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## 2018 Budget Indicative Rate

### Recommendation

That the information be received.

### Topic and Purpose

The purpose of this report is to provide the Governance and Priorities Committee an overview of inflationary and growth pressures for the 2018 Business Plan and Budget.

### Report Highlights

1. An indicative rate assists the Administration in preparation of the 2018 Business Plan and Budget by providing direction and spending limits.
2. Inflation for civic services, excluding Saskatoon Police Service, is anticipated to have the following impacts on the 2018 budget:
  - \$5.9 million or 1.53% increase in expenditures over 2017. This is below the expected Municipal Price Index rate of 1.62% for mill rate expenditures.
  - \$1.2 million in additional revenue, mainly due to rate changes.
3. Growth is anticipated to have the following impacts on the 2018 budget:
  - \$3.5 million or 0.73% increase in expenditures over 2017. This is due mainly from growth in parks and roadway infrastructure.
  - \$3.4 million in additional revenue, mainly due to assessment growth.
4. Provincial grants are anticipated to decrease by \$6.1 million in 2018 from decreases in Municipal Revenue Sharing and the removal of Crown Corporation grants in lieu of taxes. This is equivalent to a 2.78% property tax increase.
5. A 5.00% property tax increase is estimated in order to maintain the existing service levels for all civic property tax supported services, excluding Saskatoon Police Service.
6. A series of service level reports leading up to the budget deliberations will provide options to increase or decrease service levels and corresponding funding. A previous directive of City Council to include a 0.55% property tax increase to continue the phase-in of a service level increase towards a city-wide snow removal program increases the indicative rate to 5.55%.
7. The Saskatoon Police Service is currently estimating an additional 3.27% in expenditures will be required in 2018 due to inflation, increasing the total indicative rate to 6.97%.

## **Strategic Goal**

The information in this report supports the Strategic Goal of Asset and Financial Sustainability by demonstrating openness, accountability and transparency in financial reporting.

## **Background**

On March 27, 2017, City Council was presented with a report from the CFO/General Manager, Asset and Financial Management, entitled “Multi-Year Business Plan and Budget Framework” which included an outline of the 2018 budget process and how certain aspects of multi-year budgeting could be piloted within the current singular year process. One of those processes identified was an indicative rate/preliminary property tax process. At this meeting, City Council resolved that the Multi-Year Business Plan and Budget Framework be approved in principle.

## **Report**

### Indicative Rate

As previously reported, in the Multi-Year Business Plan and Budget framework, the setting of an indicative rate is an important step in the development of a singular or multi-year business plan and budget. This process is being introduced in 2018 as a way to increase transparency surrounding the budget process as well as align City Council’s direction and expectations with the 2018 Business Plan. These are preliminary estimates only and the property tax rate will be set during City Council budget deliberations in November 2017.

This 2018 indicative rate report is centred on growth and inflationary revenue and expenditure impacts. Simply put, this report provides the estimated requirements in order to continue providing the same level of service in 2018 as in 2017. To date, the Administration has performed a review of estimated 2018 growth and inflationary pressures which form the basis of the indicative rate.

### Inflationary Pressures

Every year, the City of Saskatoon (City) is faced with inflationary pressures on expenditures. In order to determine a benchmark for inflation, the City calculates a Municipal Price Index (MPI). MPI takes into consideration anticipated increases in salaries, utility costs, contractors and materials such as asphalt. The City has historically focused on MPI instead of the Consumer Price Index (CPI), as the City’s operating activities are fundamentally different than the basket of goods that CPI is calculated on (food, shelter, etc.). For 2018, the City’s MPI has been calculated at 1.62% for mill rate expenditures.

The Administration has conducted an in-depth review of the City’s 2016 actual results as well as the 2017 budget, and estimates the civic inflationary impact to be approximately \$5.9 million in 2018, which is equivalent to a 1.53% increase in expenditures, and is 0.09% lower than the MPI. Approximately 82% of this increase relates to salaries, utilities and inflationary increases to reserve contributions as per the requirement of Bylaw No. 6774, The Capital Reserve Bylaw. The remaining 18% relates to materials, contractor and contractual increases. The Administration remains

committed to its continuous improvement efforts that assists in keeping the inflationary figure below the MPI.

On the revenue side, the City generates additional revenue as a result of rate changes. These revenues can relate to user fee rate increases, grants in lieu of taxes from civic utilities, and franchise fee rate increases, among other items. For 2018, it is anticipated an additional \$1.2 million in revenue will be generated from revenue increases.

The overall funding gap as a result from inflation and revenue changes is estimated to be approximately \$4.7 million which is equivalent to a 2.16% property tax increase.

### Growth Pressures

In addition to inflation, the City is faced with growth pressures every year, as civic services need to be applied to an extending population or service area. Major growth pressures in 2018 are estimated to be:

- additional park space of 51.1 hectares (2.56% growth in inventory) requires an additional \$467,000 to maintain service levels;
- an additional 30 kilometers of roadways (0.7% growth in inventory) requires an additional \$455,000 to maintain service levels;
- a full year of Remai Modern Art Gallery operations requires an additional \$395,000 in facilities costs; and
- various other growth requirements to support a 1.5% population growth to 272,000.

It is estimated that an additional \$3.5 million or 0.73% expenditure increase is required in order to continue providing existing service levels.

