

Request for Decision

2017 Budget - Council Direction

Presented To: Finance and
Administration
Committee

Presented: Tuesday, Aug 09, 2016

Report Date Friday, Jul 22, 2016

Type: Presentations

Resolution

Resolution One:

THAT the City of Greater Sudbury directs staff to prepare a 2017 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 2017 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, work processes and/or non-tax revenues so that the level of taxation in 2017 produces no more than a 3.6% property tax increase over 2016 taxation levels.

Resolution Two:

THAT the City of Greater Sudbury directs staff to develop the 2017 Capital Budget based on an assessment of the community's highest priority needs as indicated by the application of criteria described in this report and considers:

- a. Financial affordability;
- b. Identify requirements in subsequent years for multi-year projects;
- c. The increased operating costs associated with new projects;
- d. The probability of asset failure if a project is not undertaken;
- e. Cost of deferring projects.

Resolution Three:

Signed By

Report Prepared By

Ed Stankiewicz
Acting Chief Financial Officer/City
Treasurer
Digitally Signed Jul 22, 16

Recommended by the Department

Ed Stankiewicz
Acting Chief Financial Officer/City
Treasurer
Digitally Signed Jul 22, 16

Recommended by the C.A.O.

Ed Archer
Chief Administrative Officer
Digitally Signed Jul 22, 16

THAT the City of Greater Sudbury directs staff to identify additional capital projects that can be expedited through the use of funds approved by implementing a Capital Levy of 1.5%;

AND THAT staff analyzes the best financial use of this capital, which may include the use of external debt financing.

Resolution Four:

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 workloads;
- b. The cost associated with legislative changes and requirements;
- c. The cost associated with growth in infrastructure operated and maintained by the City;
- d. Rate increases identified in the Water/Wastewater Financial Plan that requires a 7.4% increase;
- e. Opportunities to reduce operating expenses that would allow more funding towards capital;
- f. A reasonable estimate of water consumption.

Resolution Five:

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

- a. The full cost of providing the program or services including fixed assets, net of any subsidy approved by Council;
- b. Increased reliance of non-tax revenue;
- c. Development of new fees for municipal services currently on the tax levy.

Resolution Six:

THAT the City of Greater Sudbury directs staff to present any service enhancements, changes in services, or new service proposals as Program Changes to allow Council to consider each Program Change on a case-by-case basis.

Resolution Seven:

THAT the City of Greater Sudbury requests its Service Partners (Greater Sudbury Police Services, Nickel District Conservation Authority, Sudbury and District Health Unit) consider these directions when preparing their 2017 municipal funding requests.

Resolution Eight:

THAT the City of Greater Sudbury approves the proposed 2017 Budget Schedule in Appendix B of the report dated July 22, 2016 from the Acting Chief Financial Officer/City Treasurer.

Executive Summary

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

- a) A description of the proposed 2017 Budget development process including a schedule that anticipates Council's approval of the 2017 Operating Budget, Capital Budget and User Rate Budgets by December 13, 2016,
- b) A preliminary assessment of factors influencing the municipality's 2017 Operating, Capital and User Rate Budgets, and
- c) An opportunity to provide direction regarding the development of the draft 2017 Budget

The 2017 Budget development process is different from previous years. Compared to prior periods, there will be more emphasis in the 2017 Budget on describing plans and priorities with financial information presented at a summary level, sufficient for Council to consider its strategic intent and expected outcomes. 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 28, 2016 so that the Finance and Administration Committee can consider these along with the City's budget at its December 6, 2016 meeting.

Staff prepared revenue and expenditure projections which were, in part, determined by decisions approved in the 2016 Budget process and that reflect anticipated revenues and costs associated with maintaining current service levels. These projections are presented to support the Committee's decisions regarding acceptable parameters for setting 2017 Budget directions. They are based on current information and are not final. These estimates will change as 2017 Budget submissions are completed.

Revenues are projected to decrease by \$0.5 million primarily due to an estimated loss in OMPF of \$2.5 million and a reduction in investment income. Partially offsetting this loss are increases in user fees and other provincial subsidies.

