



TOWN COUNCIL AGENDA

March 31, 2023

9:30 a.m.

Council Chambers

Let us begin by acknowledging that we are gathered today in Mi'kma'ki. The ancestral, present and future territory of the Mi'kmaw people. Today, we gather with the intent followed by the living Peace and Friendship Treaties - with respect, cooperation and coexistence.

Call to Order

1. Approval of Agenda

2. 2023/24 Pre-budget Report – Manager of Finance – Ashley Yeadon-Wentzell

3. Adjournment





Memorandum to Council – Pre-Budget Report 2023-24

Date: March 31, 2023

General Overview:

This pre-budget memorandum is intended to present Council with certain information which will be used to inform the draft 2023-24 annual budget to be presented to Council on April 6th, 2023.

Background:

In order to “set the stage” for the annual budget process it is necessary to have a good understanding of the funds available to support budgeted expenditures. This is true for both operating and capital budgets and applied to Town General as well as the water and electrical utilities which have their own stand-alone budgets.

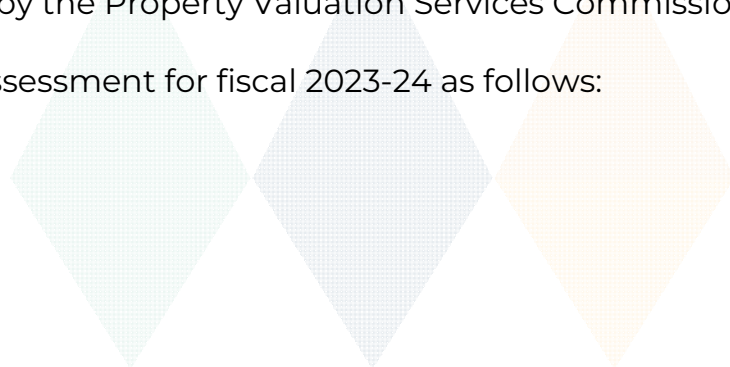
This pre-budget report will analyze anticipated changes in revenue available to fund operating expenditures for Town General (property taxes), Water (rates approved by the NSUARB Nov 1, 2019), and Electrical (rates pending NSUARB decision). Funds available to support capital expenditures are also analyzed in this report, with a focus on confirming reserve levels and capital debt.

Analysis – Operating Revenues:

Property Taxes

Property tax revenues are determined by the applicable tax rates (different rates exist for residential and commercial properties) and the assessed value of properties (determined annually by the Property Valuation Services Commission).

Staff have analyzed changes in assessment for fiscal 2023-24 as follows:



2023/24 Tax Rate Analysis							
Assessment/Rates - General Tax Rate							
	PY Assessment	PY Revenue	CY Assessment	CY Revenue	Tax rate	Year over Year Change	
RESIDENTIAL	147,873,100.00	1,648,785.07	161,199,100.00	1,797,369.97	1.115	148,584.90	
RESOURCE	1,510,400.00	16,840.96	1,686,500.00	18,804.00	1.115	1,963.04	
COMMERCIAL	13,957,400.00	426,398.57	21,532,900.00	657,830.10	3.055	231,431.53	
LONG TERM CARE FACILITY	6,436,700.00	196,641.19	16,530,600.00	505,009.83	3.055	308,368.65	
TOTAL	169,777,600.00	2,288,665.78	200,949,100.00	2,979,013.89		690,348.11	
Assessment/Rates - Fire Tax Rate							
	PY Assessment	PY Revenue	CY Assessment	CY Revenue	Tax rate	Year over Year Change	
RESIDENTIAL	147,873,100.00	246,948.08	161,199,100.00	269,202.50	0.167	22,254.42	
RESOURCE	1,510,400.00	2,522.37	1,686,500.00	2,816.00	0.167	293.63	
COMMERCIAL	13,957,400.00	23,308.86	21,532,900.00	35,959.94	0.167	12,651.09	
LONG TERM CARE FACILITY	6,436,700.00	10,749.29	16,530,600.00	27,606.10	0.167	16,856.81	
TOTAL	169,777,600.00	283,528.59	200,949,100.00	335,584.54		52,055.95	

CHANGE IN ASSESSMENT - STATS			
2023 Change in Taxable Assessment		\$ 31,171,500	18.36%
Change Due To Events			
Residential		\$ 15,810,400	10.69%
Resource/Seasonal		\$ 169,100	11.20%
Commercial		\$ 1,042,000	5.11%
Total		\$ 17,021,500	10.03%
Growth in General Assessment			
Residential		\$ 13,677,800	9.25%
Resource/Seasonal		\$ 7,000	0.46%
Commercial		\$ 465,200	2.28%
Total		\$ 14,150,000	8.33%

In consideration of the growing assessment base – attributable to both new construction and rising property values as detailed above – staff are preparing the draft 2023-24 annual budget with tax rates remaining unchanged from 2022-23.

