

## 2022 Budget Direction

Presented To:	Finance and Administration Committee
Meeting Date:	June 22, 2021
Type:	Managers' Reports
Prepared by:	Liisa Lenz Financial Support & Budgeting
Recommended by:	General Manager of Corporate Services

## Report Summary

This report provides recommendations regarding tax increases and directions to guide staff in the preparation of the 2022 Business Plan. In addition, budget pressures for 2022 have also been identified.

## Resolutions

### Resolution 1:

THAT the City of Greater Sudbury directs staff to prepare a 2022 Business Plan that includes an operating budget for all tax supported services as outlined in the report entitled "2022 Budget Direction", from the General Manager of Corporate Services presented at the Finance and Administration Committee meeting on June 22, 2021, that considers:

- The cost of providing provincially mandated and cost shared programs;
- The cost associated with growth in infrastructure that is operated and maintained by the City;
- An estimate in assessment growth; and
- Recommendations for changes to service levels and/or non-tax revenues so that the level of taxation in 2022 produces no more than a 3.6% property tax increase over 2021 taxation levels.

### Resolution 2:

THAT the City of Greater Sudbury directs staff to develop the 2022 Capital Budget based on an assessment of the community's highest priority needs consistent with the application of prioritization criteria described in this report as outlined in the report entitled "2022 Budget Direction", from the General Manager of Corporate Services presented at the Finance and Administration Committee meeting on June 22, 2021, that considers:

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

e. The financial cost of deferring projects.

**Resolution 3:**

THAT the City of Greater Sudbury directs staff to prepare a Business Plan for user fee supported Water and Wastewater Services as outlined in the report entitled “2022 Budget Direction”, from the General Manager of Corporate Services presented at the Finance and Administration Committee meeting on June 22, 2021, 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; and
- e. A rate increase not to exceed 4.8%, consistent with the Water and Wastewater Long-Range Financial Plan approved by the Finance and Administration Committee on June 4, 2019.

**Resolution 4:**

THAT the City of Greater Sudbury directs staff to provide recommendations for changes to user fees (non Water/Wastewater) as outlined in the report entitled “2022 Budget Direction”, from the General Manager of Corporate Services presented at the Finance and Administration Committee meeting on June 22, 2021, that reflect:

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

**Resolution 5:**

THAT staff present any service enhancements, changes in services, or new service proposals as Business Cases for consideration by the Finance and Administration Committee on a case-by-case basis, as outlined in the report entitled “2022 Budget Direction”, from the General Manager of Corporate Services presented at the Finance and Administration Committee meeting on June 22, 2021, subject to the following conditions;

- a. All businesses cases must be approved by resolution of the Finance and Administration Committee to be incorporated into the 2022 Budget Document; and
- b. Any business case with a value of \$100,000 or less be incorporated into the base budget where the Executive Leadership Team supports the change, with a summary of such changes disclosed to the Finance and Administration Committee in the budget document;

**Resolution 6:**

THAT the City of Greater Sudbury requests its Service Partners (Greater Sudbury Police Services, Nickel District Conservation Authority, Greater Sudbury Public Library Board, Public Health Sudbury & Districts) to follow the directions in resolution one as outlined in the report entitled "2022 Budget Direction", from the General Manager of Corporate Services presented at the Finance and Administration Committee meeting on

June 22, 2021, when preparing their 2022 municipal funding requests.

## **Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)**

This report is informed by all of the Strategic Objectives outlined in the 2019-2027 City of Greater Sudbury Strategic Plan.

This report refers to operational matters and has no direct connection to the Community Energy & Emissions Plan.

## **Financial Implications**

There are no direct financial implications associated with this report. Budget directions provide staff with Council approved guidelines for producing service plans that drive the City's operating, capital and rate supported budgets. The 2022 Budget is subject to City Council review and approval, which is anticipated to be provided in the last quarter of 2021.

## **Backgrounds**

The purpose of this report is to obtain directions from City Council that will guide the development of the 2022 Budget. Recommended directions address:

- a) Process steps to produce the Budget (that includes a tax-supported operating budget, a capital budget and a user-rate supported budget) and a schedule that anticipates final Council approval in December 2021.
- b) Forecasted tax increases for 2022 and 2023 are consistent with the 2021 Long-term Financial Plan Update.
- c) Criteria for adjusting services and service levels, if required, for 2022 operating and user rate budgets, and for prioritizing new projects recommended in the 2022 capital budget.

