

Budget 2024 – Initial Update

Council Meeting
October 3, 2023

Overview

- To provide Council with an initial update regarding the 2024 budget.
- To discuss the economic pressures Strathcona County is anticipating to encounter in the current and upcoming budget cycles.
- To advise how the upcoming multi-year budget will focus on minimizing tax rate increases **as much as possible** while maintaining service delivery levels, and fostering financial sustainability.

Economic Environment



Inflation

- Trending down, but still high; volatile over the summer months

Natural gas and electricity

- Delivery charges and carbon tax continue to climb significantly

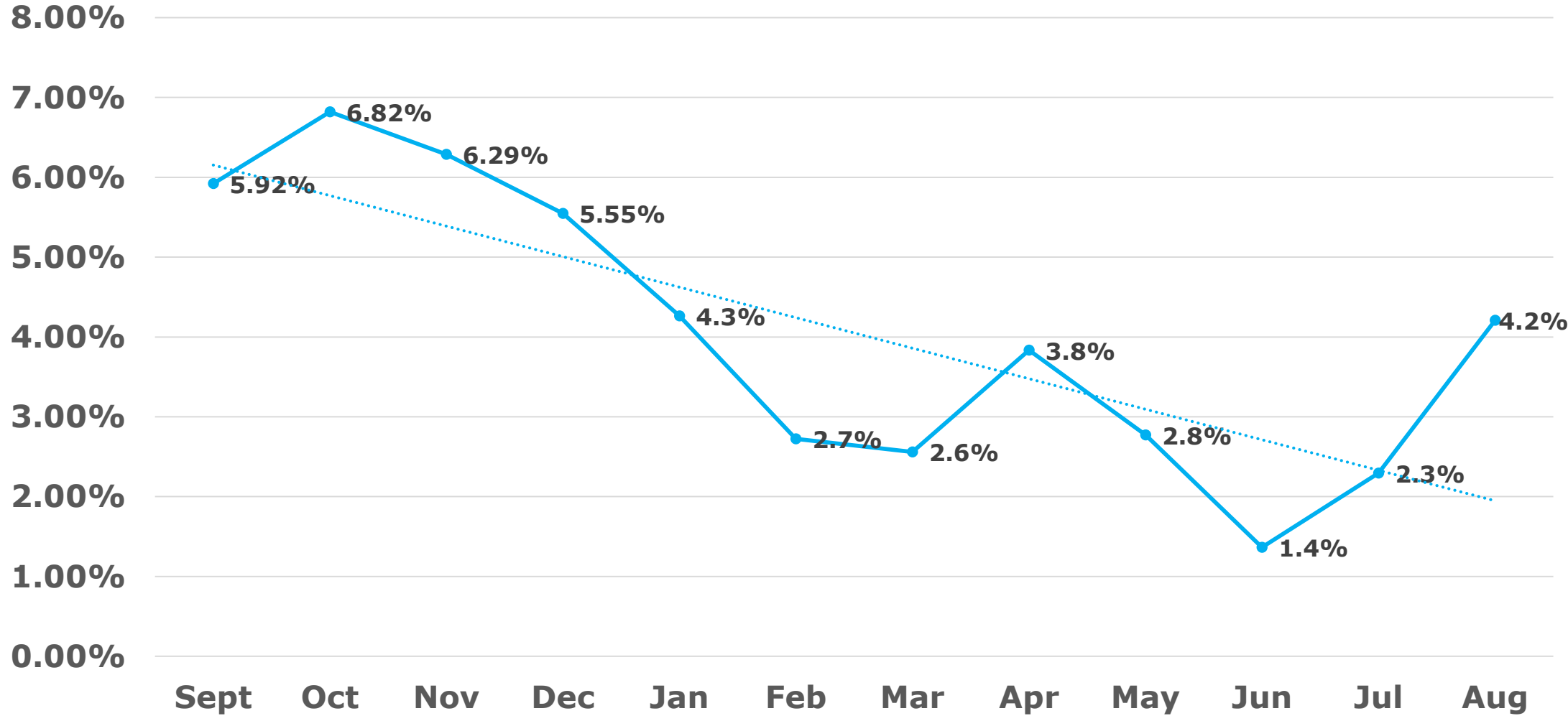
Interest rates high

- A trade-off; beneficial for investment income, but disadvantageous for borrowing

Uncommitted reserve balances are very limited

Inflation – Consumer Price Index (CPI)

