

**Vision:** *The City of Greater Sudbury is a growing, world-class community bringing talent, technology and a great northern lifestyle together.*



# Agenda

## Finance Committee

meeting to be held

Tuesday, November 8<sup>th</sup>, 2011

**at 4:00 pm**

Council Chamber, Tom Davies Square

## **FINANCE COMMITTEE AGENDA**

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For the 16<sup>th</sup> Finance Committee Meeting  
to be held on **Tuesday, November 8, 2011**  
**Council Chamber, Tom Davies Square at 4:00 pm**

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**COUNCILLOR TERRY KETT, CHAIR**

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**Frances Caldarelli, Vice-Chair**

**(Please ensure that cell phones and pagers are turned off)**

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### **DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF**

## **PRESENTATIONS**

1. 2012 Operating Budget Overview  
**(ELECTRONIC PRESENTATION) (FOR INFORMATION ONLY)**
  - Doug Nadorozny, Chief Administrative Officer
  - Lorella Hayes, Chief Financial Officer/Treasurer**(BASE BUDGET DOCUMENT TO BE TABLED)**

## **OUTSIDE BOARD PRESENTATIONS**

2. Greater Sudbury Police Services (GSPS) Board  
**(ELECTRONIC PRESENTATION) (FOR INFORMATION ONLY)**
  - Ron Dupuis, Chair, GSPS Board
  - Frank Elsner, Chief of Police, GSPS
3. Nickel District Conservation Authority (NDCA) Board  
**(ELECTRONIC PRESENTATION) (FOR INFORMATION ONLY)**
  - Bob Rogers, Chair, NDCA Board
  - Paul Sajatovic, General Manager/Secretary-Treasurer, NDCA

## **MANAGERS' REPORTS**

4. Report dated November 3, 2011 from the Chief Financial Officer/Treasurer regarding Capital Budget - Inflation Options. **5 - 9**  
**(RECOMMENDATION PREPARED)**  
(This report provides Council with inflation options to the 2012 Capital Budget.)

## **CORRESPONDENCE FOR INFORMATION ONLY**

5. Report dated October 28, 2011 from the Director of Human Resources & Organizational Development regarding Ontario Municipal Employees Retirement System (OMERS) Rates. **10 - 14**  
**(FOR INFORMATION ONLY)**

## **PARKING LOT REVIEW**

6. The Chair of the Finance Committee will review each of the items placed in the Parking Lot. The consensus of Council will be required for each item listed in the Parking Lot.

**Adjournment (Resolution Prepared)**

**CAROLINE HALLSWORTH, EXECUTIVE DIRECTOR, ADMINISTRATIVE SERVICES/CITY CLERK  
FRANCA BORTOLUSSI, COUNCIL SECRETARY**

## Request for Decision

### Capital Budget - Inflation Options

Presented To:	Finance Committee
Presented:	Tuesday, Nov 08, 2011
Report Date	Thursday, Nov 03, 2011
Type:	Managers' Reports

### Recommendation

THAT the Finance Committee direct staff to prepare a budget option in accordance with Option 2 which would amend the existing capital policy and increase capital envelopes by the Non-Residential Building Construction Price Index (NRBCPI) effective for the 2012 Budget in accordance with report from CFO/Treasurer dated November 3, 2011.

### Financial Implications

Option 1 – Status Quo: No further budget increase since the 2% inflation factor has been applied to the Capital Envelopes in the 2012 Budget.

Option 2 – Increase by NRBCPI: If the budget option is approved, the 2012 budget would increase by an additional \$1.3 million combined on the tax levy and W/WW user fees. In addition, future budgets will increase by a similar amount.

### Purpose of Report

The purpose of this report is to respond to Council's resolution from the October 5, 2011 Finance Committee meeting, as follows:

“that to maintain the status quo, Council's policy that stated “contributions to capital envelopes would increase by an inflation factor annually of 2%” be proposed to read “contributions to capital envelopes would increase according to the Non-Residential Building Construction Price Index” and further that staff bring back a report to alter the existing policy and a budget option for the November meeting. Staff would need to do an analysis that Non-Residential Building Construction Price Index is the best index to use in this instance”.

