



# City of Moose Jaw

**COMMUNICATION # EC-2019-0115**

**TITLE:** 2020 Preliminary Budget Review and Economic Update

**TO:** Executive Committee

**FROM:** Department of Financial Services

**DATE:** August 6, 2019

**PUBLIC:** PUBLIC DOCUMENT

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## **RECOMMENDATION**

THAT Communication #EC-2019-0115 regarding the 2020 Preliminary Budget Review and Economic Update be received and filed.

## **TOPIC AND PURPOSE**

The purpose of this report is to provide City Council and the general public with a preliminary overview of internal and external factors that the City will be facing in the upcoming budget.

## **BACKGROUND**

The City of Moose Jaw utilizes a planning framework that encompasses Strategic Planning, Planning Session consultations and referrals or tabling of matters to budget deliberations. City Administration gathers this framework of information along with internal and external factors that influence the budget and create a call for estimates, which goes out to all City Departments.

City Departments utilize this framework to develop their business plans and budget accordingly to be able to deliver that business plan. Budget development by Administration is guided by this framework as well as thoughtful consideration of the various factors that impact the budget being developed to deliver the business plan.

City Administration does their best to balance service levels, expectations and affordability as the budget is developed. City Council has the responsibility to amend the proposed budget as they deem appropriate and ultimately approve a budget for 2020.

## **DISCUSSION**

### **External Factors**

The Provincial economy has a direct impact on the City of Moose Jaw and its revenues and expenditures. There are a number of measures of the economy such as GDP, Employment and Housing. The table below provides a forecast of these factors prepared by the TD Bank:

<b>Saskatchewan Economic Forecasts</b>			
[ Annual average % change, unless otherwise noted ]			
	2018	2019	2020
Real GDP	1.5	0.8	1.2
Nominal GDP	3.2	2.1	3.8
Employment	0.5	1.4	0.7
Unemployment Rate (%)	6.1	5.5	5.8
Housing Starts (000's)	3.6	2.3	4.1
Existing Home Prices	-2.3	-2.0	-0.2
Home Sales	-7.1	7.9	6.9
Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics			

The Economic Forecast is indicating modest real domestic product growth of 1.2%, a modest increase in employment levels and some recovery in the housing market for 2020.

The overall outlook would be for modest improvement in the Provincial economy which will impact Moose Jaw in terms of new development, job creation and housing demand.

One factor not shown in the chart is the consumer price index which is expected to average 2% in 2020 and has a direct impact on salary settlements as well as the cost of sourcing goods and services.

**\*Note: Source Provincial Economic Forecast – TD Economics – TD Bank**

### **Local Factors -Operating Budgets**

- Building Permit activity is up compared to same period in 2018.
- Major land development projects Carpere and SaskPower are ongoing.
- Job creation activities such as the pilot project for immigrant employees is commencing.

### **Financial Factors – Operating Budgets**

The City is faced with a number of financial challenges as it develops its 2020 Budget. The biggest challenge facing the City of Moose Jaw Operating Budget is very low assessment growth (less than 1%) which in turn results in minimal municipal taxation growth each year. An early view of 2020 municipal taxation estimates are that there will be growth of less than 1%. Each 1% of municipal taxation in 2020 should generate about \$293,000.

Assessment growth in the 2 to 3% range would provide a significant boost to annual revenue growth.

Most of the other revenues in the Operating Budget are expected to remain fairly stagnant with small increases as a result of inflationary factors. The Municipal Revenue Sharing Grant is now tied to 0.75 percentage point of the Provincial Sales Tax (PST) which is 6.0%. Growth in PST is expected to be modest at best as it is directly tied to the economic fortunes of the Provincial economy.

In terms of expenditures, the biggest pressure on the Operating Budget is Salaries and Benefits. Salaries and Benefits account for approximately 58% of Operating Budget expenditures. In 2019, this amounted to \$28,600,000. Each 1% increase amounts to \$286,000. Recent settlements in the Protective Service areas have been significant and have placed additional stresses on Operating Expenditures.

General inflation continues to be a factor and is expected to be in the 2% range for 2020 with the exception of energy costs, which are expected to be higher due to the impact of the Carbon Tax. The impact could be significant as the Carbon Tax and carbon pricing are phased in over the next few years.

The 2020 Budget will start to see the benefit from the projects discussed in the 2019 Budget; such as:

- in-house engineering
- in-house construction crew
- review of core services

The following is a synopsis of increased expenditures:

Salaries and Benefits	\$715,000
Energy Costs	100,000
Non-Salary Costs	<u>344,000</u>
Total	<u>\$1,159,000</u>

New revenues are expected to be \$400,000 while expenditures are estimated at \$1,159,000. This leaves a shortfall of \$759,000.

Each 1% increase in municipal taxation generates about \$293,000. Therefore, it is anticipated that about a 2.60% increase in municipal taxation will be required to balance the Operating Budget. In order to provide for some modest enhancements, a 2020 tax increase in the 3.00% to 3.25% range is projected at this point in time but will be refined as the budget is developed.

### **Financial Factors – Capital Budgets**

The City's Capital Budgets continue to face pressure from the ever increasing need to rehabilitate existing infrastructure. This ranges from streets, underground infrastructure to buildings. All this infrastructure is aging and in need of significant rehabilitation.

