
The 2016 Business Plan and Budget Process: The Impact of Inflation and Growth

Recommendation

That the Administration:

1. Continue to refine and include the major inflationary impacts to the 2016 Business Plan and Budget as outlined in this report, currently estimated at approximately \$11.4 million; and
2. Manage the additional growth pressures of \$1.35 million for 2016, as identified in this report, through the City of Saskatoon's Continuous Improvement Strategy, and not include this estimated cost in the 2016 Business Plan and Budget.

Topic and Purpose

The purpose of this report is to provide Executive Committee with an overview of major pressure points for the 2016 Business Plan and Budget as they specifically relate to inflation and growth. This report also offers the Administration's recommendations on how it intends to address inflation and growth as it prepares the 2016 Operating Budget.

Report Highlights

1. The City of Saskatoon's annual Business Plan and Budget is affected by the annual change in prices, or inflation, for wages and benefits, materials and supplies, utilities, and vehicles and equipment, for example.
2. The City of Saskatoon's annual Business Plan and Budget is affected by the growth in the City's assets, land base, and, in some cases, population. For example, as the city's geography expands, the City of Saskatoon may need to expand services to newer parts of the city. Similarly, when the City builds new assets, such as parks and buildings, it needs to correspondingly maintain and operate them.

Strategic Goal

The information contained in this report aligns with all of the City's Strategic Goals because the Business Plan and Budget process addresses all seven goals.

Background

At its April 20, 2015, meeting, the Executive Committee considered a report by the City Manager. That report contained several elements, including an overview of the 2016 Business Plan and Budget process, which aims to implement a more integrated, accountable, and transparent process.

The report indicated that the Administration would provide regular updates to the Executive Committee throughout the process, so that the Committee and the public are informed about the fiscal opportunities and challenges that the City is addressing in 2016.

At its May 19, 2015, meeting, the Executive Committee considered a report by the City Manager titled, The 2016 Business Plan and Budget Process – A Fiscal Update. Among other things, that report noted that for the 2016 Operating Budget the Administration is estimating a preliminary:

- revenue increase of \$12.2 million over the previous year;
- expenditure increase of \$17.7 million over the previous year; and
- revenue gap of approximately \$5.5 million.

It is important to note that these figures are preliminary estimates and do not account for all expenditure pressures or revenue challenges and opportunities potentially facing the City in 2016; however, inflation and growth have been partially allocated to the expenditure assumptions.

Table 1 shows the 2016 Operating Budget expenditure assumptions as provided in the May 19, 2015, report. The table has been amended to include two additional columns. The second column identifies the category – growth, inflation, and service levels – to which the expenditure assumption is applicable. The third column indicates whether there is some flexibility to change the expenditure assumptions. In other words, are they fixed costs or are they discretionary?

Table 1
2016 Operating Budget Expenditure Assumptions

Expenditure Assumption	Category	Flexibility	Projected Increase
Negotiated Salary Increases & Benefits	Inflation	Fixed	\$9.4 million
Dedicated Road & Traffic Noise	Service Level	Fixed	\$4.1 million
Capital Transfers & Phase-ins	Inflation/Growth Service Level	Limited Discretion	\$1.3 million
Remai Modern Art Gallery	Growth/ Service Level	Some Discretion	\$1.3 million
Civic Funding Plans	Growth/ Service Level	Limited Discretion	\$1.6 million
Total Preliminary Increase			\$17.7 million

For example, negotiated salaries and benefits have been allocated to the 2016 Operating Budget expenditure assumptions. This means that the Administration is factoring in this \$9.4 million inflationary increase to its 2016 tax supported operating expenditures. However, inflation related to utility costs, contracted services, and materials and supplies, and other important categories are not included in the assumptions listed in the table, meaning they were not included in the Administration's expenditure assumptions at the time.

In terms of growth, the table shows that some growth has been included in the preliminary assumptions. For example, the Remai Modern Art Gallery and other capital items that have a growth component, such as the Civic Operations Centre, have been accounted for in the civic funding plans. However, growth for some services, such as park maintenance, street sweeping, and snow and ice clearing is not addressed in the previously reported expenditure assumptions.

The table also shows that some service level changes have been accounted for, particularly for roadway improvements and traffic noise. But, more specifically, the implementation of a new customer service system or changes to snow and ice clearing/removal have not been included.

