to) Reserves	-	1,000	(302)	(302)
Surplus/(Deficit)	3,714	4,290	4,412	698
Cash Adjustments	(1,347)	(4,290)	(4,412)	(3,065)
Total Cash Increase (Decrease)	2,368	-	-	(2,368)

**Totals may not add due to rounding*

Water Operating Notes

- Revenue increase relates to increased operating and capital expenditures for the utility. The addition of the Residuals Handling Facility at the Water Treatment Plant has created additional revenue requirements for the utility. The revenue ensures the utility is financially sustainable now and into the future.
- The Base Operating Expense increase is related to inflationary salary and wage assumptions and increased operating costs at the new Residuals Handling Facility (which is scheduled to come online in Q2 2025).
- See 'Appendix A' for a listing of the New Operating Initiatives.
- Other Expenses increase represent additional interest and amortization associated with the capital program.
- The change in Net Internal Charges relates to organizational cost changes or changes in allocation methodology from the department providing the service.

Rate-Based Utilities - Electric Distribution

Operating Budget (\$000s)

	Approved 2024 BUDGET	FINAL 2025 BUDGET	FINAL 2026 BUDGET	24 - 26 CHANGE
Revenue	23,753	24,783	26,017	2,265
Base Operating Expense	8,208	10,081	10,359	2,151
Other Expenses	9,391	7,540	9,109	(283)
Total Expenses	17,599	17,621	19,467	1,868
Net Internal Recovery (Charges)	(5,996)	(4,916)	(4,971)	1,024
Surplus/(Deficit) Before Transfers	158	2,246	1,579	1,421
Transfers From/(to) Reserves	-	(1,006)	1,400	1,400
Surplus/(Deficit)	158	1,240	2,979	2,821
Cash Adjustments	2,945	(1,240)	(2,979)	(5,924)
Total Cash Increase (Decrease)	3,103	-	-	(3,103)

**Totals may not add due to rounding*

Electric Distribution Operating Notes

- Revenue increase relates to increased operating expenses as well as increased return on capital.
- The Base Operating Expense increase is related to higher salary and wages, an adjustment of administrative overhead and regulatory compliance positions, and inflationary pressures in contracted services and materials.
- Salary and wage increase due to inflationary increases as per established budget guidelines, reallocation of administrative overhead which are partially recovered through interdepartmental recoveries, readjustment of the capitalization of staff wages to projects, and reallocation of additional staff resources towards enhanced regulatory compliance initiatives.
- Other Expenses decrease relates to lower amortization due to the delay of the substation capital project.
- The change in Net Internal Charges relates to organizational cost changes.
- Austerity budget – renewed focus on asset management.

Rate-Based Utilities - Gas Distribution

Operating Budget (\$000s)

	Approved 2024 BUDGET	FINAL 2025 BUDGET	FINAL 2026 BUDGET	24 - 26 CHANGE
Revenue	15,259	16,468	17,225	1,966
Base Operating Expense	7,862	7,936	8,436	574
Other Expenses	3,272	3,268	3,580	307
Total Expenses	11,134	11,204	12,016	882
Net Internal Recovery (Charges)	(3,288)	(3,967)	(4,065)	(777)
Efficiency Target	-	-	-	-
Surplus/(Deficit) Before Transfers	837	1,297	1,145	308
Transfers From/(to) Reserves	(784)	(583)	(20)	764
Surplus/(Deficit)	53	714	1,124	1,071
Cash Adjustments	(2,824)	(714)	(1,124)	1,700
Total Cash Increase (Decrease)	(2,771)	-	-	2,771

**Totals may not add due to rounding*

Gas Distribution Operating Notes

- Revenue increase relates to increased operating expenses as well as increased return on capital.
- Base Operating Expenses relate to adjustments in third-party transportation contract expenses flowing through to the end user (rate base). Salaries and wages budgets included inflationary increases but were fully offset by operational reductions in contracted services, materials, and labor adjustments.
- Other Expenses represent interest on long-term debt, amortization on assets as well as asset retirement obligations. Gas Distribution capital requests are discussed later in the slides.
- The change in Net Internal Charges relates to organizational cost changes.

2025-2026 CAPITAL BUDGET

2025-2026 Capital Plan

Rate-Based Capital Plan Summary

(In thousands of dollars)

	2023/24 Total	2025 Budget	2026 Budget	Total	23/24 - 25/26 CHANGE
Sustaining Capital	45,722	34,613	38,996	73,609	27,887
Sewer	16,312	9,587	13,008	22,595	6,283
Solid Waste	160	130	130	260	100
Water	10,710	9,476	8,794	18,270	7,560
Electric Distribution	12,671	10,983	13,072	24,055	11,384
Gas Distribution	5,869	4,437	3,992	8,429	2,560
Growth Capital	31,865	2,624	10,184	12,808	-19,057
Sewer	272	-	-	-	-272
Solid Waste	1,000	50	1,500	1,550	550
Water	-	1,674	7,784	9,458	9,458
Electric Distribution	29,780	600	600	1,200	-28,580
Gas Distribution	813	300	300	600	-213
Total Capital	\$77,587	\$37,237	\$49,180	\$86,417	\$8,830
Funding Sources		2025 Budget	2026 Budget	Total	
Debenture		21,005	27,377	48,382	
Government Grants		-	4,800	4,800	
Reserves		1,724	3,434	5,158	
Third Party		900	900	1,800	
Working Capital		13,608	12,669	26,277	
Total Funding Sources		\$37,237	\$49,180	\$86,417	

A full listing of Sustaining and Growth Capital projects can be found in 'Appendices B and C.'

Capital Budget Details

Sewer

- The increase in sustaining capital budget for sewer relates to a couple larger ticket items at the treatment plant:
 - Influent Channels Screens and Grit Removal Upgrades.
 - Site Improvements along the South Saskatchewan riverbank.

Solid Waste

- The sustaining capital budget includes the replacement of carts and bins, as well as litter control measures at the landfill.
- Growth Capital projects:
 - Landfill Airspace Optimization and Expansion Cell (Design) \$1.5M; and,
 - Water Truck Upgrade \$50K.

Water

- The increase in sustaining capital budget relates to capital investment in non-linear infrastructure, booster stations as well as reservoir rehabilitation work.
- Growth Capital projects:
 - Kipling Street SE Main Twinning \$6.350M;
 - 3 Street SE Water Mains Replacement \$1.390M;
 - Harlow Transmission Main Interconnect \$1.250M; and,
 - Cybersecurity Upgrades at Treatment Plant \$234K per year.

Electric Distribution

- Major Sustaining Capital Projects:
 - **Substation Replacements and Renewals \$6,000K**
Major equipment purchases for long-delivery renewals at Substations MHS-2, 3, 5 and 9. Asset replacement based on asset health measurement, inspection data, oil samples and expected remaining useful life to mitigate against the risk of critical asset failure and increased reliability. Currently experiencing 150% increase in delivery times (156 weeks).
 - **East Ring Enhancement Project Phase 2 \$1,000K**
Engineering and Land Access in response to life cycle replacement to maintain transmission system sustainability. Project phase duration expected to take 2 years followed by construction in 2027 subject to Alberta Utilities Commission (AUC) approvals.
 - **Various other renewals and replacements \$3,983K**
The City of Medicine Hat Electric Distribution department has a mandate to supply safe and reliable power to all customers. The largest risk to maintaining this high level of service are assets that are deteriorating, deemed end of life or at high risk of failure. Planned and emergency replacements of the distribution overhead and underground system, distribution fiber system and digital infrastructure are critical to maintaining reliability and mitigating safety risks.

Gas Distribution

- Major Sustaining Capital Projects:
 - **Interdepartmental Coordination Replacements \$930K**
Collaboration with Environmental Utilities and Municipal Works in overlapping work areas to replace aging gas infrastructure within the next 5-10 years. Project collaboration extends the life of the restored surface features by reducing disruption to the assets and inconvenience of construction within the area resulting in increased reliability of essential services and overall cost savings to the City.
 - **Custody Transfer Meter Program \$683K**
Compliance assurance work required as per Measurement Canada to replace aging and/or failed meters.
 - **Various other upgrades and replacements \$2,824K**
Resolving system reliability concerns through replacement in areas indicating decline in safety and/or reliability of the gas distribution system.
- Growth Capital:
 - No major growth capital projects.
 - Growth capital of \$300K required for new services and is funded by third parties.

RISKS AND RISK MITIGATION EFFORTS

Financial Risk

- **Extreme weather events:** the city is experiencing an increasing frequency of extreme weather such as more frequent extreme heat or high wind events like those experienced in 2022 – which caused widespread damage across the city.
- **Energy transition:** changing consumer expectations are changing the volume, type, and usage patterns of commodities chosen through time.
- **Customer demand:** can be unpredictable and could have a material impact on revenue requirements of the utility.
- **Weather:** the general climate; the number of very hot days versus the number of very cold days are changing. These changes alter our system models and how we predict volumes through time.
- **Cost of Capital:** higher financing costs and changes to allowable return on equity have a material impact on revenue requirements for a utility.

- **Carbon Credit Extension:** Environmental Utilities has an application to the government to extend our ability to secure carbon credits for our composting program. This budget assumes that extension will be approved.
- **High inflationary environment:** we are still seeing very high inflation in many of the specialized materials used within the utilities. For example, the electric industry is experiencing 12% inflation.

