



CITY OF ESTEVAN



January 26, 2015

To: His Worship the Mayor
Members of City Council

From: Amber Smale, City Manager

RE: 2015 General Operating Budget

RECOMMENDATION

1. That City Council approve the 2015 General Operating Budget revenues and expenditures as summarized in Appendix A.
2. That City Council approve a municipal mill rate of 11.8 for 2015, which represents .8 or 7% mill rate increase for 2015, Hospital Levy of 0.255 and a Library Levy of 0.35.
3. That City Council increase Landfill Tipping Fees from \$5 to \$10 per trip and Garbage/Recycling Fees from \$5 to \$10 respectively.
4. That City Council approve the use of mill rate factors as follows:

List of mill rate factors in accordance with a uniform mill rate factor of 11.8

Non-Arable (Range)	0.75
Other Agricultural	0.75
Residential	0.72
Multi-Unit Res. Apts >12	1.00
Multi-Unit Res. Apt 4-11	1.00
Multi-Unit Condos	0.72
Commercial - Comm / Ind	1.66
Commercial - Motels	1.66
Commercial - Mall / Sobey's	2.50
Railways & Pipeline	2.50

CONCLUSION

The 2015 General Operating Budget is summarized in the attached budget document. The budget maintains current services and service levels, funds the operating and capital budget submitted by the Board of Police Commissioners and results in a 4.5% municipal mill rate

increase for 2015. The revenue and expenditure projections are subject to a number of uncertainties.

The 2015 General Operating Budget meets the direction provided by City Council at its planning meeting held on December 15, 2014.

The City will continue to be faced with fiscal pressures unless there is a fundamental change in the revenue framework for cities below 100,000 population and if the City does not become more proactive in program delivery and finding process improvements. Without ongoing revenues that are more directly linked to growth and in recognition of the impacts of the oil and gas industry in Estevan, coupled with a broader range of revenue sources, the fiscal pressure will continue.

City Administration have worked diligently to find efficiencies in the 2015 Program and have been able to reduce expenditures as compared to the approved 2014 Budget. Staff will continue to pursue efficiencies as they work towards obtaining the Corporate Strategic Plan.

BACKGROUND AND DISCUSSION

The purpose of this report is to submit to City Council for approval, the 2015 budget for the General Operating Fund.

Section 128(1) of *The Cities Act* states, “a council shall adopt an operating and a capital budget for each financial year”. The 2014 General Capital and Water and Sewer Utility Budget is dealt with in another report submitted to City Council.

This report addresses the 2015 General Operating Budget.

Section 128(2) of *The Cities Act* states that “no council shall pass a property tax bylaw with respect to a financial year unless it has adopted the operating and capital budgets for that year”. Once all the budgets for the City have been adopted, the property tax bylaw that includes the mill rate and mill rate factors can be adopted. The bylaws for the mill rates for the City and the other taxing authorities are being introduced at this meeting.

The following two tables provide a summary of the general operating revenues and expenditures in the 2015 General Operating Budget.

General Operating Budget Revenue & Expenses Summary

General Operations Fund			
Revenue	<u>2015 Budget</u>	<u>2014 Budget</u>	<u>2013 Actual</u>
Taxes and Grants	18,583,223	17,957,970	16,475,730
Fees and Charges	4,652,821	5,037,586	5,807,184
Gain(Loss) on sale of Assets	0	0	0
Land Sales and Offsite Levies	200,000	7,079,260	3,584,828
Other Revenue	0	0	0
Total General Operating Revenue	23,436,044	30,074,816	25,867,742
Expenses			
General Government	4,693,127	4,522,765	4,802,371
Policing	4,799,090	4,378,146	3,944,326
Fire and Rescue	871,100	814,531	581,299
Transportation	4,000,419	4,464,668	3,647,316
Environmental (Cemetery & Landfill)	974,851	993,737	909,704
Planning and Development	440,424	421,288	362,729
Parks and Recreation	4,891,636	4,990,263	5,121,618
General Debt Principal Payments	2,136,019	2,592,955	2,196,583
General Debt Interest	465,969	691,666	411,677
Total General Operating Expenditures	23,272,635	23,870,018	21,977,623
Net Surplus from General Operations	163,409	6,204,798	3,890,119

The **2015 budget for the civic portion of the general operating budget, including capital funding, is about \$23 million.** The taxation revenue listed in the table doesn't include the projected revenue for 2015 based on the proposed mill rate increase.

The 2015 budget for the Board of Police Commissioners is \$4,537,890, an increase of \$160,000 or 3.9% over the 2014 budget.

The budget reflects an increase in provincial funding by the way of a Municipal Operating Grant of 3%. The Province has announced an increase in the revenue sharing grant pool for Saskatchewan municipalities. Estevan's share of this increase is about \$75,000.

The budget reflects debt financing for general operating capital. This includes principal debt repayments of about \$2.1 million per year and interest payments of about \$465,000. These reduce the general fund debt of \$17 million down to \$15 million

The 2015 General Operating Budget was prepared in accordance with a Council direction at its planning meeting held on December 15, 2014.

Budget decisions in 2015 have implications on the level of reserves and capital funding. The City of Estevan has depleted its reserves and had been operating in a deficit position prior to 2014. In an effort to maintain zero property tax increases over the years, debt has been taken out to fund the capital construction program and to balance the budget. Debt is a viable option to fund capital projects when there is an identified revenue stream to repay it and when the debt can be issued over the life of the asset thereby reducing the impact on cash flow.