Operating expenditures are projected to increase by \$9.3 million (2%). The primary cost drivers are energy costs, salary and benefits, and contractual obligations. 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 2017 Budget.

The net result of the change in expenditures and revenues translates into a levy increase of \$9.8 million. When assessment growth of 0.5% is factored, the projected tax increase is 3.6%.

Financing plans for capital projects will be reviewed in preparation of the 2017 Budget. Previously Council expressed interest in understanding the potential for using other funding sources – internal debt, senior government grants, or other fees and charges – to support the municipality's capital plan. Currently staff anticipate the 2017 Capital Budget, based on the 2017 outlook in the 2016 Budget, will be \$102.4 million and financed by:

- Capital Envelopes - \$62.1 million (60.6%)
- Reserves - \$9.4 million (9.2%)
- Internal debt - \$17.4 million (17.0%)
- Senior governments - \$12.2 million (11.9%)
- Other funding sources - \$1.3 million (1.3%)

Staff are currently preparing their 2017 Capital Budgets, which may result in changes to the amounts noted above.

Council directed staff to include two projects in the 2017 Capital Budget – the expansion of MR-35 and rehabilitation of Lorne Street. Staff will incorporate these into the projects that will be prioritized for 2017 and build a financing plan. It is likely that reliance on senior government funding and debt will need to increase if the known/planned work is going to continue at the expected pace.

Outside Boards are requested to have their budgets approved and submitted no later than October 28, 2016 to ensure sufficient, appropriate information is presented to Council about all of the City's funding needs. Staff have already been communicating with our service partner colleagues regarding process steps and timing.

Background

Changes to the Budget Development Process for 2017

In response to comments received from Councillors regarding the 2016 Budget process and with support from the CAO, staff revised several steps in the budget process to accomplish three objectives:

1. Strengthen the reader's understanding of the relationship between services, service levels and cost
2. Engage City Council throughout the budget development process
3. Increase community engagement opportunities

Understanding the relationship between services, service levels and cost will be facilitated through the presentation of additional contextual details. There will be general narrative text that describes the municipality's operating environment and general financial condition, but there will also be standard "Business Plans" for each division that describes their performance objectives, the services they provide, key issues/deliverables they're anticipating to manage in 2017 and budget information that includes historical comparisons for context. An example of the Finance Department's preliminary Business Plan is found in Appendix A.

The budget development schedule presented in Appendix B describes the work required to publish the 2017 Budget so that it can be considered by the Finance and Administration Committee in December, 2016. Council's direct participation is anticipated at three stages:

1. At the start of the process, to provide initial direction (which is the purpose of this report)
2. In the middle of the process, to receive an update and provide any feedback necessary to help staff prepare a recommended budget that contains "no surprises" and reflects expectations regarding anticipated services, service levels and costs
3. At the conclusion of the process, to review the recommended budget, make any amendments required and approve the budget

Meanwhile, staff also anticipate increasing the level and extent of community engagement opportunities so that interested members of the public have the ability to review and understand the information staff are using to prepare the budget and provide comments/feedback. Currently, plans anticipate more online engagement opportunities in the form of a "build your own budget" survey that provides users with an opportunity to adjust a mock budget to show both their sense of the relative priority of municipal services and the absolute level of spending they believe is appropriate. Also, staff plan to make presentations to groups of interested community stakeholders and would, subject to individual Councillor's interest, attend Ward meetings to build awareness about the issues we are managing in the 2017 Budget.

This approach anticipates Council's decision on the budget at a meeting in December, which differs from prior periods. Unlike the 2016 Budget, this process does not include a series of information meetings where staff present details about their division's plans for the upcoming period. Also, information will be published at a higher level of detail than in prior periods to support Council deliberations that are focused on "big picture", strategic issues. The process includes a method for councillors who have questions about details to submit them to staff during the three weeks preceding the Council meeting while the budget is available for review, with responses provided by staff to all Councillors so that everyone has timely access to the same

information.

