

August 1, 2018

To: Members
Executive Committee

Re: 2019 Preliminary Budget Review and Economic Update

RECOMMENDATION

That this report be received and filed.

CONCLUSION

Over the years, the City of Regina has demonstrated strong financial management balancing service level sustainability with affordability. This is reflected in the credit rating of AA+ with a positive outlook provided by Standard and Poors. This is also reflected in the 2016 Municipal Benchmarking Network Canada (MBN) results which show Regina having the lowest municipal operating expenses per capita of the 15 municipalities included in MBN's statistics. Moving forward the City is faced with a number of financial challenges. While some of these challenges are not unique to Regina, they will continue to require strong financial management, decision making, and prioritization of community priorities to achieve long term financial viability, service level sustainability, and achievement of the long-term objectives of *Design Regina: The Official Community Plan (OCP)*.

This report provides a high-level summary of external environmental factors and the financial context in which the City of Regina's 2019 budget will be developed. Highlights include:

- Economic indicators show a mixture of results that are both positive but, in some cases, challenging as it relates to 2019 budget development;
- General increases in the cost of providing services (e.g., inflation and general economic wage increases) outstrip general or natural increases in City revenues (e.g., growth of the property tax base);
- Key reserves have low balances;
- The current debt limit and potential need for City related entities to finance capital plans may limit the ability to use debt as a funding source for future capital projects; and
- Long term financial and service sustainability need to be considered as part of the 2019 budget development process.

BACKGROUND

The City of Regina utilizes a planning framework that integrates long-term thinking and planning in the development of the annual budget. The OCP, long-term plans and policies, and the four-year strategic plan provide direction when developing the annual budget. As well, throughout the year members of the City's executive leadership team (ELT) attend Council and Council committee meetings. At these meetings, ELT receives input and direction from Council

that informs budget development. In addition, more immediate-term issues, including current and emerging economic conditions provide added context in the development of the annual budget.

Each year, the City gathers inputs and information from this planning framework to establish an annual business plan and budget for delivering on the plan. Administration's work on the development of the budget includes thoughtful consideration of various factors (short and long term) to maintain a balance between service levels, expectations, and affordability. City Council has the ultimate responsibility to set the direction and approve the annual budget.

DISCUSSION

External Environmental Factors

The City of Regina considers external environmental factors as it manages during the year and these factors help inform the development of the upcoming annual plan and budget. As part of the 2019 planning and budget process, Administration undertook an environmental scan of the conditions that provide context for financial decision-making.

With GDP growth expected at approximately 2%, Saskatchewan and Regina's economy are picking up from the last two years, but the impact of the economic downturn is still being felt in provincial and municipal budgeting. The Consumer Price Index (CPI), an indicator of expected non-salary cost increases, is forecast to be steady at about two per cent, slightly higher than the last few years. While Regina's unemployment rate is lower than the provincial average, it is higher than earlier in the decade reflecting a healthy labour market enabling the City to recruit and retain employees more easily than in the past.

Population growth continues to fall in line with the forecasts in the OCP and is driven by international immigration. Population growth places additional pressure on City services to meet growing demand and impacting the type of services Regina residents seek from the City.

Financial Factors - Operating

The City is faced with a number of financial challenges as it develops the 2019 budget. Overall, general increases in the cost of providing services (e.g., inflation and general economic wage increases) outstrip general or natural increases in City revenues (e.g., growth of the property tax base).

During the year, Council has passed motions that require several items to be considered as part of the 2019 budget. In addition, opportunities to advance the OCP will be considered as part of the budget process. These items potentially place additional expenditure pressures on the budget. As well, Council commitments to the Residential Road Renewal Program (one per cent per year mill rate increase) and Mosaic Stadium financing (0.45 per cent per year mill rate increase) continue in the 2019 budget.

The expenditure pressures faced by the City are compounded by the inability to quickly and easily generate new revenue. Property taxes are the main source of revenue for the City with the balance of revenues coming from fees and charges, and grants from other levels of government. The ability to access other forms of taxation is limited by legislation and has resulted in the City

generating a larger portion of its overall revenue from property taxes. Growth in the City property tax base leads to a natural increase in property tax revenue (i.e., revenue growth without mill rate increases). This natural growth in property tax revenue is expected to be less than the increased cost of maintaining services. This creates challenges as Administration attempts to balance the increasing costs of providing services with the desire to keep property taxes affordable.

To help offset this, Administration has worked hard to find efficiencies and over the past two years has found more than \$9 million in operating savings. Administration continues to review City operations for additional efficiencies and savings. Even with these savings, operating costs continue to increase due to inflation, increased utilization of services, general wage increases, etc., putting pressure on the cost of providing services.

