INFORMATION REPORT

Comparative Analysis of Recent Budget Adjustments in Selected Canadian Cities

ISSUE

The emergence and continuation of the COVID-19 pandemic is having substantial fiscal impacts on government budgets, especially those of Cities. Because Cities generate a large portion of their revenues from fees and charges, the ongoing pandemic restrictions have generated major revenue declines in this revenue source. This, coupled with rising expenditures, has placed pressures on City budgets, including Saskatoon's, to continue to deliver services on the one hand, while minimizing property tax increases on the other. Given that dilemma, how have Western Canadian Cities addressed their budgetary challenges, if at all?

BACKGROUND

At its June 21, 2021, Meeting, the Administration tabled a report with the Governance and Priorities Committee (GPC) outlining potential indicative rate options. The base case scenario proposed property tax increases of above five percent in each of 2022 and 2023. After its deliberations on the topic, GPC resolved, in part:

> "that special Budget Review meetings be arranged for the Standing Policy Committee on Finance to undertake a deeper review of the proposed 2022/2023 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."

At its August 31, 2021, Special Meeting, the Standing Policy Committee on Finance considered a report from the Administration titled, "2022 and 2023 Indicative Budget – Additional Information". Following its deliberations, the Committee resolved, in part:

> "that the Administration report on comparative data for 2020, 2021, 2022 for tax increases and/or forecast tax increases in Edmonton, Calgary, Regina, and Winnipeg. The report should also comment on significant initiatives in each municipality to reduce or hold tax increases."

CURRENT STATUS

The City of Saskatoon is preparing its 2022 and 2023 Multi-Year Business Plan and Budget (MYBB) for consideration by City Council. As part of the process, City Council is to set an indicative property tax rate so that the Administration can prepare a budget package with that guidance. The indicative rate is an upper bound limit on any potential property tax increase that may be needed to support City Council's priorities adopted in the City's Strategic Plan. The indicative rate process is delayed so that City Council can better understand the City's fiscal challenges emerging from the COVID-19 pandemic and implications it may have on the City's MYBB.

As a result, the Administration had to freeze the information to produce the preliminary MYBB document. The MYBB document will be created reflecting the same information as presented at the June 21, 2021, GPC Meeting, except for updated information on the Bus Rapid Transit (BRT) funding plan to remove both the 2022 and 2023 phase-ins for this plan due to the revised timeline of the BRT project.

DISCUSSION/ANALYSIS

It is well documented that City budgets have been negatively affected by the COVID-19 pandemic. Predominantly, non-property-tax revenues (e.g., user fees) have fallen sharply compared to pre-pandemic years. Operating expenditures continue to rise due to a combination of growth, inflation, service levels, and the pandemic. In many Cities, this has magnified pre-existing budgetary pressures resulting in the implementation of various fiscal measures to minimize potential property tax increases to fill the revenue and expenditure gap.

This section of the report summarizes the approaches taken in four western Canadian Cities (Calgary, Edmonton, Regina, and Winnipeg) to address the fiscal pressures in their 2020 and 2021 budgets (and where applicable, beyond). Except for Regina, all Cities use a multi-year budget process, like Saskatoon. Unlike Saskatoon, who uses a two-year budget cycle, Calgary, Edmonton, and Winnipeg all use a four-year budget cycle with mid-cycle, and/or annual adjustments. The subsequent analysis highlights the mid-cycle, or 2021 adjustments, as approved by their respective City Councils.[1]

Before proceeding to that analysis, it is important to recognize that the City of Saskatoon has undertaken significant reviews of its operations over the past decade. The culmination of these efforts is typically summarized in the annual Service, Savings, and Sustainability report and others presented to City Council and/or its Committees over the years, with the most recent here: https://pub-saskatoon.escribemeetings.com/filestream.ashx?DocumentId=140823.

While all Cities do deliver many similar services and draw upon similar revenue sources, each City has different governance, and thus budgetary structures, that need to be considered in any analysis. To offer a broader context on the revenue and expenditure mix in these Cities, Appendix 1 provides a summary of various comparative metrics based on the 2020 annual financial reports.

Table 1 shows the approved property tax increases for 2020 and 2021 and the proposed property tax increases for 2022, respectively for each City. As noted in the previous paragraph, caution should be used in comparing property tax increase in one City to another due to revenue mix, expenditure mix, service levels, and governance structures. That said, the City of Calgary stands out among the Cities with cumulative tax increases less than zero. Winnipeg caps property tax increases at 2.33% each year.

[1] The information for this section is obtained from City websites and Council/Committee reports.

