2019 Indicative Budget Revenue Estimates

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 of Saskatoon (City) collects revenue from the following 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 the 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, and parking.

- External Funding
  The most significant transfer from the Government of Saskatchewan is the Municipal Revenue Sharing Grant. The objective of this grant program is to provide long-term predictable funding to municipalities to help address operational challenges they face 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 are grants-in-lieu (GIL) of taxes which are typically grant payments to municipalities from the federal and provincial governments (Crown corporations). Although these orders of government are exempt from paying local property taxes, historically, they have made grant payments in place of property taxes for government-owned/managed properties.

- Internal Funding
  The majority of this category is made up of Utility transfers comprised of GIL of taxes, return on investment (ROI), 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.

These sources of revenue are a key estimate in determining the 2019 indicative property tax target. Overall civic revenues are anticipated to increase by nearly $11.21 million for 2019. A breakdown and projections for each category are included in the following sections.

User Fee Increase of $25,000

As previously presented to City Council, the City's non-tax revenue sources, in particular user fees, have not increased at the same rate as expenditures over the past several years, placing more pressure on the property tax. This is for a variety of reasons including:

- decreases in usage and customer preferences for other alternatives;
- increased municipal and regional competition;
- over optimistic revenue budgets that have yet to be realized; and
- increased compliance.

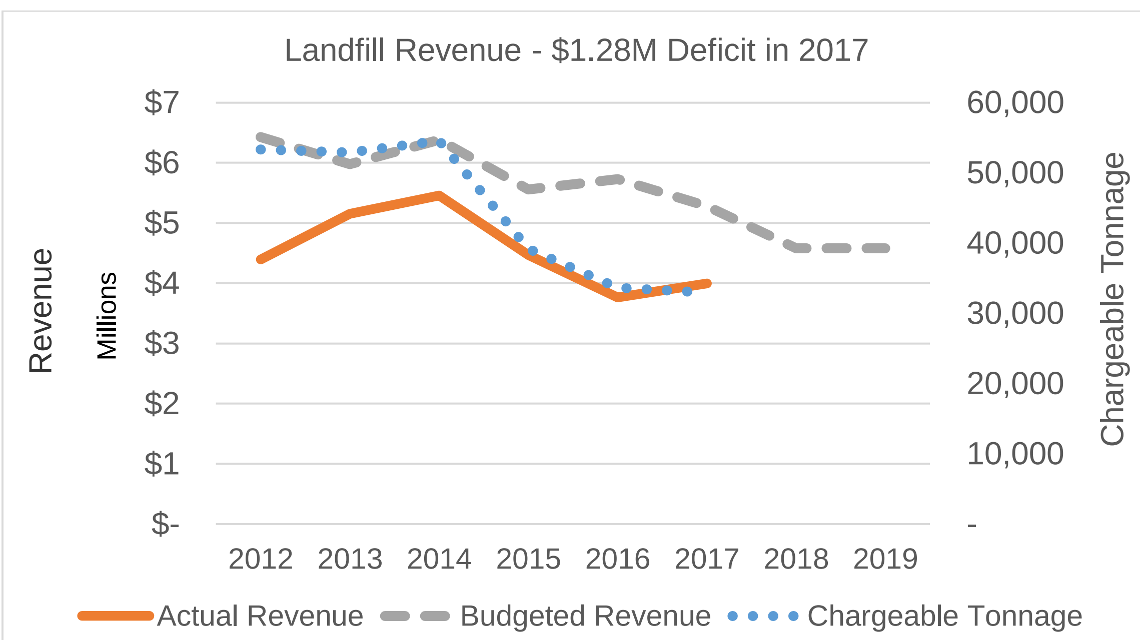
While correcting these trends is important to ensure the City's financial sustainability, adjusting the revenue budgets all in one year would place an overwhelming burden on the property tax. Therefore, a phased-in balanced approach is included in the 2019 Indicative Budget which includes:

- continuing to focus on civic initiatives to reduce the burden on the property tax and increase usage and user fees; and
- multi-year phase-in to correct base budgets in significantly impacted areas.

