

DATE: 2023-11-20**MEETING: REGULAR COUNCIL****DEPARTMENT: FINANCE****REPORT AUTHOR: AARON HOIMYR, FINANCIAL
PLANNING ANALYST****2024 BUDGET UPDATE****EXECUTIVE SUMMARY:**

Council previously approved the 2023-2024 budgets on December 19, 2022. As a result of changing market conditions and updated management assumptions a 2024 budget update is required.

STRATEGIC ALIGNMENT:

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

RECOMMENDATION:

It is recommended through the Administrative Committee that City Council approve:

- The amended Municipal 2024 operating budget (as per attachment #2); and,
- The amended 2024 capital budget, major operating expense (MOE) and funding sources (as per attachment #5); and,
- The amended 2023 capital budget funding sources (as per attachment #5).

PREVIOUS COUNCIL MOTIONS / DIRECTIONS:

City Council approved the 2023-2024 operating and capital budgets on December 19, 2022. Since then, Council has also approved several operating and capital budget amendments. These Council approved operating budget amendments will have a net cost impact of \$1.0M on the 2024 budgets (see attachment #1).

BACKGROUND / ANALYSIS:**2024 Municipal Operating Budget Update:**

Council approved the 2023-2024 Municipal operating budget on December 19, 2022. The Municipal budget is the component of the City's operations that performs conventional municipal services including governance, strategy and corporate administration, community services, facilities and fleet management, asset management, and operating the Medicine Hat Regional Airport. This is distinct from the City's self-sustaining business units: Land, Commodities and Utilities.

Due to changing market conditions and related assumptions, a 2024 budget revision is required for the City of Medicine Hat to balance its Municipal budget as required by the Municipal Government Act.

In addition to the previously Council approved budget net cost amendments of \$1.0M (See attachment #1), Administration is recommending the following amendments that will have an offsetting net benefit to the Municipal budget of \$0.8M:

- \$2.9M net increase to investment earnings (net of fees) primarily due to anticipating a higher average portfolio balance;

- \$0.5M net increase as a result of new grant revenue, including double the previously estimated funding received for Municipal Sustainability Initiative (MSI) Operating. This funding was announced by the Province to assist in offsetting some of the previous year's Provincial funding reductions and costs downloaded from the Province (see attachment 6 for a detailed explanation of the government funding changes);
- \$0.3M increase to property tax revenue to reflect actual growth in the total taxable assessable value realized during the setting of 2023 property tax rates;

offset by,

- \$1.9M increase to salaries and wages expense to recognize:
 - o \$0.7M in Police salaries and wages to adjust MHPA wages to reflect the settled MHPA and CUPE contracts. In total this represents a 3% increase (2% related to a budgeting oversight and 1% related to contract settlements being higher than previously estimated);
 - o \$0.5M in Parks and Recreation temporary salaries and wages to adjust for missing FTE (full-time equivalent) positions in the 2024 budget;
 - o \$0.4M for net new positions resulting from the corporate restructuring approved by Council on August 21, 2023;
 - o \$0.3M to adjust the benefit percentage rate as a result of a review of the benefit plan being undertaken to meet the needs of the organization; and,
- \$0.3M increase to the Medicine Hat Public Library grant for labour costs related to backfill, security and a service worker position as well as inflationary pressures (labour and general);
- \$0.6M increase include two major operating expenses:
 - o \$0.3M to Parks and Recreation for Facilities for the Future Study;
 - o \$0.3M to Airport to build an Airport Strategic Master Plan; and
- \$0.1M net unfavourable change due to other minor budget amendments.

For more detail on adjustments see attachment #2 through #4.

2023-2024 Municipal and Utilities Capital Budget Update:

Council previously approved the 2023-2024 Municipal and Utilities Capital budgets on December 19, 2022. Due to changes in scope, price, and funding, revisions to the capital budget are required to ensure projects can be completed. Administration is recommending the following amendments to the 2024 Municipal and Utilities capital budgets, MOE, and related funding sources:

Capital Budget

Department	2024 Approved Budget	Proposed Amendment	Total Amended Budget	Amended Funding Source
3 rd St SE Project	\$3.40M	\$3.58M	\$6.98M	Operating/Reserve
Police Projects	\$0.25M	(\$0.12M)	\$0.13M	Internal Loan
Total	\$3.65M	\$3.46M	\$7.11M	

Major Operating Expense (MOE)

Department	2024 Approved Budget	Proposed Amendment	Total Amended Budget	Amended Funding Source
Airport- Strategic Master Plan	\$0.000M	\$0.250M	\$0.250M	Operating
Facilities for the Future	\$0.000M	\$0.305M	\$0.305M	Operating
Total	\$0.000M	\$0.555M	\$0.555M	

In addition, an amendment to the funding source for the 2023 & 2024 Parks Capital budget - PKRC Trail Infrastructure program from Canada Community Building Fund (CCBF) to Capital reserve. This Municipal program was previously intended to be funded through CCBF Capital grant funding but has been denied and therefore requires a new funding source.

Funding Sources

Year	Approved Budget	Approved Funding CCBF	Amended Funding – Capital Reserve
2023	\$0.917M	(\$0.917M)	\$0.917M
2024	\$0.917M	(\$0.800M)	\$0.800M
Total	\$1.834M	(\$1.717M)	\$1.717M

For more details on adjustments see attachment #5.

INTERNAL AND EXTERNAL ENGAGEMENT CONSIDERATIONS:

The 2024 Budget Update provides Administration with an opportunity to update its original assumptions used in compiling the original 2023-2024 budgets. This update ensures that assumptions are up to date and represent current market conditions. An accurate budget is essential to ensuring the effectiveness of the budget as a financial control mechanism within the city.

