

Request for Recommendation

Finance and Administration Committee



Type of Decision									
Meeting Date	February 2, 2015			Report Date	February 2, 2015				
Decision Requested		Yes	X	No	Priority	X	High		Low
	Direction Only				Type of Meeting	X	Open		Closed

Report Title
2015 Budget Overview

Budget Impact/Policy Implication		Recommendation
X	This report has been reviewed by the Finance Division and the funding source has been identified.	For Information Only
X	<b>Background Attached</b>	<b>Recommendation Continued</b>

Recommended by the Department

*Lorella Hayes*  
 Lorella Hayes  
 Chief Financial Officer/Treasurer

Recommended by the C.A.O.

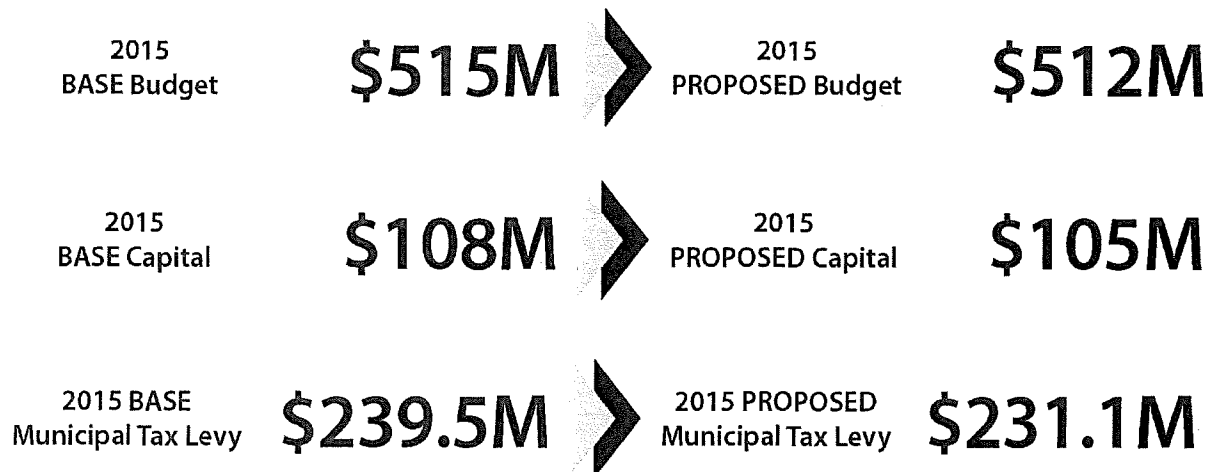
*Doug Nadorozny*  
 Doug Nadorozny  
 Chief Administrative Officer

Report Prepared By	Division Review
Lorella Hayes Chief Financial Officer/Treasurer	

**1.0 Executive Summary**

The following is a reconciliation of the Municipal Tax Levy from the 2015 Preliminary Forecast, to the 2015 Base Budget and the 2015 Proposed Budget:

	Tax Levy (millions)	Municipal Tax Increase (%)
<b>2015 Preliminary Forecast</b> (August 2014 – 5.5 % less 0.3% actual assessment growth)	\$12.1	5.2%
Less: Base Budget Reductions and Fiscal Sustainability Initiatives	(\$3.7)	(1.6%)
<b>2015 Base Budget (as February 2<sup>nd</sup>, 2015)</b>	<b>\$8.4</b>	<b>3.6 %</b>
Less: Proposed Budget Reduction Options	(\$3.7)	(1.6%)
Less: Proposed One-Time Contribution from Reserve Funds and Cancellation of Capital Projects Approved by Previous Council	(\$4.7)	(2.0%)
<b>2015 Proposed Budget (as of February 2<sup>nd</sup>, 2015)</b>	<b>\$ -</b>	<b>- %</b>



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## 2.0 Background

In August 2014, City staff presented a three year financial forecast to the Finance and Administration Committee. Based on management's best estimates at that time, the following was the forecasted municipal tax increase for 2015 to 2017:

	2015	2016	2017
Base Budget	5.5%	4.1%	3.7%
Less: Estimate of Assessment Growth	(0.6%)	(0.6%)	(0.6%)
<b>Preliminary Forecast of Municipal Tax Increase (August 2014)</b>	<b>4.9%</b>	<b>3.5%</b>	<b>3.1%</b>

In December 2014, the 2015 Assessment rolls were provided by MPAC and the actual assessment growth for 2015 taxation year is 0.3%. This amended the preliminary forecast to 5.2%, representing a tax levy increase of \$12.1 million.