The 2016 Approved Budget: Actions Taken to Balance the Budget

The P6M Initiative was completed in late 2015, identifying \$6 million in savings that was incorporated into the 2016 Budget. Of this \$6 million, \$4 million was attributed to the attrition of 50 full time equivalents (35 permanent positions and 15 equivalents in part-time hours). All of these positions with the exception of three permanent positions have been attrited

The remaining \$2 million in other savings was removed from the 2016 Operating Budget.

Staff have been, and will continue to review the remainder of the P6M idea list, which contains the category 4 items, to ensure that all avenues of cost reduction have been considered. The category 4 items are considered to require more analysis for viability, and therefore, require a longer horizon time frame.

Only ideas that prove to be a cost saving measure or a positive net benefit to the community will be presented to Council.

In addition to P6M, staff are continually seeking out opportunities to make the City more efficient and effective while aligning the operations with Council's Strategic Plan.

Economic Forecast

In the latest Monetary Policy Report (July 2016) from the Bank of Canada, the outlook for the global economy continues to be conservatively optimistic. It states "The world economy is expected to gather strength following a weak start to 2016 particularly in the United States and China." The world economy is expected to grow by 3.3% in 2017 driven by China and the United States.

Canadian Economy

The Canadian economy continues to adjust to the low commodity prices, which has resulted in a reallocation of investment and employment from the resource sector to the non-resource sector. In the second half of 2016, GDP is expected to increase, driven by U.S. domestic demand and the federal infrastructure spending program. As a result of the sluggish first half of 2016, GDP growth for all of 2016 was revised down from 1.7% to 1.3%, while the forecasted 2017 GDP was revised marginally to 2.2%.

Local Economic Forecast

The Greater Sudbury economy continues to show signs of life despite the ongoing doldrums in international commodity markets. The Conference Board of Canada forecasts real GDP growth of 1.0% to 1.4% over the next two years along with employment growth from 83,000 to 85,000 jobs by 2020.

Significant capital investment in the commercial and institutional sectors has pushed the year-to-date value of building permits in 2016 to \$145 million, up from \$85 million for the same period in 2015. Some of these projects include Laurentian University's extensive campus redevelopment and the new hotel, retail and automotive dealer construction in the Kingsway - New Sudbury area.

CMHC's analysis of the local market indicates that total housing starts will continue to decline and supply will surpass demand in both the resale and rental markets. The report goes on to state:

"The bright spot in the local economy lies in the expanding job market in science and technology and health care sectors. These two sectors have gradually become the key drivers of local job growth. Research and development in mining technologies as well as scientific experiments utilizing old mine sites have added more than 3,000 jobs in the past 20 years."

The construction of the Health Sciences North Research Institute on Walford Road, improvements to Norcat's Fecunis Test Mine, and new experiments coming to SNOLAB are important components in this evolution.

Major capital infrastructure projects will provide stimulus through construction work and improve opportunities for future connectivity and growth. The \$81 million Maley Drive and the next phase of Highway 69 twinning, pegged at \$173 million are the most significant of these projects but large rehabilitation projects are also underway on Highway 17 and planned for Lorne Street and Municipal Road 35.

The Conference Board also reports that continued growth is expected in retail sales and 2014 Personal income per capita of \$45,500 in Sudbury continues to exceed the provincial and national rates of \$41,000 and \$43,900 respectively.

Property Taxes and Household Income

The 2015 BMA 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 3.8% and the median is 3.8% for municipalities over 100,000 in population.

Financial Projection for 2017

The information contained in this report is based on factors that Finance and the operating departments know as of today, and will be refined before the budget document and the final projections are made to Council in November 2016.

The following financial forecasts are based on delivering the same level of service that is currently in place for the City of Greater Sudbury, and the following assumptions and key highlights:

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 2017 range from 2.0% to 2.3%.

The ten year history of Consumer Price Index has reflected an increase on average of 2.2% per year. The rate of 2.0% has been used for the 2017 forecast. For 2017, the 2% inflation on non-contractual obligations is approximately worth \$1.1 million or 0.4% tax increase.

