2020 and 2021 Indicative Budget

ISSUE
Setting a municipal indicative property tax rate is an important step in the development of a business plan and budget. Receiving direction from City Council early in the budget process reduces the risk of reworking assumptions and plans at the end of the budget process.

BACKGROUND
2.1 History
At its meeting on March 18, 2019, when considering a report of the City Manager entitled 2020/2021 Multi-Year Business Plan and Budget, which outlined several critical aspects of a future MYBB including the proposed process and policy, the Governance and Priorities Committee (GPC) resolved, in part:

> "1. That a two-year Business Plan and Budget process be approved; and
>
> 2. That the new Multi-Year Business Plan and Budget Policy with an effective date of April 1, 2019, be approved."

As part of the policy and process approved by GPC, section 3.1(a) states that in the first year of a multi-year business plan and budget cycle, the Administration will estimate expenditures and revenues required in order to maintain existing services, including committed costs and administrative priorities. In addition, section 3.1(a)(iv) states that the appropriate Committee of Council will utilize this information as a basis for determining an appropriate indicative rate for the Multi-Year Business Plan and Budget Cycle.

2.2 Current Status
GPC's indicative rate decision provides the Administration with an indication of its expectations for a municipal property tax target early in the process, and also provides the Administration with clear parameters to work within to achieve City Council priorities.

It is important to note that the indicative rate decision is a guideline for the rest of the year, and City Council has the opportunity to set the final budget and associated property tax impact through the 2020/2021 Budget Deliberations at the end of November 2019.

This process provides the Administration with a guideline to prepare the budget and provides the public and City Council with an open and transparent process. This report is centred on revenue as well as growth and inflationary expenditure pressures, and provides the estimated requirements in order to continue providing the same level of service in 2020 and 2021 as in 2019.

Revenue Estimates

Overall, the Administration is anticipating total revenue increases of $22.66 million over 2020/2021, which is comprised of the following four main components:

1. A net user fee increase of approximately $510,000 mostly due to increased revenues from the Forestry Farm Park and Zoo, the Saskatoon Fire agreement with the RM of Corman Park and lease revenues from properties owned by the City of Saskatoon (City).

2. Own-source revenue increases of $3.59 million largely due to the final phase-in of the water/wastewater return on investment, as well as increases in investment income from higher interest rates and cash balances.

3. External revenue increases of $13.58 million, mostly the result of an $8.21 million increase to the Municipal Revenue Sharing Program due to higher Provincial Sales Tax revenue and a revised revenue sharing formula as part of the 2019/2020 Provincial Budget. The remaining increase is from higher grants-in-lieu and franchise fee projections based on current consumption trends and rate estimates; and

4. A municipal property taxation revenue increase of $4.99 million from growth in the assessment base from new homes and commercial properties being built in Saskatoon.

Additional information regarding these revenue changes is provided in Appendix 1.

Civic Expenditures

The City's 2020/2021 Indicative Budget includes expenditure increases of approximately $28.70 million, or 7.08%, for the two year total over the 2019 expenditure base. The City's typical benchmark for expenditure growth is inflation plus growth which is estimated to be at approximately 7.22% over the two-year period of 2020 and 2021.

2020 and 2021 Total Expenditure Changes (Over 2 Years)			
Item	**Civic**	**Police**	**Total**
Expenditure Growth	$11,191,000	-	**$11,191,000**
Expenditure Inflation	$17,071,000	-	**$17,071,000**
Expenditure Base Budget Adjustments	$ 441,000	$8,860,000*	**$ 9,301,000**
Total Expenditure Increase ($)	**$28,703,000**	**$8,860,000**	**$37,563,000**
Total Expenditure Increase (%)	**7.08%**	**8.44%**	**7.36%**

* A breakdown of Police expense projections for inflation, growth and base adjustments were not available at the time this report was written.

Additional information on the projected expenditure increase is provided in Appendix 2.

The Saskatoon Police Service is currently estimating a total of $8.86 million in growth and inflationary expenditure requirements for 2020 and 2021. This is an 8.44% overall increase from the approved 2019 budget largely related to estimated compensation costs. More information regarding the Saskatoon Police Service's proposed budget will be available at Budget Deliberations following approval from the Board of Police Commissioners.

Continuous Improvement
The Administration remains fully committed to a culture of continuous improvement (CI). The 2020/2021 Indicative Budget includes several CI estimates and processes such as:

- preliminary review and vetting of divisional budget requests resulting in over $4.0 million growth and inflation pressures that will be addressed without budget allocations;

- continued year round CI efforts as included in the 2018 Saskatoon Strides – Report on Service, Savings and Sustainability (presented to GPC on June 17, 2019); and

- continued implementation of major CI initiatives such as enterprise resource planning (ERP), energy performance contracting, managed print and satellite yards for Public Works and Parks.

While setting a targeted CI figure has been an attractive option to lower annual budget requirements, it is important to recall that the City recorded a $3.1 million deficit in 2017 and 2018 largely due to revenue shortfalls as outlined in Appendix 1. While both the 2019 Operating Budget and 2020/2021 Indicative Budget include adjustments to correct a portion of the underlying revenue issues, there is a risk that this trend may continue in 2020 and 2021. Appendix 3 provides more information regarding the City's current state of CI.

Property Tax Increases to Maintain Existing Services
Considering all factors, the Administration estimates that the municipal property tax increases required to maintain existing service levels is 2.94% for 2020 and 3.17% for 2021. This does not include any increases to rectify structural solid waste budgetary issues or begin the phase-in of funding for a city-wide organics program.

Service Level Increases
As per the approved process, the current expenditure projections do not include additional resources to either accelerate the progress towards achieving City Council's strategic priorities or for changes to service levels. The Administration will bring forward updates on Council's priorities and will table options to GPC at its meeting on August 19, 2019.