Over the past few years, a key goal has been to maintain low property taxes. In August, in an effort to achieve this goal, the Chief Administrative Officer requested that staff in all departments continue to look for cost reductions, efficiencies and savings to reduce the forecasted municipal property tax increase.

The following resolution #CC2014-381 was passed by Council of the City of Greater Sudbury on December 9, 2014:

*WHEREAS it is the role of Council to represent the public and to consider the well-being and interests of the municipality;*

*AND WHEREAS it is the role of Council to ensure that administrative policies, practices and procedures and controllership policies, practices and procedures are in place to implement the decisions of Council;*

*AND WHEREAS it is the role of the officers and employees of the municipality to implement Councils decisions and establish administrative practices and procedures to carry out Councils decisions;*

*AND WHEREAS it is the role of the Treasurer to provide the Council with such information with respect to the financial affairs of the municipality as it requires or requests;*

*AND WHEREAS the public's expectation is that the City will deliver a zero percent municipal property tax increase for 2015, without a loss of permanent jobs, or a reduction of the level of services provided by the City;*

*THEREFORE BE IT RESOLVED THAT the City of Greater Sudbury Council direct the Chief Administrative Officer and the Chief Financial Officer to make a report to Council, providing their specific and recommended course(s) of action in delivering on this*

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*expectation at the Finance and Administration Committee meeting on Tuesday, February 3, 2015.*

When compared to the preliminary financial forecast, and net of the actual assessment growth of 0.3%, tax levy reductions in the amount of approximately \$12.1 million (including preliminary estimates for Outside Boards) were required to achieve a zero percent municipal tax increase.

The purpose of this report is to provide the Finance and Administration Committee with:

- An overview of the strategy used by the Senior Management Team to develop the Base and Proposed 2015 Budget
- An overview of the 2015 Budget – Base and Proposed
- An overview of the proposed budget reductions to achieve a zero percent municipal property tax increase
- An outlook for 2016 and future budgets
- Forecast of Reserves, Reserve Funds and Capital Fund Balances

### **3.0 Strategy for the Preparation of the 2015 Budget: Base and Proposed**

#### **3.1 Toward Fiscal Sustainability Plan**

The principles and policies documented in the Long Term Financial Plan guides the strategic thinking of the City and these principles are used in managing the financial affairs of the City. The nine principles are:

1. Ensure Long Term Financial Sustainability
2. Deliver services in a cost-effective and efficient manner
3. Ensure operating revenues are sustainable and consider community-wide and individual benefits (taxes versus user fees)
4. Meet social equity objectives through specific programs
5. Manage the City's capital assets to maximize long term community benefit
6. Recognize that funding from senior levels of government is a crucial element of fiscal sustainability
7. Use debt financing where appropriate
8. Maintain Reserve and Reserve Funds at appropriate levels
9. Identify and quantify long term liabilities

In 2010-2011, the City recognized the need to adopt a strategy to ensure the City was fiscally sustainable in the long term, and the Toward Fiscal Sustainability Plan was designed. The financial challenges facing the City have been and continue to be:

- Decreased funding from the Ontario Municipal Partnership Fund
- Need for additional capital funding to maintain the infrastructure in a state of good repair
- Desire to maintain low property taxes

- Program and/or service level expansions
- Funding for growth or new projects/initiatives

The Toward Fiscal Sustainability Plan identified a number of action items – short term, medium term and long term - to address these financial challenges. The plan identified the need to rethink some of the ways we work, and it was an opportunity for the City to rethink, refocus and rebalance what we do, why we do it, and how we do it.

During 2011 to 2014, the City has found savings or cost reductions in excess of \$6 million, that reduced the municipal tax levy.

City staff are still working on a number of action items. Over \$3.1 million of initiatives and tax levy reductions have been incorporated into the 2015 Budget, to reduce the municipal tax levy.

### 3.2.1 2015 Base Municipal Operating Budget

The Base Municipal Budget is a projection of the inflows and outflows for the coming year which will be required to deliver the approved service levels and standards. Many of these projections are made on management’s best information, accounting for contractual obligations and predictions of future events and circumstances.

