

Setting the 2022 and 2023 Indicative Budget

ISSUE

Setting an indicative municipal property tax rate is a typical, yet important step in the development of the City of Saskatoon's (City) multi-year business plan and budget. The business plan and budget is the resource allocation plan for the equitable, efficient, and effective delivery of the City's programs and services. Thus, obtaining policy direction from City Council early in the budget process helps to provide planning clarity and reduces the risk of reworking assumptions and plans at the end of the budget process.

Although the City's budgetary assumptions are clouded by the uncertainty and ongoing fiscal impacts of the COVID-19 pandemic, setting an indicative rate at this point will guide the Administration on how to allocate resources to help achieve City Council's strategic priorities. As such, what should the indicative rate be set at for 2022 and 2023? How will the fiscal impacts from the COVID-19 pandemic factor into this process?

BACKGROUND

2.1 History

In 2019, City Council adopted Council Policy No. C03-036, Multi-Year Business Plan and Budget Policy, which sets the City's approach to business planning and budgeting. This approach instructs the Administration to estimate expenditures and revenues required to maintain existing services, including committed costs and administrative priorities. The Governance and Priorities Committee (Committee) used this approach to set an appropriate indicative rate for the City's 2020-2021 Multi-Year Business Plan and Budget (MYBB).

The 2020-21 MYBB was approved in December 2019, a few months before the emergence of global pandemic. Despite the multi-year outlook, Council Policy No. C03-036 contains provisions for budgetary adjustments to be made in the event of unforeseen circumstances, such as pandemic. As a result, City Council made budgetary adjustments to the 2021 fiscal year of the MYBB during budget deliberations in November 2020.

These adjustments were necessary because the fiscal effects of the COVID-19 pandemic proved to be significant in 2021. The City's non-tax operating revenues were greatly affected as some public-facing services were either closed or had limited operating capacity due to compliance with provincial public health orders. User fee revenues from public transit, parking, and leisure centres, for example, were substantially limited, resulting in a larger than usually contributions from the property tax. Despite that fiscal challenge, one time federal and provincial operating support helped the City substantially reduce its large projected operating deficit in 2021.

2.2 Current Status and Approach

For the 2022-2023 MYBB, the City continues to face the operating constraints of the COVID-19 pandemic. Budgetary assumptions for 2022-23 are based on the most up-to-date information and forecasts to reduce planning risk and uncertainty. That said, the COVID-19 pandemic still looms large in Saskatoon, and it is likely that City revenues will take time to recover as some services return to full operating capacity. The COVID-19 specific revenue implications are discussed in Appendix 1 and later in this section of the report.

2.2.1 Revenue Estimates

The Administration is forecasting indicative rate revenue increases of \$3.15 million in 2022 and \$5.06 million in 2023. This forecast excludes COVID-19 related revenue impacts and proposed property tax increases, but it does include assessment growth from adding new inventory. After accounting for assessment growth, these revenue increases are marginal and reflect a longer-term fiscal challenge with the City's non-tax revenues in that these revenue sources are not keeping pace with the changes in the economy. In fact, growth in user fees and government operating transfers are well below changes in population and inflation. This means that the revenue gap needs to be filled by other sources.

In typical budget years, an increase in revenues helps to offset a portion of expenditures increases. However, as Appendices 1 and 2 explain, the revenue increases are well below trend due to a forecasted year-over-year decrease in interest revenues (\$1.11 million decrease) and an estimated 11% (or \$6 million) decrease in Municipal Revenue Sharing, although this item is included in the COVID-19 impacts. To mitigate some of this pressure on the indicative rate, the Administration adjusted its general revenue projections upwards by \$1.60 million in 2022.

2.2.3 Expenditure Estimates

On the expenditure side, a different challenge emerges. City expenditure increases are driven primarily by growth, inflation, and service levels. Appendices 1 and 3 explain growth and inflationary pressures facing the City and their implications for indicative rate setting. Before describing the specific expenditure pressures, it is important to highlight the efforts the Administration has made to limit the growth in budgetary expenditures for the 2022-23 MYBB. The aim of these expenditure adjustments is to lessen the potential property tax increase while maintaining existing service delivery levels.