The Administration continues to work through City Council's renewed Strategic Plan and strategic priorities towards the development of business plans. Through this process, a number of initiatives will be identified that are aimed at moving the dial towards the achievement of these priorities. These additional initiatives will be included in the August report.

Also included in the August report will be the details of the phase-in of a 1.00% municipal property tax contribution, or $2.44 million annually, to establish a city-wide organics program and correct the Waste Operations/Landfill operating deficit and funding shortfalls.

2.3 Public Engagement

In April 2018, the Administration outlined a nine-step communications and engagement approach for the 2020/2021 MYBB. The results of this engagement were presented to GPC on March 18, 2019. Some of the key finds as they relate to the Multi-Year Business Plan and Budget Process include:

- Over eight in ten residents say they are satisfied with living in the city (new question in 2018).
- Three quarters of telephone respondents (75%) say the quality of life has either improved or stayed the same in the past three years, with online respondents at 66%. The telephone results are similar to 2017, while online has dropped by 10% year-over-year.
- One in three residents are in favour of combining both property tax and user fee increases to balance the budget, similar to 2017.
- For telephone respondents, road construction (11%), taxes (6%), traffic (5%), infrastructure (5%) and public transit (5%) were most frequently noted as important issues facing the City. Road construction has decreased by 21% since 2016.
- For online respondents, public safety/crime/policing (17%) and taxes too high (13%), and infrastructure (8%) were the top three most cited issues. The top two are consistent with 2017 results.
- The large majority of residents are satisfied with the quality of services provided by the City.
- 86% of telephone and 73% of online respondents agreed that Saskatoon is an inclusive and welcoming city to all.
- About three in four telephone respondents reported feeling safe living in the city.
- 75% of telephone and 62% of online respondents felt the City was preserving natural resources and protecting the environment.
- About nine in ten respondents agreed that Saskatoon is providing a mix of recreation, sport, and cultural facilities year round and is effectively providing online services.
- There were mixed responses related to effectiveness of balancing growth throughout the city, making downtown an appealing destination and an appealing place to live, and investing in a mix of transportation options for moving around.

OPTIONS

As indicated, the Administration is currently projecting a 2.94% and 3.17% property tax increase required in 2020 and 2021 respectively in order to maintain current service levels.

The phase-in of a property tax contribution to first resolve structural solid waste budget shortfalls and then establish a city-wide organics program of 1.00% per year will result in a total property tax increase of 3.94% and 4.17% for 2020 and 2021 respectively.

As with all reports, the options below are all viable options

Option 1 – Target a Municipal Property Tax Less than the 3.94% and 4.17% for 2020 and 2021

This option would require the Administration to reproduce a budget less than the current estimated cost to maintain existing services and implement the city-wide organics program phase-in. In order to achieve this target, the Administration would report back on options for City Council to consider. The Administration's options would focus on:

1. Re-allocation for resources from one service area to another;
2. Service Level changes; and
3. User fee increases.

This option would have the benefit of achieving a lower property tax increase. Selecting this option would also have the following risks:

1. Significant reductions will be difficult to achieve with savings and efficiencies alone, as this have already been considered and included in the current projection.

2. The Administration would require direction from Council on where to shift resources within the budget

Option 2 – Target a Municipal Property Tax Equal to 3.94% and 4.17% for 2020 and 2021

This option would direct the Administration to proceed with the current estimated costs to maintain existing services, and include as a priority the 1.00% annual budgetary allocation for resolving the structural solid waste budget issues and fund the implementation of a city-wide organics program. This option would not leave any additional current room for adding further resources to Business Plan Options; however, the Reserve for Capital Expenditures could still be utilized to accomplish capital requirements.

Selecting this option would fully fund existing service levels, and over the two-year cycle would fully resolve the long term structural budget issues in solid waste and begin the phase-in for adding a city-wide organics service to residents.

Selection of this option effectively commits tax increases over this period, over and above the costs to maintain existing services, to solid waste management.

Option 3 –Target a Municipal Property Tax Higher than 3.94% and 4.17% for 2020 and 2021
This option would provide sufficient funding to maintain existing service levels, continue the phase-in of the city-wide organics program and leave funding for the implementation of Business Plan Options aimed at achieving other City Council strategic priorities.

For example, if City Council was to target a property tax increase of 4.50% in each year (9.0% over two years) $2.17 million would be left in funding for 2020 and 2021 Business Plan Options and service level increases. While this option would provide a higher level of investment to achieve City Council's strategic priorities, it also would result in a higher property tax increase.

RECOMMENDATION
That a municipal property tax target equivalent to 3.94% and 4.17% be targeted for 2020 and 2021 to maintain existing services and implement the previously directed city-wide organics program.

RATIONALE
This option was recommended for a variety of reasons, including:

1. It is consistent with the City's public engagement results that citizens prefer to balance the budget utilizing a combination of property tax and user fee increases as opposed to reductions in services.

2. The recommendation will fully fund existing service levels, resolve long term structural budget issues related to solid waste, and focus funding increases on the new city-wide organics service.

COMMUNICATION ACTIVITIES
The 2020/2021 Indicative Budget will be communicated through a news release and posted to saskatoon.ca.

APPENDICES
1. 2020/2021 Indicative Budget Revenue Estimates
2. 2020/2021 Indicative Budget Expenditure Estimates
3. Continuous Improvement Overview

Report Approval

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2020 & 2021 Revenue Projections

Unlike other levels of government, civic municipalities are limited in terms of how they raise revenues and must produce a balanced budget each year. The City of Saskatoon (City) collects revenue from four main components:

- User Fees
  Various services provided by the City are funded in whole or in part through fees paid directly by the user. Some services are expected to be self-sufficient, while others are only expected to recover a portion of the total costs from users. In most cases where services directly benefit a particular user, user fees are charged. However, for those services that have social or community benefits and where the cost to the user would be prohibitive, the City will subsidize a portion of the cost of the service. Examples of user fees collected by the City include, but are not limited to, pet and business licenses, transit, and parking.