In order to address these additional budgetary pressures, the City Manager's report of May 19, 2015, stated that "the Administration is proposing to bring key issues and options to the next two Executive Committee meetings so that the Committee and City Council can provide policy direction to the Administration". While this report does not present specific issues and options, it does begin to present additional information on expenditures that the Committee needs to be aware of as it considers the 2016 Budget. Moreover, the report does not address any additional proposed service level changes (either increases or decreases). The Administration will bring additional items forward to subsequent Executive Committee meetings.

Report

The purpose of this report is to provide Executive Committee with a more complete picture of the City of Saskatoon's inflation and growth pressure points as the Administration prepares the 2016 Business Plan and Budget. Inflation and growth are two of the main cost drivers of the City's annual operating budget.

Other important cost drivers to the City's budget are service levels and regulatory changes. However, this report does not address any potential service level changes or regulatory changes, other than what was described in the background section of this report. Any potential service level increases or decreases and regulatory changes will be addressed in subsequent reports to Executive Committee.

1. Inflation

Inflation is typically defined as the rise in the level of prices in goods and services in an economy over a period of time. The City of Saskatoon monitors and tracks inflation because it can have various effects on the City operating expenditures and the financial decision making that is tied to the City's budgetary process.

As noted in the background section of this report, the City has allocated \$9.4 million of its inflationary pressures to its 2016 Operating Budget expenditures for negotiated salary and benefit increases. However, the previously reported operating expenditure increases for 2016 do not account for utility inflation, such as electricity, natural gas, and water, nor does it account for other inflationary pressures for materials and supplies, contract services, and vehicles and equipment.

Attachment 1 provides more details on the major inflationary impacts facing the City as it prepares the 2016 Operating Budget. As the table in Attachment 1 illustrates, the Administration is forecasting the total inflationary increases to be \$11.4 million for 2016, meaning that tax supported operating expenditures are expected to increase by this amount to account for inflation. Again, this number includes the previously reported wages and benefits increase of \$9.4 million for 2016.

Typically, the annual change in the price of diesel fuel or gasoline will have an inflationary impact on the City's operating budget. Because of lower overall fuel prices – partly due to the lower price of oil – the inflationary impact is negligible and is therefore not included in the 2016 inflation estimates.

On an aggregate basis, the estimated inflationary pressures facing the City of Saskatoon for property tax supported programs and services would increase the City's 2016 tax supported operating expenditures by \$11.4 million. The Administration is recommending that inflation be included, as identified in Attachment 1, in preparing the 2016 Budget. As the budget process evolves, the Administration will continue to refine its inflationary estimates. More details about the inflationary impacts for the 2016 Operating Budget may emerge, which may result in either an increase or decrease of the inflationary impacts presented in this report.

2. Growth

Like inflation, growth also has financial implications for the City of Saskatoon's operating budget. From the City's perspective, growth is influenced by three factors:

- (1) population increases;
- (2) expansion of the city's physical footprint; and
- (3) new City-owned assets.

However, these three factors are linked to one another in very fundamental ways. For instance, population increases will drive housing demand. Demand for new housing creates the need for new neighbourhoods. The creation of new neighbourhoods typically requires the addition of new land to the city. The new land requires civic services, such as paved streets, water, and wastewater to name a few. As the new neighbourhoods build out over time, because of a growing population, demand for new City-owned assets will increase. This means the City may have to build new facilities to accommodate the population. Once the new facilities are built, the City is often required to pay to operate them. So, how does the City budget for growth?

The main point to note is that the City does not capture all the potential growth costs it is facing. The background section of this report notes that the Administration has partially allocated growth of approximately \$4.2 million to the City's 2016 Operating Budget expenditure estimates.

This partial growth allocation applies to the Remai Modern Art Gallery, (new City-owned asset) Capital Transfers, and phase-ins and various civic funding plans (again for new City-owned assets). While City Council has some discretion in terms of adjusting the growth allocations, particularly for the Remai Modern Art Gallery, the Capital Transfers and phase-ins and major components of the funding plans are essentially fixed, or committed costs.

In addition to the partial growth allocation identified in the previous paragraph, the City's 2016 Operating Budget is potentially facing some additional growth pressures that could significantly impact expenditures. For example, the City will be adding approximately 29 hectares of parks and open space to the maintenance inventory in 2016. In order to maintain the additional park and open space inventory, the Parks Division requires additional operating funding of approximately \$380,000.