The Budget update provides an opportunity for Administration to inform Council and the public of what has changed in the business since the original budget was developed and to set realistic performance expectations for the upcoming year.

POTENTIAL RISKS / IMPACTS:

Financial:

Funding Request:	Yes	If yes, amount: See Below
Budgeted Item:	Yes	Funding Source: As noted below
Funding Explanation:	As noted below	
Budget Amendment Form?	No	

Financial impacts are described in the background/analysis section of this briefing note.

Health, Safety and Environmental:

There are no HSE impacts.

Legal / Legislative / Policy:

The Municipal Government Act requires the City to have a balanced budget. Property Tax rate bylaws will be presented to Council for approval in early 2024.

PUBLIC PARTICIPATION REQUIRED FOR IMPLEMENTATION:

Public will be informed of 2024 budget update through Council deliberations and final approval of the budget.

INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

ALTERNATIVE OPTIONS / PROS AND CONS:

Do not request a 2024 Municipal tax supported budget update and rely on the original approved 2024 budget. This is not recommended as the original budget will not reflect the changing market conditions or updated assumptions.

IMPLEMENTATION PLAN:

Following Council adoption, the 2024 Municipal tax supported budget update will be implemented with the required changes and the tax rate bylaws will be prepared for Council.

REVIEWED BY & DATE:	Lola Barta Director of Finance	2023-11-03
APPROVED BY & DATE:	Dennis Egert Managing Director of Corporate Services & CFO	2023-11-03
ATTACHMENTS:	1: List of changes to 2024 Budgets previously approved by Council 2: List of Recommended 2024 Municipal Operating Budget Changes 3: Amended 2024 Municipal Budget 4: Explanations to 2024 Operating Budget Adjustments 5: List of Recommended 2024 Capital Changes and Funding Changes 6: Impact of Changes in Government Funding	

List of changes to 2024 Budgets previously approved by Council:

City Council previously approved the 2023-2024 operating, capital and major operating expenditure budgets at a Regular Council meeting on December 19, 2022. Since then, Council has approved several budget amendments including the following:

2024 Operating Budget Amendments:

Date	Description	Business Unit	Amount
April 17, 2023	Community Inclusion Coordinator Position	Municipal	\$138,497
July 4, 2023	Additional security personnel hours for downtown transit terminal washrooms	Municipal	\$100,000
July 17, 2023	HALO Financial Support	Municipal	\$500,000
Sept 18, 2023	Medicine Hat Economic Development- Operational Structure	Municipal	\$279,000
Total			\$1,017,497

2023 Capital Budget Amendments:

Date	Description	Business Unit	Amount	Funding Source
April 3, 2023	CityView Workspace Migration	Municipal	\$100,000	Capital Reserve
April 3, 2023	Energy Business Development Opportunity	Commodities	\$7,000,000	Working Capital
April 17, 2023	Enabling Access Fund Grant	Municipal	\$52,311	Grant
April 17, 2023	ALERT Office Expansion	Municipal	\$130,000	External
June 5, 2023	Replace Fire Engine Units	Municipal	\$1,740,000	Fleet Reserve
July 4, 2023	Saamis Heights Emergency-Use Access Road	Municipal	\$250,000	Grant
July 17, 2023	Curling Club Facility Purchase	Municipal	\$870,000	Capital Reserve
July 17, 2023	Next Generation Energy Innovation Challenge	Utilities	\$2,405,000	Grant/External/ Reserve
August 21, 2023	Coulee Ridge Phase 2A, 2B and 2C	Utilities	\$630,174	Working Capital/ External
Total			\$13,177,485	

2023 Major Operating Expenditure (MOE) Budget Amendments

Date	Description	Municipal	Amount	Funding Source
Feb 21, 2023	Tri-Municipal Growth and Water/Wastewater Study	Municipal	\$200,000	Grant
April 3, 2023	Clean Energy Improvement Program	Municipal	\$6,000,000	Internal Loan/ External Debt
Sept 18, 2023	Medicine Hat Economic Development- Rural Renewal and SE Alberta Economic Opportunities	Municipal	\$939,175	Grant/ Operating Reserve
Total			\$7,139,175	

List of Recommended 2024 Municipal Operating Budget Changes:

The following table further describes the recommended amendments and their impact to the Municipal Budget:

				Attachment #4	
Briefing Note Explanation	Adjustment Theme	Category	Budget Presentation	Note	Impact to Net Earnings
Investments	Investment Update	Revenue	Investment Income	1	4,247,157
		Expenses	Contracted and General Services	1	(1,380,650)
Investments Total					2,866,507
Grants	MSI Operating	Revenue	Government Transfers for Operating	2	417,000
	Canada Arts Presentation Fund Grant	Revenue	Government Transfers for Operating	2	52,800
	FCSS Grant Increase	Revenue	Government Transfers for Operating	2	71,961
		Expenses	Grants and Other Transfers	2	(82,774)
	Low Income Transit Pass Grant	Revenue	Government Transfers for Operating	2	67,296
		Expenses	Other Operating Expenses	2	(37,600)
Grants Total					488,683
Property Tax	Property Tax Increase	Revenue	Municipal Taxes	3	536,177
		Expenses	Other Operating Expenses	3	(228,659)
Property Tax Total					307,517
Other	Auditor Fees	Expenses	Contracted and General Services	6	(43,000)
	Concession Revenue Adjustment	Revenue	Other Revenue	6	(27,300)
			Sale of Services	6	(23,316)
		Expenses	Bank Charges & Short Term Interest	6	649
			Contracted and General Services	6	(3,755)
			Materials, Goods & Utilities	6	3,080
	Insurance Claim Revenue Reduction	Revenue	Insurance Recovery	6	(43,000)
	Insurance Premium Update	Revenue	Internal Recovery	6	63,394
		Expenses	Contracted and General Services	6	(63,394)
			Internal Charges and Transfers	6	184,267
	Interdepartmental allocations	Revenue	Internal Recovery	6	(245,278)
		Expenses	Internal Charges and Transfers	6	2,006
	FES - Eventide Recorder Subscription Costs	Expenses	Materials, Goods & Utilities	6	(34,327)
	Sponsorship Revenue	Revenue	Other Revenue	6	160,000
Other Total					(69,974)
Library	Library Budget Increase	Expenses	Grants and Other Transfers	5	(321,000)
Library Total					(321,000)
MOE	Airport Masterplan	Transfer to MOE	Transfer to MOE	7	(250,000)
	Facilities for the Future	Transfer to MOE	Transfer to MOE	7	(305,000)
MOE Total					(555,000)
Salaries	Police MHPA Settlement	Expenses	Salaries, Wages and Benefits	4	(663,848)
	Reorg Budget Adjustment	Expenses	Salaries, Wages and Benefits	4	(458,383)
	Recreation Temporary Wages	Expenses	Salaries, Wages and Benefits	4	(505,017)
	Benefits Adjustment	Expenses	Salaries, Wages and Benefits	4	(327,938)
Salaries Total					(1,955,185)
Total Change in Budget Gap					761,548

Municipal
Amended 2024 Operating Budget (Unconsolidated)¹

	Original 2024 BUDGET	Budget Amendments To Date	Current 2024 BUDGET	Amendments Requested	New 2024 BUDGET	Att #4 Note
REVENUE						
Municipal Taxes	89,033,315	0	89,033,315	536,177	89,569,492	3
Sale of Services	18,506,439	0	18,506,439	(23,316)	18,483,123	6
Investment Income	16,280,943	0	16,280,943	4,247,157	20,528,100	1
Other Revenue	6,300,648	25,000	6,325,648	132,700	6,458,348	6
Licenses, Fines and Penalties	6,041,877	0	6,041,877	0	6,041,877	
Government Transfers for Operating	4,727,281	0	4,727,281	609,057	5,336,338	2
Contribution from Utilities and Land	3,150,000	0	3,150,000	0	3,150,000	
Insurance Recovery	123,000	0	123,000	(43,000)	80,000	6
TOTAL REVENUE	144,163,503	25,000	144,188,503	5,458,775	149,647,278	
EXPENSES						
Salaries, Wages and Benefits	103,667,161	1,101,174	104,768,335	1,955,185	106,723,520	4
Contracted and General Services	33,337,487	772,007	34,109,495	1,490,799	35,600,294	1,6
Materials, Goods & Utilities	9,910,017	2,163	9,912,180	31,247	9,943,427	6
Provision for Allowances	30,000	0	30,000	0	30,000	
Bank Charges & Short Term Interest	371,402	0	371,402	(649)	370,753	6
Grants and Other Transfers	3,376,657	477,397	3,854,054	403,774	4,257,828	2,5
Interest on Long-term Debt	1,521,799	0	1,521,799	0	1,521,799	
Other Operating Expenses	1,053,110	0	1,053,110	266,259	1,319,369	2,3
Amortization and Provision for Abandonment	43,177,615	6,859	43,184,475	0	43,184,475	
TOTAL EXPENSES	196,445,248	2,359,601	198,804,849	4,146,616	202,951,465	
NET REVENUES (EXPENSES) BEFORE INTERNAL ALLOCATIONS	(52,281,745)	(2,334,601)	(54,616,345)	1,312,159	(53,304,187)	
INTERNAL ALLOCATIONS						
Internal Recovery	51,509,001	0	51,509,001	(181,884)	51,327,117	6
Internal Charges and Transfers	(31,080,519)	1,310,245	(29,770,274)	186,273	(29,584,001)	6
NET INTERNAL RECOVERIES (CHARGES AND TRANSFERS)	20,428,483	1,310,245	21,738,728	4,389	21,743,116	
NET REVENUES (EXPENSES)	(31,853,262)	(1,024,356)	(32,877,618)	1,316,548	(31,561,070)	
CASH ADJUSTMENTS						
TRANSFER FROM/(TO) RESERVES						
Transfer From Reserves	6,516,465	1,017,497	7,533,961	(761,548)	6,772,414	
Transfer to Reserves	(6,636,849)	0	(6,636,849)	0	(6,636,849)	
NET TRANSFER FROM/(TO) RESERVES	(120,385)	1,017,497	897,112	(761,548)	135,565	
OPERATING CASH ADJUSTMENTS						
Amortization	43,177,615	6,859	43,184,475	0	43,184,475	
Transfer to MOE	(2,170,000)	0	(2,170,000)	(555,000)	(2,725,000)	7
TOTAL OPERATING CASH ADJUSTMENTS	41,007,615	6,859	41,014,475	(555,000)	40,459,475	
CAPITAL CASH ADJUSTMENTS						
Debtenture Principal	(3,730,466)	0	(3,730,466)	0	(3,730,466)	
Transfer to Capital	(1,659,000)	0	(1,659,000)	0	(1,659,000)	
Infrastructure Loan Principal	(3,644,503)	0	(3,644,503)	0	(3,644,503)	
TOTAL CAPITAL CASH ADJUSTMENTS	(9,033,969)	0	(9,033,969)	0	(9,033,969)	
TOTAL CASH ADJUSTMENTS	31,853,262	1,024,356	32,877,618	(1,316,548)	31,561,070	
TOTAL CASH INCREASE (DECREASE)	0	0	0	0	0	

Totals may not add due to rounding

¹ Unconsolidated figures are represented at their gross amount which includes both internal and external transactions. Therefore revenue and expense figures may appear larger than what is reflected in the consolidated financial statements.

