

Budget Meeting Day One
February 21, 2023

A meeting to discuss the 2023 Budget was held at Council Chambers in Baddeck on February 6, 2023, at 10:00am with Warden Morrison in the Chair.

Present Were:

District #1- Paul MacNeil

District #2- Perla MacLeod

District #3- Bruce Morrison, Warden

District #4- Barbara Longva

District #5- Fraser Patterson

District #6 – Larry Dauphinee, Deputy Warden

District #7- Jackie Organ

District #8- Norman MacDonald

Also present were:

Leanne MacEachen, CAO

Alix Redden, CFO

Allan Bragg, Manager of Finance

Stephanie MacLeod, Recorder

Councillor Longva made a motion to approve the agenda, seconded by Councillor Organ.

Motion Carried.

Ms. Redden gave the following presentation:

Introduction

- Strategic planning session identified capital infrastructure projects as priority areas– namely Ingonishwater/wastewater and northern VC waste facility
- Current reserves are healthy but need to balance usage with responsible long-term planning and affordability
- Financial Condition Indicators are established and calculated annually by PNS (green/yellow/red)
- Funding models for capital projects have operational budget implications annual debt payments, tax rate setting, etc.
- So, starting with capital to assess impacts on operational as next step...

Thresholds based on Financial Condition Indicators (FCIs)

Based on March 31, 2022 Financial Reporting to PNS

- Debt Service Cost
 - Target is less than 10%
 - **Maximum annual total LTD payment (principal + interest) = \$1,050,000**
- Operating Reserve
 - Target is greater than 20%
 - **Minimum operating reserve balance = \$1,843,000**
- Combined Reserves (Operating + Capital including gas tax)
 - Target is greater than 40%
 - **Minimum combined reserve balance = \$3,781,000**

Estimated 2023 reserve balances

	Operating Reserve	Capital Reserve	Gas Tax Reserve	TOTAL
Estimated balances at March 31, 2023	7,200,000	1,590,000	2,947,000	11,737,000
Commitments made in 2022-23 budget	(671,000)	-	(1,145,000)	(1,816,000)
Available Reserve Balance	6,529,000	1,590,000	1,802,000*	9,921,000

*Excludes future anticipated gas tax funds— approx. \$377k per year

Ingonish water/wastewater project

Ingonish project cost (Strait Engineering Feb 2023)	
Wastewater collection system	5,512,500
Sewage treatment plant	4,730,250
Engineering + contingency	3,585,750
Ingonish Ferry extension - sewer	1,176,000
Ingonish Ferry extension - water	1,678,000
Total project cost	16,682,500

Ingonish - Funding model #1

- Total project = \$16,682,500
- ICIP funding (73.33% of Ingonish Ferry water extension) = \$1,230,477
- Unfunded project cost = \$15,452,023

BORROW FULL AMOUNT	
Cost of borrowing	5.8%
Amortization (years)	15
Loan amount	15,500,000
Interest amount	7,572,276
Total payments	23,072,276
Annual debt payment	1,538,152

Based on 2023 assessment values, 14% tax rate increases to raise additional \$1.5m per year:

Residential: \$1.39 per \$100 of assessment
Commercial: \$2.42 per \$100 of assessment

Incremental impact to avg. residential tax bill (\$160k assessment): \$273/year

\$1.5m annual debt payment = **debt service cost 15% - exceeds less than 10% FCI target**

Ingonish - Funding model #2

- Total project = \$16,682,500
- ICIP funding (73.33% of Ingonish Ferry water extension) = \$1,230,477
- Unfunded project cost = \$15,452,023

INGONISH RESIDENTS PAY FULL AMOUNT	
Estimated numbers of units (based on PIDs)	382
Local Improvement Charge (LIC) total per unit	\$40,576
Annual payment (5% interest, 10 years)	\$4,425
Monthly payment	\$369

Would require LIC by-law to be enacted

Ingonish - Funding model #3

- Total project = \$16,682,500
- ICIP funding (73.33% of Ingonish Ferry water extension) = \$1,230,477
- Unfunded project cost = \$15,452,023

BORROW + RESERVES + RESIDENTS	
Borrow (2/3) less ICIP funding received	\$9,891,189
Municipal contribution from reserves (1/6)	\$2,780,417
Residents contribution through LIC (1/6)	\$2,780,417
Total project	\$15,452,023

\$981k annual debt payment = **debt service cost 9.33% - barely under less than 10% FCI target**

Remaining reserves balance = \$7.14m; **combined reserves ratio 76% - well above greater than 40% FCI target**

Would require LIC by-law to be enacted

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Ingonish - Funding model #3 continued

BORROW 2/3		INGONISH RESIDENTS PAY 1/6	
Cost of borrowing	5.8%	Estimated numbers of units (based on PIDs)	382
Amortization (years)	15	Local Improvement Charge (LIC) total per unit	\$7,279
Loan amount	9,900,000	Annual payment (5% interest, 10 years)	\$943
Interest amount	4,827,339	Monthly payment	\$79
Total payments	14,727,339		
Annual debt payment	981,823		
<p>Based on 2023 assessment values, 9% tax rate increases to raise additional \$970k per year:</p> <p>Residential: \$1.33 per \$100 of assessment Commercial: \$2.31 per \$100 of assessment</p> <p>Incremental impact to avg. residential tax bill (\$160k assessment): \$176/year</p>			

Now add in new Northern VC Waste Facility...

