# Civic Revenues – Trends and Analysis

**Recommendation**
That the information be received.

**Topic and Purpose**
The purpose of this report is to inform the Governance and Priorities Committee of the 2018 budgeted revenue estimates, and how historic and future revenue trends have a direct impact on the City of Saskatoon's (City) property tax.

**Report Highlights**
1. Municipalities are funded differently than other orders of government; the City has four main sources of revenue.
2. There are significant positive and negative revenue trends that are affecting the City.
3. The decrease in revenues from the 2017 Provincial Budget has significantly impacted the City's 2018 budget.

**Strategic Goal**
The information contained in this report supports the Strategic Goal of Asset and Financial Sustainability by demonstrating openness, accountability and transparency in financial reporting.

**Background**
At its March 26, 2017 special meeting, City Council, considered a report of the CFO/General Manager, Asset and Financial Management Department, which outlined the impact to the City for the elimination of the grant-in-lieu from provincial utilities.

At its May 15, 2017 meeting, the Governance and Priorities Committee received a report of the CFO/General Manager, Asset and Financial Management Department, outlining the indicative inflation and growth estimates for civic services, Police, and the provincial funding reduction. The outcome from the effect of these factors resulted in a preliminary 6.97% indicative property tax increase for the 2018 budget.

**Report**
Funding of Municipalities
Unlike other orders of government, civic municipalities are limited in terms of how revenues are collected, and must produce a balanced budget each year. The City collects revenue from four main components:

- User Fees
  Various services provided by the City are funded in whole or in part through fees paid directly by the user. Some services are expected to be self-sufficient, while others are only expected to recover a portion of its total costs from users. In most cases where services directly benefit a particular user, user fees are charged. However, for those services that have social or community benefits, and where the cost to the user would be prohibitive, the City will subsidize a portion of the cost of the service. Examples of user fees collected by the City include, but are not limited to, pet licenses, business licenses, transit fares, and parking.

- External Funding
  The most significant transfer from the Province is the Municipal Revenue Sharing grant. The objective of this grant program is to provide long-term predictable funding to municipalities to help them address the operational challenges faced as a result of growing populations and increased demands for services. The grant is tied to the Provincial Sales Tax (PST) that grows with the economy. Another example is grants-in-lieu (GIL) of taxes which are typically grant payments to municipalities from the federal and provincial governments. Although these orders of government are exempt from paying local property taxes, historically grant payments are made in place of property taxes for government owned/managed properties.

- Internal Funding
  The majority of this category is comprised of utility transfers comprised of GILs, return on investment, and an administrative recovery from Saskatoon Light & Power, Saskatoon Water and Wastewater, Storm Water Management and Waste Services. Other revenue sources included in this category are interest earnings and land development administrative fees.

- Property Tax Levy
  As required by provincial legislation, the City must balance its operating revenues with its operating expenditures. Because the City has a limited number of revenue sources, any revenue shortfalls must be balanced through a property tax increase.

As shown in the following table, the City consistently collects between 44-46% of revenue from levied property taxes.

| Revenue Sources | 2015 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|
| | ($) | (%) | ($) | (%) | ($) | (%) |
| Property Tax | 192,744.2 | 43.5% | 206,624.7 | 44.5% | 219,885.5 | 46.0% |
| User Fees | 75,023.8 | 16.9% | 74,781.4 | 16.1% | 77,918.7 | 16.3% |
| Internal | 83,843.5 | 18.9% | 88,356.6 | 19.0% | 93,935.9 | 19.7% |
| External | 91,441.0 | 20.6% | 95,017.0 | 20.4% | 85,909.0 | 18.0% |
| **Total Revenue Sources** | **443,052.5** | 100.0% | **464,779.7** | 100.0% | **477,649.1** | 100.0% |

Other orders of government have the ability to produce an unbalanced budget, as well as to levy many other types of taxes (PST, fuel tax, liquor tax, etc.).

Revenue Trends

For 2018, the Administration estimates a total decrease of $1.6 million in operating revenue. Compared to previous years, $16.27 million and $4.98 million in new revenue was estimated for 2016 and 2017 respectively. This slowing and declining revenue growth trend has the largest impact on 2018 property tax increases. Some of the major trends are detailed in Attachment 1, and are summarized as follows:

User Fees

- Landfill Revenue
  Over the past number of years, the total tonnage of waste received at the landfill has decreased, resulting in decreased revenue. Since 2014, increased regional competition has been aggressively pursuing business from the commercial sector, significantly impacting revenue. The 2018 indicative budget includes a $700,000 decrease to landfill revenue.

- Provincial and City Traffic Violations
  Beginning in 2012, a historic trend has shown a decrease in provincial and city traffic violations due to the implementation and redirection of automated speed enforcement revenue to the Traffic Safety Reserve, as well as increased driver compliance. The 2018 indicative budget includes a $500,000 downward adjustment in revenue to adjust for this trend.