Operational Risk

- **Organizational evolution:** the recommendations within the Energy Business Review may have material impacts on the operation of the electric and gas utilities moving forward, subject to Council review and decision.
- **Staff recruitment:** utilities are experiencing a high level of competition for experienced staff at a national scale likely reflective of the global energy transition.
- **Regulatory evolution:** regulations are evolving rapidly, particularly within the electricity sector, which require diligent attention.
- **Aging infrastructure:** like most municipalities, aging infrastructure needs to be addressed to ensure sustainable and reliable services to our customers.
- **Deferred capital:** some asset management projects are being deferred based on available capital funding, this increases risk of failure but must balance affordability as well.
- **Energy transition:** customers are changing how they consume and use energy which impacts how our utility systems will need to function into the future.
- **Supply Chain:** many utility materials are seeing long term shortages due to the changing global demand for materials. Parts which would have required weeks to receive are now requiring months or years to receive. For example, electric or gas meters which used to arrive in 4 months now require as much as 2 years to receive.

Risk Mitigation

- **System resiliency enhancements:** engineering standards are being reviewed and altered to reflect a higher resistance to extreme weather than ever before. System models are updated reflecting changing consumptive behaviours including investigating opportunities to employ predictive technologies to estimate changing consumer behaviours.
- **Robust asset management programs:** enhanced monitoring and inspections ensure capital planning is based on data and risk-based planning to optimize the level of capital re-investments required.

- **Detailed long range capital plans:** utilities are forecasting capital needs well into the future and finding ways to phase projects where possible to optimize the level of capital investments required.
- **Enhanced modeling:** utilities are employing very sophisticated modeling software and annually updating those system models to ensure system capacity meets predicted customer needs. Where possible, new modeling technologies such as AI-enabled predictive analytics are being studied for possible integration into existing models.
- **Enhanced staff competency:** robust training and apprentice programs are being developed to ensure staff are up to date on all competency demands in a rapidly evolving utility environment. Succession planning and personnel growth opportunities are incorporated into operational plans to remain competitive and relevant in today's highly competitive recruitment environment.
- **Active industry participation:** The City is an active participant on multiple boards, advisory groups, and councils on a provincial and national scale. This ensures we are kept current with the latest industry trends and regulations which, in turn, allows active influence in industry-wide response to those changing trends and/or regulations. Examples include recent participation in electricity market re-design, participation on the safety codes council which influences utility code changes, etc.

OTHER ISSUES

- Regulation Changes – Extended Producer Responsibility
- Carbon Credit Extension Application
- Electrification

RATE IMPACT SUMMARY

Residential

RESIDENTIAL	2024	2025	Change \$	Change %	Assumptions
Water Utility	\$ 58.05	\$ 60.57	\$ 2.52	4%	5/8" meter / 20.9 m3 water
Sewer Utility	\$ 54.40	\$ 55.76	\$ 1.36	2%	Service Charge
Solid Waste Utility	\$ 27.77	\$ 22.01	\$ (5.76)	-21%	*
Gas Utility	\$ 36.62	\$ 39.86	\$ 3.24	9%	7.8 GJ **
Electric Utility	\$ 48.72	\$ 51.11	\$ 2.39	5%	613 kWh **
Total Utility	\$ 225.56	\$ 229.31	\$ 3.74	2%	
Total MCAF	\$ 13.38	\$ 12.58	\$ (0.79)	-6%	

Total Utility & MCAF	\$ 238.94	\$ 241.89	\$ 2.95	1%
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*Residential Recycling Fee removed effective April 1, 2025

**Excludes commodity charge and Federal carbon levy on natural gas

- The utility bill impact to an average residential customer is highlighted here.
- Each customer consumes water and energy differently – this represents an average residential customer's monthly utility bill impact comparing 2024 rates to the proposed 2025 rates.
- If you remove the solid waste reduction of \$5.76 from the calculation – the net utility impact is \$9.50 which represents a 4.2% increase.

Medium Commercial

COMMERCIAL	2024	2025	Change \$	Change %	Assumptions
Water Utility	\$ 323.69	\$ 352.31	\$ 28.62	9%	229 m3/mo - 2" meter
Sewer Utility	\$ 433.77	\$ 444.63	\$ 10.85	3%	229 m3/mo - 2" meter
Solid Waste Utility	\$ 55.64	\$ 57.03	\$ 1.39	3%	1.5 yard bin
Gas Utility	\$ 85.87	\$ 95.72	\$ 9.85	11%	avg 43 GJ/mo*
Electric Utility	\$ 426.31	\$ 445.76	\$ 19.45	5%	avg 25 kVA/mo, 6080 kWh/mo*
Total Utility	\$ 1,325.28	\$ 1,395.45	\$ 70.17	5%	
Total MCAF	\$ 63.19	\$ 60.45	\$ (2.75)	-4%	

Total Utility & MCAF	\$ 1,388.47	\$ 1,455.89	\$ 67.42	5%
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*Excludes commodity charge and Federal carbon levy on natural gas

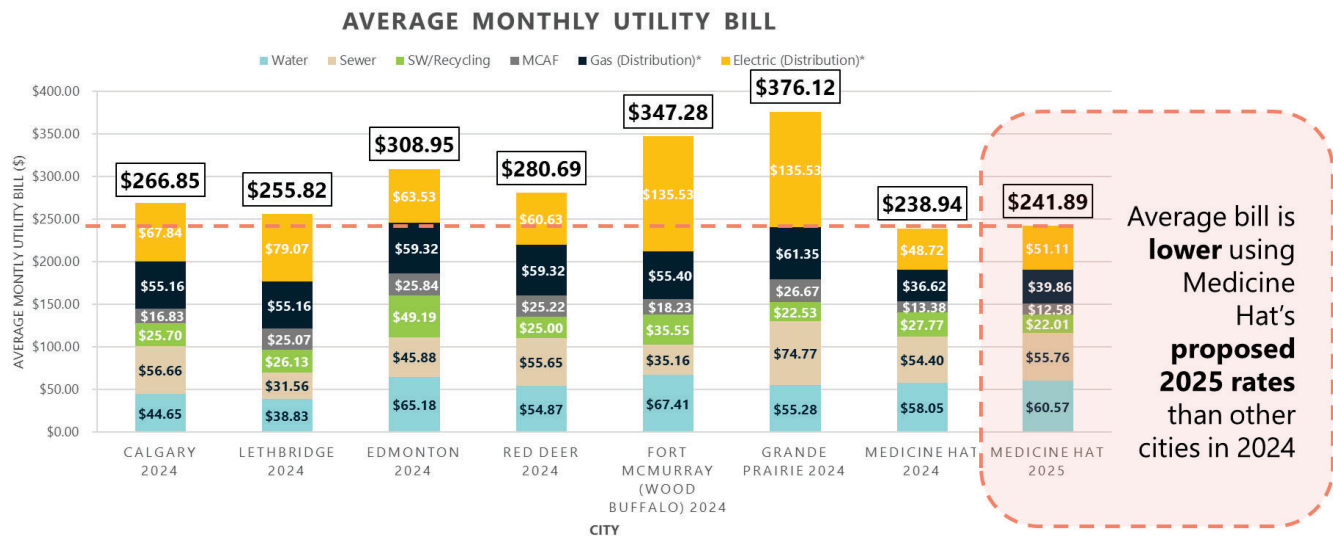
Industrial / Manufacturing

INDUSTRIAL	2024	2025	Change \$	Change %	Assumptions
Water Utility	\$ 12,797.35	\$ 13,698.21	\$ 900.86	7%	10,000 m3/mo - 6" meter
Sewer Utility	\$ 18,942.00	\$ 19,416.00	\$ 474.00	3%	10,000 m3/mo - 6" meter
Solid Waste Utility	\$ 108.80	\$ 111.53	\$ 2.72	3%	3 yard bin
Gas Utility	\$ 1,490.32	\$ 1,652.64	\$ 162.32	11%	avg 1,325 GJ/mo*
Electric Utility	\$ 18,337.13	\$ 19,044.05	\$ 706.92	4%	avg 14200 kVA/mo, 6,350 MWh/mo*
Total Utility	\$ 51,675.60	\$ 53,922.42	\$ 2,246.82	4%	
Total MCAF	\$ 1,343.53	\$ 1,297.14	\$ (46.40)	-3%	

Total Utility & MCAF \$ 53,019.13 \$ 55,219.55 \$ 2,200.42 4%

*Excludes commodity charge and Federal carbon levy on natural gas

Residential Utility Bill Comparison



APPENDICES

APPENDIX A - New Operating Initiatives

Operating Initiatives Summary

Rate-Based

2025-2026 Budget

In thousands of dollars

Project Description	Council Priority	Project Type	2025 Budget	2026 Budget	Total
Solid Waste			5	5	10
Larger Capacity Tandem Water Truck	<i>Resilience & Sustainability</i>	<i>Ongoing</i>	5	5	10
Water			781	111	891
Water Treatment Plant Master Plan Update	<i>Resilience & Sustainability</i>	<i>One-time</i>	600	-	600
Water Treatment Plant SCADA Cyber Security Requirements	<i>Resilience & Sustainability</i>	<i>One-time</i>	105	35	140
Water Treatment Plant SCADA Cyber Security Requirements	<i>Resilience & Sustainability</i>	<i>Ongoing</i>	76	76	151
Total			\$786	\$116	\$901

Breakdown by Type	2025 Budget	2026 Budget	Total
One-time	705	35	740
Ongoing	81	81	161
Total	\$786	\$116	\$901

