ATTACHMENT 1

City of Saskatoon

Long-Term Financial Sustainability Plan: 2015 - 2025

First Edition

June 2015

MESSAGE FROM THE CFO

May 15, 2015

The following document is the City of Saskatoon's (City) first edition of its Long-Term Financial Sustainability Plan. The City is faced with a number of issues including aging infrastructure, rapid growth, limited funding tools, inflationary pressures and declining non-tax revenues. In addition, uncertainty exists around external sources of funding (e.g. government grants) and regulatory changes (e.g. environmental).

In light of these issues, the intent of this Plan is to lay out the City's existing financial policies and practices, as well as identify strategies available to fund the City's needs over the next ten years. It is natural to react to crisis, but prudent financial management would dictate that decisions made to fund projects and initiatives need to be considered in the context of the larger financial situation facing the City. These decisions must also align with the City's Strategic Plan and filtered through the City's Corporate Risk Based Management Program. A long-term integrated financial management plan also provides flexibility to react to changes in economic realities including the potential for high variability in growth rates affecting the need to spend and the ability to fund.

This document examines the City's financial balances, focusing on reserve balances as well as investment and debt practices, identifies economic and financial trends, and provides a five-year financial forecast of both operating and capital revenues and expenditures. Lastly, it addresses a number of issues, ranging from the City's asset management financial strategies to alternative revenue opportunities.

As the city grows, the challenge to finance growth is compounded by the need to fund existing services, programs and capital assets. Recommendations relating to new financial policies and/or strategies to fund specific issues, including those identified in the recently tabled "Financing Growth Study" (the Hemson Report), will be brought forward in a series of discussion papers for City Council's consideration and potential adjustments to this Plan.

The progress of this Plan and the impact on the City's Strategic Goals will be also monitored through the key performance targets that help focus the organization towards its intended outcomes. This document is not a static document – it is intended to be updated annually to ensure the City's financial decisions are made from a sustainable standpoint.

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City of Saskatoon

EXECUTIVE SUMMARY

The City of Saskatoon (City) is faced with a number of issues including aging infrastructure, rapid growth, inflationary pressures, limited funding and limited funding tools. In addition, uncertainty exists around external sources of funding (e.g. government grants) and regulatory changes (e.g. environmental).

Long term financial planning can provide both the Administration and City Council with the context to attempt to address the above issues in a cohesive manner. While the Administration has consistently provided City Council with a short and long-term view of the City's financial situation, some of the information is ad hoc and includes items such as quarterly financial projections, the development of reserve policies, funding plans for specific programs or projects, updates pertaining to debt levels, and most recently, a Roadways Financial Management Strategy.

To ensure all strategies and recommendations are consistent and to move the City in the direction it desires, they must be consistent with the City's overall Strategic Plan, specifically, the Strategic Goal of Asset and Financial Sustainability.

To meet this objective, the City has prepared its first Long-Term Financial Sustainability Plan. All recommendations within this Plan are based on the following principles to help guide the City's decisions:

1. Funding of core services are aligned with what our citizens expect;
2. Services are received and funded equitably by all residents;
3. Recognize that there is only one taxpayer and respect their ability to pay;
4. Financial resources are used to address the needs of citizens today and tomorrow; and
5. The City is open, accountable and transparent with respect to resource allocation and collection.

This long-term financial plan also is one of the mitigation measures that is in place to manage many of the key corporate risks, including meeting the challenge for investment in infrastructure, reaching service levels for assets and operations, reducing the reliance on property tax revenue, and assisting in the progress of a regional growth plan.

Overview and Contents of the Plan

A municipal long-term financial plan typically deals with the financial condition of the general fund, as this fund is greatly influenced by property taxes. However, the City's plan includes a review of all funds, including the general fund, utility funds, and capital funds.

The Plan includes two sections. The first section is a financial summary which includes the formalization of the financial principles noted above and a review of the City's current financial condition, which was described in detail in the 2013 Annual Report. The City's net financial assets (defined as assets less liabilities, excluding capital assets) totalled $52.8 million ($115.1 million in 2012). The financial summary section includes information and, in some cases, recommendations on the City's practices relating to reserve funding, the use of surpluses resulting from neighbourhood land development, the use of federal Gas Tax revenues, investment policies, and debt management. Following the analysis is a five-year financial forecast.

The second section summarizes a number of City issues that have financial implications. This list of issues is not necessarily all encompassing and it will change over time.

Measuring Success

There are several ways to measure success of the Plan. The City should see improvement in its asset condition, enhancement in the quality of life, a growing city, a suitable reliance on the property tax and/or other governmental funding, and an increase in citizens' satisfaction levels.

In 2015, City Council approved Performance Targets that relate to the Strategic Goal of Asset and Financial Sustainability. These targets will help guide future financial decisions and include the following (and are subject to revision and on-going review):

1. Municipal property tax per capita;
2. Property tax as a percentage of total revenues;
3. Annual property tax change that is an amount equal or less than the Municipal Price Index; and
4. Maximum long-term tax-supported debt not to exceed a maximum of $1,750 per capita.

Analysis Results and Next Steps

The Plan identifies a number of capital reserve shortfalls, some of which have yet to be quantified, and provides a projection of the City's operating requirements with the intention of funding the shortfalls. Not surprisingly, it identifies an annual shortfall too large to be funded strictly through tax increases. Recommendations have been proposed to assist the City in addressing this issue.

This document focuses on issues that include the City's Asset Management Funding Strategies, Alternative Revenues, City Growth Plan, Housing and Pension Sustainability. Recommendations have been proposed to help address funding gaps related to the City's assets. It also includes recommendations related to Alternative Revenues, the City's Growth Plan, and Housing.

The intent is to review this document annually, updating City Council with the status of the various recommendations and bringing forward any new issues.

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I INTRODUCTION

The City of Saskatoon (City) is faced with important issues, including aging infrastructure, growth, inflationary pressures, limited funding and limited funding tools. In addition, uncertainty exists around external sources of funding (e.g. government grants) and regulatory changes (e.g. environment, pensions). What happens if Saskatoon has an economic downturn?

Long-term financial planning can provide both the Administration and City Council with the context to attempt to address the above issues in a cohesive and integrated manner. Long-term financial planning encompasses planning, analysis, and forecasting. The result is information that can be used to make decisions to maintain a municipality's fiscal health and balance. This information can also be used to put plans in place to begin to address the above-noted issues.

The long-term financial planning process is linked to a number of other planning processes, including strategic planning, capital improvement planning, business planning, and of course, budgeting. The process specifically includes long-term revenue and expenditure forecasting, reviewing long-term debt capacity, undertaking a fiscal environmental analysis, identifying existing and emerging issues and assessing the economic outlook.

The City has been very prudent in its financial planning and has a number of financial policies that were built around:

- best practices;
- paying close attention to its debt levels and capacity;
- preparing a five-year capital improvement plan; and
- ensuring funding plans are in place prior to moving forward on large capital projects.

However, annually preparing ten-year projections on revenues and expenditures can also help the City develop guidelines to move towards meeting the City's long-term goal of managing the City in a smart, sustainable way.

City Council has also approved a number of funding plans to date to assist in moving forward a number of major capital projects, which include:

- Roadway Financial Management Strategy;
- Major Recreational & Cultural Facilities Funding Plan;
- Gas Tax Plan; and
- Civic Facilities Funding Plan.

Strategies are currently being developed to assist in funding major transportation infrastructure, and parks and recreation assets.

II FINANCIAL SUMMARY

Introduction

Financial Policies

The City has a number of financial policies, practices, and tools that it uses to efficiently manage and allocate its financial resources. They each support one or more of the following financial principles:

1. Funding of core services is aligned with what our citizens expect;
2. Services are received and funded equitably by all residents;
3. Recognize that there is only one taxpayer and respect their ability to pay;
4. Financial resources are used to address the needs of citizens today and tomorrow; and
5. The City is open, accountable and transparent with respect to resource allocation and collection.

For example, one of the ways to meet the benefits principle is by ensuring those who benefit from municipal services pay for them. The City has a number of financial policies and practices that support this, including:

- charging development levies;
- inter-generational equity reflected through the City's borrowing policy; and
- user pay for specific services such as our utilities.

The intent is to ensure property taxes only support the core services that benefit all Saskatoon residents. While most of the costs funded through property taxes are operational, it also makes sense for property taxes to fund some capital costs. Examples include major road rehabilitation, capital equipment replacement that supports general operations, and a portion of major one-time capital projects where the benefit is enjoyed by both current and future generations.

The following is a list of current financial policies and practices that assist with ensuring the City's resources remain sustainable.

City Council-Approved Investment and Debt Policies

The City has three policies related to investments as follows:

- City Council Policy No. C12-009, Portfolio Management (provides specific guidelines regarding the portfolio management of the City's investment assets, preservation of capital, maintenance of liquidity sufficient to meet ongoing financial requirements, and to maximize return on investment);

- City Council Policy No. C12-002, Investment Committee (has the responsibility and authority of supervising and coordinating the City's investment activities); and
- City Council Policy No. C12-003, Securities Handling (ensures the secured movement and custody of the City's investment assets).

In addition, City Council Policy No.C03-027, Borrowing for Capital Projects, outlines the City's borrowing criteria:

- financing capital projects for which sufficient funds are not otherwise available in existing reserves or through external sources;
- recovering all or part of the capital costs from future operating revenues and/or operating savings; and
- extending the capital financing to future users to ensure equity.

User Pay Philosophy

The City has a number of services which are paid for by users as opposed to general taxation. Examples include water, wastewater, storm water, power, and most recently, recycling. The City also runs a number of programs for which it deems appropriate to be fully repaid by user fees. These include the City's three golf courses, Gordon Howe Campsite, and PotashCorp Playland at Kinsmen Park. The City runs other programs whereby it collects a set percentage of costs through admission fees (e.g. recreation programs).

The City also charges development levies which are targeted to land developers and are collected through a servicing agreement. These levies ensure a portion of the costs related to growth are borne by the user. The levies are reviewed on a regular basis. Some are set through policy and some are set annually through City Council resolution.

Return on Investments (ROIs)

ROIs are calculated for most business enterprises. Saskatoon Light & Power currently provides an ROI and work has begun to develop an ROI for the water and wastewater utilities. The City's neighbourhood land development program provides an ROI on each development project, and capital projects that generate revenue streams also include ROI calculations (e.g. the Landfill Gas Collection System). Some ROIs are mandated through policy, however, not all are.

Strong Emphasis on Business Planning and Budgeting

City Council's current Strategic Plan (2013 – 2023) sets out a vision for the community, a mission statement, and a set of corporate values and strategies. It outlines what is important in the short-term and where the City needs to focus its energies and investment. The City's annual Business Plan and Budget includes implementation strategies which are aligned with the Strategic Plan and serves as the guide to the investment activities, projects, and service levels that the City will implement. The budget provides the financial plan to support the business plan, which in turn, aims to reflect the needs of the community based on City Council and citizen input.

The budget process includes both a five-year capital budget, based on City Council's priorities, and an annual operating budget that allocates resources under the principle of continuing to deliver existing services and service levels. City Council Policy No. C03-001, The Budget Process, guides the orderly and timely translation of civic programs into resource, expenditure, and revenue requirements. It also provides a basis for enforcing accountability for the proper and prudent management of public funds and specifically outlines required authorizations.

As this Plan evolves and matures, an outcome could be that it demonstrates the value of moving to multi-year budgeting on the operational side of the City's activities.

<u>Establishment of Operational Revenue/Expenditure Stabilization Reserves</u>

The Cities Act requires cities to approve balanced budgets (i.e. cities cannot budget for operational deficits). In the event an actual deficit is experienced at the end of a City's fiscal year, the following year's budget must include funds to offset this. To avoid this situation, the City has established revenue and expenditure stabilization reserves. The City's general accounts (property-tax supported) are stabilized through the Fiscal Stabilization Reserve. Additional examples include a reserve for each of the utilities, the City's golf courses, PotashCorp Playland at Kinsmen Park, Gordon Howe Campsite, Woodlawn Cemetery, Plan Review and Inspection Stabilization Reserve, and the City's land program.

<u>Establishment of Reserves for Capital Replacement/Future Capital Expenditures</u>

The City has a history of paying for capital replacement on a pay-as-you-go basis. All equipment has a replacement reserve and funding is intended to be in place at the time replacement is required. Additional reserves have been established to assist in funding future capital projects.

While the City has significant reserve cash balances, annual reserve contributions need to be examined to ensure they are not eroded by inflation and keep pace with an increasing asset base.

These reserves are funded through annual contributions from the operating budget or through utility rates.

Capital Project Funding

Capital projects should not be undertaken without approved funding and a plan to fund future life cycle costs. Future life cycle costs are a combination of operational costs and future major repair and/or replacement costs. The City's capital reserves cover major repair and/or replacement costs and annual contributions are reviewed to ensure they are sufficient.

To limit capital project-related liability, it is recommended that future major capital projects be assessed on a life cycle cost basis through a suitably detailed business case analysis. This is similar to the process currently used to determine the viability of a public private partnership.

Leverage Federal, Provincial, and Private Sector Dollars

The City continues to leverage as many federal, provincial, and private sector dollars as possible. As many of these opportunities are cost sharing arrangements, this requires that a source of funding be available for the City's portion of the costs. In some situations, the funds may not be available. City Council would have an opportunity to potentially reallocate funds from other projects.

Property Tax Policy

The Cities Act provides City Council with the ability to set differing tax rates for each class or sub-class of property through an ad valorem tax, to use a minimum or base tax, and/or to phase-in a tax increase or decrease for taxable property resulting from a revaluation of assessment. The Province of Saskatchewan has legislated a four-year revaluation cycle.

The City uses the ad valorem form of property taxation. An ad valorem tax is a tax based on the assessed value of real estate or personal property. City Council has established the following tax policies:

- maintain a 1.75 ratio between residential and commercial property taxation rates;
- use of appeal contingency reserves (residential and commercial) to fund assessment appeal losses based on new values resulting from the annual assessment process;
- use of a special addition to the mill rate whereby an increase in property taxes has been dedicated towards a specific purpose (e.g. road rehabilitation);
- maintain revenue neutrality within property classes for any revenue shifts caused by provincial revaluations; and
- phase-in of tax increases as a result of provincial assessment revaluations.

