

## Preliminary Year-End Results – December 31, 2023

### ISSUE

This report is to inform City Council of the preliminary year-end financial results for the fiscal year ending December 31, 2023. Administration is also requesting City Council approval of the following recommendations, subject to the confirmation of the external audit.

### RECOMMENDATION

That the Standing Policy Committee on Finance recommend to City Council:

1. That \$5,746,794 of the surplus be transferred to the Snow and Ice Management Contingency Reserve; and
2. That the remaining surplus of \$4,198,484 be transferred to the Fiscal Stabilization Reserve to balance the budget.

### BACKGROUND

Prior to the annual external audit of the City of Saskatoon's (City) year-end financial statements, the Administration tables a report to inform City Council and the public on the preliminary year-end financial results.

At its January 25, 2023 regular City Council meeting, when deliberating the [2022 Roadways Emergency Response Plan Funding Options](#) it was resolved:

“That borrowing be approved as the funding source for the 2022 Snow Response, with reporting to be provided to Council in advance of budget including options for borrowing to be repaid by reductions to the 2024-2035 Major Capital Plan as contained in Option 3 or building in a 0.75% dedicated property tax phase in for the 2024 to 2027 budgets to repay the borrowing and build in base funding for future snow responses as contained in Option 4.”

A report titled [2022 Snow Response Financial Information](#) was received as information at the August 16, 2023 regular Governance and Priorities Committee. This report detailed the total costs of \$18.0 million for the 2022 Snow Response, of which \$2.0 million was experienced in 2022 and the remainder of the work was completed in 2023 for \$16.0 million. Within the 2024 and 2025 budget a total of \$175,400 and \$166,800, respectively was approved to start building additional ongoing annual funding into this reserve for response to future emergency snow events.

### DISCUSSION/ANALYSIS

Appendix 1 provides a summary of the financial results by business line for the year ending December 31, 2023. Appendix 2 provides a detailed overview of the 2023 Preliminary Year-End Financial Civic Operating or Property Tax Supported Budget

results, and recommendations for allocation of the surplus funds, while Appendix 3 is a detailed overview of the Utility programs.

As shown in Appendix 2, the preliminary results, excluding \$16.0 million for the costs incurred in 2023 for the December 2022 Snow Event, indicate a 1.68% surplus (\$9.9 million) for civic operating programs. The civic operating programs surplus also includes:

- One-time funding of \$10.0 million in reallocated funds from the Investing in Canada Infrastructure Program which were used to offset ongoing pandemic related financial impacts. This funding is fully utilized at the end of 2023.

It is important to recall that the 2023 budget included targeted savings of \$5.7 million in addition to structural budget challenges and various other post-pandemic revenue uncertainties as previously reported.

Throughout 2023, the City benefited from both Administrative efforts to achieve savings as well as favourable circumstances which are contributing to the City's preliminary \$9.9 million surplus.

In terms of administrative effort, discretionary hiring and spending restrictions were put into place early in 2023 to address these budget pressures, which resulted in approximately \$5.5 million in savings within the Civic Operating Budget from:

- Approximately \$900,000 in savings from reduced training investments;
- \$3.4 million savings from deferred hiring; and
- \$1.2 million in savings from various expenditure deferrals.

As previously reported, these types of savings are common tools used in the short term by many organizations. However, these types of solutions can have significant longer-term impacts on employee retention and recruitment as well as higher life-cycle costs for City assets if required maintenance continues to be deferred.

In addition to these administrative efforts, the City experienced significant favourable external factors in 2023 that have contributed to the City's projected surplus including:

- Relatively minor snow events in 2023 compared with typical years resulted in a \$5.7 million surplus in the City's snow and ice management program;
- Higher than anticipated interest rate environment has resulted in \$1.2 million in additional investment income;
- Temporary closure of Harry Bailey Aquatic Centre has contributed to an overall surplus for Leisure Centres of \$1.0 million; and
- Significant increases to Transit and Access Transit revenues and a quicker return to pre-pandemic ridership resulting in \$3.5 million in higher than budgeted revenues.

While a surplus of \$9.9 million in 2023 is certainly welcome after years of financial pressures throughout the pandemic and post-financial recovery, it is important to note that many of the external factors experienced in 2023, such as the one-time funding allocated to the operating programs, little to no snow events, higher interest rate environments and the temporary closure of Harry Bailey Aquatic Centre are not expected to continue in future years. The City’s 2024 and 2025 budget corrected several structural budget issues, addressed significant inflationary pressures and is expected to be sustainable in the coming years.