Table 1 summarizes the Administration's pre-budget proposed expenditure adjustments by business line. The row labelled "general adjustment included" illustrates the Administration's efforts to reduce proposed expenditure increase by an additional \$1 million and to adjust revenue forecasts upward by \$1.6 million. The details of specific program adjustments are described in Appendix 3.

The key point is that in the absence of Administration's pre-budget adjustments listed in Table 1, net operating expenditure increases or revenue decreases would be an estimated \$7.5 million higher than proposed in the indicative budget for 2022. These adjustments alone reduced the potential indicative property tax rate by approximately 3 percentage points.

Table 1 – Administration’s Expenditure Increase Adjustments

Business Line	2022 Adjustment	2023 Adjustment
Community Support	64,800	
Corporate Asset Management	182,800	
Corporate Governance and Finance	1,551,700	108,400
Environmental Health	332,600	109,500
Recreation and Culture	251,900	
Transportation	1,876,600	6,000
Urban Planning and Development	47,000	
Revenue Decreases Excluded		
Taxation and General Revenues	593,600	
Transportation	40,000	
General Adjustment Included	2,600,000	
Total Adjustment	\$7,541,000	\$223,900

To complement these adjustments, the Administration also deferred to 2023, or future years, various other budgetary expenditure increases totalling \$961,500 in 2022. Table 2 summarizes the deferrals by business line while the details are explained in Appendix 3. In the absence of these deferrals, the indicative property tax rate would be about 0.37% higher than proposed in 2022. Without these adjustments and deferrals, the indicative property tax rate increase for 2022 would be 3.37 percentage points higher than proposed in this report.

Table 2 – Budget Expenditure Deferrals

Business Line	2022 Deferrals
Corporate Governance and Finance	425,000
Recreation and Culture	47,400
Saskatoon Fire	255,000
Taxation and General Revenues	200,000
Transportation	34,100
Urban Planning and Development	47,000
Total Budget Deferral of Expenditures	\$961,500

Despite these strong efforts, City operating expenditures are estimated to rise by 2.88% (or \$15.6 million) in 2022 and 3.16% (or \$17.6 million) in 2023, reflecting growth, inflation, and base budget adjustments. These are the lowest annual percentage increases for expenditures in recent history. The Administration assumed a 1.5% population growth and 2.00% general inflation to arrive at these

estimates. Appendix 3 explains the details of the expenditure increases by business line. These expenditure increases exclude COVID-19 impacts (more on that later). As a result of these fiscal scenarios, what is the potential property tax impact?

2.2.4. Proposed Property Tax Increases to Maintain Existing Services

The proposed indicative rate increase for the 2022 and 2023 MYBB is summarized in Table 3. As the table shows, the proposed indicative rate increase for 2022 is 4.82% and for 2023 it is 4.58% (growth and inflation only). The table shows the distribution of the proposed increase for City, non-police operations and those directly attributed to the Saskatoon Police Service. It is worth noting that a one percentage point increase in the municipal property tax is equivalent to \$2.57 million in 2022 and \$2.73 million in 2023.

The rows below the indicative rate in the table show the impact of phase-in adjustments for Bus Rapid Transit (BRT) program and the solid waste and organics collection program. These two adjustments add a 1.14% tax increase in 2022 and a 0.83% tax increase in 2023, increasing the proposed property tax increase to 5.96% and 5.42% in the respective years.

Table 3 – Property Tax Increase

Description	2022 Property Tax Increase	2023 Property Tax Increase
Civic Operations	3.01%	2.81%
Saskatoon Police Service	1.81%	1.77%
Total Indicative Rate	4.82%	4.58%
Bus Rapid Transit Funding Plan	0.27%	0.03%
Phase-in for Environmental Health	0.87%	0.80%
Total Proposed Property Tax Increase	5.96%	5.42%
COVID-19 Impacts Not Included in the Indicative Rate	\$16.8 M	\$10.0 M

2.2.5 COVID-19 Fiscal Impacts

The fiscal impacts of COVID-19 are approximately \$16.8 million in 2022 and \$10.0 million in 2023. Appendix 1 explains the budgetary implications resulting from COVID-19, which are primarily revenue-related.