The following is a summary of the base municipal budget:

<b>Expenses</b> (\$515 M)	<b>=</b>	<b>Municipal Property Taxes</b> (\$240 M)	<b>+</b>	<b>Other Revenues</b> (\$275 M)
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The following is a summary of the changes from 2014 to 2015:

	<b>2014 Final Approved Budget</b>	<b>2015 Base Budget</b>
Expenses	\$504.1	\$515.0
Less: Revenues	(\$273.6)	(\$275.5)
<b>Municipal Tax Levy (\$)</b>	<b>\$230.5M</b>	<b>\$239.5M</b>
Municipal Tax Increase (%)	3.6%	3.9%
Less: Assessment Growth	(0.7%)	(0.3%)
<b>Municipal Tax Increase (%)</b>	<b>2.9%</b>	<b>3.6%</b>

Please see the Executive Summary Tab which provides a more detailed overview of the 2015 Base and Proposed Budget.

### 3.2.2 2015 Capital Budget

The Capital Budget is dedicated to one time projects and expenditures to acquire, construct, rehabilitate, or repair capital assets.

The 2015 Capital Budget is estimated to be \$107.6 million. The following is an overview of the capital investments by area:

(in Millions)	2014	2015
Roads	\$38.3	\$42.5
LED Streetlights	-	\$4.0
Water and Wastewater	\$33.3	\$30.2
Fleet and Transit	\$3.8	\$5.2
Community Development (including CD facilities)	\$7.2	\$5.9
Growth and Development (including all other facilities)	\$5.7	\$9.6
Solar Panels	-	\$2.0
Emergency Services	\$2.6	\$2.3
Administrative Services	\$1.2	\$0.8
Healthy Communities Initiatives	\$0.6	\$0.6
Police Services	\$2.3	\$4.5
Total Capital Budget	\$95.0	\$107.6

The capital budget is funded from a transfer from the tax levy of \$37.9 million, transfer from water and wastewater user fees of \$23.4 million, contributions from reserve funds of \$24.1 million, contributions from obligatory reserve funds of \$2.1 million, funding from senior levels of government \$14.3 million and other revenues/future capital envelopes of \$5.9 million.

The amount of the annual capital budget varies from year to year, depending on the timing of large capital projects. 2015 Capital Budget has increased by \$12.6 million and the following are the key sources of additional funding:

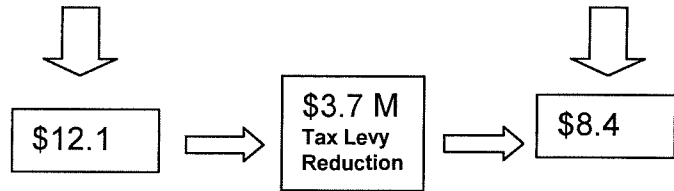
- inflation added to the capital envelopes (\$0.7 million)
- one time projects planned for 2015 which will be funded from reserve funds (\$10.2 million)
- net increase in funding from senior levels of government (\$1.7 million - which consists of \$2.2 million from the Ontario Community Infrastructure Fund, less declines in Federal and Provincial Gas Taxes)

Examples of some of the one-time projects funded from reserve funds include, the conversion of LED streetlights (\$4.0 M), solar panels (\$2.0 M), improvements to underground parking roof (\$2.0), and Sudbury landfill cell closure (\$1.2 M).

### 3.3 Comparison to the Three Year Financial Forecast

The follow chart outlines the changes compared to the three year forecast presented in August 2014:

	2015 Preliminary Forecast	Changes from Forecast	2015 Base Budget
Maintaining Provincially Mandated Services and decline in OMPF	1.4%	0.1%	1.5%
Maintaining Other City Services Levels	2.9%	(1.4%)	1.5%
Maintaining services provided by Outside Boards (Police, SDHU, NDCA)	0.9%	(0.3%)	0.6%
Increase in Capital funding	0.3%	-	0.3%
Less: Assessment Growth	(0.6%)	0.3	(0.3%)
<b>Total Municipal Tax Increase (%)</b>	<b>4.9%</b>		<b>3.6%</b>



Since the preliminary forecast, approximately \$3.7 million of budget reductions and fiscal sustainability initiatives have been incorporated in the 2015 Base Budget to reduce the municipal property tax levy.

### 3.4 Getting to Zero

In order to achieve the objective of zero percent municipal property tax increase, the Senior Management Team and Directors continued to review and identify savings and tax levy reductions to incorporate into the budget estimates, while avoiding or minimizing negative impacts to services delivery. A copy of the resolution approved by City Council was also provided to the Outside Boards.

