CITY OF PRINCE ALBERT

SPECIAL CITY COUNCIL MEETING

AGENDA

SATURDAY, MAY 27, 2006

9:30 a.m. or later following the Budget Committee's Operating Budget Meeting

COUNCIL CHAMBER CITY HALL

1. CALL TO ORDER:

Mayor J. Stiglitz will call the meeting to Order.

2. PRAYER:

The City Clerk will offer the prayer.

3. REPORTS OF ADMINISTRATION & COMMITTEES:

Page No.

3.1 **Ratification of the Confidential Issues related to Legal, Land, Labour and Advise from Administration matters that will be considered at the Incamera Budget**

Committee Meeting held following the Budget Committee Meeting on Friday, May 26, 2006.

3.2 **Adoption of Recommendations from Budget Committee Meetings with respect to the 2006 Operating and Capital Budgets.**

Recommendations:

1. *That the Issues Detail List of the 2006 City of Prince Albert Operating Budget and the recommendations contained therein be approved, as amended.*

2. *That The City of Prince Albert 2006 Operating Budget in the amount of $_____, be approved.*

3. *That the Issues Detail List of the 2006 City of Prince Albert Capital Budget and the recommendations contained therein be approved, as amended.*

4. *That The City of Prince Albert 2006 Capital Budget in the amount of $_____, be approved.*

5. *That the Prince Albert Police Services Operating Budget in the amount of $_____, be approved.*

6. *That the Prince Albert Police Services Capital Budget in the amount of $____, be approved.*

3.3 Report from City Manager dated May 8, 2006, with respect to **2006 Budget Report (RPT #CM-06-12).** 1

Details of the 2006 City of Prince Albert Operating and Capital Budgets and related reference material are available for viewing at the City Clerk's Office, Room 208, City Hall, 1084 Central Avenue, or on The City of Prince Albert website at www.citypa.ca.

Recommendations:

"<u>Debt and Reserves</u>

1. *That City Council approve in principle, the Debt and Reserve Action Plans contained within the*

Report from the City Manager dated May 8, 2006, and that Detailed Forecasts and Implementation Plans be developed.

Budget Resolutions

2. *That City Council approve the 2006 Budget, as presented.*

3. *That a 1% cumulative Capital Levy be approved."*

3.4 Report from City Assessor dated May 5, 2006, with respect to **2006 Tax Policy – Mill Rates and Mill Rate Factors. (BYLAW NOS. 14 AND 15 OF 2006)** **54**

Recommendations:

"1. That City Council set mill rate factors reflecting Option No. ______, as outlined on page 4 of the Report from the City Assessor dated May 5, 2006;

2. That City Council, upon finalizing the 2006 Operating Budget, set the mill rate at a number necessary to raise the required tax revenue from the taxable assessment of $897,513,700; and,

3. That Bylaw Nos. 14 and 15 of 2006 be laid on the table and brought up under the Order of Business "Introduction and Consideration of Bylaws"."

4. INTRODUCTION & CONSIDERATION OF BYLAWS:

4.1 **Bylaw No. 14 of 2006, A Bylaw to raise the amount of Taxes required for General Municipal, Debt Elimination and School purposes in The City of Prince Albert for 2006. (3 Readings)** **63**

4.2 **Bylaw No. 15 of 2006, A Bylaw to establish Mill Rate Factors. (3 Readings)** **66**

5. ADJOURNMENT:

City of Prince Albert

REPORT APPROVAL FORM

Report Title:	2006 Budget Report (RPT#CM-06-12)	**Date:**	May 8, 2006
Prepared By:	Roman Martiuk, City Manager		
Prepared For:	**City Council**		

Approval Required By:		**Report Type:** *Routine* ☐ *Substantive* ☒ *Financial* ☒
City Manager	☒	R Martiuk
Director of Financial Services	☒	[signature]
Director of Public Works	☐	
Director of Community Services	☐	
Director of Ec.Dev& Planning	☐	
Fire Chief & Dir. of Emerg. Services	☐	
Chief of Police	☐	
City Solicitor	☐	
Human Resources Manager	☐	
	☐	

Report Type ~ Definitions:

Routine	*Matters that are routine in nature and/or follow existing Council policy require Department Head approval only*
Substantive	*Matters that require the concurrence of more than one department and/or are complex in nature and require the approval of the City Manager prior to being provided to elected officials*
Financial	*Matters that have substantial or unusual financial implications require the approval of the Director of Financial Services*

City of Prince Albert
REPORT

Report Title: **2006 Budget Report (RPT#CM-06-12)**

Date: **May 8, 2006**

Prepared By: **Roman Martiuk, City Manager**

Prepared For: **City Council**

RECOMMENDATIONS:

Debt and Reserves

1. That the City approve in principle, the debt and reserve action plans contained within RPT#CM-06-12, and that detailed forecasts and implementation plans be developed.

Budget Resolutions

2. That Council approve the 2006 Budget as presented.

3. That a 1% cumulative Capital Levy be approved.

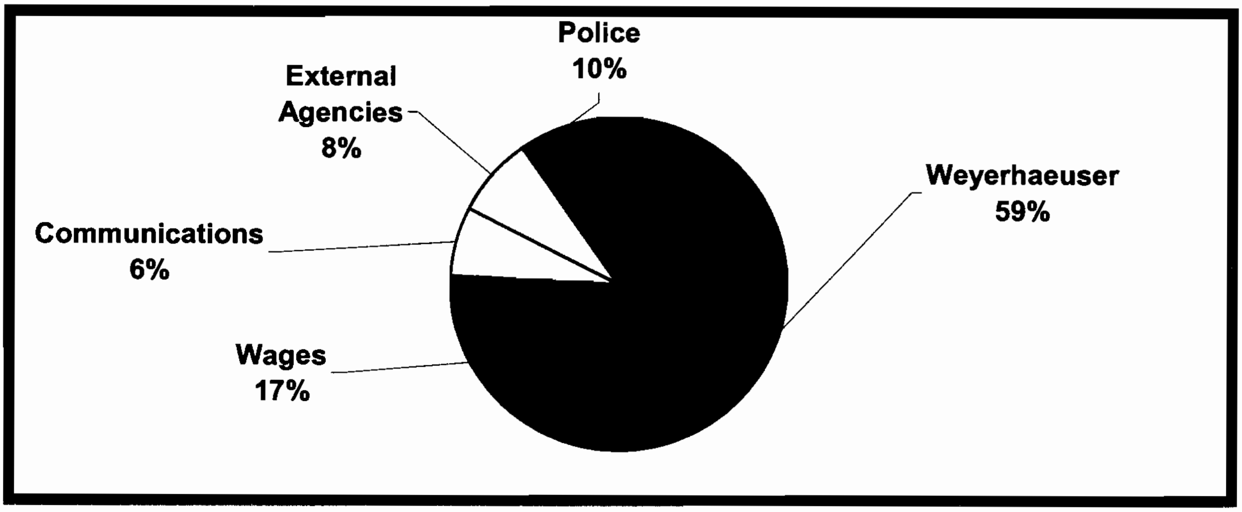
JUSTIFICATION FOR INCAMERA:
N/A

REPORT:

January 2006 Analysis ~ Cost Drivers – $2.337 Million

In January of 2006, City Council reviewed the financial challenges facing the City. At that time, the City was facing $2.3 million of cost issues.

In order to provide information to Council, Administration estimated the key cost drivers being faced at that time. The larger ticket items were:



The 2006 Budget represents a significant challenge for The City of Prince Albert. The key issue facing the City is the closure of the Weyerhaeuser Mill and the implications on the community and the City's Budget. **In 2005, the City received $3.3 million from the Mill. This amount is equivalent to 19% of the City's Tax Levy.**

Annual Revenues from Weyerhaeuser are as follows:

- *Energy Surcharges ~ 1.6 million*
- *Taxes ~ 1.7 million*

Total Revenue ~ $3.3 million dollars

Approximately $1.4 million of this Revenue will be lost in 2006.

At that time, City Council approved a Budget Plan (attached) and approved the following motion:

City Council Motion – January 30, 2006

055. *That the Report from City Manager dated January 18, 2006, with respect to 2006 Budget be received; and, that the following recommendations of the City Manager, as contained therein, be approved:*

"1. That a Budget Committee be established comprised of all Members of Council with the Mayor as Chairperson.

2. That the following Budget Meetings be set:

a. Public Consultation meeting: April 19, 2006 from 7:00 p.m. to 9:00 p.m.

b. *Capital Budget Review: April 21, 2006 from 9:00 a.m. to 4:00 p.m.*

c. *Operating Budget Review: April 22, 2006 from 9:00 a.m. to 4:00 p.m.*

3. *That Council provide the following direction in preparing the 2006 budget:*

   a. *That City Departments submit budgets reflecting a 10% reduction from 2005.*

   b. *That the Prince Albert Police Service submit a budget reflecting a 2% reduction from 2005.*

   c. *That other external agencies submit budgets reflecting a 2% reduction from 2006 base levels."*

Since January of 2006, the Administration has:

1. Removed One Time Expenditures

In approving the 2005 Budget, Council approved both annual and one time expenditures. Under the new budget system one time expenditures should not cause a permanent increase in a budget area. These funds need to be extracted out of departmental budgets so that they are available for the 2006 Budget needs regardless of which department those needs arise. Based on the 2005 approvals, all one time funding was ***"backed out"*** (removed) from the 2006 starting point. **This resulted in savings of $158,230 or approximately 1% of the Budget.**

2. Established a Base Budget

The Base Budget represents the appropriate starting point for budget deliberations. The Base Budget is comprised of the 2005 Council approved Budget less one time expenditures, plus annualizations of 2005 part year Council Budget decisions, and plus base adjustments.

Base Adjustments are limited to costs arising from binding legal contracts that Council has previously approved.

For example, Council approved the CUPE Local 160 Collective Agreement. As a result, wage accounts include a base adjustment providing for 6.5% reflecting 2004, 2005 and 2006 adjustments. **A total of $854,150 in Base Adjustments are included within the Budget and itemized in Tab 2, Page 2.**

3. *Reviewed the Budget Line by Line – Management Recommendations*

The City Manager, Director of Financial Services and each Department Head have reviewed 2600 individual accounts.

The purpose of the review was to:

a) *trim where possible;*

b) *question and understand where budget dollars are spent; and,*

c) *stimulate dialogue to identify cost savings proposals.*

Administration has been once again extremely successful and has identified savings of $382,390 or 2.2% of the tax levy through an account by account review ($572,940 in reductions less $190,550 in account additions) as itemized in Tab 2, Page 1. These adjustments do not effect service levels.

The remaining budget is much leaner than it has been historically. Management will have to monitor the budget more closely to ensure that the new financial targets are met. Council should be aware that the various operating departments no longer carry significant contingencies. As a result, Council should expect that unforeseen financial issues might arise that require the reallocation of resources part way through the budget year. **In 2005, $855,000 was trimmed in the same process bringing the two year total to $1.25 million or about 7.3% of the tax levy.**

4. *Developed Budgetary Issues (Policy Decisions for Council)*

Administration has also identified proposed service level and policy changes for Council's consideration. Each "issue" has a short write up. The intent of the issues is to ensure that Council is fully aware of the service and policy implications of the budget. These issues are structured as yes/no proposals for Council's consideration.

Similar to 2005, the following ranking scheme was utilized:

Category 0 – Base Budget Adjustments

Base adjustments refer to annualizations, removal of one-time charges and other contractual matters. Though there is little discretion, the issues are identified and explained to help the reader understand cost drivers of the budget.

Category 1 – Legislated/Legally Required

Council is either required by legislation to take action, or has previously authorized taking action, however, some discretion still exists. In general, all Category 1's should be funded.

Category 2 – Savings via Service Level Reductions and User Fees

Issues in this category are savings that result from service level reductions or user fees increases. Council may wish to approve all, some or none, based on the merit of each change.

Category 3 – Costs to Maintain Level of Service

Expenditures in this category are required to maintain the existing level of service. In general all Category 3's should be funded in order to maintain the current level of service.

Category 4 – New Service Levels or Projects

Category 4's represent, for the most part, new service levels or projects. In general, while Category 4's may be important, Council may wish to fund all, some or none, based on each issue's individual merits.

Category 5 – Financial Issues

The City is facing significant financial challenges. Category 5's represent high-level financial policy issues.

Category 6 – Identified and Not Recommended

Category 6's represent issues requiring disclosure to Council. Administration is not recommending approval for the reasons stated.

Council will be asked to deal with 184 policy issues, and in doing so, will set the Budget.

5. Reviewed and Developed the Capital Budget Project by Project

The Capital Budget was reviewed on a project by project basis. New for 2006 is the development of a 5 Year Capital Program close to being balanced. The Capital Program should represent a long range funding plan. Departments were asked to identify needs. The original requests were significantly higher than available resources. **Administration has reviewed and trimmed in excess of $13.0 million from the preliminary requests.**

6. *Developed Long Range Financial Plans*

New for 2006 is the development of long range financial plans. Historically the City has focused on the current year and did not develop long range objectives. Given the City's debt and reserve position, a long range forecast of debt and reserves is useful to put major policy decisions in context. These long range plans will be provided under separate cover.

Budget Summary

The Budget can be summarized in the following table:

The Base Budget reflects previous Council authorized annualizations and contract adjustments to carry on services at 2005 levels. The Difference to Base Budget Column shows the real contributions made by each Department. The Difference 2005 to 2006 Column shows the reduction below last year's approved Budget. **The reduction is substantial at $1.5 million or 20% of the Budget.**

OPERATING BUDGET - GENERAL FUND

Departments	2005 Budget	2006 Base Budget	2006 Recommended Budget	Difference 2005 to 2006	Percent Change	Difference to Base Budget	Percent Change
City Manager	$729,730	$823,570	$762,350	$32,620	4%	($61,220)	-7%
Corporate Services	$958,300	$1,043,380	$1,043,210	$84,910	9%	($170)	0%
Community Services	$4,058,370	$4,231,450	$3,745,150	($313,220)	-8%	($486,300)	-11%
Eco Dev & Planning	$264,840	$310,730	$225,600	($39,240)	-15%	($85,130)	-27%
Financial Services	$1,818,580	$1,925,500	$1,840,800	$22,220	1%	($84,700)	-4%
Public Works	$3,804,860	$3,951,560	$3,428,850	($376,010)	-10%	($522,710)	-13%
Fire Services	$3,489,590	$3,492,790	$3,484,210	($5,380)	0%	($8,580)	0%
General Gov't	($7,521,780)	($7,470,500)	($8,410,200)	($888,420)	-12%	($939,700)	-13%
City Departments TOTAL	**$7,602,490**	**$8,308,480**	**$6,119,970**	**($1,482,520)**	-20%	**($2,188,510)**	-26%

Agencies	2005 Budget	2006 Base Budget	2006 Proposed Budget	Difference 2005 to 2006	Percent Change
Wapiti Library	$1,059,330	$1,059,330	$1,038,140	($21,190)	-2%
JMC Library	$192,110	$186,150	$202,500	$10,390	5%
Special Needs Transport	$315,120	$315,120	$308,340	($6,780)	-2%
Seniors Transport	$45,570	$41,460	$40,630	($4,940)	-11%
PA Arts Board	$68,600	$68,600	$67,230	($1,370)	-2%
Animal Control	$10,500	$10,500	$10,290	($210)	-2%
PAREDA	$105,550	$105,550	$105,550	$0	0%
PA & District Planning Commission	$38,210	$38,210	$37,440	($770)	-2%
Total	**$1,834,990**	**$1,824,920**	**$1,810,120**	**($24,870)**	-1%
City Police	$7,713,120	$7,719,390	$7,711,350	($1,770)	0%
External Agency TOTAL	**$9,548,110**	**$9,544,310**	**$9,521,470**	**($26,640)**	0%

Consolidated City TOTAL	2005 Budget	2006 Base Budget	2006 Recommended Budget
Impact of Weyerhaeuser Mill Closure			$1,419,030
Capital Levy			$170,000
Adjustment for Assessment Growth			$90,640
Property Taxes Required	$17,150,600	$17,150,600	$17,321,110

OPERATING BUDGET

Budget By Category	Amount (in millions)	Cumulative (in millions)	Tax Impact	Percentage of City Departments
2005 Budget	$17.2	$17.2		
Management Recommendations	-$0.4	$16.8	-2.2%	-5.0%
Base Adjustments	$0.9	$17.7	2.7%	6.2%
Policy Decisions by Category				
1. Legislated	-$0.9	$16.8	-2.4%	-5.6%
2. Service Level Reductions and Fees	-$1.8	$15.0	-12.9%	-29.3%
3. Cost to Maintain Service	$0.6	$15.6	-9.4%	-21.3%
4. New Services	$0.1	$15.7	-8.6%	-19.5%
City Total	**15.7**	**$15.7**	**-8.6%**	**-19.5%**
Other External Agencies	$0.0	$15.7	-8.7%	
Police	$0.0	$15.7	-8.8%	
Weyerhaeuser Mill Shutdown	$1.4	$17.1	-0.5%	
Capital Levy	$0.2	$17.3	0.5%	
Recommended		$17.3	**0.5%**	
Identified and not Recommended	$0.0	$17.4	0.6%	

The following table outlines the cost containment over the past 2 years. City reductions to normal operations total $3.2 million. City Department Operating Budgets are $3.2 million lower than 2004 and those savings have been applied to enhance the roads program, reduce debt, fund Police and are proposed to absorb the impact of the Mill Shutdown.

In addition, City Departments have absorbed $1.4 million in new costs bringing total cost containment performance to $4.5 million over 2 years.

City Department Total Cost Containment

The percentages are calculated on net City Departmental Budgets. (excluding Police and External Agencies)

Budget Performance (in millions)	2006 Amount	2006 %	2005 Amount	2005 %	Total Amount	Total %	% of Levy
Actual Reduction below previous Year	($1.5)	-19.5%	($1.7)	-21.7%	($3.2)	-41.9%	-18.5%
Major Costs Absorbed							
Base Adjustments & Wage Adjustments	($1.2)		($0.7)		($1.9)		
Communications Initiative	($0.1)						
Total reductions	($2.8)		($2.4)		($5.1)		
Add back new Provincial Support	$0.5				$0.5		
Net City Department Performance	($2.2)	-29.0%	($2.3)	-29.9%	($4.5)	-59.8%	-26.5%
Utilization of Savings							
Weyerhaeuser	$1.4						
Other	$0.1						
Roads			$0.9				
Debt Reduction			$0.5				
Police			$0.2				
Other			$0.1				
	$1.5		$1.7				

2006 Capital Budget

City Council has indicated that Infrastructure is a major priority. City Administration, in response to Council's direction, has been compiling the various identified needs. The Budget Review has:

1) trimmed in excess of $13.0 million from initial requests over the 5 year planning period;
2) focused spending on maintaining existing facilities;
3) pushed out all requests for new community facilities past 2010 and/or identified them as 100% community fundraising;
4) eliminated the majority of vehicle requests until the completion of the Fleet Rationalization Study;
5) focused spending on Council's stated priority, namely roads; and,
6) the documents do not yet include the Soccer Facility.

Later in this report a financial plan is proposed for the Soccer Facility.

Infrastructure

In 2005, a Road Condition Study was completed by Stantec. The study can be summarized as follows:

Roads Condition (measured by PCI index)	Percent Deficient Over Planning Period	Backlog Cost
Arterial Roads	68%	$1.7 million
Collector	94%	$3.8 million
Other	90%	$18.9 million
Sidewalks	10%	$2.1 million
Total		**$26.5 million**
Estimated Annual Investment required to Maintain current PCI (Based on 2005 Stantec Road Condition Survey)		$2.5 million
Average annual investment 2000-2004		$0.5 million
Shortfall		$2.0 million annually
Additional investment required to eliminate backlog over 20 years.		$1.3 million annually (2006 dollars)
Total Roadway Shortfall		**$3.3 million annually**

In 2005, $1.9 million was allocated to roads. This represented a large increase from historical spending of approximately $500,000 per year. The 5 Year Forecast redirects an additional $2.9 million spending to roads from other uses and achieves the recommended $2.5 million annual road recap funding by 2007. This is done within existing budgets and represents a $500,000 increase in program for 2006, bringing the total 2006 Program to $2.4 million.