Explanations to 2024 Operating Budget Adjustments

Note 1 - Investment Earnings (\$2.9M Net Increase)

The following assumption changes are anticipated in 2024 for the investment portfolio:

	Current 2024	Amended 2024
Return on Investment	4.58%	4.46%
Average Portfolio Balance	\$630M	\$800M
Management Fees (% of Portfolio)	0.49%	0.56%

Average portfolio balances are allocated across the three separate portfolios: Municipal, Heritage Savings Reserve, and Commodities. Only the proportion of investment revenue related to the Municipal Unit impacts the Municipal budget in this briefing note:

	Current 2024	Amended 2024
Municipal	\$322.7M	\$440.0M
Commodities	\$160.0M	\$160.0M
Heritage Savings Reserve	\$147.3M	\$200.0M
Total	\$630.0M	\$800.0M

Investment Earnings for the City are proportionately allocated between all three portfolios based on the relative size of the portfolio.

The Municipal budget bears the initial cost for all investment management fees. However, the Municipal budget recovers investment management fees from Commodities. This is reflected as an increase to investment earnings within the Municipality and a reduction within Commodities. Therefore, Commodities investment revenue reflects the portion of investment revenue attributable to the Commodities portfolio net of fees. No management fees are allocated to the Heritage savings reserve because the Municipality is the ultimate benefactor of the Heritage Savings Reserve and therefore absorbs the cost of management fees for this portfolio.

Administration is recommending the following adjustments to municipal investment earnings and management fees:

- \$4.2M increase to investment earnings primarily due to a revised portfolio balance;

Offset by,

- \$1.4M increase to investment management fees primarily due to a higher estimated portfolio balance.

Note 2 - Grant Funding (\$0.5M Net Increase)

Municipal Sustainability Initiative (MSI) Operating (\$0.4M)

The City has received confirmation of its 2024 appropriation from the Provincial Government for MSI operating grant funding. This funding is provided to the City to help cover operating expenditures. In the 2024 Alberta Budget the Provincial Government doubled the amount of MSI operating to municipalities. For the City of Medicine Hat this amounted to an increase of \$417K. This increase was to help with funding reductions and the download of costs from the Province. Costs related to lost revenue and downloaded costs for the City of Medicine Hat are estimated between \$1M-\$2M for 2024 and will exceed the \$417K received from the Province. As a result, Administration is recommending that this new funding source be used to reduce the Municipal funding gap and not be used to justify new operating expenditures.

From the request provided on October 23rd Council Deliberations, the net impact related to Provincial Funding has been provided in Attachment #6.

Other Grants (\$0.1M)

Other grant adjustments being recommended include:

- \$52.8K favourable increase to Community Development for the Canada Arts Presentation Fund
- \$29.7K favourable net increase to Community Development for the Low-income Transit Pass grant.

This adjustment includes:

- \$67.3K increase to grant revenue to match the updated Provincial pay schedule, offset by,
- \$37.6K increase to fair entry expenses in line with 2023 trends;

Offset by,

- \$10.8K unfavourable decrease to Community Development for the Family and Community Support Services (FCSS) Grant including:
 - \$72.0K increase to FCSS grant revenue; offset by,
 - \$82.8K increase in grant expense.

FCSS is a flow-through grant funded by the Province and administered by the Municipality. The Municipality is required to top-up FCSS grants contributed to community-based organizations through the FCSS program.

Note 3 - Property Tax (\$0.3M Net Increase)

On May 1, 2023, Council approved Bylaw #4779 – 2023 Property Tax Bylaw during its regular Council Meeting. The Briefing Note accompanying that bylaw called for an adjustment to the 2023 budget for new additional physical growth of 0.5%. As a result, the City anticipated an adjustment to its 2023 budget of \$0.508M to account for this new physical growth. At the time, no adjustment was made for 2024. The adjustment proposed in this briefing note is to account for the impact of new physical growth from the 2023 property tax base budget. No changes have been made to assumptions for 2024 property taxes (i.e., 4% rate increase with 1% physical growth). This adjustment will align property taxes to our assumptions.

Note 4 - Salaries (\$1.9M Increase)

Benefit Adjustment (\$0.3M)

One of the Human Resource Initiatives in 2023 was a review of the effectiveness of the City's employee benefit plan. As a result of this review Human Resources is recommending changes to the benefit percentage rate to address changing needs within the workforce.

Reorganization Salary Adjustments (\$0.5M)

\$0.4M has been recommended for position changes within the City of Medicine Hat:

- Add Director of Municipal Works
- Add Manager of Enterprise Risk
- Add Manager of Asset Management
- Remove Chief of Staff Position

Positions changes were the result of the corporate restructuring but have not received a budget allotment. Salaries adjustment include all benefit costs.