Recommendation 1: That the following financial principles be approved:

- **Funding of core services is aligned with what our citizens expect;**
- **Services are received and funded equitably by all residents;**
- **Recognize that there is only one taxpayer and respect their ability to pay;**
- **Financial resources are used to address the needs of citizens today and tomorrow; and**
- **The City is open, accountable and transparent with respect to resource allocation and collection.**

Recommendation 2: That future major capital projects be assessed on a life cycle cost basis, including operational costs, through a suitably detailed business case analysis.

Corporate Business Plan and Budget

Developed with input from the Community Vision, the City's 10-Year Strategic Plan outlines what is important in the near term and where the City needs to focus its energies. It includes an overarching mission, values, and leadership commitments.

The Strategic Plan outlines seven Strategic Goals. Each goal has 10-Year Strategies and 4-Year Priorities which represent the "how to" component of operationalizing the vision. Implementation plans are developed through the annual Corporate Business Plan and Budget process.

As noted earlier, the City places a strong emphasis on business planning and budgeting. The Corporate Business Plan and Budget is aligned to the City's Strategic Plan and forms the path the City will take over the next year to focus on the major issues and challenges facing the City, while continuing to provide the services and programs citizens want.

The Business Plan outlines the achievements, key challenges, and major initiatives planned within 12 Business Lines which are as follows:

- Community Support
- Corporate Asset Management
- Corporate Governance and Finance
- Environmental Health
- Fire Services
- Land Development
- Policing
- Recreation and Culture
- Taxation and General Revenues
- Transportation
- Urban Planning and Development
- Utilities

The City's planning process ensures resources are allocated to various programs and services within these business lines, and that resources are tied to clear and achievable plans. The business planning and budgeting process is transparent, and provides City Council and citizens with more information about where City funds are used. It allows for accountability in delivering services to citizens in effective and efficient ways, while maintaining a focus on long-term sustainability.

The budget process includes both a five-year capital budget, based on City Council's priorities, and an annual operating budget which allocates resources under the principle of continuing to deliver existing services and service levels. City Council Policy No. C03-001, The Budget Process, guides the orderly and timely translation of civic programs into resource, expenditure, and revenue requirements. It also provides a basis for enforcing accountability for the proper and prudent management of public funds and specifically outlines required authorizations. The Administration plans to update this policy to include the annual business planning process.

An emerging trend and best practice that has taken root in other cities, such as the cities of Calgary and Edmonton, is budgeting for a period greater than a one-year cycle. Multi-year budgeting provides the ability to implement longer term financial strategies and address long-term issues including the goals within the Strategic Plan. The multi-year budget incorporates a more certain strategic response that ensures the priorities of the organization are being managed within its resource capacities (financial and human).

The City of Calgary has adopted a four-year budget with annual adjustments to reconfirm the priorities and funding allocations, as well as adjustments for any external impacts from regulatory, economic or environmental changes. Adjustments can also be considered in light of changes in the trends for revenues, expenditures and key performance metrics.

Multi-year budgeting provides more certainty of achieving the goals of the Strategic Plan by supporting the initiatives through planned resource allocations. There would also be the potential for efficiencies by reducing the effort for the preparation of a full annual budget.

Recommendation 3: That the Administration further explore the potential to move to multi-year budget projections.

Current Financial Condition

The City's financial condition at December 31, 2014, is still being reviewed by the external auditor. However, as described in the City's 2013 Annual Report, as of December 31, 2013, the City's consolidated financial assets totalled $564.1 million and financial liabilities totalled $511.3 million, resulting in net financial assets of $52.8 million.

Contributing to the City's financial assets are its many reserves, totalling $105.9 million as at December 31, 2013.

Reserves

Reserves can be equated to savings accounts. Funds are "reserved" or "saved" for two purposes. The first is for replacement of existing assets. The major advantage of this type of reserve is that when it is time to replace the asset, the funds are there; the capital project does not need to be vetted against other capital projects for general capital funds.

The second purpose is to reserve funds for future expenditures, or to assist the City in funding assets to accommodate increased capacity.

Overall, the City's reserves are healthy. A list of the City's reserves can be found in the City of Saskatoon Annual Report. The purpose and spending authority for each reserve is identified either within Bylaw No. 6774, The Capital Reserve Bylaw, or under City Council Policy No. C03-003, Reserves for Future Expenditures.

The Finance Division undertook a comprehensive reserve analysis in 2007, identifying the health of each reserve and proposed a number of recommendations. Based on this review, plans were put in place to increase contribution levels, revise the scope of some reserves and, in some cases, create additional reserves.

The Finance Division is currently updating this analysis, and the Administration will be proposing recommendations in 2015. In the meantime, the following information identifies recent revisions to a number of reserves. Continued deficiencies are also noted.

Fiscal Stabilization Reserve

In July 2011, City Council approved a revision to the scope of the Revenue Stabilization Reserve and renamed it the Fiscal Stabilization Reserve. This revision was based on best practices identified by the Government Finance Officers Association (GFOA)[1]. This Reserve provides for a targeted minimum balance of 5% of the current year's tax-supported expenditures and requires that this balance be obtained over the next five years (by 2016). The balance as at December 31, 2013, was $7.3 million, which was equivalent to the 5% minimum balance. However, $1.2 million was required to fund the 2013 year-end deficit. Funding sources to this reserve include contributions from future year-end surpluses and/or one-time revenues.

The 2014 preliminary year-end results, which are subject to confirmation of the external audit, indicated a surplus of $0.553 million. This surplus will be transferred to the Fiscal Stabilization Reserve which then should have a balance of $6.7 million.

<u>Paved Roadway Reserve</u>

City Council has established funding service levels for the preservation of paved roadways, sidewalks, paved back lanes, gravel back lanes and boundary roads. This service level provides funding sufficient expenditures to increase the roadway asset condition/value and decrease the backlog slowly over time. This sets the direction for annual contribution levels to the Infrastructure Surface Replacement Reserve.

During the 2013 budget reviews, City Council approved a 1.25% dedicated road tax to help jump start a program to improve the condition of the City's paved roads. In addition, during the 2014 budget reviews, City Council approved the Roadway Financial Management Strategy which, in part, included a 2.92% property tax increase each year for three years (2014 through 2016) which will bring the annual contributions to the Reserve to the required level. This dedicated tax of 2.92% was included in the 2014 budget. However, the planned phase-in was adjusted during the 2015 budget review to extend the required increase over a four-year phase-in rather than three. This phase-in was adjusted to annual increase of 1.94% for years 2015 - 2017.

In addition to the dedicated tax, contributions to this Reserve include existing tax dollars and a contribution from the Water and Wastewater Utilities. Supplemental funding from residential land development net proceeds has been used to fund projects until such time as the Reserve's annual funding is sufficient to meet the approved service level.

To ensure transparency and accountability, the City deployed a campaign in the spring of 2014, "Building Better Roads", which provides the public with information on where their increased tax dollars are being targeted. Annual reporting will be provided to City Council. In addition, the funding specifically dedicated to paved roadways was moved

[1] Government Finance Officers Association (GFOA) – an organization which represents public finance officials throughout the United States and Canada. Their mission is to enhance and promote the professional management of governmental financial resources by identifying, developing, and advancing fiscal strategies, policies, and practices for the public benefit.

to a new reserve - the Paved Roadway Reserve. The Infrastructure Surface Replacement Reserve was then renamed to the Transportation Infrastructure Reserve.

Transportation Infrastructure Reserve

This Reserve funds the preservation or retrofit of gravel roadways, lanes, boundary roads, drainage, pavement markings, medians, guardrails, traffic signals and signage, and other miscellaneous infrastructure. Funding for lanes and boundary roads is being increased based on the Roadway Financial Management Strategy referenced above. However, funding for the remaining assets is still insufficient (e.g. funding to upgrade gravel roads). All funding is through property taxes. While there is no current plan in place to address this shortfall, work is being undertaken to consider options such as potentially incorporating gravel street upgrades within the dedicated tax component or under a proposed Major Transportation Infrastructure Funding Plan.

Bridge Major Repair Reserve

City Council has also established a funding service level for bridges and structures. It has been set at the same level as paved roadways, sidewalks, paved back lanes, gravel back lanes, and boundary roads. It requires funding sufficient expenditures to increase the roadway asset condition/value and decrease the backlog slowly over time. The targeted annual investment in 2012 was $5 million, supplemented with one-time contributions totalling approximately $48 million over the next ten years. The 2014 Budget included a base funding level of $2.6 million. While the Reserve is funded solely through property taxes, past projects have been funded through federal grants, provincial revenue sharing and borrowing.

The Administration is developing a Bridges and Structures Fund Plan that it will recommend to City Council in the near future. It will continue to be a phased-in plan, thus requiring supplemental one-time funding.

Infrastructure Water and Sanitary Sewers Replacement Reserve

This Reserve has been in a deficit position for several years. This deficit is the result of the advancement of flood control projects to alleviate further flooding and due to the settlement of a number of insurance claims as a result of the floods. The Reserve is fully funded through utility rates and is currently being replenished through a flood control levy of $4.50 per water meter placed on utility bills. This Reserve is expected to be in a surplus position by 2018.

Transportation Infrastructure Expansion Reserve

This Reserve provides funding for the construction of additions to the City's transportation network including roadways, bridges, and overpasses. This Reserve was initially established to provide a matching funding source for provincial and/or federal funds that have historically been available for network expansions. The Reserve is funded from property taxes and unfortunately, the funding level is no longer sufficient for its purpose. In fact, the Reserve is currently in a deficit position until 2015, directly as a result of funding the 25th Street Extension project. The current contribution is increased annually by the Consumer Price Index (CPI).

The Administration has identified a need to review this Reserve in light of the upcoming growth in the transportation network.

Traffic Noise Attenuation Reserve

In the past, the funding level for this Reserve was a challenge as the required funds were not available to build a backlog of sound walls that were not previously included in roadway capital projects. Future sound walls now form part of new capital construction, if required. The current funding for this Reserve is through an annual contribution from property taxes of $600,000 and is increased each year based on CPI.

During the 2014 Budget Review, City Council approved a plan to fund a number of projects totalling $15.45 million (through a combination of reserve funds and borrowing, amortized over ten years) to reduce most of this backlog. Repayment of the borrowing includes the redirection of the available annual contribution, plus an additional phased-in increase to property taxes of 0.3% in 2014 and 0.2% in 2015 - 2017.

This plan will commit funding from this Reserve for up to ten years, which will limit the possibility of funding further projects.

Parks Infrastructure Replacement Reserve

This Reserve is currently in a deficit position until 2016 as a result of funding the construction costs of the WJL Harvey Park Redevelopment. The annual contribution, funded from property taxes, is increased by CPI which is not sufficient to fund the current demands.

The Administration is currently developing a comprehensive funding plan to address this deficiency.

Landfill Replacement Reserve

The purpose of this Reserve is to replace the City's landfill. It is funded through a combination of property taxes and landfill revenues. Past capital projects funded by this Reserve are intended to extend the life of the landfill. The most recent $6 million investment to upgrade and expand the landfill is temporarily being cash flowed (using funds from the Property Realized Reserve) until 2017. This strategy was previously approved by City Council.

At some point if there is a decision to close this site and develop a new one, this Reserve is intended to fund all costs associated with the closure of this site. A long-term plan will need to be developed to ensure funds are available at the appropriate time.

Civic Vehicles and Equipment Replacement/Acquisition Reserve

The Civic Vehicles and Equipment business model is unable to keep up to the demand for more timely replacement of the City's fleet as well as the acquisition of new vehicles and equipment. Departments are required to raise the necessary funds for the acquisition of new vehicles that are needed due to an increase in service level or service territory. Planning for these acquisitions at the same time as paying increased maintenance costs have added pressure to departmental budgets. The Administration is currently reviewing the model and will bring forward recommendations for revisions.

Active Transportation Reserve

The Active Transportation Reserve was created in 2013. The purpose of the Reserve is to fund pedestrian and cyclist infrastructure needs, including the construction of sidewalks, ramps, multi-use pathways, and cycling infrastructure. The funding for this Reserve is from property taxes and was initially capped at $500,000 annually. Once the total infrastructure needs have been quantified, the level of annual funding will be determined.

Reserve for Capital Expenditures

The Reserve for Capital Expenditures (RCE) is the City's discretionary capital reserve. This Reserve funds all capital projects that do not have a dedicated funding source and currently receives funding from the annual operating budget and supplemental one-time funding from the Property Realized Reserve and/or other sources. City Council allocates funds from this Reserve through the annual budgeting process.

The intent is to ensure that this Reserve continues to fund projects that are truly discretionary and not fund projects that are part of the normal operations of the City. The existing purpose of this Reserve is very broad, allowing City Council to fund any capital project from this Reserve. While this purpose allows full discretion, the Administration will strive to ensure capital projects related to normal operations have specific funding sources other than this Reserve.

Prepaid Services Reserves

The City provides offsite services necessary for the development of residential, commercial, and industrial property. Offsite services include the large system of pipes, roadways, and structures necessary to service large geographical catchment areas. These services are funded primarily from the offsite service reserves. These reserves receive funding from the sale, subdivision and/or transfer of constructed developable property based on a system of rates that are approved by City Council each year.

Costs are normally larger to initially start sectors due to the distance constructed for the major water and sewer infrastructure as well as interchange structures needed during the initial phases of development. Funds are then recouped as lots are sold.

On October 21, 2013, City Council was advised that the Prepaid Services Reserves were projected to have a $20 million to $30 million deficit. This deficit is due to commencing development in three development areas at one time, with two of these areas requiring significant up-front costs primarily due to sanitary sewer and transportation infrastructure. The actual value and timing of this potential deficit will vary depending on the actual cost of the projects, timing of funds received based on development agreements and lot sales, and the priority of construction identified for the various projects.

