DECISION REPORT

2024/2025 Budget Inflationary & Phase-in Decisions

ISSUE

The City's 2024/2025 Budget is being significantly impacted by inflationary and phase-in pressures. A decision is required to determine how best to approach these pressures within the 2024 and 2025 budget. This report focuses on 11 areas that account for 53.1% of the City's $52.4 million projected funding gap to maintain existing services heading into 2024.

BACKGROUND

History

At the August 22, 2022, Governance and Priorities Committee, while discussing Options for Inclusion of the Transit Service Model within Indicative Budget, Committee resolved in part:

> "That the Governance and Priorities Committee recommend to City Council that Option 3 – Inclusion of a Phased-In Transit and other Step Growth amounts be included within the Indicative Budget in each Budget Year"

As reported at the June 14, 2023 Governance and Priorities Committee (2024 and 2025 Budget Status Update) the City is facing significant inflationary pressures in 2023 that are expected to persist into 2024 and beyond. In order to maintain service levels, such as the City's 1 in 20-year treatment cycle for roadways and sidewalks in the City, inflationary allocations would be required in order to maintain the City's purchasing power in this rising cost environment. Anything less than fully accounting for inflation will lead to reduced purchasing power for the program.

As outlined in the June 14, 2023 report several step-growth allocations have been included in the 2024 budget including building a base for future transit routes, the East Leisure Centre, Fire Station requirements and allocations to a future Emergency Snow Event Response.

Current Status

An overview of the most significant inflationary allocations that have been included in the Administration's forecasted costs to maintain existing services can be seen below:

- A reduction in the Return on Investment (ROI) from Saskatoon Light and Power in 2024 of $3.3 million. This reduction is to help support the Saskatoon Light and Power (SL&P) asset management plan to retain existing buying power due to inflationary pressures where costs of materials and supplies have increased by approximately 33%. This reduction in ROI is in addition to the funding gap that was previously reported at $7 million to achieve the required level of investment to support the asset management requirements.

- The City's road preservation/rehabilitation program targets a 1 in 20 year treatment cycle. To maintain this service level, the program must receive inflationary and growth allocations otherwise the program service level will slowly erode. Growth requirements, to account for added lane kilometers of roadways, are estimated to be $590,000 in 2024 and $746,300 in 2025. In terms of inflationary pressures, the program has seen significant inflationary impacts in 2023 (30% plus increases in prices) and is estimated to require $10.20 million in additional funding in 2024 to maintain the service level and $2.49 million in 2025 when inflation is expected to return to a closer to normal range.
- The inflationary impact on the replacement of Fire Apparatus has been significant in recent years with the cost to replace an Engine increasing from approximately $900,000 to $1.5 million per unit. To maintain Saskatoon Fire's (SFD) current replacement strategy, an additional $770,000 (67% increase) is required in 2024. In addition, a smaller inflationary amount has been included in 2024 and 2025 ($50,000) due to inflationary pressures felt by the Small Equipment Replacement Reserve.

  SFD is responding to an increasing number of calls year over year, resulting in increased operating hours on fire apparatus. NFPA 1901 recommends that apparatuses greater than 15 years old that have been properly maintained and that are still in serviceable condition be placed in reserved status. Currently SFD is exceeding this and is keeping frontline apparatus operational for a minimum of 18 years.

  An Alternative Response Vehicle pilot project will be proposed through the Reserve for Capital expenditures options process. The project is a green initiative involving smaller vehicles which will reduce emissions. This will reduce the fire apparatus hours, maintaining the existing useful life of large apparatus and reduce the impact on maintenance and mechanical schedules.
- The City's Civic Buildings Comprehensive Maintenance (CBCM) program targets a funding contribution of 1.2% of a buildings valuation each year as per Bylaw No. 6774, The Capital Reserve Bylaw . As per the June 6, 2023 Facilities Asset Management Plan Update, this funding contribution was at 0.98% in 2021 and is at risk of falling to 0.78% based on significant increases in building valuations and associated maintenance costs. To maintain the 0.98% funding contribution from 2021, an inflationary increase of $2.7 million in 2024 would be required.
- In 2022 the rates for gas and diesel increased significantly and at the 2023 Preliminary Business Plan and Budget Meeting, the 2023 budget for fuel was adjusted to estimated rates of $1.60/L for gas and $1.70/L for diesel (after a $0.10/L reduction as approved by City Council). The estimated 2024 rates are $1.76/L for gas and $1.87/L for diesel and the 2025 estimated rates are $1.94/L for gas and $2.06/L for diesel. These rates are volatile and could vary significantly to actual rates in those years. If, in these years the actual fuel rates are lower than anticipated, any surplus in the budget can be put into the Fuel Stabilization Reserve. The Fuel Stabilization Reserve balance is currently $0 as it was fully utilized at the 2022 year-end. From January 1 to June 3, 2023, the average rates have been $1.32/L for gas and $1.35/L for diesel. It is important to

note that this is only based on the first 5 months and often fuel rates are higher in the summer which may drive the 2023 average rates upwards by year-end.