- External Funding
  The most significant transfer from the Government of Saskatchewan is the Municipal Revenue Sharing Grant. The objective of this grant program is to provide long-term predictable funding to municipalities to help them address the operational challenges they face as a result of growing populations and increased demands for services. The grant is tied to the Provincial Sales Tax (PST) that grows with the economy. Another example are grants-in-lieu of taxes which are typically grant payments to municipalities from the federal and provincial governments (Crown corporations). Although these orders of government are exempt from paying local property taxes, historically they have made grant payments in place of property taxes for government-owned/managed properties.

- Own-Source Revenue
  The majority of this category is made up of utility transfers comprised of GILs, return on investment (ROI), and an administrative recovery fee from Saskatoon Light & Power, Saskatoon Water and Wastewater, Storm Water Management and Waste Services. Other revenue sources included in this category are interest earnings and Land Development administrative fees.

- Property Tax Levy
  As required by provincial legislation, the City must balance its operating revenues with its operating expenditures. Because the City has a limited number of revenue sources, any revenue shortfalls must be balanced through a property tax increase.

These sources of revenue are a key estimate in determining the 2020/2021 indicative property tax target. Overall, Administration is anticipating revenues to increase by $14.44 million in 2020 and $8.220 million in 2021. The $5.4 million difference between 2020 and 2021 increase is attributable to two categories:

- The City is expecting to receive a total of $49.95 million from Municipal Revenue Sharing in 2020, which is an increase of $6.52 million over the current 2019 budget as set at $43.43 million, while 2021 is forecasting revenue sharing to increase by approximately $1.69 million to a total of $51.64 million based on PST projections. The significantly larger increase in the City's 2020 budget is due to the following:

    - The City did not increase its 2019 revenue budget of $43.43 million as the status of Municipal Revenue Sharing was uncertain at the time. Actual Municipal Revenue Sharing in 2019 is now expected to be $45.05 million. Therefore, the 2020 City Budget is accounting for two years of PST growth in the program; and

    - The Provincial 2019/2020 Budget included a formula change for Municipal Revenue Sharing, which along with PST growth is increasing the total Municipal Revenue Sharing pool by over $10.0 million. This resulted in a larger than normal increase to the City's budget in 2020, while the expectation is this will return to historical norms based on PST forecasts in 2021.

- The City's planned phase-in of an ROI from the Saskatoon Water Utility equal to 10% of total revenue is expected to be reached in 2020. Therefore, the 2020 budget includes $2.04 million in phased-in ROI, while the 2021 forecast only includes $556,000 to maintain the 10% target based on growth and inflation. This has resulted in a larger increase in 2020 than in 2021.

As municipal property tax changes are tied equally to revenue and expenditure projections, the low 2021 revenue forecasts have added additional pressures to expenditures and efficiency efforts to maintain a reasonable property tax increase.

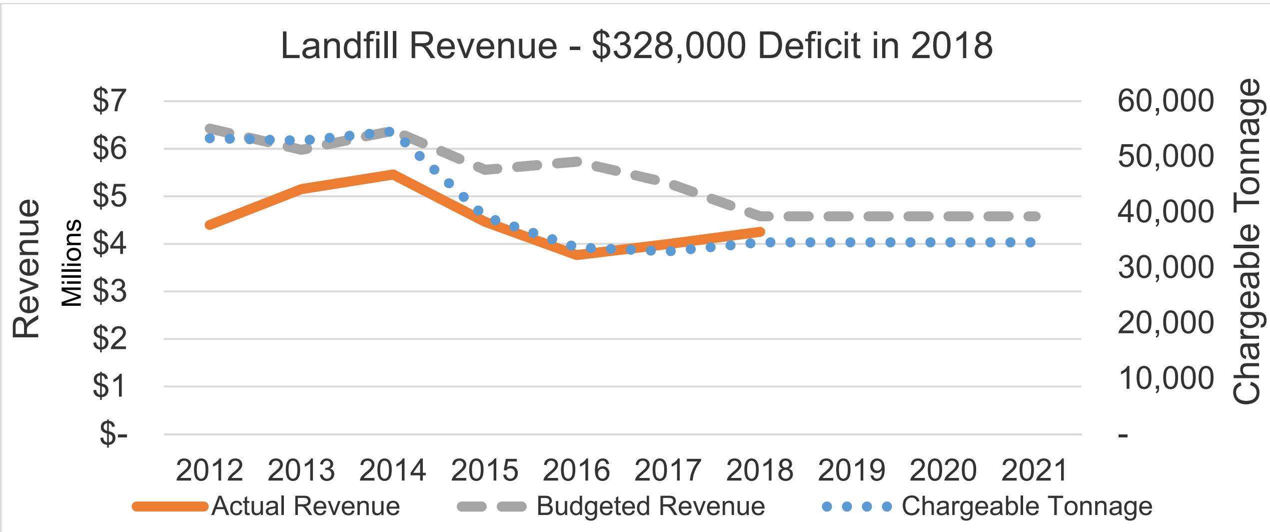
<u>User Fee Changes</u>
As previously presented to City Council, the City's non-tax revenue sources, in particular user fees, have not increased at the same rate as expenditures over the past several years. This places increased pressure on the property tax for a variety of reasons, including:

- decreases in usage and customer preferences for other alternatives;
- increased municipal and regional competition;
- over optimistic revenue budgets that have yet to be realized; and
- increased compliance.

While the City has made great strides over the past two budget cycles in significantly reducing the negative revenue gap through base budget adjustments and improvements to actual performance, projections in user fee revenue increases in 2020 and 2021 continue to be relatively modest. Increases of approximately $372,000 and $138,000 in user fees are expected in 2020 and 2021 respectively.

The following information is an overview of the specific user fee revenue sources.