Parks Adjustment (\$0.5M)

During a review of Parks and Recreation salaries and wages it was determined that there were approximately 5.6 FTE positions in temporary maintenance worker salaries that were missing from the budget (totaling 11,648 hours). This was the result of the salary and wage template that was used to build the budget inadvertently not including employees who were classified as “Temp/Term”. This resulted in the temporary staff budget for the Recreation Subdepartment being incorrectly decreased. The recommended adjustment is to account for the missing temporary staff FTE hours in the 2024 budget.

Police Adjustment (\$0.7M)

Administration is recommending an adjustment of 3% to the police salary and wage budget to reflect the impact of a budgeting oversight (2%) and the recently settled MHPA contract (1%).

	Original Budget	MHPA Settlement	Difference
2020	2%	2%	0%
2021	2%	2.5%	0.5%
2022	0%	2.5%	2.5%
2023	2.5%	2.5%	0%
2024	2.5%	2.5%	0%
Total	9%	12%	3%

During the 2023-24 budget process the City did not have a base salary figure to use when preparing their budget. To establish a baseline salary for the 2023-24 budget, Police used the 2020 (pre settlement) wages and then adjusted by 4% to represent estimated wage increases for the three year period (2020-2022). This baseline was 4% higher than 2020 when it likely should have been 6%. Therefore, the baseline wages used to calculate the 2023-24 budget were undervalued. Subsequently in 2023, the MHPA settled for the period of January 1, 2021 to December 31, 2024. The agreement included a 2.5% annual wage increase for MHPA employees from 2021 through 2024. The combination of the undervalued police base wages and the MHPA agreement resulted in a 3% differential between actual budgeted increases and the MHPA agreement (0.5% in 2021 and 2.5% in 2022).

This budget amendment seeks to adjust police wages to match the actual MHPA wages for 2024 and does not include any new employee positions or additional increases to police wages.

Note 5 - Library (\$0.3M Increase)

Medicine Hat Public Library Budget

(\$000s)	2023	2024 Proposed	2023-24 Variance	2023-24 Variance
Total	2,254	2,627	\$373	16.5%

The Medicine Hat Public Library has requested a \$321K increase from the previously approved 2024 appropriation. This represents an increase of \$373K from 2023 (or 16.5%).

(\$000s)	2018	2019	2020	2021	2022	2023	2024 Proposed	2018-24 Variance	2018-24 Variance
Total	2,348	2,277	2,279	2,208	2,242	2,254	2,627	\$279	11.9%

In 2023, the Library had requested an overall increase to their operating grant of 0.5% in 2023. In the report presented by the Medicine Hat Library to Council on November 21, 2022, the Library had indicated that inflationary pressures were not included in the 2023 budget request and it was anticipated that this may create additional pressures for 2024. They also anticipated a wage increase because of collective bargaining settlements. Other pressures were noted including not having a discretionary salaries budget for backfill absences.

Between 2018 and 2024 the Library has experienced an overall operating grant decline from the City of 4% (\$94k) which has not been sufficient to keep up with inflationary pressures experienced within the organization. The proposed increase would result in an increase to the operating grant of \$279K from 2018 which is an annual growth rate of 1.9% over the 6-year period.

The funding requested by the Library is intended to assist with inflationary pressures, including backfill salaries to ensure continuity of library services. The funding is also intended to provide for a full-time social worker position to replace the current part-time position. The Social work position will support staff and provide unique services to the community including:

- Social worker services;
- Enhanced patron behavior management assistance (e.g., staff training, relationship building, restorative justice processes); and,
- Wellness programming.

Finally, the funding is intended to provide additional funding for security services at the Library to promote a safe and welcoming environment for patrons amidst a rising mental health crisis in the downtown core.

Note 6 - Other (\$0.1M Net Increase)

Other Adjustments include:

- \$184.3K favourable adjustment for insurance premiums primarily due to fleet services renewing premiums at 2023 rates (anticipated increase for 2024 was 10%);
- \$160.0K favourable adjustment to account for sponsorship revenue previously unbudgeted;

Offset by,

- \$34.3K unfavourable adjustment to Fire and Emergency to receive operating funding for the Eventide recording system (a required upgrade as part of the Next Generation 911 (NG911) upgrade;
- \$43.0K unfavourable adjustment to Parks and Recreation to remove Insurance claim recovery revenue;
- \$43.0K unfavourable adjustment to Finance for auditor fees because of cost increases related to the newly negotiated auditor contracted services.
- \$50.6K unfavourable adjustment to Parks and Recreation because of lower concession revenue related to concessions that are now being operated by a third party.
- \$243.3K net unfavourable variances for multiple interdepartmental charge adjustments including:
 - \$473.8K unfavourable changes related to updated budget estimates and budgeting oversight adjustments; offset by,
 - \$230.5K favourable changes related to the corporate restructuring.

Note 7 – Major Operating Expenses (\$0.6M Increase)

Major Operating Expenses are classified as large one-time expenditures that may span over several years. From a budget perspective, approving an MOE allows the department to carry forward approved funds into subsequent years without the need to go back to Council for approval. Items included in the regular operating budget expire at the end of the year that they are budgeted for.

Airport Master Plan (\$0.3M)

The Airport is requesting \$0.25M to refresh its 2006 Airport Strategic Master Plan. This project includes a comprehensive community study to help guide the next 10 year period of Airport development. Such a plan would reflect changes in air travel patterns, carriers, and airport commercial land development. An Airport Master plan is a required document to apply for many of the airport related federal and provincial grants.

Facilities for the Future (\$0.3M)

Parks and Recreation is seeking \$305K to perform market research and an initial study for the Facilities for the Future project. The Facilities for the Future project was created because of the Parks and Recreation Master Plan presented to Council on March 22, 2022. The \$305K being requested would be utilized to perform preliminary research including Market research and an initial study of facility programming, building conditions, highest & best use analysis, and site selection (facility placement study).

