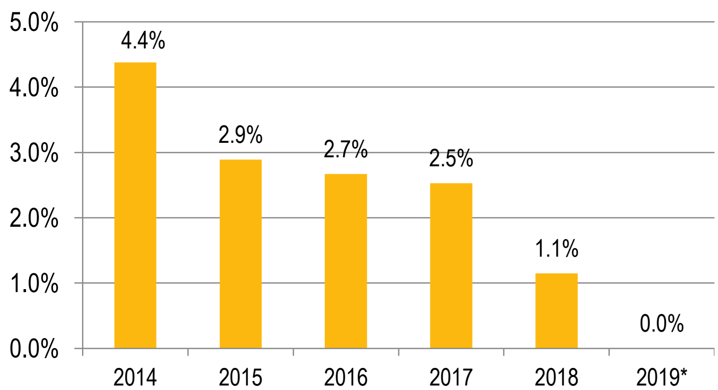
Laurentian Bank Securities
ECONOMIC RESEARCH AND STRATEGY

Montreal 2019 Budget: A Balanced Budget and Targeted Housing Policies

The Mayor of Montreal, Valérie Plante, unveiled last Thursday the second budget of her administration's four year term. Economic growth in Quebec's metropolis outperformed the Province's and Canada's in 2018 and should continue to do so in 2019.[1] The unemployment rate in Montreal averaged 6.0% so far in 2018, the lowest level since data is available.[2] It is in this context that the administration, which was forecasting a balanced budget last year, is now expecting a $64M surplus for 2018 (1.1% of revenues). Yet, the 2018 surplus is smaller than in previous years (see chart 1). It is worth reminding that by law the City is required to balance its budget each year.

Chart 1: Montreal Budget Surplus (% of Revenues)



Note: 2018 is estimated and 2019 is a forecast.
Source: Ville de Montréal, LBS Econ. Res. and Strategy.

Possible Upside Surprise in Revenues

Montreal relies heavily on taxation, representing about 60% of total revenues. The administration decided not to increase the general property tax rate, the largest tax category, in 2019. However, other taxes such as the water tax, the road system tax and the tax dedicated to l'Autorité régionale de transport métropolitain (ARTM) will increase in 2019. This aggregates to a low revenue growth forecast (1.0%). In our view, there is a risk of an upside surprise on tax revenues if the housing market keeps its positive momentum. Indeed, we estimate that housing prices, a reliable leading indicator of tax revenues, rose by about 4.5% in 2018 compared to last year (see chart 2).

Total outlays are expected to grow at twice the pace of total revenues, at 2.2%, driven by "quality of life" activities and spending on administrative services. Of note, compensation of municipal employees is projected to represent 40.2% of the city's expenditures, down from 42.6% in 2018. Moreover, the administration will spend an additional $30M on various programs to facilitate housing access and homeownership. All in, Montreal's 2019 Budget is expected to be balanced.

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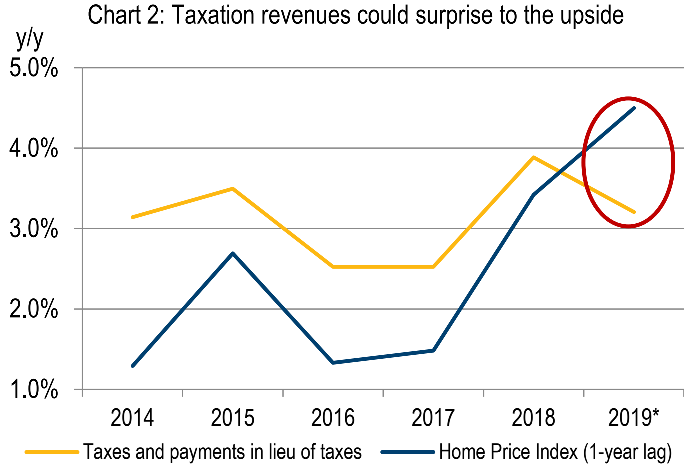
[1] Based on Table 6 of Budget 2019. Montreal uses the Conference Board of Canada economic forecasts in its Budget.
[2] As of the end of October. The data used starts in 2001.

Chart 2: Taxation revenues could surprise to the upside



Source: Teranet, Ville de Montréal and LBS Econ. Res. and Strategy.

Low debt-to-GDP ratio, high debt-servicing costs and stable borrowing requirements

Montreal's gross debt and net debt-to-GDP ratios, which exclude the city's financial assets, are expected to be unchanged in 2019 at 6.6% and 3.9%, respectively. Particularly, the net debt-to-GDP ratio is lower than its provincial (41.8%) and federal counterparts (33.8%). However, the city does not have the broad taxation power of the province and federal governments, underlying the crucial importance of keeping a balanced budget. For instance, the city expects to use 14% of its revenues to service its $8.6B gross debt, a share of revenues similar that to the city of Toronto. In Montreal, debt servicing costs represent the third largest expenditure category after public safety and transfers to the 19 boroughs.

Budget 2019 only provides a projection of borrowing requirements for 2019, penciled at $1.5B. However, most of Montreal's debt is currently incurred to finance infrastructure projects. This being said, we infer borrowing requirements from the city's 2019-2021 capital spending program. Assuming that borrowing requirements continue to line-up with infrastructure needs, our best estimate for borrowing requirements in 2020 ($1.4B) and 2021 ($1.3B) are very close to the borrowing requirements projected by the City for 2019.

Dominique Lapointe | Economist
514 350-2924 | lapointed@vmbl.ca