KEY FINANCIAL ISSUES:

In 2005, the City adopted a new Budget System. The new system has the following features:

1) Council establishing targets at the start of the process.

2) The Administration

    a. reviews the budget line by line;
    b. all policy, staffing and service level decisions are highlighted as "Issues"; and,
    c. each issue has a brief explanation or accompanying report.

3) Council sets the Budget by making the required policy decisions.

The process continues to evolve. The key improvements for 2006 are:

- the system has been extended to the Capital Budget;
- each Capital Project has greater explanation;
- the Capital Budget is near balanced to available funding over 5 years;
- long range financial plans and analysis provided (under separate cover); and,
- Capital Budget limit set to $10,000.

The following section of the report deals with the major financial issues and benchmark statistics:

1. Debt and Reserves
2. Taxation
3. Land Fund
4. Fleet & Overtime
5. Facility Management
6. Police Service Issues
7. Cooke Municipal Golf Course
8. Cost Allocations
9. Provincial Funding Issues
10. Fiscal Stabilization

1. Debt and Reserves:

Unlike the private sector, municipalities cannot use debt interest payments to reduce taxes payable or lever return on investment. Debt for municipalities represent a cost. Progressive municipalities strive to fund all capital operations from current resources and borrow for only the largest projects. Such a philosophy is often called “pay as you go”. Simply put, you only spend what you have and borrow very rarely. Under the pay as you go philosophy it is common to set aside funds for future needs. Such reserve fund practices assist the City in achieving liquidity, assist in avoiding budget spikes and reduce ongoing borrowing costs as reserve funds can be used to interim finance City operations. In order to assess the state of the City’s debt and reserves, a benchmarking study of the largest thirteen Saskatchewan Municipalities was undertaken in 2005. That study has been updated. *Please note that at the time of writing, the 2005 year end is not complete, and the amounts may change materially.*

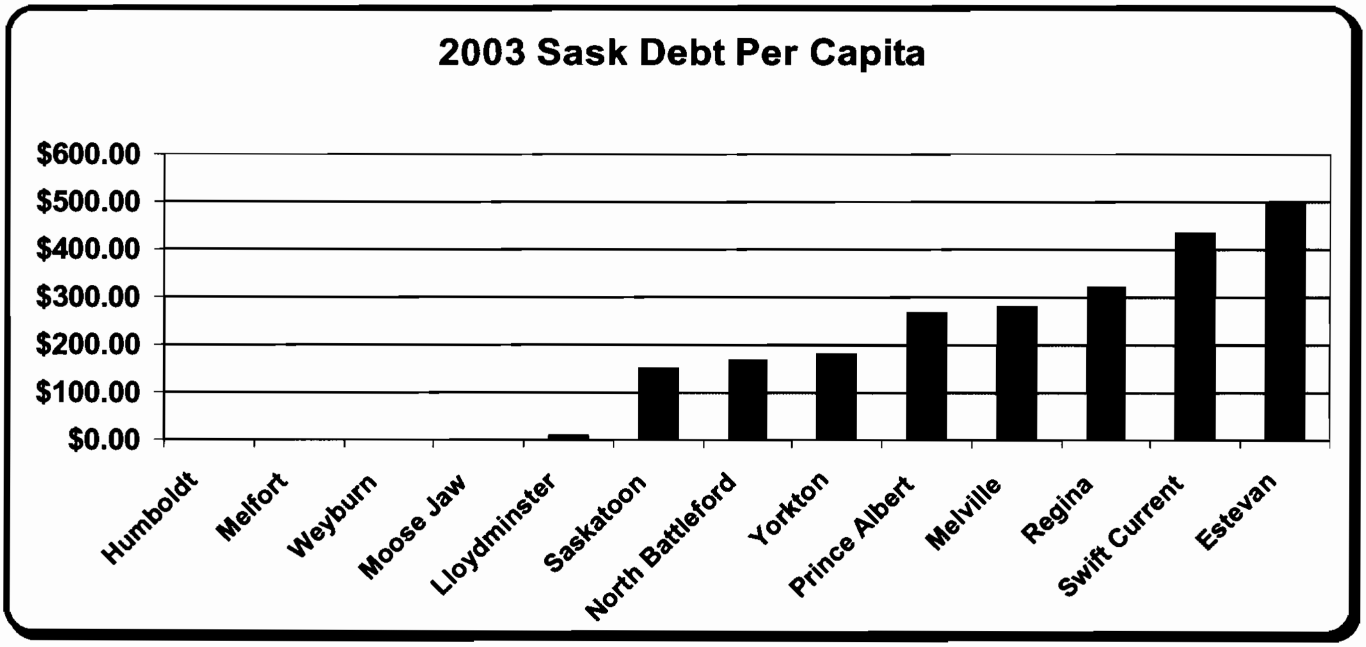
Prince Albert Debt	**As of December 31, 2003**			**2004**			[redacted]	
Measure	**Millions**	**Debt Per Capita**	**Rank (out of 13)**	**Millions**	**Debt Per Capita**	**Rank (out of 13)**	**Millions**	**Debt Per Capita**
Debt	$9.19			$8.10			$7.72	
Art Hauser Commitment	$0			$2.80			$2.80	
Total	**$9.19**	**$268**	**9th**	**$10.90**	**$318**	**8th**	**$10.52**	**$307**
Land Fund	$3.28			$3.45			$3.97	
South Industrial Phase II *(1)*	$0			$0			$0.6	
Restated Debt	**$12.48**	**$364**	**11th**	**$14.36**	**$419**	**9th**	**$15.09**	**$440**

Prince Albert Reserves	**As of December 31, 2003**			**2004**			[redacted]	
Measure	**Millions**	**Reserves Per Capita**	**Rank (out of 13)**	**Millions**	**Reserves Per Capita**	**Rank (out of 13)**	**Millions**	**Reserves Per Capita**
Reserves	$5.14			$6.10			$7.37	
Land Fund	($1.83			($1.83)			($1.33)	
Restated Reserves	**$3.31**	**$96**	**13th**	**$4.26**	**$124**	**13th**	**$6.04**	**$176**

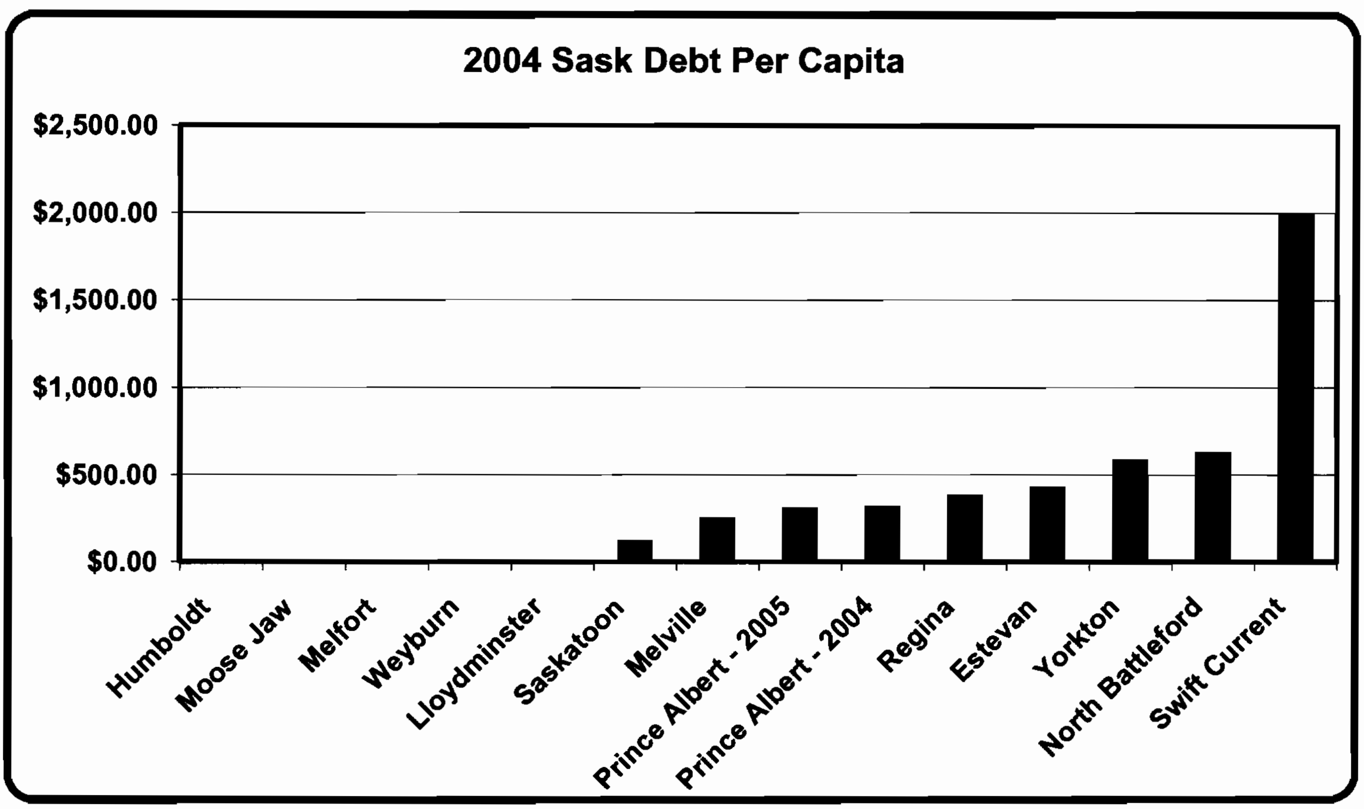
Note (1): In the 2005 Budget Report, the South Industrial Phase II commitment was estimated at $2.0 million. As a result of a major land sale, the outstanding amount has been reduced to $0.6 million.

Benchmarking Study

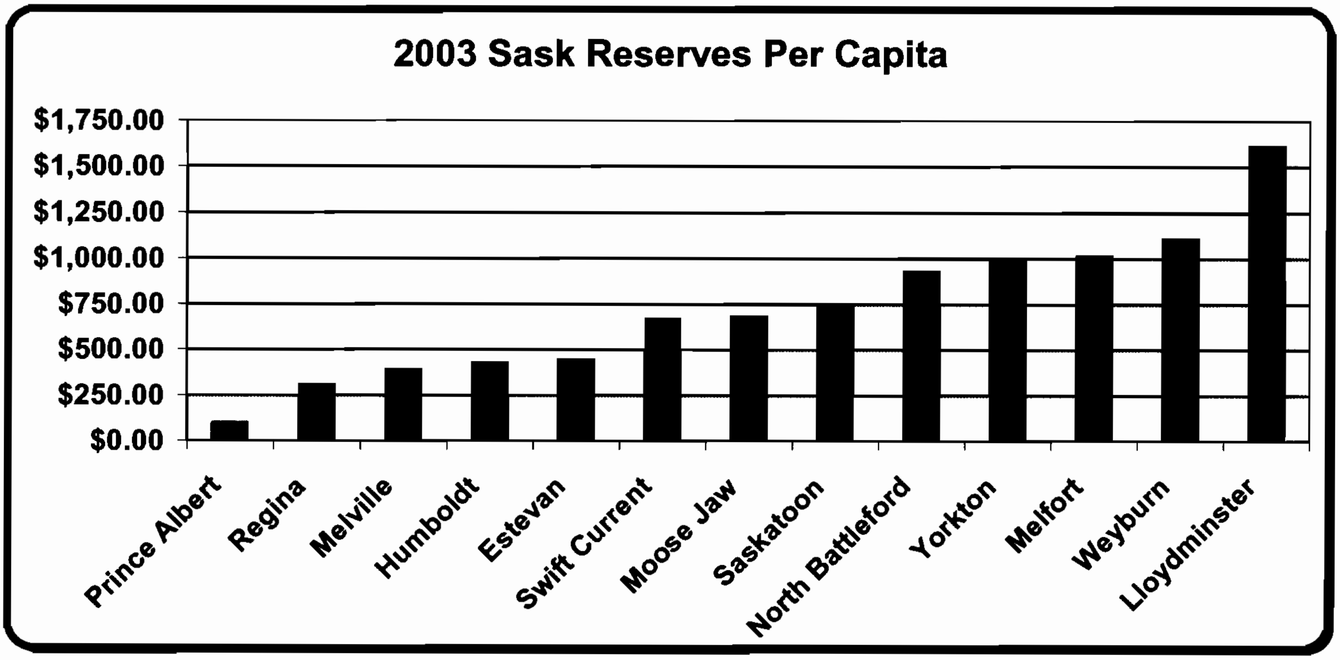
2003 ~ Prince Albert Debt - Ranked 9 out of 13



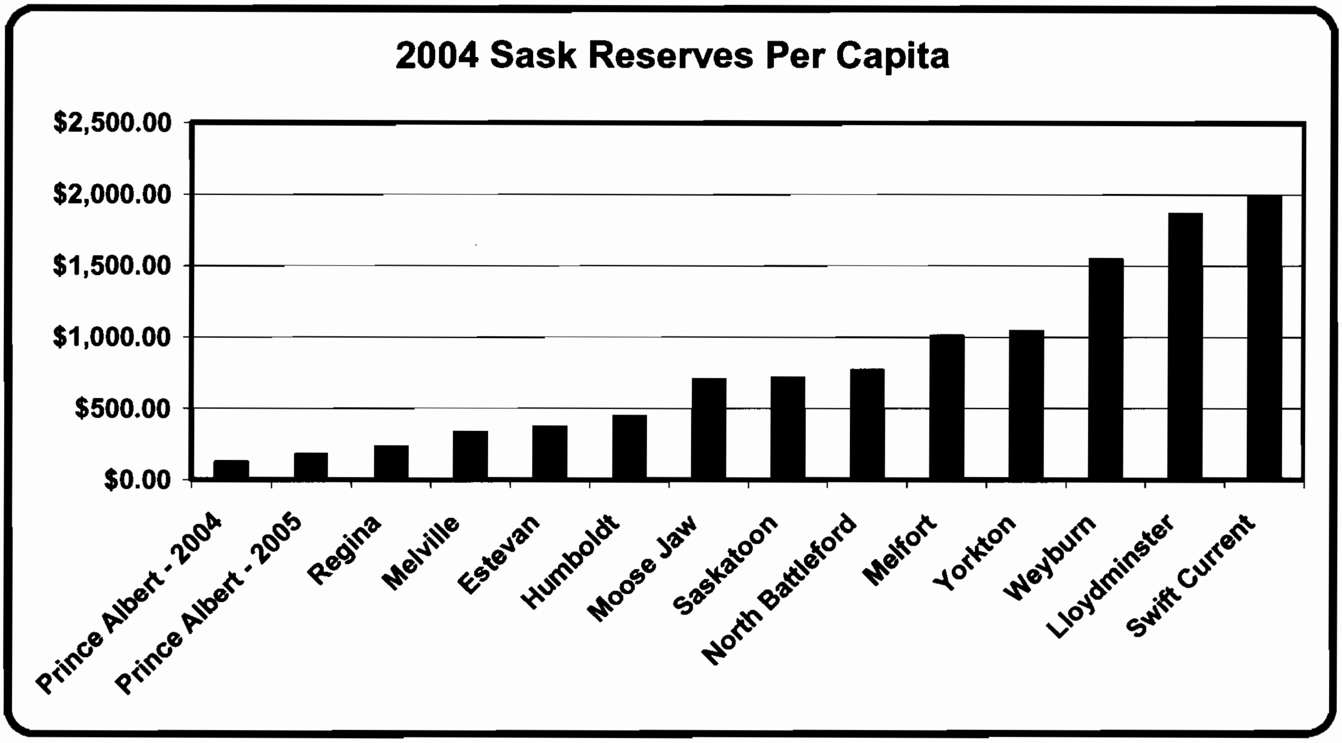
2004 ~ Prince Albert Debt - Ranked 8 out of 13



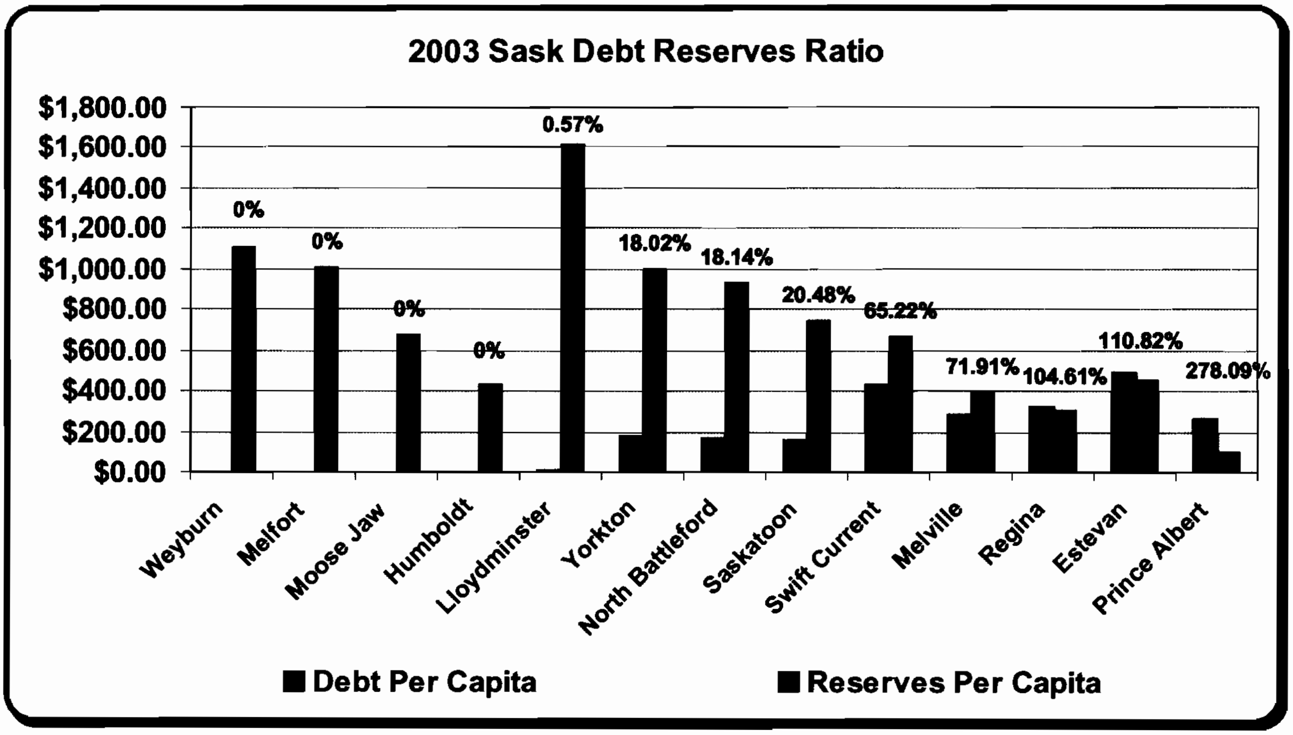
2003 ~ Prince Albert Reserves - Rank 13 out of 13