City Council can choose to reduce the estimated amount in each year. If City Council would like to decrease the 2024 or 2025 projection, every $0.05/L reduction to the rates is estimated to be $350,000.

The second area that is having a significant impact is inclusion of step-growth pressures to address future operating requirements. An overview of some of the most significant step-growth pressures included in the 2024/2025 forecast can be seen below:

- As part of the City's Major Capital Prioritization Process, the construction and opening of two new fire stations on the west side of the city were identified as priority number one and two for Saskatoon Fire. While one of these stations will be staffed through the redeployment of an existing crew, the other station will require a deployment of a new Fire Fighter crew which is funded through the operating budget. With operations forecasted to begin as early as 2026, the annual operating budget of $3.78 million is being recommended to be phased in from 2024-2026 with $1.26 million included in each year. Funding contributions in 2024 and 2025 will be utilized to offset the capital cost of construction and phase-in the hiring of new Fire Fighters in 2025, until the funding is required in 2026.
- $208,500 in each of 2024 and 2025 to begin to build a base budget for future transit service expansion to Aspen Ridge, Evergreen and North Kensington.
- $600,000/year beginning in 2024 to build base funding for the future East Leisure Centre operating requirement expected to open in 2029. While the base funding is being allocated and not required by operations it will contribute towards the City's share of the construction cost of the facility.
- 2024 and 2025 both include $1.61 million to phase-in funding to repay the estimated $15 million in costs from the 2022 snowstorm event and build in a base for future responses. The current plan is for 100% of the 2024 allocation to go towards the repayment of the 2022 event which would take approximately 10 years (assuming a $5 million allocation from the 2024-2035 Major Capital Funding Plan). The 2025 allocation would then be used as base funding towards a reserve to contribute to future events.
- Included in the budget is a $1.80 million annual allocation to the capital reserve to ensure the City is appropriately funding the growth needs for its transit fleet. Historically the City has been very reliant on Federal Funding programs to not only replace buses but also bring on additional buses to support a growing network. This allocation would allow the City to bring on one electric bus or one – two diesel buses per year to support the growing network and increased service delivery requirements.

Another significant item included in the 2024/2025 budget is the phase-out of the Negative Contingency/Targeted Savings. Specifically, an impact of $3.9 million is included in the 2024 forecast to phase out the Negative Contingency or Global Reduction that was added to the budget during the pandemic. As evidenced by recent years' operating results these targets have been a contributing factor to the recent deficits.

Approaches in Other Jurisdictions

In terms of inflationary allocations, The City of Regina has a two-year budget process (2023/2024) with their 2024 budget preliminarily approved as the second year of the cycle. Included in Regina's 2023- 2024 Budget on page 29, it states:

> "a planned increase of approximately 3 per cent to continue to address the infrastructure gap at the City"

Saskatoon has been facing inflationary requirements of 30% plus in many of the capital contribution areas in this report (SL&P, Roadways, Facility Maintenance and Fire Apparatus). The Administration does not have any insight into whether Regina will re-visit their planned 2024 contribution to capital based on the current inflationary landscape in Saskatchewan and Canada or proceed with the originally planned 3% increase.

OPTIONS

The following options focus on 11 decision points related to inflationary and other impacts. Of the $52.4 million funding gap that was presented to the June 14, 2023 Governance and Priorities Committee these 11 items account for $27.0 million or 51.5% of the pressures facing the City heading into 2024. A high-level overview of the amounts included in the 2024 projection are outlined below:

2024 Budgetary Forecast	**Amount (in millions)**
SL&P ROI Inflationary Reduction	$ 3.3
Roadway Preservation Inflation	$10.2
Saskatoon Fire Apparatus Replacement Inflation	$ 0.8
Civic Building Comprehensive Maintenance Inflation	$ 2.7
Fuel Estimates	$ 1.2
Future Fire Station Phase-in	$ 1.3
Transit Service Future Service Phase-in	$ 0.2
Snow & Ice Emergency Response Phase-in	$ 1.6
Transit Bus Growth Phase-in	$ 1.8
Negative Contingency Phase-Out	$ 3.9
TOTAL Amount include in 2024 Forecasts	**$27.0**

Options to lessen the impact of these pressures can be found below.

Option 1 – Deferral and Planned Future Phase-in

This option would mainly consist of adding 50% of the required inflationary impact in 2024 and 2025 and planning on phasing in the additional impacts in future years or providing the opportunity to re-evaluate the inflationary environment in future years.