- Transit Revenue
  Since 2014, Saskatoon Transit has seen relatively flat revenues of approximately $14.0 million per year. Although actual revenues have trended behind budget, adjustments are not included in the 2018 indicative budget, as Saskatoon Transit will continue to employ strategies to increase ridership.

- Leisure Centre Admission Revenue
  Prior to 2014, trending leisure centre revenues were declining. In order to increase admission revenue, in 2014, a detailed review was completed to identify ways to increase participation, as well as three extensive research projects undertaken to gather public input. The results from all elements of research identified that cost of admission was the main attribute when considering a visit to a leisure centre. A new pricing and marketing strategy was developed and implemented in fall 2015. Three successful promotions (Two-Week Trial Pass, Summer Indoor LeisureCard, and Last Hour Promotion) continued throughout 2015.

  Recent trends show gradual increases in revenue beginning in 2013, and a healthy increase in attendance beginning in 2015 after the new marketing and pricing strategy was implemented; however, revenues have not increased enough to fully meet budget. The Administration is hopeful that the results of this initiative will continue to see positive results and further decrease the gap between actuals and budget. There is a risk in 2018 that a negative variance will be present, as this gap is not expected to fully close.

External Funding

- Franchise Fee Revenue
  Prior to the 2017 Provincial Budget decision to eliminate the GIL paid to municipalities, revenue of this type remained fairly consistent. In April 2017, the Provincial Budget impact to the City was approximately an $8.3 million revenue decrease to the 2017 budget. The carryover effects of this GIL elimination also meant a further $3.1 million decrease in revenue in 2018.

- Municipal Revenue Sharing Grant
  The Municipal Revenue Sharing grant is the most significant transfer the City receives from the Province annually. The Administration is anticipating significant decreases in 2017 and 2018 due to an economic downturn. Over the 2017-2018 period, the Administration is expecting a revenue decrease of approximately $5.4 million from 2016 levels.

Internal Funding

- Return on Investment (ROI)
  The 2018 indicative budget includes a $1.5 million increase to the City's ROI it receives from the Water and Wastewater Utility. This phase-in is consistent with previous City Council direction to bring the ROI to $17 million or 10% of revenue by 2020. The ROI received from Saskatoon Light & Power remains unchanged in the 2018 indicative budget due to other cost and infrastructure requirements within that utility.

Property Tax Levy

- Property Tax Revenue
  Property tax revenue is made up of the following three key categories:
  - Assessment Growth – This category reflects the amount of growth in the City's assessment base, or new inventory that is built. Included in the 2018 indicative budget is $3.2 million in new revenue. Note that this amount is an estimate and subject to change as final growth figures will not be known until fall 2017.

  - Supplementary Taxes – This category reflects taxes that are levied on properties for a partial year. This could include land improvements such as structures and homes that are completed midway through the year. The 2018 indicative budget includes $2.6 million in supplementary taxes which is a $100,000 increase from 2017.

  - Annual Property Tax Levy – This category reflects the largest single revenue source for the City. Included in the indicative budget is a 6.97% increase equivalent to $15.37 million in new revenue.

2018 Budget Impact and Next Steps

As previously stated, the 2018 revenue impact on the 2018 budget is a decrease of $1.6 million. The two most significant impacts to the 2018 budget are the reduction in Municipal Revenue Sharing ($3.0 million decrease) and the elimination of GILs from provincial utilities ($3.1 million decrease). These two provincial funding decreases equate to a 2.78% property tax increase.

The Administration is currently undergoing several initiatives in order to provide City Council with options to resolve the current revenue issues. These initiatives include:

- The City's Internal Auditor (PwC) is currently engaged in a review of alternative revenue sources. This review will provide options regarding other municipal practices and opportunities to implement new revenue streams.

- The Administration is working on a series of responses to the previously presented Hemson Report. These reports will focus on opportunities to ensure that growth is adequately paying for growth, and to minimize the property tax and user fee growth burden.

- The Administration is actively engaged in conversations with the Province in pursuing a replacement for the removed grant-in-lieu for provincially owned buildings and infrastructure, including Crown Corporations.

- The Administration is currently undergoing a Business Model Review for various services to determine if the services are best served as a user fee or property tax funded service. This review includes future reports to City Council regarding waste services as a utility and user pay service.

**Communication Plan**
The 2018 budgeted revenue implications will be communicated to the public in the 2018 Corporate Business Plan and Budget during Budget Deliberations in November 2017.

**Due Date for Follow-up and/or Project Completion**
The Administration will submit a report to Governance and Priorities Committee regarding any updates to revenues prior to 2018 Budget Deliberations.

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

**Attachment**
1. Revenue Analysis

**Report Approval**

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| Written by: | James Nechiporenko, Corporate Budget Manager |
| Reviewed by: | Kari Smith, Manager, Financial Planning<br>Clae Hack, Director of Finance |
| Approved by: | Kerry Tarasoff, CFO/General Manager, Asset & Financial Management Department |

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