Monthly inflation - Edmonton
September 2022 – August 2023



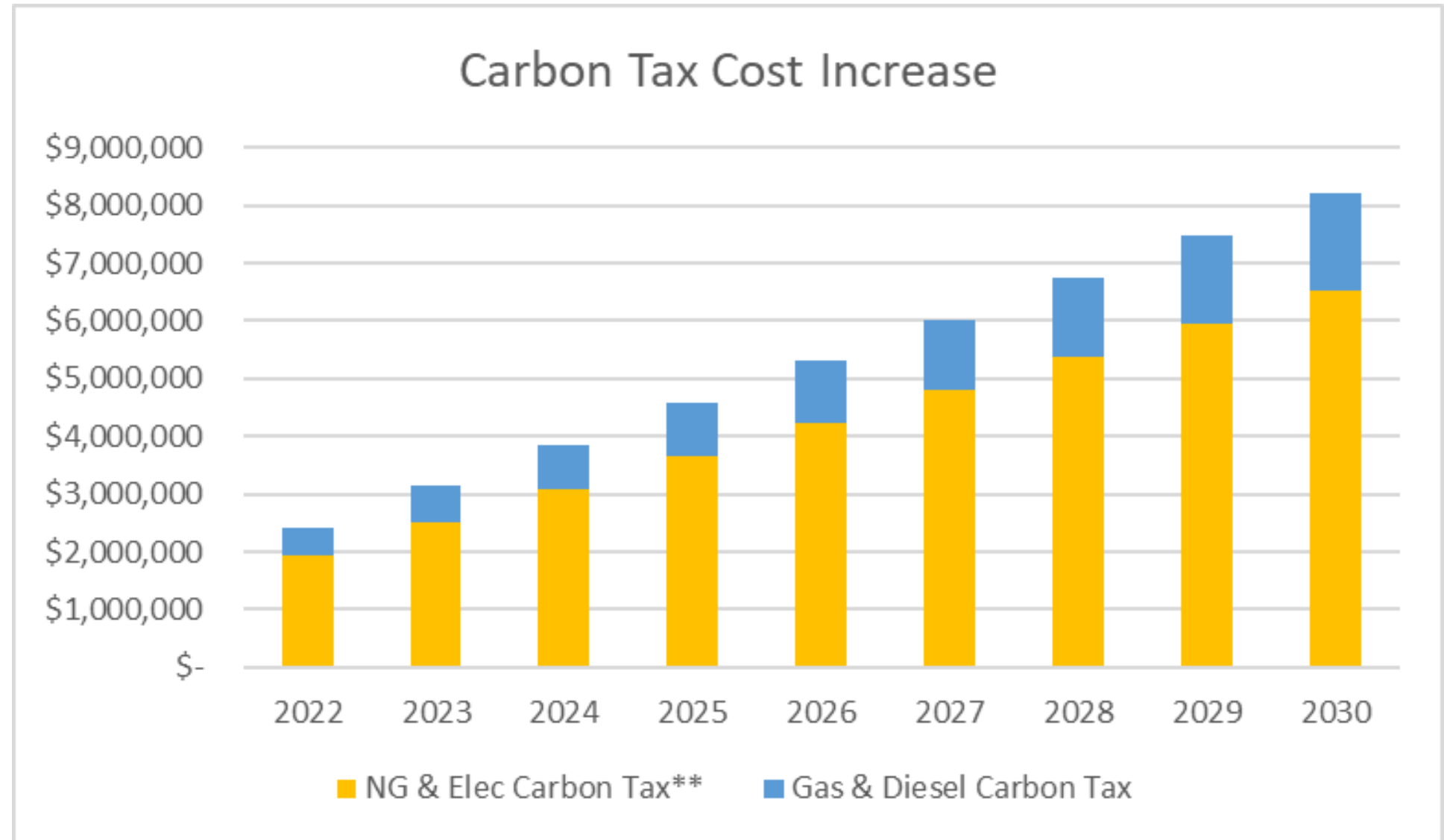
- Year on year Edmonton inflation (average 4.05%)

- Year on year Alberta inflation (average 4.49%)

Inflation Realities

Carbon Tax

- \$15 per tonne per year increases
- Can pay more in tax than the commodity
- County impacts significantly higher for natural gas and electricity
- Gas and diesel have lesser impact



Projected Tax Requirement Increases

- As part of the 2023 Budget Approval, tax requirements for years 2024 to 2026 were forecasted to be:

	2023	2024	2025	2026
Tax revenue requirement	4.60%	3.84%	3.78%	3.17%

Budget Considerations - Operating

- Recreation, Parks and Culture experiencing higher than anticipated usage
 - \$500,000 (net) (favorable) in revenues
- Enforcement revenue
 - \$1.2 million (favorable)
- Interest rates impacting 2024 budget favorably
 - \$1.0 million (favorable) Investment Revenue
 - \$1.2 million (favorable) Interest on Debentures