### Historical Capital Funding

There are continued capital funding pressures due to the age and condition of the City's infrastructure assets that require replacements and/or improvements in addition to residential, commercial and industrial growth demands.

#### Signed By

##### Report Prepared By

Apryl Lukezic  
Co-ordinator of Capital  
*Digitally Signed Nov 3, 11*

##### Recommended by the Department

Lorella Hayes  
Chief Financial Officer/Treasurer  
*Digitally Signed Nov 3, 11*

##### Recommended by the C.A.O.

Doug Nadorozny  
Chief Administrative Officer  
*Digitally Signed Nov 3, 11*

A Long Term Financial Plan (LTFP) was adopted in principle by Council in November of 2002. One of the assumptions in this Plan was that the contributions to the Capital Envelopes would increase by an inflation factor of 2% annually. A 2% inflation factor was first applied to the 2004 envelopes, and has been maintained since then.

One of the general supporting policies in order to “Ensure Long Term Financial Sustainability” from the LTFP relating to capital investments is to “raise sufficient revenue to meet long-term ... capital requirements, recognizing that inflation increases the cost of .... capital programs. **Recognition of inflationary pressures will ensure services and programs are not eroded by shrinking real dollars.**”

## **Comparison of Cost Indexes**

There are many different inflation measures and indices; however the two listed below provide the best inflationary estimates for capital investment projects.

An overview and impact is provided below for the Consumer Price Index and the Non-Residential Building Construction Price Index options as an inflationary index.

### Consumer Price Index (CPI)

- a. The Consumer Price Index (CPI) is an indicator of the changes in consumer prices. The CPI measures price change by comparing, through time, the cost of a fixed basket of commodities. Since the basket contains commodities of unchanging or equivalent quantity and quality, the index reflects only pure price movements.
- b. This index includes all the following major components: food; shelter; household operations, furnishings and equipment, clothing and footwear; transportation; health and personal care; recreation, education and reading; alcoholic beverages and tobacco products.
- c. This index is publicly available on Statistics Canada website and is updated on a monthly basis.
- d. This index is not recommended as it does not include any directly related factors for capital construction projects. The impact of increasing the inflation factor from 2% to 3.2% would result in an additional increase to the budget of \$680,000 for 2012 on the tax levy and W/WW user fees.

## **2. Non-Residential Building Construction Price Index (NRBCPI)**

- a. This index is a quarterly series measuring the changes in contractors' selling prices of non-residential building construction (ie. commercial, industrial and institutional). The indexes relate to both general and trade contractors' work and exclude the cost of land, land assembly, design, development and real estate fees.
- b. This index helps in the interpretation of current economic conditions and is of particular interest to governments undertaking economic analyses and users concerned about the impact of price changes on capital expenditures. Other uses include, updating construction project costs through escalation and forecasting financial requirements for proposed projects.
- c. This index is publicly available on Statistics Canada website and is updated on a quarterly basis.

- d. The City's Development Charges rate is adjusted annually using this index as it best reflects changes in construction costs.
- e. This index is recommended as it best reflects changes in capital construction costs. Also, this index will maintain the current level of capital infrastructure deficit as annual increases to capital funding will keep pace with expected increases in capital construction costs. For 2012, the budget impact would result in an increase of approximately \$1.3 million, 0.4% increase to the levy and 1.1% increase to WWW user fees.

Please refer to Appendix A that provides the summary of these cost indexes back to 2005 along with comparison to historical inflations to the annual capital envelopes.

### **Options for Finance Committee**

#### Option 1: Status Quo

Maintain existing capital policy which increases the Capital Envelopes by 2% to approximate inflation. This has been incorporated in the 2012 Base Budget.

#### Option 2: Non Residential Building Construction Price Index

Amend the Capital Policy and increase the capital envelopes on an annual basis in accordance with the greater of 2% inflation or the Non-Residential Building Construction Price Index (NRBCPI). As outlined in Appendix B, using the NRBCPI for the 2012 Budget would increase the capital envelopes by an additional 2.4% to 4.4%. For the 2012 budget, this would require a capital enhancement of approximately \$1.3 million; \$796,000 or 0.4% increase to the municipal tax levy; and \$538,000 or 1.1% increase to WWW user fees.