The goal of a zero percent municipal tax was anchored on two key clauses in the resolution approved by City Council:

- No reduction in permanent staff
- No reduction in service levels

To ensure that the proposed budget reductions were in accordance with the direction provided by City Council, a budget evaluation tool was developed. See Proposed Budget Option Tab for a copy. The Budget Option Evaluator Tool scored the

Reduction Option based on a set of criteria - Strategic, Financial and Impact to Program or Service Levels. Each budget reduction option was scored and categorized as follows:

0 to 35 points	Program or Service is significantly threatened or impacted
36 to 60 points	Program or Service is moderately threatened or impacted
61 to 80 points	Minor impacts to program or service and monitoring is required to assess impact in short term and long term
81 to 89 points	Program or service remains almost unchanged in the immediate, however, monitoring required to assess impact in the long term
90 to 100 points	Program or Service remains almost unchanged and is fiscally sustainable

As a result of this exercise, many of the budget reduction ideas and options that scored greater than 90 points were incorporated into the 2015 Base Budget, if they were in accordance with the Base Budget Preparation Policy. This exercise, coupled with other fiscal sustainability initiatives reduced the base municipal tax levy by almost \$3.7 million in 2015.

In accordance with the direction from City Council, very few options submitted by operating departments scored between 0 to 60.

### **3.5 Proposed Budget Reductions**

As noted above, in order to achieve a zero percent municipal tax increase, approximately \$8.4 million in tax levy reductions are required.

The Senior Management Team has prepared 26 Budget Reduction Options totaling \$8.4 million for the Finance and Administration Committee's consideration. If approved by the Committee, these options can be implemented almost immediately, upon approval of the 2015 Budget.

The proposed budget reductions options prepared for the Finance and Administration Committee's consideration are summarized as follows:



Program or service remains almost unchanged in the immediate, however monitoring required to assess impact in the long term: (Scored 81 to 89 points using Budget Evaluator Tool) <ul style="list-style-type: none"> <li>▪ Operating Expense Reductions</li> <li>▪ Increase in Parking Revenues (Contribution of \$66,300) to Parking Improvement Reserve Fund)</li> </ul>	\$61,515 -
Minor impacts to program or service and monitoring is required to assess impact in short term and long term (Scored 61 to 80 points using Budget Evaluator Tool) <ul style="list-style-type: none"> <li>▪ Operating Expenses Reductions</li> <li>▪ Revenue Increases</li> <li>▪ Capital Funding Reductions</li> </ul>	\$595,054 \$597,542 \$2,434,024
One-time revenues to reduce tax levy: <ul style="list-style-type: none"> <li>▪ Contribution from Tax Rate Stabilization Reserve to fund the tax levy increase for services provided by the Outside Boards (Savings to be identified in 2016 Budget)</li> <li>▪ Contribution from Human Resources Management Reserve Fund (attrition target to be achieved in 2016 Budget)</li> <li>▪ Cancellation of Capital Projects approved by the previous Council (See Section 6 for list of projects)</li> </ul>	\$1,437,314 \$753,926 \$2,500,000
<b>Total Proposed Tax Levy Reduction Options</b>	<b>\$8,379,375</b>

Please see the Proposed Budget Reductions Tab for the detailed lists.

If approved by the Finance and Administration Committee, the following is a summary of the changes from the 2015 Base Budget, compared to the 2015 Proposed Budget:

	<b>2015 Base Budget</b>	<b>Proposed Tax Levy Reduction Options</b>	<b>Proposed 2015 Budget</b>
Expenses	\$515.0	(\$3.0)	\$512.0
Revenues	(\$275.5)	(\$5.4)	(\$280.9)
<b>Municipal Tax Levy (\$)</b>	<b>\$239.5M</b>	<b>(\$8.4M)</b>	<b>\$231.1M</b>
<b>Municipal Tax Increase (%)</b>	<b>3.6%</b>	<b>(3.6%)</b>	<b>0%</b>

### 3.6 Proposed Capital Budget

The following chart summarizes the changes to the Capital Budget if Council approves the approved budget reduction options.