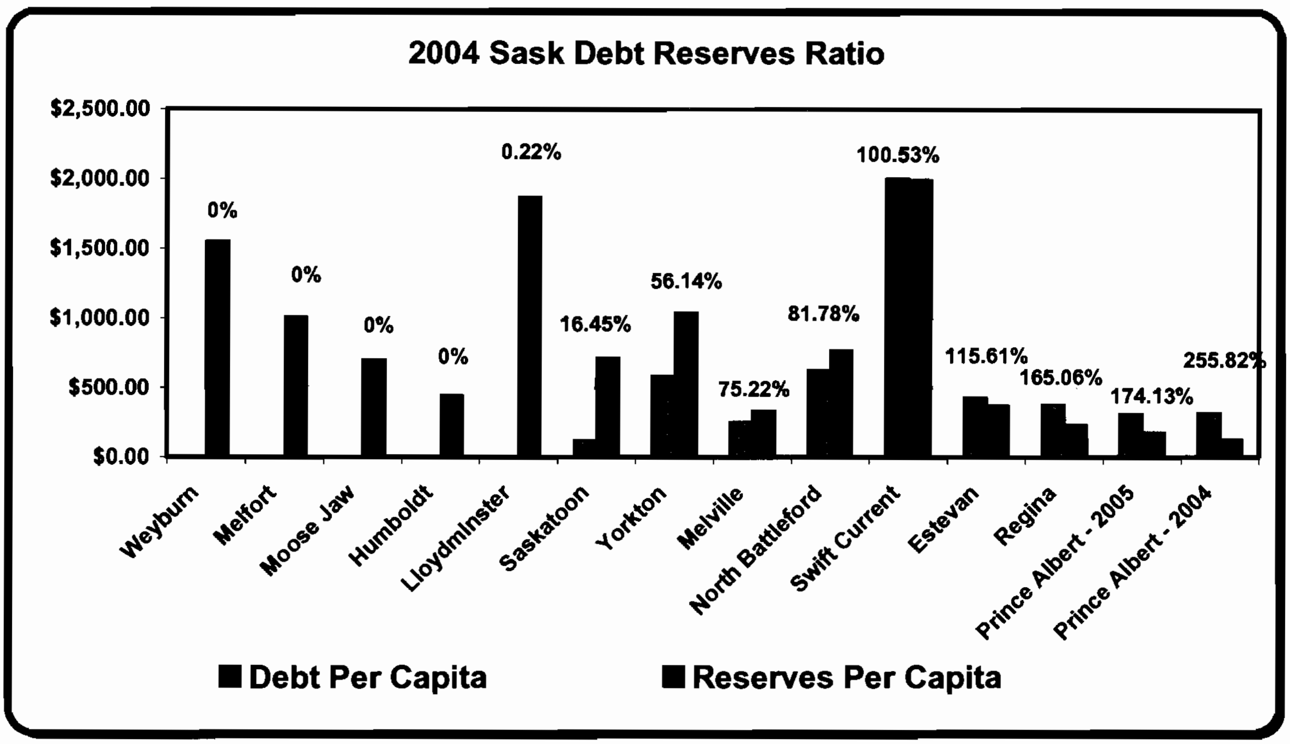
2004 ~ Prince Albert Reserves - Rank 13 out of 13



2003 ~ Sask Debt Reserves Ratio – Prince Albert Ranked Highest = 278.09%



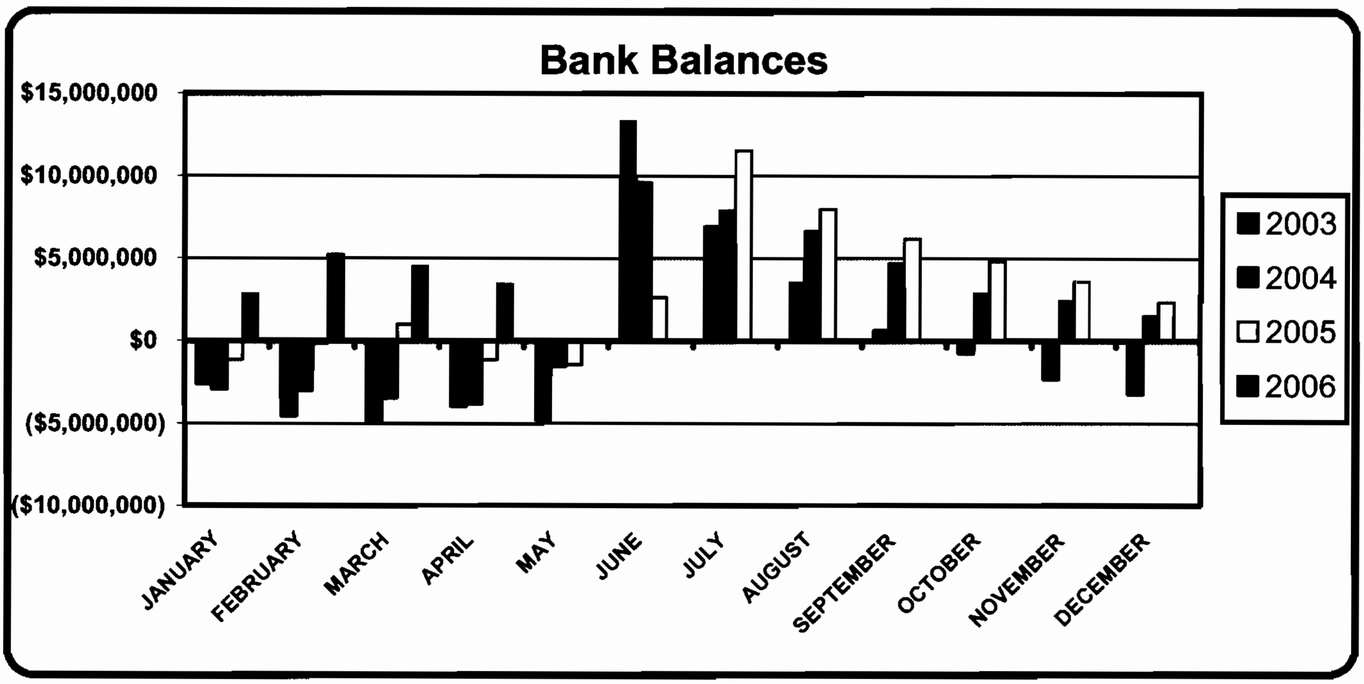
2004 ~ Sask Debt Reserves Ratio – Prince Albert Ranked Highest = 255.82%
2005 ~ Sask Debt Reserves Ratio – Prince Albert = 174.13%



The City of Swift Current statistics are significantly different from last year's survey. The City is undertaking major investments in a sewage treatment plant ($15 million) and recreational facilities ($11.0 million). As a result, additional debt has been added. In addition, reserves are shown as increasing significantly. These high reserves reflect the proceeds of debenture prior to paying for the new capital works. As the capital projects are completed the reserve position will decline.

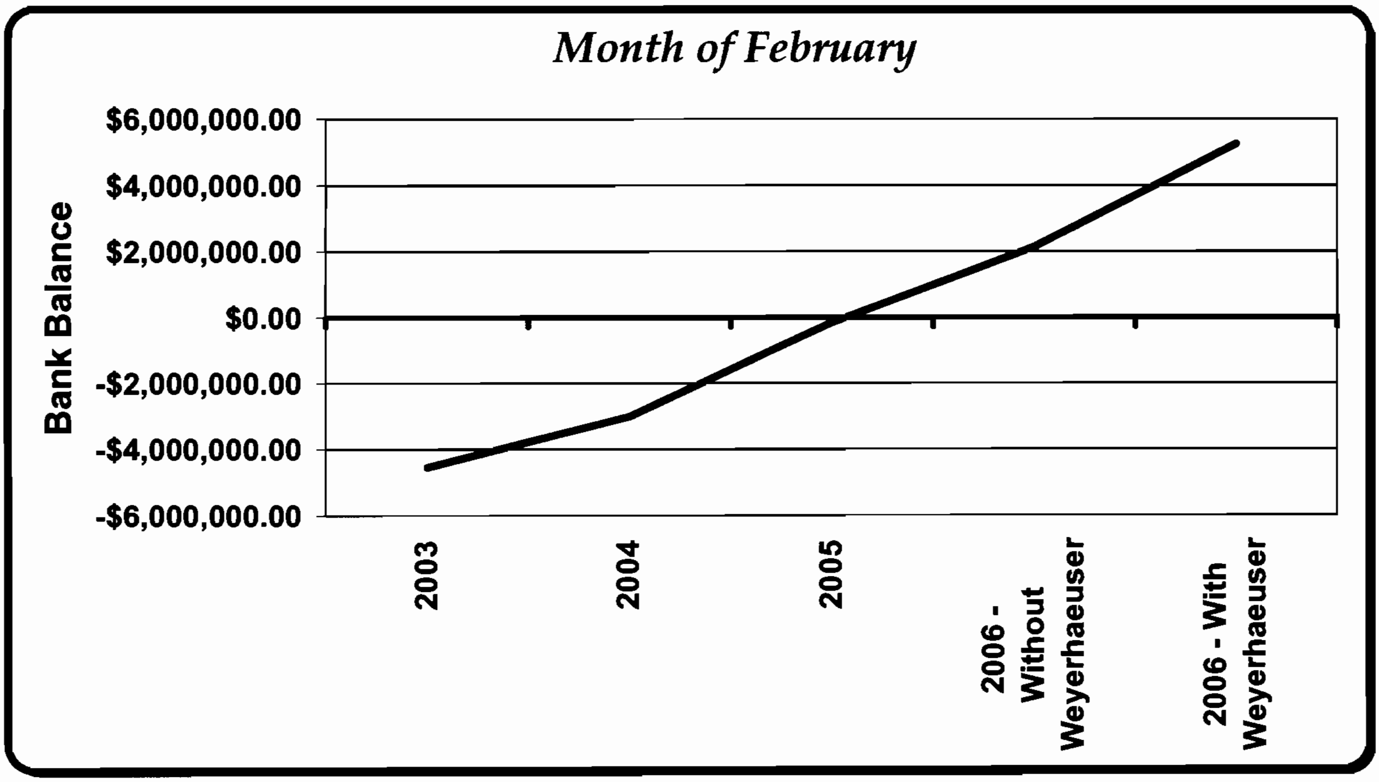
Based on the benchmark data, it is clear that the City's debt is high and reserves are low. The implications of these statistics are low financial flexibility, inability to weather financial variability and significant financing costs. City Council should consider if Prince Albert should strive to the best of its comparator group, average or is Council content with the status quo. It would be prudent to target at least in the mid range of our comparators. Such a target means the City should incur <u>no additional debt</u> and actively pursue strategies to <u>improve reserves</u>.

The next chart shows the City's improving cash position. The City's cash position reflects the total of the City's bank balances. Historically, these balances have consisted of overdrafts in the early part of the year followed by surpluses after the tax levy due date in June or July. Largely as a result of the 2005 Budget and Council's focus on financials and receivables, the City has not incurred overdrafts since May of 2005 and each monthly statistic shows significant improvement over previous year. In January of 2006, Weyerhaeuser made an advance payment of taxes of $3.0 million. Even considering this unusual transaction, the City's cash position continues to show marked improvement. The budget documents reflect decreases in interest expense, increases in interest earned offset by reductions in penalties and interest received.



In order to see the effect more clearly, the month of February is highlighted.

Month of February	
Year	**Bank Balance**
2003	-$4,549,055.83
2004	-$3,015,004.77
2005	-$155,487.75
2006 - Without Weyerhaeuser Payment	$2,142,250.56
2006 Actual - With Weyerhaeuser Payment	$5,242,250.56



Accounts Receivable

A related issue is the City's accounts receivable position. Although taxation related Accounts Receivable are well secured by the City's ability to take the subject property, large receivable balances create risks that unsecured debt may become uncollectible. In addition, large accounts receivable balances need to be financed and further aggravate the City's poor liquidity position.

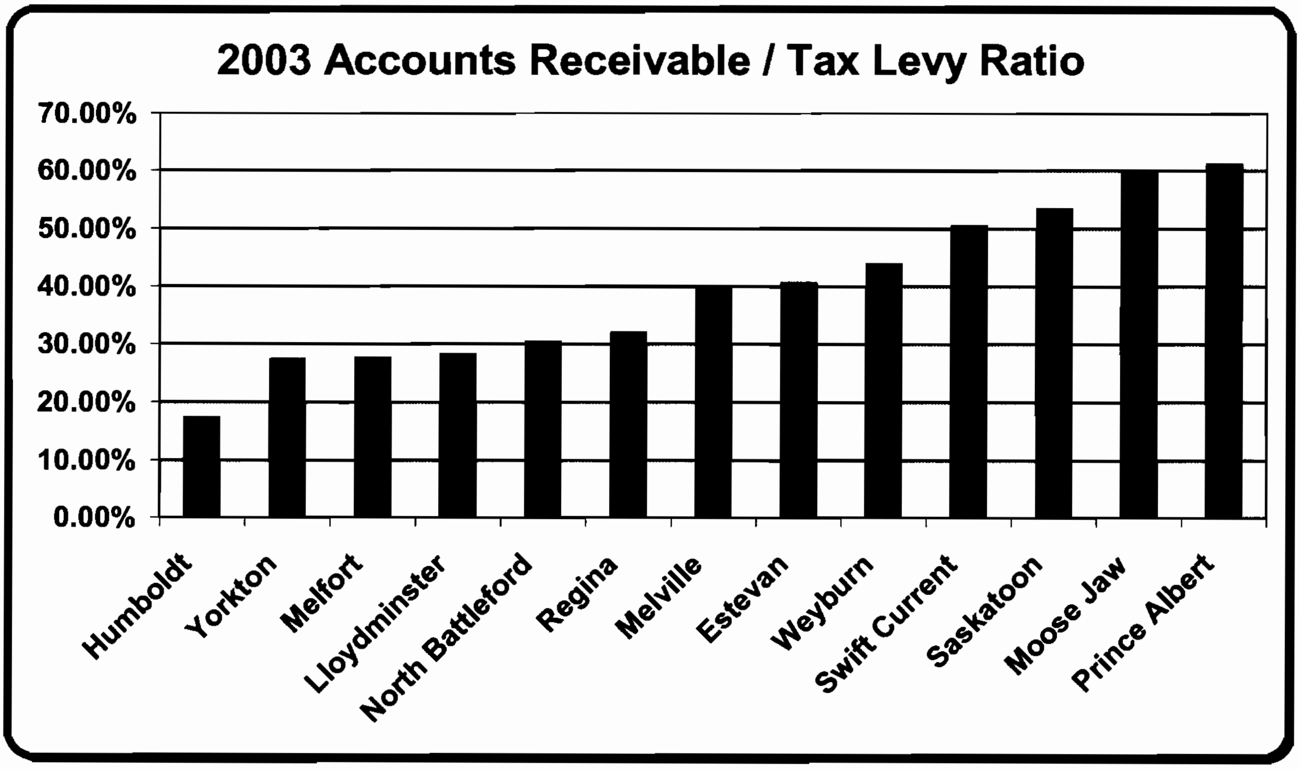
In 2005, accounts receivable was identified as an area requiring focus. On a benchmark basis, 2003 data showed that the City was last in performance in this area when comparing to Saskatchewan municipalities as outlined below.

Since 2003, the City's "Accounts Receivable Tax Levy Ratio" has reduced significantly when compared to Saskatchewan municipalities. The City's accounts receivable are now in the normal range:

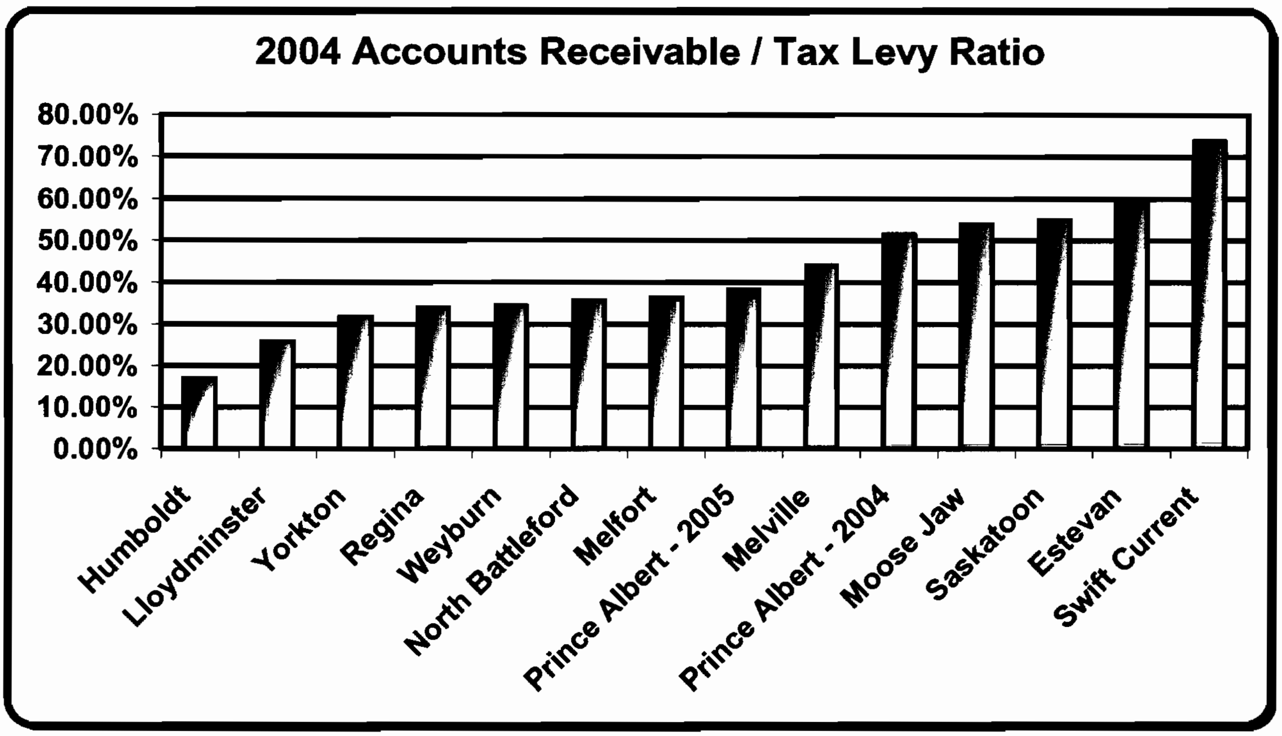
Prince Albert Accounts Receivable / Tax Levy

	As of December 31, 2003			2004			[redacted]	
Measure	**Millions**	**AR/Tax Levy Ratio**	**Rank (out of 13)**	**Millions**	**AR/Tax Levy Ratio**	**Rank (out of 13)**	**Millions**	**AR/Tax Levy Ratio**
Accounts Receivable	$10.72	61%	**13th**	$9.02	51%	**9th**	$6.57	**38%**
Tax Levy	$17.56			$17.54			$17.21	

2003 ~ Prince Albert A/R / Tax Levy Ratio – Ranked 13 out of 13



2004 ~ Prince Albert A/R / Tax Levy Ratio – Ranked 9 out of 13



2. *Taxation*

The City of Moose Jaw conducted a cost competitiveness study reflecting a comparison of Property Taxes on sample properties for 2005 in Saskatchewan cities. The key results of the study are as illustrated below.

Comparison of Property Taxes ~ 2005 Taxes

Single Family Residential Property ($100,000 Fair Value Assessment - Public School Supporter)		
Saskatchewan Municipalities	**Property Taxes**	**Rank**
Lloydminster	$1,090.00	1
Swift Current	$1,737.37	2
Saskatoon	$1,900.95	3
Estevan	$2,001.03	4
Prince Albert	**$2,169.07**	**5**
Regina	$2,194.74	6
Moose Jaw	$2,230.84	7
Melfort	$2,248.59	8
Weyburn	$2,322.94	9
Yorkton	$2,355.01	10
Humboldt	$2,522.85	11
North Battleford	$2,622.00	12
Melville	$2,670.56	13
Average	**$2,158.92**	

Commercial Property ($100,000 Fair Value Assessment - Public School Supporter)		
Saskatchewan Municipalities	**Property Taxes**	**Rank**
Lloydminster	$2,005.60	1
Saskatoon	$3,855.24	2
Weyburn	$4,486.81	3
Moose Jaw	$4,524.14	4
Yorkton	$4,949.99	5
Regina	$5,057.15	6
Prince Albert	**$5,097.08**	**7**
Melfort	$5,274.62	8
Swift Current	$5,330.00	9
Melville	$5,385.20	10
Estevan	$5,785.30	11
Humboldt	$5,927.10	12
North Battleford	$6,252.96	13
Average	**$4,917.78**	

The City of North Battleford completed a study of the thirteen Saskatchewan cities in April of 2006 regarding Residential and Commercial Water and Sewer Rates. The study indicates the monthly utility charges (water and sewer) for both 2005 and 2006, along with an annual charge based on the 2006 monthly rate.

In order to assess the City's competitive position one should consider taxation as well as the costs to provide utilities.