To assist with the cash flow requirements during the five-year projection, City Council, on November 26, 2012, approved restricting the use of $20 million in net proceeds from the Evergreen residential neighbourhood and an additional $8.3 million during the 2015 budget review until such time as the prepaid reserves are sufficient again. City Council will be asked to restrict the use of additional net proceeds as they are required.

Residential Neighbourhood Land Development

A number of years ago, the land development function was the subject of an internal audit. One of the outcomes of the audit was to separate the residential neighbourhoods from the rest of the land accounting to accommodate management and financial reporting by neighbourhood. The net proceeds resulting from a neighbourhood development can be determined based on lot pricing less projected costs. City Council approves the use of the net proceeds for one-time capital and operating priorities. Hampton Village and Willowgrove were the first two developments accounted for under this model. Net proceeds declared and distributed to date total almost $120 million. Examples of funded capital and operating priorities include the Pleasant Hill development, affordable housing, surface deficiencies as identified under various Local Area Plans, reconstruction of Mayfair Pool, and paved street rehabilitation.

While this practice has proved beneficial to date, a more structured distribution is preferred. In 2012, City Council approved the following distribution guideline:

- 10% of dividends will be reinvested through land purchases;
- 65% will be targeted towards growth-related projects, both greenfield and infill; and
- the remaining 25% will be available for discretionary one-time costs.

A more formal policy is being considered for City Council's approval which outlines the distribution noted above; however, the distribution is subject to City cash flow requirements (e.g. any deficit balances within the Prepaid Services Reserves).

Net proceeds from the Evergreen neighbourhood have been excluded from the recommended distribution to assist with funding the North Commuter Parkway project and to cash flow the Prepaid Services Reserves. In addition, $20 million has been allocated to the Civic Facilities Funding Plan to assist with the development of the Civic Operations Centre. It is anticipated that additional net proceeds available from the Evergreen residential neighbourhood will be required to offset future cash flow requirements for the Prepaid Services Reserves.

Development within the Rosewood neighbourhood is almost complete. As a result, net proceeds have begun to be released consistent with the recommended distribution. Development within the Kensington neighbourhood is currently underway. In addition, design is currently complete for two more neighbourhoods (Aspen Ridge in University Heights and Brighton in Holmwood) with a third design (Elk Point in Blairmore) currently underway.

New Building Canada Fund

A significant capital funding source for the City is federal and/or provincial grants. On February 13, 2014, the Government of Canada announced the implementation of the New Building Canada Plan for major infrastructure projects. The new plan includes the New Building Canada Fund (NBCF), the Gas Tax Fund, and the P3 Canada Fund.

The City is eligible to apply for funding under two components within the NBCF: the National Infrastructure Component, which is merit-based, and the Funding for National/Regional Projects under the Provincial-Territorial Infrastructure Component (PTIC). The NBCF is a ten-year program divided into two five-year phases. The City expects to be eligible to receive approximately $70 million under the PTIC program over the ten-year time frame. Eligible project categories that are most relevant to the City include highway and major roads, public transit, and water and wastewater.

On August 18, 2014, City Council approved four grade-separated interchanges to be submitted for funding under the PTIC program. The Administration is currently looking at projects that may be eligible for application under the National Infrastructure Component.

Gas Tax Fund

In 2005, the City began to receive Gas Tax funds from the Federal Government. Funding was available from April 1, 2005, to March 31, 2014. Any interest earned on the allocations was also available for use by the City. Municipalities had the ability to pool, bank, and borrow against this funding.

The Water and Wastewater Utility projects were eligible under the Gas Tax Fund. The City, however, funds these projects 100% through user fees. Consistent with this philosophy, the City had the ability to use Gas Tax funds for these projects and then declare an equivalent "dividend" from the respective utility.

The following table identifies the allocation of Gas Tax funds received under this program. The Water Treatment Plant New Intake Facility project was used as an eligible cost, with an equivalent utility dividend available to fund ineligible costs related to the Circle Drive Bridge Widening and Circle Drive and College Interchange projects, as well as 100% of the City's share required to fund the Circle Drive South project.

Gas Tax Funds
April 2, 2005 to March 31, 2015

Revenues to Dec 31, 2014	**New Deal**	**Permanent**	**Total**
Gas Tax Receipts	$80.1M	$12.6M	$92.7M
Interest Earned	0.7M	0.0M	0.7M
Total	**$80.8M**	**$12.6M**	**$93.4M**
Expenditures to Dec 31, 2014			
Circle Drive/College Drive Interchange	$13.4M		$13.4M
Circle Drive Bridge Widening	11.6M		11.6M
Circle Drive South Debt Payments	20.9M		20.9M
Circle Dr South (from Water Utility Dividend)	23.7M		23.7M
Circle Dr Bridge Widening & Circle Dr/College Interchange (from Water Utility Dividend)	$3.2M		3.2M
New Bus Purchases		$5.0M	5.0M
Total	**$72.8M**	**$5.0M**	**$77.8M**
Surplus	**$8.0M**	**$7.6M**	**$15.6M**

The table identifies a total unspent Gas Tax amount of $15.6 million between the first Gas Tax program (New Deal) and new Gas Tax Fund that was made permanent in 2014. This takes into account the redirection of Gas Tax funds through water utility dividends to cover eligible costs for other projects. This was done by applying Gas Tax funding to the New Water Intake Facility project and then declaring an equivalent dividend from the utility to fund the three noted projects.

Under the NBCF, the Gas Tax Fund is now a permanent annual allocation to municipalities. The eligibility criteria have been expanded and include sport and recreation. Funding will be indexed at 2% per year to be applied periodically. Consistent with the previous program, funding is provided up front twice per year to the Province and is based on population. The Province then flows the funding to the municipalities. Municipalities can continue to pool, bank, and borrow against this funding. It should also be noted that the City's annual funding level (currently at $12.62 million) is only sustainable if both the Province's and the City's population growth rate is at least equivalent to the rest of the country.

With the Gas Tax Fund now permanent, future allocations can form part of future funding plans. Based on the new eligibility criteria, the list of eligible projects relevant to Saskatoon include local roads and bridges, public transit, solid waste, brownfield redevelopment, sport infrastructure (excluding sport facilities including arenas which would be used as the home of professional sports teams or major junior hockey teams) and recreational infrastructure. As noted on the previous page, all of Saskatoon's Gas Tax funding received under the previous program was dedicated to transportation projects.

The Administration has developed a proposed Major Transportation Infrastructure Funding Plan to address a number of unfunded projects including four interchanges, a one-time contribution to the Bridge Major Repair Reserve, an accelerated transit bus replacement program, a sustainable contribution to a Major Transportation Infrastructure Reserve, and increasing the contribution to the Transit Vehicles Replacement Reserve. The Gas Tax surplus funds have been identified as a source. This funding plan is discussed further under the Issues Summary section within this document. It should also be noted that both the Circle Drive Bridge Widening and the Circle Drive South projects were partially funded through debt with future year payments funded by future year Gas Tax funds.

Funding for new fire halls continues to be a challenge. Unfortunately, fire halls do not qualify under the Gas Tax eligibility criteria, but the Administration continues to have the ability to flow the funds through Water and/or Wastewater Utility projects which can then be redirected. The use of Gas Tax revenues as a funding source for new fire halls would serve two purposes: it would assist in diversifying the use of Gas Tax funds and would also diversify the funding of fire halls to include funds other than property taxes. The Administration is planning to bring forward a recommendation that would see one-third of future fire hall capital construction funded by Gas Tax revenues, beginning with the west location planned for construction in 2016/2017. However, the timing could be adjusted depending on the pace of development. Ideally funding fire halls from development levies would tie these growth-related facilities to new developments. Legislative changes would be required to allow this levy and it was identified as one of the development charges in the Hemson Report that should be considered pursuing.

One of the remaining capital financial challenges is the ability to fund future recreation facilities. Gas Tax funds could now provide a continuous source. The Administration is considering a recommendation that 25% of the Gas Tax funds (approximately $3 million in 2015 dollars) be directed towards the construction of new facilities. Directing a portion of Gas Tax funds for future recreation facility planning will assist with diversifying these funds even further. It is anticipated that this source of funding will be available by 2022.

Based on the above, the Administration has been developing a long-term Gas Tax funding plan taking into consideration the above issues, as well as the recently approved Transit bus purchases.

Recommendation 4: That a report be provided to Executive Committee outlining the planned future use of the permanent Gas Tax funds.

Investments

GFOA best practice recommendations require municipalities to have a written investment policy with the primary objectives of safety, liquidity, and yield. City Council Policy No.C12-009, Portfolio Management, is the City's investment policy. Its purpose reads "*to provide specific guidelines regarding the portfolio management of the City of Saskatoon's (City) investment assets. This policy ensures that City portfolios are invested to primarily achieve the preservation of capital, the maintenance of liquidity sufficient to meet on-going financial requirements, and to maximize return on investment.*" The policy identifies the type of securities that the City can invest in, as well as providing limitations on investment limits by type of security, term, and liquidity. Monthly reports are provided to the administrative Investment Committee to ensure compliance with the policy.

As at December 31, 2014, the City's investment portfolio had a book value of $385.5 million and a market value of $390.5 million.

The majority of other interest earnings from the above-noted investments represent a contribution to the City's operating budget. Actual 2014 net interest earnings totalled $10.2 million.

Due to the City's high cash balances within its investment portfolio, an opportunity exists to leverage these funds, while still conforming to policy. The following initiatives have been undertaken, which translate into "investing in ourselves":

- investing in the City's Housing Program;
- investing in the City's Land Development Program;
- providing a source of funds for limited long-term borrowing requirements that the market may not be able to accommodate (e.g. long-term borrowing during 2008/2009 financial crisis; borrowing where flexibility may be required for repayment such as the parking structure at River Landing where repayment is based on rates); and
- providing a source of funds to cash flow significant capital transactions, including property annexation.

Before pursuing any of the above type of transactions, the Investment Committee considers risk versus return.

Debt

City Council Policy No.C03-027 addresses borrowing for capital projects. The criteria for borrowing include the following:

- when sufficient funds are not otherwise available in existing reserves or through external sources;
- when it is intended to recover all or part of the capital costs from future operating revenues or operations savings; and/or
- when it would be equitable to extend the capital financing to future users.

The Cities Act requires that the Saskatchewan Municipal Board (SMB) set a debt limit for each city. A city can exceed its debt limit, but only if the related borrowing is approved by the SMB. Saskatoon's debt limit was recently confirmed at $558 million.

The City continues to receive an AAA (stable) credit rating from Standard and Poor's rating agency. This rating takes into consideration the City's "strong cash and liquidity levels that exceed relatively low debt, well performing economy and strong operating budgetary performance."

Standard and Poor's rates the City on a number of factors, including:

- strong relationships with other levels of government which provides stability for municipal finances;
- Saskatoon's diverse economy which helps the City withstand economic fluctuations which provides stability for businesses and residents;
- the demonstration of strong and prudent financial policies and management, which has a positive impact on its credit profile;
- the City's favourable budget performance, as well as its self-generated revenues which place the City in a strong financial position;
- the City's ability to service debt, the current level of debt burden, as well as the strong reserve balances; and
- whether there are any significant financial risks from future liabilities that might impact the City's financial health.

As can be seen from the above factors, the City's debt makes up only one factor of the credit rating. The Administration does, however, provide the rating agency with future planned debt to ensure there are no unanticipated impacts on future ratings.

The City moved towards a conservative "pay-as-you-go" financing philosophy during the 1990s when interest rates were high and Cities were downsizing due to a recession. However, in today's low interest climate and strong economy, it makes sense to include debt as part of the City's funding plans for major capital infrastructure investments.

A 2011 article written by Casey Vander Ploeg, Senior Policy Analyst, Canada West Foundation titled "Smart" Debt vs. "Stupid" Debt[2] defines debt in two ways: *"Smart" debt equates to the mortgage on a home, where the debt incurred is offset by a valuable capital asset. "Stupid" debt is incurred to consume, like buying groceries on a credit card and then carrying the balance month after month or even year after year*." He goes on to further state that *"a completely debt-free city should never be the ultimate goal of fiscal policy, regardless of how well it plays politically. This is especially the case if the trade-off is an underfunded stock of capital assets."*

There are, however, some basic guidelines that an organization should consider when embarking upon additional debt, such as:

- the term of debt should not exceed the useful life of the asset;
- the debt burden should be carried by those who benefit;
- when rates are high, use "pay-as-you-go" and when rates are low, use debt; and
- choose the shortest term you can afford.

[2] "Smart" Debt vs. "Stupid" Debt, Casey Vander Ploeg, Senior Policy Analyst, Canada West Foundation, December 22, 2011

Historically, the City has favoured amortization periods of ten years. While this has provided the City with the lowest interest costs, it does not necessarily provide the most efficient use of available financing funds. As the City undertakes the construction of buildings, such as the Police Headquarters and the Civic Operations Centre, it makes sense to extend the borrowing term to 20 and/or 30 years. This more closely matches the amortization period to the life of the asset. The goal is to carry a variety of amortization periods to provide the City with the most flexibility by having varying debt retirement dates.

The City's total debt as at December 31, 2013, was $234.5 million. An additional $25 million was borrowed in 2014 which was partially offset with debt retirements for a revised total of $238.1 million at the end of 2014.

Previous City Council approvals, through the annual capital budgeting process, together with capital plans will increase the City's debt balance to approximately $280 million by the end of 2015. In addition, the City is required to include debt carried through a public private partnership within its total debt. The estimated $100 million debt related to the Civic Operations Centre will increase the City's debt to $380 million. The majority of new debt relates to the North Commuter Parkway project (funded by a combination of Gas Tax receipts, developer levy payments, and property taxes) and the water and wastewater utilities (funded by rates).

