Flagged Item # 1	**Flagged Item # 1 - Economic Drivers - Projections and Assumptions** THAT Administration provide information on the projections and assumptions related to economic drivers (interest rates, gas prices, inflation, carbon tax, grants, etc) that have been used to develop the budget.
Date of Request	November 15, 2023
Moved By	B. Tonita
Response Required by	9:00 a.m. November 22, 2023
Department / Division	Financial and Strategic Services / Corporate Services

Response:

Budget Drivers

Interest Rate Assumptions

The following assumptions were used for the interest rates (earnings and on borrowing):

- Interest earnings on investments – combination of the fixed mid-term and long-term rates on existing investments and the Bank of Canada prime rate forecasts. Resulting in the overall weighted average of 4.18%.
- Borrowing rates on debt – based on the Government of Alberta indicative interest rates and Government of Canada yield curves.
    - Our assumptions for 15yr and 25yr borrowing terms are 4.6% and 4.7% respectively.

Fuel Rate Assumptions

The following assumptions were used for the fuel rates:

- Volume calculations based on prior year volume usage and consideration given to new additions.
- Price calculations based on Kalibrate Canada's forecast (external fuel analyst).
- Kalibrate assumed that federal & provincial taxes will be unchanged to the end of 2027.
- Carbon tax increases are based on expected federal rate changes.

2024-2027 Budget Fuel Rates As of May 25, 2023				
	2024	**2025**	**2026**	**2027**
Gas	1.3258/ltr	1.4431/ltr	1.4735/ltr	1.5057/ltr
V&E Diesel	1.4865/ltr	1.5646/ltr	1.5633/ltr	1.6135/ltr
Transit Diesel	1.4865/ltr	1.5646/ltr	1.5633/ltr	1.6135/ltr

Risks of using forecasted rates:

- Severe weather, cold or heat
- Geopolitical events
- Crude oil and refined product price impacts
- Time between forecast and 2024 when actuals will occur

Grant Assumptions

Provincial and Federal grants do not largely impact the operating budget directly, instead are used to support capital infrastructure needs within the community.

The Canada Community Building Fund (CCBF) forecast for the 2024 capital budget was based on forecasted federal budget CCBF amounts, which have remained constant at $6M for the last several years.

As there is still a fair amount of uncertainty surrounding Local Government Fiscal Framework (LGFF) allocations, we took a conservative approach using the same amount received ($12M) from the Municipal Sustainability Initiative (MSI) in 2023 and 2022. The 2023 and 2022 MSI allocations were "reduced" as they front loaded how much we received in 2021 The LGFF operating budget remains at the same level as the MSI operating budget has been in previous years. While we have heard this is anticipated to be double in 2024, we have chosen a conservative approach and kept the budget the same until confirmation is announced by the province (i.e., we will adjust for 2025 budget).

Energy Assumptions

The energy assumptions being used are that the natural gas consumption will be relatively stable except for the Pointe coming online in late 2024 or early 2025. Commodity prices will remain stable in the $4.50 to $5.00/Gj range for the next 4 years. However, the carbon tax estimates continue to rise each year with the carbon tax impact on natural gas rising from $2.5M in 2023 to over $4M by 2026 and continuing to $6M+ in 2030.

Gas prices are expected to rise as new LNG plants come online in 2024 with almost doubling of LNG capacity being constructed over the next 6 plus years.

The electricity is on 5-year commodity contract for a "Energy Block". Under this type of contract, we must pay for the block purchased and where we have too much power, the excess is sold to market and if we need more we buy from market. We assume that our energy block is reasonable for the power we use but will have times where we buy and sell on the market rates.

For power consumption, we are anticipating a growth for the Pointe project, SPSY returning to full operations in 2024 and some growth for streetlights. We are also continuing with our energy management where we are working toward reducing electricity use by completing LED lighting conversations and in 2023 installed 150kw of solar at Millennium Place which helps slow our consumption demand but does not stop the overall forecast increases.

We are experiencing warmer outdoor temperatures as a trend that impacts the amount of energy required to for cooling of our buildings. Power generation overall will be impacted by the price of natural gas as plants switch from coal. Along with LNG plants being constructed, natural gas will continue to be a driver for overall power prices going forward.

Base Budget Assumptions

The preferable inflation rate that the Bank of Canada targets for inflation is in the 2-3% range, which keeps the economy stimulated, but not overstimulated. So, for 2024, base budgets were adjusted based on current market conditions, but for the outyears, a basic 1-2% inflation component was applied, unless the budget item fell in one of the previously discussed categories. The rationale for the slightly lower interest rate (compared to Bank of Canada targets) is based on the annual review of our budgets, finding efficiencies and reallocations that allow the County to remain similar, but likely just under, annual inflation pressures.