

Request for Decision

2019 Budget Direction and 2019-2020 Two Year Financial Forecast

Presented To: Finance and Administration Committee

Presented: Tuesday, May 15, 2018

Report Date Wednesday, May 02, 2018

Type: Managers' Reports

Resolution

Resolution #1:

THAT the City of Greater Sudbury directs staff to prepare a 2019 Business Plan that includes an operating budget for all tax supported services that considers:

- a. The cost of maintaining current programs at current service levels based on anticipated 2019 workloads;
- b. The cost of providing provincially mandated and cost shared programs;
- c. The cost associated with growth in infrastructure that is operated and maintained by the City;
- d. An estimate in assessment growth;
- e. Recommendations for changes to service levels and/or non-tax revenues so that the level of taxation in 2019 produces no more than a 3.5% property tax increase over 2018 taxation levels.

Resolution #2:

THAT the City of Greater Sudbury directs staff to develop the 2019 Capital Budget based on an assessment of the community's highest priority needs consistent with the application of criteria that considers:

- a. Financial affordability;
- b. Financial commitments and workload requirements in subsequent years for multi-year projects;
- c. The increased operating costs associated with new projects;
- d. The probability and potential consequences of asset failure if a project is not undertaken;

Signed By

Report Prepared By

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Division Review

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Financial Implications

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Recommended by the Department

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Recommended by the C.A.O.

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Chief Administrative Officer
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e. The financial cost of deferring projects.

Resolution #3:

THAT the City of Greater Sudbury directs staff to prepare a Business Plan for Water and Wastewater Services that includes:

- a. The cost of maintaining current approved programs at current service levels based on anticipated production volumes;
- b. The cost associated with legislative changes and requirements;
- c. The cost associated with growth in infrastructure operated and maintained by the City;
- d. A reasonable estimate of water consumption;
- e. A rate increase not to exceed 7.4%, subject to further review following completion of an updated long-term financial plan for water/wastewater services in the third quarter of 2018.

Resolution #4:

THAT the City of Greater Sudbury directs staff to provide recommendations for changes to user fees that reflects:

- a. The full cost of providing the program or services including capital assets, net of any subsidy approved by Council;
- b. Increased reliance of non-tax revenue;
- c. The application of the means-based fee policy approved in the second quarter of 2018;
- d. Development of new fees for municipal services currently on the tax levy.

Resolution #5:

THAT the City of Greater Sudbury directs staff to present any service enhancements, changes in services, or new service proposals as Business Cases for consideration by City Council on a case-by-case basis, subject to the following conditions:

- a) Any business case request from Councillors must be approved by resolution of Council or Committee to be incorporated into the 2019 Budget Document;
- b) Any business case with a value of \$50,000 or less be incorporated into the base budget where the Executive Leadership Team supports the change, with a summary of such changes disclosed to Council;
- c) Any business case Council directs staff to include for consideration that is not recommended by ELT be presented in the 2019 Budget Document regardless of its value.

Resolution #6:

THAT the City of Greater Sudbury requests its Service Partners (Police Services Board, Nickel District Conservation Authority, and Sudbury and District Health Unit) to follow the directions in resolution one of the report entitled "2019 Budget Direction" from the General Manager of Corporate Services, presented at the Finance and Administration Committee meeting on May 15, 2018, when preparing their 2019 municipal funding requests.

Resolution #7:

THAT the City of Greater Sudbury approves the proposed 2019 Budget Schedule in Appendix A of the

report entitled "2019 Budget Direction" from the General Manager of Corporate Services, presented to the Finance and Administration Committee meeting on May 15, 2018.

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters. Indirectly, following the directions recommended in this report support service efforts that advance all of Council's strategic priorities.

Report Summary

This report provides an overview of the 2019 forecast budget, as well as recommendations for directions to guide staff in the preparation of the 2019 Business Plan (budget).

Financial Implications

There are no direct financial implications associated with this report. Budget directions provide staff with Council approved guidelines for producing the city's operating, capital and rate supported budgets. The 2019 budget's final approval is subject to further public review as well as City Council review and approval, which is anticipated to be provided in the first quarter of 2019.