2. Fuel costs have been increasing moderately over the last four months and remain somewhat elevated to coincide with the summer driving season. There is still a significant world oil glut and staff expect prices to go no higher than the current levels. For that reason, staff are projecting unleaded fuel prices at \$.86/litre and diesel at \$.78/litre prior to Cap and Trade impact. With the implementation of the Province Cap and Trade initiative an additional \$.05/litre of provincial taxation will be applied to diesel fuel with \$.04/litre added to unleaded fuel effective January 1, 2017. The financial impact of fuel costs on the City from the Cap and Trade initiative would be approximately \$250,000.

Natural gas prices have been gaining significant traction over the last three months, however prices are expected to remain at current levels for 2017. Underground storage of natural gas in the United States is at a five year high. For this reason, market prices should remain close to 2016 levels in 2017. In the Province's Climate Change Strategy, an additional tax of \$0.3/cubic metre will be imposed effective January 2017. This will impact the budget by approximately \$160,000.

For the purpose of this forecast, a conservative 5% increase for hydro was used.

Based on the volatility in the energy market, these estimates are subject to change prior to the final budget being distributed to Council.

3. Overall, salary and benefits have been increased based on the settlement of the CUPE 4705 Inside and Outside contracts.

Increases in health benefits, short and long term disability premiums are estimated to be much greater than the inflationary index and range in this projection from 3% to 11% based on past experience and utilization. The value of the fringe benefit increases for 2017 is approximately \$1.3 million or approximately a 0.5% levy increase. Prior to the preparation of the draft budget, staff will be requesting Mercers, the City's benefit consultant, to review the rates to determine if some premiums can be reduced.

In addition, due to presumptive legislation on Post Traumatic Stress Disorder and cancer, WSIB premiums have significantly increased for Police, Fire and EMS. The total impact is \$550,000.

In total, salaries and benefits account for a \$3.7 million increase over the 2016 budget.

4. Generally, user fees have been increased by the estimated 3.0% for 2017 in accordance with the Miscellaneous User Fee Bylaw.
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 envelopes have been increased by 2.0% for 2017 in accordance with the Capital Policy, which calls for the greater of 2.0% or the first quarter increase in the Non-Residential Building Construction Price Index. This index is currently under 2%, therefore, a 2% increase will be used. The impact of the 2.0% to the 2017 budget, is approximately \$700,000 and represents 0.3% increase to the net levy.
7. Revenue from supplementary taxation has been flat lined as the first supplementary run for 2016 is close to budgeted values.

Investment income has been reduced by \$500,000 as the bond market so far for 2016 has not been as volatile as prior years. Even with this reduction, the budget includes \$400,000 anticipated from capital gains.

8. For 2017, staff are taking a conservative approach to OMPF funding and projecting a potential loss of \$2.5 million or 1.0% of the levy. A more detailed explanation of the OMPF is contained in the latter part of this report.
9. Preliminary estimates for the outside Boards: Nickel District Conservation Authority (2% increase) Sudbury and District Health Unit (2% increase) and Police Services (4.1% increase) are included in this projection. The total impact over 2016 is \$2.3 million.
10. Continued provincial uploading is resulting in a decrease of Social Services net costs in the amount of approximately \$800,000.

Impact of the Ontario Municipal Partnership Grant (OMPF)

2016 Allocations

For 2016, Northern Ontario municipalities received a minimum of 90% of their 2015 OMPF and additional funding based on the fiscal health of their communities. The criteria used to determine fiscal health relates

to such items as weighted assessment per household and median household income as the primary indicators and new construction and employment issues as secondary indicators. Fiscal health of a community ranges from 0 (strong) to 10 (weak). The City of Greater Sudbury rating is 3.6, which indicates relatively strong fiscal health. Our City received 90% of the 2015 OMPF plus 0.6% (out of a maximum of 10.0%) of the 2015 OMPF as a result of our Municipal Fiscal Circumstances Index (MFCI). This results in the City receiving 90.6% of the 2015 OMPF allocation. This represents a \$2.8 million loss to the City.

2017 OMPF

The OMPF is the Province's main unconditional transfer payment to municipalities that primarily supports rural and northern communities in recognition of their unique challenges.

The Province has committed to continue to work closely with municipalities to review feedback, present options and analysis based on the feedback.