### **Summary**

Staff recommends Option 2 which is the use of Non-Residential Building Construction Price Index (NRBCPI) to increase Capital Envelopes on an annual basis effective with the 2012 Budget. This cost index directly relates to cost of capital construction projects and will assist the City in maintaining the current level of infrastructure deficit. In addition, recognition of these inflationary pressures will ensure capital investments are not eroded by shrinking real dollars.

The majority of the increase relates to Roads and Water/Wastewater in the amount of \$1.1 million with the remaining balance to other departments.

## Appendix A - Summary of Cost Indexes

	<b>Consumer Price Index - Inflation (Canada)</b>	<b>Non-Residential Building Construction Price Index (Ottawa)</b>	<b>Council Approved Increase to Capital Envelopes</b>
Published by	Statistics Canada	Statistics Canada	
Most Recent Rate Available (Month)	September 2011	Second Quarter 2011	
Most Recent Rate Available	3.2%	4.4%	2.0%
Historical Rates as of:			
Most Recent Rate for 2011	3.2%	4.4%	2.0%
December 2010	2.4%	2.0%	2.0%
December 2009	1.3%	-1.6%	2.0%
December 2008	1.2%	8.7%	2.0%
December 2007	2.4%	5.6%	2.0%
December 2006	1.7%	6.4%	2.0%
December 2005	2.1%	4.3%	2.0%
7 Year Average	2.0%	4.3%	2.0%



Appendix B - Increase to Capital Envelopes from 2% Inflation to NRBCPI of 4.4%

Department	Option 1 - 2012 Capital Envelopes Including W/WW and Police (2% Inflation)	Option 2 - 2012 Capital Envelopes with NRBCPI of 4.4%	Increase from 2% Inflation to NRBCPI rate of 4.4%
<b>Infrastructure</b>			
Roads	\$ 24,497,611	\$ 25,074,026	\$ 576,415
Water / Wastewater	\$ 22,845,973	\$ 23,383,526	\$ 537,553
Transit	\$ 526,674	\$ 539,066	\$ 12,392
	\$ 47,870,258	\$ 48,996,618	\$ 1,126,360
<b>Community Development</b>		\$ -	\$ -
Leisure and Citizen Services	\$ 3,413,530	\$ 3,486,189	\$ 72,659
Health & Social Services	\$ 714,000	\$ 730,800	\$ 16,800
	\$ 4,127,530	\$ 4,216,989	\$ 89,459
<b>Growth and Development</b>		\$ -	\$ -
Environmental Services	\$ 867,000	\$ 887,400	\$ 20,400
Facilities	\$ 1,428,000	\$ 1,461,600	\$ 33,600
Planning	\$ 112,200	\$ 114,840	\$ 2,640
Growth Related Projects	\$ 200,000	\$ 200,000	\$ -
	\$ 2,607,200	\$ 2,663,840	\$ 56,640
<b>Emergency Services</b>		\$ -	\$ -
Fire	\$ 1,020,000	\$ 1,044,000	\$ 24,000
Emergency Management	\$ 10,200	\$ 10,440	\$ 240
CLELC	\$ 10,200	\$ 10,440	\$ 240
	\$ 1,040,400	\$ 1,064,880	\$ 24,480
<b>Administrative Services</b>		\$ -	\$ -
Information Technology	\$ 204,000	\$ 208,800	\$ 4,800
Administration	\$ 127,500	\$ 130,500	\$ 3,000
ERP Peoplesoft Projects	\$ 333,240	\$ 333,240	\$ -
Furniture	\$ 102,000	\$ 104,400	\$ 2,400
	\$ 766,740	\$ 776,940	\$ 10,200
		\$ -	\$ -
<b>Healthy Communities Initiatives</b>	\$ 600,000	\$ 600,000	\$ -
		\$ -	\$ -
<b>Police Services</b>		\$ -	\$ -
Police	\$ 534,169	\$ 546,738	\$ 12,569
Communications Infrastructure	\$ 891,900	\$ 906,180	\$ 14,280
	\$ 1,426,069	\$ 1,452,918	\$ 26,849
		\$ -	\$ -
<b>TOTAL</b>	<b>\$ 58,438,197</b>	<b>\$ 59,772,184</b>	<b>\$ 1,333,987</b>
Increase in Tax Levy Capital Envelopes			\$ 796,434
Increase in W/WW Capital Envelopes			\$ 537,553

## For Information Only

### Ontario Municipal Employees Retirement System (OMERS) Rates

Presented To:	Finance Committee
Presented:	Tuesday, Nov 08, 2011
Report Date	Friday, Oct 28, 2011
Type:	Correspondence for Information Only

### Recommendation

For information only

## Financial Implications

The increases to OMERS contribution rates described in this report will increase CGS's overall Salaries and Benefits budget by \$1.68 million in 2012.