Moreover, as Saskatoon's geography expands, so too does the number of new lane kilometres of roads that the City needs to maintain. The Administration is estimating lane kilometre growth of 3.27% in 2016. This means that the City will need to expand its street cleaning, snow and ice, and solid waste collection programs to accommodate this growth in developed land. The Administration is estimating that this growth will increase operating expenditures by \$766,800 in 2016.

Similarly, as new neighbourhoods are constructed, the City of Saskatoon, through Saskatoon Light and Power, is required to install new street lights. This new growth in street lighting installations is estimated to cost about \$200,000.

At this time, the Administration is estimating that the additional growth impact (meaning those not previously reported) for the 2016 Operating Budget is approximately \$1.35 million. However, as the budget process evolves, the Administration will continue to refine the growth pressures for 2016, which may result in a decrease or increase of this amount. For example, these assumptions do not include Transit growth, as this growth implication is still being assessed. Similarly, any potential growth pressures from the Saskatoon Police Service have not been included in the above assumptions.

As opposed to simply adding these growth impacts to the 2016 Budget, it is the Administration's intent to manage the additional operational growth pressures of \$1.35 million through the use of the City's Continuous Improvement (C.I.) Strategy and other means. The City's C.I. Strategy is a corporate-wide approach to ensuring effectiveness and improving efficiencies in municipal services and operations.

In 2014, the City achieved just under \$1.4 million in sustainable savings that reduced the 2015 base budget. Performance improvement measures also assisted the Administration in dealing with growth pressures in the 2015 Budget. By pursuing efficiencies and identifying innovative ways to deliver expanded services, the City is making strides toward greater efficiencies, savings, and improvements to service. It is part of a City-wide effort to deliver programs and services that are better for both citizens and the City's bottom line.

Options to the Recommendation

1. Executive Committee may direct that the Administration not include all of the projected inflation in the preparation of the 2016 Business Plan and Budget. However, this would jeopardize the financial sustainability of various City programs and services and may build a structural deficit into the budget.
2. Executive Committee may direct the Administration to include all inflation and growth pressures in the 2016 Business Plan and Budget. However, without offsetting revenues, this will put upward pressure on the property tax to fill any potential revenue gap.

Public and/or Stakeholder Involvement

The 2016 Business Plan and Budget will include a variety of public and stakeholder engagement opportunities as the process emerges. Attachment 2 outlines opportunities for citizens to provide input on the City's spending priorities and on how the City allocates budgetary dollars.

Communication Plan

A communication and engagement plan has been prepared for the 2016 Business Plan and Budget. The goal is to inform citizens of the budgeting process, and to provide an opportunity for citizens to give their input into the Budget, well in advance of City Council approval.

A variety of tools are being used to promote the Shaping our Financial Future: Budget 2016 – City Hall Open House on Monday, June 15, 2015:

- Saskatoon.ca – the website has been updated to include more information on how citizens can get involved. All background documents including related public reports and presentation materials have been added. A link to the online survey will be added on June 16, 2015.
- Social Media – information has been posted to the City's Facebook and Twitter pages and a Facebook Event page has been created.
- Print Ads – the event has been advertised in the City Pages in the StarPhoenix and Sunday Phoenix on June 6 and 7, 2015. Additional advertisements will appear on June 13 and 14, 2015.
- Print Poster – a poster is being displayed on bulletin boards at civic facilities (Attachment 2).
- Digital invitations – an electronic invitation is being sent to business and community stakeholders.
- Public Service Announcement – a PSA will be sent to the media.
- Budget Conversation Starter Brochure – a brochure with information on the annual budget process and property taxes will be designed and available on June 15, 2015.

All tools will be created using plain language, imagery, and videos. The City will take a digital first approach to communications including the development of a webpage to inform the public about the budgeting process. It will demonstrate that the similarities

and challenges the City has to budgeting are similar to citizens' own households, and it will address the top questions on citizens' minds such as:

- How do you spend my tax dollars?
- What are the basic building blocks used when the City develops a budget?
- Why are my taxes going up when the population of Saskatoon is growing?

A series of at least three videos will help to inform citizens on a variety of budget topics such as:

- How Your City Budget Works.
- Why Are Property Taxes Rising?
- Are Tax Increases Caused by Population Growth?

Policy Implications

There are no policy implications at this time. However, during the preparation of the 2016 Business Plan and Budget, the Administration may propose various policy changes for consideration by Executive Committee and/or City Council.