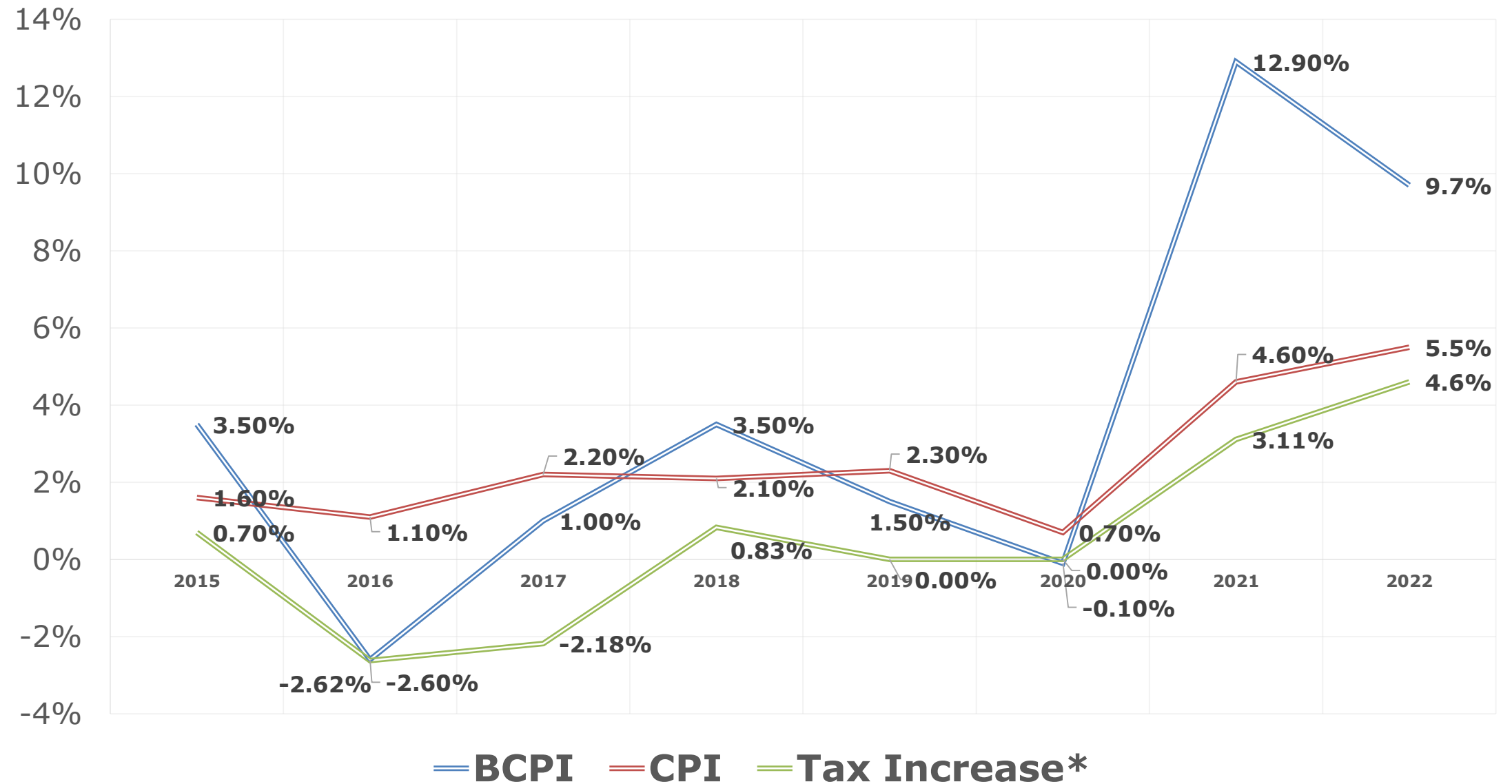
Budget Considerations - Operating

- Continue to see downloaded costs from outside vendors
 - \$2.2 million (unfavorable) Operational Services
 - \$1.4 million (unfavorable) Professional/Consulting Services
- Utilities, insurance
 - Continue to see pressures, potential for volatility
- The Pointe (timing) impacts 2025 budget
 - Interest on debentures (construction)
 - Operating impacts (opening)

Inflation versus Tax Increase

Edmonton 2015 to 2022

- Total Consumer Price Index (CPI) inflation
20.1%
- Total Building Construction Price Index (BCPI) inflation
29.4%
- Total Tax Increase
4.4%



