March 28, 2022

Council sets multi-year budget guidelines for 2023 and 2024

Budget guidelines that will guide administration in building the 2023 and 2024 capital and operating budgets were approved by Council on Monday, March 28. Administration will develop the draft budgets and take back to Council in November 2022 for their consideration.

1. **Why does administration need guidelines to develop budgets?**
   Council sets strategic direction to meet short and long term community needs. The City's budgets need to respond to Council's strategic direction, balanced with current economic climate and forecast and long-term savings and investments.

2. **What is considered when developing guidelines for Council's consideration?**
   Administration recommends the guidelines following a review of the financial condition of the organization, economic forecasts, Council strategy and direction, and risks associated with short and long term financial planning.

3. **What are the guidelines Council approved for the 2023 and 2024 budgets?**
   1. Property tax increase of 4.7% in 2023, and 4.3% in 2024.
   2. Capital Amenities and Growth contribution of 1% for 2023 and 2024.
   3. User fees and charges to be reviewed and implemented in 2023 to comply with Council policy.
   4. One time funding in 2023 and 2024 of $750,000 per year to support Council's Strategic Plan implementation.
   5. Explore utilities revenue, and what would be required to achieve a utility dividend of $3 million in 2023 and 2024
   6. Increase reserve levels
   7. Change the Capital Contingency Policy to allow the City Manager to address new projects from a maximum of $50,000 per project and $200,000 a year currently set.
   8. Bring forward an operating contingency policy, like the Capital Contingency Policy.
   9. Bring forward a tax supported operating reserve policy for emergent and urgent issues.

4. **What is an operating budget and how is it funded?**
   The operating budget shows the day-to-day costs of delivering programs and services for the next year. These costs are similar to your everyday household expenses such as mortgage payments, utilities or groceries. Revenue to fund this budget comes from several different areas. Property taxes are collected to partially fund the operating budget, they make up approximately 40 per cent of the revenue required for ongoing municipal services. Another major funding source at approximately 50 per cent of revenue sources is user fees and sales of goods and services. The remaining 10 per cent of revenue funding the operating budgets comes from grants, investment income, fines and penalties, franchise fees, licenses and permits, and contributed tangible capital assets.

5. **What is a capital budget and how is it funded?**
   The capital budget indicates the funds needed for a specific year of the 10-year capital planning period. It is how we pay for major projects such as reconstructing streets; building and improving public facilities such as recreation facilities, community centres, parks and fire halls; dealing with growth pressures such as new streets; and new initiatives. These costs are similar to adding an addition to your home this year. There are five categories of funding for capital budgets including debt, operating, grants, reserves and development/customer contributions.

6. **Why is a municipal tax revenue increase required?**
   Over the past two years, The City has maintained a zero per cent municipal tax revenue increase to minimize the financial impact to property owners. However, maintaining a zero per cent property tax revenue increase is not a feasible option to maintain service levels while responding the increasing cost of doing business and inflation rates. There is also a need to replenish the reserve funds that The City has drawn from over the past two years to cover additional expenses incurred for service delivery.

   The operating budgets require an estimated $12.66 million increase in 2023 and $6.65 million increase in 2024. These increases in revenue allow The City to address increases in costs resulting from inflation and supply chain issues, plan for increases to wages allowing the organization to retain and secure talent and built up capital reserves.

7. **How would the property tax revenue increase impact my property tax bill?**
   When there is an adjustment to The City's property tax revenue to fund operating budgets, the municipal portion of your property tax bill is the only component it may impact. An increase of any amount to the municipal property tax revenue required to fund an operating budget, such as 4.7 per cent for 2023, does not necessarily mean there will be an increase to your municipal portion of your property tax bill.

   Your total property tax bill is calculated based on three components:
   - Municipal taxes: The City takes your assessed property value and multiplies it by the applicable tax rate. In 2021, the residential municipal tax rate was 0.0072771. If your house was valued at $325,000 on your 2021 property assessment notice, you paid $2,365.06 in municipal taxes.
   - Education requisition: The City collects taxes through our property tax bills on behalf of the province to fund education in our province. In 2021, the education requisition tax rate was 0.0026411. If your house was valued at $325,000 on your 2021 property assessment notice, you paid $858.36 for education on your property tax bill.
   - Bridges Community Living requisition: The City collects taxes through our property tax bills on behalf of Bridges Community Foundation to fund seniors affordable housing. In 2021, the Bridges Community Living tax rate was 0.0000451. If your house was valued at $325,000 on your 2021 property assessment notice, you paid $14.66 towards seniors affordable housing on your property tax bill.

   Since the municipal portion of your property tax bill is based on two pieces - your assessed property value and the tax rate – the municipal portion of your property tax bill may be different than the average.

   The City does not have any control over the amount of Education or Bridges Community Living amounts, the province provides an amount required to collect on its behalf.

8. **What is the Capital Amenities and Growth that The City would be contributing to?**
   The City contributes operating funds to Capital Amenities and Growth to support in future expenses relating to capital infrastructure resulting from community growth. For 2023 and 2024, The City will shift back to 1.0% in contributions from the .05% in 2021 and 2022, to provide stable support for operational costs of amenity and growth capital projects without impacting the current operational needs.

9. **Why do the user fees and charges need to be reviewed?**
   The City reviews the user fees and changes on a regular basis to ensure we are competitive and fair. Regularly reviewing the structure to adjust as needed means that we are not seeing large changes to keep up with cost increases and community change. When increases in costs to programs are not charged to the direct user of the services, these are transferred to the taxation base.

10. Why does the Strategic Plan implementation require funding?
Each new Council develops a strategic plan for the community. Because this has not been finalized by Council yet, administration knows that funding will be required to implement it. Based on historic budgets, $750,000 will be recommended during budget deliberations for 2023 and 2024. These funds will be like a bank account that can be drawn from as needed throughout the strategic plan implementation.

11. Why would The City consider using utilities as a source of revenue?
The City has two basic levers to pull: revenues and expenditures. Our revenue streams include areas such as utilities, property taxes, fees and grants. The City has control over the amount of revenue generated through municipal taxes, utilities and user fees and charges. Currently, there are transfers between them, including approximately $6 million from utilities to taxes to ease pressures on tax revenue required.

Administration will explore the opportunity to raise this transfer an additional $3 million to ease pressures further, reducing the amount of municipal taxes The City needs to collect.

12. What will be the recommended change to the Capital Contingency Policy?
The intent of this policy is to allow the City Manager to address new projects up to a certain cost without having to go to Council for approval. The recommendation that will go to Council for approval will be an increase from what the policy allows currently. Currently the maximum amount per project is $50,000 and $200,000 total per year.

Increasing the amounts would allow administration to be nimbler and more responsive to community needs throughout the year. The policy was originally implemented 12 years ago, since then Red Deer has grown and the cost of minor capital projects continues to increase.

13. What would be the purpose of implementing an Operating Contingency Policy?
Like the Capital Contingency Policy, the operating contingency policy would enable administration to address minor operational issues that arise and ability to manage unforeseen operational impacts within a multi-year budget. The policy will be developed with the Audit Committee prior to any Council consideration.

14. What would be the purpose of a tax supported operating reserve policy?
Currently The City has the Operating Reserve – Tax Supported (ORTS) that has been used for urgent and emergent issues. This reserve should have at least two months' worth of operating dollars available, currently it has less than one month. Administration will come forward with a recommendation to move into two funding streams and a policy for better operating reserve management. Along with the current ORTS, administration will recommend the tax supported operating reserve that will be available for emergent and urgent issues. The policy will be developed with the Audit Committee prior to Council consideration.

For more information, contact:

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