## Background

The Ontario Municipal Employees Retirement System (OMERS) approved temporary changes in 2010 to support the funded status of the OMERS Primary Plan. These changes took effect in 2011 and extended into 2012 and 2013 increasing the Employee and CGS contributions by 1% in 2011, 1% in 2012 and 0.9% in 2013. In preparation for the 2012 budget, staff anticipated that Council may want an update on the impact of rate changes and the funded status of the plan.

## Purpose

The purpose of this report is to provide an update to the January 5<sup>th</sup>, 2011 report from the Director of Human Resources and Organizational Development which described the impact on the CGS budgets for 2011, 2012 and 2013. This report is attached as Appendix 1.

## OMERS Investment Update and Funding Status

In the January 5<sup>th</sup>, 2011 report, staff reported on a change in investment strategy which OMERS predicted would increase return on investment of the plan assets. This change moved the target for future returns to the 7 - 11% range in comparison to a 5 year average of 6.6%. This increased return in addition to the increased contributions for both sides is aimed at addressing the \$8 billion in investments losses the Primary Plan experienced in late 2008 with the collapse of global credit markets and the subsequent equity

### Signed By

**Report Prepared By**

Kevin Fowke  
Director of Human Resources &  
Organizational Development  
*Digitally Signed Oct 28, 11*

**Division Review**

Kevin Fowke  
Director of Human Resources &  
Organizational Development  
*Digitally Signed Oct 28, 11*

**Recommended by the Department**

Kevin Fowke  
Director of Human Resources &  
Organizational Development  
*Digitally Signed Oct 28, 11*

**Recommended by the C.A.O.**

Doug Nadorozny  
Chief Administrative Officer  
*Digitally Signed Oct 31, 11*

market downturn. In 2010, the actual rate of return on plan assets was 12.01%.

In the January 5<sup>th</sup>, 2011 report, staff reported that the actuarial deficit for the OMERS primary plan was \$1.5 billion. The most recent actuarial valuation of the Primary Plan disclosed total going concern actuarial liabilities of \$60.1 billion in respect of benefits accrued for service to December 10<sup>th</sup>, 2010. The actuarial assets at that date were \$55.6 billion indicating a going concern actuarial deficit of \$4.5 billion. The actuarial opinion includes the following statement concerning future years: "Ongoing adequacy of the Primary Plan's contribution rates will need to be monitored to ensure that future contributions, together with Primary Plan assets and future investment earnings thereon, will be sufficient to provide for future benefits". OMERS Financial Officer Patrick Crowley is somewhat more upbeat in a statement following the release of the actuarial valuation report for 2010 in the spring of this year saying: "Based on our asset mix policy and active investment strategy, we can generate average returns of 7% to 11% annually over the next 5 years. Doing so would return us to surplus between 2015 and 2020 - 5 to 10 years ahead of schedule".

## **Conclusion**

These pension contribution rate changes result in an unavoidable increase of \$1.68 million to the 2012 budget. Further, these increases have a cumulative, sustained and legislatively unavoidable effect on the CGS budget in 2013. Ongoing uncertainty in global equity markets makes further change beyond 2013 a strong possibility.

## For Information Only

### Ontario Municipal Employees Retirement System Contribution Rate Increases

Presented To: City Council

Presented: Wednesday, Jan 12, 2011

Report Date: Wednesday, Jan 05, 2011

Type: Correspondence for Information Only

### Recommendation

For Information Only

### Finance Implications

The increases to OMERS contributions described in this report will increase the overall Salaries and Benefits budgets by \$1.5 million annually in each of 2011, 2012 and 2013.