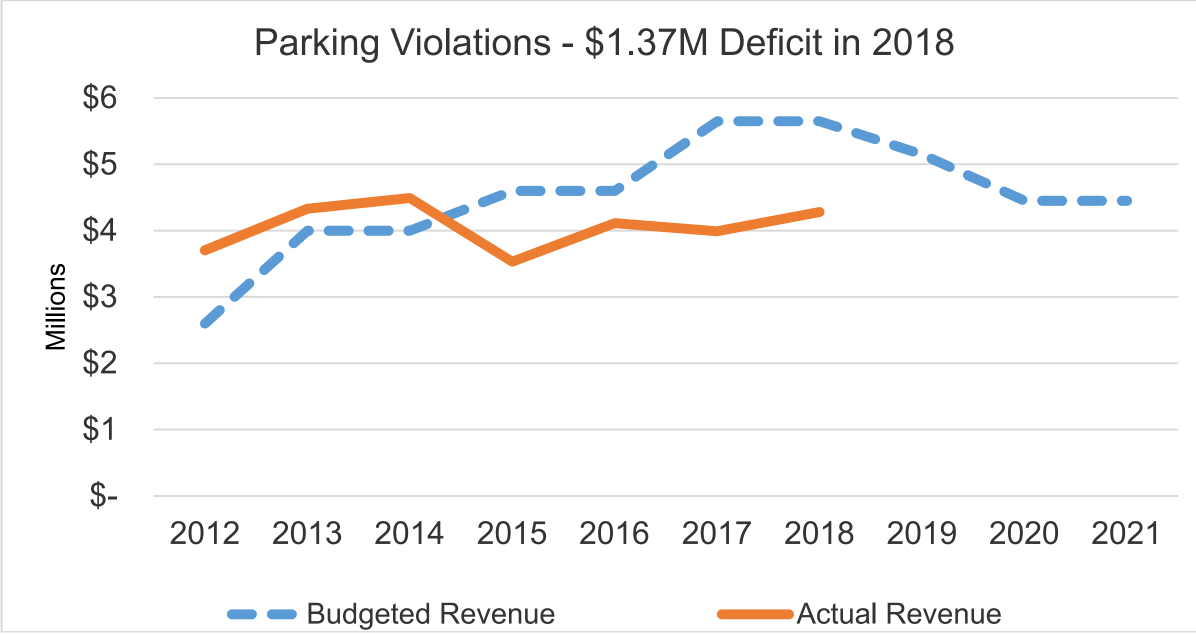
Landfill Operations
The chargeable tonnage delivered to the City's landfill has been steadily declining since 2014 as commercial haulers have opted for competing landfills within the region, resulting in revenue deficits as large as $1.97 million in 2016. Through increases in user fee rates, slight increases in chargeable tonnages and a $700,000 base budget adjustment in 2018, this revenue gap has been reduced to $328,000 in 2018 as illustrated below.



No further adjustments were made as part of the current projections to maintain current services. However, as part of City Council's previously directed 1.00% property tax phase-in to implement a city-wide organics program as well as properly fund waste collections and landfill operations, the final presented business plan and budget will eliminate the remaining revenue gap.

Parking Ticket Revenue
Revenue from parking tickets experienced a $1.37 million deficit in 2018. This deficit is primarily due to increased compliance as the cost of violations increased from $20 million to $30 million in 2017, creating more incentive to not receive a parking ticket. The convenience of paying for parking through a parking app also had positive impacts on compliance.

The 2019 approved budget included a $500,000 reduction to the parking violations revenue budget to help close this gap, while the 2020 budget proposes a further $700,000 reduction. It is important to note that the $700,000 reduction to this budget in 2020 will be property tax neutral as this will be funded through offsetting increases to traffic fines and penalties outlined in the following section.

