

## 2024/2025 Budget Status Update

### ISSUE

Historically, the Indicative Budget report is presented at the beginning of the multi-year budget cycle. Due to the significant budget pressures facing the City for the 2024/2025 budget cycle and previous direction already provided for additional Business Line Reports throughout the summer, there will not be an indicative rate report, instead, this report provides a budget status update as a starting point for the June, July and August Special Budget Governance and Priorities Committee meetings.

### BACKGROUND

At the August 22, 2022, Governance and Priorities Committee, while discussing [Options for Inclusion of the Transit Service Model within Indicative Budget](#), Committee resolved:

“That the Governance and Priorities Committee recommend to City Council that Option 3 – Inclusion of a Phased-In Transit and other Step Growth amounts be included within the Indicative Budget in each Budget Year; and

That Administration report back on a process for indicative budget reporting for individual business lines.”

At the March 15, 2023, Governance and Priorities Committee, the Administration presented a report entitled [2023 - 2025 Budgetary Pressures and Trends](#) which provided an overview of the financial pressures the City will be facing heading into the 2024/2025 Budget preparation which included:

- Ongoing post-pandemic revenue recovery including the removal of \$10.0 million in one-time funding in 2024;
- Previously approved (in-principle) required funding plan phase-ins for Bus Rapid Transit and the Recreation Game Plan;
- Base budget issues/underfunding such as [Information Technology Structural Budget Issues](#);
- Fusion implementation and sustainment requirements;
- Material Recovery Centre (Recovery Park) operating impacts;
- 2022 Emergency Snow Event Funding as well as a phase-in to prepare for future events; and
- Higher than normal inflationary pressures.

At this meeting, Committee resolved:

“That Administration report back on a potential special budget meeting process to address some of the budgetary challenges and pressures for the upcoming two-year budget cycle. That this report include

recommendations on using the existing Governance and Priorities Committee/Finance Committee meeting schedule vs. having special budget/Finance committee meetings and recommendations for organizing these special budget meetings based on departmental budgets or based on service lines or some combination.”

At the April 12, 2023, Governance and Priorities Committee, the Administration presented a decision report on the [2024/2025 Business Plan and Budget Process](#) which presented options to Committee on additional information that could be brought forward throughout 2023 to supplement the budget process and provide opportunities for additional budget direction. At this meeting, Committee resolved:

“That Option 3 be approved, and the City Clerk’s office be directed to schedule Special Budget Meetings for the presentation of Business Line-based reports if the Governance and Priorities Committee Capacity does not exist as outlined in the April 12, 2023 report of the Chief Financial Officer.”

### CURRENT STATUS

Over the past several months, the Administration has prepared the preliminary 2024/2025 budget estimates. As per the City’s [Multi-Year Business Plan and Budget Policy \(C03-036\)](#) this process focuses on the expenditure and revenue estimates to maintain the existing service levels. All Business Lines are given a 0% starting point and must justify any recommended budgetary changes which are reviewed by the Executive Leadership Team prior to presentation to the Governance and Priorities Committee. Potential service level changes and budget options will be gathered and presented in a report for City Council’s consideration in the fall before the November budget deliberations.

### DISCUSSION/ANALYSIS

The following table summarizes the unprecedented pressures the City is facing. The amounts shown indicate the Administration’s estimates of funding required in each category to fully fund existing service levels.

	2024 Funding Gap (in millions)	2025 Funding Gap (in millions)
Inflation	\$30.5	\$15.0
Base Budget Adjustments	\$18.4	\$2.4
Growth	\$10.9	\$5.8
Black Cart – Utility Program	(\$7.4)	-
<b>Total</b>	<b>\$52.4</b>	<b>\$23.2</b>

The following section provides an overview of these categories and provides a sample of some of the most significant pressures in these areas.

### Inflationary Pressures

The City's expenditures incur varying levels of price increases every year, relative to the previous year. From collective bargaining agreements to external contractors and equipment, the City regularly sees annual increases in costs to procure the same level of staffing or goods and services from suppliers. If budgetary expenditures do not rise at the same level that prices are increasing, this typically results in a decreased service level, as the City's budget will not have the same purchasing power as it did in a previous year. The City has been experiencing significant inflationary impacts in 2023 that are expected to persist into 2024 and beyond. Examples of some of the more significant inflationary pressures include:

- To maintain the 1 in 20-year treatment cycle for roadways and sidewalks in the approved Asset Management plan, an additional \$10.2 million would need to be added in 2024 (\$2.4 million in 2025). The City has experienced more than a 30% increase in average treatment costs since 2021.
- To maintain the current purchasing power of Saskatoon Light & Power's (SL&P) operating and capital programs, the Return on Investment to the City would need to be reduced by \$3.3 million in 2024. SL&P has seen increases of approximately 33% in material prices for both operating and capital projects.
- An increase of \$2.7 million in 2024 (\$602,000 in 2025) would be required for the City's Civic Buildings Comprehensive Maintenance reserve to maintain the investment of 0.98% of building valuation annual contribution. Building valuations have seen increases of over 20% over the past few years which the City's allocation has not been adjusted for.
- To maintain the replacement cycle for the City's fire truck fleet, the reserve contribution would need to increase by nearly \$770,000 in 2024. The inflationary impact on the replacement of Fire Apparatus has been significant in recent years with the cost to replace an Engine increasing from approximately \$900,000 to \$1.5 million each.
- \$3.1 million in additional payroll costs in 2024 related to increasing contribution limits for CPP, EI and WCB over 2023. This is to account for 2024 and 2025 changes to the programs as well as increases from previous years which had a higher financial impact than originally included in the budget.
- \$3.79 million and \$3.88 million estimated increase in the Saskatoon Police Service budget due to inflationary pressures in 2024 and 2025 respectively.
- \$565,900 for the City's Bridge Maintenance program including a \$319,000 increase to maintain purchasing power in the reserve contributions and \$206,000 increase as required by the City's P3 agreement for Chief Mistawasis and Traffic Bridges.
- \$1.59 million increase for Transit Services mainly due to expected increases in fuel prices, exchange rate impacts, parts, contracted services, and other general inflationary pressures.

**Base Budget Adjustments**

These adjustments are typically for expenditure or revenue budgets that have become misaligned with actuals over time. The misalignment could be due to several reasons including over-estimation of revenues or budget assumptions that did not come to fruition. If base budgets are not addressed, it increases the risk that the City could incur a deficit putting additional pressure at year-end to find funding sources to mitigate. An overview of some of the more significant base budget adjustments include:

- A key budget management strategy throughout the pandemic was to use one-time funding to offset operating revenue decreases, assist with additional COVID-related expenditures, and ensure property tax increases were minimized. The strategy envisioned that revenues would return to pre-pandemic levels by 2024 and one-time funding would no longer be needed.

Operating revenues have not returned to pre-pandemic levels. The 2023 budget included \$10.0 million in one-time funding to offset ongoing revenue shortfalls, and further one-time funding for 2024 and beyond is not available.

Table 1 summarizes key revenue projections for 2024 relative to where they were in 2019 and in the 2023 budget. As the chart shows, most revenues are either below their 2019 (nominal) levels or show very little growth relative to 2023.

Revenue Category	2019 (budget)	2023 (budget)	2024 (estimate)	Annual Change	Change from 2019
Transit	\$ 14.80	\$ 11.10	\$ 11.60	\$ 0.50	\$ (3.20)
Parking*	\$ 6.70	\$ 6.10	\$ 6.10	\$ -	\$ (0.60)
Parking Violations	\$ 5.20	\$ 4.10	\$ 4.10	\$ -	\$ (1.10)
Lesiure Centres	\$ 13.50	\$ 13.50	\$ 13.80	\$ 0.30	\$ 0.30

*\*Numbers may be slightly higher or lower due to rounding*

The net impact of the removal of the \$10.0 million in one-time revenue, the removal of \$1.0 million in Covid related expenditures along with key operating revenues only increasing by \$800,000 over 2023 leaves an \$8.2 million pandemic-related gap in the budget, which must be addressed in 2024.

- \$3.9 million to phase out the Negative Contingency or Global Reduction that was added to the budget over the past several years. As evidenced by recent years operating results these targets have placed additional pressure on the operating budget which has contributed to recent deficits and is not sustainable. This would leave \$1.81 million in the Global Reduction account for an annual target for Administration to find efficiencies and savings.
- \$1.4 million in 2024 for the City’s Information Technology Department, mainly to fund ongoing base budget shortfalls for Microsoft licenses and project management requirements as previously reported ([Information Technology Structural Budget Issues](#)).
- \$2.8 million and \$2.21 million estimated increase in the Saskatoon Police Service for base budget adjustments in 2024 and 2025 respectively.

### Growth Pressures

This category includes both revenue and expenditure estimates to service a growing City. This growth can come in two main forms:

1. Linear Growth – These are expenditure or revenue changes that are based on the application of a growing service area, population, or customer base. For example, as additional hectares of park space or kilometers of roadways are added to the City, these require additional resources to properly maintain the assets;
2. Step Growth – This type of growth does not occur linearly. Population, service area or customer growth may occur over several years but not require additional resources to maintain services until this growth hits a tipping point. Examples include the expansion of transit services or the deployment of a new fire hall. Existing services and infrastructure can serve a growing population for several years, however, there comes a year when expansion is required to maintain the current service level throughout the City. The resource requirements for this growth can be significant. Thus, the preferred approach is to phase in the required resources over several years in anticipation of its requirement to avoid budgetary shocks. While this funding is being phased in it is used as one-time funding towards the City's asset management or other funding plans.