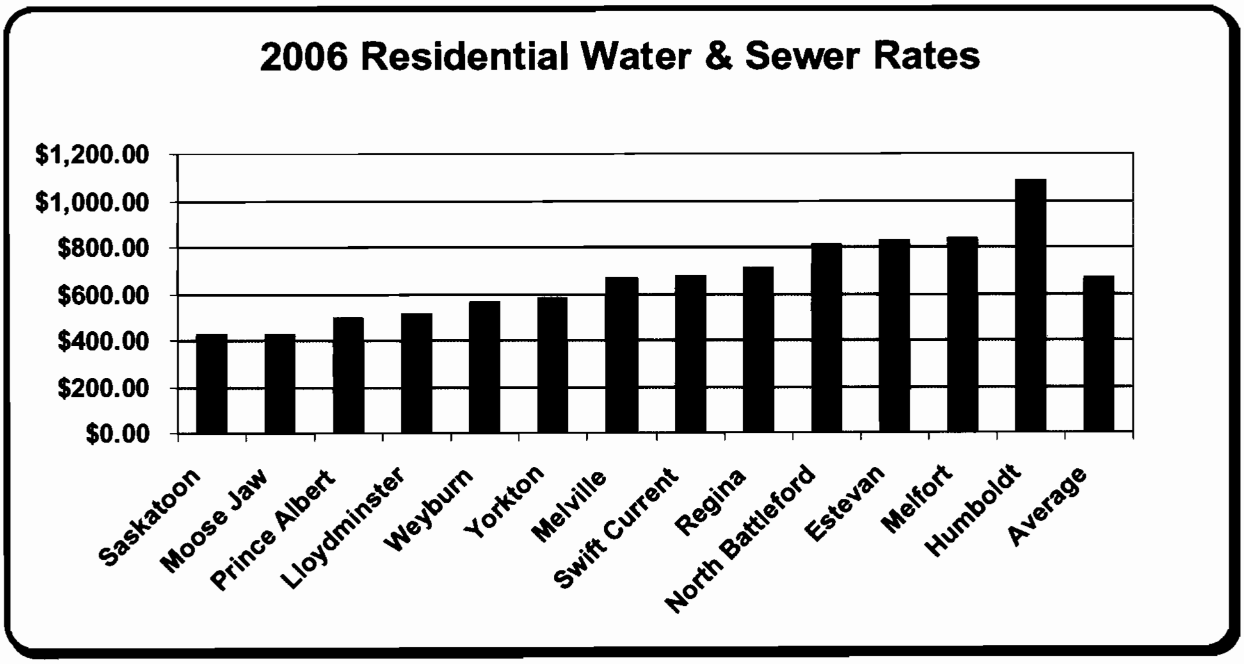
When water and sewer cost are included, the City is a respectable 5^{th} place.

Residential Water & Sewer Rates

25 Cubic Meters

Cities	2005 Monthly	2006		Rank	Percent
		Monthly	Annual		
Saskatoon	$32.58	$35.38	$424.56	1	9%
Moose Jaw	$34.50	$35.75	$429.00	2	4%
Prince Albert	**$40.42**	**$41.29**	**$495.48**	**3**	**2%**
Lloydminster	$40.57	$42.70	$512.40	4	5%
Weyburn	$45.36	$47.14	$565.68	5	4%
Yorkton	$48.30	$48.30	$579.60	6	0%
Melville	$47.25	$55.09	$661.08	7	17%
Swift Current	$51.21	$55.84	$670.08	8	9%
Regina	$56.75	$59.00	$708.00	9	4%
North Battleford	$61.49	$67.10	$805.20	10	9%
Estevan	$68.99	$68.99	$827.88	11	0%
Melfort	$68.19	$69.24	$830.88	12	2%
Humboldt	$86.21	$89.86	$1,078.32	13	4%
Average	**$52.45**	**$55.05**	**$660.63**		**5%**

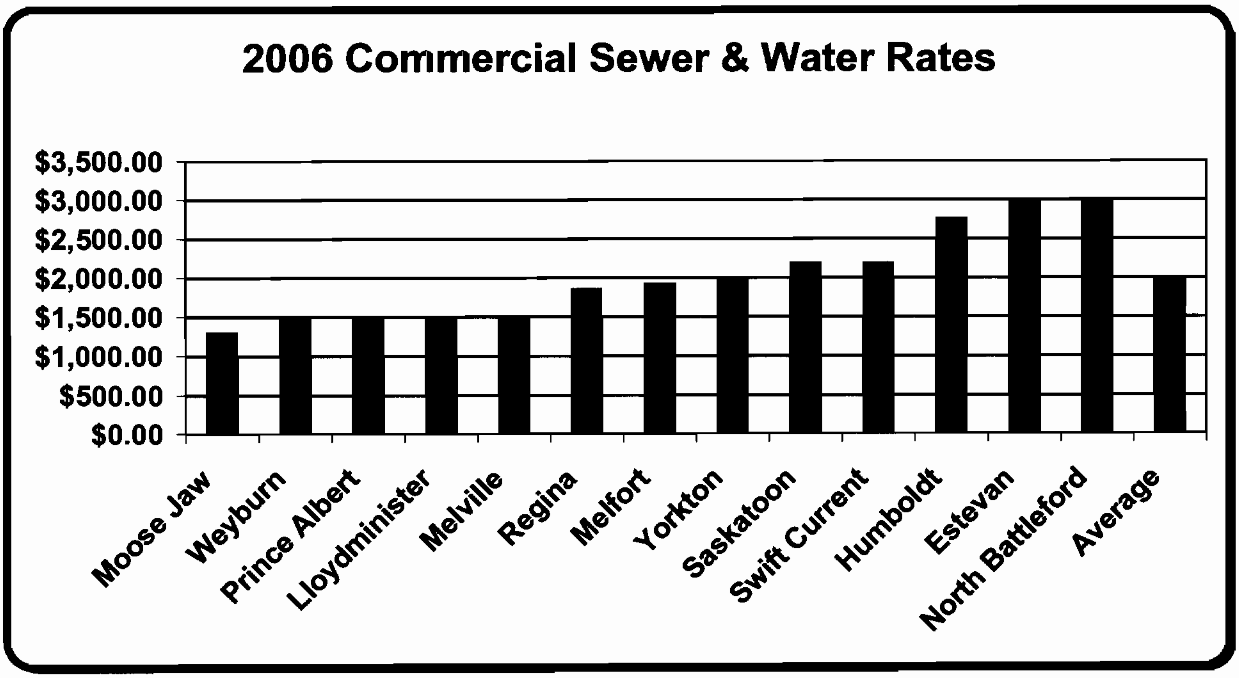
*Prince Albert ranked 3rd with an annual amount of **$495.48** for a residential property using 25 cubic meters of sewer and water per year.*



Commercial Water & Sewer Rates
1 1/2" or 40 mm Service (75 Cubic Meters)

Cities	2005 Monthly	2006 Monthly	2006 Annual	Rank	Percent
Moose Jaw	$106.50	$107.25	$1,287.00	1	1%
Weyburn	$123.83	$123.83	$1,485.96	2	0%
Prince Albert	**$121.27**	**$123.87**	**$1,486.44**	**3**	**2%**
Lloydminster	$117.26	$123.92	$1,487.04	4	6%
Melville	$105.75	$124.66	$1,495.92	5	18%
Regina	$148.65	$154.20	$1,850.40	6	4%
Melfort	$157.58	$159.73	$1,916.76	7	1%
Yorkton	$163.40	$163.40	$1,960.80	8	0%
Saskatoon	$183.20	$182.07	$2,184.84	9	-1%
Swift Current	$117.56	$182.07	$2,184.84	9	55%
Humboldt	$229.84	$229.84	$2,758.08	11	0%
Estevan	$250.07	$250.07	$3,000.84	12	0%
North Battleford	$247.22	$251.18	$3,014.16	13	2%
Average	**$159.39**	**$167.39**	**$2,008.68**		**5%**

*Prince Albert ranked 3rd with an annual amount of **$1,486.44** for a commercial property using 1 1/2" or 40 mm Service (75 Cubic Meters) of sewer and water per year.*



The following chart combines the 2005 Utility Charges (water and sewer rates) and 2005 Property Taxes for a **Residential Property** with an assessed value of $100,000 (public school supporter).

2005 Total Utility Charges & Property Taxes

Residential Property

Cities	2005 Utility Charges		2005 Property Taxes	Total Utility Charges & Property Taxes	Rank
	Monthly	Annual			
Lloydminster	$40.57	$486.84	$1,090.00	**$1,576.84**	1
Saskatoon	$32.58	$390.96	$1,900.95	**$2,291.91**	2
Swift Current	$51.21	$614.52	$1,737.37	**$2,351.89**	3
Moose Jaw	$34.50	$414.00	$2,230.84	**$2,644.84**	4
Prince Albert	**$40.42**	**$485.04**	**$2,169.07**	**$2,654.11**	**5**
Estevan	$68.99	$827.88	$2,001.03	**$2,828.91**	6
Weyburn	$45.36	$544.32	$2,322.94	**$2,867.26**	7
Regina	$56.75	$681.00	$2,194.74	**$2,875.74**	8
Yorkton	$48.30	$579.60	$2,355.01	**$2,934.61**	9
Melfort	$68.19	$818.28	$2,248.59	**$3,066.87**	10
Melville	$47.25	$567.00	$2,670.56	**$3,237.56**	11
North Battleford	$61.49	$737.88	$2,622.00	**$3,359.88**	12
Humboldt	$86.21	$1,034.52	$2,522.85	**$3,557.37**	13
Average	**$52.45**	**$629.37**	**$2,158.92**	**$2,788.29**	

** *Note the analysis does not include sanitation. Municipalities account for sanitation in different ways. The 2007 benchmarking will examine sanitation in detail. The inclusion of sanitation may affect the ratings.*

The following chart combines the 2005 Utility Charges (water and sewer rates) and 2005 Property Taxes for a **Commercial Property** with an assessed value of $100,000 (public school supporter).

2005 Total Utility Charges & Property Taxes

Commercial Property

Cities	2005 Utility Charges		2005 Property Taxes	Total Utility Charges & Property Taxes	Rank
	Monthly	Annual			
Lloydminster	$117.26	$1,407.12	$2,005.60	$3,412.72	1
Moose Jaw	$106.50	$1,278.00	$4,524.14	$5,802.14	2
Weyburn	$123.83	$1,485.96	$4,486.81	$5,972.77	3
Saskatoon	$183.20	$2,198.40	$3,855.24	$6,053.64	4
Prince Albert	**$121.27**	**$1,455.24**	**$5,097.08**	**$6,552.32**	**5**
Melville	$105.75	$1,269.00	$5,385.20	$6,654.20	6
Swift Current	$117.56	$1,410.72	$5,330.00	$6,740.72	7
Regina	$148.65	$1,783.80	$5,057.15	$6,840.95	8
Yorkton	$163.40	$1,960.80	$4,949.99	$6,910.79	9
Melfort	$157.58	$1,890.96	$5,274.62	$7,165.58	10
Humboldt	$229.84	$2,758.08	$5,927.10	$8,685.18	11
Estevan	$250.07	$3,000.84	$5,785.30	$8,786.14	12
North Battleford	$247.22	$2,966.64	$6,252.96	$9,219.60	13
Average	**$159.39**	**$1,912.74**	**$4,917.78**	**$6,830.52**	

** *Note the analysis does not include sanitation. Municipalities account for sanitation in different ways. The 2007 benchmarking will examine sanitation in detail. The inclusion of sanitation may affect the ratings.*

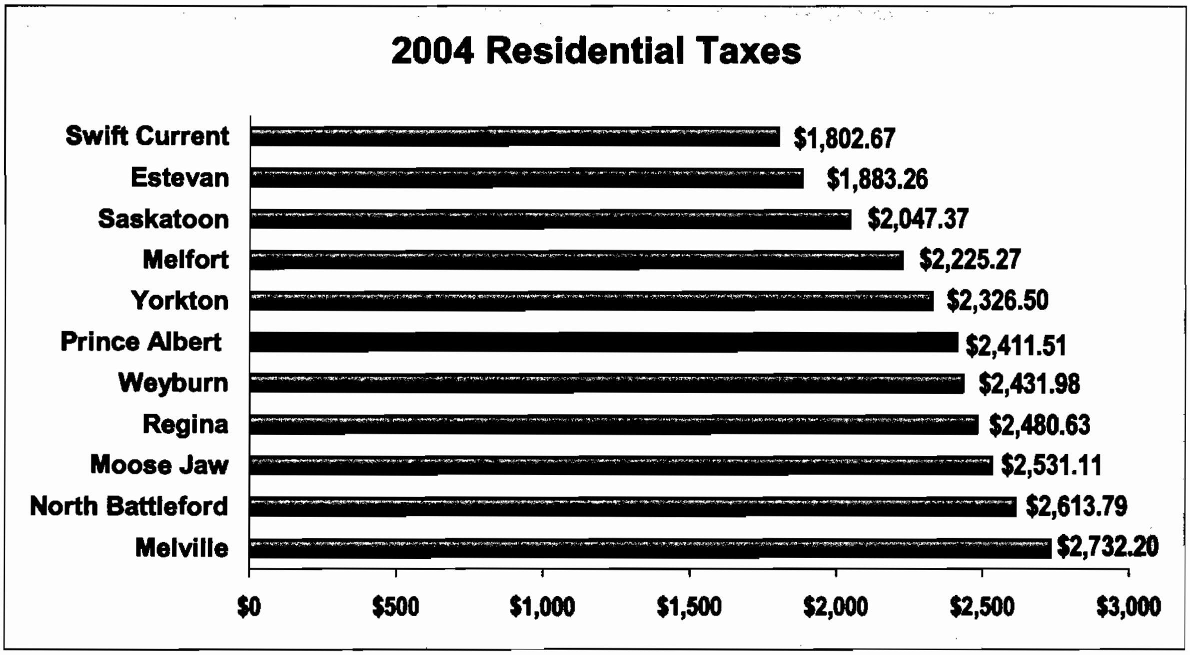
Tax Competitiveness

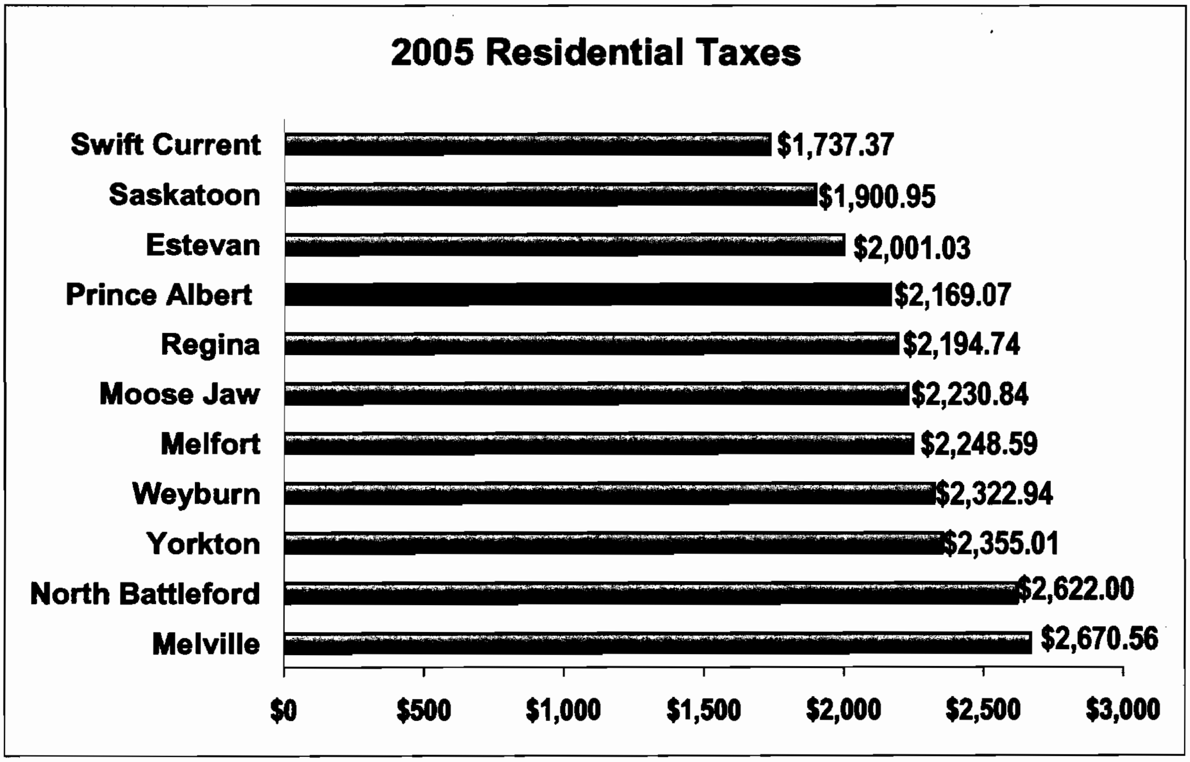
Comparing 2005 tax rate data to 2004 is particularly difficult in a reassessment year. In looking at the raw data the City has improved significantly. The next chart tries to qualify the relative change in competitiveness of the City. The data was collected by the City's finance department and is only available for 11 cities.

In a reassessment all properties are reassessed across the province. The same rules apply such that assessments are comparable between cities based on method. Property values between cities should be compared with caution as significant differences can exist. A $100,000 residential property in Prince Albert is likely quite different than a $100,000 property in Saskatoon or Regina. In the 2005 reassessment, property values changed considerably in Prince Albert. As a result a $100,000 property in 2004 is significantly different than a $100,000 property in 2005. A reassessment year introduces a number of factors that are at play.

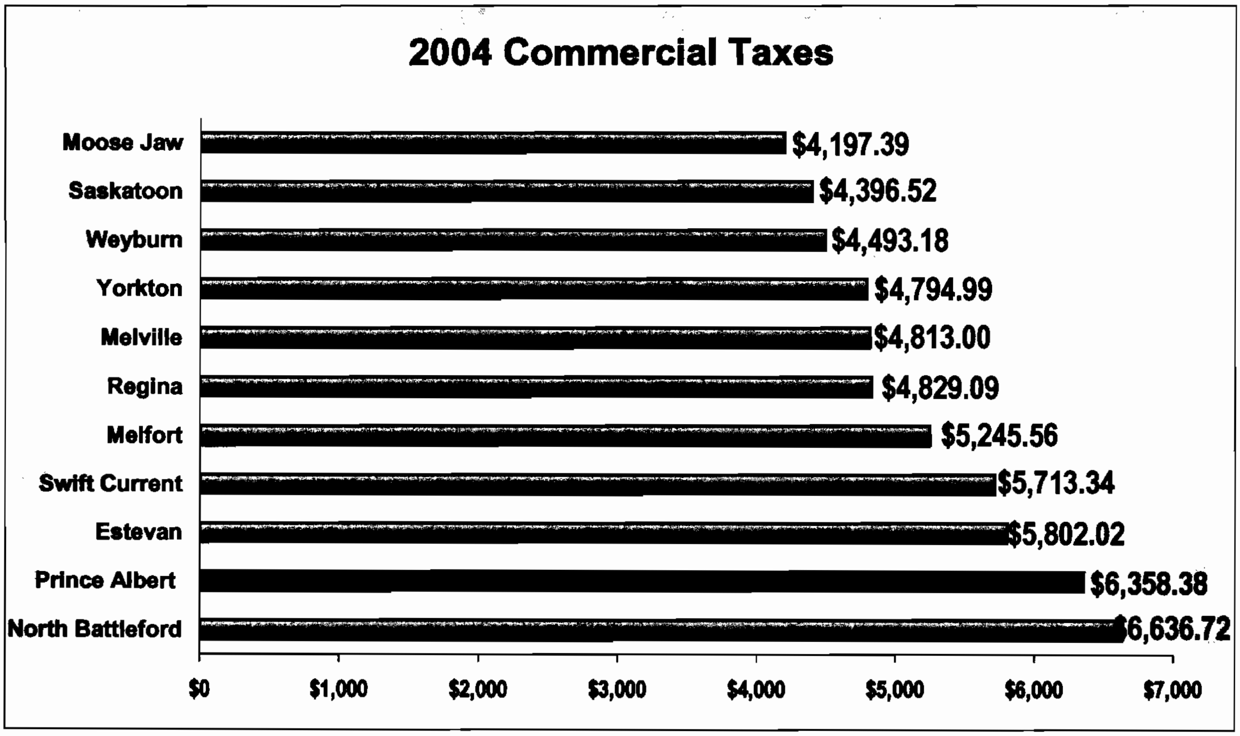
Issue	City's 2005 Response
Expenditure level & Tax rate Policy	Unlike many cities the City of Prince balanced the budget in 2005. As a result of significant growth in assessed values the mill rate was reduced from 24.031 to 20.210, a reduction of 16%. This reduction in rate still allowed the City to collect about the same taxes that were collected in previous years because the lower rate was applied against higher assessed values. Other cities may have increased tax revenues by not lowering rates in the same fashion.
Class Shifting	The 2005 reassessment saw the commercial class grow far faster than the residential class. Normally this would have resulted in $550,000 in tax shifting to the commercial class from residential. This amount is not insignificant and represents approximately 9.3% of the commercial tax base. One of City Council's long term objectives is to reduce the reliance on the commercial tax base. This policy choice has contributed to the improvement in competitive position being observed.
Tax Rate rebalancing	In addition, Council choose to shift an additional $150,000 from commercial to residential. This resulted in an increase in residential rates of 1.5% and a reduction in commercial rates of 2.6%. This policy choice has contributed to the improvement in competitive position being observed.
Relative market value between Cities	This parameter will also influence the data and has not been measured. Some variability in the results will be attributable to this factor.

