2020/2021 Multi-Year Business Plan and Budget Property Tax Options

ISSUE

At the June 17, 2019 Governance and Priorities Committee (Committee) meeting, the Administration presented that a 3.94% and 4.17% property tax increase for the years 2020 and 2021 respectively was required in order to maintain existing services, correct the Waste Services budget shortfall and begin the phase-in of funding required for a city-wide organics program. At this meeting, Committee directed that a lower property tax be targeted for the two years. This report provides options for the Committee to achieve the revised target.

BACKGROUND

History

At its meeting on June 17, 2019 when considering a report of the Chief Financial Officer entitled "2020 and 2021 Indicative Budget" which outlined the expenditure and revenue pressures facing the City in 2020 and 2021, Committee resolved:

> "That a municipal property tax target less than the 3.94% and 4.17% be targeted for 2020 and 2021 (Option 1 as outlined in the report of the Chief Financial Officer dated June 17, 2019)."

Current Status

Since reporting the estimated 3.94% and 4.17% property tax requirements to maintain existing services with the inclusion of a 1.00% tax phase-in for each of the two years related to solid waste and organics programs, new information on SaskPower rates and Saskatoon Police Service (SPS) estimates have become available.

The Administration estimated a 6.15% and 4.50% increase in SaskPower rates for 2020 and 2021 based on previous messaging from SaskPower. Since that time, SaskPower has announced revised rate estimates of 4.60% for 2020 and 4.15% for 2021. This change in assumptions to the City's budget creates savings on electricity usage at civic facilities and for street lighting, but also has a negative impact on the expected franchise fees from SaskPower and the grant-in-lieu (GIL) from Saskatoon Light & Power (SL&P). The overall net impact is unfavourable to the mill rate by $479,000 in 2020 and $182,000 in 2021 as shown below.

Item	2020	2021
Reduced Franchise Fees from SaskPower	$188,000	$ 53,000
Reduced GIL from SL&P	$518,000	$203,000
Street Lighting Savings	($128,000)	($ 46,000)
Other Reduced Electrical Costs	($ 99,000)	($ 28,000)
TOTAL	**$479,000**	**$182,000**

In addition to the changes from SaskPower, SPS continues to refine their budget estimates in preparation of presentation to the Board of Police Commission in the fall. Originally, SPS was estimating an increase of $8.86 million over 2020 and 2021. However, since that original estimate, SPS has indicated that their forecasts can be lowered by $205,400 over the two years as they continue to refine their budget. It is important to note that the estimates from SPS are preliminary and continue to be subject to future Board approval.

Overall, the impact of these two changes is a negative $455,600 to the budget over 2020 and 2021, or equivalent to 0.19% increase to property tax. However, as the Administration continues to work through finalizing the 2020 and 2021 Business Plan and Budget, every effort will be made to offset this impact and adhere to the previously communicated 3.94% and 4.17% property tax impact in 2020 and 2021.

There will likely be other potential adjustments as more information becomes available. For example, the finalization of budgets by the various Boards and the Police Commission will be incorporated in the preliminary budget that will be released in October 2019.

For programs under the direct control of the City Manager, the Administration is proposing a number of options for consideration to reduce the property tax targeted increases as directed by Committee. Each option is discussed in more detail in this report, however, the impact of these options is summarized in the following table.

Budget Options	**2020**	**2021**
Current Revised Property Tax Estimates	3.94%	4.17%
Option 1 – Reduce the Inflation and Growth Increase to the Building Better Roads Program	(0.08%)	(0.08%)
Option 2 – Provision for Civic Services Subsidized Fee Approach	(0.03%)	-
Option 3 – Gas Tax Allocation to Organics Program	(0.13%)	(0.13%)
Option 4 – Allocate MMSW Funding Towards Waste Deficit	(0.19%)	(0.19%)
Option 5 – Defer all Bylaw/Policy Required Inflationary Allocations	(0.15%)	(0.17%)
Option 6 – Longer Phase-in of Remai CBCM	(0.04%)	(0.04%)
Option 7 – Defer Recovery Park Phase-in	(0.10%)	-
Option 8 – Major Transportation/Bus Rapid Transit Funding Plan Adjustments	(0.10%)	(0.10%)
Option 9 – Waste Deficit/Organics Program Phase-in Changes	(0.21%)	(0.21%)
Potential Property Tax Estimates	**2.91%**	**3.25%**

OPTIONS

The following options presented are independent of each other and any combination can be selected. In addition, some options can be adjusted in terms of the dollars being recommended for adjustment and are noted within the options discussion.