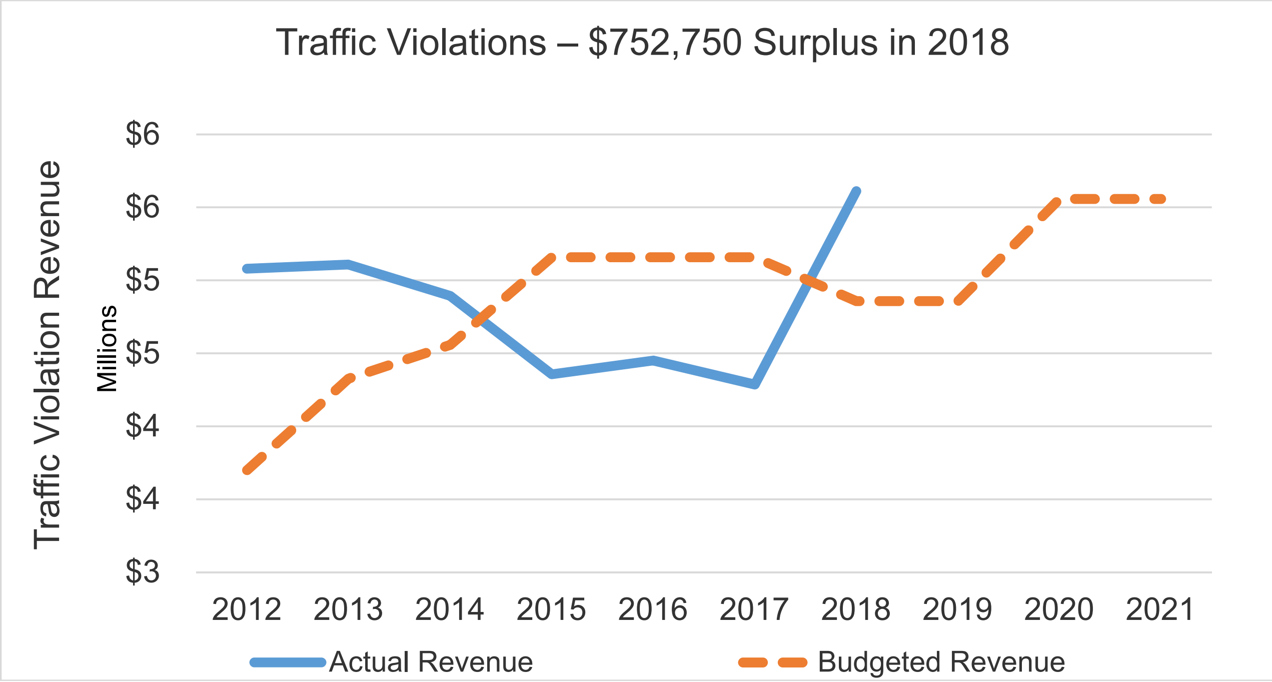


As the new parking system and app have been fully implemented, the Administration anticipates parking ticket violation revenue will stabilize at around $4.3 million until either significant increases in population, parking meter locations or rates are realized/implemented. The Administration does not anticipate any significant changes in 2020 and 2021 to the City's base operations or rates. Therefore, revenue has been budgeted at the projected stabilized amount of $4.3 million, which would eliminate the current deficit based on projections.

<u>Traffic Violations</u>

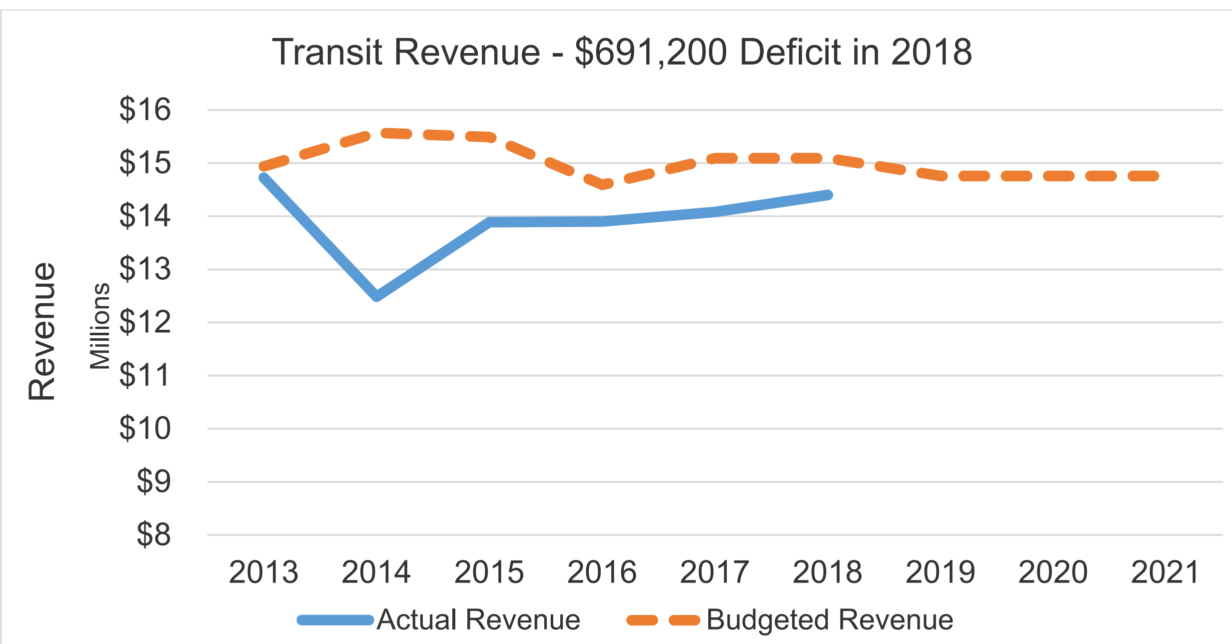
In 2018, traffic violation revenue was approximately $750,000 higher than originally budgeted and $1.3 million higher than 2017. This increase in traffic violation revenue was largely due to increases in the price of violations which were adjusted by the Province on May 1, 2018. Examples of these increases, which took effect on May 1, 2018, include a $30 increase to the base price of every speeding ticket and doubling per-kilometer penalties.

As part of the previously discussed strategy to eliminate the parking violation revenue operating deficit, it is proposed to increase traffic violations by an equivalent $700,000 to balance both budgets, which are illustrated in the following graph.



The 2020/2021 Business Plan and Budget assumes that the actuals realized in 2018 will stabilize over 2019/2021, and no significant changes in rates, behaviour or volume will occur. This assumption will be revisited as part of the mid-year cycle review in 2021.

<u>Transit Revenue</u>
In 2018, transit ridership and revenue both increased from 2017, as ridership grew from 8.7 million to 9.4 million (electronic method), and $14.4 million in revenue compared to $14.1 million in 2017. However, as shown below, this increase in revenue was still behind the budgeted revenue of $15.1 million which created a Transit revenue deficit of $691,200 in 2018.



As part of the 2019 budget process, Saskatoon Transit's revenue budget was decreased by $334,500. With continued ridership growth and a $334,500 base budget adjustment to Transit revenues in 2019, the Administration is confident that Transit's revenue deficit is well-positioned to be fully corrected within the next several years. The currently proposed 2020 and 2021 budget to maintain service does not include any changes to the 2019 budgeted revenue figure of $14.75 million, as significant changes in rates are not expected and 5% ridership growth is still required in order to surpass the current revenue budget and eliminate the deficit.

Other User Fee Changes
As the previously overviewed areas do not include any revenue budget increases, the $372,000 increase in 2020 and $138,000 increase in 2021 are comprised of the following:

- In 2020 the $372,000 increase includes:
    - $222,000 increase in Saskatoon Fire Services revenue as a result of providing service within the RM of Corman Park; and
    - $147,000 in general revenue from City-owned land and properties through renewed lease agreements and anticipated parking revenues.