It would also include the deferral of many of the Step-Growth Items. A full outline of the options can be seen below:

Inflationary Items	Option	2024	2025	2026	2027	2028	2029
Saskatoon Light & Power ROI	Fund at 100% of current funding plus 50% of the projected inflationary requirements plus 100% of the added growth impact. Remaining inflation will be planned to be phased in over 5 years or reassessed if inflationary pressures subside.	$ (1,650,000)	$ 330,000	$ 330,000	$ 330,000	$ 330,000	$ 330,000
Roadway Preservation		$ (5,100,000)	$ 1,020,000	$ 1,020,000	$ 1,020,000	$ 1,020,000	$ 1,020,000
Saskatoon Fire Apparatus		$ (385,000)	$ 77,000	$ 77,000	$ 77,000	$ 77,000	$ 77,000
CBCM		$ (1,343,000)	$ (268,600)	$ (268,600)	$ (268,600)	$ (268,600)	$ (268,600)
Fuel Estimates	$0.10/L Reduction of Fuel/Diesel Estimates in 2024 and 2025	$ (700,000)	$ (700,000)	$ -	$ -	$ -	$ -
Total Inflationary Change		**$ (9,178,000)**	**$ 458,400**	**$ 1,158,400**	**$ 1,158,400**	**$ 1,158,400**	**$ 1,158,400**
Other Items							
Saskatoon Fire Station Phase-in	Reduce the 2024/2025 planned phase in of $1.26M by 2/3 and add it back to the operating buget when the station opens in 2026.	$ (837,000)	$ (837,000)	$ 2,929,000	$ -	$ -	$ -
Transit Future Service Phase-in	Reduce the 2024/2025 planned phase in of $208,500 by 100% and add to the operating budget when the Transit Service is required.	$ (208,500)	$ (208,500)	$ 417,000	$ -	$ -	$ -
East Leisure Operating Phase-in	Reduce the 2024/2025 planned phase in of $600,000 by 100% and add it back over 5 years beginning in 2026.	$ (600,000)	$ (600,000)	$ 750,000	$ 750,000	$ 750,000	$ 750,000
Snow & Ice Phase-in	Reduce the 2024/2025 planned phase in of $1.61 million by 50% and allocate it towards repaying the 2022 Emergency Snow Event over 10 years.	$ (805,000)	$ (805,000)	$ -	$ -	$ -	$ -
Transit Bus Growth Allocation	Reduce the $1.8 million allocation for Transit Bus Growth by 2/3 in 2022 and continue to rely on Federal Funding and aging buses for growth requirements	(1,200,000)	$ -	$ -	$ -	$ -	$ -
Negative Contignency	Reduce the $3.9 million phase out of the Negative Contingency/Targetted Savings in 2024 by 25% and phase that amount over 3 years beginning in 2026.	(969,800)	$ -	$ 323,300	$ 323,300	$ 323,200	$ -
Total Other Items		**$ (4,620,300)**	**$ (2,450,500)**	**$ 4,419,300**	**$ 1,073,300**	**$ 1,073,200**	**$ 750,000**
Total Combined Change		**$ (13,798,300)**	**$ (1,992,100)**	**$ 5,577,700**	**$ 2,231,700**	**$ 2,231,600**	**$ 1,908,400**

The impacts of this options include:

- The purchasing power for Saskatoon Light & Power, Roadway Preservation, Fire Apparatus and Facilities Maintenance (CBCM) will all decrease in 2024. Work will be re-prioritized to complete as much as possible in 2024, however, it will be a decrease over work performed in the past if inflationary prices persist.
- Deferring step-growth requirements (Fire Stations, Transit and East Leisure Centre) will place additional pressure on future budgets. For example, when the next Fire Station opens (assuming 2026) the full operating impact will be required in one year.
- Deferral of the Snow & Ice Phase-in will leave enough funding to repay the 2022 Emergency Snow Event over 10 years (assuming a $5 million allocation from the 2024-2035 Major Capital Funding Plan). Base funding to respond to future events will not be available.
- Deferral of Transit bus replacement phase-in would mean the City would not have a sustainable plan in place to continue to fund the growth requirements of the program. Existing buses would continue to be kept once replaced to service the growing demand.