Note 8 – Key Budget Assumptions

During the 2023-24 budget cycle, executive leadership directed the application of the following assumptions into the City's budget:

Revenue Assumptions	2024 Budget	2024 Budget Update
Property Tax Revenue (Base 4% + Assessment Growth 1%)	5%	5%
User Fees & Charges Increase	4%	4%
Annual Investment Returns	4.58%	4.46%
Municipal Consent & Access Fee Increase	\$1M	\$1M

Expense Assumptions	2024 Budget	2024 Budget Update
Managed Manpower Rate (as % of Salaries & Wages)	(4.2%)	(4.2%)
Benefit Rate (as % of Salaries & Wages)	20%	21%
Municipal Inflation Increase	4%	4%
Salaries & Wages Increase	2.5%	2.5%
Cost of Borrowing Increase	2%	2%
Capital Funding Amount	\$1.5M	\$1.5M
Major Operating Expense Funding Amount	\$2M	\$2M

The following illustrates the impact of this budget update on the above assumptions:

- **Property Tax:** No changes were made to the actual rate or growth expectations for 2024, the assumptions built into the 2024 budget were meant to match municipal inflation. However the base amount on which the 5% assumption (4% rate increase and 1% growth) was applied has been updated to reflect actual growth experienced in 2023.
- **Investments:** The investment rate was originally set to be 3% year over year growth but then was updated later in the budget cycle to reflect actual portfolio expectations. By December 19, 2022 the budget reflected an average rate of return of 4.58%. During the budget update the expected rate of return was adjusted to reflect a more conservative outlook of 4.46%.
- **Police Salary Adjustments:** No changes were made to the 2.5% wage increase assumption in 2024, however the base amount on which the 2.5% percent was increased to reflect the MHPA agreement and adjusted for prior year increases as per contract negotiations.
- **Municipal Consent and Access Fee:** There has been no change from the original 2024 budget assumptions.
- **Benefits:** the employee benefit percentage rate in 2024 has been slightly updated(See note 4).

List of Recommended 2024 Capital, MOE, and Funding Source Changes:**2024 Capital Changes:****3rd Street Project (\$3.58M Increase):**

Department	2024 Approved Budget	Proposed Amendment	Total Amended Budget	Amended Funding Source
Municipal Works	\$1.00M	\$2.80M	\$3.80M	Capital Reserve
Water	\$1.20M	\$0.39M	\$1.59M	Working Capital
Sewer	\$1.20M	\$0.39M	\$1.59M	Working Capital
Total	\$3.40M	\$3.58M	\$6.98M	

Additional funding is requested to complete the 3rd street renewal project primarily due to inflationary pressures and the following increases to scope:

- (1) abandoning a significant section of the high-pressure City Center Fire Protection loop to save ongoing maintenance costs; and,
- (2) repurpose a one-block section of water main along 6 St SE 200 block as a normal-pressure distribution main to save the cost of installing a new water main.
- (3) upsize the water main along 3 St SE to extend a new water transmission main along 3rd street from division avenue to maple avenue. This project scope increase would significantly improve the resiliency of water distribution to the North Flats area and enable adequate service of future Waterfront Development. It is anticipated that this will also minimize the cost of installing new transmission mains in future projects in the area.

Police Projects (\$0.12M Decrease)

Project	2024 Approved Budget	Proposed Amendment	Total Amended Budget	Amended Funding Source
Vehicle Impound Lot	\$0.25M	(\$0.25M)	\$0.00M	Internal Loan
Throw Phone Replacement	\$0.00M	\$0.06M	\$0.06M	Internal Loan
TACT Robot Replacement	\$0.00M	\$0.07M	\$0.07M	Internal Loan
Total	\$0.25M	(\$0.12M)	\$0.13M	

Police has requested to repurpose a 2022 approved capital project (vehicle impound lot) in order to utilize funds in 2024 to purchase a negotiator phone and TACT robot.

TACT Robot Replacement \$70K

The MHPS is requesting funding to replace existing equipment which is no longer operational. The Tactical Arrest and Control Team (TACT) robot is deployed during high-risk calls where weapons may be present. Most frequently used when responding to armed and barricaded persons, during warrant execution and to assist in responding to suicidal individuals. The robot enhances the safety of the community and responding officers by allowing officers to communicate with the individual and provides real time intelligence which would otherwise have to be gathered by an officer wearing armor.

CNT Throw Phone Replacement \$60K

The MHPS is requesting funding to replace existing equipment which is no longer operational. The throw phone is used by the MHPS Crisis Negotiator Team (CNT) to enhance community safety and officer safety by allowing police officers to communicate with subjects during high risk calls for service. Use of the phone increases the flow of information to Incident Command and acts as a recording device, with evidence gathered available for use if there was an internal, ASIRT or fatality inquiry.

2024 Major Operating Expense (MOE) increase:

Airport (\$0.25M increase):

Project	2024 Approved Budget	Proposed Amendment	Total Amended Budget	Amended Funding Source
Airport- Strategic Master Plan	\$0M	\$0.25M	\$0.25M	Operating

The Airport is requesting \$0.25M to refresh its 2006 Airport Strategic Master Plan. This project includes a comprehensive community study to help guide the next 10 year period of Airport development. Such a plan would reflect changes in air travel patterns, carriers, and airport commercial land development. An Airport Master plan is a required document to apply for many of the airport related federal and provincial grants.

