INFORMATION REPORT

2022 and 2023 Indicative Budget – Additional Information

ISSUE
A fiscal trends analysis shows that some city revenue sources are failing to keep pace with changes in the economy, resulting in a large fiscal gap between revenues and expenditures. The information in this report provides additional analysis on the fiscal pressures facing the City of Saskatoon (City) as reflected in the proposed indicative rate for 2022 and 2023.

BACKGROUND
At its meeting on June 21, 2021, the Governance and Priorities Committee (GPC) considered Item 8.3.1 which was a report recommending the 2022 and 2023 Indicative Budget 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. These rates included phase-ins for both the Bus Rapid Transit Funding Plan and the solid waste and organics program. GPC did not set an indicative rate at that meeting and instead resolved:

> "That special Budget Review meetings be arranged for the Standing Policy Committee on Finance to undertake a deeper review of the proposed 2022/23 budget. The purpose of the review would be to explore options to address the property tax pressure residents and businesses are facing in this unprecedented year, while also recognizing the need to maintain quality services and address strategic priorities of City Council. That there also be opportunities for stakeholder engagement as part of this process."

CURRENT STATUS
Setting an indicative municipal property tax rate is an important step in the development of the City's multi-year business plan and budget. The indicative rate is an estimate for providing the same levels of service that were in the 2021 budget. It is used as a fiscal guideline so that the Administration has direction prior to formal consideration of the detailed budget by City Council.

City Council passes the final budget and associated property tax impact during its Business Plan and Budget Review series of meetings. For the next budget cycle, the meeting is scheduled for November 2021.

DISCUSSION/ANALYSIS

The indicative property tax rate proposed by the Administration at the June 21, 2021 GPC meeting is reflective of longer-term structural budget challenges facing the City. Notwithstanding the fiscal impacts from the COVID-19 pandemic, the analysis contained in Appendix 1 illustrates that these structural issues existed prior to the pandemic; it only exacerbated them. Specifically, the analysis points to three primary factors contributing to these structural challenges:

1. Stagnant revenue growth combined with rising expenditures;
2. Service level changes that generate larger than average expenditure increases; and
3. Increasing reliance on property taxes to fund the shortfall in non-tax revenue.

Despite City Council and the Administration's efforts to keep operating expenditure increases to a minimum, the City's non-tax revenues, most strikingly user fees and government transfers, have failed to grow in step with the economy as measured by population growth and inflation. As a result, the municipal property tax is picking up the fiscal slack so that the City can deliver the necessary programs and services effectively to residents and businesses.

For clarity, operating revenues, inclusive of property taxes, have been growing at an average of 4% per year from 2013-2020; however, there is a growing reliance on property taxes as the share of revenue from other sources have stayed flat or declined. The share of operating revenues from property taxes has climbed from about 40% of total revenues to 49% in 2020. This means that as expenditures increase, but government transfers and user fees remain the same or decline, property tax revenue must make up the shortfall to pay for the programs and services.

To illustrate this point, if City operating expenditures rise by 3% on a $520 million operating budget, that means the City would need to find approximately $16 million in revenue to offset this expenditure increase. If non-tax revenues make up approximately 50% of operating revenues, then the City would need to realize about $8 million from these sources to minimize any potential property tax increase. However, when these revenue sources see minimal growth, say 1% for example, or about $2.6 million, then the property tax steps up to fill that gap. In this example, the City would need to raise about $13.4 million to balance its operating budget as required by provincial legislation. In 2021, for instance this would mean a property tax increase of almost 5.5%.

City Operating expenditures rise annually for three main reasons: (a) growth in population (e.g., snow removal on the new roadways that came into service), (b) inflationary adjustments; and (c) service level changes. The benchmark used to measure City operating expenditure increases in Appendix 1 is the Consumer Price Index (CPI) inflation plus population growth for Saskatoon. This benchmark is used frequently to measure government spending (and revenues) in real per capita terms. Real means adjusted for inflation, while per capita is accounting for population growth.

As shown in the Operating Expenditure Trends section of Appendix 1, from 2013 to 2020, the City's expenditure base has kept pace with the benchmark, being 1.8% percentage points above the benchmark. It is important to note that during this period, the City made substantial investments into the rehabilitation of roadways and investments into solid waste, but it still kept pace with the benchmark, trending slightly above. Some specific operating areas such as transportation and policing have seen expenditure increases higher than the benchmark. On the other hand, Fire Services has grown at a lower pace than the benchmark.

As indicated in the previously noted June 2021 GPC report, to help address these ongoing issues and try to keep the indicative rate lower, the Administration had deferred expected budgetary expenditure increases in the amount of $961,500 to 2023 or future years. It also made pre-budget expenditure and revenue adjustments totaling $7.54 million in 2022 and $223,900 in 2023 before presenting the indicative budget. These items are detailed in the June 21 report (Appendix 3); however, some of the major administrative adjustments are as follows:

- $1.60 million for projected general revenue increase;
- $1.00 million for projected general expenditure decrease;
- $300,000 not included for insurance premium increase;
- $593,600 not included for interest revenue decrease;
- $1.25 million not included for software costs, and staffing; and
- $1.23 million not included for transfer to Roadways reserves.

Although some of these expenditures may still occur such as the software costs or insurance premiums, the Administration must manage these amounts within the existing budgets.

FINANCIAL IMPLICATIONS
There are no direct financial or budgetary implications emerging from this report.

OTHER IMPLICATIONS
There are no privacy, legal, social or environmental implications identified.

NEXT STEPS
In terms of the overall business plan and budget process, City Council will prioritize unfunded capital options that could be funded through the Reserve for Capital Expenditures. The prioritized list will be presented to GPC at its meeting on October 18 and presented at the 2022/2023 Business Plan and Budget Review in November 2021.

Additionally, at the 2022/2023 Business Plan and Budget Review, City Council will have the opportunity to debate and adjust any amounts within the indicative budget as well as options for additional resources to accelerate the progress towards achieving City Council's strategic priorities, or for changes to service levels to arrive at the final property tax increase for 2022/2023.

APPENDICES

1. Fiscal Trend Analysis of the City of Saskatoon's Operating Expenditures and Revenues 2013-2020

REPORT APPROVAL

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