An overview of the specific user fee revenue sources and 2019 Indicative Budget adjustments are outlined as follows:

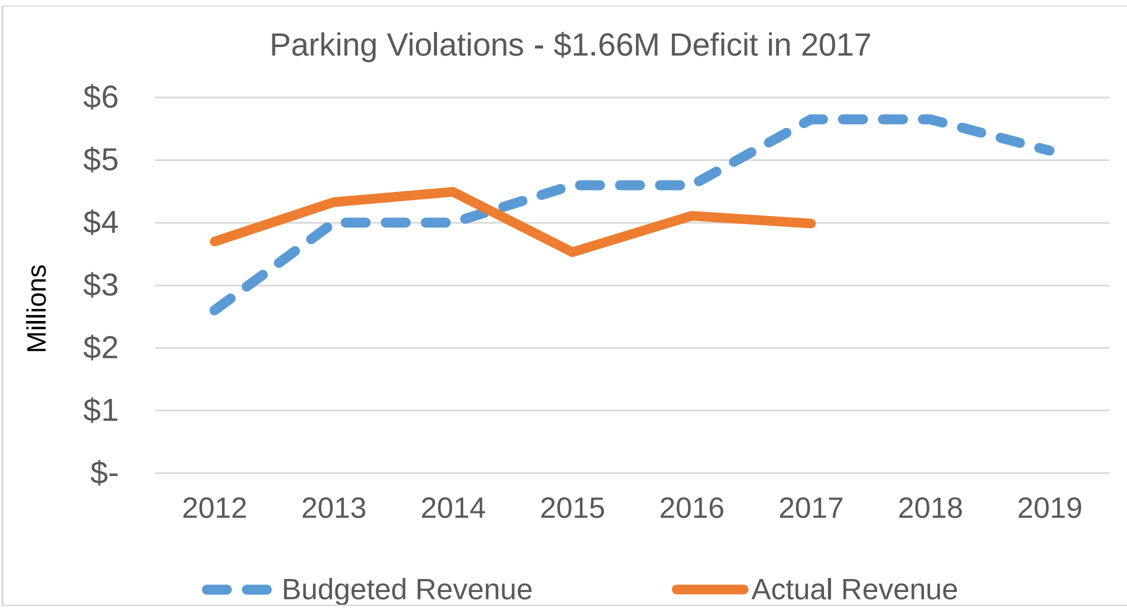
- Landfill Operations

  The chargeable tonnage delivered to the City's landfill has been steadily declining since 2014, as commercial haulers have opted for competing landfills within the region. This has resulted in revenue deficits as large as $1.97 million in 2016. The budget was adjusted by $450,000 in 2017 resulting in a smaller revenue deficit of $1.28 million at the landfill.



Budgets for 2018 were further adjusted by $700,000 which should significantly reduce the revenue deficit size in 2018. With work currently underway as part of the waste as a utility model, no further adjustments have been made to the 2019 Indicative Budget until a final decision has been made in that regard. If approved, waste as a utility model will create a financially sustainable model to ensure the ongoing success of the landfill and associated operations while achieving several positive environmental outcomes.

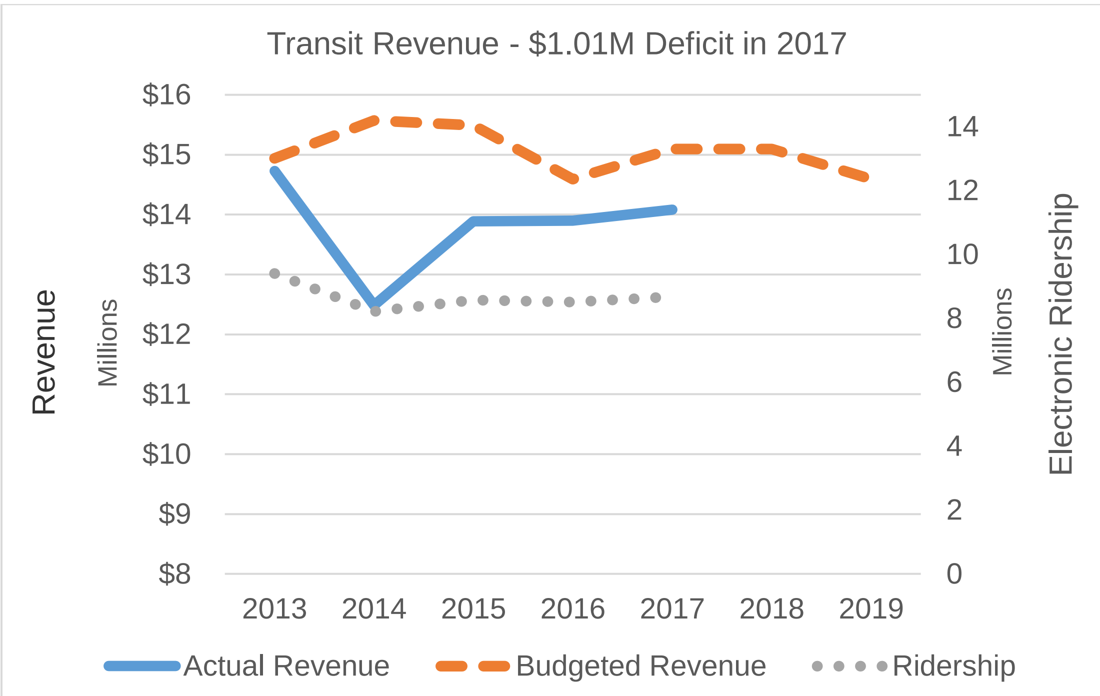
- Parking Ticket Revenue
  Revenue from parking tickets experienced a $1.66 million deficit in 2017. This deficit is largely due to increased compliance as the cost of violations increased from $20 to $30 in 2017, creating more incentive to not receive a parking ticket. The convenience of paying for parking through a parking app also had positive impacts on compliance.