- In 2021, the $138,000 increase includes increases to various Recreation and Culture user fees based on current volume projections and approved rate changes. The most notable changes are from increased admissions to the Forestry Farm Park and Zoo and Leisure Centres.

External Funding
Overall, the Administration anticipates receiving an additional $9.12 million and $4.46 million in external funding in 2020 and 2021 respectively. A breakdown of this increase is provided below:

- In 2020 the $9.12 million increase is due to:

    - An increase of $6.52 million in forecasted revenue from the Municipal Revenue Sharing Program for a total of $49.95 million. The City did not increase its 2019 revenue budget of $43.43 million as the status of Municipal Revenue Sharing was uncertain at the time. Actual Municipal Revenue Sharing in 2019 is now expected to be $45.05 million. Therefore, the 2020 budget is accounting for two years of PST growth in the program, as well as the result of formula changes announced in the 2019/2020 Provincial Budget.

    - Provincial Utility Franchise Fees and Grants-in-Lieu are anticipated to increase by $2.50 million in 2020. This forecast is based on anticipated utility rate changes and trending in consumption/usage.

- In 2021, an increase of $4.46 million in external funding is anticipated, mostly due to:

    - $1.69 million anticipated increase in the Municipal Revenue Sharing allocation for a total of $51.64 million. This projection is based on maintaining the revised formula announced as part of the 2019/2020 Provincial Budget and current PST projections.

    - Provincial Utility Franchise Fees and Grants-in-Lieu are anticipated to increase by $2.47 million in 2021. This forecast is based on anticipated utility rate changes and trends in consumption/usage.

<u>Own-Source Revenues</u>
Overall, the City is anticipating an increase of $2.56 million and $1.03 million in internal revenues in 2020 and 2021 respectively. A breakdown of these increases is detailed below:

- In 2020, own-source revenue is projected to increase by $2.56 million, due to:

    - As part of the 2016 Business Plan and Budget Deliberations, City Council approved a plan to phase-in an ROI from the Water and Wastewater Utility equivalent to 10% of total revenue by 2020. The intent of the ROI was to compensate Saskatoon residents for the sale of water that is provided to surrounding areas (Warman, Martensville, Osler).

      Instead of simply lowering the water rates and benefiting high water users, the Administration felt that the entire city should benefit from these sales, therefore, an ROI was implemented. It also provides a return for the operational risk of running a water utility; therefore, like any other investor, an ROI is returned to the City to compensate for this. The 2020 budget includes the final year of this phase-in of $2.0 million.

    - Interest earnings on the City's cash and investment holdings are anticipated to increase by $522,000 in 2020 to a total budget of $12.1 million. This increase is based on forecasted cash and investment balances as well as the current economic and interest rate environment.

- In 2021, the City is anticipating an increase of $1.03 million in own-source revenue, largely from:

    - $556,000 in ROI from the City's Water/Wastewater Utility. This amount is required in order to maintain the previously targeted 10.0% of revenue. The annual increase is forecasted based on anticipated changes in consumption and utility rates.

    - Interest earnings on the City's cash and investment holdings are anticipated to increase by $470,000 in 2021 to a total budget of $12.5 million. This increase is based on forecasted cash and investment balances as well as the current economic and interest rate environment.

Property Tax Revenue

Prior to any required municipal property tax increase, the City receives additional funding related to property taxes in one of two ways. Assessment growth, which is the physical addition of new properties of developments within the city of Saskatoon or property tax penalties resulting from late payments of municipal property taxes. Overall, the City is expecting net increases of $2.39 million and $2.60 million in property tax revenue in 2020 and 2021 prior to any rate changes. An overview of these changes is as following:

- Assessment growth is currently estimated at $2.50 million for both 2020 and 2021. This estimate is based on a combination of outstanding building permits for construction and anticipated completion date. This estimate is difficult to develop and will continue to be refined and finalized prior to budget deliberations.

- In 2018, supplementary taxes were budgeted at $2.7 million, while only $2.13 million in actual revenue was realized. The 2019 budget remained unchanged at $2.7 million. As economic conditions and near term growth forecasts remain unchanged, the 2020 budget includes a $400,000 reduction to supplementary taxes to a revised budget of $2.3 million based on current building permit and growth forecasts. The 2021 budget includes no further adjustments and maintains the budget at $2.3 million.

- Property tax penalties are currently anticipated to increase by $100,000 each year in 2020 and 2021 based on historical actuals. In 2018, the City generated $2.50 million in property tax penalties compared to a budget of $2.05 million. The 2019 budget was increased by $100,000 to $2.15 million. As property tax penalties have a tendency to fluctuate up and down from year-to-year, a $100,000 increase is reasonable in 2020 and 2021 without incurring additional financial risk.

2020/2021 Indicative Budget Expenditure Estimates

Expenditure Overview
The City of Saskatoon's (City) 2020/2021 Indicative Budget includes expenditure increases of approximately $28.70 million or 7.08% over the 2019 for the two years 2020 and 2021 in total. The City's typical benchmark for expenditure growth is inflation plus growth which is estimated to be at approximately 7.22% over the two-year period.

2020 and 2021 Expenditure Changes (Over 2 Years)			
Item	**Civic**	**Police**	**Total**
Expenditure Growth	$11,191,000	-	**$11,191,000**
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Total Expenditure Increase (%)	**7.08%**	**8.44%**	**7.36%**

* A breakdown of Police expense projections for inflation, growth and base adjustments were not available at the time this report was written.

While civic expenditures are forecasted to increase by nearly $28.70 million in order to maintain services for inflation and growth, it is important to note that a significant amount of these increases have few options, but to increase the expenditure base, based on past agreements and policies. Nearly 75% of the total expenditure increases can be summarized as follows:

- Nearly $12.0 million in additional expenditures over two years as a result of anticipated collective bargaining agreements, utility increases, and reserve bylaw/policy inflationary increase requirements.

