
2019 Indicative Budget

Recommendation

That a property tax target range between 4.0% and 4.5% be set for the 2019 Business Plan and Budget process.

Topic and Purpose

The purpose of this report is to receive Governance and Priorities Committee direction of a property tax target for 2019, and to provide an overview of revenue, expenditure growth and inflation pressures required to maintain the current level of service. City Council will ultimately set the mill rate in November during the 2019 Business Plan and Budget Deliberations.

Report Highlights

1. Setting an indicative rate is an important step in the development of a singular or multi-year business plan and budget.
2. The City of Saskatoon (City) is anticipating total revenue increases in 2019 of \$11.21 million from user fees, external revenue, internal revenue and property taxes.
3. The City's 2019 Indicative Budget includes total expenditures of approximately \$509.3 million, which is an increase of \$18.6 million or 3.80% over the 2018 approved budget.
4. The Administration is currently estimating a required property tax of 3.16% in order to maintain the existing level of service. Therefore, a targeted range between 4.0% and 4.5% includes \$1.94 million to \$3.10 million that City Council can use to support service improvements and other business plan initiatives.
5. The Administration remains committed to a culture of continuous improvement. The proposed 2019 budget is possible only because of ongoing improvement initiatives, and these impacts have been included in the proposed business plan and budget.

Strategic Goal

This report supports the Strategic Goal of Asset and Financial Sustainability by being open, accountable and transparent, particularly when it comes to the resource allocation and collection decisions the City makes.

Background

At its meeting on March 19, 2018, the Governance and Priorities Committee (Committee) considered a report of the CFO/General Manager, Asset and Financial Management Department, that provided an overview of the multi-year business plan and budget process for 2019. The report included the introduction of a proposed

indicative rate process whereby Committee would provide direction to the Administration regarding a tolerance level for 2019 property tax. The Committee resolved:

“That the 2019 Business Plan and Budget Process be approved.”

Report

Indicative Property Tax Rate

Setting an indicative rate is an important step in the development of a singular or multi-year business plan and budget. A key risk to any business plan and budget is the continuous reworking of assumptions and plans due to moving targets and lack of parameters set at the beginning of the planning cycle. The Committee’s indicative rate decision provides the Administration with an indication of their tolerance level for a property tax target early in the process, and also provides the Administration with clear parameters to work within to achieve City Council priorities.

It is important to note that the indicative rate decision is a guideline for the rest of the year, and City Council has the opportunity to set the final budget and associated property tax impact through the 2019 Budget Deliberations at the end of November 2018. This process provides the Administration with a guideline to prepare the budget and provides the public and City Council with an open and transparent process.

This report is centred on revenue as well as growth and inflationary expenditure pressures, and provides the estimated requirements in order to continue providing the same level of service in 2019 as in 2018.

Revenue Estimates

Overall, the Administration is anticipating total revenue increases in 2019 of \$11.21 million, and is comprised of the following four main components:

1. A net user fee increase of only \$25,000 largely due to increased revenues from the Forestry Farm Park and Zoo, indoor arenas and general parking, offset by material budget corrections for transit and parking violation revenues.
2. Internal revenue increase of \$2.71 million largely due to the continued phase-in of the water/wastewater return on investment and changes to Saskatoon Water and Saskatoon Light & Power grant-in-lieu of taxes.
3. External revenue increases of \$5.37 million largely as a result of the 2018/19 Provincial Budget and return of the grant-in-lieu from SaskEnergy.
4. \$3.10 million increase in property taxation from growth in the assessment base from new homes and commercial properties being built in Saskatoon.

Additional information regarding these revenue changes is provided in Attachment 1.