Parks and Recreation (\$0.305M increase):

Project	2024 Approved Budget	Proposed Amendment	Total Amended Budget	Amended Funding Source
Facilities for the Future	\$0.000M	\$0.305M	\$0.305M	Operating

Parks and Recreation is seeking \$305K to perform market research and an initial study for the Facilities for the Future project. The Facilities for the Future project was created as a result of the Parks and Recreation Master Plan presented to Council on March 22, 2022. The project seeks to resolve five main challenges in facility planning:

1. Aging Facilities
2. Spatial Distribution
3. Aging Population
4. Decreasing return on investment
5. Aligning decisions with values

The \$305K being requested would be utilized to perform preliminary research including Market research and an initial study of facility programming, building conditions, highest & best use analysis, and site selection (facility placement study).

Recommendations from this study will be used to inform future capital projects recommended to Council.

Change in Capital Funding Source:

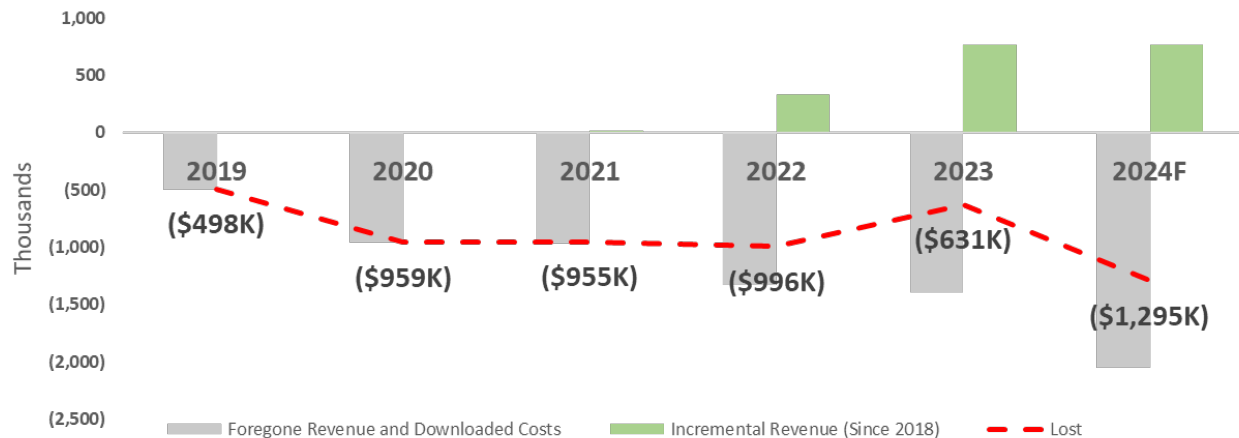
Year	Approved Budget	Approved Funding CCBF	Amended Funding – Capital Reserve
2023	\$0.917M	(\$0.917M)	\$0.917M
2024	\$0.917M	(\$0.800M)	\$0.800M
Total	\$1.834M	(\$1.717M)	\$1.717M

And an amendment to the funding source for the 2023 & 2024 Parks Capital budget - PKRC Trail Infrastructure program from Canada Community Building Fund (CCBF) grant to Capital reserve. This Municipal program was previously intended to be funded through CCBF Capital grant funding but has been denied and therefore requires a new funding source.

Impact of Changes in Government Funding

Federal and Provincial Governments provide the City of Medicine Hat with both operating and capital Grants. Operating grants impact the City's operating budgets and therefore the bottom line. In contrast, capital grants do not appear on the operating budget and therefore do not impact the bottom-line. But nevertheless, a drop in capital funding equates to a decline in resources available for capital projects requiring the city to utilize own-source funding or issue debt. The numbers in this section represent the provincial support for the entire City including: Municipal, Land, Utilities, and Commodities.

Annual Impact of Government Funding and Policy Changes Compared to 2018



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. By 2024, it is estimated that the City of Medicine Hat will be losing \$1.3M per year when compared to Government support in 2018. Cumulatively this equals \$5.3M between 2018 and 2024.

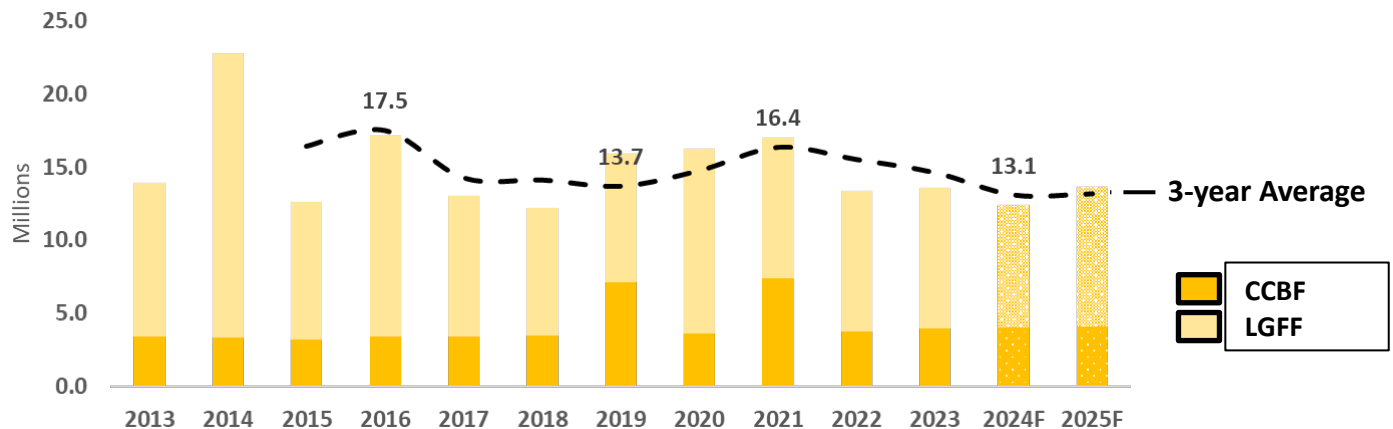
	2019 Impact \$000s	2020 Impact \$000s	2021 Impact \$000s	2022 Impact \$000s	2023 Impact \$000s	2024 Impact \$000s
Incremental Revenue						
Local Government Fiscal Framework (LGFF)	(2)	23	34	34	451	451
911 Mobility Grant	0	(18)	(18)	302	312	312
	(2)	5	16	336	763	763
Foregone Revenue and Downloaded Costs						
Increase in AB service fees for fine revenue	482	411	411	411	279	279
Grants in Place of Tax Cancellation	0	457	457	518	712	747
Change in interest calculation for loans	0	0	0	292	292	919
Greenhouses exempt from taxation	14	22	28	36	36	38
DNA/Case Biology Costs	0	75	75	75	75	75
	496	964	971	1,332	1,394	2,058
Annual Loss	(498)	(959)	(955)	(996)	(631)	(1,295)
Accumulated Loss	(498)	(1,457)	(2,412)	(3,408)	(4,039)	(5,334)