- Growth increases of $3.82 million to the City's debt servicing costs in order to fund previously approved or upcoming major infrastructure as included in the Civic Facilities and Major Transportation Infrastructure Funding Plans. These funds will be utilized to pay for projects such as Bus Rapid Transit, Recovery Park, Fire Hall redeployments, Civic Operations Centre and other projects.

- Approximately $1.6 million in gross operating budget impact over two years from the Carbon Tax, which includes approximately $1.2 million in tax on fuel and $400,000 on utilities.

- Over $1.50 million in additional expenditures to cover increasing gasoline and diesel costs required to deliver civic programs.

- The Building Better Roads Program requires inflation and growth allocations in order to maintain the service level of a 1 in 20 year treatment cycle. Increases of $1.4 million to this program have been included in order to support this.

- Approximately $750,000 in increases to Community Support subsidies and grants based on current policies and past City Council decisions, such as the Youth Sport Subsidy, SREDA and SPCA grants, increased cost to provide provision of civic services to community events, Cultural Capital Reserve and Social Services grant programs.

A more detailed overview of the projected inflationary, growth and base budget adjustments are outlined below.

Civic Inflationary Pressures ($17.07 million)
Every year, the 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 2020 and 2021, the City's MPI has been calculated at 1.86% for mill rate expenditures, or 3.72%, over two years. The Administration uses a variety of sources to determine the inflation pressures facing the City. Examples of some of the assumptions utilized include:

Item	**2020 Estimate**	**2021 Estimate**	**Source**
Contract & General Supplies	1.95%	1.92%	CBOC* – Wages & Salaries per Employee – Saskatoon
Materials & Commodities	1.94%	1.37%	CBOC* – Industry GDP, Construction
Vehicle & Equipment Charges	(3.22%)	1.87%	CBOC* – Industry GDP Transportation
Maintenance & Rental Equipment	1.94%	2.56%	CBOC* – Industry GDP Construction
Electricity (including Carbon Tax impact)	6.15%	4.50%	City of Saskatoon Estimate
Debt – Interest & Principle	0.00%	0.00%	City of Saskatoon Estimate

*CBOC – Conference Board of Canada

The Administration has conducted an in-depth review of the City's 2018 actual results as well as the 2019 budget, and estimates the civic inflationary impact to be approximately $17.07 million over 2020 and 2021, which is equivalent to a 4.21% increase, which is more than MPI of 3.72%. The City's overall inflationary impact is estimated to be higher than MPI mainly due to the $1.8 million in impacts from the Federal Carbon Tax which will increase fuel costs and utilities. Without the Carbon Tax impact of approximately $1.8 million, the City's inflationary impact would be equivalent to MPI at 3.72%.

Overall, approximately 70% of the inflationary 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 30% relates to materials, fuel, carbon tax, exchange rate impacts and other contractual increases.

Civic Growth Pressures ($11.19 million)

In addition to inflation, the City is faced with growth pressures every year, as civic services need to be applied to an extending population or service area. Expenditure growth requirements for 2020 and 2021 are currently estimated at $11.19 million, or 2.76%, over 2019 expenditures. Major growth allocations within the 2020 and 2021 Indicative Budget include:

1. $3.82 million in order to fund previously approved funding plans which includes:

    a. $2.0 million phase-ins for the Major Transportation Infrastructure Funding Plan, most notably required to fund the City's Bus Rapid Transit Project;

    b. $1.48 million phase-in for the Civic Facilities Funding Plan which is used to fund the requirements for Police Headquarters, Fire Hall Nos. 3 and 5, Remai Modern and several other major civic projects; and

    c. $241,700 phase-in to pay for the borrowing related to Recovery Park. The Recovery Park Funding Plan was approved at the regular meeting of City Council on February 26, 2018.

2. An additional $1.88 million required to provide transportation services to a growing roadway network. For 2020 and 2021, the current projections have assumed roadway growth of approximately 0.94%, or 40 lane kilometers, per year. This growth requires additional staff and contractors to provide services such as snow removal, street sanding, street sweeping and road maintenance. It is important to note that $1.4 million has been added to the 2020 and 2021 budget to continue the Building Better Roads Program of which nearly $700,000 is due to roadway network growth.

3. An additional $1.07 million is being proposed for Facilities Services. This additional funding is proposed to be utilized for the following services:

    a. $450,000 in order to correct the Remai Modern's Facilities operating budget shortfall. In 2018, Facilities Management experienced a $500,000 deficit in relation to services provided at the Remai. As previously presented to City Council, the Remai is a unique building with specialized building requirements, which the extent would not be fully understood until the first full year of operations was completed. Now that the first year of operations has been completed, additional funding is required in order to appropriately maintain the facility and associated complex systems;

    b. $416,000 to permanently establish a proactive corporate security program for all civic facilities; and

    c. $161,000 for previously identified operating impacts for completed projects such as the Shaw Centre enclosure and Parks satellite facilities.

4. $563,000 allocation to Parks in order to accommodate an additional 36.26 hectares in park and green space anticipated to open in 2019, which is an increase of approximately 1.5% in greenspace over 2019. The most notable increases are 9.55 hectares of park space in the Rosewood neighbourhood and 2.42 hectares in the Evergreen neighbourhood.

5. Nearly $650,000 in additional funding for the Remai Modern. This increase relates to two components:

   a. Approximately $400,000 to increase the facilities contribution to the Civic Buildings Comprehensive Maintenance (CBCM) Reserve for major future rehabilitation costs. As per policy, this facility should be contributing approximately $1.0 million to the CBCM Reserve on an annual basis, but has only had approximately $400,000 phased in to date; and

   b. Approximately $200,000 increase to the Remai Modern's annual operating subsidy/grant in alignment with the approved business plan.