One of the key performance targets that has been adopted by City Council is the measurement of the City's total annual tax-supported debt per person. While the target is to be less than $1,750 per capita, the actual figure for 2014 was $652 per capita and is the one of the lowest in Western Canada. Regina was $124 per capita, while Calgary was $1,804 per capita in 2014. While the total debt for 2014 increased slightly over 2013, the mill rate debt was paid down by $13.2 million for a lower per capita figure in 2014.

Finally, it should be noted that while holding a AAA credit rating is an indicator of strong financial health, the question exists as to how to maintain this rating and not potentially impact decisions that might override the approval of important and beneficial projects. The City has a business to run and a credit rating should not necessarily dictate business decisions that are based on sound business cases.

Five-Year Financial Forecast

Financial Trends

The results of financial forecasting are based on a number of assumptions, including population growth, inflation rates, the economy, and service levels. The City's Planning and Development Division projects Saskatoon's population growth and monitors a number of economic trends. Financial trends can also provide input for projections. Commonly used trends include revenues per capita, property tax revenue, expenditures per capita, employees per capita, liquidity ratio, and debt service as a percentage of revenues.

	2009	2010	2011	2012	2013	2014
Economic Trends						
Population (as at December 31)	221,016	227,137	233,873	239,782	248,993	257,300
Average Annual CPI	1.1%	1.4%	3.0%	1.8%	1.3%	2.3%
Saskatoon GDP Growth	-2.6%	4.7%	6.3%	4.8%	6.7%	6.1%
Unemployment (December)	4.6%	5.4%	5.7%	5.6%	4.1%	4.2%
Retail Sales Growth	4.9%	5.6%	6.7%	6.4%	3.4%	7.6%
Saskatoon Housing Starts	1,428	2,381	2,994	3,753	3,412	3,521
Saskatoon Building Permits	3,325	4,100	4,651	5,196	4,562	4,996
Saskatoon Business Licenses	8,795	9,299	9,632	9,947	10,253	10,444
Annual Assessment Change	n/a	2.40%	2.75%	2.51%	n/a	n/a
Financial Trends						
Municipal Property Tax per Capita	$559	$579	$621	$609	$633	$677
Municipal Property Tax Revenue as a % of Total Revenues	43.25%	42.2%	41.0%	41.3%	41.6%	43.6%
Municipal Property Tax Increase	2.87%	3.86%	3.99%	4.00%	4.99%	7.43%
Budgeted Expenditures per Capita	$1,267	$1,308	$1,391	$1,440	$1,553	$1,600
Employees per 1,000 Population	13.2	13.1	13.1	12.8	12.7	12.5
Liquidity Ratio (financial assets/financial liabilities)	1.36	1.22	1.25	1.26	1.10	1.2
Tax Supported Debt per Capita	$314	$463	$387	$635	$727	$652
Tax Supported Debt Service as a % of Taxation Revenues	4.0%	5.1%	5.8%	6.0%	6.0%	6.6%

The economic trends experienced over the past four years are not surprising, as this trend is consistent across the province. The challenge relates to forecasting; will the trends continue or slow down? The financial trends can be managed through the annual budget process and assist the City in assessing its performance. Some of the trends relate specifically back to the proposed metrics.

Revenues

The City has a number of specific and general revenues. The following table identifies the various categories and percentages of total operating revenues as identified in the 2015 Budget.

Taxation	45%
Government Transfers	15%
User Fees	13%
Grants in Lieu of Taxes	8%
General	19%

Historically, the City's revenues have been reviewed in an ad hoc manner. A schedule is now in place with some reviewed annually and others reviewed on a four-year cycle. All revenues are documented, but not necessarily consistently or within a central location. The Administration is currently developing a centralized Revenue Manual. This manual includes the revenue type, legislative authority, purpose, factors affecting the revenue, forecasting method, trends, and benchmarks. The contents of the manual are based on GFOA best practice recommendations.

On occasion, opportunities arise and the City is the beneficiary of one-time revenues. Currently, these are not used as a source to fund anything other than one-time expenditures. A policy is currently under development to formalize this practice.

<u>Return on Investments</u>

In 2014, Saskatoon Light & Power provided the City with a ROI of $23.4 million. The dollars returned to the City through the annual operating budget are reviewed to determine if additional funds are available. This should be translated into a more appropriate business exercise whereby a targeted ROI is established, based on industry standard.

During the 2011 Civic Services Review, it was identified that neither the water nor the wastewater utilities provide an ROI to the City. Based on direction from City Council, this is currently under review.

<u>Revenue Resulting from Alternative Revenue Streams</u>

Saskatoon Light & Power has been developing alternative energy streams. The Landfill Gas Collection project is an example. This project was initially funded on an interim basis from the Landfill Replacement Reserve and the Electrical Distribution Extension Reserve. The net revenue stream is estimated at $1 million annually with a projected payback of nine years. Once the reserves are repaid, City Council will approve the allocation of any net revenues. This could provide an opportunity to assist with addressing reserve sufficiency issues (the Landfill Replacement Reserve and the Electrical Distribution Replacement Reserve).

Provincial Revenue Sharing

Provincial Revenue Sharing is currently tied to one point of the Provincial Sales Tax (PST). This provides an opportunity for this revenue to grow however, there is also the possibility that it will decrease if the economy and associated spending slows down.

Revenues from Assessment Growth

In the past, the City has dedicated one-third of its tax revenue received from assessment growth to capital projects, either through contributions to reserves or through debt payments. An additional one-third was targeted towards the operational costs of new capital projects. The remainder assisted in funding other annual costs normally supported by property taxes. The last number of years has seen assessment growth increase significantly, resulting from an increasing population. This has generated a need to advance the timing of some capital projects (e.g. North Commuter Parkway project) and to fund some long outstanding projects (e.g. Police Headquarters facility; relocation of the transit facility).

Incremental assessment growth of $500,000 per year was being dedicated to the Recreation and Culture Funding Plan from 2008 to 2013, and in 2016, is being redirected to the Civic Facilities Plan to help build the required P3 payments for the Civic Operations Centre. Other past contributions included $850,000 per year for seven years to generate the base debt payment for the new Police Headquarters.

While the remaining assessment growth is not specifically targeted to other areas, it can be argued that other growth related phased-in expenditures are coming partly from this growth component and includes an additional $350,000 allocation to the Civic Facilities Funding Plan for the Civic Operations Centre, $200,000 for future Fire Halls, $500,000 to start building a base in the Civic Facilities Funding Plan for the City Yards Relocation and Expansion, and $1.3 million in 2016 for operating costs from the new Remai Modern Art Gallery of Saskatchewan.

The following table provides a summary of the distribution of revenues resulting from city growth in 2013, 2014 and 2015.

Growth Allocation
(in millions of dollars)

	2013	2014	2015
Revenues			
Tax Revenues from Assessment Growth	$4.00	$5.49	$5.57
Provincial Franchise Fees Growth	0.33	0.88	0.26
Provincial Revenue Sharing Growth	5.40	-0.69	1.19
Subtotal	**$9.73**	**$5.68**	**$7.02**
Capital Reserves/Project Funding Plans			
Funding Plans	$1.85	$1.95	$1.60
Reserves	3.70	0.46	0.63
Subtotal	**$5.55**	**$2.41**	**$2.23**
Percentage of Growth Revenues	**54%**	**46%**	**30%**
Capital Project/City Growth Operating Requirements			
Various Service Lines	**$3.72**	**$5.05**	**$4.27**
Percentage of Growth Revenues	**36%**	**97%**	**57%**
Tax Revenues Remaining to Fund General Operations	**$1.00**	**($2.27)**	**$1.02**
Percentage of Growth Revenues	**10%**	**Shortfall**	**14%**

Note: $3.4 million of the 2013 provincial revenue sharing increase was specifically allocated towards the Paved Roadways Reserve, the Bridge Major Repair Reserve, the Transit Vehicles Replacement Reserve, and the Transit Capital Projects Reserve to assist in alleviating the significant shortfalls that existed in those reserves.

The annual Provincial Revenue Sharing amount fluctuated significantly in 2013 and 2014 as the formula was newly introduced. It is anticipated that this amount should stabilize and only vary annually from 2015 and forward based on PST activity. The above table indicates the annual amounts dedicated to capital reserves and funding plans has been moving back to the historical 1/3% (46% in 2014 and 30% in 2015). The challenge remains in funding operating costs related to both the increase in the cost of programs and services as a result of city growth, as well as growth-related capital projects. In 2014, insufficient revenues were generated to cover all costs.

City Council recently requested that the Administration review the larger picture of growth paying for growth. As a result, in late 2013, the City retained a consultant to undertake a study on funding growth which was delivered to the Executive Committee and City Council in early 2015.

The items raised in the Hemson Report will be discussed throughout this document but mostly under the Issues Section. The study analyzed both the operating and capital components related to growth and concluded that growth only partially pays for growth.

The Administration is planning to bring forward a series of discussion papers and recommendations over the next several months to address these items, including a discussion paper outlining various options for the use of future tax revenues generated through assessment growth.

Recommendation 5: That the return on investment (ROI) from Saskatoon Light & Power as well as opportunities for ROIs from other civic utilities be reviewed and an appropriate target be determined based on industry standard.

Recommendation 6: That a series of discussion papers be provided to Executive Committee to address the items raised in the Hemson Growth Report including one outlining various options for the use of future tax revenues generated through assessment growth.

Expenditures

To manage expenditure growth, the City has implemented an expenditure mandate for the past three years. The mandate includes increases not to exceed the Municipal Price Index (MPI) plus an amount representative of the population percentage growth. In addition, there is a targeted increase on full-time equivalent positions of 1% less than the population growth. Any tax increases dedicated to fund specific expenditures, such as the current Roadway Financial Management Strategy, are over and above this mandate.

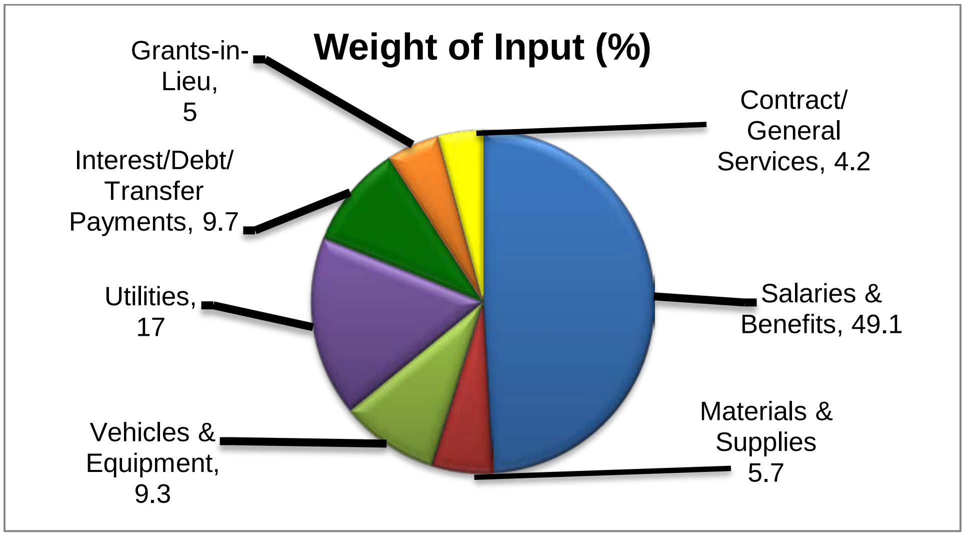
The MPI is a customized inflationary index, not unlike the Consumer Price Index (CPI) but is specific to the City of Saskatoon. The basket of goods used to determine the index represents the expenditures that are undertaken by the City.

There are two main parts to the MPI calculation:

- the weightings of the City's expenditure categories; and
- the inflation factor used for each of these categories

The actual expenditures for the City are categorized to establish the category weighting of the total expenditures. Inflationary factors are applied to these weightings to get an overall forecasted inflation percentage increase. These inflationary factors are based on local forecasts from known information, such as wages and benefits, as well as local or regional forecasts from Statistics Canada and the Conference Board of Canada for the upcoming year (i.e. fuel and oil, materials, chemicals, maintenance and rentals, etc).

The MPI for the City for 2016 has been calculated at 2.92%. The following chart identifies the weightings of the categories and the inflationary factors applied to these to arrive at the 2016 Budget MPI percentage.



2016 MPI CALCULATION

Inflation Factors	
Salaries/Benefits	2.65%
Contracts/Services	2.00%
Materials	1.75%
Veh & Equip	1.50%
Utilities	5.50%
Interest/Debt	2.70%
GIL	2.03%

The City has been attempting to fund all expenditure increases within the mandate of MPI plus a growth factor, including the various funding plans put in place to fund current and future unfunded capital projects and associated future operational costs. Some of the expenditure pressures include the following:

- The growth calculation incorporated into the mandate is somewhat arbitrary as costs do not necessarily tie directly to the same percentage increase as the population growth percentage. An example is adding additional roadways and/or associated infrastructure. The cost to maintain this may exceed the mandate allowed, therefore, expenditure savings in other areas are sought (e.g. continuous improvement initiatives).

- Other costs related to growth can be experienced in "steps" versus intermittently. An example is the purchase of a new garbage truck and the costs associated with operating it (staff, fuel, and maintenance) to provide service to additional neighbourhoods – a new truck is not needed annually, but rather periodically. A similar situation relates to the requirement to add any administrative staff, including solicitors, accountants, planners or clerical/technical staff.

- Most reserve contributions are formula-driven and may not necessarily be related to either the MPI or the allowance for city growth. Examples include reserve transfers that are tied to revenues (e.g. Landfill Replacement Reserve, Building Permit Stabilization Reserve) or reserve transfers that relate to cost increases resulting from the Construction Cost Index which may be higher than the MPI.

- Contributions to third parties (in some cases linked to formulas) that may exceed the MPI, including Meewasin Valley Authority (MVA), Saskatoon Regional Economic Development Authority (SREDA), Youth Sport Subsidies, and economic incentives.