Financial Implications

The Administration is estimating that the inflation will increase the tax supported operating expenditures by approximately \$11.4 million for the 2016 Business Plan and Budget. Table 2, shows the 2016 Operating expenditure assumptions with the added inflation as described in Attachment 1.

**Table 2:
Revised 2016 Operating Expenditure Assumptions**

Expenditure Assumption	Category	Flexibility	Projected Increase
Negotiated Salary Increases & Benefits	Inflation	Fixed	\$9.4 million
Utilities, Contract Services, Materials & Supplies, etc.	Inflation	Fixed	\$2.0 million
Dedicated Road & Traffic Noise	Service Level	Fixed	\$4.1 million
Capital Transfers & Phase-ins	Inflation/Growth Service Level	Limited Discretion	\$1.3 million
Remai Modern Art Gallery	Growth/ Service Level	Some Discretion	\$1.3 million
Civic Funding Plans	Growth/ Service Level	Limited Discretion	\$1.6 million
Total Preliminary Increase			\$19.7 million

The Administration is estimating that growth will increase the City's tax supported operating expenditures by a portion of the \$4.2 million previously identified, plus an additional \$1.35 million as identified in this report. The additional \$1.35 million will be

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managed and addressed through the City's C.I. Strategy and will not be an additional 2016 expenditure to be added to the preliminary budget.

Due Date for Follow-up and/or Project Completion

The Administration will continue to provide information on the 2016 Business Plan and Budget at each Executive Committee meeting up until the Business Plan and Budget is presented. The preliminary 2016 Business Plan and Budget will be tabled at the October 19, 2015, Executive Committee meeting.

Public Notice

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachments

1. Inflationary Pressures on the 2016 Business Plan and Budget.
2. Shaping Our Financial Future – City Hall Open House – Budget 2016.

Report Approval

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Approved by: Randy Grauer, Acting City Manager

Administrative Report – The 2016 Business Plan and Budget Process.docx

ATTACHMENT 1

INFLATIONARY PRESSURES ON THE 2016 BUSINESS PLAN AND BUDGET

[1] Introduction:

Inflation is commonly defined as the rise in the level of prices for goods and services in an economy over a period of time. The City of Saskatoon monitors and tracks inflation because it can have various effects on the City's operating expenditures and the financial decision making that is tied to the City's budgetary process.

The purpose of this document, therefore, is to highlight the major inflationary pressures for the 2016 Business Plan and Budget. Annual inflationary increases generally represent the fixed costs to the City. They often have very little flexibility in terms of reducing their impact on the City's annual budget.

For example, salaries and benefits are negotiated between the City and its workforce for a specified period of time. City-owned building and facilities are required to pay the utility bills to keep the water running and the lights on. The City contracts private service providers to assist it in delivering important services, like snow and ice clearing. The City buys materials and supplies that are necessary for providing the programs and services that the people of Saskatoon use on a daily basis. These materials and supplies are purchased from market suppliers and their prices fluctuate based on input costs and market supply and demand.

The next section of this document illustrates the major inflationary impacts on the 2016 Operating Budget for tax supported programs. It shows that the Administration is estimating the total inflationary impacts for 2016 to be \$11.4 million.

[2] The Impact of Inflation on the 2016 Operating Budget.

Table 1 illustrates the major inflationary pressures on the 2016 Operating Budget. The first column identifies the inflationary impact on a service or program. The second column illustrates how that inflationary pressure links to the City's basket of goods and services.

TABLE 1:
PROPOSED INFLATIONARY IMPACTS FOR 2016

ITEM	INFLATION CATEGORY	ESTIMATED INCREASE (in millions)
Negotiated Salaries & Benefits	Wages & Benefits	\$9.4
Electricity	Utilities	\$0.520
Water	Utilities	\$0.315
Natural Gas	Utilities	\$0
Fleet Services	Contract Services	\$0.171
Street Cleaning/Sweeping	Contract Services	\$0.362
Saskatoon Transit	Vehicles & Equipment	\$0.134
Diesel Fuel/Gasoline	Materials & Supplies	\$0
Snow & Ice Management	Materials & Supplies	\$0.125
Street Cleaning/Sweeping	Materials & Supplies	\$0.130
Postage	Materials & Supplies	\$0.168
Community Grants	Transfer Payments	\$0.115
Total Estimated Inflation		\$11.4

As illustrated in the table, negotiated salaries and benefits account for the majority of the inflationary pressures facing the City in 2016. Wages and benefits inflation represent approximately 82% of the total inflationary pressures on the City's 2016 Operating Budget.