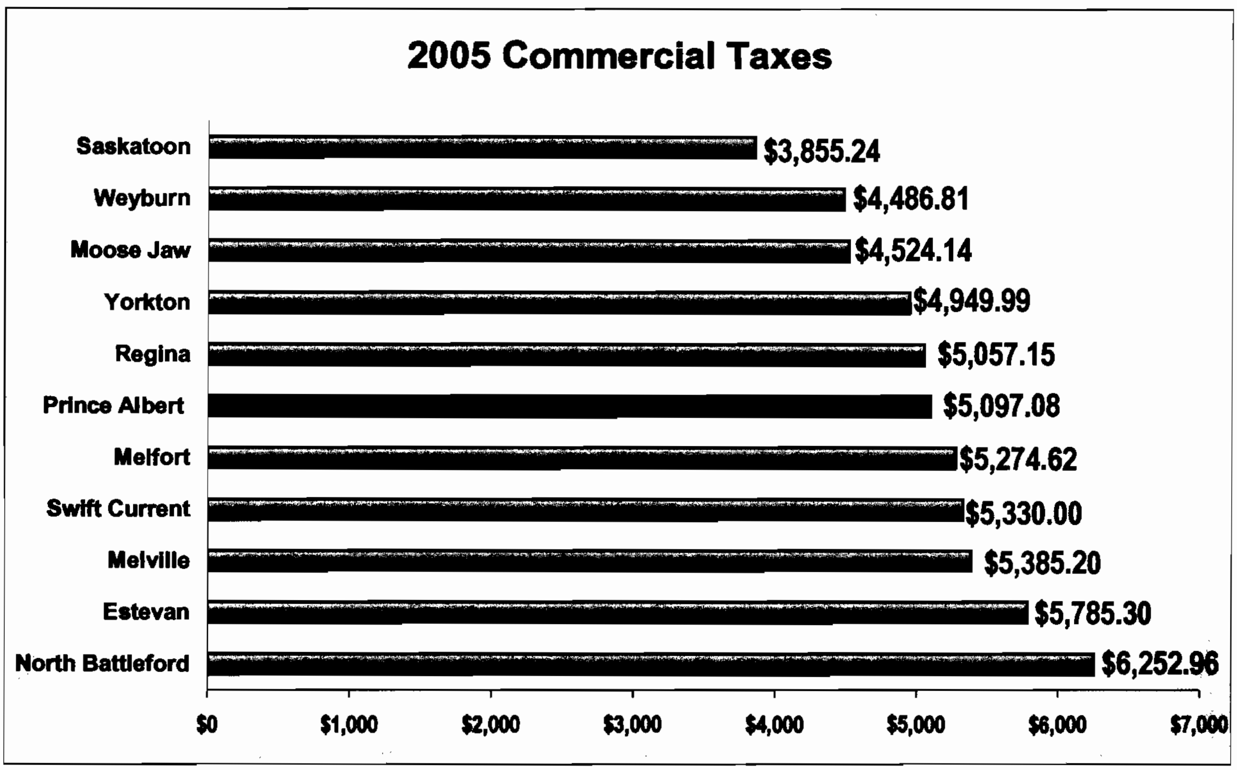
Residential Tax Calculations – 2004 and 2005 (at $100,000 Fair Value)





Commercial Tax Calculations – 2004 and 2005 (at $100,000 Fair Value)





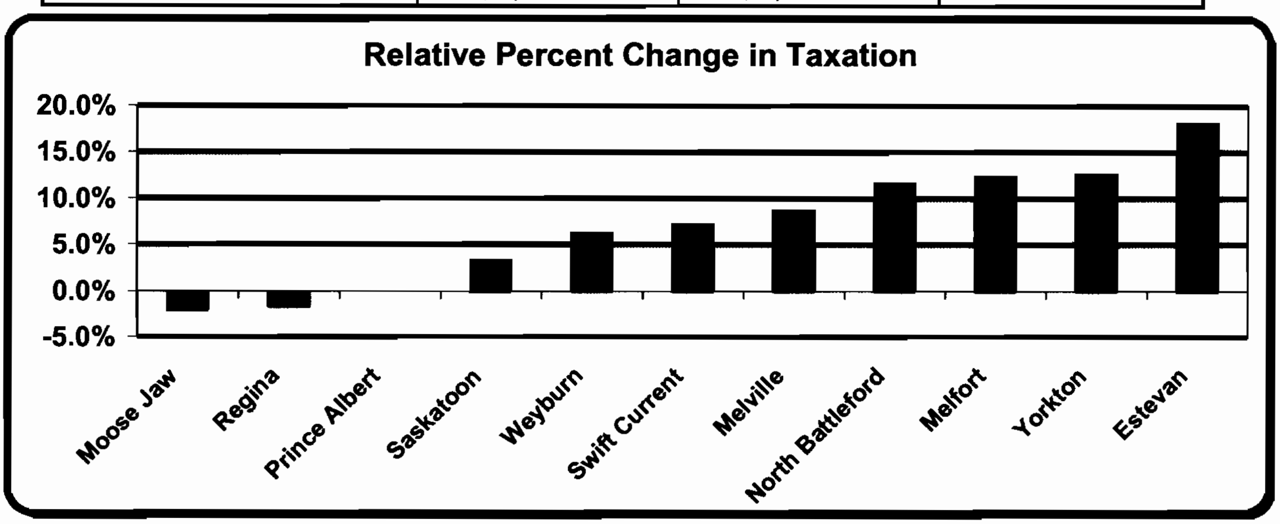
In 2005, the City balanced the budget and did not pass on a general tax increase. At the same time comparator municipalities were increasing rates.

Recognizing the inherent shortcoming of assessment data, an analysis of the data still provides some startling results. In the residential class the City has improved its relative competitive position with respect to all comparators except Moose Jaw and Regina. The City lost ground to those cities by 2.0% and 1.6% respectively, likely as a result of the tax rebalancing described above. While the City of Prince Albert's taxes on a $100,000 assessed value declined, many of our comparators' taxes levied increased. This could have resulted from a lack of market appreciation, tax shifting, increased expenditures of our comparators or all of the foregoing.

Change in Taxation Relative to Prince Albert

RESIDENTIAL PROPERTY ($100,000 assessed property)

SASK CITIES	2005 Taxes	2004 Taxes	Relative % Change
Moose Jaw	$2,230.84	$2,531.11	**-2.0%**
Regina	$2,194.74	$2,480.63	**-1.6%**
Prince Albert	**$2,169.07**	**$2,411.51**	**0.0%**
Saskatoon	$1,900.95	$2,047.37	**3.2%**
Weyburn	$2,322.94	$2,431.98	**6.2%**
Swift Current	$1,737.37	$1,802.67	**7.1%**
Melville	$2,670.56	$2,732.20	**8.7%**
North Battleford	$2,622.00	$2,613.79	**11.5%**
Melfort	$2,248.59	$2,225.27	**12.3%**
Yorkton	$2,355.01	$2,326.50	**12.5%**
Estevan	$2,001.03	$1,883.26	**18.1%**



Best **Worst**

The commercial statistics are even more startling. The City of Prince Albert jumped from 10th place to 6th, with a reduction of $1,261.30 per $100,000 assessment as shown below. The next best performance was in Saskatoon with a reduction of $541. Five municipalities actually increased commercial taxation per $100,000 assessment resulting in a significant improvement in our competitive position. This could have resulted from a lack of market appreciation, tax shifting, increased expenditures of our comparators or all of the foregoing. This is an area worthy of further benchmark analysis.

Change in Taxes per $100,000 Assessment

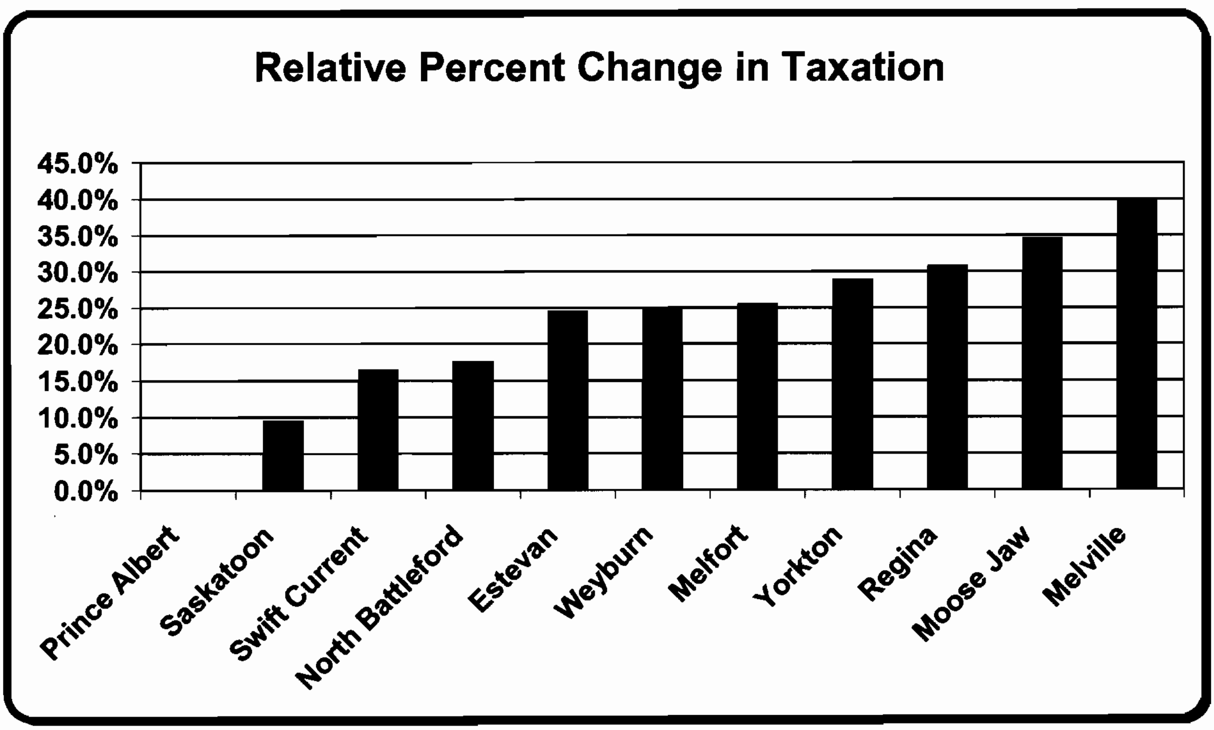
Commercial Property

SASK CITIES	2004 Taxes	2005 Taxes	Difference	Rank
[redacted]				
Saskatoon	$4,396.52	$3,855.24	($541.28)	2
North Battleford	$6,636.72	$6,252.96	($383.76)	3
Swift Current	$5,713.34	$5,330.00	($383.34)	4
Estevan	$5,802.02	$5,785.30	($16.72)	5
Weyburn	$4,493.18	$4,486.81	($6.37)	6
Melfort	$5,245.56	$5,274.62	$29.06	7
Yorkton	$4,794.99	$4,949.99	$155.00	8
Regina	$4,829.09	$5,057.15	$228.06	9
Moose Jaw	$4,197.39	$4,524.14	$326.75	10
Melville	$4,813.00	$5,385.20	$572.20	11

Change in Taxation Relative to Prince Albert

COMMERCIAL PROPERTY ($100,000 assessed property)

SASK CITIES	2005 Taxes	2004 Taxes	Relative % Change
Prince Albert	**$5,097.08**	**$6,358.38**	**0.0%**
Saskatoon	$3,855.24	$4,396.52	**9.4%**
Swift Current	$5,330.00	$5,713.34	**16.4%**
North Battleford	$6,252.96	$6,636.72	**17.5%**
Estevan	$5,785.30	$5,802.02	**24.4%**
Weyburn	$4,486.81	$4,493.18	**24.6%**
Melfort	$5,274.62	$5,245.56	**25.4%**
Yorkton	$4,949.99	$4,794.99	**28.8%**
Regina	$5,057.15	$4,829.09	**30.6%**
Moose Jaw	$4,524.14	$4,197.39	**34.5%**
Melville	$5,385.20	$4,813.00	**39.6%**



Best **Worst**

3. *The Land Fund:*

The Land Fund has significant implications with respect to the City's debt and reserve position. In municipal terms, the City's Land Fund is an unfinanced inventory account. The account is, in reality, an accumulation of "unpaid bills". As of December 31, 2005, the balance stood at about $4 million.

Land is purchased, improvements made and the costs are allocated to the account. When the land is sold, often many years later, the revenue repays the account. Although such a strategy in itself is not flawed, the magnitude of this unpaid balance should be a serious concern. Normally, municipalities would permanently finance such expenditures through the tax levy or through debt. The City, in effect, is using its working capital to interim finance this obligation. This results in overdrafts and lack of financial flexibility. Although the accounting treatment is allowable, one could argue that this practice also represents an understatement of the City's true debt position when considering benchmark data.

Council should be aware that in the financial year 2000, much work was done reviewing land holdings to ensure that land was recorded on the books at a value representing the lower of cost or market value. At that time, land value was written off contributing to the reduction of reserves and the overall General Operating Fund deficit of $1.9 million in 2000. This deficit was never completely funded. A balance remains and represents a further unpaid obligation of $1.3 million. This amount was factored into the previous reserve statistics. This account has a material effect on the City's financial position.

The accounting and budget treatment of this account is also a significant concern. The 2004 and previous Operating Budgets included land sales revenue of $700,000. At a time when the land accounts were unfinanced, the City was extracting a further $700,000 to balance the budget. This budget line item is material and can produce significant swings to the Operating Budget. Such swings tend to reduce accountability of the organization. Relying on land sales revenues to "balance" the budget is poor municipal practice. Council should also recognize that this practice represented taking revenues into the Operating Budget while retaining a large unpaid inventory. In 2005, Council authorized that the land fund be accounted for as a separate fund. In 2006 it is proposed that any surplus arising from the revenues and expenses be accounted for in this fund. Obtaining solvency in the land fund should be a major objective for the City.

The Saskatoon approach is one worthy of emulation. The City's land operation is funded. The City, over the years, has contributed into the fund. The land fund uses cash available to buy land and then replenishes the fund as land is sold with a minimum of borrowing. A detailed report on the Land Fund is nearing completion. That report outlines significant near term investments and an overall financial plan. At the time of writing, additional due diligence is required in order to finalize the proposed projects and funding plans.

In summary the proposed approach is that:

1) The City not extract profits from the land fund until it is solvent;

2) The debt reduction levy be used to finance this account;

3) The City focus on selling properties to create cash for the fund and to increase general tax revenues; and,

4) The City consider land investments in the context of a long range financial plan.

4. Fleet and Overtime:

As Council will recall the City entered into a Collective Agreement with CUPE Local 160. That Agreement provided for significant wage adjustments and created efficiencies through new hours of work provisions. The financial strategy for this settlement was that these efficiencies would cover a significant portion of the added wage cost.

The Fleet Rationalization Study continues to progress but has not been finalized. The objectives of the Study are to critically review the City's equipment fleet and to find ways to downsize the fleet and reduce cost. The work completed to date indicates a reduction of approximately 10% of the fleet is achievable, particularly if one factors in the new hours of work provisions. In addition, efforts to extend equipment life will be recommended.

The budget documents contains the following:

Savings	Fall 2005 Plan	2006 Budget Documents
Overtime *(1)*	$40,000	$26,710
Fleet Cost *(1) (2)*	$47,500	$108,760
Total Savings	**$87,500**	**$135,470**

Note (1): Reflects general fund portion.
Note (2): Reduction in fleet costs not solely attributable to hours of work.

5. *Facility Management*

The City operates 48 facilities with installed equipment valued at $2.5 million in replacement cost. This equipment includes HVAC equipment, pumps, motors, compressors, chillers, ice making plants, control systems, drainage systems, security systems, back up power supplies, generators and assorted electrical gear. In preparation for the budget a detailed facility by facility review, inspection and assessment was conducted and is submitted in an accompanying report. The key conclusions of the report are:

1) The City has a major investment in equipment.
2) Past investments have not kept this equipment current.
3) A significant backlog exists.
4) Many equipment elements are past their normal service lives.

Value of installed equipment (at replacement Cost)	**$2,489,000**
Normal life expectancy	**5-30 years depending of type of equipment**
Normal annual investment (assumes no backlog)	**$119,000**
Original 2006 budget request	**In excess of $1.0 million**
Proposed 2006 budget	**$254,000**
Proposed 2006-2010 Allocation	**$1,376,000 Average $275,000 / year**

The facility area was identified in the 2005 Budget as needing an overall plan. Although the physical inspection has identified the need for a more intensive program, the facilities group was asked to level the spending profile and develop a staged replacement plan. The actual recommended replacement timing is based on the inspection, probability of failure, budget constraint and potential impact.

The facilities staff has utilized industry standard life expectancy as a guide. Any recommendation for replacement of a piece of equipment is based on condition and not solely age. As is outlined in the detailed report numerous unit lives will be extended significantly.

6. *Police Service Issues:*

The Police Budget was submitted with fiscal savings of $1,770. This is significantly below the City Council target of $154,262. For 2007, the annualized impact of the various budget items is an increase of $211,850 primarily as a result of new costs/programs commencing part way though the year or one time savings. The total variance to Council's target would then be $366,112. The $211,850 represents a 2.7% increase on the Police Budget prior to considering any normal cost issues, such as negotiated wage increases, the Police would have in 2007. The impact on the tax levy would be a 1.2% increase in general taxation plus any additional requests they may have.

Council should also be aware that the police budget is reliant on red light camera revenues of $200,000. The budget includes $200,000 in revenue for 2006 and $200,000 for 2007. This was a major factor allowing the police budget to be contained at close to a zero increase. Should red light cameras prove not to be feasible, or revenues fall short, the amount would be significant ($200,000 =1.2% of the tax levy). Council should recognize that there is no increase in revenues forecast in 2007 over 2006. Presumably, red light cameras will provide higher revenues in 2007 compared to 2006 because they are in effect for a full year. However, drivers may improve driving habits resulting in an offsetting reduction in offenses and revenues. Compared to the Saskatoon data the assumptions appear conservative. Provided the program is at least marginally successful from a financial perspective, the 2007 impact of $211,850 may be fully covered by red light camera revenues.

7. *Cooke Municipal Golf Course:*

Earlier this year council approved a $2 dollar per round increase rather that the $4 dollar increase originally proposed. As instructed by City Council no changes to accounting practices have been incorporated within the budget. The net result of these decisions was to increase the cost to the City of the Golf Operations by $37,230. This 37,230 would be funded by the tax levy and represents a tax increase/impact of 0.22%. This calculation is based on the budget as submitted in support of the fee increase. That budget has a number of new initiatives. Council can, by declining to approve these items, mitigate the impact of golf course on the tax levy. Council may recall that the Golf Review conducted earlier this year indicated that revenue budgets have been significantly overstated for the Golf Course. This is a major contributor to the shortfall at the Golf Course.

8. *Cost Allocations:*

The original Budget Plan identified a $250,000 savings (500,000 annualized) in landfill costs from shutting down the bailer. It was identified at the time that the City should transfer this $250,000 to the General Fund to provide tax relief. This would have required either a direct transfer or a reduction in waste charges and a corresponding increase in tax rates.

These options cause the City to stray from cost based fees and make the longer term justification of landfill fees more difficult or would create the public relations challenge of a tax increase and a corresponding decrease in a user fee in compensation.