- Program or service costs could exceed the MPI depending on its particular mix of expenditures. MPI is based on the corporate-wide mix of expenditures, however, a program such as Parks that has a significant portion of its budget allocated to water utility charges that includes annual rate increases ranging from 7 – 10% will have difficulty meeting the mandate target. There should be other programs or services that have an expenditure mix that enables it to be under the MPI, and in theory, from a corporate-wide perspective, be able to offset the higher cost program.

As noted earlier in this report, there are a number of capital reserves that require additional contributions. It is challenging to absorb these within the existing expenditure mandate. Federal and/or provincial capital grants such as the Building Canada Fund will help to reduce pressure on some of the City's capital reserves.

Productivity and continuous improvement initiatives are a part of the City's culture. These initiatives assist in reducing the impact on taxes. City Council sets the service level for each operating program or service line (i.e. how often grass is cut within civic parks and boulevards, how quickly snow is cleared from sidewalks and streets, etc.). Recently, civic service reviews have been introduced where programs are reviewed to ensure they are effective and relevant – are the services what Saskatoon's residents want, does the City have the correct resources to deliver the programs at this level and does it have the correct delivery mechanism? This process gives City Council an opportunity to review the program service level through a comprehensive program review and may result in either increased or decreased costs.

Summary

The above information identifies opportunities and challenges related to both revenues and expenditures. While the Administration currently prepares draft five- to ten-year projections, it would be appropriate to formalize this practice and move towards a multi-year budget projection.

The City's current budget practice includes an annual operational budget and an annual capital budget with an additional four-year capital plan. The definition of a formal multi-year budgeting process includes adopting a multi-year budget which can be two or more years. Revisions are brought in annually to accommodate significant changes to the initial projection. As discussed earlier, this could have benefits for longer term planning and efficiencies.

Checks and Balances

The City has a number of checks and balances in place to ensure its financial position remains strong. These include an enterprise risk management program and both internal and external audit functions.

Corporate Risk Management

City Council recently approved an enhancement to the City's Corporate Risk Management program to address strategic or enterprise level risk. The updated program (Risk Based Management) is intended to ensure that the Administration, after carefully considering the goals and ambitions set by City Council and the Administration, identifies and analyzes the significant risks and uncertainties that may impede the achievement of those goals and ambitions. The Administration then puts measures in place designed to raise the likelihood of success in the achievement of the goals and objectives. The intent is to have timely and accurate information about the:

- City's strategic plans, goals and ambitions;
- activities necessary to achieve these goals;
- risks and uncertainties that may impact the achievement of these strategies, goals and ambitions; and
- most effective way to mitigate the risks and ensure achievement of goals, which is critical to the success of the program.

A City Council policy has been approved which outlines the corporate governance for this program.

Risks identified will address both the City's operating programs and capital assets, specifically, the operating condition of the assets. In the future, any issue raised that has financial implications will be addressed using Risk Based Management prior to including it within this document.

Internal and External Audits

Internal Audits

The City has had an internal audit function for decades. This function is a recommended practice for all organizations. The City's auditor reports directly to the Standing Policy Committee on Finance and works independently from management. City Council Policy No.C02-032, Internal Audit Charter, outlines the scope of the audit function and the role of the auditors.

The internal audit function is currently outsourced. The recently awarded contract included a requirement for the auditors to audit the risk management practice and performance of all departments. In addition to this, financials systems and service line functions will be audited as required. The internal auditor is also a resource for specific financial investigations (internal control, forensic accounting, etc.) as well as value-for-money audits.

External Audit

The Cities Act requires the preparation of annual financial statements in accordance with the generally accepted accounting principles for municipal governments. The City's financial statements must include the City's debt limit and the amount of the City's debt. The City is required to publicize its financial statements and the auditor's report by September 1 in a manner deemed appropriate by City Council.

The process followed by the external auditor includes reviewing sample financial transactions and supporting documentation, review of internal audits, and interviews with the CFO and City Manager.

Conclusion and Summary of Recommendations (Financial Summary Section)

This Financial Summary Section has identified a number of capital reserve shortfalls, some of which have yet to be quantified, has discussed the past use of revenues resulting from city growth, and has recommended a formal multi-year projection of the City's operating requirements. In addition, a strong sustainability plan should access the risk and react to changes in economic trends within Saskatoon. Changes in the economy would impact revenues, both local and provincial. Ensuring the City's financial position remains strong provides it with the ability to manage a downturn. Managing in times of an economic downturn could include a requirement to defer capital projects, thereby reducing capital transfers from the operating budget which could offset reductions in revenues. This issue will be explored further in a future edition of this document.

A number of recommendations have been brought forward throughout the Financial Summary Section and are listed below for ease of reading.

Recommendation 1: That the following financial principles be approved:

- **Funding of core services is aligned with what our citizens expect;**
- **Services are received and funded equitably by all residents;**
- **Recognize that there is only one taxpayer and respect their ability to pay;**
- **Financial resources are used to address the needs of citizens today and tomorrow; and**
- **The City is open, accountable and transparent with respect to resource allocation and collection.**

Recommendation 2: That future major capital projects be assessed on a life cycle cost basis, including operational costs, through a suitably detailed business case analysis.

Recommendation 3: That the Administration further explore the potential to move to multi-year budget projections.

Recommendation 4: That a report be provided to Executive Committee outlining the planned future use of the Gas Tax funds.

Recommendation 5: That the return on investment (ROI) from Saskatoon Light & Power as well as opportunities for ROIs from other civic utilities be reviewed and an appropriate target be determined based on industry standard.

Recommendation 6: That a series of discussion papers be provided to Executive Committee to address the items raised in the Hemson Growth Report including one outlining various options for the use of future tax revenues generated through assessment growth.

III ISSUES SUMMARY

Introduction

As noted in the introduction of this document, the City is faced with a number of issues, including aging infrastructure, growth, limited funding tools, rising costs, and inadequate funding. In addition, uncertainty exists around external sources of funding (e.g. government grants) and regulatory changes (e.g. environment, pensions). What happens if Saskatoon has an economic downturn?

This section of the document brings forward a number of these issues and, in some cases, brings forward recommendations to begin to address them.

The Hemson Growth Report

The Hemson Report tabled with City Council in early 2015 provided the results of a study on "Financing Growth." The Report raised a number of issues that could have implications for many of the items contained within this Plan. These issues will be discussed throughout this document.

The Report identified that the City has four primary funding tools available for growth:

- Development Levies
- Provincial and Federal Grants
- Land Development Surpluses
- Property Taxes and Utility Rates

As the Report noted, it is estimated that 90% of the total growth-related infrastructure costs are covered from development levies while long-term replacement costs are financed from property taxes and other non-tax sources such as funding from other levels of government.

Development Levies

Development levies are collected for local and offsite services required to service new development. These fees are administered through the annual Prepaid Service Rates (direct and offsite). The levy is charged on a lot-front meter basis for residential lots that have an area less than 1,000 square meters and commercial developments that are greater than 1,000 square meters. Industrial lots are also charged on front-meter basis. Developments outside of these parameters are charged on an area basis.

These levies are collected on a city-wide basis and are not differentiated on a geographical area and are also not charged on infill development or redevelopments.

The Hemson Report identified that there are some development levies that the City is legislatively eligible to collect for but does not. These are:

- water and wastewater treatment plants and expansions;
- bridge infrastructure (such as the North Commuter Parkway); and
- major recreation facilities such as aquatic centres and arenas.

Provincial and Federal Grants

The City takes advantage of Provincial and Federal government grants that can be applied to growth-related capital projects that are not covered by the development levies, however, these grants are not predictable or reliable. There are some grants that are distributed on the basis of population. Therefore, as the city grows, the share of grants the City receives may increase.

The Hemson Report notes that many of the City's projects must be "shovel-ready" to take advantage of funding that come from programs quickly announced by senior levels of government.

Land Development Surpluses

The City is fortunate to have a land development business unit, Saskatoon Land, that provides dividends to fund a variety of initiatives such as the Pleasant Hill Neighbourhood Revitalization project, Mayfair Pool, affordable housing incentives, designated land purchases, and operating budget contributions. In total, just under $120 million in neighbourhood land development fund surpluses have been distributed to date.

The Hemson Report notes that only a small share of the surpluses has been allocated to growth-related infrastructure. However, as mentioned earlier in this document, the distribution of future surpluses are planned to be based on a guideline of 10% to future land development acquisitions, 65% to growth-related infrastructure, and 25% for general capital expenditures.

Property Taxes and Utility Rates

Property taxes fill the gap for growth-related infrastructure that is not covered through development levies, grants, or land development surpluses. These projects include Fire Halls, the Police Headquarters, Transit, Solid Waste, Public Works, Libraries, and General Administration. In addition, property taxes help fund the maintenance, rehabilitation and replacement of existing infrastructure for these services.

As identified in the Hemson Report, property taxes are becoming a larger share of the City's total revenue base. Non-residential property assessment, while growing, are not keeping pace with the increases in residential assessments, which means the mix of assessment is shifting from a higher revenue generating assessment type (commercial and industrial) to a lower one (residential).

As well, own-source revenues are increasing at a declining rate, adding additional pressure and reliance on property taxes. This then makes it difficult to not only fund the maintenance of existing infrastructure but also fund growth-related new infrastructure.

Future Funding Options

The Hemson Report discusses some options to consider for funding growth-related infrastructure. These include:

- continued use of property taxes;
- continued use of utility revenues;
- Public Private Partnerships (P3);
- installment based development levies;
- up-front development levies;
- front-end financing; and
- a variety of other options including transportation-orientated revenues (i.e. tolls, vehicle registration fees, parking space charges), value capture fees, and land transfer taxes, tax incremental funding (TIFs), and density borrowing.

Other recommendations and items for consideration arising from the Hemson Report include:

- using development levies for which the City has the powers to levy (i.e. water and wastewater treatment plants, recreation centres, bridges);
- lobbying for expanded development levy scope (i.e. fire halls, libraries, etc.);
- reviewing the way development levies are calculated such as square footage of proposed development rather than frontage;
- reviewing user pay opportunities rather than general taxation (i.e. garbage utility); and
- lobbying for broader taxing powers.

The Administration is reviewing these recommendations and will be presenting a series of discussion papers and options for City Council to consider.

Asset Management Funding Strategies

The City has historically prepared and published a five-year capital program. Ten-year projections have begun to be prepared, however, a five-year plan will continue to be published as part of the annual budget. This projection identifies capital replacement requirements and some of the more obvious growth requirements, such as grade separations, recreation centres, and fire halls. Not all of the projects have funding sources.

The City's Strategic Goal of Asset and Financial Sustainability speaks to ensuring the City's buildings, roads. and bridges are well maintained. In addition, two of the four-year priorities reference the City's assets as follows:

- Establish levels of service for rehabilitation of assets and identify supporting financial strategies.
- Develop funding strategies for expenses related to new capital expenditures including core services such as fire halls, roadways and underground services.

The 2013 Financial Statements identified the City's depreciated assets at $3.2 billion ($2.9 billion in 2012). Managing these assets through strong asset management renewal programs and strategies is an important responsibility of the City. This includes having a complete inventory, assessing asset conditions, setting asset service levels, and ensuring funds are available to maintain, rehabilitate, and replace these assets in accordance with the plan. However, the City is no different than many other cities in Canada where funding for these programs has not kept pace with its needs. It is estimated that the City's infrastructure deficit in 2012 was $1.6 billion. The deficit is defined as those assets whose age puts them past their defined useful life. This does not necessarily mean those assets are of no value; some continue to have value past their defined useful life.

The Canada West Foundation report titled "At the Intersection, the Case for Sustained and Strategic Public Infrastructure Investment" [3] resulted in a number of recommendations as follows:

1. Sustained and strategic investments in Canada's public infrastructure should be continued.
2. Priority should be given to infrastructure that enhances economic performance.
3. Government should encourage innovative approaches to the design of public infrastructure.

[3] At the Intersection, the Case for Sustained and Strategic Public Infrastructure Investment, February 2013

4. Governments should not focus exclusively on new infrastructure at the expense of re-investment in existing infrastructure.
5. Ongoing analysis and evaluation of recent infrastructure investments should be conducted and the lessons applied to future investments.

These recommendations should be considered as decisions are being made regarding new investment into the City's infrastructure.

The pages that follow provide information on each of the City's asset groupings and include comments on sustainable funding related to both the condition and capacity of the assets. The City's major assets can be grouped as follows:

- Roadways (includes roads, noise walls, curbs, sidewalks, and bridges)
- Buildings (includes civic offices, public works and operation facilities, transit buildings, police buildings, fire halls, recreation and sport facilities, and libraries)
- Parks
- Transit (includes buses, bus stop signs, and bus shelters)
- Water/Wastewater/Storm Water Plant and Underground Networks
- Electrical Distribution
- Fleet (includes civic, police, fire vehicles)

As part of the City's Strategic Plan under the Strategic Goal of Asset and Financial Sustainability, there are both four-year priorities and ten-year strategies to address the condition, maintenance and funding for these assets. Work has begun to develop high-level asset management plans for each of these major asset groups. The first was developed in 2013 with the Building Better Roads plan to invest in the improvement of the City's paved roadway network to an agreed upon service level "B" (Getting Better – Sufficient expenditures to keep asset in top condition and to increase asset condition/value slowly over time).

Part of the Building Better Roads asset management plan was to increase the level of investment through the program's reserves. As discussed earlier, this included a phased-in funding plan through dedicated road taxes over an initial period of three years which was then revised to four years during the 2015 budget review.

For the paved roadway network and other City assets, departments manage these through their maintenance and replacement reserves. Asset investments need to be prioritized and based on strong business cases with planned funding strategies. The funding levels for the asset reserves are governed through policies and bylaws and are based on a current practice and philosophy of "pay-as-you-go" for asset replacement. In other words, putting money aside for a future planned replacement ensures the financial discipline that avoids a situation that could increase the risk to the organization of a failed asset and eliminates the need to borrow for asset replacements.