**Totals do not add due to rounding*

Breakdown by Council Priority	2025 Budget	2026 Budget	Total
Resilience & Sustainability	786	116	901
Total	\$786	\$116	\$901

**Totals do not add due to rounding*

APPENDIX B – Sustaining Capital Projects

Sustaining Capital Budget Summary

Rate-Based

2025-2026 Budget

In thousands of dollars

Project Description	2025 Budget	2026 Budget	Total
Sewer	9,587	13,008	22,595
3rd Street SE Downtown Sewer Mains Replacement	295	1,840	2,135
Miscellaneous Collection System Upgrades Program	250	250	500
Sewer Collection Asset Management Program	3,205	2,603	5,808
Harlow Lift Station Generator & Building Upgrade	850	-	850
Influent Channel Screens and Grit Removal Upgrades	4,737	-	4,737
Lift Stations Electrical & Mechanical Upgrades Program	250	-	250
Asset Management Program	-	50	50
Cake Conveyor Rebuild	-	250	250
Damaged Tunnel Repairs	-	50	50
Flow Equalization and Bypass Study	-	75	75
LED Lighting Upgrade	-	250	250
Northlands Lift Station Rehabilitation	-	550	550
Site Improvements - Eroding South Bank - Stages 1 & 2	-	6,200	6,200
Solids Contact Channel Blower Rehab	-	175	175
Solids Equipment Repairs / Replacement Study	-	75	75
Trickling Filter Recirculation Improvements	-	640	640
Solid Waste	130	130	260
Replacement Carts & Bins Program	80	80	160
Waste Management Facility Litter Control Fencing & Wind Screens	50	50	100
Water	9,476	8,794	18,270
3rd Street SE Downtown Water Mains Replacement	295	1,840	2,135
Miscellaneous Water Distribution Upgrades Program	250	250	500
PLC/Cyber Security Upgrades (Field Operations & Plants)	350	350	700
Southview Reservoir Rehabilitation	150	1,650	1,800
Water Distribution Asset Management Program	4,061	3,639	7,700
Water Meters Program	250	250	500
Asset Management Program	100	-	100
Booster Station Electrical & Mechanical Upgrades Program	250	-	250
Instrumentation Upgrades Plant 5	100	-	100
Lab Upgrade	150	-	150
North Reservoir Rehabilitation	1,200	-	1,200
Plant Air Scour Piping Upgrade	250	-	250
Plant Filter Structural Repairs	600	-	600
SCU Upgrade Study	50	-	50
Southridge Reservoir Rehabilitation	1,000	-	1,000
UV Assessment Study	70	-	70
UV Ballast Replacement	350	-	350
Caustic System Upgrades	-	375	375
Instrumentation Upgrades Plant 2/3	-	120	120
LED Lighting Upgrade	-	250	250
SCU 4/5 Drive Replacement/Rebuild Study	-	70	70

Continued on next page...

APPENDIX B – Sustaining Capital Projects continued:

	2025 Budget	2026 Budget	Total
Electric Distribution	10,983	13,072	24,055
Control Systems Cyber System Renewal	447	571	1,018
Distribution Fiber System Renewal	55	40	95
Distribution Overhead System Renewal	1,940	2,040	3,980
Distribution Underground System Renewal	591	621	1,212
Revenue Meters	250	350	600
Substation Renewal	2,000	2,900	4,900
Substation Replacements	4,000	5,100	9,100
Substation Spare Equipment	150	150	300
Switchgear Replacement (Medium Voltage)	250	250	500
Underground Cable Replacement	300	300	600
East Ring Enhancement Project Phase 2	1,000	-	1,000
Interdepartmental Replacements	-	750	750
Gas Distribution	4,437	3,992	8,429
Cathodic Protection Upgrades	150	150	300
Custody Transfer Meter Program	683	679	1,362
High Pressure (HP) System Pipeline River Crossings	628	299	927
High Pressure (HP) System Valving Upgrades	190	235	425
Interdepartmental Coordination Replacements	930	748	1,678
Norwood System Upgrades	750	1,216	1,966
Redcliff Medium Pressure (MP) Upgrades	578	258	836
Regulator Replacements	92	169	261
Rural East Medium Pressure (MP) Upgrades	436	238	674
Total	\$34,613	\$38,996	\$73,609
Funding Sources	2025 Budget	2026 Budget	Total
Debtenture	21,005	21,527	42,532
Government Grants	-	4,800	4,800
Working Capital	13,608	12,669	26,277
Total	\$34,613	\$38,996	\$73,609

APPENDIX C – Growth Capital Projects

Growth Capital Budget Summary

Rate-Based

2025-2026 Budget

In thousands of dollars

Project Description	Council Priority	2025 Budget	2026 Budget	Total
Solid Waste		50	1,500	1,550
Larger Capacity Tandem Water Truck	<i>Resilience & Sustainability</i>	50	-	50
Landfill Airspace Optimization SE Expansion Cell Design	<i>Resilience & Sustainability</i>	-	1,500	1,500
Water		1,674	7,784	9,458
3rd Street SE Water Mains Replacement	<i>Service Orientation</i>	190	1,200	1,390
Water Treatment Plant SCADA Cyber Security Requirements	<i>Resilience & Sustainability</i>	234	234	468
Harlow Water Transmission Main Interconnect	<i>Service Orientation</i>	1,250	-	1,250
Kipling Street SE Transmission Main Twinning	<i>Community Wellness</i>	-	6,350	6,350
Electric Distribution		600	600	1,200
New Services	<i>Service Orientation</i>	600	600	1,200
Gas Distribution		300	300	600
New Services	<i>Service Orientation</i>	300	300	600
Total		\$2,624	\$10,184	\$12,808

Funding Sources	2025 Budget	2026 Budget	Total
Debtenture	-	5,850	5,850
Reserves	1,724	3,434	5,158
Third Party	900	900	1,800
Total	\$2,624	\$10,184	\$12,808

Breakdown by Council Priority	2025 Budget	2026 Budget	Total
Resilience & Sustainability	284	1,734	2,018
Community Wellness	-	6,350	6,350
Service Orientation	2,340	2,100	4,440
Total	\$2,624	\$10,184	\$12,808

4.4 Energy Production

IN THIS SECTION: ENERGY PRODUCTION

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Major Capital Projects 121

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Energy Production

KEY OPERATING BUDGET ASSUMPTIONS AND ECONOMIC FACTORS

	Budget	Budget		Variance		Total
	2024	2025	2026	2025	2026	
Gas (\$/GJ)	3.42	2.50	2.86	(0.92)	0.36	(0.56)
Power (\$/MWh)	90.66	53.15	51.56	(37.51)	(1.58)	(39.10)
Oil (\$ CAD/BBL)	72.35	85.47	73.47	13.12	(12.00)	1.12

Commodity prices

- Depressed natural gas price towards the end of 2024, expected to increase slightly in 2025 and 2026.
- Wholesale electricity price has decreased from extreme highs in 2022 and 2023 due to increased capacity in the province. Still expecting hourly price volatility that will allow opportunities to export spare capacity when economical.

Volume forecast

- Gas production volumes are declining around 3-4% annually.
- Retail gas volumes decline around 1.4% over the 5-year average consistent with Rate-Based Utilities budget assumptions.
- Retail electricity volumes decline around 2.6% over the 5-year average consistent with Rate-Based Utility assumptions.
- Electricity export volumes decrease by about 50% compared to 2024 budget assumptions due to fewer high-priced hours of economic opportunity with overall decrease in wholesale electricity price.

Carbon outlook

- Technology Innovation and Emissions Reduction (TIER) Regulation annual increase in prescribed price of fund credits and annual decrease in regulated allowable emissions used to budget variable cost of each Megawatt Hour (MWh) produced at Electric Generation's most recently verified emission intensity (CO₂e/MWh).
- Cost per MWh of Carbon dioxide equivalent (CO₂e) increases annually and is considered a variable cost of electricity production. This could result in less opportunity to export power.

Effect of decrease in natural gas commodity price:

- As a net purchaser of natural gas, the City is better off if gas prices go down. This will be felt by Gas Production negatively; however, as net buy of natural gas the City would have roughly \$12M savings for every dollar dropped in natural gas prices. This would be in both retail and Electric Generation. Gas Production feels the impact of every dollar of moment equates to roughly \$3.5M.
- Natural gas is the largest input cost of Electric Generation. Decreases in the cost of fuel increase the economic opportunities to export, increasing the profit margin.

Effect of decrease in wholesale electric commodity price:

- Retail best of market rate with \$0.07/kwh floor and \$0.11/kwh ceiling assumed for 2025 and 2026 retail price.
- Decrease in forecasted annual average wholesale electricity price reduces the export MWh volume; however, hourly price volatility will still present economic opportunities to export at high priced hours.

2025-2026 OPERATING BUDGET

Energy Production

Operating Budget (\$000s)

	Approved 2024 BUDGET	FINAL 2025 BUDGET	FINAL 2026 BUDGET	24 - 26 CHANGE
Revenue	264,511	171,765	174,184	(90,327)
Cost of Sales	142,418	91,306	100,255	(42,163)
Gross Profit	122,093	80,459	73,929	(48,164)
Base Operating Expense	29,897	28,608	29,211	(686)
Net Internal Charges (Recovery)	11,420	10,917	11,041	(379)
Total Operating Expenses	41,317	39,526	40,252	(1,065)
EBITDA*	80,776	40,933	33,677	(47,099)
Other Revenue (Expense)	(24,651)	(34,964)	(33,073)	(8,422)
Net Income Before Transfers	56,126	5,970	605	(55,521)
Transfers From/(to) Reserves	(69,849)	(13,454)	(7,599)	62,250
Net Earnings/(Loss)	(13,723)	(7,484)	(6,994)	6,729
Cash Adjustments	(20,302)	7,484	6,994	27,296
Total Cash Increase (Decrease)	(34,025)	-	-	34,025

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

*Totals may not add due to rounding

Base Operating Expense includes:

- Salaries and wages budgets, with a 2.25% increase in 2025, and 2.00% increase in 2026;
- Materials and contracted services budgets with a 0% increase from 2024; and,
- Fluctuations in general maintenance due to maintenance schedules.