Option 1 – Reduce the Inflation and Growth Allocated to the Building Better Roads Program (reduction of 0.8% in each of the years 2020 and 2021)

This option would consist of reducing the current growth and inflation allocation to the Building Better Roads program in 2020 and 2021. Currently, there is $700,000 in both 2020 and 2021 for anticipated inflation and growth requirements for a total of $1.4 million in increased funding. This is based on increased growth estimates of 0.94% for 40 lane kilometers per year plus 1.5% for inflation. The current existing base budget for the Building Better Roads program is over $30 million per year.

The Indicative Budget includes this $1.4 million allocation in order to maintain the existing service level of a 20-year treatment cycle for all city roadways. It is important to note that these allocations are based on estimated growth and inflation and are subject to change regardless of the decision.

The allocation to the budget could be reduced anywhere from $0 to $1.4 million; however, a higher reduction increases future budget service level risks. For consideration of an option that has minimal impact to the program, a $200,000 reduction in each of the years 2020 and 2021 would provide an overall 0.16% reduction to property taxes, or 0.08%, in each year.

Option 2 – Provision for Civic Services Subsidized Fee for Service (reduction of 0.03% in 2020)

This option would consist of reducing the currently included base budget adjustment for the City's provision of civic services and introducing a subsidized fee for service, and possibly implementing a fee for some or all special events.

Currently, the City has an annual budget of $80,000 for the provision of civic services. The provision of civic services is defined as non-cash civic assistance for event activities of outside organizations, including the provision of garbage collection, street sweeping and equipment, such as barricades, signage, and pylons.

Since 2015, the number of outdoor special events has increased significantly and with this increase has come budgetary pressures. There were 386 event contracts created in 2015 compared to 469 in 2018, which is an increase of 22%. On average, actual costs have consistently exceeded budget by $142,600. The current Indicative Budget for 2020 includes $150,000 to correct this budget shortfall.

An option is to increase the budget by only $86,000 and implement a fee for service for some or all events. Outdoor special event organizers would then be responsible to cover a portion of the cost for civic services required to support their event, although the majority of costs would still be subsidized. Some events are profit generators for the organization while others are primarily for the benefit of the community. The remaining

$64,000, should it be covered through cost-recovery fees, would result in an average cost to each event applicant of $136. If this option is pursued, the Administration will prepare a report on strategies and options for City Council's consideration, which will include strategies that are scalable for the size of event and cost of civic services.

Some of the advantages and disadvantages of this strategy are outlined below.

Advantages:

- Less support would be required from the mill rate.
- Special event organizers still benefit from subsidized civic services.

Disadvantages:

- Some smaller special events may not have the budget to pay for their civic services which would negatively impact their event.

This option would result in a $64,000 decrease to the current estimates and reduce the property tax requirement in 2020 by 0.03%. However, this option can be adjusted to reduce the property tax increase anywhere from $0 to $150,000 (the current amount included in the estimates), or could be increased to provide full cost recovery.

Option 3 – One-Time Gas Tax Allocation to the Organics Program (reduction to property tax phase-in from reduced debt by 0.13% in each of the years 2020 and 2021)

This option provides the opportunity to apply all or a portion of the additional one-time Gas Tax payment the City will receive as part of the 2019/2020 Federal Budget to the future organics program. The correction of the current Waste deficit and implementation of a city-wide organics program currently requires a four-year property tax phase-in equivalent to 3.93%. 2020 and 2021 currently include 1.00% in each year for this purpose.

The organics program will require significant capital investment of bins and other infrastructure in order to begin operations. Currently, this infrastructure investment is proposed to be funded via borrowing and repaid with the property tax phase-in. If the Gas Tax funding was allocated to this program, the borrowing costs and associated property tax phase-ins required to repay the borrowing would both be reduced.

For context, if $10.0 million in Gas Tax was allocated to the organics program, it would reduce borrowing costs by approximately $1.1 million per year, and reducing the property tax requirement from 3.93% over four years to 3.48% over four years. This would reduce the proposed property tax increases by a total of 0.26%, or 0.13%, in 2020 and 2021 respectively.

It is important to note that the first 1.53% phase-in was to be allocated towards correcting of the ongoing waste services deficit. In order for this option to impact the property tax in 2020 and 2021, the entire phase-in needs to be reduced by the 0.13% per year as identified above. This means that while the waste deficit would still be fully addressed by 2021, 2020 would see less of a correction as 0.86% would be utilized to correct the deficit instead of the originally planned 1.00%.

The City has been allocated this one-time funding of $13.9 million from the federal government for eligible capital projects under the Gas Tax program. Using this funding for an eligible roadway program and reallocating existing funding for the organics program is a possibility, however, there are also many other initiatives and projects that could be considered for this one-time funding.