If the recommendations of this report are approved, the 2023 surplus will allow for the re-building of stabilization reserves that have been significantly impacted in recent years. These reserves are critical tools the City uses to address unforeseen financial challenges such as years with higher than normal snowfall, volatile prices in various areas such as fuel and other operating budget fluctuations. The Administration’s recommendation is to utilize the surplus of \$9.9 million, as follows:

- \$5.7 million surplus related to Snow and Ice Operations be allocated to the Snow and Ice Management Contingency Reserve. This will bring the reserve to a balance of approximately \$6.2 million to provide funding in future years for higher-than-normal snowfall; and
- The remaining \$4.2 million civic surplus be allocated to the Fiscal Stabilization Reserve, bringing the balance to approximately \$5.8 million which will be available to offset future operating budget deficits or challenges.

This would bring the City’s Fiscal Stabilization Reserve and Snow and Ice Management Contingency Reserve balances to a combined \$12.1 million total, which is approximately a 2.0% contingency to address future unforeseen budgetary/financial pressures.

Utilities

As shown in Appendix 3, the following City Utility surpluses or deficits were realized in 2023, resulting in an overall 2.75% surplus in the City’s Utilities:

| Utility Program         | Surplus/(Deficit)   |
|-------------------------|---------------------|
| Saskatoon Light & Power | \$1,432,374         |
| Storm Water Utility     | (\$392,301)         |
| Water Utility           | \$4,544,161         |
| Waste Water Utility     | \$3,669,982         |
| Waste Services Utility  | \$1,707,030         |
| <b>Total</b>            | <b>\$10,961,247</b> |

The majority of the 2023 surplus is related to Saskatoon Water and Wastewater which experienced revenue that was higher than expected as sales volumes were aided by the warm, dry summer. In addition, there were savings due to staff vacancies, reduced overtime, reduced training, deferred maintenance, and lower than usual water main

breaks as the Utility also participated in the Corporate wide discretionary hiring and spending restrictions.

For additional context, the Water/Wastewater Utilities have seen three deficits and three surpluses in the past six years (including 2023). The City's operating budget, including Utilities, is always based on a variety of assumptions including weather fluctuations which impact the financial performance of the utilities significantly. Over the past six years (2018 – 2023) Saskatoon Water/Wastewater has generated an approximate 1.36% positive variance from budget which has been utilized to fund the infrastructure renewal and replacement plans for the utility reducing the impact on future rates and borrowing.

The 2023 Utility surpluses or deficits have been transferred to or from their respective utility stabilization, capital or replacement reserves as outlined in [Council Policy No. C03-003](#), Reserves for Future Expenditures. More information can be found in Appendix 3 on the Utility surplus.

#### Statutory Boards and Controlled Corporation Results

The Saskatoon Police Service's surplus of \$294,924 is included in the City's year-end results. The remaining Statutory Boards and Controlled Corporations are not included in the City's year-end results but are summarized as follows:

- SaskTel Centre is reporting a preliminary surplus of \$1.35 million (The guaranteed amount from the SEG agreement) before contribution to the Civic Buildings Comprehensive Maintenance Reserve and the write off of capital assets.
- TCU Place is reporting a preliminary deficit of \$460,200 for the fiscal year ended December 31, 2023. The deficit will be supported by drawing down the TCU Place capital expansion reserve fund.
- Remai Modern is reporting a preliminary operating surplus of \$478,500 for the fiscal year ended December 31, 2023, which will be used primarily for planned allocations to their stabilization reserve and capital funds.

#### **FINANCIAL IMPLICATIONS**

The financial implications are included within the report.

#### **OTHER IMPLICATIONS**

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

#### **NEXT STEPS**

The external audit of the financial statements is expected to be completed in June. Following the external audit, the audited financial statements will be presented to City Council for approval. At that time, the year-end financial results will be confirmed or adjusted based on recommendations of the external audit.

#### **APPENDICES**

1. Preliminary Financial Results – Year Ending December 31, 2023

2. Civic Operating/Property Tax Supported Preliminary Year-End Financial Results
3. Utility Preliminary Year-End Financial Results

**REPORT APPROVAL**

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