Staff do not anticipate the Province will be varying from its current practice of allocation of the OMPF based on the municipality's fiscal health.

The Municipal Fiscal Circumstances Index that determines the fiscal health of a municipality uses trailing indicators such as data received from the 2011 Census. For this reason, our City will probably reflect the same fiscal health as in previous years. As a result, staff are using a conservative estimate for loss of OMPF funding similar to 2016. This forecast reflects 90.5% of the 2016 OMPF allocation for 2017. This translates into a loss of \$2.5 million or 1.0% tax increase.

Assessment Growth

For this forecast, an estimated assessment growth of 0.5% has been used. This is well below the average annual growth over the last ten years. However, the City only realized 0.7% assessment growth in 2016 and based on current building activity, staff are uncertain that this number will be met in 2017. It is difficult to project assessment growth as new construction is also offset by demolitions and other tax write-offs. It should also be noted that not all construction is subject to taxable assessment. Construction in underground facilities is not subject to taxation. In addition, manufacturing and processing properties would not be 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 0.5% growth each year would have to generate an increased weighted assessment of \$100 million over the current assessment of \$20.0 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.

Addressing the Capital Infrastructure Deficit

While the City has made progressive steps in dealing with the capital infrastructure gap; most recently implementing the increase to the capital envelopes based on the non residential building construction price index, there is still a major shortfall in funding.

The City is in the process of developing a Long Term Financial Plan which will guide Council in decision making regarding operating and capital budgets. The new Long Term Financial Plan will recognize the state of the City's infrastructure and provide solutions to close the infrastructure gap.

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. In order to achieve this plan, Council should consider continuing with this rate increase.

Service Partners

Representatives from the three Outside Boards have been contacted with the tentative date requesting their budget presentations to the Finance and Administration Committee. Once the Committee provides budget direction to staff, a final letter will be sent requesting the Outside Boards to present. 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. In light of the budget pressures facing the City, staff will request Outside Boards minimize any budget increases to ensure costs reflect Council's expectations for affordable property taxes.

Summary

This budget forecast is based on the best estimates available at this time. As the time progresses, these estimates will be refined and form part of the draft 2017 Base Budget.

The services we provide and the level of service offered drives the municipality's costs. The City of Greater Sudbury's property taxation and water/wastewater rate levels are at the 50th percentile for similar-sized communities in Ontario. Nonetheless, staff will continue to investigate opportunities for net cost reductions that could minimize any property tax increase.

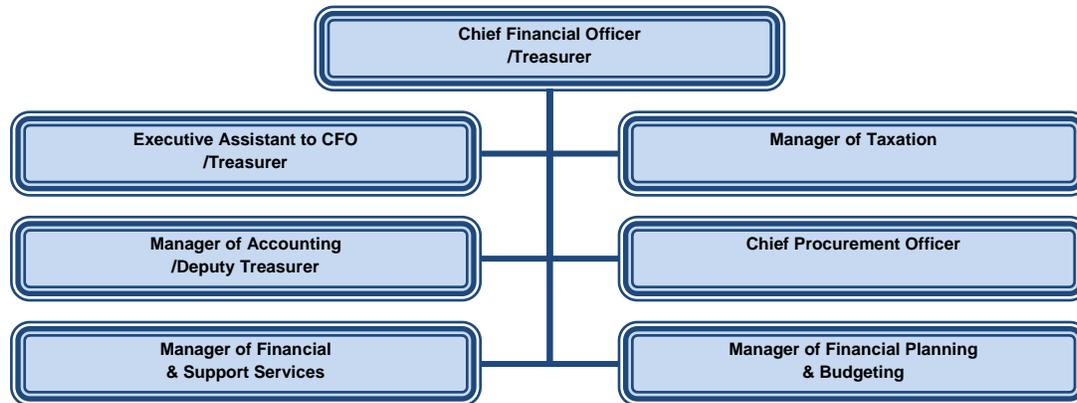
Staff is seeking direction from the Committee to construct a budget at a 3.6% tax increase and a Water and Wastewater increase of 7.4%.