Water Rates

The Town conducted its last water rate study in 2018 and applied to the Nova Scotia Utility and Review Board (NSUARB) for increased rates in 2019. Prior to the new rates taking effect November 1, 2019 the Town's water rates had remained unchanged for several years. The Board's decision in 2019 included rate increases for the 2019-20, 2020-21 and 2021-22 fiscal years. Rates remained unchanged in fiscal 2022-23 and are expected remain unchanged in fiscal 2023-24 as well. A new water rate study is planned for 2023 which would inform an application to the NSUARB for new rates effective April 1, 2024 (fiscal 2024-25); typically water rate applications cover three fiscal years.

Electrical Rates

The Town conducted an electrical rate study in 2022 and applied to the NSUARB for increased rates on October 31, 2022. A hearing was held at the Mahone Bay Fire Station on February 14, 2023. We have been anticipating the Board's decision prior to April 1, 2023 with the new rates to take effect April 1st, however as yet nothing has been forthcoming from the Board. The Riverport Electric Light Commission – whose hearing took place two weeks prior to the Town's – is also still awaiting the Board's decision on their application. Given the lack of a decision from the Board to date, staff are preparing the draft 2023-24 annual budget for the electrical utility on the assumption that the Board will approve the rate increase as requested (34.8%). If a phase-in is imposed by the Board the difference in operating revenues would be made up by borrowing with the borrowing costs passed on to ratepayers.

Analysis – Capital Financing:

Reserve Balances

Reserves are the primary mechanism for financing the Council's capital priorities, being funded through annual revenues earmarked for this purpose. Revenue streams have been allocated for capital reserves (AREA Dividends, Infrastructure Charges, Deed Transfer tax revenues, and Gas Tax transfers) which include the Capital Reserve, Equipment Reserve (Town), Wastewater Reserve and Gas Tax Reserve (which we are required to maintain as a separate reserve). Other reserves – Athletic & Cultural Trust, Perpetual Care (for both cemeteries), Equipment Reserve (Fire) and Operating Reserve – are funded from a combination of prior-year surpluses and elective budgeted transfers (from operating revenues, revenue from the sale of cemetery plots, donation revenues, etc.).

The Water and Electrical utilities maintain Depreciation Reserves which are required by the NSUARB with mandatory contributions from operating revenues in proportion to the annual depreciation of existing utility infrastructure; these funds can only be used for the replacement / upgrading of said infrastructure. Any other capital expenditures on the part of the utilities must be funded from current year operating revenues, the utilities' operating funds (which are result from prior year surpluses), or through borrowing.

Reserve balances have not always been adequately maintained in the past, resulting in a discrepancy between the balances reported in the annual budget process and actual levels. It has been understood that this discrepancy could be eliminated by the allocation of available cash to the reserves, which staff have sought to confirm this year.

To confirm reserve levels available to support the 2023-24 annual budget Finance staff have undertaken an analysis to reconcile reserve balances with available cash.

The available cash as of the time of this analysis was \$3,576,103. Of that, there are a number of items that have already been allocated as follows:

Reserve Fund Cash:	
Total per Cash on March 20, 2023	3,576,103.82
BMO Loan balance not allocated to Solar Garden	- 62,516.44
March 31, 2023 Unallocated Est. Surplus	- 505,403.00
Water	- 8,505.00
Electric	-
Fund Balances (Electric and Water Surplus)	- 395,941.00
Reserve Funds Actual Cash	2,603,738.38

With the above list netting against the March balance shown above, the total funds available to allocate to the reserves is \$2,603,738.

In consideration of available cash, the reserve balances at the end of March 31, 2023 have been determined as follows:

	March 31, 2023 Actuals
Athletic & Cultural Trust	3,697.70
Capital Reserve	1,011,093.95
Bayview Cemetery	69,724.18
Park Cemetery Perpetual Care	144,559.00
Electric Depreciation Reserve	147,246.25
Equipment Reserve- TOWN	328,786.00
Equipment Reserve- FIRE	88,666.41
Operating Reserves	345,283.00
Gas Tax Reserves	434,681.88
Wastewater Reserve	30,000.00
Water Depreciation	-
	2,603,738.38

Please note that table above reflects a \$250,000 contribution to the Fire Station project from the Equipment Reserve (Fire), whereas Council directed mid-year that \$250,000 would be contributed from the General Capital Reserve; this will be addressed with the resulting actual balance of the Capital Reserve being amended to \$761,093.95 and the actual balance of the Equipment Reserve (Fire) being amended to \$338,666.41.