*Adjusted for timing

Budget Considerations - Capital

- Capital inflation is significantly outpacing operating CPI
 - Construction prices were volatile through COVID-19 supply chain challenges
 - BCPI is currently 4.6% for non-residential buildings
 - Year over year at the same time last year was 13.8%
- Annual programs funding is directly supported through operating budget contributions
 - Annual programs have nearly doubled in the last three years
 - Reserve contributions have not kept pace with inflationary and growth pressures
- Significant growth projects have already been approved
 - Additional significant growth projects being considered

Capital Funding Sources

Grants

Considerable reductions in flexible grants over last X years
Increase in rigid grants options - "chasing money"

Reserves

Have been used to mitigate recent events
Tax smoothing

Debt

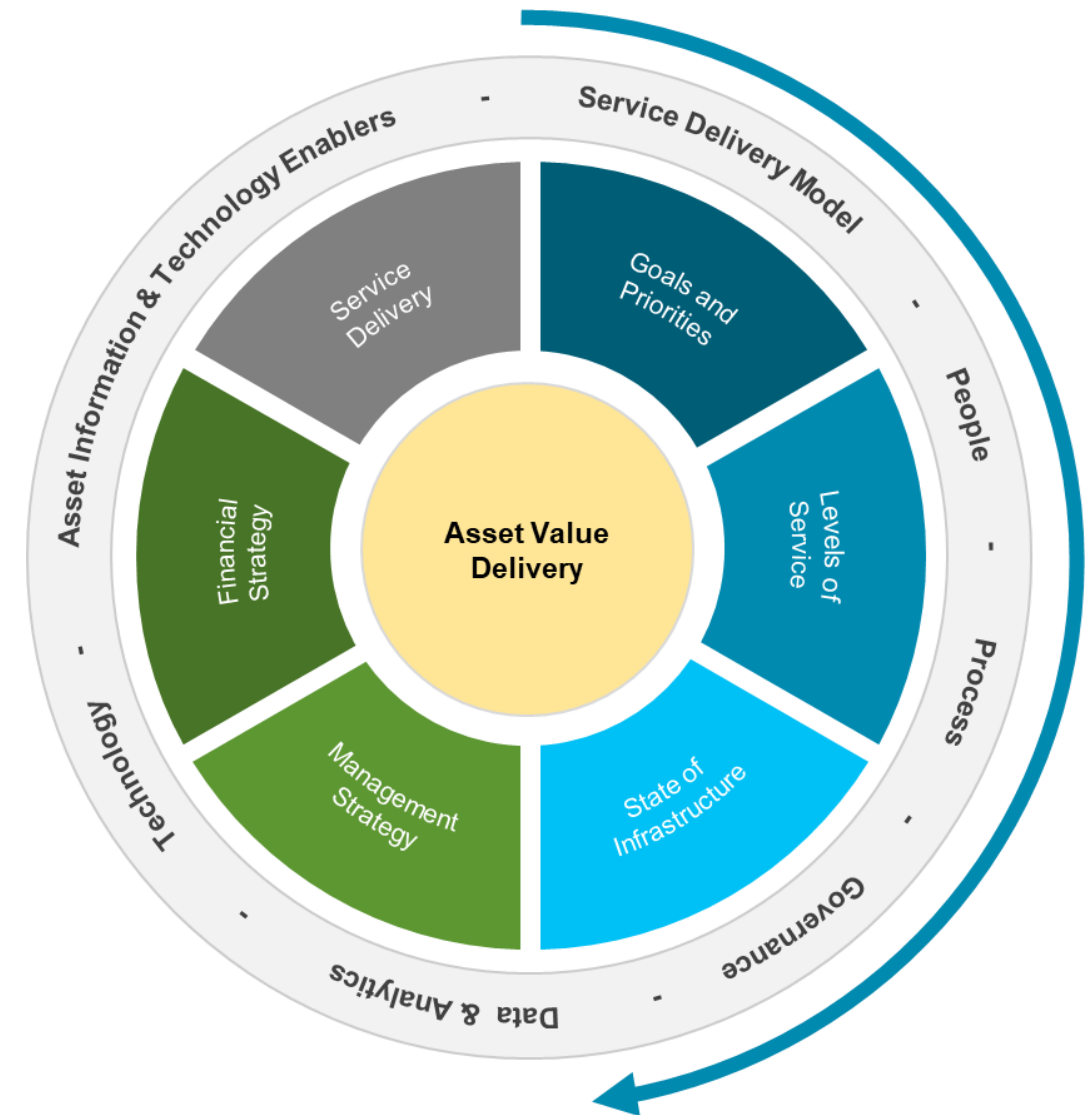
Borrowing rates no longer favourable
Finite capacity