Executive Summary

The purpose of this report is to obtain directions from City Council regarding development of the 2019 Budget. It includes:

- a) A description of the proposed 2019 Budget development process including a schedule that anticipates Council's approval of the 2019 Operating Budget, Capital Budget and User Rate Budgets by February 2019,
- b) A forecast for the 2020 Operating Budget that anticipates the cost to provide the existing Council approved service levels,
- c) Factors influencing the municipality's 2019 and 2020 Operating, Capital and User Rate Budgets.

Consistent with budget presentations over the past two years, the 2019 budget will emphasize the relationship between services, service levels and expected costs. The presentation will provide a level of detail sufficient for Council to assess the budget's alignment with the strategic plan and its expected outcomes, as well as the fit between daily service expectations and planned service levels. Business plans for each Division, supported by key performance indicators derived from our benchmarking network, will serve as the foundation for decision making and demonstrate accountability for results. For a complete picture of the City's service plans and related financial commitments, all Outside Boards are requested to submit their board-approved budgets no later than October 12, 2018 so that the Finance and Administration Committee can consider these along with the City's budget during deliberations in 2019.

The revenue and expenditure projections described in this report reflect several inputs. They include decisions approved in the 2018 Budget process, anticipated revenues and costs associated with maintaining current service levels, projected workload volumes and the financial implications of changes in legislation. These projections help provide context to support the Committee's decisions regarding acceptable parameters for setting 2019 Budget directions.

While useful, such projections will be adjusted as work to finalize the budget proceeds and new information becomes available. These estimates will change as 2019 Budget submissions are completed.

Preliminary Financial Forecast

After accounting for anticipated assessment growth, scheduled contract price adjustments, the financial impact of labour agreements and energy cost changes, maintaining municipal services as current service levels require a 1.4% change in taxation. Service partners cost increases and the cost of providing provincially mandated services require an additional 1.6% change in taxation, planned capital

expenditures, based on existing forecasts, require an additional 0.5% property tax increase. The following table summarizes the forecast changes:

	2019 Forecast %
Tax Levy Increase	4.5
Less: Impact of Assessment Growth	(1.0)
Forecasted Municipal Tax Increase	3.5%
Tax Increase Consists of:	
Provincial Mandated	0.6
Municipal Services (net of assessment growth)	1.4
Capital	0.5
Outside Boards	1.0
Forecasted Municipal Tax Increase	3.5%

Revenues are projected to increase by approximately \$4.2 million primarily due to an increase in user fee rates for water and wastewater and other fees. This anticipates revenue from Ontario Municipal Partnership Fund (OMPF) being relatively flat.

Operating expenditures are projected to increase by \$15.8 million (2.8%). The primary cost drivers are salary and benefits, contractual obligations, and energy costs. Plans for service level changes or service enhancements will be presented separately and supported by a business case so that Council can consider them on their individual merits and decide whether to include them in the 2019 Budget.

The net result of the change in expenditures and revenues translates into a levy increase of \$11.6 million. When assessment growth of 1.0% is factored, the projected tax increase is 3.5%. This is consistent with the Long-Term Financial Plan.

The overall impact for the residential tax class will likely be less than the 3.5% increase. The 2016 property value reassessment affected the distribution of the tax burden amongst tax classes. As a result, commercial, industrial, and multi-residential classes will be accounting for a larger portion of the tax burden, benefiting the residential class.

Risk

In collaboration with the Auditor General, the Executive Leadership Team is developing an enterprise-wide risk assessment to identify key corporate risks and their potential consequences if the risks become real. "Risk" is defined as anything that can impair the achievement of the corporation's objectives. The corporation has a variety of risks that could influence its ability to achieve results. These include:

- Changes to our population mix that produce changes in service expectations or in the demand for certain services
- Aging infrastructure
- Climate change that brings more severe/adverse weather
- Legislative changes that influence how service is delivered and/or how much it costs
- Rapidly changing technology that requires the corporation to adapt how it provides service, or how it interacts with residents
- Economic conditions that influence perceptions of service affordability, access to trained workers or the relative competitiveness of local businesses

This assessment will inform choices about the emphasis that should be placed in the budget on discrete initiatives that could, among other results, help reduce or at least manage risk.

Property Taxes and Household Income

The 2017 BMA Municipal Study provides information regarding the percentage of household income required to pay for total property taxes of a typical bungalow. For the City of Greater Sudbury, 3.8% of household income is required to support payment of property taxes. The BMA average is 4.0% and the median is 4.0% for municipalities over 100,000 in population.