It is important to note that these revenue estimates include the reinstated grant-in-lieu of taxes from SaskEnergy that was part of the 2018/19 Provincial Budget. Nearly

\$6.0 million was reinstated as part of this budget. Approximately \$2.0 million was applied to the reopened 2018 budget through lowered property taxes. The remaining \$4.0 million increase in revenue is included in the 2019 Indicative Budget and was utilized as follows:

- \$1.00 million was applied to correct base revenue issues in transit and parking violation revenue;
- Other operating revenue sources with structural deficits were held flat in 2019 in order to allow growth and inflation to catch up to the current budget, which includes areas such as traffic violations and landfill revenues. Approximately \$1.25 million was applied to general revenue to compensate for these flat operating revenue budgets, which typically see an annual increase; and
- \$1.75 million applied to previously committed costs including the final phase-in of the P3 North Commuter Parkway and Traffic Bridge, Civic Facilities Funding Plan, Economic Incentives and Recovery Park Funding Plan.

Civic Expenditure Estimates

The City’s 2019 Indicative Budget includes total expenditures of approximately \$509.3 million, which is an increase of \$18.6 million or 3.80% over the approved 2018 Operating Budget. The City’s historical target for expenditure growth has been growth plus inflation, which is estimated at 3.93% for 2019.

Item	Civic	Police	Total
Previously Committed Expenses	\$ 1,750,000	\$ -	\$ 1,750,000
Expenditure Growth	\$ 5,451,700	\$ 398,400	\$ 5,850,100
Expenditure Inflation	\$ 7,098,200	\$3,934,700	\$11,032,900
Total Expenditure Increase (\$)	\$14,299,900	\$4,333,100	\$18,633,000
Total Expenditure Increase (%)	3.65%	4.36%	3.80%

The City’s expenditure increase is comprised of growth and inflation in order to maintain the existing service level. A detailed overview of these components is included in Attachment 2, while a summary is provided as follows:

- \$1.75 million in previously committee expenditures related to:
 - \$800,000 for the final year of the phase-in for the P3 project payments for the North Commuter Parkway and Traffic Bridge projects;
 - \$650,000 in funding for the previously approved Civic Facilities Funding Plan and Recovery Park Funding Plan; and
 - \$300,000 for the implementation of previously approved economic incentives that are anticipated to be applied in 2018.

- Civic inflationary expenditure increases of \$7.01 million, 78% of which is related to compensation, utility and reserve bylaw adjustments. The remaining 22% is related to materials, fuel, contractor and contractual increases.
- Civic growth expenditure increases total \$5.45 million (1.39%) for 2019, largely related to a growing population, roadway and sidewalk network, and park space.

The Saskatoon Police Service (SPS) is currently in the preliminary stages of its 2019 budget preparation. At this time, SPS is estimating a 4.36% increase (equivalent to \$4.33 million) in expenditures in relation to inflation and maintaining the existing service level. In an effort to balance budgetary constraints with staffing requirements, while recognizing there was no growth in mill-rate funded sworn positions in the approved 2018 budget, a small portion of the aforementioned funds are intended to be used for additional positions.

Property Tax Impact

Based on the previous sections of this report, the Administration is currently estimating a required property tax of 3.16% in order to maintain the City's existing level of service. Currently, a 1.00% property tax increase is equivalent to \$2.31 million.

Continuous Improvement

The Administration remains committed to a culture of continuous improvement (CI). The 2019 Indicative Budget includes several CI estimates and processes such as:

- preliminary review and vetting of divisional budget requests resulting in over \$2.0 million growth and inflation pressures that will be addressed through CI;
- continued year round CI efforts as included in the 2017 Saskatoon Strides – Report on Service, Savings and Sustainability (presented to Committee on May 22, 2018); and
- continued implementation of major CI initiatives such as enterprise resource planning (ERP), energy performance contracting, managed print and satellite yards for Public Works and Parks.

While setting a targeted CI figure has been an attractive option to lower annual budget requirements, it is important to recall that the City recorded a \$3.1 million deficit in 2017 largely due to revenue shortfalls as outlined in Attachment 1. While both the 2018 Operating Budget and 2019 Indicative Budget include adjustments to correct a portion of the underlying revenue issues, there is a risk that this trend may continue in 2018 and 2019. Attachment 3 provides more information regarding the City's current state of CI.