As a result of increased compliance, metered parking revenue experienced a surplus of $675,000. However, this excess is dedicated to payments to the vendor who installed the parking terminals until mid-2019. Parking revenue has continued to trend upwards in 2018.

No changes were made to the 2018 budget, and underlying parking ticket revenue trends are expected to remain unchanged. A $500,000 decrease to parking violation revenue is currently included in the indicative budget. This adjustment along with growth within the city is anticipated to help close this revenue gap. This revenue source will be revisited as part of future budgets, as a further multi-year phased-in approach may be required depending on actual results from 2018/19.

- Transit Revenue
  Transit ridership and revenue both increased slightly in 2017 from 2016 as ridership grew from 8.5 million to 8.7 million (electronic method) and $14.1 million in revenue compared to $13.9 million in 2016. However, as per the following graph, this increase in revenue is still behind the budgeted revenue of $15.1 million which created a transit revenue deficit of $1.0 million in 2017.



Recent trends (from 2013-2017) in fare revenue have indicated a shift in sales from regular priced passes to discounted passes (e.g. monthly pass holder enrolling in the EcoPass or Upass program). This shift in fare type correlated to a revenue decrease in 2014 and a plateaued effect thereafter at approximately $14 million in 2016 and 2017.

While the Administration is confident that the increase in ridership and revenue will continue with current initiatives underway including the eventual Bus Rapid Transit Program, it is difficult to project Saskatoon Transit making up the $1.01 million revenue gap in a single year. As such, the 2019 Indicative Budget includes a $500,000 reduction to transit revenue to correct a portion of the base budget, while transit ridership initiatives and growth will address the remaining portion.

- Other User Fee Changes
  The $1.00 million in negative budget changes comprised of parking violations, transit and landfill is offset by minor changes in revenues in various other areas, including:

  - $261,000 increase in estimated revenue to the Forestry Farm Park and Zoo based on current admission trending, as well as the new season pass program which is anticipated to generate an additional $110,000 in revenue.

- $97,000 increase in community support revenues from current trending and rate changes to the Animal Services Program and Cemetery.

- $250,000 increase from Parking Services as a result of the vendor financing for the new parking meters coming to an end in 2019. Parking revenue allocations will need to be revisited and part of a larger strategy in consultation with the Business Improvement Districts and other stakeholders prior to 2020 Budget Deliberations.

External Funding Increase ($5.37 Million)

Overall, the Administration anticipates receiving an additional $5.37 million in external operating funding in 2019. The following is a breakdown of this increase:

- As a result of the 2018/19 Provincial Budget, the GIL received from SaskEnergy was reinstated as a 5% municipal surcharge on energy bills which is remitted to the municipality as compensation for municipal services provided to SaskEnergy. A total of $5.61 million was returned to the City in 2018, with $1.99 million being returned to tax payers. The net increase to the 2019 budget is $3.61 million.

- Also as part of the 2018/19 Provincial Budget, the GIL on real property owned by Crown corporations was reinstated. This change is anticipated to increase 2019 revenues by $600,000 based on the current assessed values of Crown-owned properties in Saskatoon.

- Other changes include the GIL from SaskPower is expected to increase by $662,000 in 2019 largely due to anticipated rate increases of 4.0%, as well as a $400,000 increase to the GIL received from the federal government based on current assessment values of federal properties within Saskatoon.

- The municipal revenue sharing grant from the provincial government is currently estimated to remain unchanged at $43.43 million for 2019.