While this is the case for most equipment replacements, larger longer term replacements are more difficult to fund. The replacement of larger buildings, for example, that have a replacement, capacity (growth) and functionality components are significant in cost and therefore the pay-as-you" method is more difficult to fund. While not impossible, it does require strong discipline to put these funds away but in some cases not practical when resources are scarce and other funding opportunities are not well known. Planning years in advance of a major replacement like this however, can reduce the budget impacts by building a tax base for debt payments, operating impacts and leveraging other funding for the capital expenditure.

One of the options for funding replacements of this nature is to look at the opportunities to sell assets that are not adding values or are surplus to the City's need. These can be converted into funding for a more productive use. Buildings in particular fall in this category and should always be sold and purchased based on the strong business need and high level analysis of the return on investment.

With the move to a Corporate Asset Management Program, the Administration will be reviewing and revising its policies and bylaws pertaining to its major assets. In this plan the Administration is recommending a number of overarching policies that City Council should consider:

Recommendation 7: That the existing practice of funding the replacement of assets on a "pay-as-you-go" basis continue.

Recommendation 8: That the long-term use of any surplus buildings include disposal unless supported through a strong financial business case including a return on investment (ROI).

Recommendation 9: That the purchase of buildings be supported through a strong financial business case including a return on investment (ROI).

As noted above, the following asset groupings include comments on sustainable funding. The Administration has been attempting to address all funding shortfalls while at the same time, minimizing the impact on property taxes.

City Council previously approved a Civic Facilities Funding Plan. Two additional plans are under development, including a Major Transportation Infrastructure Funding Plan and a funding strategy for parks and recreation assets. In addition, the business model used to fund the City's fleet replacement is under review. The intent is to prepare plans that take into consideration the total financial situation of the City, rather than to develop plans on an ad hoc basis, and to balance the need to maintain the City's existing assets, while at the same time respond to city growth. References to these plans are included in the following pages.

Roadways, Bridges and Structures

This asset grouping includes roads, sidewalks, bridges and structures, lanes, noise walls, curbs, and guard rails.

Condition

City Council has approved an annual service level for a number of assets within this grouping, including bridges, structures, roads, and sidewalks. The service level has been described as funding sufficient expenditures to increase the asset condition/value and decrease the backlog slowly over time. Once the backlog is eliminated, the funding needs to be sufficient to maintain the asset's condition without a backlog.

Staff within the Transportation and Utilities Department evaluates the condition of the assets and develops an annual program to maintain them at a minimum long-term cost. The annual program for roadways provides a mix of treatment, including rehabilitation, restoration, and preservation.

A new method of assessment for sidewalks and curbs will be performed in 2015 to obtain a baseline condition, similar to what has been done for roadways. The annual program for sidewalks includes grinding, crack filling, and mud jacking. Panels are replaced only when in a very poor condition state and maintenance for safety is not possible.

Based on citizen input and the current asset condition, priority has been placed upon increasing funding levels for roadways. During the 2014 budget deliberations, a Roadway Financial Management Strategy was developed. This strategy outlined the expenditure service levels and funding gap for paved roadways, sidewalks, paved back lanes, gravel back lanes, and boundary roads as it existed in 2013. The strategy introduced a dedicated property tax increase of 2.92% in each of 2014, 2015 and 2016. This was revised during the 2015 budget deliberations whereby the 2015 and 2016 proposed tax increases were spread over three years resulting in a planned 1.94% increase in each of 2015, 2016 and 2017. The Paved Roadway Infrastructure Reserve receives a share of this funding to address paved roadways and sidewalks.

The Transportation Infrastructure Reserve (for gravel roadways, lanes, sidewalks, medians, signals, and signage) also receives funding through the Roadway Financial Management Strategy. These funds are targeted towards the preservation of lanes and boundary roads. A deficiency has been identified, however, for some assets funded from this Reserve, including upgrades to gravel roads. To address the gravel roads funding shortfall it is intended that the new proposed Major Transportation Infrastructure Funding Plan will include a component for this purpose.

Bridges and structures are inspected on a regular basis. The inspections drive the annual repair program.

The Bridge Major Repair Reserve is the source of funding for the Bridges and Structures asset category. The current contribution is $2.7 million (2015 budgeted provision); however, the target is in excess of $5 million. A strategy is currently underway to address both the annual shortfall and one-time contributions to assist with the current backlog.

Capacity

The Transportation Division has a ten-year plan for major additions to the transportation network. These additions are based on neighbourhood development plans and include major arterial roads and interchanges. Timing of construction is based on the timing of the neighbourhood development and also takes into consideration all construction work in order to maintain traffic flow.

The City requires a number of roadway projects to support city growth. Some of these projects are handled through a combination of developer and provincial contributions with the remainder funded by the City. Currently, the Transportation Infrastructure Expansion Reserve provides funding for additions to the City's transportation network. It was initially established to provide a matching source of funding for provincial and/or federal funds that have historically been available for network expansions. This Reserve no longer has the capacity to provide this function and discussions are underway to reduce the scope to exclude major transportation infrastructure.

There are a number of projects that have been identified to expand the City's active transportation network. An Active Transportation Reserve was recently developed, with funding being phased in over a number of years. The Reserve is currently capped at $500,000 annually; however, it has been acknowledged that this is not sufficient to fund all the requirements. The Administration is currently determining the annual provisions required to ensure a sustainable source of funding.

The North Perimeter Highway project is being led by the Province. The Administration will continue to keep City Council informed as new information becomes available.

Sustainable Funding Plan

In order to begin to address the funding gap related to bridges and growth-related transportation projects, the Administration has begun the development of the Major Transportation Infrastructure Funding Plan. This Plan attempts to fund four grade-separated interchanges, to provide a $20 million one-time funding contribution to the Bridge Major Repair Reserve, and to provide a significant contribution towards the development of a Bus Rapid Transit corridor, resulting in continuous base contributions to the Bridge Major Repair Reserve, the Transit Bus Replacement Reserve, and a new reserve dedicated to funding major transportation infrastructure projects. This plan will be integrated with the North Commuter Parkway project and accesses funding from the Gas Tax Fund and the Building Canada Fund.

Recommendation 10: That the Administration propose a Major Transportation Infrastructure Funding Plan for discussion in 2015.

Recommendation 11: That the Administration continue to explore options to provide the required level of funding for the Transportation Infrastructure Expansion Reserve.

Buildings

This asset grouping includes civic offices, public works and operation facilities, transit buildings, police buildings, fire halls, leisure centres, recreation and sport facilities, and libraries.

Condition

Of all the City's assets, civic buildings currently have the most comprehensive capital maintenance program and related funding. The purpose of the Civic Buildings Comprehensive Maintenance Reserve is to provide a source of funding to finance the cost of repairs to civic buildings. It is funded through a formula equivalent to 1.2% of the value of each building. Buildings are appraised periodically to ensure the contributions remain current. Funding levels are reviewed periodically, and based on the last review, it has been determined that the existing formula is still a relevant proxy for funding.

Recently, the cost of construction and budgetary constraints has placed pressure on this Reserve. Due to the demand for trades work, the cost of building maintenance repairs is higher but also with limits on the expenditures to meet budget mandates, the annual funding to the Reserve is less than the formula of 1.2% of building value. That could be offset by inflated building values from increased market demands. Further reporting on the status of this Reserve will be brought forward.

Addressing the funding for parking lots and associated infrastructure related to civic facilities has been a long, outstanding issue. The City's 2015 Budget begins the first of multi-year incremental funding provisions to establish a Facility Site Replacement Reserve. This first allocation was approved at $50,000.

Capacity

As cities grow, so do their needs for new buildings, including recreation centres, fire halls, public works and operation facilities, libraries, and cultural facilities.

Examples of recently constructed facilities include the Shaw Centre, the Remai Modern Art Gallery/Parking Structure and the new Police Headquarters.

In 2006, City Council approved a Civic Facilities Funding Plan to fund the construction of a number of new or replacement facilities, including replacing the existing Police facility, Transit and City Yards relocations (renamed as the Civic Operations Centre), two fire halls, and renovations to City Hall and Civic Square East (former Canada Post Office). The plan assumes funding contributions from taxation, provincial revenue sharing, assessment growth, and federal funding dedicated to Transit, Gas Tax Funds, as well as a contribution from the federal government under its public private partnership program. This plan began in 2006, is refined on an ongoing basis, and will continue for at least an additional ten years.

The vacated Police facility is currently for sale. Proceeds from the sale will be directed towards costs associated with Civic Square East. Two additional fire halls are also included in the Civic Facilities Funding Plan.

Current unfunded facilities include three permanent snow management facilities and satellite public works yards. Permanent snow management facilities are required due to a change in environmental regulations. Specific requirements around storage and drainage need to be met. In addition, environmental monitoring will be required. City Council recently approved a plan to build a facility in each quadrant of the city. The Civic Operations Centre will house the south west location. In the short term, land will be assembled, followed by the construction of access roads. A funding source is still outstanding. Future fire halls beyond the two identified also continue to lack a funding source.

The City is currently developing a Recreation Master Plan which will likely recommend the addition of a number of recreation and sport facilities. There is currently no specific funding plan for new recreation or sport assets. Historically, the City has received provincial and/or federal grants and has borrowed the shortfall. Community centres are funded through a specific levy. At one point in time, a levy was also used to fund major leisure centres, however, this was discontinued for a number of reasons. The Administration has begun discussions on a conceptual funding plan for new recreation facilities.

Finally, the Saskatoon Public Library has identified a need to replace the existing main library branch. In 2009, City Council approved, in principle, a funding plan for this purpose which included phased-in Library mill rate increases. The initial plan assumed 50% funding from the federal government and $8 million from fundraising. The plan is continuing to evolve based on location, costs, and the funding environment.

Sustainable Funding Plan

As indicated above, a funding plan exists for the addition and replacement of major civic facilities. The intent of the plan is to fund some immediate projects, as well as to develop a significant contribution to a Major Civic Facilities Reserve to fund future facility projects.

The Administration has begun preliminary work on a funding strategy to address the funding gap related to recreation facilities.

Recommendation 12: That the Administration propose a funding source and/or strategy to address the funding gap related to recreation facilities in 2015.

Parks

Condition

There is a current backlog of park amenities that require funding for replacement and/or major repair (e.g. playground equipment, paddling/spray pool replacements). A number of departmental divisions are involved in determining replacement/repair priorities, including Community Development, Recreation and Sport, Parks, and Facilities. Needs are evaluated (both community and administrative) and a priority list has been established.

A detailed review/assessment of park infrastructure conditions (including but not limited to sports fields, pathways, drainage, irrigation systems, benches, waste bins, lighting, playground equipment, and paddling pools) is required and has begun.

The replacement and/or repair of park amenities have historically been funded from the Reserve for Capital Expenditures; however, other projects tend to take priority. The only way to ensure the City's existing park assets are maintained is to develop a dedicated funding source.

In addition to the replacement and/or repair of park amenities, there is also the periodic need to redevelop and or provide a major rehabilitation to an existing park. The existing purpose of the Parks Infrastructure Reserve is to finance the capital costs of infrastructure replacements, repairs, and upgrades of existing parks. The provisions have never been sufficient to fully fund this purpose. Historically, most of the funds have been directed towards park redevelopment. It has not been possible to even meet this demand, as evidenced by the Reserve's current deficit position. The Dedicated Lands

Account has also been used to fund applicable parks deficiencies and does have some funding for qualifying projects.

Capacity

A Parks and Recreation Levy is applied to all private and City-owned development lots. This levy raises funds for future parks and recreation facilities. Park development forms part of the suburban area and neighbourhood design, and the levy is set based on projected costs.

Park Development Guidelines (identifying the amenities to be included in a park) and Park Landscape Design Guidelines currently exist. These will be reviewed in 2015 to ensure the resulting park can be maintained in a cost-effective manner.

Sustainable Funding Plan

In order to address the funding issues related to both the replacement and/or repair to park amenities and the requirement to occasionally redevelop a park, a review of existing reserves and upcoming funding opportunities has begun with the intent to develop a sustainable funding plan dedicated to this purpose.

Recommendation 13: That the Administration propose a funding strategy to address the replacement and/or major repair of park amenities.

Recommendation 14: That the Administration propose a funding strategy to address the redevelopment or major rehabilitation of existing parks.

Transit Fleet

This asset grouping includes both Transit and Access Transit buses, bus stops, and bus shelters.

Condition

Transit buses receive an annual inspection as required by SGI; mechanical and structural components are inspected. This then dictates the need for either refurbishment or disposal. Funding constraints have resulted in the introduction of a “mini refurb” which includes patching what is needed versus performing a complete overhaul.

Additional new buses are required to improve the median age of the bus fleet. Ideally, the fleet would be “turned over” every 7 years which is the industry standard. Currently, Saskatoon Transit operates a spare ratio of 58% while the industry standard is 25 - 30%. A fleet of 158 buses exist, while only 100 buses are required to meet daily service demands. This can be attributed to the fleet’s average age of 11.9 years, with the oldest bus in service at 25 years of age. This makes Saskatoon's fleet outdated, more prone to breakdowns, and parts are more difficult to find. A more reliable fleet would enable the total level of buses to be reduced to 133. With the target of an average fleet age meeting the industry average of 7 years, 10 new buses will be required annually into the future. Reducing the median age of the fleet will reduce maintenance costs.

The purchase of good, used buses has been utilized for Transit's current replacement needs, but this strategy has only served to defer major maintenance costs and fleet replacement. This, coupled with the availability of buses and replacement parts, requires a long-term solution.

Transit has two reserves for funding buses: the Transit Vehicle Replacement Reserve and the Transit Capital Projects Reserve. The latter reserve is also intended to fund the repair and replacement of buildings, major transit studies, the construction of transit terminals and the purchase of major equipment and any other Transit-related capital requirement, including additional buses. Funding levels do not currently have the capacity to fund all of Transit's needs. As a result, the relocation of the Transit bus barns is being funded through a separate process.

In addition to these two reserves, Transit assets have qualified for past federal funding and currently qualify under the Gas Tax Fund. Both of these sources form part of the funding plan to relocate the bus barns. The shortfall related to bus replacement has been estimated at $4 million annually.