Factors Influencing the 2019 Operating Budget

The following financial forecasts are based on delivering the same services and level of service that is currently in place for the City of Greater Sudbury. The following economic assumptions influence the figures included in the 2019 operating budget:

1. General inflation factors applied to costs, unless otherwise noted are based on the Bank of Canada inflationary control target of 2.0%. Inflation projections from three of the major banks that have inflation forecasts for 2019 ranging from 2.0% to 2.3%. A 2% inflationary increase is worth approximately \$1.9 million.
2. The price of crude oil is currently trading above \$65 per barrel, which is significantly higher than 2017. This influences the price of unleaded and diesel fuel, which staff forecast to be \$1.07/litre (up from \$0.90/litre in 2018). The

financial impact of fuel costs on the City would be approximately \$870,000.

The Ontario Fair Hydro Plan which was introduced in the summer states that rate increases will be held at the rate of inflation for the years 2018-2021. For that reason, staff has used a rate of 2% for 2019. Combined with consumption forecasts, the financial impact is a projected increase of \$250,000.

3. Overall, salaries and benefits reflect the effects of negotiated collective bargaining agreements, estimated changes to upcoming bargaining agreements, and changes resulting from Bill 148.

The Fair Workplaces, Better Jobs Act 2017, received Royal Assent on November 27, 2017. The total impact to the 2019 forecast is \$1.1 million.

In addition WSIB premiums have significantly increased for Police, Fire and EMS. The total impact is forecasted to be an additional \$675,000 in 2019. Overall, salaries and benefits account for a \$6.1 million increase over the 2018 budget.

4. User fees have been increased by the estimated 3.0% for 2019 in accordance with the Miscellaneous User Fee By-law. Staff are currently reviewing the affordable access to Transit and Recreation services. An update to the conceptual framework for Recreation services will be presented to Council in June 2018, and Transit will be incorporated into the Transit fare structure review to be presented in July. Changes to user fee rates will be incorporated into the 2019 budget.
5. Water/Wastewater, Cemetery, Building Services, 199 Larch Street, and Parking have been assumed to be self-supporting in accordance with policy.
6. Contributions for capital have been increased by 3.5% for 2019 in accordance with the Capital Budget Policy, which calls for the greater of 2.0% or the first quarter increase in the Non-Residential Building Construction Price Index (Ottawa). As of the fourth quarter of 2017, this index was 3.5%. This figure will be updated when the appropriate data is available. This increases capital spending on the tax levy by approximately \$1.3 million.
7. For 2019, staff are anticipating a decrease of \$135,000 to Ontario Municipal Partnership Fund (OMPF) funding.
8. Preliminary estimates from the outside Boards which includes Nickel District Conservation Authority (10% increase to the operating grant), and Greater Sudbury Police Services (GSPS), as well City staff estimate for the Sudbury and District Health Unit (2% to remain consistent with prior years) result in an increase to the 2019 budget by \$2.4 million. The GSPS budget reflects a 3.8% increase over 2018 and includes an estimate for costs related to the annual provision to fund its Facilities Improvement Plan. GSPS are at risk of losing the Policing Effectiveness and Modernization Grant, which is intended to improve effectiveness, efficiency

and modernization of policing services. This represents a potential loss of \$1.1 million in 2019, and a further reduction of \$360,000 in 2020. Although the cost of implementing Cannabis Act legislation is not specifically known, it is anticipated that there could be a 2% impact on the GSPS budget, worth approximately \$1.1 million.

9. The impact of Social Housing on the 2019 forecast is an increase of approximately \$900,000. This is the result of mandatory inflationary increases to Non-Profit housing, and the Greater Sudbury Housing Corp totaling \$550,000, as well as a decrease in Federal funding, flowed to the City from the Province totaling \$350,000.
10. As approved in the 2018 Budget, funding for the large projects including Place des arts and the Event Centre have been included in the 2019 forecast. Funding for other large projects will be presented as a business case for Council decision. Costs for the large projects will be included in the updated long-term financial plan presented in June 2018.
11. Revenues from the sale of recyclable materials have taken a significant downturn at the end of 2017, and early 2018. China has imposed bans and restrictions on the acceptance of recyclable materials which have forced suppliers such as municipalities to look for alternative markets. As a result of low demand, markets have become saturated which has forced the price of materials down. For this reason, the 2019 projection for revenues from the sale of recyclable material have been reduced from \$2.1 million to \$1 million. This is offset by a reduction in the revenue sharing at 50% of the revenue. Overall, the net levy Impact is \$550,000 or 0.2% net levy increase. Staff will continue to monitor the markets and provide updates as more information becomes available. The 2019 budget will reflect information known at the time the budget is prepared.