Table 1: Property Tax Increases by City (%)

City	*2020a*	*2021a*	*2022p*
Calgary	**0**	**-1.77**	**0.50**
Edmonton	**1.30**	**0**	**1.60**
Regina	**3.25**	**2.34**	**N/A**
Winnipeg	**2.33**	**2.33**	**2.33**

a = actual; p = proposed

The City of Calgary:[2]

In November 2019, Calgary's City Council directed its Administration to find internal savings through a program originally called the Strategy for Improving Service Value, now called Solutions for Achieving Value and Excellence (SAVE) to target a reduction in operating budgets of $24 million in 2021 and $50 million in 2022. The program prioritized opportunities with limited citizen impacts and the ability to produce the tangible savings in 2021. The program surpassed the $24 million target, identifying $26 million in net base budget savings, $1 million in revenue, and additional one-time savings.

Additional base reductions valued at $63 million are proposed beyond the reductions provided by SAVE. A small number of important strategic investments require a further $9 million, of which $6 million is from the base budget. Service owners (including Police Services) have worked to identify and submit additional reduction packages in their areas totalling $24 million. A further $39 million in savings from Corporate Programs has also been identified.

Combined, the 2021 Mid-Cycle Adjustments result in an estimated net reduction of 162 full-time equivalents (FTEs) from the previously approved 2021 level, which includes impacts from the SAVE Program and other changes. With these impacts, the City will have experienced a total reduction of 574 FTEs since 2019 or 3.5% of the total FTEs budgeted for 2021 in the One Calgary 2019-2022 Service Plans and Budgets.

The City of Edmonton[3]

Like Calgary, the City of Edmonton implemented some savings to reduce its proposed tax increase. Council voted to implement budget reduction strategies of $49.9 million across City departments for 2021, and another $9.4 million in 2022. Changes include the elimination of over 300 staff positions—including over 100 supervisor positions—through vacancy management, workforce transitions and layoffs. Each department offered incremental savings through service level and expense reductions. The City's partners also contributed by making difficult decisions to find savings. Some options were found to increase revenue or cost recovery.

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[2] Calgary's actions are summarized from the following source: https://pub-calgary.escribemeetings.com/filestream.ashx?DocumentId=146848.

[3] Edmonton's approach is taken from the following source: https://www.edmonton.ca/sites/default/files/public-files/assets/PDF/Approved-Fall2020-Combined-Budget-March-31.pdf. Details on specific budget reduction strategies can be found on pages 25-35.

In addition to these measures, the City of Edmonton addressed its COVID challenges separately. According to the City, the total projected financial impact of COVID-19 on the corporation's 2021 operating budget is $152 million, largely because of reduced transit ridership and due to closure of City recreation facilities and additional costs due to the pandemic. To offset this impact, the City leveraged various one-time temporary funding strategies, without increasing the tax levy. Net expenditures were reduced through various expense management strategies.

The City of Regina

Regina City Council approved a 2.34% property tax increase in 2021, with the tax increases dedicated entirely to the Regina Police Service (1.39%), and recreation and stadium projects (0.95%). The City estimates that it realized cost savings of $5 million in 2021 from a process that began in 2018. According to the City, "Over the last three years, Administration has achieved over $15 million in annual savings by reducing operating costs through efficiency savings, reorganization of resources, and right-sizing budgets".[4]

The City of Winnipeg[5]

The City of Winnipeg has a budgetary policy of capping property tax increases at no more than 2.33% each year in their multi-year budget (2020-2023). The entire tax increase is dedicated to Winnipeg's infrastructure requirements in road renewal and the City's Southwest Rapid Transitway. The City also utilized the Financial Stabilization Reserve (FSR) to counteract the budgetary effect of operating deficits related to the COVID-19 pandemic or other environmental and financial uncertainties.

For 2021, the City of Winnipeg estimated a budgetary shortfall of $83.6 million over the next three years, with approximately half of this due to the COVID-19 impacts. Uniquely, Winnipeg is also accounting for a $30.7 million police pension shortfall as part of this budget impact. To offset these budget shortfalls, the City of Winnipeg adopted the following measures:

- leverage provincial capital commitment to invest in City capital projects ($30 million);
- replace cash to capital with external debt ($10 million);
- savings from a recently negotiated collective agreement with the Winnipeg Association of Public Service Officers ($12 million);
- adjustment to the estimated amounts for future labor settlements ($16.3 million); and
- projected savings in the Winnipeg Police Service budget to be determined by the Winnipeg Police Service ($15.3 million).

FINANCIAL IMPLICATIONS

The are no financial implications resulting from the preparation of this report.

[4] Quote attributed to: https://www.regina.ca/export/sites/Regina.ca/city-government/budget-finance/.galleries/pdfs/2021-Proposed-Budget-Book.pdf.

[5] Winnipeg's approach can be described in more detail here: https://winnipeg.ca/interhom/Budget/2021-budget/default.stm#6.

NEXT STEPS

No further steps are required.

APPENDIX

1. Comparative Fiscal Characteristics of Selected Canadian Cities

Report Approval

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