Additionally, the City continues to subsidize some operating costs by not increasing user fees. The City will place greater focus in 2015 on review its current fee structure and recovering costs effectively through other sources such as water rates, user fees, and licenses.

In balancing the 2015 budget, a property tax increase and issuance of debt is required to fund the 2015 General Capital Program. Annual mill rate increases should be maintained at a moderate level moving forward in order to provide the City with an opportunity to rebuild its financial capacity and address both the growing infrastructure and service level expectations of our residents and visitors in Estevan.

While there is global recognition of the need to increase capital spending to address deteriorating infrastructure, the challenge continues to be finding sources of funding that are predictable and sustainable.

While the additional funding received from the Federal and Provincial Governments is more predictable, it is still at a rate that is not reflective of the current situation in Estevan and the impact the oil and gas industry has on Estevan's infrastructure and economy. South East Saskatchewan plays a key role in the Province's Growth Strategy and is a gateway to the US. Estevan has the opportunity to become a regional hub as evidenced by the highway system through the city.

According to the 2012 Community Profile released by the Estevan Chamber of Commerce, Estevan sees 98,000 visits per day. This means the City is trying to respond to the demands of a City approximately five times its size and the City must consider whether it is providing sufficient funding for capital requirements. It is essential that City Council include the increased capital funding in the 2015 and future budgets if progress is to be made in addressing the existing and growing infrastructure requirements of the City.

Significant risks with respect to the 2015 budget include:

- 1. There is an increased risk of an operating deficit for 2015.** The risk is higher than in prior years due to the expenditure reductions required to reduce the budget gap and lack of sufficient reserves to meet unplanned and/or emergency work.
- 2. Many of the City's revenues and expenditures are subject to change due to external influences.** Many factors impact revenues and/or expenditures including the weather, the cost of fuel, assessment appeals, development levies and land sales, interest rates, user fees, gas rates and electrical rates. There could be positive or negative variances in 2015 due to these factors.

3. Inflationary pressures for municipalities vary considerably from what Canadians think of as the traditional inflation rate (changes to the Consumer Price Index). A large proportion of municipal expenditures are for trades and construction work. Because of the economic strength both in Saskatchewan and the rest of Western Canada, these costs are rising considerably faster than the traditional inflation rate. Many municipalities are now working to develop a systematic way to assess and quantify the inflationary pressures they face. The Municipal Price Index (MPI), based on a “basket of goods” relevant to municipalities, is now being measured across Canada. For Estevan, the forecast 2015 MPI is 4.0% compared to the 2014 Saskatchewan CPI of 2.5%. The difference in these two rates of inflation may undermine the spending power in the City’s budget.
4. The City has significant unfunded liabilities for sick leave and vacation which are payable upon termination of an employee. These amounts are not budgeted for and are typically covered through savings from staffing vacancies.
5. The 2015 budget addresses the challenges presented by rapid economic growth against the challenges of a significant infrastructure renewal and replacement and the expectations of residents that service levels be maintained and enhanced.
6. There is no planned transfer from the Water and Sewer Utility to the General Operating Budget in 2015. This budget has significant projects for 2015 and all funds need to be available to those projects should they continue beyond 2015.

2015 General Capital Program

As outlined in the attached Budget documents, the General Capital program is approximately \$7,990,000 and is currently not funded. It is recommended that the City Council pursue the following funding options in relation to this program:

- 1) Property Tax Increase of 7%
- 2) Issue long-term debt in the amount of \$5,000,000 to be repaid over 20 years
- 3) Library Levy of .35 mill
- 4) Create Commercial Business Licence Fees (projected revenue estimated at \$250,000)
- 5) Increase Garbage Collection and Recycling fees from \$5 to \$10 respectively.
- 6) Increase Landfill Tipping Fees from \$5 to \$10
- 7) Increase water consumption rates by 10%

RECOMMENDATION IMPLICATIONS

Financial

The budget implications are detailed in this report and the attached document. Although the budget proposes an increase in the mill rate of .8 over 2014 or 7%, the municipal taxes for the average home (fair value assessment of \$280,000) would be \$1,622, an increase of \$70 as compared to the 2014 municipal property taxes and remain among the lowest in Saskatchewan.

Current Home Value	200,000.00	300,000.00	450,000.00
Municipal portion of taxes	1,108.80	1,663.20	2,494.80
Hospital Levy (.255)	39.27	58.91	88.36
Annual Cost of 7% tax increase for 2015	81.00	121.00	182.00
Annual Cost of Library Levy (.35)	53.90	80.85	121.28

Policy and/Strategic

The City has a duty to look after its assets and therefore not having a capital program is not an option. With the lack of reserves and desire to reduce the property tax burden, the City can't avoid increasing user fees or considering long-term debt. There are outstanding projects that need to be cleared up due to their legal or legislative implications. With these out of the way, the City is in a better position to move forward with a practical capital program and better prepared to develop financing requirements over the next five years.

COMMUNICATION PLAN

Information on the 2015 budget has been distributed to employees, civic unions and as authorized by City Council was released to the media. In addition, the 2015 General Operating Budget documents are available on the City's web site.

DELEGATED AUTHORITY

The disposition of this report requires City Council approval.

Respectfully submitted,

Amber Smale
City Manager