Given this reality, placing additional burden on the operating budget over and above the savings already embedded in the budget is not recommended.

Business Plan Allocations

As previously reported, the Administration will be providing options to Committee at its June 18, 2018 meeting to allocate additional funds to improve service levels and implement initiatives aimed at achieving City Council priorities. If approved, the targeted property tax increase range of between 4.0% and 4.5% will leave nearly \$1.94 million to \$3.10 million for Committee to allocate towards business plan initiatives at its June meeting, above and beyond the status quo service level included in this report. Examples of initiatives previously presented to City Council and Committee that would be part of this business plan prioritization include:

Item	Estimated Allocation Required
Year 1 phase-in of the Recreation & Parks Game Plan	\$ 250,000
Year 1 of Affordable Housing phase-in towards target of 250 units/yr.	\$ 100,000
Resourcing and advancement of the open data initiative	\$ 406,600
Year 1 phase-in for Bridges Asset Management Plan	\$1,040,000
Year 1 phase-in for Parks Asset Management Plan	\$ 800,000
Year 1 phase-in for Transit Asset Management Plan	\$ 800,000
Year 2 phase-in of Snow & Ice service level increases	\$1,270,000

It is important to note that this is not a comprehensive list, as the Administration continues to work through City Council’s renewed Strategic Plan and the development of business plans. There may be additional initiatives that funding is required for in order to achieve City Council’s strategic priorities. These additional initiatives will be included in the June report.

Options to the Recommendation

Committee could choose to target a property tax either higher or lower than the 4.0% cap being recommended. The impact of these options are as follows:

1. Property tax target lower than 3.16%: Achieving this target would require additional revenue sources or reductions in service levels that result in decreased expenditures. As it would be difficult to maintain the status quo, any business plan initiatives aimed at achieving City Council’s strategic outcomes requiring resources would need to be deferred.
2. Property tax target of 3.16%: To achieve this target, any business plans requiring resources would need to be deferred. The status quo service level would be adequately funded for 2019.
3. Property tax target lower than 4.0%. If Committee were to target a property tax increase lower than 4.0%; this would leave up to \$1.94 million to utilize towards business plan initiatives at Committee discretion.

4. Property tax target higher than 4.5%: If Committee were to target a property tax higher than 4.5%, it would provide \$3.10 million and an additional \$231,000 for every 0.10% in addition to 4.5% that could be utilized towards business plan initiatives at Committee discretion.

Public and/or Stakeholder Involvement

The public engagement results collected as part of developing the 2018 Business Plan and Budget will be used as input into developing the 2019 Multi-Year Business Plan and Budget. The indicative budget process took into consideration past results from the City's annual Civic Services Survey, most notably that respondents indicated that they would prefer to see a combination of increased property taxes and user fees instead of service level reductions. The 2019 Indicative Budget as presented includes no changes to current service levels.

Communication Plan

The 2019 Indicative Budget will be communicated through a News Release and posted to the current *Shaping our Financial Future* webpage on saskatoon.ca.

The City's first public multi-year business plan and budget will be for a two-year cycle, presented for the 2020-2021 budget years. The communications approach, adopted by Committee at its meeting on April 23, 2018, provides a more comprehensive plan to communicate and collect input to be used in the development of the 2020-2021 Multi-Year Business Plan and Budget.

Financial Implications

The financial implications are included in this report and associated attachments.

Other Considerations/Implications

There are no policy, environmental, privacy or CPTED implications or considerations.

Due Date for Follow-up and/or Project Completion

The Administration will present a report to the June 18, 2018 Committee meeting outlining business plan options for Committee to allocate available resources towards.

Public Notice

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

Attachments

1. 2019 Indicative Budget Revenue Estimates
2. 2019 Indicative Budget Expenditure Estimates
3. Continuous Improvement Considerations

Report Approval

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