Other Expenses represent interest earnings, interest on long-term debt, amortization on assets as well as asset retirement obligations. The 2024-2026 decrease is due to interest earnings on investments held by Gas Production intended to finance future asset retirement obligations now captured in the Municipal budget.

Net Internal Recovery (Charges) are internal transfers between departments – these represent the utility’s cost of receiving internally provided services. This ensures costs are being applied to the correct funding source (i.e., property taxes vs. utility rates) and aids in capturing full costs of the organization’s internal services to support business decision-making.

Transfers From/(to) Reserves are Business Unit dividends transferred to reserves. See breakdown below:

Net Free Cash Flow:

	2025	2026	Total
Electric Generation	20,562	14,201	34,763
Gas Production and Marketing	(7,108)	(6,602)	13,710
Net Free Cash Flow	13,454	7,599	21,053

Electric Generation

Operating Budget (\$000s)

	Approved 2024 BUDGET	FINAL 2025 BUDGET	FINAL 2026 BUDGET	24 - 26 CHANGE
Revenue	202,179	128,592	126,270	(75,910)
Cost of Sales	91,836	57,768	62,937	(28,899)
Gross Profit	110,343	70,825	63,332	(47,010)
Base Operating Expense	16,993	16,187	16,409	(584)
Net Internal Charges (Recovery)	7,216	7,087	7,134	(81)
Total Operating Expenses	24,209	23,274	23,544	(665)
EBITDA*	86,134	47,550	39,788	(46,345)
Other Revenue (Expense)	(21,111)	(21,682)	(21,344)	(232)
Net Income Before Transfers	65,023	25,869	18,445	(46,578)
Transfers From/(to) Reserves	(69,849)	(20,563)	(14,201)	55,648
Net Earnings/(Loss)	(4,826)	5,306	4,243	9,070
Cash Adjustments	(28,247)	(5,306)	(4,243)	24,003
Total Cash Increase (Decrease)	(33,073)	-	-	33,073

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

*Totals may not add due to rounding

- Most base operating expense variances are caused by fluctuations in maintenance schedules for various plant assets and the timing of generation asset maintenance inspections, which are not part of sustaining capital.
- Other changes include key budget assumptions for inflationary wage increases.

Gas Production

Operating Budget (\$000s)

	Approved 2024 BUDGET	FINAL 2025 BUDGET	FINAL 2026 BUDGET	24 - 26 CHANGE
Revenue	62,332	43,173	47,914	(14,417)
Cost of Sales	50,581	33,538	37,317	(13,264)
Gross Profit	11,750	9,634	10,597	(1,153)
Base Operating Expense	12,903	12,421	12,802	(102)
Net Internal Charges (Recovery)	4,205	3,830	3,906	(298)
Total Operating Expenses	17,108	16,251	16,708	(400)
EBITDA*	(5,358)	(6,617)	(6,111)	(754)
Other Revenue (Expense)	(3,539)	(13,282)	(11,729)	(8,190)
Net Income Before Transfers	(8,897)	(19,899)	(17,840)	(8,943)
Transfers From/(to) Reserves	-	7,108	6,603	6,603
Net Earnings/(Loss)	(8,897)	(12,791)	(11,238)	(2,341)
Cash Adjustments	7,945	12,791	11,238	3,293
Total Cash Increase (Decrease)	(952)	-	-	952

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

*Totals may not add due to rounding

- Overall decrease in base operating expenses between 2026 budget and 2024 budget are due to a reduction of contracted services and 2 positions in 2024, offset by general inflation of wages and overhead on producing and non-producing assets from 2025 to 2026.

MAJOR CAPITAL PROJECTS

2025-2026 Capital Plan

Energy Production Capital Plan Summary

(In thousands of dollars)

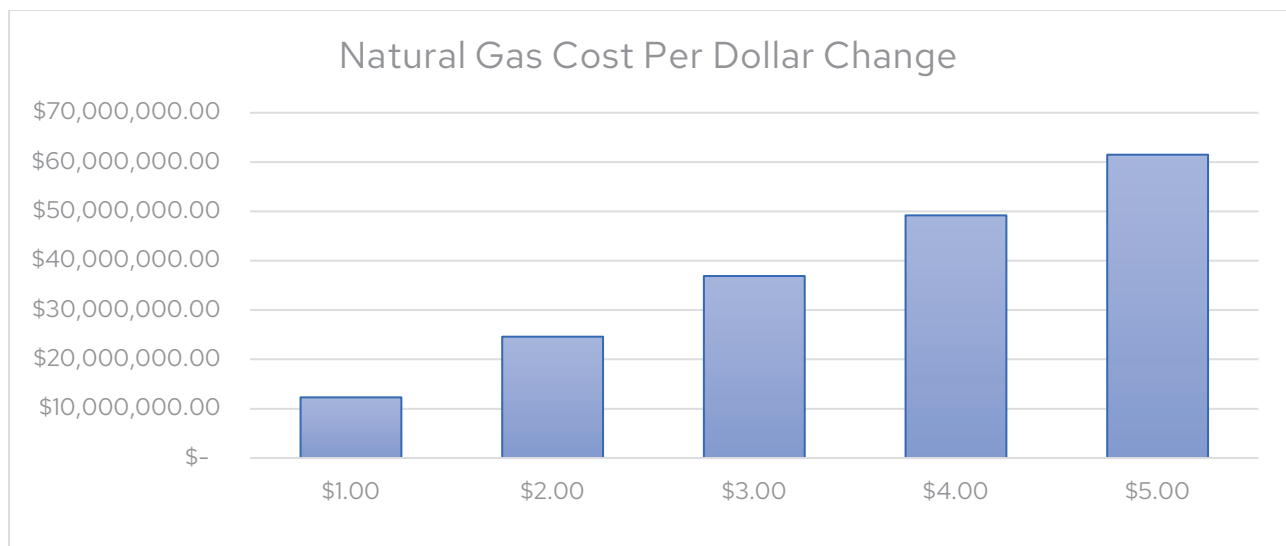
	2023/24 Total	2025 Budget	2026 Budget	Total	23/24 - 25/26 CHANGE
Sustaining Capital	61,928	18,975	17,280	36,255	(25,673)
Electric Generation	52,228	18,975	17,280	36,255	(15,973)
Gas Production	9,700	0	0	0	(9,700)
Growth Capital	15,450	0	0	0	(15,450)
Electric Generation	15,450	0	0	0	(15,450)
Total Capital	77,378	18,975	17,280	36,255	(41,123)
Funding Sources		2025 Budget	2026 Budget	Total	
Working Capital		18,975	17,280	36,255	
Total Funding Sources		18,975	17,280	36,255	

- All capital requests for 2025 and 2026 budget are required sustaining capital maintenance programs for existing Electric Generation assets and system upgrades to remain compliant with standards and regulations.
- All sustaining capital requests will be funded through working capital.
- Each Electric Generation asset has scheduled capital maintenance programs to overhaul and replace specific components of the turbines and generators, which make up most capital requests for 2025 and 2026.
- Scheduled maintenance is required at specific machine hour run-time intervals. The hourly maintenance intervals along with forecasted operations dictate the expected maintenance in each budget year.
- Some of the scheduled capital maintenance requires booking shop time in advance. The year the budget request is made is therefore the year the maintenance will be booked, and not necessarily the year the maintenance will take place.
- Scheduled capital maintenance programs cannot be modified due to logistics of booking and performing the work and increasing the risk of plant outages.

RISKS AND RISK MITIGATION EFFORTS

Financial Risk - Market Volatility

- The wholesale price of electricity settles every hour and fluctuates due to many factors that are often unpredictable such as weather and unplanned outages of supply.
- There are many factors that influence market volatility in both the electric and natural gas markets that are unpredictable and outside of the control of operations.
- The vast number of unpredictable variables contributes to a nonlinear dynamic economic system that is difficult to predict and model. For example, a simple change in the forecasted annual average price of electricity or natural gas does not directly affect the total profit of these business units in a proportionate way.
- Energy Marketing and Business Analysis mitigates volatile market prices with an asset optimization strategy to offer generation capacity into the market to maximize exports during high priced hours, decrease generation during low priced hours and even import power from the grid during hours when the wholesale electricity price is below the variable cost to generate.
- Financial hedging of natural gas and electricity prices is also used to mitigate market volatility.
- Gas Production is a net purchaser of natural gas, therefore a change in the natural gas commodity price will have a more direct impact on the total cost of gas purchases as illustrated in the graph below.