A review of appropriate cost recovery for the various funds was undertaken. A number of areas exist where greater allocations of costs can be made from the general fund to other funds as follows on an annual basis:

From	To	Amount of Allocation	Bailer Shutdown	Impact
General Fund	Utility	$522,000		6.7% of revenue
General Fund	Sanitation	$20,000	($500,000)	-21.8% of revenue
Subtotal		$542,000	($500,000)	
General Fund	Land	$102,000		Additional cost to land fund & school boards for tax sale
Total		**$644,000**	**($500,000)**	

It is proposed that these new cost allocations be approved and that the savings in the Sanitation Fund be retained and used to lower sanitation rates. The Utility Fund would absorb additional costs resulting in a rate increase. The sanitation and water impacts offset in dollars terms. Given that sanitation charges appear on the water bill, these effects would be clearly mitigative as seen by the homeowner. However, given that these items are based on user fees, not everyone will be impacted in the identical way.

Council should be aware that the water fund currently has a deficit of about $800,000. Council should also be aware that at the time of writing, the year end is not complete and this amount may change materially. In addition, a significant infrastructure deficit exists. Although these impacts will be partially mitigated through the new gas tax – "green" funding, it is anticipated some increases to water rates will be required to deal with the capital program. Total green funding expected over the next 5 years is $5.3 million, with the majority accruing to the Utility Fund. **The Utility Budget will be presented to City Council later in the year.**

9. *Provincial Funding Issues:*

As Council may recall, additional Provincial Funding was an essential part of the Financial Plan approved by Council in January of 2006. At SUMA, the Province announced:

Provincial Program	City Contribution (millions)	Comment
$10 million Revenue Sharing – Ongoing	$0.477	Slightly more that the anticipated $0.46 million.
$10 million Revenue Sharing – 2005/06 One Time	$0.477	Pursuant to generally accepted accounting principles, applied to the 2005 Fiscal Year. Net impact is to increase surplus and the Fiscal Stabilizations Reserve.
$32 million One Time Capital	$1.17	Applied to 2006 Capital Budget to balance 2006 Program.

10. *Fiscal Stabilization:*

The Fiscal Stabilization Reserve is as follows:

	Impact (000's)
2005 Opening Balance	$1,010
2005 Unanticipated Revenue Sharing	+$477
Incamera Report Item	($270)
Franchise Fee Energy Adjustment for Warm Winter	($101)
2006 Closing Balance	**$1,116**

Analysis – City's Five Year Financial Plan

The City's debt and reserve position is an area requiring attention. In order to properly assess the improvement in the City's Financial Plan, the Five Year Plan is being developed to show projected debt and reserve positions over the next five years. The plan is still being fine-tuned and will be forwarded under separate cover. The following key principles are included:

Policy Options incorporated within the 5 Year Financial Plan

Balanced Capital Budget
No additional debt

1% Cumulative Capital Levy

Land Profits retained to bring land fund into solvency

Allocation of the debt Reduction Levy to
1) Art Hauser centre (2005-2007) – Debt Avoidance
2) Land Fund (2007-2010) – Fund Solvency

Debt

Many organizations use debt to:

a) finance very large one time expenditures;

b) match the cost of an asset to the use so that future taxpayers contribute to the asset coincident with use;

c) in the private sector, debt is utilized to leverage invested equity, and to minimize taxes payable. These issues are not relevant to a municipal corporation. Debt in the municipal context means cost; and,

d) to smooth capital spending.

Pay as You Go

It is proposed that Council should adopt a pay as you go philosophy. Such a philosophy is similar to what a reasonably frugal person would do in their personal finances namely:

1) spend only what you have;
2) only borrow for the largest investment (ie. a home, a car);
3) do not borrow from next weeks paycheck for today's bills; and,
4) live within your means.

Capital Levy

As Council is aware, the Capital Budget is insufficient to cover the capital needs of the municipality. In addition, Council approved an additional major project in the form of the Soccer Facility. In the Administration's respectful opinion, the capital envelope is not large enough to meet the current needs and these new demands. Any community requires new facilities from time to time be it a soccer facility or other community need. The City's long range Capital Program should provide the resources required.

Sustainable Capital Funding

Revenue

Tax Levy	$4.8 million

Expense

Roads	$2.5 million
Facility	$0.5 – 0.7 million
All other purposes	$0.5 – 0.7 million

The amount for "all other Purposes" is insufficient.

A common approach is a capital levy. Capital levies are not a new idea. Municipalities have used them in many forms for many years. Typically a municipality will recognize that that is has a shortage of capital funding and that further borrowing is unsustainable. Rather than increase taxes a large amount all at one time, a capital levy is phased in gradually over a number of years. It is proposed that a 1% cumulative levy be considered. A 1% levy would be applied in 2006, a further 1%, making a total of 2% in 2007, a further 1% making a total of 3% in 2008 and so on until the capital budget is in better balance to requirements.

Over a 5 year period such a policy would add $2.5 million and allow the soccer facility and potentially other priorities of Council to be addressed. At present the soccer facility is not included within the capital estimates.

Analysis

The Capital Budget is balanced for 2006 but is out of balance for the 5 year forecast. A shortfall of $1.7 million exists. When the soccer commitment is included that shortfall grows to approximately $2.9 million. A capital levy is essential to balance the budget. Alternatively the budget can be reduced by a further $2.9 million. The latter option is not viewed as sustainable and ignores the real challenges facing the capital budget.

CAPITAL BUDGET

(in millions)	2006	2007	2008	2009	2010	Total
Capital Expense	$6.17	$5.83	$5.12	$4.84	$4.66	$26.62
Revenue	$6.17	$5.09	$4.80	$4.34	$4.51	$24.91
Shortfall (excess)	$0.00	$0.74	$0.32	$0.50	$0.15	$1.71
Capital Levy	$0.17	$0.34	$0.51	$0.68	$0.85	$2.55
Soccer Facility (timing assumed)			$0.51	$0.68	$0.00	$1.19
Net Position	**-$0.17**	**$0.40**	**$0.32**	**$0.50**	**-$0.07**	**$0.35**

A balanced approach would still require the City each year to pursue annual cost containment while putting forward small inflationary tax increases used primarily for the capital program. Such an approach would allow the City to gradually address the capital infrastructure challenges and avoid a scenario where a major increase in one year becomes unavoidable. The inflation rate in 2005 was 2.1%. It is submitted that a tax increase of up to 2.1% should be considered. Should Council agree with the philosophy and wish to make greater progress, Council may wish to consider a tax increase of 2.0% with any additional funds being applied to the Capital Program.

The budget as printed requires a tax increase of **0.5%**. This equates to approximately $10.85 for a house valued at $100,000. As well, this amount includes the 1% capital levy and is well within the rate of inflation. It is anticipated that Council may not wish to accept every cost reduction being proposed. It would be realistic to expect a final tax increase to be in the 1% - 2% range. Given the cost impacts the city was facing in January totaled 13.6%, an ending tax impact lower than the rate of inflation is a significant outcome.

COMMUNICATIONS:

Council should be aware that the staff has not consulted with user groups or community organizations affected by service reductions. It was felt in appropriate to begin consultation on proposals Council has never seen. Council should consider approvals of each proposal of this type as approved in principle and direction given to staff to commence consultation and implementation if still appropriate.

ATTACHMENTS:

- Copy of Report from the City Manager dated January 18, 2006, with respect to 2006 Budget (RPT#CM-06-02).

CONCLUSION:

Administration has been successful in reducing the Budget once again as requested by Council. Although improving, a review of benchmark data indicates the City requires continued efforts. We ask that Council thoroughly review the budget documents and seek answers to any questions in preparation for budget deliberations.

Respectfully Submitted,

R Martiuk

Roman Martiuk
CITY MANAGER

City of Prince Albert

REPORT APPROVAL FORM

Report Title:	2006 Budget (RPT#CM-06-02)	**Date:**	January 18, 2006
Prepared By:	Roman Martiuk, City Manager		
Prepared For:	**Executive Committee**		

Approval Required By:

Report Type:

- *Routine* ☐
- *Substantive* ☒
- *Financial* ☒

City Manager	☒	R Martiuk
Director of Financial Services	☒	[signature]
Director of Public Works	☐	
Director of Community Services	☐	
Director of Ec.Dev& Planning	☐	
Fire Chief & Dir. of Emerg. Services	☐	
Chief of Police	☐	
City Solicitor	☐	
Human Resources Manager	☐	

Report Type ~ Definitions:

Routine	*Matters that are routine in nature and/or follow existing Council policy require Department Head approval only*
Substantive	*Matters that require the concurrence of more than one department and/or are complex in nature and require the approval of the City Manager prior to being provided to elected officials*
Financial	*Matters that have substantial or unusual financial implications require the approval of the Director of Financial Services*

City of Prince Albert
REPORT

Report Title: 2006 Budget (RPT#CM-06-02)

Date: January 18, 2006

Prepared By: Roman Martiuk, City Manager

Prepared For: Executive Committee

RECOMMENDATION:

1) That a Budget Committee be established comprised of all Members of Council with the Mayor as Chair.

2) That the following Budget Meetings be set:
   a. Public Consultation meeting: April 19, 2006 from 7:00 to 9:00 p.m.
   b. Capital Budget Review: April 21, 2006 from 9:00 a.m. to 4:00 p.m.
   c. Operating Budget Review: April 22, 2006 from 9:00 a.m. to 4:00 p.m.

3) That Council provide the following direction in preparing the 2006 budget:
   a. That City Departments submit budgets reflecting a 10% reduction from 2005.
   b. That the Police Service submits a budget reflecting a 2% reduction from 2005.
   c. That other external agencies submit budgets reflecting a 2% reduction from 2006 base levels.

JUSTIFICATION FOR INCAMERA:
N/A

BACKGROUND:

This report constitutes the start of the budget process. It is not a budget. In order to focus the activity of administration and external agencies, a plan and blueprint of the desired end result is required. The plan represents a high level objective Council sets for the administration. Administration will then develop a budget over the next number of months meeting that objective. Council may recall that in 2005, Council established a target of reducing the March 2005 budget submission by 10%.

DISCUSSION:

In order to make informed choices with respect to budget, Council requires an appreciation of the challenges before them. The challenges faced by the City are significant and larger in scope than in 2005.

Millions	2005	2006
Cost Issues	$0.75	$2.337
Tax levy impact	4.4%	13.6%
Reduction Target	$1.7 million	To be determined
Reduction Achieved	$2.4 million	

Budget reductions do suffer from diminishing returns. In 2005, the easier reductions were found and implemented. Further reductions will require more effort and have more significant service implications.

Council has previously indicated its desire for cost containment, a focus on infrastructure investment and tax rate stability. Option 1 reflects the best plan we can envision to meet that target as reflected in this report's Recommendations. In the administration's considered opinion, it is highly unlikely that plan will be achieved as we expect resistance from externally funded entities and Council may not ultimately support the service reductions necessary. Option 2 is thought to be more realistic, however it includes a moderate tax increase and reductions to the Capital Program.

Although Option 2 may be more realistic, Council may wish to adopt Option 1 at this time, a more aggressive objective, and evaluate the implications of such an aggressive target. Such a process would provide Council an appreciation of the tradeoffs required to balance the budget. If the end result is a tax increase, Council will have assured itself it could not have been avoided. Option 1 and 2 summaries are attached together with detailed explanations.

Budget Process

Council approved a new budget process in 2005. A similar approach is proposed for 2006 with the following enhancements

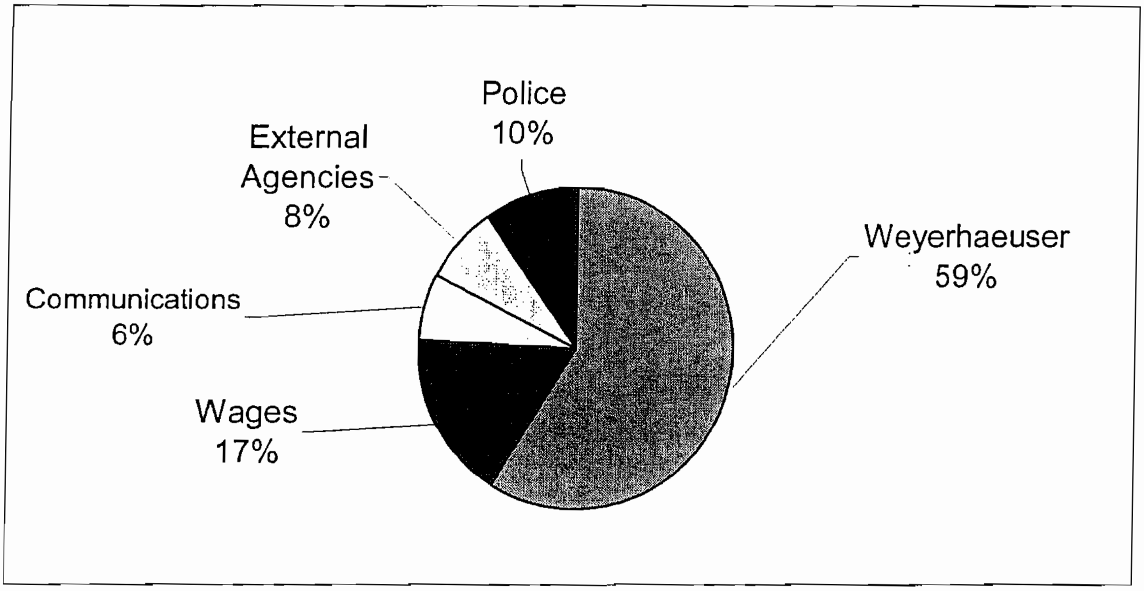
a) The Capital Budget information will be enhanced to provide fuller information to Council and clarity on precisely what is being approved.
b) Enhanced financial forecasting and planning data will be developed.
c) The City departmental review will include a review of core and discretionary services when establishing the 2006 recommendations

A flowchart is attached depicting the timelines the budget process will follow.

Analysis

In order to provide information to Council, administration has estimated the key cost drivers being faced. This is not an all-inclusive list, but includes the larger ticket items we are aware of. The attached summaries provide further background.

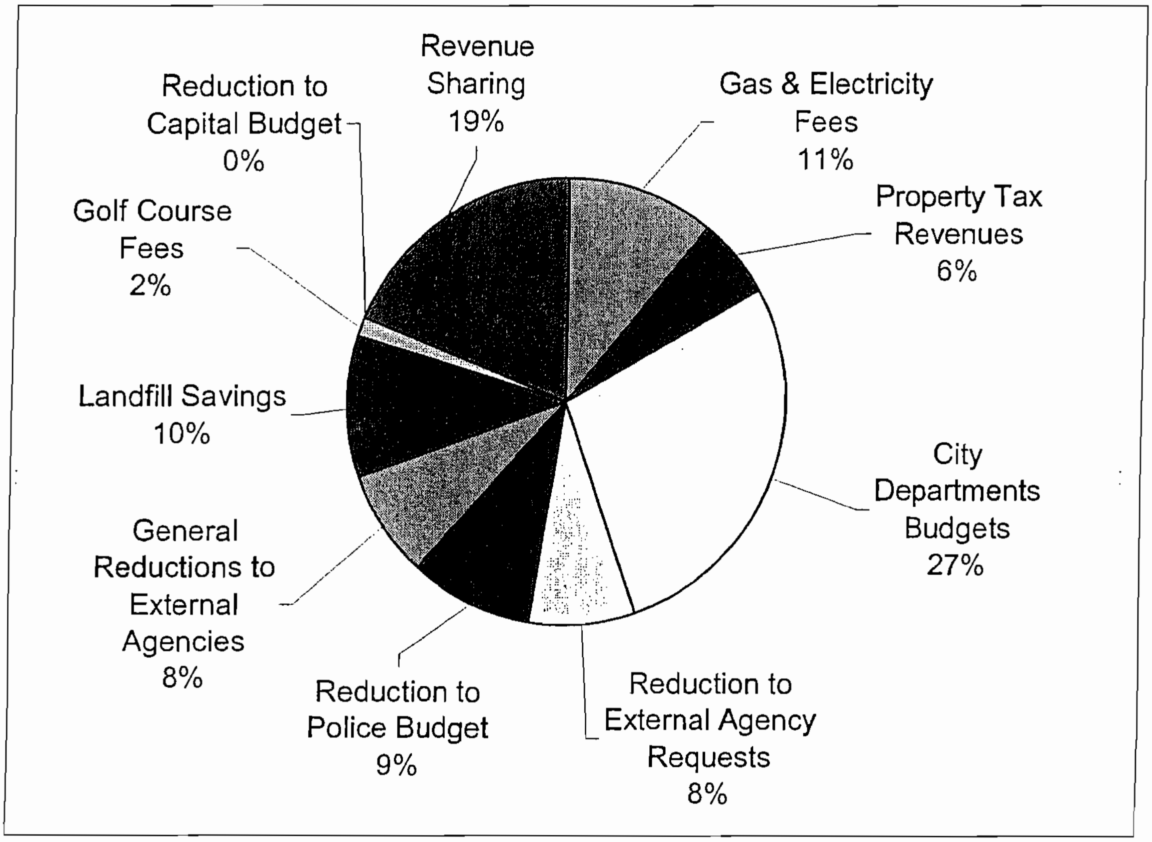
Cost Drivers – $2.337 Million



The most substantive issue is the loss of utility surcharges as a result of the Mill closure. Although the Mill will hopefully be sold, fiscal prudence would dictate that the loss of surcharges be recognized. Even if the Mill is sold, a short shut down, reduction in scope of operations or the implementation of cogeneration could all result in a loss of utility surcharge revenues.

The attached Budget Summaries outline the cost issues facing the City and possible responses.

Option 1 contains the following cost reduction proposals: $2.337 Million



OPTIONS:
FINANCIAL IMPLICATIONS:
COMMUNICATIONS:

ATTACHMENTS:

- Budget Process Timeline Flowchart
- 2006 Budget Option 1
- 2006 Budget Option 2
- 2006 Budget Issue Details

CONCLUSION:

The City is facing significant fiscal challenges. In order for the budget process to commence, direction from Council is required.