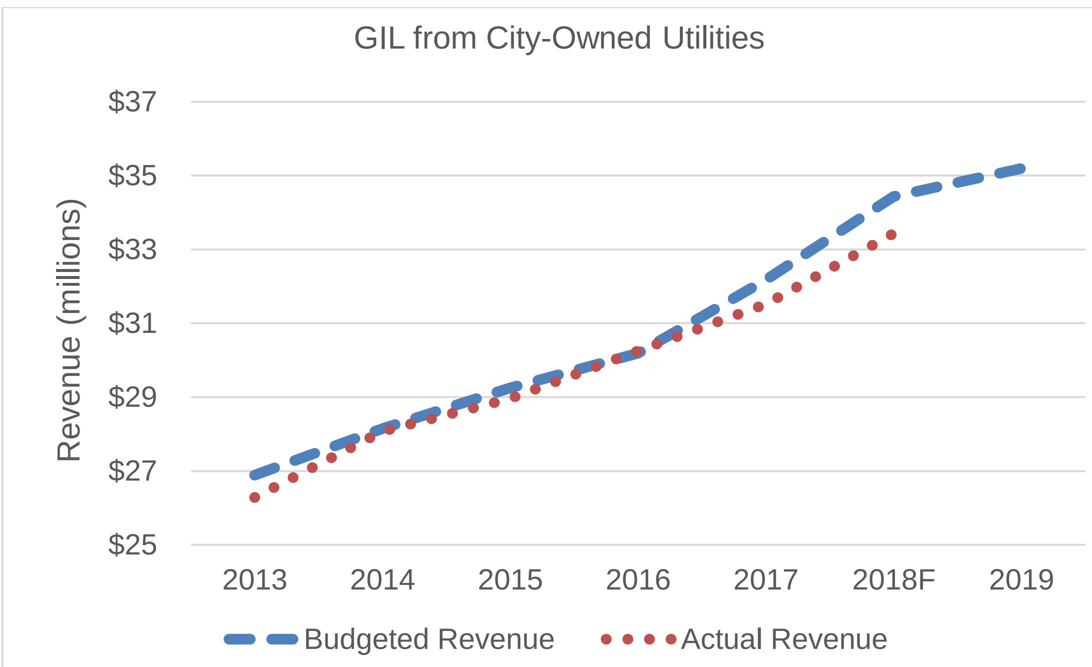
Internal Funding Increase ($2.71 Million)

Overall, the Administration is anticipating an increase of $2.71 million in internal funding sources. A breakdown of this increase is as follows:

- As part of the 2016 Business Plan and Budget Deliberations, City Council approved a plan to phase-in an ROI from the Water and Wastewater Utility equivalent to 10% of total revenue by 2020. The intent of the ROI was to compensate Saskatoon residents for the sale of water that is provided to surrounding areas (Warman, Martensville, and Osler). Instead of simply lowering the water rates and benefiting high water users, the Administration felt that the entire city should benefit from these sales; therefore, an ROI was implemented. This ROI also provides a return for the operational risk of running a water utility, therefore, like any other investor, an ROI is returned to the City to compensate for this risk. The 2019 phase-in of this amount is $1.60 million.

- The City's GIL from City-owned properties and utilities is anticipated to increase by $890,000, and is comprised of the following amounts:
  - $1.27 million increase from Saskatoon Water/Wastewater which is calculated based on the approved average rate increase of 9.25% for 2019.
  - City-owned land is expected to contribute an additional $120,000 in GILs in 2019. This increase is based on land holdings the City is expected to maintain throughout 2019.
  - Saskatoon Light & Power's GIL is expected to decrease by $500,000 in 2019 largely based on declining sales volumes and overstated internal GILs that have been realized in prior years.

An overview of the five year trend related to GIL's from City-owned utilities is shown in the following graph:



<u>Property Tax Revenue Increase ($3.10 Million)</u>

Prior to any required property tax increase, the City receives additional funding related to property taxes in one of two ways. Assessment growth, which is the physical addition of new properties of developments within Saskatoon or property tax penalties resulting from late payments of municipal property taxes. A breakdown of these two revenue sources for 2019 is outlined as follows:

- Assessment growth is currently estimated at $3.00 million for 2019. This estimate is based on a combination of outstanding building permits, status of construction and anticipated date construction will be completed. This estimate is difficult to develop and will continue to be refined and finalized prior to 2019 Budget Deliberations.

- Property tax penalties are currently anticipated to increase by $100,000 based on historical actuals. In 2017, the City generated $2.27 million in property tax penalties compared to a budget of $2.05 million. The 2018 budget remained unchanged. As property tax penalties have a tendency to fluctuate up and down from year to year, a $100,000 increase is reasonable without taking on additional financial risk.