Option 4 – Allocate Multi-Material Stewardship Western Funding to the Waste Program (reduction of 0.19% in each of the years 2020 and 2021)
This option provides the opportunity to allocate up to $906,000 of funding from the Multi-Material Stewardship Western (MMSW) Fund towards reducing the property tax phase-in required to correct the Waste operating deficit.

As part of the 2019 Business Plan and Budget, City Council allocated $906,000 of MMSW funding towards capital initiatives which included:

- $746,000 for a curbside organics program implementation;
- $150,000 for industrial, commercial and institutional waste diversion planning; and
- $10,000 for environmental grants.

As these were one-time allocations to capital projects, these funds need to be reallocated as part of the 2020 and 2021 Business Plan and Budget. City Council could choose to continue funding environmental capital projects with this funding, which would have no impact on the property tax or could allocate to help offset the funding shortfall in the Waste program.

An option to phase-in the revenue to the program over two years would allow for $453,000 in capital funding and $453,000 as a reduction to property taxes in 2020, and the full $906,000 as a reduction to property taxes in 2021. This option would in effect reduce property taxes by 0.19% (or $453,000) in each year.

The risk to this option is that it removes a source of capital funding for sustainability and environmental initiatives, such as the Green Infrastructure Implementation Plan and Biodiversity Action Plan. The MMSW funding could also potentially be used to help subsidize the Multi-Unit Recycling Program.

This option has some flexibility in the amounts allocated to capital projects and either of the 2020 and 2021 operating budgets. In essence, the amount available to reduce the mill rate ranges from $0 to the full $906,000.

Option 5 – Defer all Bylaw/Policy Required Inflationary Allocations to Reserves (reduction of 0.15% in 2020 and 0.17% in 2021)
An option to defer all Bylaw/Policy required inflationary allocations to reserves as required by the Capital Reserve Bylaw No. 6774 and the Reserve for Future Expenditures Policy (Council Policy C03-003) could be considered.

Currently, $770,000 is allocated to inflationary increases in 2020 and 2021 to reserves as required in this Bylaw and Policy. This allocation includes increases to the following reserves:

1. The Albert Community Centre – Civic Major Repair Replacement Reserve
2. Parks Maintenance & Design Capital Reserve
3. Roads Maintenance – Transportation Infrastructure Reserve
4. Transportation Services – Transportation Expansion Reserve
5. Civic Buildings Comprehensive Maintenance (CBCM) Reserve

The option to defer the required contributions would mean that the impacted reserves may not be able to complete the same scope of work in 2020 and 2021 as done in 2019.

Should this option be selected the property tax requirement would be reduced by 0.32% overall, or 0.15% in 2020 and 0.17% in 2021.

This option has some flexibility in either of the 2020 and 2021 budgets, as well as the amounts being reduced ranging from $0 to the full $770,000 over the two-year period.

Option 6 – Phase-In the Remai Modern CBCM Contribution over a Longer Period of Time (reduction of 0.08% in 2020 and 0.04% in 2021)
Currently, the Remai Modern contributes $450,000 on an annual basis to the CBCM Reserve which provides for ongoing capital facility maintenance and replacement requirements. As per Bylaw, the targeted contribution for this facility should be approximately $1.0 million on an annual basis, based on the facilities value.

The current Indicative Budget includes a phase-in of $200,000 per year in 2020 and 2021 to increase the reserve contribution from $450,000 per year to $850,000 per year by 2021.

An option to reduce or eliminate the phase-in to the CBCM Reserve for the Remai Modern could be considered. This option increases the risk that future significant maintenance may be required on the facility before adequate funding has been set aside.

This option has some flexibility in either of the 2020 and 2021 budgets, as well as the amounts being reduced ranging from $0 to the full $400,000 over the two-year period.

Option 7 – Defer Recovery Park Debt Repayment Phase-In (reduction of 0.10% in 2020)

The option allows for City Council to defer the final phase-in of required debt repayments of $241,700 until the next budget cycle or 2022. Currently, Recovery Park has existing funding of $865,000 per year. The remaining $241,700 is required in order to make the required debt repayments based on the capital project approved borrowing requirements.

Since the project will not be significantly completed until 2021, City Council has the option to defer the $241,700 until 2022 when borrowing is likely to occur. The risk with this option is that City Council may be required to phase-in operating impacts from Recovery Park as identified in the original capital project submission, which along with this required debt phase-in will put significant pressure on the 2022 property tax.

If this option is selected, the 2020 property tax estimate would be reduced by 0.10%.

