Options for Reductions to Expenditures and Transfers to Reserves

ISSUE
Can the 2022-2023 proposed budget be reduced further through reductions to general expenditures or through reductions to transfers to reserves?

BACKGROUND
At the Special Standing Policy Committee (SPC) on Finance meeting on October 15, 2001, the Committee resolved the following items be reported back to the November budget deliberations:

1. That Administration report on the possibility and impact of reducing the 2022 and 2023 proposed budget for all business lines by 0.5%;
2. That Administration report on the possibility and impact of reducing the 2022 and 2023 proposed transfer to reserves by 0.5%;
3. That Administration report on the possibility and impact of increasing all individual user fees by 5% for 2022; and
4. That Administration report further on the SAVE budget process in Calgary, and Edmonton's recent cost savings exercises over the last several years and identify the similarities and differences with the City of Saskatoon's Continuous Improvement efforts. In particular, identifying how savings were identified as well as how decisions were made with regard to FTE's.

CURRENT STATUS
As previously reported, the City of Saskatoon (City) is facing a longer-term structural budgetary challenge due to stagnant non-tax revenue growth, but rising expenditures because of inflation, growth, and service level enhancements. As a result, the municipal property tax has had to fund a growing share of the City's operating expenditures. While this fiscal dilemma has slowly emerged over the years, it has been exacerbated by the emergence of the COVID-19 pandemic.

More specifically, as reported to Committee at its August 31, 2021 meeting, 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 has stayed flat or declined. The share of operating revenues from property taxes has climbed from about 40% of operating revenues in 2013 to 49% in 2020. This means that as expenditures increase, but government transfers and user fees remain the same or decline, new property tax revenue must make up the shortfall to pay for the City's programs and services.

From 2013 to 2020, the City's expenditure base has kept pace with the inflation and population growth benchmark. In fact, cumulative expenditure growth over that period is 1.8% percentage points above the benchmark, largely due to substantial service level change in a few areas such as roadways, policing, and solid waste management.

In light of this context, the Administration has undertaken several measures to minimize any potential indicative rate increase for the 2022 and 2023 Multi-Year Business Plan and Budget. Specifically, it deferred expected budgetary expenditure increases 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. Some of the more significant administrative adjustments include:

- $2.60 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, compared to the amount that would have been transferred to fully cover expected growth and inflation.

The $2.6 million reduction for projected general expenditure decrease is effectively a 1% unallocated budget cut, similar to the 1% budget cut made at City Council for 2021. All of these reductions, in addition to the 1% reduction made for 2021, as well as all other 2021 reductions, are now included in the City's base operating budget. 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. These measures are adding to the strain on the budget and increase the risk of not attaining budgetary results and generating future operating budget deficits. As such, the Administration believes any significant reductions to the budgets can only be achieved through service level adjustments.

DISCUSSION/ANALYSIS

The City, as part of a transformational initiative to streamline and modernize civic processes and systems, has set the foundation under the strategic priority for enhancing efficiency and effectiveness of delivering civic programs to residents. For several years the Administration has followed a strategic objective of Continuous Improvement in which results are reported annually through the City's Service, Savings and Sustainability Report.

In addition, the recent implementation of the first phase of the City's Fusion Enterprise Resource Planning (ERP) system in January 2021, will form the foundation for further continuous improvements around standardization of processes built on best practice as well as data integration to provide up-to-date and accurate information for informed and timely decision making. However, as identified in the business case, savings from this ERP initiative will require at least three years and likely closer to four before starting to be realized. In fact, the first couple of years, post implementation, require additional resources to train, re-engineer processes, clean and create data, and to modify processes.

Based on the resolutions from the October 15, 2021 Special SPC on Finance meeting, the Administration calculated a 0.5% expenditure reduction by Business Line as well as a 0.5% reduction in the transfer to reserves for both 2022 and 2023. The effects of these calculations are shown in Appendix 1 for Reduced Expenditures, and Appendix 2 for Reduced Reserve Contributions. Several service lines are fully cost recovered with any surplus transferred to stabilization reserves; therefore, any reduction in those service lines will not have an impact on the mill rate. City Council, through resolution, could redirect any of these reductions to general operating instead of to the Policy-directed reserves. For example, although a reduction to Utility expenditures typically results in additional contribution to Utility reserves, as per policy and through resolution, City Council could direct these expenditure reductions too reduce the property tax impact through an increase to the return on investment (ROI).

Moreover, an analysis was conducted of these potential reductions to determine the potential impacts to each Business line. The analysis reveals that most of these impacts affect service levels and the City's ability to deliver services at the same levels and standards as previously established by City Council. Some examples of these reductions are reduced facility hours at leisure centres or the landfill, reductions to preventative maintenance, or further reductions to reserves.

As a result of Administration's analysis, adjustments to service levels and reductions to capital programs are the only plausible options given the noted pre-budget revenue and expenditure adjustments already implemented by the Administration and included as part of the current indicative budget rate. Compounding this, the Administration must also find approximately $5.0 million in savings/efficiencies to offset the 1% reduction made in 2021, as well as the $2.6 million added in 2022 as global reductions. Any additional cuts or service level adjustments would be permanent-based budget reductions that would take future budget increases to get back to the current levels of funding to deliver the services City Council has approved and previously supported. It adds further risk to the asset management plans that are still seeking additional funding to maintain the City's assets at the approved and targeted condition levels.

The reserve analysis did not include the Utility stabilization reserves as they are used to balance the utility programs surplus or deficit and do not have an impact to the mill rate. However, for City Council's information, Appendix 3 includes balances in the Utility stabilization reserves, the reserve limit and where funds will get transferred if the reserve balances are over that limit as per City Council Policy C03-003 Reserves for Future Expenditures. The transfers of any year end Utility surplus, that is over the stabilization cap, into the capital reserves, helps to offset future Utility rates. With the exception of Saskatoon Light & Power (SL&P), rates are set considering what is required for the operating and capital programs, and additional funding within capital reserves helps to avoid future Utility rate increases. SL&P rates have been set historically to match SaskPower's rates to ensure equity between citizens regardless of their service provider. This long-term impact to future rates is also discussed within the Utility capital reserves in Appendix 2.

A 0.5% reduction to the Saskatoon Police Budget equates to approximately $599,500. This report does not include potential impacts of this reduction as the Saskatoon Police Service reports to the Board of Police Commissioners for oversight. City Council will have an opportunity to inquire on the Saskatoon Police Service's budget during the Budget review meeting.

FINANCIAL IMPLICATIONS

The financial implications are addressed within the report and appendices.

OTHER IMPLICATIONS

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

NEXT STEPS

Any next steps are subject to the direction of City Council at is Budget Review meetings beginning November 29, 2021.

APPENDICES

1. Reduced Expenditures
2. Reduced Reserve Contributions
3. Utility Stabilization Reserves

Report Approval

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