Other Initiatives

Along with the large projects, the City is working on other initiatives which may be presented through business cases for decision in the budget process. Some of these initiatives include advancing the IT strategy to incorporate more technology in our business plans, as well as investigating the multi-use sports dome to be constructed in the City.

2020 Forecast

The 2020 forecast was developed using the same assumptions as 2019 with adjustments for known contractual increases, and decisions made by Council in the 2018 budget process. The cost to provide the same level of service represents a 3.9% taxation levy increase before the estimated assessment growth of 1.0%. This results in a net tax impact

of 2.9%. These projections are based on current information and are not final. These estimates will change as more information becomes available, and the 2019 budget submissions are completed.

Assessment Growth

For this forecast, estimated assessment growth of 1.0% has been used. It is difficult to project assessment growth as new construction is offset by demolitions and other tax write-offs. It should also be noted that not all construction is subject to taxable assessment, for example construction in underground facilities. In addition, manufacturing and processing properties are not assessed on the equipment or foundations to support the equipment used in the processing. Until projects are completed and reviewed by MPAC, it is difficult to estimate the assessed value.

To put the estimated growth into perspective, the value of 1.0% growth each year would have to generate an increased weighted assessment of approximately \$215 million over the current assessment of over \$21.5 billion. This number is net of all tax write-offs, which reduces the assessment growth. The majority of the City's growth over the last few years has come from the residential class. Council will be kept apprised of assessment growth through the budget variance reports, which will report on the supplementary taxation rolls received from MPAC.

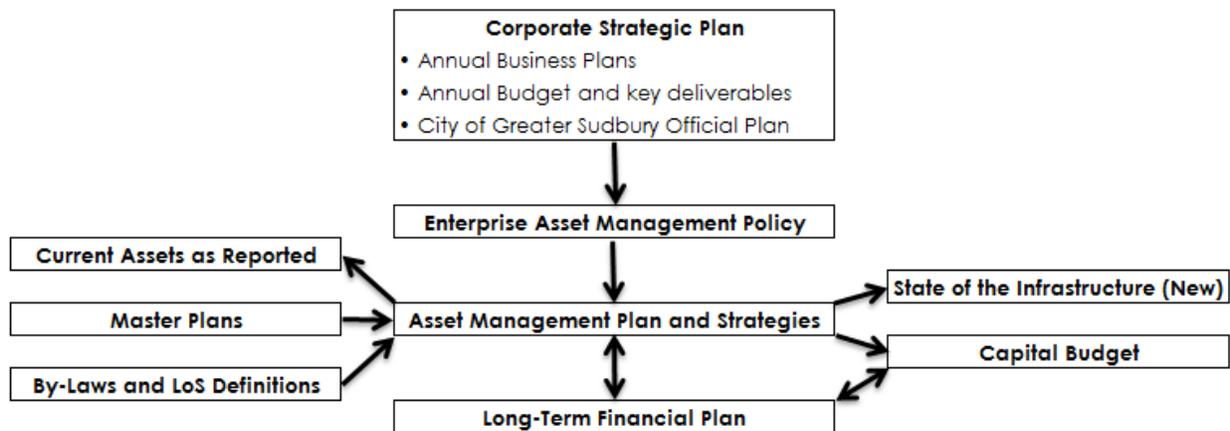
Factors Influencing the 2019 Capital Budget

Council recently received the Enterprise Asset Management Policy. Like most Canadian municipalities, Greater Sudbury must change its approach to long-standing asset management issues including:

- Increasing attention on maintenance services to support aging infrastructure;
- Improving everyone's understanding about the relationship between service levels and the costs required to provide them;
- Addressing increasingly complex and complicated legislative requirements designed to manage environmental stewardship;
- Mitigating the increased risk involved with managing older assets that could fail without timely maintenance, renewal or replacement investments.