This has put significant pressure on the General Capital Reserve Budget and the Waterworks Capital Budget as both areas are seeing significant demands for expenditures. The effects of the 2017 Provincial Budget reductions that significantly impacted the Capital Budget's revenue sources and increased expenditures are still being felt.

There have been a number of capital funding programs announced which include a one-time increase in Gas Tax funding (additional \$2.1 million in funding for 2019) and Investing in Canada Infrastructure Program (ICIP) will provide a significant benefit to the City as previously reported, the ICIP Program from the transit funds will provide the following funding:

Federal – 40%	\$ 6,090,050
Provincial – 33.33%	\$ 5,074,534
Municipal – 26.67%	<u>\$ 4,060,541</u>
Total	<u>\$15,225,125</u>

Current information indicates that 1/3 of funding must be spent on Transit Projects and the remainder can be transferred to other Green Infrastructure Projects. A potential allocation of the funding based upon what Council has previously considered would be the following:

Transit	Federal	\$ 2,000,000
	Provincial	\$ 1,666,500
	Municipal	<u>\$ 1,333,500</u>
	Total	\$ 5,000,000
Cast Iron Pipe Program	Federal	\$ 3,600,000
	Provincial	\$ 2,999,700
	Municipal	<u>\$ 2,400,300</u>
	Total	\$ 9,000,000
Renewable Energy Initiative	Federal	\$ 490,050
	Provincial	\$ 408,334
	Municipal	<u>\$ 326,740</u>
	Total	\$ 1,225,125

Once more detail has been received from the Province on this program and the City's Capital Budget is developed, City Administration will bring a report forward for Council approval.

The Federal Government had also requested expressions of interest for a general pool of Federal funding under the ICIP program. There is no commitment of funds to the City of Moose Jaw, but rather it is a process where projects will be reviewed and monies potentially allocated. The City of Moose Jaw has applied for the following two major Projects under the separate ICIP streams:

- Green Infrastructure Stream - High Service Reservoir and Pump House - \$16,000,000

- Community, Culture and Recreation Infrastructure Stream - Outdoor Aquatic Facility - \$3,750,000

The last area of potential funding is an Infrastructure Levy. City Administration has been tasked with bringing a report to Council on potential options and uses of an Infrastructure Levy. It is anticipated this report will come to Council in September.

The outcome for funding from these programs will have a positive impact on the various areas that the funds are ultimately used in. The areas most in need of funding are the Waterworks Utility and the General Capital Reserve portion of the Capital Budget. That impact will be brought forward to Council in the Preliminary Budget discussion with Council in early October.

## **Conclusion**

The budgets brought forward for Council's consideration later this year must be balanced while meeting the Strategic Plan goals and other identified needs of the community. A budget is ultimately a balancing of the needs and wants of the community with the fiscal resources that are available.

The goal also in budget development is the long-term fiscal sustainability of the programs and services contained in the budget. The City has some ability to affect the revenues and expenditures in the annual budget. This includes:

- Increasing revenues whether through increased taxation or other non-taxation revenue increases.
- Reduction of expenditures including cost savings from efficiencies.
- Adjusting programs and services.
- Strategic use of debt and reserves.

## **PUBLIC AND/OR STAKEHOLDER INVOLVEMENT**

An important aspect of budget development is to inform our citizens of the process and potential impacts that the budget may have upon them. Feedback from citizens is encouraged and taken into account in developing the budget.

## **COMMUNICATION PLAN**

The Communication Plan around the 2020 Budget starts with this public communication to City Council and is intended to inform the public of the factors impacting the 2020 Budget.

The City will also be doing an online consultation on the budget over the summer period and will report the results to Council once they are tabulated. The communication process continues with a public release of the budget by City Administration in November followed by an opportunity for the public to provide feedback to City Council should they so choose to do so. Council then will publicly deliberate on the 2020 Budget.

## **STRATEGIC PLAN**

At the heart of budgeting is the Strategic Plan which provides the overall direction for the organization and forms a template for budget development.

## **PRESENTATION**

VERBAL & VISUAL: The Director of Financial Services will provide a verbal and visual presentation of the report.

## **ATTACHMENTS**

1. 2020 Preliminary Budget Review and Economic Update.

## **REPORT APPROVAL**

Written by: Brian Acker, B.Comm., CPA, CMA, Director of Financial Services  
Reviewed by: Tracy Wittke, Assistant City Clerk  
Approved by: Jim Puffalt, City Manager  
Approved by: Fraser Tolmie, Mayor

*To be completed by the Clerk's Department only.*

Presented to Regular Council or Executive Committee on \_\_\_\_\_.

No. \_\_\_\_\_ Resolution No. \_\_\_\_\_

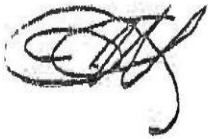
## Report Approval Details

Document Title:	2020 Preliminary Budget Review and Economic Update - EC-2019-0115.docx
Attachments:	- Attach 1 - 2020 Preliminary Budget Review and Economic Update.pdf
Final Approval Date:	Sep 3, 2019

This report and all of its attachments were approved and signed as outlined below:

**No Signature - Task assigned to Tracy Wittke was completed by assistant Maureen Latta**

Tracy Wittke



Jim Puffalt



Fraser Tolmie