The City will require a specific strategy to backfill this COVID-19 impact. Solutions will likely include ongoing hiring and spending restrictions, and/or possible fiscal transfers from either the federal or provincial government (or a combination of both) like the Safe Restart Program funding that was provided in 2021 to address this impact. As a reminder, in Budget 2021/22, the Government of Canada announced a one-time doubling of the federal Gas Tax Fund, meaning that the City would receive an addition \$15.3 million. However, this funding is conditional and must be used for eligible capital infrastructure projects.

If the transfer was unconditional, then the City would be able to allocate it to offset almost all the fiscal impacts from COVID-19 on the 2022 budget.

Nonetheless, the Administration will advise City Council on the status of this issue. It will also require City Council to engage in political advocacy to help make the case for COVID-19 specific operating support. If additional fiscal support is not offered by other orders of government, then the Administration will report back on potential approaches to address this fiscal gap.

2.3 Public Engagement

The City recently concluded the 2021 Civic Satisfaction & Performance survey which measures satisfaction with City services and programs, perception of quality of life in Saskatoon, perceived value of civic services, City spending for the delivery of City Services, and most important issues facing the City. The results are being compiled for reporting purposes. The second Civic Services Survey: Performance, Priorities & Preferences will begin on June 23. The second survey measures performance on 29 services that the City provides to residents, identifies high priorities for those services where performance was evaluated as medium to low and identifies preferences on level of civic services in 12 categories. Although the City does not engage specifically on the indicative rate, it does ask questions on how services should be paid for. Survey results are shared publicly and will be prior to budget deliberations.

OPTIONS

This section provides three options for consideration. The first option sets the indicative rate equivalent to the base case scenario, while options 2 and 3 propose decreases and/or increases to the base case indicative rate respectively. While options 2 and 3 do not give specific percentage decreases or increases, they do offer City Council the flexibility to adjust the rates as necessary. If City Council does decide to adjust the results, it is important to reiterate that a 1 percentage point change in the municipal property tax is equivalent to \$2.57 million in 2022 and \$2.73 million in 2023 based on existing revenue and expenditure assumptions.

For the purposes of this section, the base case scenario represents all existing operational and service level obligations of the City, based on previous City Council direction and existing collective bargaining agreements. As a result, the Administration is projecting a base case indicative rate property tax increase of 5.96% and 5.42% in 2022 and 2023 respectively. This scenario reflects the fiscal gap after the Administration's \$8.5 million adjustment to pre-budget expenditures and revenues. It also includes the continued phase-in of a property tax contribution to first resolve structural solid waste budget shortfalls and then to establish a city-wide organics program which requires a tax increase of 0.87% in 2022 and 0.80% in 2023. It does not include, however, COVID-19 related fiscal impacts.

Option 1 – Base Case Scenario

This option proposes that City Council direct the Administration to prepare a budget based on the base case scenario explained in the introduction to this section. Again, this option meets all existing service level and contractual obligations of the City and resolves the long-term structural budget issues in solid waste and phase-in for a city-wide organics program. On the other hand, this option would not leave any additional room for adding further resources to business plan options. However, the Reserve for Capital Expenditures and possible reallocation of other funding could still be utilized to accomplish capital requirements.

Financial Implications

The financial implications resulting from this option incorporate the Administration's pre-budget adjustments of \$8.5 million, thus, resulting in operating expenditure increases of \$15.6 million in 2022 and \$17.6 million in 2023. This is equivalent to a property tax increase of 5.96% and 5.42% for the respective years. This option includes the Administration's pre-budget adjustments of \$8.5 million but it excludes the direct fiscal impacts from COVID-19.