Option 8 – Changes to the Major Transportation Funding Plan Phase-In (reduction of 0.10% in each of the years 2020 and 2021)

The current property tax estimates include phase-ins of $1.0 million per year for 2020 and 2021 towards the Major Transportation Funding Plan. The overall funding plan currently requires $1.0 million phase-ins for four years (2020 to 2023) in order to build up an appropriate base for future required debt repayments, most notably for the Bus Rapid Transit project.

An option to extend this phase-in over five years instead of four would lower the annual phase-in requirement from $1.0 million per year for four years to $750,000 per year for five years.

The risks associated with this strategy is that the City's debt requirements for the Bus Rapid Transit project would be slightly increased from the current projection of $30.0 million to approximately $31.5 million, resulting in a small increase in interest expenditures. This also spreads future phase-in requirements to 2024, at which time other financial pressures are not known.

This option would reduce the property tax requirement by 0.10% in 2020 and 2021 for a total reduction of 0.20% over the two years.

Option 9 – Changes to the Waste Program Deficit and City-wide Organics Phase-In (reduction of 0.21% in each of the years 2020 and 2021)

Currently, the property tax phase-in to correct the Waste program deficit and for the introduction of the city-wide organics program is 3.93% over four years. This phase-in has 1.00% included in each of the years 2020, 2021 and 2022 and 0.93% in 2023. This funding strategy would correct the funding shortfalls in Waste Services by 2021 and then provide enough funding to launch a city-wide organics program in 2023.

An option to spread the phase-in over a longer period of time is possible, however, this would result in the launch of the city-wide organics program being deferred past 2023.

For example, if the phase-in of the 3.93% requirement was done over five years, an annual phase-in of 0.79% would be required, reducing the property tax requirement in 2020 and 2021 by 0.42%.

If this option is selected, the Administration would need to report back regarding specific implications to the timing of the city-wide organics program.

This option has some flexibility in either of the 2020 and 2021 budgets, as well as the amounts being reduced ranging from 0% to 1% in each of the years.

RECOMMENDATION

That the Administration be directed to include the following in the 2020/2021 Business Plan and Budget, resulting in a revised property tax target of 3.48% in 2020 and 3.84% for 2021:

a) Option 2 – implement a subsidized fee for civic services;
b) Option 4 – utilize MMSW funding towards the Waste deficit;
c) Option 6 – phase-in the Remai CBCM requirement over a longer period;
d) Option 7 – defer the Recovery Park funding phase-in until 2023; and
e) Option 8 – adjust the Major Transportation Funding/Bus Rapid Transit funding plan.

RATIONALE

There are many possible options to impact the 2020 and 2021 property tax budget. Each option has advantages and disadvantages as outlined within each option discussion. Every option is viable and could be implemented by City Council.

The Administration is recommending a set of options based on the ability to implement, has a positive impact on the mill rate, and does not have a significant long-term negative impact to service levels. This set of options is a starting point for consideration and provides some flexibility within each option.

The Administration is recommending that Options 2, 4, 6, 7 and 8 be implemented in order to decrease the current property tax estimates. If these options are implemented, the estimated property tax requirement would be reduced to 3.48% and 3.84% in 2020 and 2021 respectively. These options were recommended for a variety of reasons, including:

- There is minimal impact to current service levels and delivery.
- These options do not create significant future risk to financial or project requirements.

It is important to note that these recommendations will be adjusted for in the Preliminary Business Plan and Budget. However, at Budget Deliberations in November, City Council will have additional opportunity to reduce the property tax through review of the Business Plan and Budget comprehensive document.

ADDITIONAL IMPLICATIONS/CONSIDERATIONS

When considering the above options, it is important to note that there are always opportunities and risks that can arise through the remainder of the year. One example is the uncertainty regarding the form of the City's future carbon tax rebates. While it is relatively well-known how the City will be impacted from an operating expenditure standpoint on items like fuel and electricity charges, details surrounding how municipalities will receive the carbon tax rebate remains unclear.

Overall, the current budget estimates include $1.6 million in carbon tax expenditure impacts and $400,000 related to general revenues to offset these costs. Depending on how the rebate program is finalized, it is unclear if these funds can be utilized to offset general operating expenditures such as increases to public transit costs or if they must be capital project based. Therefore, the Administration is recommending maintaining the current operating budget estimate of $400,000 until further details of the program are known.

The final version of the preliminary budget that will be brought forward by the Administration in November will include all direction from City Council received throughout the year in addition to the latest information available.

COMMUNICATION ACTIVITIES

Communication activities will continue to keep residents and other stakeholders updated on the progress of the 2020/2021 Multi-Year Budget process. Tools and channels to communicate City Council's decision on the 2020/2021 Indicative Budget will include a news release, the City's social channels and saskatoon.ca/budget.

Report Approval

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