<u>Base Budget Adjustments</u>
In addition to expenditure growth and inflation, the City is sometimes faced with required base budget adjustments that may not fit well into either category. In many cases these base budget adjustments reflect ongoing operational shortfalls that cannot be addressed without an adjustment to the approved budget.

Included in the indicative budget is approximately $441,000 of base budget adjustments which include:

- $400,000 in interest expenses in order to recognize the requirement of the City to pay interest to certain reserves as per bylaw or contractual requirement. While the City has always been making these payments, it has not been appropriately reflected in the budget, resulting in over expenditures in the City's interest income accounts;

- Nearly $440,000 combined between Facilities, Waste Management and Fire Services. This increase in expenditures is related to a variety of budgetary shortfalls resulting from overtime, fleet maintenance and building costs that have not been appropriately included in past budgets;

These will be offset by $350,000 in targeted efficiencies and savings in 2021 to be realized through procurement savings and the implementation of ERP. This savings figure is anticipated to be realized through an increased emphasis on supply chain management, blanket contracts and material savings across the corporation.

<u>Police Growth and Inflation Estimates ($8.86 million)</u>
The Saskatoon Police Service is currently estimating a total of $8.86 million in growth and inflationary expenditure requirements for 2020 and 2021. This is an 8.44% overall increase for the two years (2020 and 2021) over the approved 2019 budget mainly related to estimated compensation costs. More information regarding the Saskatoon Police Service's proposed budget will be available at Budget Deliberations following the Police budget approval from the Board of Police Commissioners.

Continuous Improvement Overview

Annual Internal Continuous Improvement Review
The Administration's budgeting, review and allocation process has changed significantly over the past number of years. Prior to the 2015 budget process, the Administration employed a mandate process in which departments were allocated a set percentage target for expenditure changes, typically calculated around inflation (Municipal Price Index) plus growth. Divisions were required to come within this mandate range and any additional requests were vetted and reviewed on an individual basis.

In recent years, the Administration has employed a much more detailed and thorough review process. The starting point for all divisions is a 0% expenditure increase. Any requests for increases are thoroughly reviewed on an individual basis by the internal Budget Review Committee, comprised of the City Manager, General Managers, City Solicitor, City Clerk and select Finance Division staff. Through this review, the following considerations were made:

- reviews of historical results;
- opportunities for absorption within existing budgets; and
- if the request was a direct result of:
  - a contractually obligated inflationary increase; or
  - an increase in inventory (roadways, park space, etc.).

The results of this process were included in the indicative rate. Through the administrative review process, the Budget Review Committee had removed over $4.0 million in divisional expense requests related to growth and inflation pressures that will be addressed through continuous improvement initiatives.

Continuous Improvement
Outside of the budget process, the City's culture of continuous improvement is embedded in everything it does. Continuous improvement can take many forms, including:

- identifying operational efficiencies to lower costs or save time;
- looking at new ways to do business in order to avoid future costs; or
- identifying and utilizing new sources of funding or revenue.

In 2018 alone, the City identified savings of over $1.82 million as included in the City's 2018 Service, Savings and Sustainability Report. A summary of these initiatives are as follows:

- savings of $90,600 from a new automated parks irrigation system;
- utility savings of $63,000 from energy performance contracting initiatives;

- $23,000 savings in the Communications Division from adding in-house graphic and visual design services instead of outsourcing;
- $24,000 from Saskatoon Light & Power from reducing electricity losses due to a powerline upgrade project;
- $73,000 in utility savings as nearly 900 new street lights utilize LED technology;
- $483,500 from the Finance Division in PST and GST recoveries;
- $280,000 in savings from aligning the City's Car Allowance Policy with best practice;
- savings of $200,000 from the Waste Collection Calendar going digital;
- licensing, storage and staff costs were reduced by the IT Division as a new backup software was implemented;
- redistribution of software licenses resulted in savings of $12,000; and
- savings and cost avoidance of $500,000 through the repurposing of the former Mendel Art Gallery into the Nutrien Wonderhub.

While continuous improvement initiatives have proven to be effective in addressing financial pressures facing the City the past couple of years, any hard dollar savings are already included in the indicative budget estimates. Continuing to rely on additional continuous improvement measures to significantly reduce indicative budget figures within a short time period, on an annual basis, remains a significant challenge.

Continuous improvement, by its nature, is exceedingly more effective in the initial years. This is because initiatives with larger financial impacts are easier to identify and implement. However, as time goes on, this process becomes increasingly more difficult as higher yielding improvements and efficiencies are more difficult to find. This creates a situation of diminishing returns, as additional continuous improvement initiatives would have minimal impact on the preliminary budget estimates

However, the City is committed to continuing a culture of continuous improvement. In fact, the City continues to implement initiatives aimed at reducing expenditures, deferring costs and recognizing new revenues. Some of these initiatives include:

- introduction of additional Performance Improvement Coordinators to assist divisions in identifying and implementing efficiencies and redefined processes;
- implementation of an enterprise resource planning (ERP) system in order enhance the Corporation's use of technology;
- adoption of IT initiatives such as a managed print service and renewed cell phone management in order to minimize costs;
- energy performance contracting to modernize and reduce the energy consumption of civic facilities; and

- continued investigation into satellite yards for Parks and Public Works to ensure the most effective deployment of staffing resources.

Although these initiatives require larger upfront expenditures, they are longer term investments that are expected to yield substantial future benefits to the City's culture of continuous improvement through either reductions to budgets or avoidance of future budget requests. The results of these continuous improvement initiatives will be factored into future year's budgets as they are realized.

<u>2018 Actual Results</u>

While setting a targeted continuous improvement figure is always an attractive option to lower annual budget requirements, it's important to recall that the City recorded a $3.1 million deficit in 2017 and 2018 largely because of revenue shortfalls as outlined in Appendix 1.

In addition to the recently realized deficits, it is important to note that the current indicative budget does include $350,000 of targeted savings from improved procurement practices.