## Background

The Ontario Municipal Employees Retirement System (OMERS) has approved temporary changes to support the funded status of the OMERS Primary Plan. These changes take effect in 2011 and have a significant impact on 2011 and subsequent annual budgets. In preparation for the 2011 budget, staff anticipated that Council may have questions about these changes and the impact to the budget over the next three (3) years.

### Signed By

#### Report Prepared By

Kevin Fowke  
Director of Human Resources &  
Organization Development  
*Digitally Signed Jan 5, 11*

#### Recommended by the Department

Kevin Fowke  
Director of Human Resources &  
Organization Development  
*Digitally Signed Jan 5, 11*

#### Recommended by the C.A.O.

Doug Nadorozny  
Chief Administrative Officer  
*Digitally Signed Jan 6, 11*

## OMERS Funding Status and Investment Strategy Moving Forward:

The changes were undertaken as a temporary strategy to support the funded security of the OMERS Primary Plan. According to the most recent actuarial valuation, this Plan had a funding shortfall of \$1.5 billion at December 31st, 2009. The primary driver of this shortfall was the collapse of the global credit markets in late 2008 and the subsequent equity market downturn.

Another significant driver of the funding shortfall was the contribution holiday taken from 1998 - 2003. Although this holiday was supported by legislation prohibiting surpluses of greater than 10% of pension obligations, coincident benefit improvements drew \$3.5 billion out of the surplus and the fund fell into deficit by 2005. With solid fund investment performance, the fund returned to a small surplus in 2007. The 2008 global credit crisis cost OMERS \$8 billion in investment losses. Under current Ontario Pension law, investment experience is smoothed by considering a five (5) year running average of solvency discount

rates and OMERS contends that these funding changes are required to offset the nearly \$5 billion of net losses which will be added to the Plan's balance sheet over the next four (4) years.

Over the past five (5) years, the OMERS Primary Plan has earned 6.6% on an annualized basis. OMERS intends to change their investment strategy in two (2) ways:

- a) change in investment strategy to reduce the Plan's exposure to public equity markets and shift capital into private market assets; and
- b) directly invest and actively manage as many OMERS investments as possible.

Future return goals are in the 7% - 11% range.

### **Description of Temporary Changes:**

OMERS has announced a three (3) year contribution rate increase for both Members and Employers, beginning in 2011 as follows:

- 1% of a member's earnings per side in 2011
- 1% of a member's earnings per side in 2012
- An average of 0.9% per side in 2013.

OMERS has also announced that starting on January 1st, 2013, benefit calculation changes will affect Members who terminate employment and are not eligible for an early retirement pension. These Members will no longer have pre-retirement indexing and early retirement subsidies included in the calculation of their benefits. This change will affect Members who terminate employment before age 55 (if their NRA is age 65) and before age 50 (if their NRA is age 60).

### **Impact of Changes on CGS Budgets 2011 - 2013:**

<b>Department Salaries</b>	<b>2010 Salary</b>	<b>2011 Salary</b>	<b>2012 Salary</b>	<b>2013 Salary</b>
<b>Police Services</b>	<b>31,386,997</b>	<b>32,328,607</b>	<b>33,298,465</b>	<b>33,964,434</b>
<b>All Others</b>	<b><u>119,317,972</u></b>	<b><u>122,181,603</u></b>	<b><u>124,991,780</u></b>	<b><u>127,491,616</u></b>
<b>Total</b>	150,704,969	154,510,210	158,290,245	161,456,050
<b>OMERS Annual Impact</b>		<b><u>1,545,102</u></b>	<b><u>1,582,902</u></b>	<b><u>1,453,104</u></b>
<b>OMERS Cumulative Impact</b>		<b><u>1,545,102</u></b>	<b><u>4,710,906</u></b>	<b><u>9,070,218</u></b>

#### **\* Wage Increases**

Police Services	3.0%	3.0%	2.0%
All Others	2.4%	2.3%	2.0%

<b>OMERS Annual Increase</b>	<b>1.0%</b>	<b>1.0%</b>	<b>0.9%</b>
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\* Wage increases for Police Services is the actual increase for 2011 and estimates for 2012 and 2013; the wage increase for all others is based on the actual increase for 2011 and 2012 and the estimate for 2013.