Operational Risk

- Health and safety
- Energy Production business units mitigate high-risk operational activities by implementing high standards of health and safety training and culture.
- Unplanned outages
- Outages of generating units or compressors result in lost opportunity and or increased risk of having to purchase from markets to back stop outages.
- Regulatory compliance
- Electricity and Gas Production industries are subject to many regulations that are constantly evolving. Staying in compliance with regulations and standards requires constant monitoring and timely response.
- Disaster mitigation
- Extreme weather events can cause dramatic impacts to operations. Energy Production business units implement high standards of disaster mitigation and response plans.
- Governance
 - Government of Alberta is currently restructuring the electricity market, which may have significant impacts on future operations.
 - KPMG energy business review may influence future governance decisions of Energy Production businesses.

APPENDICES

APPENDIX A – Sustaining Capital Projects

Sustaining Capital Budget Summary

Energy Production

2025-2026 Budget

In thousands of dollars

Project Description	2025 Budget	2026 Budget	Total
Energy, Land & Environment	18,975	17,280	36,255
Electric Generation	18,975	17,280	36,255
Plant 7 Storage Tank System Optimization	575	-	575
Power & Energy Meter (PML) Upgrade	400	-	400
Unit 10 Turbine Major Overhaul	11,000	-	11,000
Unit 17 Turbine Hot Section	7,000	-	7,000
Unit 10/11 Gas Chromatograph Upgrade	-	150	150
Unit 11 Turbine Control System Upgrade	-	2,200	2,200
Unit 14 Gas Chromatograph Upgrade	-	150	150
Unit 15 Automated Voltage Regulator (AVR) Exciter Upgrade	-	500	500
Unit 15 SR 489 Generator Protection Relay Upgrade	-	80	80
Unit 15 Turbine Major Overhaul	-	14,200	14,200
Gas Production	-	-	-
N/A			
Total	\$18,975	\$17,280	\$36,255

Funding Sources	2025 Budget	2026 Budget	Total
Working Capital	18,975	17,280	36,255
Total	\$18,975	\$17,280	\$36,255

Section 5

Budget Essentials

5.1 Basis of Budgeting

Purpose

The budget for the City of Medicine Hat is a presentation of how the City intends to purposefully spend its financial resources to meet the needs of its residents and accomplish the strategic priorities of the City's Mayor and Council. The budget outlines all authorized spending including financial outlay associated with operations, one-time cost pressures, new operating initiatives, and capital expenditures. The budget also presents a forecast of debt and reserve utilization the City intends to issue to meet its objectives.

Presentation

The City of Medicine Hat presents its budget in accordance with the requirements outlined in the *Municipal Government Act (MGA)* 243(1) through 243(4).

The City's budget is presented on an unconsolidated basis and is broken down into four major Business Units:

1. **Municipal:** Sometimes referred to as the General Fund or tax supported operations; Municipal represents those activities that are typically associated with the operations of a municipality. This includes:
 - Governance and Corporate Administration, people services, economic development, communications and marketing, finance, information technology, corporate planning and performance, planning and development services, environmental services;
 - Community-related Services (for example the police force, fire department, 911 response centre, transit operations, esplanade, co-op place, community partnerships and support, as well as the operating of our parks and recreational facilities);
 - Facilities and Fleet Management (such as the maintenance and care of the City's buildings, equipment, and vehicles);
 - Asset Management (such as the repair and maintenance of City roads); and,
 - The Medicine Hat Regional Airport (YXH).

The Major sources of revenue for the Municipal budget are property taxes, investment income, and sales of services (such as ticket revenue for events).

2. **Land Development and Real Estate:** Land Development and Real Estate focuses on land development and real estate. The major source of revenue for the Land and properties budget is the sale of land and properties.

3. **Rate-Based Utilities:** Rate-Based Utilities include Water distribution, Sewer services, Solid Waste and Recycling management, and the distribution of gas and electricity. This also includes management of the City's water treatment facility, wastewater treatment facility, and Landfill. The major source of revenue for the Utilities budget are utility rate charges.
4. **Energy Production:** Energy Production is primarily focused on the production of gas and electricity resources. Energy Production refers to oil and gas exploration and extraction, as well as the operation of the City's powerplant. The major source of revenue for Energy Production are sales of gas and electricity to city residents and the Alberta power-grid. Commodity revenues can be highly volatile as they are responsive to the market fluctuations.

These four business units represent the full scope of the City's activities and are used by the city when determining the free cash flow generated by Business Units in accordance with #0169 Distributable Funds/Dividend Policy.

Authorization

Budget approval for the City of Medicine Hat is provided by City Council through the passing of motions in an Open Council Session. The Authority to collect revenue through property taxes and utilities as well as the authority to issue debt is provided by Council through the passing of bylaw. All budgets are required to be passed before December 31st of the year preceding the budget year. More details on legislative requirements are outlined in the Strategic Planning Process section of this budget package (see [5.3 Financial Policy](#) Summary page).

Appropriation

Funds are appropriated by Council to the City's executive at the operating segment level for operating and capital budgets. Business plans related to the budget are received by council but not formally approved.

Any scope change to the deliverables, outcomes, goals, or services levels and any increase to spending or debt must be approved by council.

The City must seek approval from Council if requesting any of the following:

- To increase spending beyond budgeted limits;
- To move spending from operating to a capital (or vice versa);
- To add capital projects that are funded through debt; and,
- To spend budget that was allocated to a future year.

Differences in Presentation

The City's Annual Audited Financial Statements are prepared in accordance with Canadian Public Sector Accounting Standards whereas the City's budget is prepared in accordance with the requirements outlined in the MGA 243(1) through (4). The budget is presented on a historical-cost basis reflecting cash transactions with the addition of the amortization for Tangible Capital Assets. The City's Operating budget is modified to provide a reconciliation to total cash requirements. This reconciliation identifies certain cash adjustments such as: amortization expense, debt principal repayment, transfers for capital and major operating expenditures and transfers to/from reserves.

Balanced Budget

The City of Medicine Hat defines a balanced budget according to the definition of cash required in MGA 243(1) through (4). Due to the tie to the MGA, the City considers a balanced budget to be a legal requirement.

5.2 Strategy and Budget Planning



Strategic Planning Process

The strategic planning process begins with the development of City Council’s strategic priorities. City Council crafts the mission and vision for the City, laying down a set of strategic priorities that consider both external and internal factors and advance the City towards its desired future-state. Council establishes or refreshes its strategic priorities at the beginning of each budget cycle within its term (See [1.4 Council Strategic](#) Priorities and Corporate Strategic Objectives (four key priorities) section 1.4).

In response to City Council’s strategic plan, executive leadership prepares the City’s corporate strategic objectives and directs the preparation of four-year departmental business plans. These business plans communicate each department’s alignment with Council’s strategic plan and executive leadership’s corporate strategic objectives and identify:

- the department’s mandate, structure and core activities;
- departmental outcomes, including performance metrics and indicators;
- key objectives to support the achievement of each outcome; and,
- initiatives to support key objectives.

Based on these business plans, the departments complete their budget requests.

The Administrative Committee and Standing Committee(s) reviews departmental budgets and when satisfied that budgets are aligned with the business plans, the budget recommendation is presented to City Council for approval.

After Council has approved business plans, departments work with employees to establish workplans to meet departmental business plan goals and objectives.

The City monitors budgets and progress on strategic initiatives monthly. The City publishes a publicly available tri-annual report every four months detailing budget, actual, and forecasted results. Individual employee workplans are reviewed by supervisors and managers with employees on a quarterly basis.

Budget Development



Key Budget Assumptions

The City of Medicine Hat utilizes a combination of bottom-up and top-down budgeting techniques. The budget process begins with the top-down approach; executive leadership recommends key budget assumptions that identify (1) costs that are widespread across the entire organization and (2) pressures external to the organization that Executive does not have control over (e.g., decreasing interest rates).

During the budget cycle, executive leadership directed the application of the following assumptions into the City's budget:

Description	2025	2026
Assessable Growth	0.0%	0.5%
Tax Revenue Increase	5.6%	5.1%
Property Tax Revenue Increase	5.6%	5.6%
Fees and Charges Revenue	3.0%	3.0%
Inflation (non-salary expenses)	0%	0%
<u>Salaries and Wages</u>		
Inflationary Increases	2.25%	2.0%
Benefit Rate (% of Salary) *	21.0%	21.0%
Vacancy Adjustment (% of Salary)	(4.2%)	(4.2%)

Note: Police Union Benefits are 24.25%.

Major Assumptions for Forecast Period: 2027 through 2034:

- Municipal expense inflation of 2.0% through 2034
- Inflation on capital acquisitions of 2.0% through 2034

The City's Treasury department has developed a Municipal Inflationary index which indicated an anticipated inflationary increase of 2.3% per year in 2025 and again in 2026. Executive leadership made the decision to hold departments to a 0% inflation as a starting point effectively asking them to absorb inflation.

Operating Budgets

Using the key budget assumption process, executive leadership establishes a preliminary expectation of the cost for the budget years to continue business as usual. This provides the proper baseline for discussions about adding new services or initiatives that might be included in the department's business plans.

After the Base Operating budget has been developed with the incorporation of key budget assumptions, departments are then able to request adjustments. There are four primary mechanisms for these adjustments:

- 1.) Salaries and wages review;
- 2.) Operating budget re-allocations;
- 3.) Cost Pressures; and,
- 4.) New Operating Initiatives.

- 1) **Salary and Wages:** Within the salaries and wages review, departments review their current permanent and temporary salaries and Full-Time Equivalents (FTE) counts.
- 2) **Base Operating Budgets:** Within the operating budget re-allocation process the department will review their budgets on a line-by-line basis and re-allocate budget within the subdepartments but not cannot cross over to other departments or funds. Re-allocations of budget must have a net-zero impact on the overall budget (or net positive impact).