<u>Capacity</u>

Additional buses are required as the city grows. The total fleet is analyzed to determine refurbishment versus replacement. The mix of new and used buses impacts the availability of the "spare fleet." Based on a current analysis, the size of the existing fleet may not need to grow for a number of years. However, based on the current provisions to the Transit Capital Projects Reserve, it is doubtful sufficient funds will be available when required.

In response to city growth, the feasibility of rapid transit is currently being explored. This is discussed in more detail under the section addressing the City's Growth Plan. Development of a rapid transit system will translate into the need for additional buses.

<u>Sustainable Funding Plan</u>

The Major Transportation Infrastructure Funding Plan begins to address the deficiency within the Transit Vehicles Replacement Reserve, through the provision of additional base funding, plus some one-time funding to address the backlog of replacement needs. While it would be preferential to fully fund both the Replacement Reserve and the Transit Capital Projects Reserve, any additional dedicated federal funding for Transit can be used to supplement them, together with revenues received under the Gas Tax Fund as they become available.

Water/Wastewater/Storm Water Plant and Underground Networks

This asset grouping includes Water, Wastewater, and Storm Water facilities and underground infrastructure. Both replacement and expansion are intended to be completely funded through revenues collected from customers and developers.

Condition

City Council has also approved an annual service level for water and sewer underground infrastructure. The service level is the same as that for roadways: funding sufficient expenditures to increase the asset condition/value and decrease the backlog slowly over time. Once the backlog is eliminated, the funding needs to be sufficient to maintain the asset's condition without a backlog.

The Water Supply Replacement Reserve and the Wastewater Collection and Treatment Replacement Reserve fund the replacement of assets that are related to treatment, and the Water and Sewer Infrastructure Replacement Reserve funds the assets related to supply and collection (underground infrastructure). Rates that fund contributions to these three reserves are reviewed annually and are set at levels that are competitive with other jurisdictions, but still at levels that allow the utility to fully fund its asset replacement program. All assets are currently replaced on a cash basis.

The Province establishes regulations related to water and wastewater. The City's philosophy related to these utilities is 100% user pay. The mill rate does not provide any subsidy. As a result, the utilities need to be in a position to respond to any regulatory change.

A flood control levy was introduced a number of years ago to fund a number of projects to alleviate further flooding resulting from major storms feeding water into the wastewater system, causing household basement flooding. This levy is to sunset in 2018.

A new Storm Water Utility rate structure was introduced in 2011. Property owners are charged based on the amount of runoff they generate. This rate structure will be fully phased-in by 2018. There are two major projects still to be funded from this Utility – riverbank stability and major storm flooding on public property. The Administration has introduced a Surface Flooding Control Strategy. The purpose of the strategy is to develop a comprehensive long-term plan to address the surface flooding issues created during major rainstorms.

Capacity

While the Utilities are 100% user pay, there remains a question on which assets should be funded by the ratepayer and which should be funded through growth. The Administration is currently developing a plan to ensure the public is not faced with fully funding all capacity-related projects (e.g. additional resources, additional water treatment plant).

Sustainable Funding Plan

The Utilities will remain 100% user pay. The Administration has been addressing the long-term funding requirements and reports will be provided annually with future rate-setting reports. The long-term funding requirements need to handle all regulatory changes, asset replacement/repair, and capacity increases required as a result of city growth.

Electrical Distribution

This asset grouping includes all assets related to the City's electrical distribution function.

Condition

Saskatoon Light & Power invests in the maintenance of the electrical system to meet industry standards. A review of its assets was recently undertaken, including a condition assessment and existing preventative maintenance practices. Results from this review will be reported in 2015.

Capacity

Infrastructure investment is also required to meet the needs of a growing city, which in recent years has included densification of the city's core located within the Utility's franchise area. Saskatoon Light & Power will include information relating to required infrastructure and the resulting financial impact in its 2015 reporting.

Sustainable Funding Plan

Saskatoon Light & Power's rate setting process is tied to that of SaskPower. Rates are matched to ensure equity to ratepayers no matter which franchise area they reside in. Rates fund operations, capital renewal and growth, a grant-in-lieu of taxation to the City, as well as an ROI to the City. As noted earlier, a targeted ROI based on industry standard is desired. Depending upon the outcome, funds may be available to reallocate to either the utility's replacement or expansion reserve. In addition, there may be an opportunity to allocate new revenue streams resulting from alternative energy projects (e.g. Landfill Gas Collection project).

Civic Fleet

This asset grouping includes civic, police, and fire vehicles.

Condition

Fleet Services maintains an asset management system to monitor repairs, fuel consumption, and life cycle data for civic and police vehicles. Once a piece of equipment's repair costs begin to exceed a specific percentage of the replacement cost and is nearing the end of its service life, it is flagged for replacement.

The Civic Vehicles and Equipment Replacement Reserve is intended to fund all replacements, however, budget constraints have resulted in annual provisions being less than adequate.

The Saskatoon Fire Department maintains and replaces its own vehicles and equipment through the use of the Fire Small Equipment Replacement Reserve and the Fire Apparatus Reserve.

Capacity

Departments identify additional vehicle requirements and provide a funding source. As the City grows, so does its equipment needs. In some cases, capital projects include the cost of equipment (e.g. the capital project funding a new fire hall includes the cost of the associated fire apparatus/equipment). In other cases, reserves exist to fund the equipment (e.g. Transportation Equipment Acquisition Reserve, Snow and Ice Management Equipment Acquisition Reserve, Parks Maintenance Equipment Acquisition Reserve).

Sustainable Funding Plan

A total review of the City's Fleet Services business line is currently underway. The Administration will propose recommendations that identify the appropriate business model including processes and funding.

Use of the Property Tax to Fund Cities

Experience and research both identify the challenges cities face if they depend strictly on the use of property tax to fund their operations. Currently, 45% of the City's current operating budget is funded through property taxes. On the assumption that expenditures increase by MPI, in order to maintain a property tax increase of MPI or less, all other revenues must also increase by at least MPI. This has not necessarily been the case with Saskatoon's revenues. Examples include revenues that can be subject to participation rates (leisure programs) or market conditions (investment interest earnings).

One of the key points raised in the "Financing Growth Study" (the Hemson Report) is that a declining ratio of own-source revenue of the City's total revenue base is putting more reliance on property tax to make up the difference between expenditures and revenues. In addition, as property tax is the primary revenue source available to the City, its limitation is that it does not grow with economic growth.

The cost of growth by providing new infrastructure and services to meet new growth in population cannot be covered strictly by incremental taxes from new assessment. For example, the cost of new city-wide infrastructure such as river crossings, fire halls, recreation centres, art galleries, libraries, convention centres, and arenas, to mention a few, need to be planned for and funded on a city-wide basis. The cost of these amenities is over and above the development fees charged and collected from new land development as many of these are not possible under the current provincial legislation. Long-term financial planning is required for these future costs through flexible but dedicated funding plans that leverage funds from other levels of government and external partners, but also require mill rate funds. These funding plans rely on operating budget contributions that add pressure on the property tax.

While Saskatoon has been growing, both in terms of housing and the economy in general, growth in the economy does not automatically translate into increased municipal revenues. Municipal taxes are based on assessed properties. An increase in the number of assessed properties results in increased tax revenues. However, increases in assessed values through the current four-year revaluation cycle do not translate into increased tax revenues, as City Council has a policy to maintain revenue neutrality caused by the revaluation.

While some Canadian municipalities do not maintain revenue neutrality, it is usually those that have a shorter revaluation cycle, thereby minimizing large swings in assessed values. However, research still supports municipalities having access to a suite of tax tools based on the following:

- a suite of tax tools yields better growth in revenues by allowing a City to retain a larger portion of the economic growth occurring within the local region;
- property taxes do not always capture the increased tax revenue that normally accrues from a growing population and an expanding economy;
- no single tax is suited to compensate for inflation and capturing growth in the local economy; and
- a diverse local tax system provides the opportunity to establish better accountability.

There are a number of options used by other municipalities in both Canada and the United States. The following provides a brief description of the options.

Dedicated Property Tax

Property tax revenue can be dedicated for specific purposes whether it be to support operational costs such as Transit or to support capital costs. This option is being used to partially fund roadway capital requirements through a four-year phase-in which began with the 2014 budget.

A hybrid of the dedicated property tax is a funding mechanism referred to as Tax Increment Financing where municipalities dedicate future property tax revenue (municipal, education, library) in a specific area to pay for a new public facility or new infrastructure in that area. The City used a similar mechanism to assist in funding the grade separation at Circle Drive and Clarence Avenue. The development of the Stonegate shopping mall was contingent upon the grade separation; therefore, incremental taxes would not be available unless the development occurred. Only future municipal property taxes were dedicated.

Share of Existing Taxes

Existing taxes include income taxes, gaming taxes, resource revenue, fuel tax, and alcohol and tobacco tax. The City currently receives a share of provincial taxes through the Provincial Revenue Sharing Agreement.

Vehicle-Specific Selective Taxes (User Pay Tax)

This can be ear-marked for transportation infrastructure/maintenance and can include:

- local fuel tax;
- local vehicle registration tax;
- local car rental tax;
- local tax on parking (both private and public);

- local vehicle ownership or “wheel” tax;
- special sales tax on vehicle sales; and
- driver’s license tax (insurance premiums tax).

Visitor-Specific Selective Sales Tax

The City plays a role as a hub for a larger metropolitan area and a regional centre for commerce and tourism. Funds can be targeted towards tourism-related capital and can have a sunset clause, if appropriate. Examples include:

- restaurant tax;
- bar or pub tax;
- beverage tax; and
- gambling tax.

Special Purpose Local Option Sales Tax (Penny Tax)

This is a broad-based general retail sales tax levied at the local level. It can be capped at 1% (one penny of every dollar). It has the option of being dependent upon a public vote via a referendum. It is usually targeted to a specific list of infrastructure projects and typically lapses every five or six years. For ease of collection purposes, it would “piggyback” off the existing provincial sales tax.

Special Assessments (Local Improvement)

A special assessment is a specific charge added to the existing property tax to pay for improved capital facilities that border them. The charge is based on a specific capital expenditure in a particular year. It is usually used for construction or reconstruction of sidewalks, streets, water mains or storm sewers. The justification is that the owner of an abutting property will benefit from the local improvement and should, therefore, help fund it.

Value Capture Levy

A value capture levy recovers the increase in land value arising from a public investment. For example, City spending on public infrastructure and subsequent zoning decisions can increase the commercial value of holdings of private landowners. The justification behind this levy is that the public investment creates windfall gains for the private developer. An option to the levy is to require the developer to provide various facilities and infrastructure (versus cash) in return for being permitted to undertake the development.

As previously stated, these are options used by other municipalities. The Administration is not advocating for or against any of these options. The purpose of bringing these forward is to generate further discussion.

If the City was to embrace these options, changes to provincial legislation would be required in some instances. The Administration and elected officials are currently working with SUMA to determine a plan to structure an advocacy platform related to this.

In addition to pursing alternative revenue sources, City Council and the Administration should ensure they have explored the use of all existing opportunities provided under provincial legislation.

Recommendation 15: That City Council and the Administration continue seeking alternative revenue sources to reduce reliance on the property tax.

The City's Growth Plan

Growing Forward! Shaping Saskatoon

Saskatoon's infrastructure plan for growth is based on the City's Strategic Plan. Two specific strategic goals set the direction for growth. The first Strategic Goal, Sustainable Growth, emphasizes *both upward and outward growth, reflecting a balance of greenfield and infill development*. The second Strategic Goal, Moving Around, states that the City's *transportation network includes an accessible and efficient transit system and a comprehensive network of bike routes*.

In response to this, the City has developed a document, Growth Plan to Half a Million, to guide future development. This plan addresses a number of themes related to growth including:

- Growth Near Major Corridors – examines opportunities for increased densities and mixture of residential and commercial uses along Saskatoon's major corridors over the next 30 to 40 years.
- Transit System – reviews current and projected travel markets and exploration of options to make future transit service a more attractive choice for daily travel needs.
- Rapid Transit – explores the feasibility of rapid transit in Saskatoon as a core feature of the overall transit system.
- Core Area Bridges – assesses forecast travel demands on core area bridges and identifies opportunities for another river crossing to accommodate walking, cycling, and transit.

Residents and other community stakeholders are being asked to provide input throughout the process.

Saskatoon residents have already expressed a desire to live in vibrant communities with more housing options, transportation choices, and amenities. The design of new suburban neighbourhoods, plans for redevelopment in core strategic infill areas and new policies for small-scale neighbourhood infill will all support this vision.

Growth inevitably results in funding requirements over and above the amount gained through new assessment tax revenues and development levies. While developers contribute towards a portion of new infrastructure cost resulting from new neighbourhoods, the City is still required to fund a portion of new interchanges, potential expansion of existing roads to address traffic congestion, fire halls, recreation centres, etc. Funding these capital projects has been addressed earlier in this document. There is, however, additional capital funds that will likely be required to fund a redesign of the existing transit system, together with a rapid transit system.

The Growth Plan will be completed in early 2016. Funding required to begin the implementation of the Growth Plan recommendations is expected to commence in 2017. Several projects will need funding to develop a Long Range Transportation Master Plan, and Streetscape and Transit Station plans. In addition to funding a transit system redesign, additional capital dollars may be required in the long term to fund the redesign of the city's core bridges to accommodate both growth in traffic and for dedicated space for rapid transit. There is also the potential that the City's land development role could change to include redevelopment as well as greenfield development.

River Landing

The South Downtown development has been part of the City's vision of a vibrant downtown for a number of years. In 2004, the concept plan for River Landing was approved. This plan envisioned riverfront park development on either side of the South Saskatchewan River as well as a mix of residential condominiums, office, retail, and public space.

To date, both riverfront parks have been completed. The Remai Modern Art Gallery of Saskatchewan is currently under construction and will be adjoined to the existing Remai Arts Centre. The Saskatoon Farmers' Market and Ideas Inc. also reside here, as well as eateries and developed office space. Additional private development is under way on both the east and west sides of the Senator Sid Buckwold Bridge.