Utility costs are the next largest driver of the City's inflationary pressures. Electricity inflation alone is expected to increase tax supported expenditures by \$520,000. However, there are no inflationary increases for natural gas in 2016. Thus, utility inflation is estimated to increase by \$835,000 over the previous year. Utility inflation represents about 7.3% of the City's total estimated inflation in 2016.

The City of Saskatoon enters into contracts with the private sector to help it deliver important services, such as fleet maintenance, snow and ice removal, and street sweeping. Contract services are the next largest inflationary pressure on the City's budget at an estimated \$533,000. Contract services represent about 4.6% of the City's total inflation in 2016.

Inflation for materials and supplies are also impacting the 2016 Operating Budget. As described earlier in this document, the City is required to purchase materials and supplies to deliver programs and services. One of the lesser known, but important materials and supplies that the City is required to purchase is postage.

The City annually budgets for postage for utility bills, animal license renewals, parking enforcement correspondence, and collection notices for utilities, taxes, and sundry accounts. For 2016, the City is projecting an inflationary increase of \$167,900 for postage alone. As a result, inflation for material and supplies is estimated to increase by approximately \$423,000, representing 3.7% of the City's total inflation for 2016.

Typically, the annual change in the price of diesel fuel or gasoline will have an inflationary impact on the City's Operating Budget. Because of lower overall fuel prices - partly due to the lower price of oil - the inflationary impact is negligible and is thus, not included in the 2016 inflation estimates.

Finally, the City of Saskatoon provides funding through the operating budget to several organizations in the City to assist them in delivering important community programs and services. For example, there are a number of grants or funding programs that have previously been approved by City Council and/or in some cases are driven by a Council approved policy, as is the case with the Assistance to Community Groups, Social Services Component.

These grant programs also have an inflationary impact on the City's operating budget. For 2016, it is estimated that the grants to community groups are expected to increase by \$114,800 over the previous year. This increase represents about 1% of the City's estimated inflation for 2016.

[3] Conclusion:

Inflation has a major impact on the City of Saskatoon's tax supported operating programs. The information provided in this document shows the estimated inflationary impact to the City's 2016 Operating Budget is approximately \$11.4 million. It should be noted that this is not the entire inflationary impact on the City as the Administration is still refining its estimates, but it does address the major inflationary pressure points.

Negotiated salaries and benefits have the largest inflationary impact, followed by utilities, contract services, and materials and supplies. Although the City attempts to manage the inflationary pressures on its operations by using a variety of measures, such as bulk purchases and prudent contract negotiations, it has no control over the prices that the market will charge for the goods and services that it is required to purchase. Similarly, the City has little control over utility inflation as this is based on the rates charged by the utility providers.

Shaping Our Financial Future

CITY HALL OPEN HOUSE:
BUDGET 2016

The City invests in what matters to residents.

Have your say. Participate.

Monday, June 15, 6:00 pm – 9:00 pm

Shaping our Financial Future: Open House

6:00 pm – 9:00 pm City Hall Lobby

Provide your input on the City's spending priorities and on how the City allocates budgetary dollars. **Learn more** about the 2016 Business Plan & Budget.



Executive Committee Special Meeting

2016 Business Plan & Budget

7:00 pm – 9:00 pm Council Chambers

The public is welcome to attend. To submit a letter or request to speak, use the online form at saskatoon.ca/write-letter-council.

Deadline for submission is Monday, June 15, 8:00 am.



Councillor Conversation Corner

6:00 pm – 7:00 pm City Hall Lobby

Meet the Mayor and City Councillors to share your comments on the City's plans and budget.



Can't attend June 15?

Take a minute to complete our budget survey which will be available through the month of June:

- **Online:** A link to an online survey will be made available on Shaping Saskatoon on saskatoon.ca and it will remain open until June 30, 2015.
- **On the Road:** Staff will conduct intercept surveys at leisure centres and public libraries. Watch for the dates on saskatoon.ca

PARKING AVAILABLE after 5:00 pm behind city hall, or in the lot adjacent to the transit mall.

Visit saskatoon.ca/financialfuture and watch for future opportunities to participate.