In regard to revenue, the City generates additional revenue as a result of growth. Most notably, as more properties (inventory) are established within Saskatoon, the City benefits from assessment/taxation growth. This amount is difficult to determine at this point in the year as additional growth and assessment could be added throughout 2017, but is currently estimated at \$3.2 million.

In addition to positive growth, the City has experienced negative growth or volume decreases that negatively impact landfill revenues (\$700,000). Traffic fines and penalties are also expected to decrease as automated speed enforcement and increased compliance impact general revenues (\$500,000). The overall net increase from these revenue changes is estimated at \$3.4 million for 2018.

The overall funding gap as a result from growth is estimated to be approximately \$150,000 or equivalent to a 0.07% property tax increase. Adding the growth impact to the inflationary increase, the indicative rate is 2.23%.

Provincial Funding Impacts

There are two anticipated pressures related to provincial funding in 2018:

1. As indicated in the 2017/2018 Provincial Budget, the previously received Grants-in-Lieu (GIL) of Taxes received from SaskPower and SaskEnergy were discontinued. This created an \$8.3 million gap in the City's 2017 budget; however, there is also an impact of \$3.1 million to the 2018 budget to account for the full year's impact of the partial year reduction in 2017. The impact of this revenue reduction is equivalent to a 1.42% property tax increase.
2. The current Provincial Revenue Sharing formula is based on an equivalency of 1 point of the Provincial Sales Tax (PST) revenue being distributed to Saskatchewan Municipalities. The currently estimated 2018 Revenue Sharing, based on 2016 PST figures, would be equivalent to a \$3.0 million decrease in Provincial Revenue Sharing over 2017 or a 1.35% property tax increase. These figures will be finalized in June 2017 when the provincial results are released.

The total provincial funding impact for the City is currently estimated at a \$6.1 million decrease to operating revenue, which is equivalent to a 2.78% property tax increase.

It is important to note that the City is continuing to work with the provincial government regarding a replacement to the provincial GIL that was eliminated in the 2017/2018 Provincial Budget. An estimate regarding the amount of this replacement or potential timing is currently unknown, as negotiations and work continue with the provincial government.

Adding the provincial government impact to growth and inflation, the indicative rate is 5.00%.

Indicative Rate and Service Level Decisions

In order to deliver the same level of service in 2018 as in 2017 (excluding Saskatoon Police Service), a total indicative property tax increase of 5.00% is estimated, calculated as follows:

Item	Expense Impact*	Revenue Impact*	Net Impact*	Impact on Property Taxes
Inflation	\$5.9	\$1.2	\$ 4.7	2.16%
Growth	\$3.5	\$3.4	\$ 0.1	0.07%
Revenue Sharing	-	(\$3.0)	\$ 3.0	1.35%
Provincial GIL Reduction	-	(\$3.1)	\$ 3.1	1.42%
<b>TOTAL</b>	<b>\$9.4</b>	<b>(\$1.5)</b>	<b>\$10.9</b>	<b>5.00%</b>
<b>Percentage Change</b>	<b>1.95%</b>	<b>(0.31%)</b>	<b>2.29%</b>	<b>5.00%</b>

\*in millions

Service Level Reports

Committee/City Council could consider an alternative property tax target for 2018. In doing so, one of the key areas for consideration is adjusting service levels that would have a corresponding effect on taxes.

A series of service level reports will be presented to the appropriate Standing Policy Committees leading up to the 2018 budget discussion which will provide the opportunity to both increase or decrease associated service levels and costs. This process will allow for the Standing Policy Committees and City Council to clearly identify agreed upon service levels that the Administration can deliver and communicate to citizens. This will form a fundamental piece of the City's future Multi-Year Business Plan and Budgeting process, as these will be built on the basis of approved service levels.

The plan is to present service level reports for the following services leading up to the 2018 budget deliberations:

- Road Maintenance & Sidewalks
- Snow & Ice Management
- Water Utility
- Street Cleaning & Sweeping
- Parks
  - Maintenance & Design
  - Urban Forestry
- Fire Services
- Waste Handling

One service level has been included in the Administration's assumptions for 2018. As previously directed by City Council, an additional 0.55% property tax increase or \$1.2 million in expenditures is required to continue the phased in service level increases towards a city-wide snow removal program. This would increase the indicative rate to 5.55%.

### Police Budget Estimates

The Saskatoon Police Service (SPS) is currently in the preliminary stages of its 2018 budget preparation. At this time, they are estimating a 3.27% increase to expenditures due to inflation. This increase is equivalent to \$3.1 million or a 1.42% property tax increase.

This would bring the total indicative property tax to 6.97% including SPS estimates at this point.

SPS has yet to estimate or finalize any growth requirements for 2018.

### **Communication Plan**

The City's website ([saskatoon.ca/financialfuture](http://saskatoon.ca/financialfuture)) will be updated to reflect the 2018 Business Plan & Budget process. This report will be included on the webpage, along with Frequently Asked Questions. An overarching communications plan will be developed similar to the 2017 Shaping Our Financial Future campaign.

### **Due Date for Follow-up and/or Project Completion**

The Administration will present service level reports leading up to 2018 budget deliberations.

**Public Notice**

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

**Report Approval**

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