Appendix A

Finance Department Summary Preliminary Business Plan

Mandate

The Finance department delivers financial services through five sections. Finance staff provide tax billing and collection services, accounting, payroll and financial information system support services, purchasing and procurement services, budgeting, financial planning, risk management and insurance services and financial and support services.



Overview

The department delivers financial services within a framework of sound policies and internal controls. All sections provide financial advice, develop financial policies and procedures and provide support for fiscal governance.

Services

Tax Billing and Collection

- Ensures all lands and buildings are taxed appropriately and expedite tax collection for these properties
- Ensures valuation of property assessments are maximized and picked up in a timely fashion by Municipal Property Assessment Corporation and manages the collection efforts on Failed Tax Sale Properties

Accounting

- Oversee general accounting activities, internal control systems and financial benchmarking
- Processes Accounts Receivable invoices, collections and customer inquiries and manages the contract with Greater Sudbury Utilities for Water and Wastewater billing and collection.
- Processes vendor invoices through Accounts Payable and ensures timely payment
- Oversees the City's Payroll processing including all statutory reporting and payments

Appendix A

- Coordinates internal and external reporting including the City's Annual Consolidated Financial Statements and Annual Financial Report, as well as coordinates program audits.
- Responsible for the financial information system (PeopleSoft Finance)

Purchasing

- Plans, develops and coordinates the City's procurement activities in conjunction with operating departments

Financial Planning and Budgeting

- Leads the City's annual operating and capital budgets
- Prepares Tax Policy
- Manages the City's financing strategies including Development Charges Background Studies, Asset Management Plans and the City's Long Term Financial Plan
- Manages the City's insurance and risk management program
- Manages, develops and implements investment plans for the City

Financial Support Services

- Provides financial support to Infrastructure Services, including timekeeping, budgeting and inventory management
- Manages the City's activity based computerized maintenance management system (CMMS)

2016 Accomplishments

- Developed and implemented a new budget document
- Completed upgrade of HCM PeopleSoft to version 9.2
- Completed conversion for the computerized maintenance management system (CMMS)
- Updated a variety of internal policies and procedures
- Implemented the public reporting of Employee Travel and related expenses

Strategic Issues and Opportunities

- Preparation of Asset Management Plans and a New Long Term Financial Plan during 2016, which will become the foundation for future financial decisions. These plans will enhance decision making by describing the long term needs to support and enhance services and the costs and choices associated with decisions.

Appendix A

- Continue to develop and delivery timely financial information to the organization
- Continue to develop sound policies and procedures for strong internal controls including compliance monitoring

Key Deliverables in 2017

- Development and implementation of pilot project for Punch Card Time relating to Payroll for selected department
- Fit gap and upgrade of PeopleSoft Finance to version 9.2
- Establish processes and procedures to enable data collection and reporting of Key Performance Indicators (KPI) based on the developed business plans
- Delivery of the Long Term Financial Plan which will guide Council in developing future strategies
- Utilization of the contract management module in PeopleSoft to track spending on multi-year contracts

Appendix B: 2017 Budget Schedule

2017 Budget Preliminary Forecast of Operating and Capital Budgets and Water/Wastewater Rate Increase	Tuesday, August 9, 2016 11:30 a.m. – 1:00p.m.
Community Consultation Session <ul style="list-style-type: none"> • On-Line Submissions 	Wednesday August 10th – Wednesday August 24th, 2016
Update Meeting	September 20th, 2016 and/or October 4th, 2016
Table Budget Binder <ul style="list-style-type: none"> • Presentation from Police Services and Nickel District Conservation Authority • 2017 Operating and Capital Budget Overview Presentation (CAO & CFO) 	Tuesday, November 15, 2016 6:00 p.m. – 9:00 p.m.
Budget Meeting <ul style="list-style-type: none"> • Presentation from Sudbury & District Health Unit • Review and approve Operating and Capital Budgets and Water/Wastewater Rates 	Tuesday, December 6, 2016 6:00 p.m. – 9:00 p.m.
City Council Approval of 2017 Operating and Capital Budget	Council Meeting Tuesday, December 13, 2016
Approval of 2017 Property Tax Policy	April 2017