(in Millions)	2015 Base	Less Proposed Reductions	2015 Proposed
Roads	\$42.5	(\$2.2)	\$40.3
LED Streetlights	\$4.0	-	\$4.0
Water and Wastewater	\$30.2	-	\$30.2
Fleet and Transit	\$5.2	(\$0.01)	\$5.2
Community Development (including CD facilities)	\$5.9	(\$0.08)	\$5.8
Growth and Development (including all other facilities)	\$9.6	(\$0.06)	\$9.5
Solar Panels	\$2.0	-	\$2.0
Emergency Services	\$2.3	(\$0.03)	\$2.3
Administrative Services	\$0.8	(\$0.02)	\$0.8
Healthy Communities Initiatives	\$0.6	-	\$0.6
Police Services	\$4.5	-	\$4.5
<b>Total Capital Budget</b>	<b>\$107.6</b>	<b>(\$2.4)</b>	<b>\$105.2</b>

### 4.0 Budget 2016 and future

The three-year financial forecast presented in August 2014 forecasted the municipal property tax increase for 2016 to be approximately 3.5%, and 2017 to be approximately 3.1%. This forecast included potential declines in the Ontario Municipal Partnership Fund Grant, in 2016 and 2017 and assessment growth at 0.6%.

The City's Long Term Financial Plan contains the following principle:

"Finance ongoing expenditure requirements from ongoing, sustainable revenue sources. Use of one-time revenues (ie. Reserves) to finance ongoing expenditures should be avoided."

The proposed budget reductions include approximately \$4.7 million of one-time contributions from the City's Reserve and Reserve Funds and the Capital Fund (ie. cancellation of previously approved projects) to achieve a zero percent increase in the municipal tax levy.

In 2016, in order to avoid an increase above the preliminary forecast, tax levy reductions of \$4.7 million must be achieved to offset the one-time revenues proposed in the 2015 Budget.

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During 2015, staff will be engaged in identifying savings through attrition, service delivery reviews, and other initiatives identified in the Toward Fiscal Sustainability Plan. In addition, Council direction is required to identify service levels and standards that should be analyzed. Based on the direction received, reports will be prepared for Standing Committees and City Council.

When conducting a review of city service levels, some of the key questions that should be addressed:

- Does the City need to be providing this service?
- Are we achieving our desired outcomes from the service or program?
- What measures can be used to gauge the effectiveness of the service?
- What measures can be used to gauge the efficiency of the service?
- How is demand for the service or program managed?  
For example: Education, Pricing, Management or Operations procedures/changes, technological innovation
- Are there alternative ways of delivering the service or program?
- What improvements can be made to service or program delivery?
- Are there any reductions recommended?

The Senior Management Team has provided a preliminary list of items/areas that require further analysis and policy discussion for 2016 and future budget deliberations. These areas will be reviewed during 2015, and reports will be presented to the City Council and/or Standing Committee.

Please see the Fiscal Sustainability Tab for a preliminary list of these initiatives.

## **5.0 Forecasted Reserve and Reserve Funds**

The City maintains reserve and reserve funds in accordance with the Reserves and Reserve Fund By-Law. They are a critical component of a municipality's long term financial plan. The purpose of these funds are to:

- Provide stability of tax rates in the face of variable and uncontrollable factors (consumption, interest rates, unemployment rates, changes in subsidies)
- Provide financing for one-time or short term requirements without permanently impacting tax and utility rates
- Make provisions for replacements/acquisitions of assets/infrastructure that are currently being consumed and depreciated
- Avoid spikes in funding requirements of the capital budget by reducing their reliance on long-term debt borrowings
- Provide a source of internal financing
- Ensure adequate cash flows
- Provide flexibility to manage debt levels and protect the municipality's financial position
- Provide for future liabilities incurred in the current year but paid for in the future.

Reserves offer liquidity which enhances the municipality's flexibility, both in addressing unplanned operating requirements and in permitting the municipality to temporarily fund capital projects internally.

The following table summarizes the 2013 Actual and 2014 Forecasted Reserve and Reserve Fund Balances:

(in millions)	2013 Actual	2014 Forecast	2015 Forecast (including proposed budget deductions)
Reserves	\$8	\$6	\$3
Reserve Funds	\$148	\$151	\$128
Total	\$156	\$157	\$131

The following is a high level overview of the forecasted change in Reserve and Reserve Funds to December 31, 2015: (in millions)

Forecasted Opening Balance: January 1, 2015	\$157
Add: Forecasted Interest to be earned	\$3.4
Less: Contributions to fund Capital Projects (as per 2015 Capital Budget)	(\$24)
Add: Forecasted Development Charge Revenue	\$4.7
Less: One time Contributions to reduce 2015 Tax Levy	(\$2.2)
Less: Other transfers to/from in accordance with the Budget/By-Law	(\$7.9)
Forecasted Closing Balance: December 31, 2015	\$131

## 6.0 Capital Works in Progress Balance

In accordance with the Capital Budget By-Law, the City maintains a non interest bearing capital fund for the Council approved capital projects in progress.