These adjustments can be related to:

- Correction of a budget error
 - Reorganization or administrative changes
 - Foreign exchange rate
- 3) **Cost Pressures:** The Cost Pressure (One-time and Ongoing) review process occurs where the department has determined it is unable to maintain status quo services without additional funds, they must complete a cost pressure form. After cost pressure forms are submitted, the budget office will summarize all requests by division and provide the lists to the Managing Directors for review. Managing Directors will review cost pressures within their own division requesting additional information and determining what ask to bring forward to the Executive Leadership Team for recommended approval.

- 4) **New Operating Initiatives:** New Operating Initiatives can be one-time or ongoing projects. These initiatives could result in a new service or program to the community. Departments complete a business case that establishes the justification for the new initiative and how it ties to the overall strategic direction of the City.

After this, the City will perform additional tasks including calculating its business unit revenue, investment revenue, cost allocations and other accounting adjustments to come to a final budget picture. The result of this process is a budget that reflects both the top-down key budget assumptions of the executive leadership and the bottom-up adjustments and requests made by the departments. The budget is then ready to be analyzed, scrutinized, and sent for approval by senior leadership.

The 10-year operating and capital forecast is developed in conjunction with the above process.

Capital Budgets

Sustaining Capital

Sustaining Capital budgets requests are those that maintain current assets.

Executive Leadership met in March to determine preliminary sustaining capital appropriations for the departments. When determining the preliminary appropriations Leadership considered: the average historical annual spend of the departments, previous budgets, the long-range forecast, along with other indicators. The sustaining capital spend was then placed into a city-wide financial model to test whether similar funding could be sustained over a 10-year horizon (when adjusted for inflation).

The intention of this exercise was to ensure an ongoing, predictable, and sustainable funding level for departments to put them in a better position to plan their maintenance programs over the medium term without the need to compete with other departments for funding.

In the Sustaining Capital plan, departments were asked to identify how they intend to spend their sustaining capital appropriation. If the initial appropriation provided was insufficient, departments identified the additional funds needed to meet their sustaining capital needs in 2025 and 2026 and provided justifications that were reviewed by executive leadership.

Directors and managers will work together to “rank” their projects internally amongst their department to determine which projects should be requested as a part of the 2025-2026 budget process.

Out of scope of this project are growth capital projects. For a definition of growth and sustaining capital refer to the [5.5 Glossary of Terms](#).

Growth Capital

Growth Capital Expenditures are for capital items that increase the current service levels of the department. Growth capital projects have all the following characteristics:

- Is not part of the regular capital maintenance program for the department;
- Increases the level of service for the department;
- Discretionary in nature – the City can choose whether to pursue the capital item or not;
- Supports a strategically focused initiative – supported by existing development and master plans (e.g., area structure plans, municipal development plan, or recreation master plan) as well as City Council’s Strategic Plan 2023-2026.

Business cases will be used to establish the supporting documentation for budgetary requests and ultimate approval. During the budget approval process Council approves both the budgetary dollars and how those dollars will be used by affirming the scope of activities performed.

Business Case Ranking process

Business Cases are used to identify new operating initiatives and growth capital items. Once the business cases are completed, those cases are prioritized internally by the departments to understand which new opportunities are most important to the departments. That information is then reviewed by the managing directors for the area to give a go/no go to include the business case in the ranking process. These cases then have been vetted by the departments and division leads to ensure they are in alignment with the strategic visions for those operational departments and divisions.

Corporate Planning and Performance (CPP) and the ranking committees will then apply a scoring system to look at each project from the perspective of the city’s priorities.

Opportunities that score the highest are put to the top of the list and opportunities that score lower fall to the bottom of the list. We then apply a funding target to create a “cutoff” for new projects. Items that fall below the funding line are not recommended and items that are above the line are recommended for funding.

This list is provided to our executive leadership team. And this is where the science part ends, and the art part begins. At this point we have applied the administrative view. We have a list of projects that the city’s operations deem are important and the list has been prioritized by an objective scoring system.

Executive leaders then apply a strategic view, looking at where the list perhaps invests too much or too little into specific priorities. Executive leaders will adjust the list to ensure that it balances priorities strategically.

After the list has been vetted by operations and by strategic leadership, it is then presented to Council for final consideration. Council will view the list from a governance perspective and from a community-focused perspective and request adjustments to the lists based on those priorities.

Financial Control and Reporting, along with the Treasury department, determine capital project funding sources by evaluating a mix of internal sources (e.g. Reserves) and external funding (grants, debt, offsite levies, etc.). Financial capacity of the City (debt limits, debt to equity ratio, and reserve forecasts), project scope and needs are reviewed to determine the best mix of capital funding.

All budgets must move through several layers of approval:



At any stage in this process the reviewer can scrutinize the budget and request adjustments. The ultimate approval is City Council, who conducts an open publicized review of the budget. According to the MGA requirements, City Council must approve the budget before January 1st of the budget year.

Council will host several publicly televised meetings to discuss and scrutinize the budget. This year we increased the amount of public deliberation time to improve transparency and provide more opportunities to align with Council’s strategic priorities. Public participation for the budget also included a Community Survey and the establishment of the “Shape your City” Budget webpage: [Shape your City](#).

City Council specifically approves operating budgets at the Operating Segment level, including the approval of Rates for Utilities, Services, and Taxes. City Council also approves the capital budget at the project level and, where applicable, any associated debt issuance.

Procedures for Amending the budget after adoption (Policy 0183) [Policies](#)

Amendments to the budget can happen during a budget update or the next budget cycle. If necessary, a department can request a budget amendment through the budget amendment process. A budget amendment could be triggered when there is a(n):

1. Change to scope of a project or services;
2. New capital project requiring funding;
3. Additional funding required to complete a project; and/or a,
4. Change in funding source is needed.

Budget amendments require either Council or Chief Administrative Officer (CAO) approval. Council must approve an increase in the operating or capital expenditure, including associated funding sources. In addition, Council must approve an increase in debt.

The CAO can approve budget amendments if there is no overall increase to debt, capital or operating expenditures and:

- Budget is redirected between divisions, departments, or subdepartments
- There is a proposed reduction to debt;
- A project is being deferred to a future year;
- There is approved CAO or grant contingency funding available for the project;

Managing Directors and Directors can approve budget amendments if the change is between departments or subdepartments within their authority and none of the above issues above are triggered for Council or the CAO.

5.3 Financial Policy Summary

The City of Medicine Hat is required to conform to certain Legislation, Bylaws, and City Council Policy when preparing its budget. These documents establish the basic framework for what is required to maintain accountability, transparency, and sustainability within the organization.

The City also seeks to benchmark its budget process against industry best standards and are guided by the principles established by the [Government Finance Officers Association \(GFOA\)](#).

The 2025-26 budget presented in this budget package complies with relevant legislation, bylaw, and financial policies.

Legislation

Municipal Government Act

The [Municipal Government Act](#) (MGA) is the guide to how municipalities operate, and is one of the most significant and far-reaching statutes in Alberta¹. It regulates how municipalities are funded and how as local governments they should govern and plan for growth. Section 242 through 249 of the Act specifically outlines the requirements for budgeting. Some rules in the Act are include²:

- Operating and capital budgets must be passed before January 1st (242(1) and 245);
- Operating budgets cannot run a deficit (243(3));
- A city cannot have an accumulated deficit equity position (before considering equity in tangible capital assets) (244(1));
- No municipality can pass a property tax bylaw or business rate bylaw until the operating and capital budgets have been adopted by council (247);
- Municipalities can only spend what is authorized in the budget, except in the case of a legal or emergency matter (248(1)); and,
- Council is responsible to establish procedures to authorize and verify expenditures that are not included in the budget (248(2)).

According to MGA 243(3) the estimated revenue and transfers for the City corporation must be at least sufficient to pay the estimated expenditures and transfers. The recommended City budget shows a net cash increase of \$17.7M in 2025 and \$19.2M in 2026 meeting the requirements of the Municipal Government Act before requiring transfers from accumulated surplus. Due to the unique nature of the

¹ [Municipal Government Act review | Alberta.ca](#)

² The summary of MGA rules shown here is a paraphrased for the readability and are not meant to represent legal opinion or the interpretation of Courts or Legislators.

City of Medicine Hat blending a municipality with other business units, The City of Medicine Hat also strives to demonstrate compliance with MGA 243 specifically within the municipal component of the City’s operations (separate from energy production, rate-based utilities, and land development and real estate). This is what is traditionally referred to as the Municipal budget gap and is a key measure of financial sustainability for the City. This budget also demonstrates MGA 243 compliance within the Municipal component of the City through the use of operating reserves to mitigate budget shortfall. This budget includes the following operating reserve transfers to cover the Municipal budget gap:

	2025	2026	Total
Operating Reserve Transfers to cover the Municipal budget gap	\$11.8M	\$5.7M	\$17.5M

According to the Municipal Government Act (283(1))

- Each Municipality must prepare a written plan respecting its anticipated financial operations over a period of at least the next 3 financial years;
- Each Municipality must prepare a written plan respecting its anticipated capital property additions over a period of at least the next 5 financial years.

Bylaws related to property tax, utility rates, and debt authorization will be presented to Council separate from the approval of the 25-26 budget.

