
The 2016 Business Plan and Budget Process – A Fiscal Update

Recommendation

That the Administration report back to the Executive Committee with key issues and options so that the Committee can consider providing policy direction to the Administration to address the fiscal challenges and opportunities for the 2016 Business Plan and Budget.

Topic and Purpose

The primary purpose of this report is provide the Executive Committee with preliminary revenue and expenditure assumptions as the Administration begins the process of preparing the 2016 Business Plan and Budget. The Administration believes that by providing this information to Committee at this time, it will help to ensure that City Council and the public have a good understanding of the fiscal challenges and opportunities facing the City as it starts preparing the 2016 Business Plan and Budget.

This also allows the Committee to provide some early feedback and/or direction to the Administration on the 2016 Business Plan and Budget.

Report Highlights

1. The Administration is projecting an operating revenue increase of \$12.2 million over the previous year.
2. The Administration is projecting an operating expenditure increase of \$17.7 million over the previous year.
3. The City of Saskatoon's 2016 Business Plan and Budget will need to carefully balance the fiscal constraints facing the City and the expanding service demands of a growing city.

Strategic Goal

The information contained in this report aligns with all of the City's Strategic Goals because the Business Plan and Budget process addresses all seven goals.

Background

At its April 20, 2015, meeting, the Executive Committee considered a report by the City Manager.

That report contained several elements, including an overview of the 2016 Business Plan and Budget process, which aims to implement a more integrated, accountable, and transparent process.

The report indicated that the Administration would provide regular updates to the Executive Committee throughout the process, so that the Committee and the public are informed about the fiscal opportunities and challenges that the City is addressing in 2016.

Report

In preparation of the 2016 Business Plan and Budget, the Administration has started the process of projecting its fiscal position for the 2016 Budget. As a starting point, the Administration reviews its revenue and expenditure projections early in the process so it can address any anomalies that may emerge, provide some intelligence on the City’s fiscal situation, and establish initial guidance to Departments as they begin to prepare their budgets.

In undertaking this work, the Administration considers several factors, such as: previous expenditure commitments, the Strategic Plan, City Council priorities, service level changes, growth, inflation, and any legislative or regulatory requirements to build its budget assumptions.

1. Revenue Projections:

Based on the preliminary analysis of the 2016 Budget, the Administration is projecting a revenue increase of approximately \$12.2 million, over the previous year. The primary assumptions underlying this projection are in Table 1.

**Table 1:
2016 Budget Revenue Assumptions**

Revenue Assumption	Projected Increase
Assessment Growth	\$4.5 million
Grants-in-Lieu & Franchise Fees	\$3.6 million
Fines, Penalties, & User Fees	\$0.4 million
Municipal Revenue Sharing	\$3.7 million*
Total Preliminary Increase	\$12.2 million

**Based on Provincial Sales Tax revenue projections contained in the 2015/16 provincial budget. This assumption will be confirmed in late June once the provincial government releases Public Accounts for the fiscal year-end 2014/15.*

The Administration is currently reviewing all revenue assumptions and these assumptions are subject to change as the Budget process continues to emerge.

2. Expenditure Projections:

Based on the preliminary analysis of the 2016 Budget, the Administration is projecting an expenditure increase for tax supported programs of approximately \$17.7 million over the previous year. The expenditure projections exclude utilities and commercial type operations, such as golf courses and building permits. The main expenditure assumptions are provided in Table 2 and they address only negotiated wage increases for current staff and other expenditures previously identified or committed for the 2016 Budget.

**Table 2:
2016 Budget Expenditure Assumptions**

Expenditure Assumption	Projected Increase
Negotiated Salary Increases & Benefits	\$9.4 million
Dedicated Road & Traffic Noise Levies	\$4.1 million
Civic Funding Plans	\$1.6 million
Remai Modern Art Gallery	\$1.3 million
Capital Transfers & Phase-ins	\$1.3 million
Total Preliminary Increase	\$17.7 million

The expenditure assumptions do not include any inflationary adjustments, growth related increases, or service level improvements (except for roadway and traffic noise improvements). More specifically, the expenditure assumptions do not account for the maintenance of new roads, new parks, and the required increases for materials and utilities required to maintain City-owned facilities.

The Committee may recall that the City uses the property tax to fund the gap between revenues and expenditures, as the City is required by provincial law to pass a balanced operating budget each year. Therefore, based on the revenue and expenditure assumptions outlined in Tables 1 and 2, the City of Saskatoon is facing a fiscal gap of approximately \$5.5 million.

As a result, if the revenue and expenditure projections hold for the 2016 Budget, then City Council would need to raise the property tax by approximately 2.9 percent to address this budget gap. To reiterate, this gap does not include any inflationary adjustments or growth requirements, but reflects previously committed expenditures, or the City’s so called “fixed costs”.

3. Balancing the Fiscal Constraints in a Growing City

The Committee may recall from its April 20, 2015, meeting, that a report from Hemson Consulting Ltd. attempted to explain why the City’s property tax increases are higher than average over the past couple of years. According to Hemson’s research, there are several factors contributing to a rise in property tax increases:

- Population growth has increased faster than household growth.
- A decreasing trend in per capita property assessment.
- Residential taxable assessment is growing faster than non-residential assessment (i.e. residential sector is funding a greater share of costs than non-residential).
- City, non-tax revenues (general revenues, user fees, and grants-in-lieu of property taxes) are not keeping pace with costs.
- Major cost increases are related to capital investments and service level increases.
- Inflation as measured by the Municipal Price Index (MPI) is rising at a more rapid pace.

These findings suggest that the City may have some structural fiscal issues that it will need to address in order to reduce reliance on the property tax. The City will also continue to control expenditures and manage its variable costs through continuous improvement efforts.

Given the above fiscal situation facing the City, the Administration is proposing to bring key issues and options to the next two Executive Committee meetings so that the Committee and City Council can provide policy direction to the Administration. The issues and options will focus on non-tax revenue opportunities, expenditure reduction opportunities, and service level adjustments that aim to make long-term adjustments to the City's fiscal framework.

Public and/or Stakeholder Involvement

The 2016 Business Plan and Budget will include a variety of public and stakeholder engagement opportunities as the process emerges.

Communication Plan

A communication and engagement plan has been prepared for the 2016 Business Plan and Budget. The goal is to inform citizens of the budgeting process, and to provide an opportunity for citizens to give their input into the Budget, well in advance of City Council approval.

Policy Implications

There are no policy implications at this time. However, during the preparation of the 2016 Business Plan and Budget, the Administration may propose various policy changes for consideration by Executive Committee and/or City Council.

Other Considerations/Implications

There are no policy, financial, environmental, privacy, or CPTED implications or considerations.

Due Date for Follow-up and/or Project Completion

The Administration will provide issues and options at the next two Executive Committee meetings. The preliminary 2016 Business Plan and Budget will be tabled at the October 19, 2015, Executive Committee meeting.

Public Notice

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

Report Approval

Written by: Mike Jordan, Director of Government Relations
Approved by: Murray Totland, City Manager