Option 2 – Base Case Minus Scenario

The base case minus scenario proposes that City Council direct the Administration to prepare a budget that produces an indicative property tax increase below the base case. The Administration has no set percentage in mind, but this could range from a low of 0.1% to a high of 5.96% below the base case, effectively resulting in a 0% tax increase. As the Administration has already made over \$8 million in pre-budget adjustments, City Council would need to provide direction on where additional budgetary changes could be made. Some areas for City Council to consider include:

- Service level changes;
- Reductions in transfers to reserves; and
- User fee increases.

Indeed, this option would achieve a lower than base case property tax increase, but it would result in reduced levels of service, reduced transfers to reserves, an increase in user fees, or a combination of some or all of these. To reiterate, for every 1 percentage point change in the property tax increase a combination of expenditure reductions and non-tax revenue increases totaling \$2.57 million will need to be found for 2022.

Financial Implications

The estimated financial implications resulting from this option are unknown as it is dependent on the level of the indicative rate. Like option 1, this option includes the Administration's pre-budget adjustments of \$8.5 million but excludes the direct fiscal impacts from COVID-19.

Option 3 – Base Case Plus Scenario

The base case plus scenario proposes that City Council increase the indicative rate to some level higher than the base case. This option could potentially provide sufficient funding to maintain existing services, implement the city-wide organics program phase-in, and phase-in the BRT funding plan, plus leave funding for the implementation of Business Plan Options aimed at achieving other City Council strategic priorities. This option could also mean that some of the pre-budget expenditure adjustments made by the Administration could be reconsidered.

Conversely, raising the indicative tax rates above the base case scenario may result in significant public opposition given the size of the potential base case indicative tax rate increase.

Financial Implications

The estimated financial implications resulting from this option are unknown as it is dependent on the level of the indicative rate. That said, the financial implications resulting from this would be no less than the base case scenario.

RECOMMENDATION

That the Governance and Priorities Committee recommend to City Council that Option 1 - Base Case Scenario be approved, resulting in a municipal property tax target equivalent to 5.96% for 2022 and 5.42% for 2023, subject to finding additional funding to offset one-time COVID-19 related impacts for both years.

RATIONALE

The City's indicative rate process is beneficial for three fundamental reasons: (1) it provides the Administration with an indication of City Council's expectations for a municipal property tax target early in the process; (2) it gives the Administration clear financial parameters to work within to achieve City Council priorities; and (3) it improves accountability and transparency in the budget making process. Setting an indicative tax rate during a time of fiscal uncertainty is definitely a challenge. Although budgetary expenditures are increasing by an estimated average of 3% per year, the Administration has made over \$8 million in pre-budget adjustments to lessen the impact.

However, the City must deliver essential public services and the costs for delivering them to continue to rise due to growth and inflation pressures. As such, the proposed recommendation funds existing service levels, resolves long-term structural budget issues for solid waste, continues the approved funding increases on the new city-wide organics service, and continues the phase-in of the BRT funding plan. The base case scenario achieves these objectives. Despite a higher than usual proposed indicative rate increase, overall operating expenditure increases average 3% annually over the next two years to meet these commitments. The problem is that the stagnant non-tax revenues are not keeping pace with neither inflation nor population growth and thus, the property tax is the revenue source that has to fill this fiscal gap.

COMMUNICATION ACTIVITIES

The 2022/2023 Indicative Budget will be communicated through a news release and posted to the City's website. Additional communication tools and tactics will be used to educate the media and public about the contents of the proposed 2022-23 MYBB.

NEXT STEPS

The Administration will bring forward updates to Committee at its August meeting on City Council's priorities and will present options for additional resources to either accelerate the progress towards achieving City Council's strategic priorities or for changes to service levels. At the same meeting, the Administration will also report on unfunded capital options that could be funded through the Reserve for Capital Expenditures or reallocated funding. City Council will have opportunity to prioritize both the operating and capital options, and the prioritized lists will be presented at the 2022/2023 Business Plan and Budget Review.

APPENDICES

1. 2022 and 2023 COVID-19 Related Budgetary Assumptions and Adjustments
2. 2022 and 2023 Revenue Projections
3. 2022 and 2023 Expenditure Projections

REPORT APPROVAL

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