Alberta Utilities Commission

The Alberta Utilities Commission (AUC) is an independent, quasi-judicial agency of the province of Alberta that has a responsibility to ensure that customers receive safe and reliable electric and gas utility service at just and reasonable rates³. The AUC is primarily responsible for regulating rates for electric, gas, water utilities as well as renewable power generation. Utilities rates present a unique economic challenge since most utility providers have a natural monopoly over the utilities for their region. The AUC seeks to protect customers from excess prices by regulating how much return on equity a municipality is allowed to earn from its utility clients. As such, the City’s utility rates are governed by City Council and align with Alberta Utility Commission (AUC) regulations that establishes the formula for calculating utility rates.

³ [Alberta Utilities Commission](#)

Policies and Bylaws

According to Administrative bylaw #4662, section 13, it is the City Manager's responsibility to:

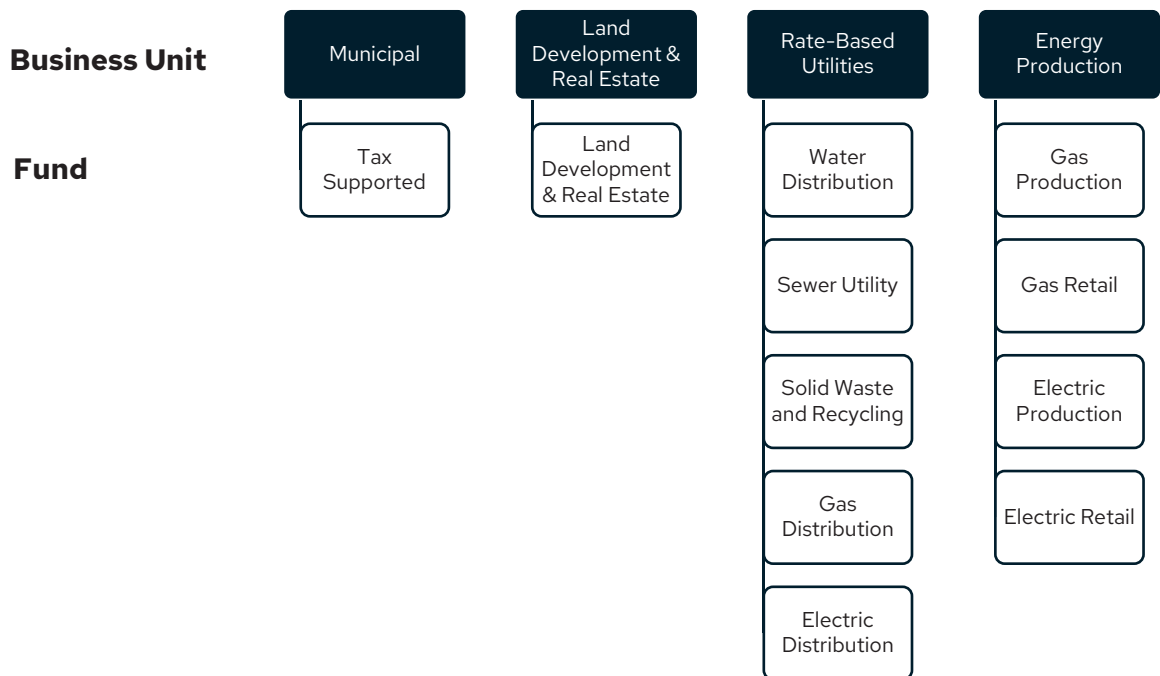
- Cause the City's operating and capital budgets and long-range forecasts to be prepared;
- Review and present to Council the City's operating and capital budgets and long-range forecasts.

The budget aligns with all financial policies.

5.4 Operating Segment Structure

Operating Segment by Business Unit

The four business units presented above are broken down into several Operating segments for budgeting purposes. The relationship between Business Units and operating segments are demonstrated below:



* Note: Per Public Accounting Standards, operating segment information is no longer included in Audited financial statements. However, this information is included in the supplementary information to the financial statements. In the supplementary information, Gas Distribution, Gas Production, and Gas Retail are grouped into Gas Utility. Also, Electric Distribution, Electric Production, and Electric Retail are grouped into Electric Utility.

Tax-Supported: the provision of conventional municipal services including governance, corporate administration, community services, facilities and fleet management, asset management, and the Medicine Hat Regional Airport.

Land Development and Real Estate: land development and real estate.

Water Distribution: treating and distributing potable water to City of Medicine Hat customers.

Sewer Utility: collecting and treating wastewater from City of Medicine Hat customers.

Solid Waste and Recycling: the collection, processing and disposal of waste and recyclables.

Gas Distribution: the delivery of natural gas to City of Medicine Hat customers.

Electric Distribution: the delivery of electricity to City of Medicine Hat customers.

Gas Production: the exploration and extraction of oil and gas.

Electric Production: the generation of electricity at the City of Medicine Hat Power Plant.

The city also maintains a corporate fund which holds the City's reserves including: Operating, Capital, Energy Transition, Abandonment Obligation, and the Medicine Hat Endowment Fund.

Divisions by Business Unit

	Municipal	Land	Rate-Based Utilities					Energy Production			
Division	Tax Supported	Land	Water Distribution	Sewer Collection	Solid Waste & Recycling	Gas Distribution	Electric Distribution	Gas Production	Gas Retail	Electric Generation	Electrical Retail
General Government	✓										
Corporate Services	✓										
Public Services	✓										
Development and Infrastructure	✓		✓	✓	✓						
Energy, Land & Environment	✓	✓				✓	✓	✓	✓	✓	✓
Police	✓										
Other Organizations	✓										

Most divisions within the City of Medicine Hat are associated with a single operating segment.

However, there are a few divisions that span multiple operating segments due to the types of services and activities they perform. The divisions that span multiple operating segments include the following:

Development and Infrastructure

	Municipal	Land	Rate-Based Utilities					Energy Production			
Department	Tax Supported	Land	Water Distribution	Sewer Collection	Solid Waste & Recycling	Gas Distribution	Electric Distribution	Gas Production	Gas Retail	Electric Generation	Electrical Retail
Environmental Utilities			✓	✓	✓						
Municipal Works	✓										
Airport	✓										
Planning & Development Services	✓										

Development and Infrastructure spans two of four major Business units and six operating segments:

- *Tax supported* services provided by Municipal Works include assessment and maintenance of city roads, sidewalks, traffic signals, streetlights, stormwater, bridges, a dam. Airport is the Medicine Hat Regional Airport. Planning and Development Services facilitates the development of a safe, attractive and sustainable community.
- *Water Distribution* services include water *distribution*, construction and maintenance of water reservoirs, booster stations, manholes, pipes, fire flow and hydrants and aquifers. The department is also responsible for the Water Treatment Facility.
- *Sewer Utility* services include waste collection and maintenance of sewer pipes, lift stations and force mains. The department is also responsible for the Wastewater Treatment Plant.
- *Solid Waste and Recycling* services include the collection of commercial and residential solid waste, recycling, yard waste as well as the operations of the City's Waste Management Facility.

Energy, Land and Environment

	Municipal	Land	Rate-Based Utilities					Energy Production			
Department	Tax Supported	Land	Water Distribution	Sewer Collection	Solid Waste & Recycling	Gas Distribution	Electric Distribution	Gas Production	Gas Retail	Electric Generation	Electrical Retail
Environment, Land & Gas Production	✓	✓						✓			
Electric Generation										✓	
Utility Distribution Services						✓	✓				
Energy Marketing & Business Analysis	✓								✓		✓

Energy, Land and Environment spans all the four major Business units and nine operating segments:

- *Tax supported* services provided by Environment include environmental stewardship and sustainability as well as Energy Marketing and Business Analysis, which includes long-range planning and special project facilitation.
- *Land* services include the purchase, development, marketing and sale of the City's land assets.
- *Gas Distribution* services include the engineering and maintenance of the city's natural gas distribution network that services residential, commercial, and industrial customers in Medicine Hat, Town of Redcliff, and Municipal District of Cypress County.
- *Electric Distribution* services include the *engineering* and maintenance of the city's electric transmission and distribution that services residential, commercial, and industrial customers in Medicine Hat, Town of Redcliff, and Municipal District of Cypress County.
- *Gas Production* services include the production of oil and gas which includes the maintenance and monitoring of city owned oil wells.
- *Electric Production* services include the maintenance and operations of the City's electric generating system.
- *Gas and Electric Retail* services include defined revenue management support for energy and utility departments.

Further detail about each divisions function and responsibilities can be found in the Departmental Business Plans. [Business Plans](#)

5.5 Glossary of Terms

Purpose

The City has many terms that are interchangeable that can lead to confusion for senior leaders, Council, and the public. This document is meant to help those preparing budget documents understand which terms they should use as well as what they mean.

Throughout the document, if a “term” has different names within the City it will be identified so that the user can search this document. However, only the term recommended in this document should be utilized for consistency across all budget-related documents.

During the budget cycle, the budget committee will be editing this document as needed and questions arise, if you have any questions or do not see a definition that you believe is important please contact the [budget committee](#).

TERMS

AESO

Definition: Alberta Electric System Operator – AESO manages and operates the Alberta provincial power grid.

AUC

Definition: Alberta Utilities Commission

Abandonment

Definition: The process whereby the City decommissions wells no longer needed to support gas production.

Abandonment Obligation Program Reserve

Definition: A newly established fund used to partially fund the abandonment obligation expenditures within the city.

Accumulated Surplus

Definition: Represents the total change in all fund and equity balances, both unrestricted (working capital used to fund day to day operating activities) and restricted (amounts largely dedicated to fund capital activities).

