

Sustainable Municipal Finances

Issue: *The City of Medicine Hat's tax rate stabilization reserve will be depleted by the end of 2016 and will need to shift from its dependency on cyclical and volatile commodity markets to a more stable and predictable financial environment.*

Executive Summary

The City has relied on a \$27 million annual contribution from its business units to subsidize tax supported services. This tax subsidy comprises 24% of municipal revenues. However, with the volatility of commodity prices for natural gas, crude oil and electricity, the earnings will not meet the subsidy requirement and the tax rate stabilization reserve will be depleted by the end of 2016. As such, the Chamber recommends that the City work with stakeholders to move towards a more responsible financial management plan focused on long term certainty and predictability in City budgets. Additionally, the Chamber requests that City decisions be based on the impacts of attractiveness, competitiveness and sustainability of Medicine Hat as a business centre and that policies encourage departmental efficiencies and positive actual to budget financial positions.

Background

The City of Medicine Hat has provided a subsidy to the tax payer for many years as part of the “Medicine Hat Advantage” with the tax rate stabilization reserve being established in January 2014 to cushion the impact from commodity cycle volatility. However, at the end of 2016, the reserve will be fully depleted.

The City has relied on a \$27 million annual contribution from its business units to subsidize tax supported service with \$4 million in annual contributions from the city of Medicine Hat utility operations and \$23 million dependent on electricity, natural gas and crude oil markets. The utility operations are less volatile than commodity markets and are forecasted to continue into the foreseeable future, however the more cyclical and volatile commodity markets are not a stable and reliable source of revenue.

However, as Medicine Hat has had the foresight and planning financially, at the end of 2016 the CMH is forecasted to have \$300 million of other financial reserves to provide some financial flexibility.

We recognize that the City of Medicine Hat supports fiscal management which is outlined in Strategic Priority #5: “Responsible financial management focused on the long term ensures a sustainable city” and has been working on a strategic plan to become “Financially Fit for the Future”.

The Medicine Hat & District Chamber of Commerce also acknowledges that the City is taking significant steps in its efforts to modernize and improve City efficiency and financial planning and accountability. These steps are commendable and promise significant improvements for both City and business.

Fiscal Restraint

When the economy is strong, budget increases and capital expenditures seem affordable, however, when the economy slows it is not as easy to scale back on previous increases and debt.

The cumulative impact of hefty tax increases every year could be devastating in a sluggish economy. With this in mind the City should always target to keep spending and property tax increases that support City operations to a benchmark maximum of population growth plus inflation and we encourage council to continue to work

diligently on efficiencies to lower the tax burden. This will ensure growth in expenditures does not overwhelm citizens and businesses' capacity to pay.

Additionally, the Chamber would like to see the City use a strict prioritization process on capital expenditures and perform a sensitivity analysis to monitor the impact of increased interest rates on debt servicing costs and conduct an analysis of the impact on all departmental operations budgets especially related to additional ongoing staffing requirements. The City must also set and stay well within the spending limits prescribed in Capital Budget plans.

Red Tape Reduction

Within the Medicine Hat business community there is a continued perception that the regulatory process for expanding or establishing a business imposes a significant burden for local entrepreneurs. In order to facilitate the growth of business in Medicine Hat, the Chamber recommends that the City streamline the business to government process, as outlined in our Red Tape Reduction policy. These processes streamline the application process and allow for increased efficiency. This would also give businesses greater confidence in dealing with the city and improve the business environment, while streamlining government processes.

Benchmarking

Medicine Hat's participation in the Alberta Municipal Benchmarking Initiative (AMBI) is an excellent start to the process of providing concrete performance metrics. The information provided by the AMBI allows for a better comparison between municipalities, as well as a wider view of Medicine Hat's position.

While the information provided by the AMBI is valuable, it is only the first step. The effectiveness of benchmarks depends on a variety of factors, including the number of participants and the measures used to ensure accurate comparison. The Chamber of Commerce encourages the City of Medicine Hat to continue with its current benchmarking initiatives while evaluating it to ensure that it provides useful information.

Change in culture - shift to efficiency

While it is difficult to quantify the culture within City Hall, the Chamber considers it to be an important element in improving the City's financial performance. Taking steps to emphasise efficiency and reduce duplication can be a positive measure to promote a staff culture that values efficiency within the organization.

A key component of encouraging such a cultural shift is the implementation of a policy to ensure that departments are rewarded for maintaining favourable actual to budget positions. Under many government financial systems, there is a prevailing mentality that if one doesn't use the budget, they will lose it. This mentality promotes does not encourage cost savings or efficient spending. In contrast, if some method of rewarding efficiency can be implemented, City staff would be enabled to seek out efficiencies within their departments.

Another element of promoting efficiency exists in the organization of government. Whenever employees retire or leave their current position, their position should be assessed as to whether or not the position is still relevant. This provides an opportunity to reduce long-term costs without threatening current staff. As departments shrink through attrition and retirement, it also provides an opportunity to consider the roles that departments play, and consider whether or not department mergers or reconfigurations could streamline the organization.

Awareness of regional Amalgamation possibilities

The continued rise in costs associated with a well-run city is putting pressure on many smaller municipalities. In some cases, it is an economic reality that they will have to amalgamate into nearby centers or dissolve into the surrounding county or special area. While the Chamber does not recommend trying to absorb surrounding

municipalities, it does recommend that the City conduct preliminary research on the viability of doing so as a means of being prepared should the question arise in the surrounding municipalities.

The City already provides some services to surrounding areas, and it is generally considered that the economies of scale could result in significant savings for the region. As with the more general aspects of amalgamation, it is important to be aware of what costs may be associated with these utilitarian elements.

Recommendations

The Medicine Hat & District Chamber of Commerce recommends that the City of Medicine Hat:

1. Continue to implement and measure the recommendations and opportunities outlined in the Financially Fit for the Future plan;
2. Work with stakeholders through budget consultations to move towards a more responsible financial management plan focused on long term certainty and predictability in City budgets;
3. Plan future capital expenditures using a specific set of prioritization criteria inclusive of cost-benefit analyses and an analysis of the impact on all operations budgets especially related to additional ongoing staffing requirements;
4. Continue to remain well within permitted limits when using debt to finance capital projects and remain sensitive to the impact of debt servicing costs on the City's annual operations budget;
5. Target to keep spending and property tax increases that support City operations to a benchmark maximum of population growth plus inflation;
6. Streamline business to City interactions through red tape reduction initiatives;
7. Continue participation in the Alberta Municipal Benchmarking Initiative and evaluate the standards;
8. Implement a policy of rewarding departments and individuals for maintaining favourable actual to budget positions;
9. Evaluate vacant positions as to their continued relevance and cost to sustain the position.
10. Maintain awareness of amalgamation possibilities in the area and associated costs;
11. Provide justifications during budget proceedings and year end analysis for anything that exceeds the inflation plus population growth benchmark greater than 5% or a minimum of \$50,000.

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