Staff expects to implement several process changes to address these challenges. In addition to developing detailed asset management plans for all asset classes, changes are also being introduced to the process for determining capital spending priorities.

The following diagram was included in the Asset Management Policy:



The Capital Budget is an important element of the Asset Management framework because it shows where investments will be made to sustain, or strengthen, the city's overall asset condition. To ensure the investments reflect the City's highest needs and address the feedback offered by the other inputs to the asset management plan, changes are required to our current Capital Budget Policy and Procedures.

The most important change will be to the method used for determining capital priorities. Instead of determining priorities according to the funds allocated across 14 spending envelopes, a team comprised of senior staff from across the corporation will review all capital spending proposals and rank them according to consistent evaluation criteria. Following review by ELT, a financing plan for the ranked list will be developed and presented to Council for approval. The effect of this change is to ensure the city's highest priority capital investment needs are addressed.

Water/Wastewater

In 2011, Council accepted a ten year Water and Wastewater Financial Plan which recommended an annual rate increase of 7.4% to achieve financial sustainability. Council approved a 7.4% increase in 2016, 2017, and 2018. The City is currently updating its water/wastewater financial plan and will present Council with the proposed new plan in late summer. For the purpose of this forecast, a 7.4% rate increase has been used.

Service Partners

Once the Committee provides budget direction to staff, a final letter will be sent requesting the city's service partners (i.e. Greater Sudbury Police Services, Nickel District Conservation Authority, and Public Health Sudbury & Districts) to present their budgets to the Finance and Administration Committee. Staff will be requesting their approved budgets in advance of the draft budget being distributed to the Committee. If the

approved budget is not available, staff will be requesting an estimate of their budgets. Recommended Resolution Six, if approved, requests the service partners follow the same guidance staff are using to set the 2019 municipal budget so that the total financial impact is no more than a 3.5% change in taxation.

Multi Year Budgeting

A multi-year budget is a business plan which covers several periods. The Municipal Act, 2001, Section 291(1) allows a municipality to prepare and adopt a budget for a period of two to five years in the first year, or the year immediately preceding the first year in which the budget applies.

Like several other municipalities, staff are reviewing the practice of multi-year budgeting. This practice will see a budget document that reflects two or more years of base budget assuming the same Council approved service level. Service level changes will be presented as business cases for Council direction. The Municipal Act 2001 states that municipalities must approve an annual budget and taxation levy. For this reason, years two and on will be presented in the form of a report detailing all changes to the base budget previously presented, as well as business cases for service level changes.

Staff will be preparing and presenting a multi-year budget for the years 2020 and 2021. Although this does not follow the term of Council, the timing is important in order to incorporate the priorities set by Council in the Corporate Strategic Planning process which will take place in 2019.

2019 Budget Schedule

The 2019 budget schedule has been attached for the Committees review in Appendix A. The budget schedule reflects a similar process as the 2018 budget; however timelines have been adjusted to accommodate the 2018 Municipal Election.

Summary

This budget forecast is based on the best estimates available at this time. As time progresses, these estimates will be refined and form part of the draft 2019 Base Budget. The services we provide and the level of service offered drives the municipality's costs. Staff will continue to investigate opportunities for net cost reductions that could minimize any property tax increase.

Staff is seeking direction from the Committee to construct a budget at a 3.5% tax increase and a Water and Wastewater increase consistent with the financial plan adopted by Council.

2019 Budget Schedule

2019 Budget Direction Preliminary Forecast of Operating and Capital Budgets and Water/Wastewater Rate Increase	May 15, 2018
Community Consultation Session <ul style="list-style-type: none"> • On-Line Submissions 	Fall 2018
Update Meeting	September 25, 2018
Table Budget Document 2019 Operating and Capital Budget Overview Presentation (CAO & CFO) Presentation from Outside Boards (tentative)	Late January 2019*
Budget Meeting <ul style="list-style-type: none"> • Review and approve Operating and Capital Budgets and Water/Wastewater Rates • Three consecutive meetings have been scheduled 	Late February 2019*
City Council Approval of 2019 Operating and Capital Budget	Council Meeting following Finance and Administration Committee Approval of the Budget*
Approval of 2019 Property Tax Policy	May 2019

Note * The 2019 dates will be set and presented to Council with the 2019 Council and Committee meeting Schedule.