Financial Factors - Capital

The City's capital program is also under considerable pressure including:

- Need to replace aging infrastructure – Age of infrastructure and lack of adequately funded asset maintenance programs in the past are starting to catch up on the City.
- New infrastructure required to support a growing population and advance the community's vision of being Canada's most vibrant, inclusive, attractive, sustainable community, where people live in harmony and thrive in opportunity,
- Shortfall in facility asset maintenance program. This program is intended to preserve existing City facility assets through prudent facility maintenance (like roof replacements, structural maintenance, mechanical systems replacements, etc.).
- Capital needs exceeding capital funding sources.

Capital projects are primarily funded from current year contributions from property taxes, reserves, debt, and 3rd party funding. With respect to reserves, the current challenge relates to the low level of funding currently held within the City's two main reserves, the General Fund Reserve and the Asset Revitalization Reserve. Reserves are critical to the City's goal of achieving long-term financial viability. They enable the City to smooth the effect of variable or unanticipated expenditures, provide funding for one-time requirements, and support equitable allocation of costs by allowing users to pay for the cost of maintaining and replacing assets. Reserves also help the City minimize the use of debt to fund projects and support a strong credit rating.

Two main reserves, the Asset Revitalization Reserve and the General Fund Reserve, provide Council with the most flexibility to address immediate and unexpected opportunities. The anticipated balance at the end of 2018 for these reserves is \$0 in the Asset Revitalization Reserve and \$8 million in the General Fund Reserve. In the past, these reserves have been used by Council to take advantage of opportunities that have presented themselves like the purchase of the former STC building to address the Regina Police Service's facility needs, the highest priority project for facility renewal. However, looking forward, the ability to access these two key reserves to fund capital projects will be limited over the short to medium term compared to previous years.

Over the past five years, the City of Regina has reported year-end surpluses that have mainly been the result of investment income and capital gains on bonds. Investment income has decreased substantially from previous years and is expected to continue to decrease in the future. This combined with improved forecasting and budgeting systems is expected to result in smaller surpluses in future years resulting in less funding being transferred to reserves at year end than in the past. As a result, rebuilding of these reserves will take time.

With respect to current debt, the current debt limit, and the potential need for City related entities, such as the Buffalo Pound Water Treatment Corporation, to finance capital plans may limit the ability to use debt as a funding source for future capital projects. Debt of City related entities count toward the City's debt limit.

In summary, meeting all the City's capital needs over the next ten years currently exceeds the City's ability to fund. Prioritization of capital projects will be a critical part of the 2019 budget development process.

Meeting the Challenge

The budget needs to be balanced while funding the delivery of services, renewing and investing in infrastructure, and making progress toward the community's goals over the longer-term as described in the OCP. It is Administration's responsibility to recommend and propose ways to advance the OCP priorities as well as continually balance the wants and needs of citizens with their willingness and ability to pay for the important services delivered by the City. This will require making difficult choices, prioritizing the needs of the community, and continued strong financial management.

While budget development focuses on 2019, long term financial and service sustainability need to be considered as part of the 2019 budget development process. There are a number of levers that can be used to bring alignment to revenues and expenses, each with its own set of opportunities and challenges. These levers include increasing revenues, reducing expenditures through cost savings/restraint or adjusting services, and the strategic use of debt and reserves.

Administration will be engaging Council and residents for input into the 2019 Budget as the budget process moves forward. Knowing Council and resident priorities will help guide the development of the budget and related recommendations.

RECOMMENDATION IMPLICATIONS

Financial Implications

Long-term financial viability and service sustainability is a key challenge facing the City due to numerous contributing factors including external influences, increased demand for services beyond those traditionally provided, cost shifting from other levels of government, aging infrastructure and constraints on revenue growth. While some of these challenges are not unique to Regina, they will continue to require strong financial management, decision making, and prioritization of community priorities to achieve long term financial viability, service level sustainability, and achievement of the long-term objectives of the OCP.

Environmental Implications

None related to this report

Policy and/or Strategic Implications

One of the community priorities in the OCP is to ‘achieve long-term financial viability’ which entails spending money wisely to ensure the City’s ability to manage its services and amenities both now and in the future. This report is intended to bring awareness and inform future decisions in order to achieve this community priority.

Other Implications

None related to this report.

Accessibility Implications

None related to this report.

COMMUNICATIONS

None related to this report.

DELEGATED AUTHORITY

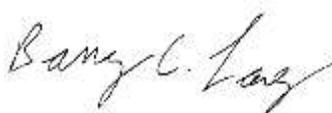
None related to this report.

Respectfully submitted,



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