

## 2019 Indicative Budget Expenditure Estimates

Expenditure Overview

The City of Saskatoon's (City) 2019 Indicative Budget includes total expenditures of approximately \$509.3 million, which is an increase of nearly \$18.6 million or 3.80% over the 2018 approved budget. The City's typical benchmark for expenditure growth is inflation plus growth, which for 2019 is estimated to be approximately 3.93%.

<b>Item</b>	<b>Civic</b>	<b>Police</b>	<b>Total</b>
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
<b>Total Expenditure Increase (\$)</b>	<b>\$14,299,900</b>	<b>\$4,333,100</b>	<b>\$18,633,000</b>
<b>Total Expenditure Increase (%)</b>	<b>3.65%</b>	<b>4.36%</b>	<b>3.80%</b>

Historically the City has come in under this target as a result of continuous improvement initiatives and base budget adjustments, largely due to targeted continuous improvement initiative reductions to base budgets.

However, as illustrated by the City's 2017 deficit of \$3.10 million and the information included in Attachment 3, these downward adjustments included in prior year expenditure budgets did not always come to fruition. The Administration's targeted approach employed during these years was beneficial in reducing waste and forcing divisions to find savings and efficiencies. However, civic operations have come to a point where further significant reductions to expenditure budgets without jeopardizing service levels or financial sustainability are becoming more difficult to obtain on a regular basis.

While the Administration agrees with past City Council direction and recommendations from the Chamber of Commerce and North Saskatoon Business Association regarding focusing on expenditure control and minimizing year-over-year increases, the expenditure increase included in the 2019 Indicative Budget is the most accurate estimate to maintain the current service levels. An overview of the expenditure increases in the budget are provided in the following sections.

Civic Inflationary Pressures (\$7.01 Million)

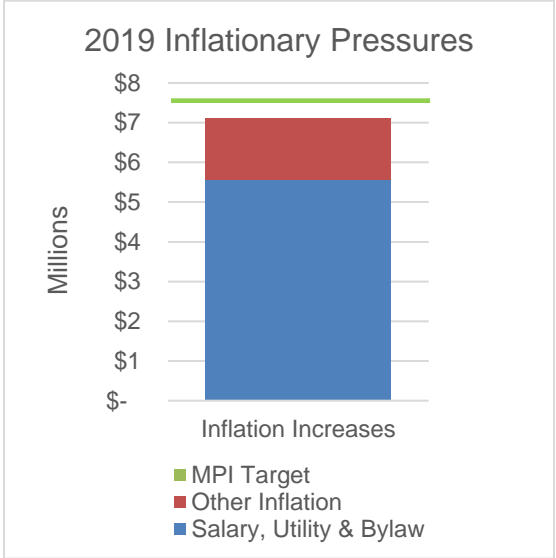
Every year the City is faced with inflationary pressures on expenditures. In order to determine a benchmark for inflation, the Administration calculates a municipal price index (MPI). MPI takes into consideration anticipated increases in salaries, utility costs, contractors and materials such as asphalt. The Administration has historically focused on MPI instead of the consumer price index (CPI), as the City's operating activities are fundamentally different than the basket of goods that CPI is calculated on (food, shelter, etc.). For 2019, the City's MPI has been calculated at 1.93% for mill rate expenditures. The Administration utilizes a variety of sources to determine inflation pressures facing the City. Several examples of assumptions and sources utilized are shown in the following table:

Item	Inflationary Pressure	Source
Water & Sewer Rates	9.25%	Approved Water Rates
Contract & General Supplies	2.28%	CBOC* – Wages & Salaries per Employee – Saskatoon
Materials & Commodities	2.65%	CBOC* – Industry GDP, Construction
Vehicle & Equipment Charges	2.77%	CBOC* – Industry GDP Transportation
Maintenance & Rental Equipment	2.56%	CBOC* – Industry GDP Construction
Electricity	4.00%	City of Saskatoon estimate
Debt – Interest and Principle	0.00%	City of Saskatoon estimate

\* CBOC – Conference Board of Canada

The Administration has conducted an in-depth review of the City’s 2017 actual results as well as the 2018 budget, and estimates the civic inflationary impact to be approximately \$7.01 million in 2019, equivalent to a 1.81% increase which is less than MPI (1.93%).

Approximately 78% of this increase relates to salaries, utilities and inflationary increases to reserve contributions as per the requirement of Bylaw No. 6774, The Capital Reserve Bylaw. 3% or \$225,000 is allocated to the Building Better Roads program in order to maintain the existing level of service of a 1 in 20 year cycle due to higher concrete, asphalt and contractor pricing. The remaining 19% relates to other materials, fuel, contractor and contractual increases.



Previously Committed Expenditures

The City has made a number of expenditure commitments that will need to be funded in 2018. For 2018, these total \$1.75 million and include:

- \$800,000 in order to complete the phase-in of \$3.00 million per year to fund the North Commuter and Traffic Bridge P3 project;
- \$650,000 allocation to the Civic Facilities Funding Plan and Recovery Park Funding Plan. The Civic Facilities Funding Plan is used to fund a variety of projects including the Police Headquarters, Fire Hall No. 3, Fire Hall No. 5, the Remai Modern Art Gallery of Saskatchewan and several other major civic projects; and

- \$300,000 in order to fund economic incentives that have been approved under existing policies that are expected to be constructed and completed in 2018.