The following is a summary of the Capital Fund at the end of each fiscal year:

(in millions)	2011	2012	2013	Forecast 2014
Committed Capital Projects (unspent projects)	\$76	\$75	\$80	\$86
Internal Debt Financing	(\$17)	(\$20)	(\$34)	(\$36)
Capital Fund Balance, at Dec 31	\$59	\$55	\$46	\$50

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The City finances the majority of the capital expenditures on a pay as you go model. This means, in some cases, that operating departments must plan and budget for capital projects over several years. For certain projects, City Council has approved internal debt financing (ie. Borrowing from the Capital Fund), with repayments to come from future year's capital envelopes or other sources over time. In addition, external debt financing for capital projects has been approved, however it must be in accordance with the Debt Management By-Law. During 2014, the City internally financed the construction of the Transit and Fleet Garage. External debt financing for this project, as well as the Biosolid's Facility will be acquired during 2015.

As illustrated above, the balance of unspent capital funds at the end of each fiscal year has been increasing slightly. These projects with unspent balances as of Dec 2014 are in the following phases:

- Competitive bids awarded and construction in progress
- In procurement phase
- Design and/or project planning phase

As part of the City's fiscal year end, management is currently conducting a detailed review of the capital fund, closing out completed capital projects, and funding project variances in accordance with the By-Law. In addition, Finance staff are consulting with operating departments to obtain a status update on each of the capital projects.

In accordance with the Capital Budget By-Law, should there be any surplus funds or cancelled capital projects, the funding will be transferred to the respective Capital Financing Reserve Fund.

After December year end close, Finance, in consultation with operating department staff, will prepare the final 2014 quarterly variance report for completed capital projects. As well, a report will be provided to the Finance and Administration Committee to outline the list of capital projects in the Capital Fund balance, by division.

As noted above (Section 3.5), in order to assist in achieving a zero percent municipal tax increase, projects amounting to \$2.5 million are recommended to be canceled. This funding will only be available on a one-time basis to reduce the Municipal Tax Levy. The projects are as follows:

- 1) Industrial Land Strategy - \$1.2 M (part of funds set aside by Roads for Lasalle Elizabella Project)
- 2) Records Management - \$500,000
- 3) ERP Projects - \$205,000
- 4) Grace Hartman Amphitheatre - \$500,000 (part of funds set aside for roof and additional hard seats)
- 5) Rock of Fame - \$95,000

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## 7.0 Property Taxation

Annually the City participates in the BMA Study, which compares 95 municipalities on a number of measures. Appendix A provides information on 2014 property taxation comparisons which was generated from the study.

## 8.0 Conclusion

The municipal budget is a projection of the inflows and outflows for the coming year which will be required to deliver the approved service levels and standards. Many of these projections are made on management's best information, accounting for contractual obligations and predictions of future events and circumstances.

Based on these estimates, the 2015 Base Budget requires a municipal tax levy of approximately \$240 million to ensure a balanced budget. This results in a municipal tax levy increase, net of assessment growth of \$8.4 million or 3.6%. This represents \$95 per annum for a typical home with an assessed value of \$230,000 or \$201 per annum for a senior executive home with an assessed value of \$490,000.

City Council approved a resolution requesting the CAO and CFO's recommended course of action to achieve a zero percent municipal tax increase, without a loss in permanent jobs and without a reduction in service levels.

The Senior Management Team has prepared 26 budget reduction options totaling \$8.4 million for the Finance and Administration Committee's consideration. If approved by the Committee, these options can be implemented almost immediately upon approval of the 2015 Budget. The budget reduction options include three options totaling \$4.7 million which propose the use of one-time revenues as a source of funding to reduce the 2015 municipal tax levy. This represents a municipal tax levy reduction of 2%.

If approved, it is recommended that staff and City Council identify tax levy reductions through attrition, service delivery reviews, and other efficiency initiatives, in order to avoid a tax increase above the 2016 preliminary forecast.