The actual reserve balances above differ from the anticipated reserve balances for March 31, 2023 as presented in the 2022-23 annual budget due to the actual experience of the fiscal year – as is always the case – and adjustments as follows:

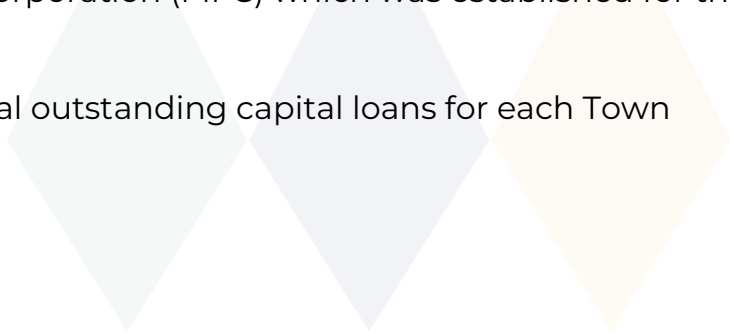
Reserve Balances			
	March 31, 2023 Budget Estimate	March 31, 2023 Actuals	Difference
Athletic & Cultural Trust	3,698.00	3,697.70	0.30
Capital Reserve	924,698.00	1,011,093.95	- 86,395.95
Bayview Cemetery	60,958.00	69,724.18	- 8,766.18
Park Cemetery Perpetual Care	129,132.00	144,559.00	- 15,427.00
Electric Depreciation Reserve	76,246.00	147,246.25	- 71,000.25
Equipment Reserve- TOWN	217,679.00	328,786.00	- 111,107.00
Equipment Reserve- FIRE	161,657.00	88,666.41	72,990.59
Operating Reserves	445,480.00	345,283.00	100,197.00
Gas Tax Reserves	273,961.00	434,681.88	- 160,720.88
Wastewater Reserve	18,000.00	30,000.00	- 12,000.00
Water Depreciation	250,030.00	-	250,030.00
	2,561,539.00	2,603,738.38	- 42,199.38

It should be noted that the actual reserve balances shown above reflect the use of the water depreciation reserve and operating fund for the Town’s costs for the major waterline upgrade undertaken in 2022 (~\$465,000), whereas it may be preferable to borrow for some or all of this cost in the Fall 2023 debenture issue, with the proceeds deposited back into the reserve/fund.

Debt Levels

While the Town maintains reserves to support most capital expenditures, larger projects are often financed by borrowing, spreading the cost over many years (with an attendant increase in financing costs). Long-term debt is typically sourced through the Municipal Finance Corporation (MFC) which was established for this purpose.

The following table shows the total outstanding capital loans for each Town General, Water and Electrical:



Total Debt to Date - March 31, 2023		
MFC		
37-A-1	Kinburn Street Bridge (Town)	225,000
42-A-1	Fire Station	3,818,207
42-A-1	Fire Hall	536,939
40-A-1	Electric Utility Line Truck	93,170
41-A-1	Water Phase 1	74,000
28-A-1	Water System Phase 2	159,000
38-A-1	Clairmont/Pleasant St. Water & Wastewater	640,000
		5,546,316

Outstanding Debt

	Town	Water	Electric
March 31, 2022	\$872,580	\$451,109	\$93,170
March 31, 2023 (estimated)	\$5,154,626	\$396,898	\$81,524

The outstanding loans detailed above – and associated principal payments – result in the following debt service ratios (principal debt payments as a percentage of tax revenues):

Debt Service Ratio

2022-23	2.7%
2023-24 (estimated)	6.8%

The Province encourages Town debt ratios of 15-30% and considers a Town’s debt ratio in approving new borrowing requests (Temporary Borrowing Resolutions).

Recommendation:

This report is provided for Council’s information. The revenue projects, reserves, and debt levels reported herein will be reflected in the draft 2023-24 annual budget to be present to Council’s special budget meeting on April 6th, 2023.

Respectfully submitted,

Ashley Yeadon-Wentzell