#### Civic Growth Pressures (\$5.45 Million)

In addition to inflation, the City is faced with growth pressures every year as civic services need to be applied to an extending population or service area. Expenditure growth requirements for 2019 are currently estimated at \$5.45 million or 1.39% over 2018 expenditures. Major growth allocations within the 2019 Indicative Budget include:

- \$1.50 million in additional allocations to the Building Better Roads Program in order to maintain the current service level for the growing roadway and sidewalk network. The road network is estimated to have grown from 4,059 lane km to 4,137 lane km or 1.92%, while the sidewalk network has grown from 1,499 km to 1,560 km — a growth rate of 4.07%. The allocations built into the 2019 Indicative Budget to accommodate this growth and maintain the current level of service are as follows:
  - \$775,000 additional contribution to the Paved Roadway and Sidewalk Maintenance Reserve;
  - \$126,000 additional allocation to the Snow & Ice Management service line; and
  - an additional \$69,600 to the Street Cleaning & Sweeping service line.
- \$375,000 allocation to Parks in order to accommodate an additional 54.6 hectares in park and green space anticipated to open in 2019, an increase of 2.5% in greenspace over 2018. The largest portions of this additional green space relate to 26.65 additional hectares in Rosewood mainly related to Glen H. Penner Park and the green space surrounding the McOrmond Drive interchange.
- An additional \$335,000 in Community Support in order to account for:
  - population growth for programs such as the Cultural Participation Grant and Youth Sport Subsidy;
  - increased usage of programs such as the Accessibility Program; and
  - previously approved contributions to the Children’s Discovery Museum and community associations.
- \$670,000 to accommodate a growing network of assets and place appropriate funding in order to ensure these assets are appropriately maintained. These assets include Children’s Discovery Museum City Shared Space contribution, reserve contributions for new spray pads, rotary park gazebo, Cairns Grandstand and new play structures. In addition, this will provide funding in order to

accommodate facilities' costs and maintenance at the recently purchased Saskatchewan Transportation Company (STC) building.

- \$495,000 for Saskatoon Transit growth to accommodate new and expanding neighbourhoods. This funding will be utilized for additional operators, equipment, buses and mechanical requirements.
- \$430,000 for Environmental Health programs such as garbage collection for new and expanding neighbourhoods and landfill management in order to comply with regulatory changes that will result in the need for additional equipment and improved litter fencing.
- \$255,000 for parking resource requirements in order to continue providing the current level of service to a growing service area. This funding will be utilized in order to expand Commissionaires' service for new residential parking permit locations as well as regular Commissionaire parking enforcement services.

#### Civic Expenditure Risks

Included in the 2019 Indicative Budget are several areas that still contain a certain level of operational risk, most notably:

- As a result of landfill operations not achieving its budgeted revenue targets in past years, operational expenditure decisions have been made in order to mitigate the impact on the property tax. This includes deferral of contributions to the Landfill Replacement Reserve which is intended to fund the expansion and eventual decommissioning of the Landfill. While this approach is not financially sustainable, the 2019 expenditure budget does not include any budget adjustments to address the expenditure shortfall. As indicated in Attachment 1, landfill operations and associated services are currently exploring a waste as a utility model to ensure financial and environmental sustainability. Until a decision is made on waste as a utility model, additional base expenditure adjustments and pressure on the property tax have not been added. The Administration will continue to manage landfill expenditures as much as possible within the approved budget and adjust in future years if still required following the decision regarding waste as a utility.
- Saskatoon Transit experienced a \$1.81 million deficit at the end of 2017. This deficit was related to a combination of revenue (\$1.0 million) and expenditure (\$801,000) issues. Attachment 1 outlines a \$500,000 reduction to revenue estimates to address a portion of the structural issue, while the current indicative budget includes \$1.08 million in expenditure adjustments for inflation and growth. The majority of these expenditure allocations are to address new inflationary pressures and to deliver service to an expanding network. A portion will be allocated to offset current over-expenditures and reduce overtime requirements. There is a risk that this growth and inflation adjustment may not be sufficient; however, the Administration will continue to monitor and manage within the

existing budget and report back with any further changes required as part of the 2020 Indicative Budget process.

Police Growth and Inflation Estimates (\$4.33 Million)

The Saskatoon Police Service (SPS) is currently in the preliminary stages of its 2019 budget preparation. At this time, they are estimating a 4.36% increase (equivalent to \$4.33 million) in expenditures that relates 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. The number and type of positions have not been designated or quantified so do not merit remark at this point in time. The key review and recommendation will be a part of the fulsome 2019 budgeting process and will, necessarily, require approval of the Board of Police Commissioners, keeping in mind strategic priorities and intended service delivery.

At the same time, the current revenue estimates related to inflation and increased services provided by SPS are estimated to total \$197,800 (included in Attachment 1 estimates). That estimated revenue increase would help offset the anticipated expense increase, leaving a net increase of \$4.14 million.

SPS has yet to estimate or finalize any growth requirements for 2019. As indicated earlier in this report, the indicative rate is intended to inform Governance and Priorities Committee of currently anticipated needs to meet existing service levels. The final outcome will only be known once the substantive 2019 budgetary process is complete.