Base Operating Budget

Definition: A budget that outlines a department's expected revenue and expenses using the key budget assumptions and amounts needed to maintain current services levels.

Balanced Budget

Definition: The City of Medicine Hat considers a balanced budget to be achieved when the City's Municipal operating cash inflow are sufficient to cover any municipal operating cash outflows anticipated during the year. The definition of a balanced budget is directly tied to the definition of cash required in the Municipal Government Act (MGA) in sections 243(1) through (4). Because of this tie to the MGA, the City considers a balanced budget to be a legal requirement.

Budget Gap

Definition: represents the total amount of cash that needs to be transferred from the City's reserves to cover city municipal operations.

Business Unit

Definition: A business unit is a collection of *operating segments* for financial reporting purposes (see definition of operating segment for more details). Business Units help to further summarize the City's operating activities into buckets that have similar economic characteristics.

The city has the following Business Units:

- Municipal
- Land Development and Real Estate
- Rate-Based Utilities (includes water, sewer, solid waste, electric distribution, gas distribution)
- Energy Production (includes electric production and gas production)

These Business Units are used for presentation purposes for Council Deliberations of the Budget.

A Business Unit is used for financial reporting purposes only. As such, it does not necessarily align with the City's organizational structure. For example, there is not one managing director who is responsible for the Municipal Business Unit.

Capital Expenditures

Definition: Total amount spent during the year on capital assets such as infrastructure, equipment, and vehicles.

Capital Reserve

Other Names: Infrastructure Reserve

Definition: A future-oriented financial reserve established to fund the city's growth capital requirements and asset retirement obligations.

Cost Pressure

Definition: A future-oriented financial reserve established to fund the city's growth capital requirements and asset retirement obligations.

Debt Limit

Definition: The city's Debt limit is based on the Provincial Regulation *Debt Limit Regulation, Alta Reg 255/2000 (2)(a)* which requires Medicine Hat's Debt to not exceed two times its annual consolidated revenue and City Policy 0176 "Debt Management Policy" 6.01(d)(i) which requires the City to remain within 70% of that target.

Debt Service Limit

Definition: The Minister of Municipal Affairs has prescribed total debt and debt servicing limits for municipalities in the province. The debt servicing limit is based upon 0.35 times revenue. Included in the Debt calculation is Long Term Debt as well as Loan Guarantees and Letters of Credit.

EBITDA

Definition: Earnings before Interest, Taxes, Depreciation and Amortization.

Economic Development

Other Names: Invest Medicine Hat (IMH)

Definition: A newly formed Department within the Municipal Operating Segment that has adopted the economic portfolio from the previously named Invest Medicine Hat Division. Economic Development helps new, expanding and relocating businesses access market and business resources in the city.

Efficiency Target

Definition: is an allocated target for service level reduction in 2026 in alignment with Council's approved focused priority #1 to create organizational capacity for effective and efficient service delivery. The details of the service level reductions will come forward to Council later in 2025.

Electric Production

Other Names: Fund 31, GENCO, Electric Generation

Definition: An Operating Segment that generates electricity for sale to City residents and the Alberta power grid.

Energy Transition Reserve

Definition: A newly established fund used to partially fund future energy transition expenditures within the city.

Free Cash Flow

Other Names: Dividend, Contribution

Definition: The residual cash generated within an operating segment after accounting for sustaining capital and/or abandonment related expenditures.

Full Time Equivalent (FTE)

Definition: A measurement of the number of full-time employees that would be required to fill the workforce needs of the City of Medicine Hat.

Full-Time Equivalent = Total Employee Hours / Full-Time Hours for one employee

FTE is commonly mistaken for Permanent Established Positions (PEP). However, these terms are not synonymous with each other for several reasons:

1. PEP measures headcount, FTE measures workforce capacity. (e.g., 2 part-time employees have a headcount of 2 but an FTE of 1).
2. PEP measures permanent employees only, FTE measures all employees. (e.g., an employee that is full-time but temporary would be 1 FTE but 0 PEP).

Gas Production

Other Names: Fund 51, NGPR, Gas Operations

Definition: An Operating Segment that extracts oil and gas for sale.

Growth Capital

Definition: Capital items that increase the current service levels of the department. Growth capital projects have all the following characteristics:

- Is not part of the regular capital maintenance program for the department.
- Increases the levels of service for the department.
- Discretionary in nature – the City can choose whether to pursue the capital item or not.
- Supports a strategically focused initiative. Supported by existing development and master plans (e.g., area structure plans, municipal development plans, or recreation master plan) as well as City Council's Strategic Plan.

Government Finance Officers Association (GFOA)

Definition: represents public finance officials throughout the United States and Canada. This group provides awards for budget excellence that the City of Medicine Hat applies to for its Public-facing budget document.

Government Transfers for Operating

Definition: A revenue line on a financial statement. It represents; funding received from other levels of Governments for operating purposes.

Full-Time Equivalent (FTE)

Definition: The measure of workforce capacity required, calculated by Budgeted hours divided by Base hours.

Incremental Operating Costs:

Definition: are additions to the resources required within a department. The addition of resources typically results in a change in the service levels of the department. These resources can be internal (additional staff) or external (additional contracted services). This term is typically used for business cases and ranking purposes.

Insurance Recovery

Definition: A revenue line item on a financial statement. Proceeds recovered from insurance companies.

Internal Recoveries

Definition: A revenue line item on a financial statement. All revenues received from other City departments through cost allocations.

Investment Income

Other Names: Interest Earnings

Definition: A revenue line item. Includes realized earnings from corporately held investments.

Land Development and Real Estate

Other Names: Fund 13, Invest Medicine Hat

Definition: An Operating Segment that develops land for resale.

Licenses, Fines and Penalties

Definition: Revenues derived from planning and development fees and permits, animal licenses, and court fines, as well as utilities and taxes penalties and interest.

Medicine Hat Endowment Fund

Definition: A long-term endowment fund for the benefit of the citizens of the City of Medicine Hat.

Municipal

Other Names: Fund 11, Tax-Supported

Definition: Municipal is the Operating Segment that performs the typical services provided by a Municipality including governance, strategy and corporate administration, community services, and asset management.

Municipal Taxes

Definition: A revenue line on a financial statement. Revenues occurring from property taxes on municipal land and improvements, as well as special assessments.

Off-Site Levy

Definition: A charge from the City to developers that helps pay for the cost of the off-site infrastructure.

Operating Initiatives

Other Names: Major Operating Expenses (MOE)

Definition: one-time projects that are operating in nature that could result in a new service or program to the community. This term is typically used for business cases and ranking purposes.

Operating Reserve

Other Names: Tax Stabilization Reserve, Operating Contingency

Definition: A financial reserve established to provide contingency funds for the City's operations.

Operating Segment

Other names: Fund or Fund Type

Definition: An accounting technique used to group specific assets, liabilities, revenues, and expenses for financial reporting. Operating Segments group activities within the city that share similar economic realities and are regularly reviewed by the City's Senior Leaders and Council. Operating Segments identify distinct cash flows and their associated expenditures to earn those cash flows.

Operating segments help Senior Leaders and Council visualize the City's operations from a financial perspective. This helps leaders to understand the City's financial performance so that they can make sound strategic decisions.

The primary Operating Segments are:

- Municipal
- Land Development and Real Estate
- Water
- Sewer

- Solid Waste
- Electric Production
- Electric Distribution
- Gas Production
- Gas Distribution

An Operating Segment is purely for financial reporting purposes and therefore does not always align with the City's Organizational Structure. For example, there is not one Division or Manager responsible for the Municipal Operating Segment. Rather multiple Managing Directors share collective responsibility for the operational efficiency of a fund.

Other Revenue

Definition: A revenue line item on a financial statement. Any minor sources of revenue not appropriately categorized through standard account activities.

Permanently Established Position (PEP)

Definition: A permanently established position is a headcount measure of how many employees are considered "Permanent" employees. This term does not distinguish between part-time and full-time employees. (i.e., regardless of whether a position is part-time or full-time it is still considered 1 PEP). PEP is sometimes mistaken for FTE however these terms are not synonymous, for more information please see the definition for FTE.

Sale of Services

Definition: A revenue line item on a financial statement. All third-party revenues generated through normal course of business.

Service Levels

Definition: are used to define the difference between sustaining and growth capital projects. A change in service level is defined as a deliberate change to the outputs or objectives the department intends to deliver; these changes can be measured at the corporate, stakeholder, and asset level. Indicators of change include quality, quantity, reliability, responsiveness, safety, and cost, for a particular activity or service area.

STEP Increase

Definition: An agreement identified within an employee's contract to reclass or promote, typically after certain conditions are met (i.e., hours worked and/or competencies met). For example, moving from a Constable level II to a Level I or moving from Start rate to Job Rate. Step increases may also include out-of-schedule adjustments to an employee's salary. Excluded from Step increase are general negotiated increases from a collective bargaining agreements and annual performance adjustments for out-of-scope (managerial) staff.

Sustaining Capital

Definition: Capital items that maintain and sustain existing assets and current service levels of the department. Sustaining capital projects have the following characteristics:

- Are part of the regular capital maintenance program for the department.
- Maintains the current levels of service for the department.
- Are non-discretionary in nature.

Vacancy Adjustment

Other Names: Managed Manpower

Definition: A budgeted reduction to salary and wage budgets that accounts for estimated savings that a department can reasonably expect to realize when the department is not fully staffed.

Working Capital

Other Names: Operating

Definition: An internal funding source which utilizes an Operating segments' excess profits to fund capital projects.