Option 2 – More Significant Deferral and Future Phase-in

This option would increase the reductions to the 2024/2025 inflationary impacts and step-growth requirements over option 1 as follows:

Inflationary Items	Option	2024	2025	2026	2027	2028	2029
Saskatoon Light & Power ROI	Fund at 100% of current funding plus 25% of the projected inflationary requirements plus 100% of the added growth impact. Remaining inflation will be planned to be phased in over 5 years or reassessed if inflationary pressures subside.	$ (2,475,000)	$ 495,000	$ 495,000	$ 495,000	$ 495,000	$ 495,000
Roadway Preservation		$ (7,650,000)	$ 1,530,000	$ 1,530,000	$ 1,530,000	$ 1,530,000	$ 1,530,000
Saskatoon Fire Apparatus		$ (577,500)	$ 115,500	$ 115,500	$ 115,500	$ 115,500	$ 115,500
CBCM		$ (2,014,500)	$ 402,900	$ 402,900	$ 402,900	$ 402,900	$ 402,900
Fuel Estimates	$0.15/L Reduction of Fuel/Diesel Estimates in 2024 and 2025	$ (1,050,000)	$ (1,050,000)	$ -	$ -	$ -	$ -
Total Inflationary Change		**$ (13,767,000)**	**$ 1,493,400**	**$ 2,543,400**	**$ 2,543,400**	**$ 2,543,400**	**$ 2,543,400**
Other Items							
Saskatoon Fire Station Phase-in	Reduce the 2024/2025 planned phase in of $1.26M by 100% and add it back to the operating buget when the station opens in 2026.	$ (1,255,000)	$ (1,255,000)	$ 3,765,000	$ -	$ -	$ -
Transit Future Service Phase-in	Reduce the 2024/2025 planned phase in of $208,500 by 100% and add to the operating budget when the Transit Service is required.	$ (208,500)	$ (208,500)	$ 417,000	$ -	$ -	$ -
East Leisure Operating Phase-in	Reduce the 2024/2025 planned phase in of $600,000 by 100% and add it back over 5 years beginning in 2026.	$ (600,000)	$ (600,000)	$ 750,000	$ 750,000	$ 750,000	$ 750,000
Snow & Ice Phase-in	Reduce the 2024/2025 planned phase in of $1.61 million by 50% and allocate it towards repaying the 2022 Emergency Snow Event over 10 years.	$ (805,000)	$ (805,000)	$ -	$ -	$ -	$ -
Transit Bus Growth Allocation	Reduce the $1.8 million allocation for Transit Bus Growth by 100% in 2022 and continue to rely on Federal Funding and aging buses for growth requirements	(1,800,000)	$ -	$ -	$ -	$ -	$ -
Negative Contignency	Reduce the $3.9 million phase out of the Negative Contingency/Targetted Savings in 2024 by 50% and phase that amount over 3 years beginning in 2026.	(1,939,600)	$ -	$ 646,500	$ 646,500	$ 646,600	$ -
Total Other Items		**$ (6,608,100)**	**$ (2,868,500)**	**$ 5,578,500**	**$ 1,396,500**	**$ 1,396,600**	**$ 750,000**
Total Combined Change		**$ (20,375,100)**	**$ (1,375,100)**	**$ 8,121,900**	**$ 3,939,900**	**$ 3,940,000**	**$ 3,293,400**

The impacts of this option would be similar to Option 1, except for the fact the impacts would be more significant as inflationary allocations are being reduced by up to 75% (but still include current funding plus growth requirements) as well as a higher level of reduction to the other items. This option will put additional pressure on future years budgets in order to bring service levels back up if inflationary pressure persists, as well as 100% of funding will be required in the year Fire Stations and Transit routes become operational.

Option 3 – Combination

This option would include a combination of options specific to the 11 inflationary and other items included in this report. Committee has the option of 0% - 100% reduction of the forecasted requirements for these programs. If Committee wished to proceed with this option, the Administration would recommend a process where each item is reviewed separately, and motions put forward for potential reductions for each item. Once those motions are on the floor, they would be voted on from the highest reduction to the lowest until a motion passes. Once a motion passes, the Administration would build the 2024/2025 Preliminary Business Plan and Budget based on that direction.

RECOMMENDATION

That the Administration be directed to include option 2 in the 2024/2025 Preliminary Business Plan and Budget.

RATIONALE

Option 2 is being recommended because the Administration does not see another readily available path to get the potential 2024 property tax impact under 10% without implementing this option. While this option would result in decreased purchasing power for the City over several programs in 2024 and potentially beyond due to significant inflationary pressures, the actual dollar investment would continue to be a record high in many areas as 2023 base funding would continue to be provided along with full growth allocations and some level of inflationary increases. The reduction in inflationary requirements would be planned to be phased-in in future years or reassessed if inflationary pressures were to subside.

NEXT STEPS

Business Line reports will continue to be brought forward to Committee throughout the upcoming special budget meetings to provide additional insight into the other financial pressures facing the City. In addition to the insight, these reports will also bring forward additional options for Committee's consideration.

REPORT APPROVAL

Written by:	Clae Hack, Chief Financial Officer
Reviewed by:	Executive Leadership Team
Approved by:	Jeff Jorgenson, City Manager

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