There are still three parcels of land available west of the river. This land will be sold in segments over the next few years. In addition, development on Parcel YY is still outstanding.

River Landing is intended to be self-funded. In other words, property taxes from this development will be redirected towards paying for operational costs. In the interim, costs do not flow through to the municipal mill rate - they are being funded by the Reserve for Capital Expenditures (RCE). Once the remaining developable land is sold, funds will be used to repay the RCE, providing a balance of funds to be reallocated towards other capital projects.

City Centre Plan

In 2013, City Council approved the City Centre Plan. The City Centre is the financial, commercial and cultural centre of Saskatoon and region. The City Centre Plan facilitates the development of a vibrant mix of uses including new residences, commercial office space, retail, and restaurants, as well as cultural, education and recreational opportunities. It is intended that these uses will be supported through pedestrian-orientated design, high-quality open spaces and public infrastructure, additional parking opportunities and innovative policy that will foster private investment, creating more market interest, and the absorption of vacant lots.

The Plan is intended to be implemented in phases over a 15-year period. There are, however, a number of immediate priorities including design guidelines for the City Centre and incentives for office buildings and public parking structures. In addition, the plan identifies projects that should be completed in stages (1 to 5 years, 6 to 10 years, and 11 to 15 years).

Projects identified range from small to large including items such as the new Civic Plaza/City Hall Square, a detailed bike lane plan, including protected bikeways, and reconstruction of a new Master Plan for Idylwyld Drive and other street improvements.

There are no specific funding strategies in place to move forward with the implementation of the Plan other than the Civic Plaza which received funding from the Capital Budget for design work in 2015.

North Downtown

One of the strategic infill areas identified in the Growing Forward! Shaping Saskatoon initiative is the City's North Downtown.

The intent of the North Downtown development is to create a sustainable community in Saskatoon's centre and to minimize immediate and long-term impact on the environment. This community will have a smaller ecological footprint than Saskatoon's other neighbourhoods through a reduction in the consumption of water, non-renewable energy, and potable water[4].

Discussions on options related to the delivery of this project are still underway. Development will be subject to the relocation of the existing City Yards function. The relocation is currently included within the Civic Facilities Funding Plan; however, the earliest funding will be available is in 2017. This funding assumes borrowing which will be dependent upon the borrowing capacity of the City at that time. Alternative delivery options could include a third party and could potentially include the relocation of the yards.

[4] North Downtown Master Plan, June 4, 2012

Future Transit

The *Growing Forward! Shaping Saskatoon* process is also developing a long-term plan to make transit a more attractive choice for more people as the city grows. There is not a "one size fits all" solution for transit, but rather a combination of a number of different services. High demand corridors will be served by a high-frequency transit service, while neighbourhood services will be provided to support local travel with connections to main corridors. Service types can include community shuttles, conventional service, frequent transit service, commuter service, and bus rapid transit corridors.

Public input is currently being sought to identify the preferred options, and it is likely that bus rapid transit will be a key recommendation in the Growth Plan to 500,000 required option. This is a precursor to light rapid transit (LRT) operated by most large cities, however Saskatoon is not expected to grow large enough for LRT in the next 30 years. Bus rapid transit will involve a significant investment as it will require the development of bus corridors and related streetscaping, terminals and additional buses.

As noted earlier, the Administration is currently developing a Major Transportation Infrastructure Funding Plan. One of the items included within this Plan is funding for bus rapid transit corridors. At this time, it is not known if sufficient funds will be available for the complete project.

Regional Growth

With the growth of Saskatoon and the region, a coordinated approach to regional planning is desirable. The Saskatoon North Partnership for Growth (P4G) is a recently formalized collaborative which includes political and administrative representation from the municipalities of: City of Saskatoon, RM of Corman Park, City of Martensville, City of Warman, Town of Osler, and SREDA (advisory role). The partners plan to develop and adopt a long-term view and plan for land use and servicing that is regional in scope.

This project is now underway. A Regional Oversight Committee (ROC) comprised of elected representation from the five partner municipalities has been established to oversee the regional planning process. A consultant has been hired to guide the plan.

The formation of a Regional Plan may require ongoing operating costs to be shared by the partner municipalities once the plan is completed. While costs related to servicing can be significant in the short term, they will be cost effective in the long term. A funding model will form part of the plan developed by P4G.

Paying for Growth

In 2010, the Premier of Saskatchewan stated that a requirement of the province is "to work with municipal partners to develop a sustainable long-term infrastructure plan." The City participated in this initiative. Three primary research areas were undertaken: best practices to optimize investments, evaluate financing methods and fit for Saskatchewan, and define the investment need. The research project that examined financing methods reviewed methods that are used around the world. It was determined that no single solution exists.

As identified in the Hemson Report, there are a number of recommendations and options for consideration. It reviewed the City's existing funding mechanisms, identified alternative mechanisms, and raised a number of items to consider. These issues were identified at the beginning of the Issues Section of this document. The Administration will be bringing forward a series of discussion papers and recommendations over the next number of months to address the Hemson Report.

Currently, the City uses the following sources to fund growth-related capital:

- developer contributions;
- reallocation of a portion of net proceeds from residential neighbourhood land development;
- property taxes/user fees;
- borrowing;
- grants; and
- sponsorships.

An option that has recently received consideration is a tax incremental financing (TIF) program. Further discussion is required, however, *The Cities Act* allows a City Council to create a bylaw to "establish a program in designated areas of the city for the purpose of encouraging investment or development in those areas." Some or all of the incremental municipal taxes coming from the designated area can be used for three specific purposes, including the acquisition, construction, operation or improvement, and maintenance related to that area; to repay borrowings associated with work within that area; and to fund a financial assistance program for persons who invest in developing or constructing in that area.

This type of financing could be well suited for the North Downtown development and the BRT Corridor Redevelopment.

Recommendation 16: That the Administration explore the feasibility of using TIF as one option to assist with funding the North Downtown development.

Housing

One of the four-year priorities identified within the City's Strategic Plan is the implementation of the City's Housing Business Plan. The Business Plan was written to support the creation of at least 500 new attainable housing units per year.

Incentives and Programs

The City has introduced a number of incentives to address the significant impact the quality, affordability and availability of housing has on the quality of life in Saskatoon. City Council Policy No.C09-002, Innovative Housing Incentives, identifies the following incentives:

Affordable Housing Capital Contribution

This incentive provides a grant of up to 10% of the total capital cost of the residential portion of a project. An additional 5% is available if the project is built in an area with a low concentration of affordable housing. Both grants are funded from the Affordable Housing Reserve.

Affordable Housing Property Tax Abatement

The City will provide a five-year property tax abatement of the incremental tax increase for the residential portion of an eligible affordable housing project. Applicants are required to have a ten-year business plan to verify that the project will be viable for at least five years after the conclusion of the abatement. As the abatement is for incremental taxes, there is no immediate impact on taxation.

Waiving Offsite Levies for Affordable Housing

City Council may, at its discretion, waive the payment of offsite levies payable as the result of the development of affordable housing in very specific circumstances. Eligibility criteria include registered non-profit organizations, neighbourhood revitalization and major redevelopment projects. The waiver does not include capacity expansion costs.

Purpose-Built Rental Housing Capital Contribution and Property Tax Abatement

During periods of particularly low vacancy in Saskatoon, the City provides a cash rebate of up to $5,000 per unit for the construction of purpose-built, multiple-unit rental housing, as well as a five-year incremental tax abatement. The Saskatchewan Housing Corporation (SHC) provides the cash rebate and the City provides the five-year tax abatement.

Incentives for Secondary Suites

The City will provide rebates or partial rebates of the following fees: building permit, development permit, plumbing permit, and legalizing an existing suite occupancy permit.

Mortgage Flexibilities Support Program

This program operates as a partnership between the City, SHC, CMHC, Genworth Financial Canada, and private home builders and assists low and moderate income households to purchase a home. The homebuyer receives a down-payment grant equal to 5% of the purchase price. The builder contributes up to 3% with the City and SHC contributing the balance. The City's portion of the down-payment grant is returned to the Affordable Housing Reserve over a number of years through the re-direction of property taxes. This is currently funded through the City's cash balances within the Property Realized Reserve, totalling approximately $1 million.

Equity Building Program

In addition to the incentives noted above, the City, in partnership with the Affinity Credit Union (Affinity), created an Equity Building Program designed to assist moderate income households in making the transition from rental to home ownership.

This program allows households to borrow a down payment to be used towards the purchase of an entry-level home. The City has invested $3 million with Affinity to cover the potential down payment loans. Affinity authorizes a down payment loan to eligible households at an interest rate jointly agreed to by the City and Affinity. The homebuyer repays this loan through their monthly mortgage payments. The City receives 100% of the interest earned on the down payment loans as well as 100% of interest earned on any amount remaining in the investment account with Affinity. Interest is received annually from Affinity on funds committed for the down payment loans and quarterly on the uncommitted funds. The City assumes two-thirds of the risk of any losses experienced on the down payment loan and Affinity assumes the remaining third.

Sustainable Funding

As stated in a report to City Council in April 2015, the cost and supply of attainable housing in Saskatoon continued to be a challenge for low and moderate income earners throughout 2014. The City's incentives supported the creation of 542 new units in 2014, exceeding City Council's annual target of 500. This report also stated that the City was on track to achieve its 2015 housing target. The Affordable Housing Reserve has sufficient funds to meet this target.

Attainable housing projects take significant lead time. In some cases, the land procurement, planning, and funding cycle can take up to two years before a project is brought forward. As a result, it is necessary to ensure that the City's housing incentive programs have long-term, stable funding sources to allow the City to commit funds to projects with long lead times. The Housing Business Plan is a ten-year plan; however, it is not totally funded at this time.

Funding sources in the past have been from Residential Neighbourhood Development proceeds and as a result, are not guaranteed or necessarily sustainable.

Lastly, the Province of Saskatchewan is a major contributor to the Rental Rebate Program and the Mortgage Flexibilities Support Program. Provincial funding for both programs runs out in March 2016, adding to the funding uncertainty for planning new attainable housing projects.

Recommendation 17: That the Administration continue to explore opportunities for long-term, sustainable funding to support the City's Housing Business Plan.

Pension Sustainability

The sustainability of the City's pension plans is a major contributor to the City's overall financial health.

The City provides three defined benefit pension plans and one defined contribution pension plan for its employees as follows:

- General Pension Plan (defined benefit);
- Fire Pension Plan (defined benefit);
- Police Pension Plan (defined benefit); and
- Seasonal Employees Pension Plan (defined contribution).

The solvency and the going concern funding position of a defined benefit pension plan are subject to market returns, employee longevity, and contribution levels.

The preliminary December 31, 2012, valuations for all three defined benefit pension plans identified both significant solvency and going concern deficiencies. The Province has provided solvency relief and as a result, the requirement to make special payments to fund this deficit no longer applies to the City's plans. However, plan revisions were required to ensure the plans could be sustainable into the future through the elimination of the going concern deficiency.

As a result, the City, together with the affected Union representatives, has successfully negotiated revisions to the General and Fire Pension Plans.

<u>General Pension Plan</u>

The current benefit structure has been revised and contribution rates were increased. Based on this, matched employer/employee contribution rates were revised as follows:

- Effective January 1, 2014: average contribution rate of 8.2%
- Effective January 1, 2015: average contribution rate of 8.5%
- Effective January 1, 2016: average contribution rate of 8.8%

In the event the Plan requires additional funding in order to meet the minimum funding requirements for any valuation filed after December 31, 2015, the parties agree to increase contribution rates by an additional 0.2%. If additional funds are required, the City will <u>temporarily</u> increase contribution rates by a further 0.5% until such time as the plan is made sustainable without this funding, through benefit reductions (to a maximum period of two successive valuations – then back to 9% with benefit reductions to offset the deficit). A dispute resolution has been added in the event the parties are unable to agree on which benefit changes should be undertaken.

Fire and Police Pension Plans

While both the Fire and Police Pensions Plans faced funding challenges in the past, the City and the Board of Police Commissioners have resolved the longer term issue by moving towards new targeted benefit plans.

The City is currently in the process of negotiating and drafting a new target benefits plan with Fire. A similar process is underway for Police and the Board of Police Commissioners is negotiating and drafting a new target benefits.. The new target benefit plans protect the City and the Board of Police Commissioners against significant funding challenges by linking plan benefits to the funds available in the plan. The new target benefit plans will come into effect on January 1, 2016.

Conclusion and Summary of Recommendations (Issues Section)

Issues focussed on in this section include the City's Asset Management Funding Strategies, Alternative Revenues, City Growth Plan, Housing, and Pensions. Recommendations have been brought forward to begin to address funding gaps related to the City's assets in addition to recommendations related to Alternative Revenues, the City's Growth Plan, and Housing.

Recommendation 7: That the existing practice of funding the replacement of assets on a "pay-as-you-go" basis continue.

Recommendation 8: That the long-term use of any surplus buildings include disposal unless supported through a strong financial business case including a return on investment (ROI).

Recommendation 9: That the purchase of buildings be supported through a strong financial business case including a return on investment (ROI).

Recommendation 10: That the Administration propose a Major Transportation Infrastructure Funding Plan for discussion in 2015.

Recommendation 11: That the Administration continue to explore options to provide the required level of funding for the Transportation Infrastructure Expansion Reserve.

Recommendation 12: That the Administration propose a funding source and/or strategy to address the funding gap related to recreation facilities in 2015.

Recommendation 13: That the Administration propose a funding strategy to address the replacement and/or major repair of park amenities.

Recommendation 14: That the Administration propose a funding strategy to address the redevelopment or major rehabilitation of existing parks.

Recommendation 15: That City Council and the Administration continue seeking alternative revenue sources to reduce reliance on the property tax.

Recommendation 16: That the Administration explore the feasibility of using a TIF as one option to assist with funding the North Downtown development.

Recommendation 17: That the Administration continue to explore options for long-term, sustainable funding to support the City's Housing Business Plan.