Respectfully Submitted,

Roman Martiuk
CITY MANAGER

Budget Process

Council Direction
January 30

Budget Submissions
Capital – January 31
Operating – February 10

City Manager, Treasurer & Each DH Budget Review
Capital – January 20–February 10
Operating–February 15–March 24

Department Heads Group Final Review of Budget
March 30 & 31

Final Budget Package To Council
April 6

Council Consideration
April 19–Public Meeting
April 21–Capital Detailed Review
April 22–Operating Detailed Review
April 24–Formal Council Approval

2006 Budget Summary - OPTION 1

Cost Issues		Amount in Millions	% of Tax Levy	Cumulative
1 Gas Surcharge	$0.700			
2 Electricity Surcharge	$0.375			
3 Electricity Franchise Fee	$0.300			
Total Weyerhaeuser	$1.375	$1.375	8.0%	8.0%
4 Wages net of savings		$0.400	2.3%	10.3%
5 Communications		$0.150	0.9%	11.2%
6 External Agencies		$0.187	1.1%	12.3%
7 Police (2005 amount as a placeholder)		$0.225	1.3%	13.6%
Total Impact		$2.337	13.6%	13.6%
Solutions				
8 Electricity Fees		-$0.162	-0.9%	12.7%
9 Natural Gas Fees		-$0.105	-0.6%	12.1%
10 Property Tax Revenues		-$0.140	-0.8%	11.3%
11 City Departments Budgets -10.0%		-$0.692	-4.0%	7.2%
12 Reduction to External Agency Requests - No Increase		-$0.187	-1.1%	6.1%
13 Reduction to Police Budget - No Increase		-$0.225	-1.3%	4.8%
14 Reductions to External Agencies -2%		-$0.191	-1.1%	3.7%
15 Landfill Savings Applied to Operating Budget		-$0.250	-1.5%	2.2%
16 Golf Course Fees		-$0.040	-0.2%	2.0%
17 Reduction to Capital Budget		$0.000	0.0%	2.0%
18 Revenue Sharing		-$0.460	-2.7%	-0.7%
Total Solutions		-$2.452	-14.3%	
Net Tax Increase				-0.7%
Net Tax Increase Without Revenue Sharing				2.0%

2006 Budget Summary - OPTION 2

#	Cost Issues		Amount in Millions	% of Tax Levy	Cumulative
1	Gas Surcharge	$0.700			
2	Electricity Surcharge	$0.375			
3	Electricity Franchise Fee	$0.300			
	Total Weyerhaeuser	$1.375	$1.375	8.0%	8.0%
4	Wages net of savings		$0.400	2.3%	10.3%
5	Communications		$0.150	0.9%	11.2%
6	External Agencies		$0.187	1.1%	12.3%
7	Police (2005 amount as a placeholder)		$0.225	1.3%	13.6%
	Total impact		$2.337	13.6%	13.6%
	Solutions				
8	Electricity Fees		-$0.162	-0.9%	12.7%
9	Natural Gas Fees		-$0.105	-0.6%	12.1%
10	Property Tax Revenues		-$0.140	-0.8%	11.3%
11	City Departments Budgets - 5.0%		-$0.346	-2.0%	9.2%
12	Reduction to External Agency Requests - No Increase		-$0.187	-1.1%	8.1%
13	Reduction to Police Budget - 1/2 the requested increase		-$0.113	-0.7%	7.5%
14	No Reductions to External Agencies		$0.000	0.0%	7.5%
15	Landfill Savings Applied to Operating Budget		-$0.250	-1.5%	6.0%
16	Golf Course Fees		-$0.040	-0.2%	5.8%
17	Reduction to Capital Budget		-$0.200	-1.2%	4.6%
18	Revenue Sharing		-$0.460	-2.7%	2.0%
	Total Solutions		-$2.003	-11.7%	
	Net Tax Increase				2.0%
	Net Tax Increase Without Revenue Sharing				4.6%

City of Prince Albert

2006 Operating Budget Overview

Issue Detail

Ref #	Issue Title	Issue Description	Fiscal Cost	Annual Cost
1	Weyerhaeuser - TransGas Franchise Revenue	In 2005 the total Surcharge and Franchise revenues budgeted to be paid by SaskPower, SaskEnergy and TransGas were expected to be $6,172,360. The effect of the mill closure is that the major loss of 2006 revenue in this area will be due to the TransGas Franchise payments falling to only a fraction of the amounts previously paid to the City. This is because Weyerhaeuser is the major purchaser of natural gas from TransGas (over 95%). When the mill totally closes its doors in April, 2006, the City's revenue will decrease by approximately $700,000 and in 2007, the loss will be about $800,000.	700,000	800,000
2	Weyerhaeuser - SaskPower Surcharge Revenue	In conversation with Weyerhaeuser personnel, approximately $375,000 in SaskPower Surcharge revenue (this represents the 10% municipal surcharge collected on every electrical bill processed by SaskPower) will be lost as a result of the closure of the mill ($41,619.09 per month x 9 months = $ 374,571.81). In 2008, if the mill totally closes, the revenue reduction will be close to $500,000.	375,000	500,000
3	Weyerhaeuser - SaskPower Franchise Fee	Approximately $300,000 will be lost in quarterly SaskPower Electricity Franchise revenue (this is represented by the 5% franchise payment) when the mill closes.	300,000	300,000
4	Salaries, Wages and Benefit Increases	During 2005 several of the employee unions were bargaining with the City in an attempt to agree on new multi-year contracts and reclassification of jobs. An extrapolation of the cost for salaries, wages and benefits in 2005 was compiled and adjustments were made to agreed to and impending Agreements in order to estimate a value for 2006. The projection for the General Fund is that salaries, wages and benefits could increase, net of savings by up to $400,000.	400,000	400,000
5	Communications	In the fall of 2005 Council identified the importance of improving the communications function and directed that a Communications Manager position be hired. $150,000 has been set aside for wages, benefits and program costs. The Manager has been hired and is in the process of developing a communications program for Council's review.	150,000	150,000
6	External Agencies	External agencies are also requesting additional grant funding as they encounter escalating costs to run their operations. In 2006, these agencies are collectively requesting an additional $187,250 with the largest request coming from Wapiti Regional Library who is requesting an additional $82,200 in 2006, SPCA is next, requesting an additional $56,000 and then the CSC is the next largest entity requesting an additional $38,400.	187,250	187,250
7	Police	The Police Services Board has yet to establish a budget request for 2006. In dialogue with the Police Chief we anticipate a request will be forthcoming. As a placeholder the analysis uses the 2005 police budget increase of $225,000.	225,000	225,000

City of Prince Albert
2006 Operating Budget Overview
Issue Detail

Ref #	Issue Title	Issue Description	Fiscal Cost	Annual Cost
8	SaskPower - Electrical Rate Increases	In early December 2005, Cabinet approved SaskPower's request for an average 4.9% increase to electrical rates it charges consumers which took effect on January 1, 2006. According to the SaskPower Rate Proposal submitted to Cabinet, urban commercial customers would experience an increase of approximately 4.05%, but streetlight costs would be declining by about 14.10%. Applying these percentages to the City's electrical accounts, results in City facilities experiencing a cummulative electrical rate hike of approximately $50,000, however, streetlight costs should decline by close to $105,000. The net result is that the City should see savings of $55,000 in electrical costs for 2006. The positive effect of the rate increase is that the surcharge revenue on consumers' SaskPower bills should provide the City with additional revenue of approximately $107,000. This revenue will assist in off-setting the SaskPower Surcharge and Franchise losses caused by Weyerhaeuser's closure. $107,000 + $55,000 = $162,000 in additional revenue.	(162,000)	(162,000)
9	SaskEnergy - Natural Gas Franchise Revenue	Revenue from the monthly SaskEnergy Franchise should not be directly affected by the closure of the mill since Weyerhaeuser does not purchase natural gas from SaskEnergy. In 2004, the City signed a five-year agreement with CEG for the supply of natural gas to its facilities. That Agreement pegged the purchase price of natural gas at $25.82 per cubic metre. In November, 2005 SaskEnergy increased the price of natural gas to $29.51 per cubic metre. Any City facility listed in the Agreement with CEG will be excluded from the effects of this rate increase. However, the natural gas rate increase should generate additional franchise revenue of approximately $105,000.	(105,000)	(105,000)
10	Property Tax Revenue Increases	Each year the property tax base increases as a result of new housing starts and improvements, as well as commercial and industrial developments. These changes result in a higher total assessed value for the City that translates into additional taxation revenue in subsequent years. In 2006, Administration is suggesting that the City can expect to see an increase in its tax revenues of about $140,000.	(140,000)	(140,000)
11	City Department Budgets - 10% reduction	In 2005 City departmental budgets were reduced by 20% in bottom line net levy terms (6.8% of gross operating). Council should recognize that budget reductions will be harder to achieve in 2006 than in 2005 as the easier cost containment proposals have already been implemented. Although additional savings are possible, a further 5% is viewed as realistic with 10% being the highest target Council should consider. Many of the City's costs are fixed and some, Fire for example, have relatively few discretionary accounts. As a result, an overall objective of 10% will require reductions far in excess of 10% in those areas where discretion exists.	(692,900)	(692,900)

City of Prince Albert

2006 Operating Budget Overview

Issue Detail

Ref #	Issue Title	Issue Description	Fiscal Cost	Annual Cost
12	Reduction to External Agency Requests	As a result of the mill closure, it may be necessary to freeze all external funding requests to the same dollar amounts as provided to them in 2005. The total dollars distributed in 2005, excluding Police, totalled $1,858,990. Given the City's cost challenges, it is recommended that these organizations re-submit budgets without additional funding requests. The organizations would be asked to clearly identify the implications for Council's consideration.	(187,250)	(187,250)
13	Reduction to Police budget - no increases	Although it is recognized that the police budget is comprised primarily of wages, the stark reality is that cost containment is not achievable if the largest single consumer of the tax levy is exempted. In 2005 almost one out of two tax dollars collected funds police (2005 tax levy $17.150 million, Police portion $7.713 million). The Police Service is beginning to review the installation of red-light cameras as an enforcement and public safety initiative. From a financial perspective these cameras can yield revenues in the hundreds of thousands of dollars and could be a major contributor to balancing the 2006 Police budget.	(225,000)	(225,000)
14	Reductions to External Agencies - 2%	External agencies account for $9.572 million in taxation with the largest portion being police. Given the City's financial challenges, it is recommended that a 2% cost reduction target be adopted recognizing these cost structures and separate governance. Police is the largest component and may be able to absorb the request through red light cameras.	(191,400)	(191,400)
15	Landfill savings applied to Operating budget	The City's landfill operations have been under critical review. Administration's preliminary assessment is that baling and intensive composting have escalated costs with little benefit over more traditional approaches. It is anticipated that annual savings may approach $500,000 per year. Given that implementation could take 6 months, approximately $250,000 would be realized in 2006. The Sanitation area is a separate fund. Council will be asked to consider applying these savings to the general fund by direct transfer or reduction in landfill fees together with an equivalent increase in tax rate.	(250,000)	(500,000)
16	Golf Course Fees	A January 2006 report recommends that a ROI be earned. The net impact on the budget is $40,000.	(40,000)	(40,000)
17	Reduction to Capital Budget	The City makes an annual contribution of approximately $4.0 million towards capital. Although reductions in capital spending are possible such an approach would be contrary to Council's strategic direction and does not address the growing infrastructure deficit the City is facing.	-	-

City of Prince Albert
2006 Operating Budget Overview
Issue Detail

Ref #	Issue Title	Issue Description	Fiscal Cost	Annual Cost
18	Revenue Sharing	The province through the 1990's reduced revenue sharing. Provincial officials indicated that given tough times everyone, including municipalities, should share the pain. The Mayors and City Managers have been lobbying for increases in this area and have achieved limited success. In 2004 an additional $10 million was provided. The Mayors believe the province would slowly continue to add $10 million per year. In 2005, despite close to a billion in unanticipated provincial revenues, the province declined to provide further assistance in 2005. The City of Regina has been a vocal critic of provincial inaction. Regina establishes a budget including revenue sharing. Should the province not approve an increase the resulting tax increase is passed on with the province identified as a responsible party. The same approach is recommended here.	(460,000)	(460,000)

City of Prince Albert
REPORT

Report Title:	**2006 Tax Policy – Mill Rates and Mill Rate Factors**
Date:	**May 5, 2006**
Prepared By:	**Joe Day, City Assessor**
Prepared For:	**Executive Committee**

RECOMMENDATION:
That City Council set mill rate factors at levels necessary to produce the desired tax shift from the group of commercial properties to the group of residential properties, and

That City Council, upon finalizing the 2006 operating budget, set the mill rate at a number necessary to raise the required tax revenue from the taxable assessment of $897,513,700.

JUSTIFICATION FOR INCAMERA: N/A

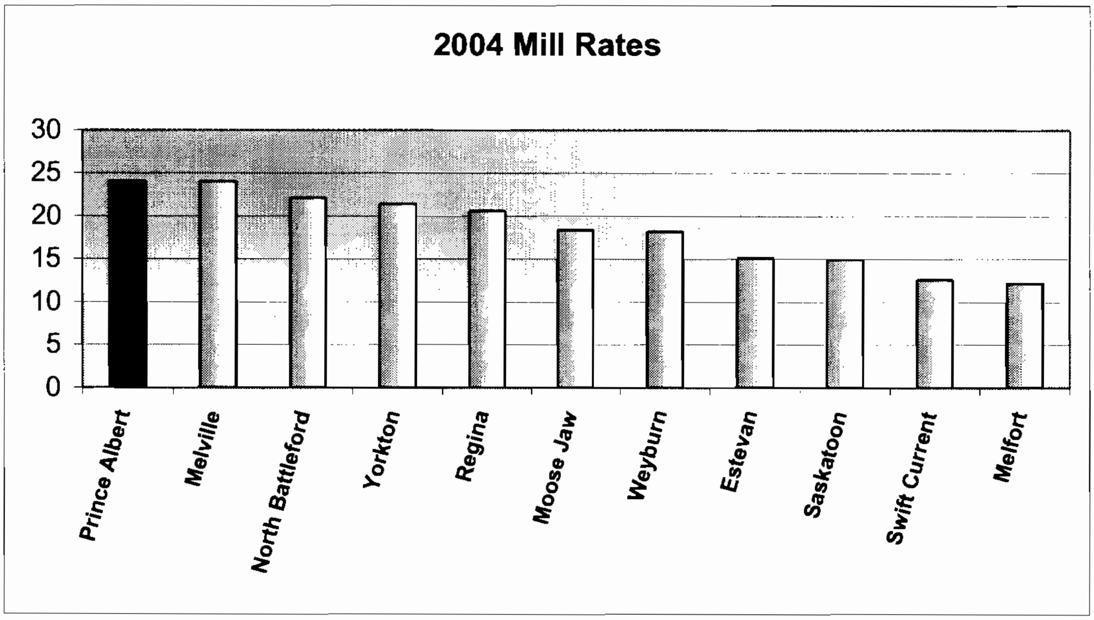
BACKGROUND:
Because 2005 was a revaluation year, Council was required to reset its tax policies; this included:

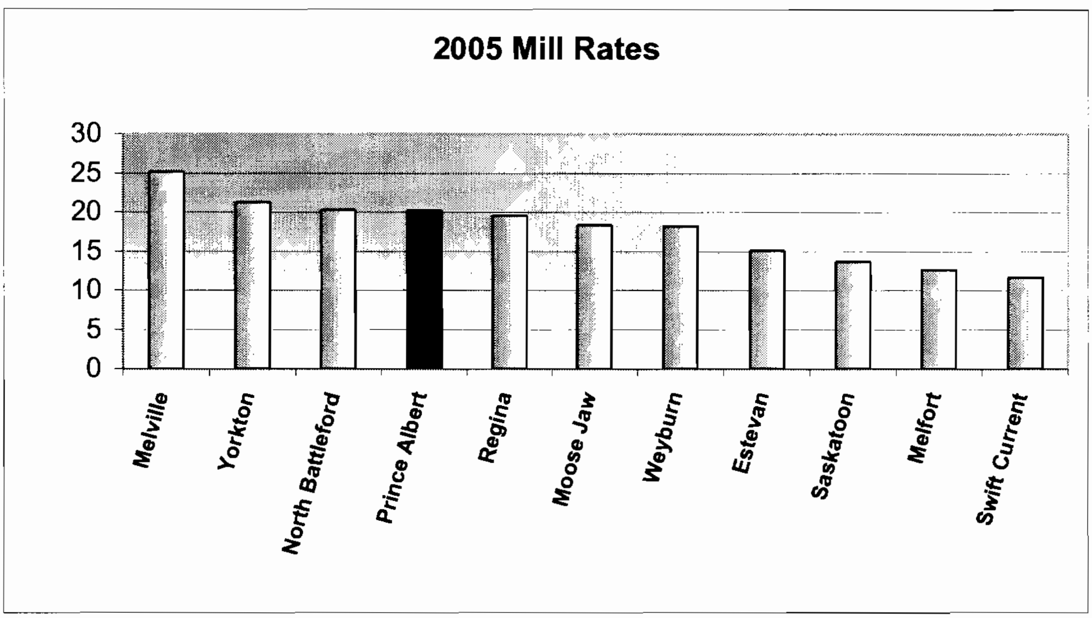
<u>Phase-In of Taxes:</u> The effect of the policy was to phase-in large increases or decreases in taxes for property owners. The policy adjusted the 2005 taxes only. For 2006 each property owner will be billed taxes without any phase-in adjustments.

<u>Mill Rate Factors:</u> Mill rate factors allow Council to determine the comparative tax levels applied to each property class. Council decided to set the mill rate factors at levels that would have the effect of taxing commercial properties at 2.35 times the rate of residential properties (For example: In 2005, a commercial property with public school support was taxed at 5.10% of its Fair Value whereas a residential property was taxed at 2.17%). This decision had the effect of decreasing commercial taxes by approximately 2.65% and increasing residential taxes by 1.48% from a status quo level.

Mill Rates:

The combination of increased assessed values from the revaluation and a detailed budget process enabled the City to reduce its mill rate from 24.031 to 20.210 from 2004 to 2005 (19.210 for uniform mill rate and 1.000 for debt reduction). Reducing the City's mill rate to these levels has moved the City up three positions within the Province when comparing the mill rates of all of the Saskatchewan cities.





See Appendix A to see how the City of Prince Albert has improved its standing among Saskatchewan cities in terms of the **residential** tax calculations. (from 6th spot to 4th spot)

See Appendix B to see how the City of Prince Albert has improved its standing among Saskatchewan cities in terms of the **commercial** tax calculations. (from 10th spot to 6th spot.)

DISCUSSION:

Setting the mill rate each year can be stated simply as "dividing the amount required from taxes into the total taxable assessment." In years where new construction is increasing assessment totals at the same rate as budget increases, no mill rate increases will be necessary. Conversely, in years following significant assessment appeal losses, a mill rate increase might be necessary just to raise the same amount of taxes from the same number of taxable properties.

Losses resulting from 2005 Board of Revision

The Board of Revision decisions, and all subsequent corrections necessary to maintain equity, caused an assessment decrease of approximately $8.2 million. This converts to a loss of approximately $170,000 to $200,000 in annual tax revenues with the existing tax rates.

Natural Growth in Assessment

The City had a relatively active year in terms of increases in the total assessment values from new building construction.

Overall the new construction represents $15 million of Fair Value assessment (Approximately $9 million from residential properties and $6 million from commercial properties). This converts to approximately $260,000 to $290,000 in growth in the tax base for the city.

> *Note: Because the Board of Revision assessment losses were mostly from commercial properties, and the assessment growth was mostly from residential properties, the tax generated from "natural growth" is not proportionate to the tax loss from Board of Revision assessment losses.*

The 2006 Budget includes the net change of all losses and all growth as an increase of $90,000 in the taxes for the City.

Mill Rate Factors

Because of the different rates of assessment loss and assessment growth in Residential and Commercial classes through 2005, a slight adjustment is required to the 2006 mill rate factors. The adjustment is necessary to ensure that the mill rates set by the City and the schools will raise the expected revenue. Without the adjustment the City and the schools would each be short by 0.18% of expected revenue.

The adjustment is required to ensure that:

Taxable Assessment × Mill Rate Factors × Uniform Mill Rate
= Taxable Assessment × Uniform Mill Rate

Setting the Mill Rate Factors also enables Council to strike the desired balance between Commercial tax rates and Residential tax rates. The desired balance will be influenced by perceptions about how taxes in this City compare to other cities, how individual taxpayers (or groups of taxpayers) view their tax load, and what the expected effects will be when taxes are set at different levels.

The following chart illustrates some of the options that the City has in setting its mill rate factors. ***Note that the shaded line shows the mill rate factors set in 2005 and illustrate that a slight adjustment is necessary to balance to 100% of the total tax required.***

Option	When the Commercial to Residential Ratio is:	The Overall impact to Residential is:	The Overall impact to Commercial is:	Residential Mill Rate Factor	Commercial Mill Rate Factor	Residential Percentage of Tax Base	Commercial Percentage of Tax Base	Percent of Tax Total
1	2.40	-0.73%	+1.39%	0.8371	1.4063	64.96	35.04	100.00
2005 MRFs				*0.8418*	*1.3847*	*65.32*	*34.50*	***99.82***
2	**2.35**	**0.00%**	**0.00%**	**0.8432**	**1.3871**	**65.44**	**34.56**	**100.00**
3	2.30	+0.75%	-1.40%	0.8496	1.3678	65.92	34.08	100.00
4	2.28	+1.04%	-1.97%	0.8520	1.3598	66.12	33.88	100.00
5	2.25	+1.49%	-2.83%	0.8558	1.3479	66.41	33.59	100.00
6	2.20	+2.25%	-4.25%	0.8623	1.3279	66.91	33.09	100.00

The 2.28 tax rate ratio has been provided to illustrate that a 1% increase to overall residential taxes results in a decrease to overall commercial taxes of nearly 2%.

Mill Rates:

A "mill" represents the dollars in taxes collected from every $1,000 in taxable assessment. The taxable assessment for the City is $897,513,895. Consequently each mill represents $897,514 in taxes.

- The mill rate at 19.21 mills will raise approximately $17,241,240 in taxes.
- The mill rate at 19.40 mills will raise approximately $17,411,770 in taxes.
- The mill rate at 19.59 mills will raise approximately $17,582,297 in taxes.

Combined Mill Rate and Mill Rate Factor Effects:

The following chart shows the combined effect of shifting taxes from Commercial to Residential along with modest tax increases.