Between 2018 and 2024, Major Operating Grants have increased \$763K annually. This is primarily due to increases in Local Government Fiscal Framework (LGFF) (formerly known as Municipal Sustainability Initiative) and the 911 Mobility Grant. Of note has been the change to LGFF between 2022 and 2023 of \$417K which is captured in our 2024 budget update.

This increase to revenue has been offset by policy decisions made by the Government of Alberta since 2019 which have had a negative impact on the City:

- **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%.
- **Grants in Place of Tax Cancellation.** Instead of paying Property Taxes, the Government of Alberta provides the City with a Grant for the value of the property tax assessment on provincial buildings. However, starting in 2020 the Government decreased the amount of the grant provided to the City to 50% of the assessable value for provincial buildings owned within City Limits.
- **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 has changed and Municipalities are now charged market rates. 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 is approximately 0.7% annual interest on new debt issued. The increase in 2024 is due to the approximate 0.7% interest rate increase as well as additional amounts anticipated to be borrowed based on capital spending.
- **Greenhouses exempt from taxation.** 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.
- **DNA/Case Biology Costs.** Starting in 2020, the Government of Alberta ceased to pay for DNA/Case Biology Costs on behalf of the Police. 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.

Government Capital Funding



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.

	Actual 2023	10-year Average	Forecast 2024	Forecast 2025	Forecast Average
Major Capital Grant Allocations					
Canada Community Building Fund (CCBF)	3,960	4,275	4,039	4,120	4,080
Municipal Sustainability Initiative (MSI)	6,438	11,112	-	-	-
Local Government Fiscal Framework (LGFF)	-	-	8,367	9,503	8,935
Total Major Grant Allocations	10,398	15,388	12,407	13,623	13,015

Over the past 10 years, the average funding provided from CCBF and the LGFF (the two main recurring and stable capital grants) has been \$15.4M. In 2024 through 2025 the 2-year average funding is anticipated to be \$13.0M (a decrease of \$2.4M or 15.4% annually compared to the 10 year average).

Part of the reason for this decline is the introduction of the LGFF fiscal framework. The LGFF framework is replacing the previous Municipal Sustainability Initiative (MSI) funding starting in 2024. How funds within this program will be distributed among the municipalities has not yet been communicated, however, it is known that Calgary and Edmonton are expected to receive a larger portion of that bucket leaving less for the other municipalities. The overall funding for Non-Charter Cities (not Calgary or Edmonton) will drop by 7% in 2024.

In general, it is anticipated that the City will be receiving approximately \$2.4M less per year than in the past. That equates to \$4.8M over a two-year period or just about half of the cost to fund the Water Utility Maintenance program for the City of Medicine Hat.

This drop in funding does not take into consideration the cost of inflation. For example, \$15M in capital in 2013 would now cost just under \$20M for the same assets that's about a 29% increase in cost or loss in buying power of about 22%.

Prospectively the city faces a large downside risk to future reductions in funding to this program. 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. So in years where Alberta does well and revenues grow, municipalities will see increases to their funding. However, when Alberta revenues decline so will the funding for capital to municipalities.

The downside risk is that the new LGFF program has locked in its base capital funding at a historically low rate of funding, while at the same time it is expected that Alberta's revenues may be on the decline. If this assumption materializes, the City could see a drop to its capital funding starting as early as 2026.

The initial amount of funding for this program is \$722M for the entire Province. [According to Alberta Municipalities](#), this represents a 36% cut in community infrastructure funding compared to the historical 10 year average for this program overall.

The Alberta Government's revenues are at a historic and unsustainable high that is anticipated to decrease. In the 9 years leading up to 2022 the Alberta Government did not experience revenues greater than \$50B. However, in 2022 revenues increased to \$68B and again to \$75B in 2023. Largely due to non-renewable resource revenue. Non-renewable resource revenue is volatile and unpredictable and is set to be on a downward trajectory over the coming years. The Government of Alberta's 2023-24 First Fiscal Update confirms this trajectory, forecasting a year-over-year decline in revenues for its 2023-24 fiscal year of 7%.