Capital funding requirements	
New waste facility project - estimated	3,000,000
Unfunded Ingonish infrastructure project	15,452,023
Total funding required	18,452,023

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No LIC - Funding model #1

Capital funding requirements	
Maximum borrowing	10,000,000
Reserve usage	8,452,023
Total funding	18,452,023

BORROW \$10m	
Cost of borrowing	5.8%
Amortization (years)	15
Loan amount	10,000,000
Interest amount	4,876,100
Total payments	14,876,100
Annual debt payment	991,740

COMBINED RESERVES	
Combined Reserve Balance	9,921,000
Project usage	(8,452,023)
Combined reserve balance remaining	1,468,977

Debt service cost = 9.44% (target under 10%)

Combined reserve balance = 15.5% (target greater 40%)

With LIC - Funding model #2

Capital funding requirements	
Maximum borrowing	10,000,000
Reserve usage	5,671,606
LIC	2,780,417
Total funding	18,452,023

BORROW \$10m	
Cost of borrowing	5.8%
Amortization (years)	15
Loan amount	10,000,000
Interest amount	4,876,100
Total payments	14,876,100
Annual debt payment	991,740

COMBINED RESERVES	
Combined Reserve Balance	9,921,000
Project usage	(5,671,606)
Combined reserve balance remaining	4,249,394

Debt service cost = 9.44% (target under 10%)

Combined reserve balance = 45% (target greater 40%)

Other Relevant Information

- Reserve balance forecasts do not include anticipated future CCBF (former gas tax) payments – currently ~\$377k per year
- Planned residential and commercial developments by Cape Smokey will increase assessment base thus increasing annual property tax revenue
- When assessment values increase globally, additional property tax revenue is created. For example, this year...

2023 Property Assessment Impacts

	2023	2022	Difference	% Change
Residential (with cap)	672,411,900	609,376,200	63,035,700	10.34%
Commercial	68,445,000	65,731,100	2,713,900	4.13%
Less: Seasonal adjustment	-5,351,775	-6,113,539	761,764	-12.46%
Resource (with cap)	98,500,300	94,992,400	3,507,900	3.69%
Total assessment (with cap)	834,005,425	763,986,161	70,019,264	8.98%

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Impact to 2023-24 Property Tax Revenue

<i>*with no tax rate change</i>	Current Rate	Incremental revenue
Residential	\$1.22	769,036
Commercial	\$2.12	57,535
Less: Seasonal adjustment		16,149
Resource	\$1.22	42,796
Additional 2023-24 property tax revenue		\$885,516

Impact of tax rate change

	Current Rate	1% increase (\$1.23/ \$2.14)	2% increase (\$1.24/ \$2.16)	3% increase (\$1.26/ \$2.18)	9% increase (\$1.33/ \$2.31)	14% increase (\$1.39/ \$2.42)
Residential	\$1.22	67,241	134,482	268,965	738,308	1,148,480
Commercial	\$2.12	13,689	27,378	41,067	130,593	203,145
Less: Seasonal adjustment		(1,070)	(2,141)	(3,211)	(10,211)	(15,884)
Resource	\$1.22	9,850	19,700	39,400	108,153	168,239
Additional revenue		\$89,710	\$179,420	\$346,221	\$966,843	\$1,503,979

Conclusions

- Lots of estimates at this point but what we know for sure...
 - Will need to use a mix of debt and reserves to cover major capital projects
 - Without users contributing a portion of Ingonish project through a LIC, will need maximum debt and majority of reserves
 - Negatively impacting FCIs
 - Limits future capital capabilities(note: administrative building not yet addressed)

Next steps

- LIC decision
- Reserve/debt mix
- Approvals for borrowing
- Operational budget impacts from decisions
- Departmental budgets
- Setting tax rate

- Session #2 date – March 6th?

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LIC (Local Improvement Charge) Decision:

- CFO recommends that the LIC needs to go through.
- Councillors will prepare for the First Reading of the LIC Bylaw. There will be a Committee of the Whole on March 6th, 2023, to discuss and/or decide if the LIC Bylaw will go to First Reading or not.

Reserve/Debt Mix:

- CFO doesn't think we should deplete our reserves.
- To take on debt is not a bad thing, we just need to balance the debt and keep the reserves, it is a good thing for the future.
- To take the next steps in drafting an operational budget there will have a debt repayment in there. Does Council want to take on debt, deplete the reserves, etc? Council agreed that they want to stay in the green, they don't want to deplete the reserves. Council agreed that they want to borrow as little as possible and keep the FCI's healthy.

Approvals for Borrowing:

- CFO recommends doing this soon as approvals can take some time.
- Regardless of where we borrow from, we need approval from the Province.
- Council agreed for administrative staff to proceed with exploring borrowing options. CFO will look into different financial institution borrowing interest rates.

These topics will need to be discussed at Budget Day Two on March 6, 2023.

- Operational Budget Impacts from Decisions
- Departmental Budgets
- Setting Tax Rate

CAO MacEachen said there are 12 residents on the Meals Plus Program and 22 on the waiting list. The Pilot Project lasts until the end of March. If Council chooses to go forward with the project the cost is \$9,360 for the year and we can do it in 2, 6-month spans.