Effect on Tax Rates with different Tax shifts and Tax Increases				
		19.21 mills	19.40 mills	19.59 mills
Comm tax rate as a ratio of residential tax rate	**Group of properties**	**No Mill Rate Increase**	**1% tax increase**	**2% tax increase**
2.35	Residential	0.00%	+0.99%	+1.98%
	Commercial	0.00%	+0.99%	+1.98%
2.30	Residential	+0.75%	+1.75%	+2.75%
	Commercial	-1.39%	-0.42%	+0.56%
2.28	Residential	+1.04%	+2.04%	+3.04%
	Commercial	-1.97%	-1.00%	-0.03%
2.25	Residential	+1.49%	+2.50%	+3.50%
	Commercial	-2.83%	-1.86%	-0.90%

The following chart illustrates the impact upon **residential** properties of different value levels for different tax increase percentages.

Fair Value Assessment	$50,000	$100,000	$150,000	$200,000
2005 Municipal Residential Taxes	**$595**	**$1,191**	**$1,786**	**$2,382**
Example of 1% increase	$6	$12	$18	$24
Example of 2% increase	$12	$24	$36	$48
Example of 3% increase	$18	$36	$54	$71

Additional Information:

Administration is planning to conduct research this year to determine the answers to the following questions:

- If the same building is built in each Saskatchewan city, how would the taxes differ? (For example: Wal-Mart has a very consistent construction style, how do the taxes for Wal-Mart stores compare across the province after adjustments are made for size and age?)
- What is the impact of every percentage change in Residential or Commercial taxes? (For example: Is it really any cheaper to live in a Rural Municipality outside of the City? Is there a method to determine the effect that the 2005 tax decrease of 2.65% for commercial property in terms of commercial development?)

OPTIONS:

Mill Rate Factors

1) Adjust the Mill Rate Factors only to rebalance the taxes collected when using Mill Rate Factors to the taxes collected when mill rate factors are not used.
2) Adjust the Mill Rate Factors to further shift taxes from Commercial to Residential properties.
3) Adjust the Mill Rate Factor to produce some other shifting of taxes between property classes.

Mill Rates:

A) No change to mill rates.

B) Mill rate change to increase taxes by 1%.

C) Mill rate change to increase taxes by 2%

D) Mill rate change to produce some other tax increase or decrease

FINANCIAL IMPLICATIONS:

Each one percent increase in tax rates from the 2005 levels will raise an additional $172,400 in tax revenue.

A mill rate increase of one full "mill" will raise an additional $897,514 in tax revenue for the City. (A one-mill increase represents a 5.2% increase in tax revenue to the City.)

A shift in taxes from one class of property to another does not affect the overall tax revenues received by the City.

The minor rebalancing of mill rates is necessary to ensure that the City does not experience a shortfall of approximately $30,000 compared to the taxes that would be raised if no mill rate factors were used. The schools would experience a combined shortfall of approximately $25,000 without the adjustment.

COMMUNICATIONS: None

ATTACHMENTS:

- Appendix A – Residential Tax Calculations – 2004 and 2005
- Appendix B – Commercial Tax Calculations – 2004 and 2005
- Bylaw #14 of 2006 – Mill Rate Bylaw
- Bylaw #15 of 2006 – Mill Rate Factor Bylaw

CONCLUSION:
The efforts that the City has made in distributing taxes between the Residential and Commercial classes of property has moved the City's standings for each of those property classes to more competitive levels compared to other Saskatchewan cities.

The taxable assessment for the City of Prince Albert has increased by about $7.0 million dollars (predominantly from residential properties) with at resulting increase to tax revenue for the City of approximately $90,000.

City Council has the authority to shift taxes between classes of property by making adjustments to the Mill Rate Factors.

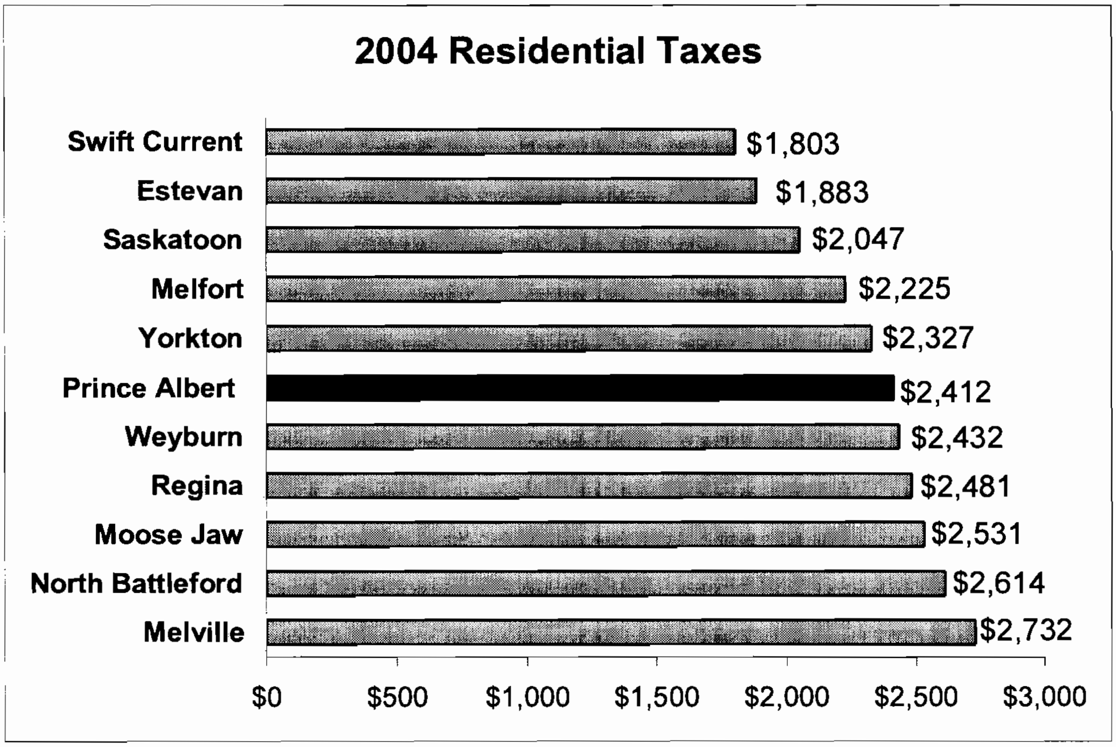
City Council must set a mill rate for the City of Prince Albert that will raise the required amount of taxes determined from its budget processes.

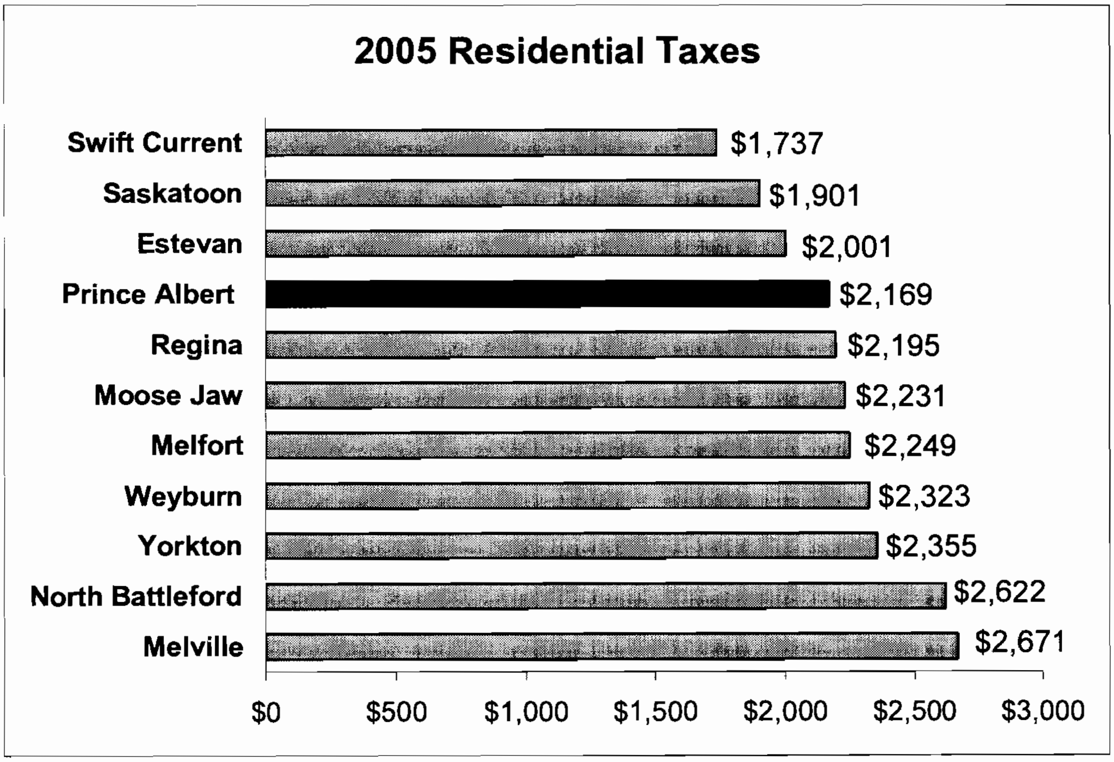
Further research is planned to facilitate better comparisons of taxes paid for similar properties in other cities and to determine what competitive forces exist when we are trying to attract development within the City, especially in regards to tax levels in competing municipalities. The benefits and consequences of shifting taxes will be better understood with this type of information.

Respectfully Submitted,

<u>**Appendix A**</u>

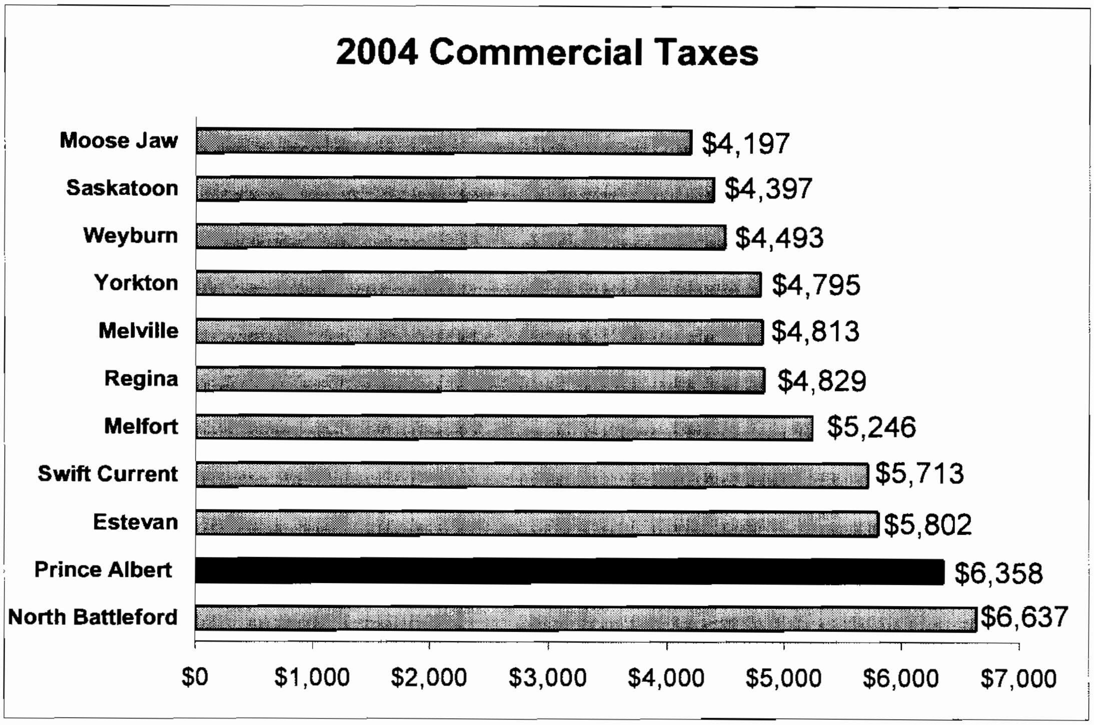
Residential Tax Calculations – 2004 and 2005 (at $100,000 Fair Value)

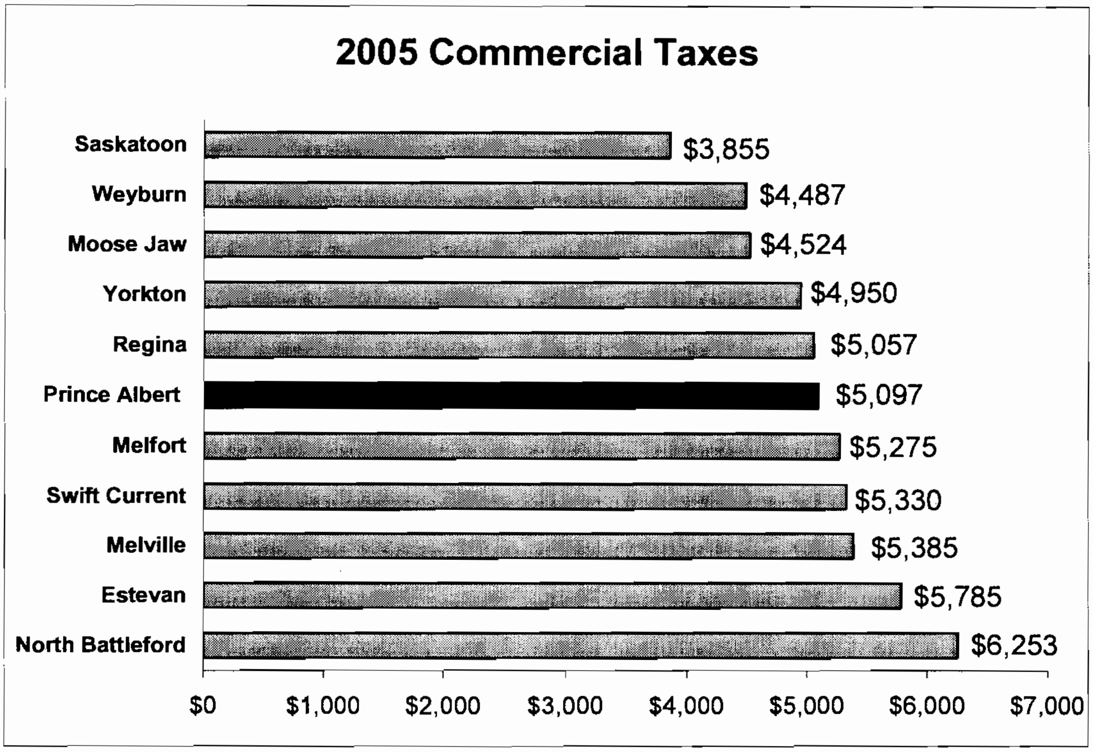




Appendix B

Commercial Tax Calculations – 2004 and 2005 (at $100,000 Fair Value)





CITY OF PRINCE ALBERT
BYLAW NO. 14 OF 2006

A Bylaw of The City of Prince Albert to raise the amount of Taxes required for General Municipal, Debt Elimination and School purposes in the City of Prince Albert for 2006

WHEREAS pursuant to Section 253 of *The Cities Act* a Council shall pass a Property Tax Bylaw annually;

AND WHEREAS the Property Tax Bylaw authorizes the Council to impose a tax on all taxable assessments in the City:

a) at a uniform rate considered sufficient to raise the amount of taxes required to meet the estimated expenditures and transfers, having regard to estimated revenues from other sources, set out in the budget of the City; and

b) at any other rates required by *The Cities Act or any other Act;*

AND WHEREAS it has been determined that the taxable assessment for the City of Prince Albert for the year 2006 is as follows:

General Municipal Purposes	$ 897,513,700
Municipal Debt Elimination Purposes	$ 897,513,700
Public School Purposes	$ 620,293,570
Separate School Purposes	$ 277,220,130

AND WHEREAS it is deemed necessary to raise **$17,241,240** from taxable assessments for General Municipal Purposes for the year 2006 with a Mill Rate of **19.21** Mills;

AND WHEREAS it is deemed necessary to raise **$897,514** from taxable assessments for Municipal Debt Elimination Purposes for the year 2006 with a Mill Rate of **1.00** Mills;

AND WHEREAS the Board of Education for Saskatchewan Rivers School Division No. 119 of Saskatchewan has estimated its requirements from taxable assessments for the purposes of the said school division for the year 2006 at **16.60** Mills, in addition to its share of the grants pursuant to Section 272 of *The Cities Act;*

AND WHEREAS the Board of Education for Prince Albert Roman Catholic Separate School Division No. 6 of Saskatchewan has estimated its requirements from taxable assessments for the purposes of the said school division for the year 2006 at **17.26** Mills, in addition to its share of the grants pursuant to Section 272 of *The Cities Act;*

NOW THEREFORE THE COUNCIL OF THE CITY OF PRINCE ALBERT IN OPEN MEETING ASSEMBLED ENACTS AS FOLLOWS:

1. This Bylaw may be cited as "The 2006 Property Tax Bylaw".

2. There shall be levied, raised and collected as taxes in respect of the purposes aforesaid upon the taxable assessment as shown in the Preliminary Assessment Roll for the year 2006, insofar as the assessment of lands and improvements are subject thereto, a rate of 36.810 Mills for Public School supporters and a rate of 37.470 Mills for Separate School supporters, details of which respective rates are as follows:

	PUBLIC SCHOOL SUPPORTERS	SEPARATE SCHOOL SUPPORTERS
(a) General Municipal Purposes	19.210 Mills	19.210 Mills
(b) Municipal Debt Elimination Purposes	1.000 Mills	1.000 Mills
(c) Public School Purposes	16.600 Mills	--------
(d) Separate School Purposes	--------	17.260 Mills
	36.810 Mills	37.470 Mills

3. The rates imposed for 2006 are deemed to be imposed and due on and from January 1, 2006.

INTRODUCED & READ A FIRST TIME THIS DAY OF MAY, A.D. 2006.

READ A SECOND TIME THIS DAY OF MAY, A.D. 2006.

READ A THIRD TIME AND PASSED THIS DAY OF MAY, A.D. 2006.

MAYOR CITY CLERK

CITY OF PRINCE ALBERT
BYLAW NO. 15 OF 2006

A Bylaw of The City of Prince Albert to establish Mill Rate Factors.

WHEREAS Section 255(1) "The Cities Act" authorizes the Council, by Bylaw, to set mill rate factors;

AND WHEREAS, the Council of The City of Prince Albert, in the Province of Saskatchewan, deems it advisable and expedient that mill rate factors be established;

NOW THEREFORE the Council of The City of Prince Albert, in the Province of Saskatchewan, enacts as follows:

1. That The City of Prince Albert, in the Province of Saskatchewan, will establish a mill rate for the purpose of taxation pursuant to Section 255 "The Cities Act" and will apply to the aforementioned mill rate the mill rate factors as set forth in this Bylaw.

2. That the **municipal** mill rate factors shall be as follows:

   a) That the mill rate factor to be utilized with respect to the land, improvements or both of the **residential** class and **seasonal residential** class shall be 0.8432.

   b) That the mill rate factor to be utilized with respect to the land, improvements or both of the **non-arable (range)** class and **other agricultural** class shall be 1.0732.

   c) That the mill rate factor to be utilized with respect to the land, improvements or both of the **condominium** sub-class shall be 0.7589.

d) That the mill rate factor to be utilized with respect to the land, improvements or both of the **multi-unit residential** class shall be 1.2648.

e) That the mill rate factor to be utilized with respect to the land, improvements or both of the **commercial and industrial** class shall be 1.3871.

f) That the mill rate factor to be utilized with respect to the land, improvements or both of the **elevators** class shall be 1.8495.

g) That the mill rate factor to be utilized with respect to the land, improvements or both of the **railway rights of way and pipeline** shall be 1.8495

3. That the mill rate factors for the Board of Education of the Saskatchewan Rivers School Division No. 119 and the Board of Education of the Prince Albert Roman Catholic Separate School Division No. 6 be established as outlined in Section 2 above.
4. This Bylaw shall come into force and take effect on, from and after the 1st day of January, 2006.
5. That Bylaw No. 25 of 2005 is hereby repealed.

INTRODUCED & READ A FIRST TIME THIS DAY OF MAY, A.D. 2006.
READ A SECOND TIME THIS DAY OF MAY, A.D. 2006.
READ A THIRD TIME AND PASSED THIS DAY OF MAY, A.D. 2006.

MAYOR **CITY CLERK**