Some examples of the City's most significant growth pressures in 2024/2025 include:

- \$1.25 million for the ongoing operating costs for Recovery Park in 2024, expected to open in Q3 2023. Interim capital funding will be used to fund operations throughout 2023, but ongoing funding is needed beginning in 2024.
- \$1.8 million for an increased contribution to reserve in 2024 in Transit Operations for the annual purchase to address annual growth demands for the fixed route transit fleet.
- Step growth requirements and phase-ins for future operating and capital requirements are to be included within the indicative budget as resolved at the August 22, 2022, Governance and Priorities Committee meeting. The step growth amounts included in the 2024 and 2025 indicative budgets include:
  - \$208,500 in each of 2024 and 2025 to build base for extending Saskatoon Transit services for Aspen Ridge, Evergreen and North Kensington;
  - \$600,000/year beginning in 2024 to build base funding for the future East Leisure Centre operating requirement expected to open in 2029;
  - \$1.26 million/year beginning in 2024 to build base funding for future Fire Station operating requirements expected to open in 2026;
  - \$1.61 million/year in 2024 and 2025 to repay the 2022 Emergency Snow Response and build a base for future Emergency Snow Event responses; and
  - \$550,000 in 2024 and \$510,000 in 2025 for required phase-ins to fund the Bus Rapid Transit funding plan.

- \$1.55 million and \$1.30 million estimated increase in the Saskatoon Police Service budget due to growth pressures in 2024 and 2025 respectively.

### Black Cart Utility Adjustments

The 2024 operating budget includes a reduction of \$7.4 million to account for the decision to transition to a garbage utility which would see this program funded through utility bills in 2024 with a corresponding reduction to the property tax budget.

### Approach to the 2024/2025 Budget Process

These total funding gaps of \$52.4 million for 2024 and \$23.2 million for 2025 would maintain the existing buying power of asset management plans; fully fund all other growth and inflation pressures the City has realized; fully account for the negative impacts on revenue sources that are ongoing since the pandemic; and backfill the global funding reductions that were introduced in 2021 and 2022.

To fully fund these gaps, property tax increases of 18.56% and 6.95% for 2024 and 2025 respectively would be required. Clearly, significant spending reductions (or revenue increases) will be required for 2024 and 2025 to reduce these numbers to achieve a more reasonable property tax increase. These numbers demonstrate the amount of work ahead of the Administration and City Council not just in 2024 and 2025, but over the next number of years, to work towards addressing the impacts that inflation and the lingering impacts of the pandemic have had on the City.

The steps summarized below provide a high-level overview of some of the strategies that can be utilized during the Business Line reports:

1. Reducing the phase-ins by as much as 2/3's in 2024 and 2025 would see reductions of \$4.8 million and \$2.2 million respectively. Deferral of these phase-ins will place more pressure on future operating budgets as operating impacts eventually become required as well as the City's ability to deliver a balanced budget.
2. Reducing 2024's inflationary requirements in some of the most significantly impacted areas by 50% would see budgetary reductions of \$8.5 million in 2024. To maintain purchasing power over the long term these could be phased back in over a five-year period adding \$1.7 million to the budgetary pressures in 2025 through to 2029.

These measures alone would reduce the required 2024 property tax to between 13% and 14% while maintaining an approximate 7.0% property tax impact in 2025. As previously outlined the Business Line reports will provide the entire context and implications of all available options that could reduce the property tax to this point and reduce it even further.

Table 2 gives an indication of the dollar amount required to achieve a particular property tax rate for 2024.

**Table 2 – Dollar Reduction Required to Reach Specific Property Tax**

<b>Desired Property Tax Rate</b>	<b>Reduction required to achieve corresponding Property Tax Impact (in millions)</b>
13%	\$15.69
12%	\$18.52
11%	\$21.34
10%	\$24.17
9%	\$26.99
8%	\$29.82
7%	\$32.64
6%	\$35.46

A table for 2025 is not provided at this time, as changes to the 2024 budget will impact the base budget starting point and corresponding property tax for 2025. As the 2024 budget is revised, the associated impact on 2025 will be communicated as well.

It is important to note that the 2024 and 2025 budgets include no funding for the Downtown Entertainment and Event District project. Funding strategies are planned to be presented in the coming months and will continue to work towards the goal of no property tax implications.

**PUBLIC ENGAGEMENT**

Consistent with the engagement approach used in previous years, an online panel survey with a sample size of 800 will be conducted in 2023 for the following surveys:

- **Civic Satisfaction & Performance Survey** (Targeted Start Date: May 23 to early June 2023)
- **Civic Services Survey: Performance, Priorities & Preference** (Targeted Start Date: Early June to mid-June 2023)

These two surveys measure residents’ perceived quality of life in Saskatoon, satisfaction with civic services, areas for improvement, and future priorities.

By completing both surveys in 2023, both Administration and City Council will have statistically reliable results available to inform them as part of the 2024-2025 budget discussions in the months leading up to City Council finalizing its budget in November 2023.

**COMMUNICATION PLAN**

A dedicated Communication Plan has been developed to support this report. The 2024/2025 Budget Status Update will be communicated through a news release and on the City’s website saskatoon.ca. Residents and stakeholders will be made aware of the Special Governance and Priorities Committee meeting dates and how they can participate to provide input.

**NEXT STEPS**

Over the next several months, the Administration will present Business Line reports to the Special Budget Governance and Priorities Committee meetings which will provide additional information and insight into the budget challenges as well as potential options for City Council's consideration.

**REPORT APPROVAL**

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