Taxes

Has typically been under inflation
Impacts long-term sustainability

Success of the Last Year

- Approved Asset Management Policy
 - Balance growth and renewal
 - Service levels and risk
- Council Capital session
 - April 5 → Council values: flexibility and knowledge
- State of Infrastructure
 - Transportation completed
 - Remaining categories presented by December 31, 2023



Perception versus Reality

Perception	Reality
Our infrastructure is in very good shape.	Collectively our assets are at various lifecycle stages. As assets age in place, they require maintenance, renewal, and replacement.
We are still a young community with new infrastructure.	We have assets that are 50 or more years old all of which have varying degrees of useful life. Couple that with the services they support, it's important to maintain our current assets.
Didn't we just have a capital project there?	To maximize lifecycle, a phased renewal approach will ensure optimal use of resources.
We have large financial resources.	We have funding constraints within all funding sources: reserves, grants, taxes, and debt.

Next Step: Multi-year Capital Approval



- Propose **approving** a Three-Year Capital Budget
 - Including a seven-year forecast
 - A complete 10-year capital plan
- Council values both knowledge and flexibility
- Efficiencies gained
 - Multi-year contracts leverage bulk procurement power to yield the most cost-effective resources
 - Adequately plan for integrated projects and management of all resources to optimize results

Council Decision Points

- Council Directed Initiatives (CDI)
 - Opportunities identified by Council throughout the year to be considered during budget deliberations
- SCES Master Plan
 - Effective fire response
 - Fire Station Seven
- Annual program sustainable funding
 - Bridging funding gap

Public Engagement

- **38%** of respondents prioritize ensuring long-term fiscal sustainability
 - **24%** supported minimizing property taxes in the future
- **52%** support a tax rate increase to maintain or improve services
 - **69%** of this group would support a minimum increase of 2%
- **86%** of respondents feel value for services is average or above
 - **56%** feel value for service is good value





Key Takeaways

- 2024 operating budget delta is favorable
- 2025 currently projected as a tough operating budget year
 - Potential opportunity to increase 2024 (one-time adjustments) to smooth 2025 out
- Capital plan does not align with our ability to fund
 - Annual programs experiencing unprecedented increases
 - Significant new infrastructure being contemplated
- Reserve position requires attention
 - Need to act and adapt now, or face negative outcomes
 - Take advantage of every opportunity to increase reserves (in the short-term) and grow contributions (in the long-term)

Response to Motion

Recently Approved Capital Projects

(in \$millions)

Project Name	Budget	Debt Usage	Reserve Usage*	Tax rate impact
The Pointe	\$ 67.5	\$45.9	\$6.5	0.86%
Bremner Water Supply	\$26.0	\$13.0	\$13.0	0.00%**
Centre in the Park (CITP)***	\$38.0	\$19.0	\$19.0	0.00%**
TOTAL	\$120.9	\$77.9	\$38.5	0.86%

*Reserve Usage replenishment strategy necessary

**Impacts Utility user rates

*** Construction approval pending

Unapproved Capital Projects

(in \$millions)

Project Name	Budget	Debt Usage	Reserve Usage*	Tax rate impact
Station Seven Construction	\$23.5	\$23.5	\$0	0.44%
Station Seven Vehicles	\$3.9	\$0	\$3.9	0%
Indoor Fieldhouse	\$65.0	\$65	\$0	1.22%
TOTAL	\$92.4	\$88.5	\$3.9	1.66%

*Reserve Usage replenishment strategy necessary

Debt Position

(in \$millions)

	Debt Used	Debt Limit Ratio*	Debt Servicing	Debt Servicing Ratio
December 31, 2022	\$133.1	29.5%	\$16.1	4.1%
Current Position	\$211.0	38.9%	\$21.5	5.2%
Unapproved Capital	\$92.4	20.4%	\$9.0	2.3%
Future Position	\$344.5	59.3%	\$30.5	7.5%

*Internal Debt Policy Limit

Initiatives

APPROVED

- Seniors Support and Services
 - \$600K over three year
 - Non-capital intensive approach
- bgc Land
 - No direct cost to the County
- Affordable Housing Land
 - \$300K from Reserve
- River Valley Alliance Bridge
 - \$9.4M from Reserve

UNAPPROVED

- Station Seven Firefighters
 - \$2.5M full annual cost
 - 0.97% tax requirement increase
- Promoting Agriculture
 - \$500K increase
 - 0.19% tax requirement increase
- Seniors Tax Rebate
 - \$25K increase
 - 0.01% tax requirement increase

Closing Remarks

Questions