The continued presence of the COVID-19 virus presents several ongoing risks and cost drivers that influence 2022 budget planning.

Consistent with budget presentations over the past five years, the 2022 operating budget will reflect Council's Strategic Plan, key planning documents such as Master Plans, the Asset Management plan, the Customer Service Strategy, the Population Health Calls to Action and the Community Energy and Emissions Plan (CEEP). It will emphasize the relationship between services, service levels and expected costs.

Business plans for each service, supported by key performance indicators derived from our benchmarking network and other internal measures of service performance, will serve as the foundation for decisions and demonstrate accountability for results. While reduced revenue forecasts and preliminary cost projections indicate a higher tax increase would be needed to support existing service levels, staff recommend a direction that reflects assuming risk in order to achieve a 3.6% property tax increase in 2022.

This means capital investment and service adjustments or alternate means of financing will need to be considered to maintain a balanced budget. Staff will develop broad categories of adjustments for Council's

review. There are several considerations required to assess the balance between appropriate taxation levels and service adjustments. As the community continues to adjust and recover from the effects of the COVID-19 virus, the corporation will need to be ready to play a key role in facilitating development opportunities, supporting local businesses, advancing infrastructure projects and continuing to deliver services to residents. 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 for 2022 no later than September 30, 2021 so that the Finance and Administration Committee can consider these along with the City's budget during deliberations in December 2021.

The revenue and expenditure projections described in this report reflect several inputs. They include anticipated revenues and costs associated with maintaining current service levels, decisions approved in the 2021 budget process, larger service contracts that are subject to renewal/renegotiation, projected workload volumes and the financial implications of changes in legislation. The forecast also anticipates utilization of leisure and transit services will return to pre-pandemic levels. These forecasts help provide context, but will be adjusted throughout the budget development process as new/more information becomes available.

## **Planned Outcomes and Key Deliverables**

The recommended motions recognize both current, approved service levels and work required to the vision of the 2019-2027 City of Greater Sudbury Strategic Plan: to be a Centre of excellence and opportunity – a vibrant community of communities living together. The seven strategic initiatives of the Strategic Plan are:

- Asset Management and Service Excellence
- Business Attraction, Development and Retention
- Climate Change
- Economic Capacity and Investment Readiness
- Housing
- Create a Healthier Community
- Strengthen Community Vibrancy

The Strategic Plan shapes other enterprise planning efforts such as the Community Energy and Emissions Plan, the Customer Service Strategy, advancing the Population Health agenda and the Information Technology Strategy, among many others. The 2022 forecasted workplan contains a number of important milestones that support Council's Strategic Plan and accomplish specific outcomes included in various enterprise plans including, but not limited to:

- Continue to create a healthier community by ensuring equitable access to community recreation.
- Continue to enhance Asset Management through data digitization.
- Enhancing the quality of Municipal services and building new sustainable infrastructure.
- Continued implementation of actions associated with the Community Energy and Emissions Plan.
- Continued progress on the four Large Projects.

## **2021 Budget Implications**

The 2021 Municipal Budget was approved with significant capital and operating investments that will impact the next number of years. These decisions included impacts on reserves, future capital spending as well as future levy impacts. Included in the 'Factors Influencing the 2022 Operating Budget' section listed below are implications of the limitations of hiring summer students, administrative efficiencies and the approval of

business cases during budget deliberations.

#### *Limited Hiring of Summer Students*

In December 2020, a number of potential service level reductions were highlighted for Council's consideration in order to table a budget which coincided with the direction target. At that time, the continuation of not hiring summer students (approximately \$1.5 million) was presented as an alternative to reach the target. These meetings resulted in direction to staff to maintain service levels for Waterfront Programming as well as Parkland Maintenance. Combined, these two services accounted for the majority of the reduction that could be realized if summer students were not hired. As a result, approximately \$323,000 (of the \$1.5 million estimate) will be able to be realized in 2021. The difference of \$1.2 million was then allocated to the 'Administrative Efficiencies' account that is described below.

#### *Administrative Efficiencies*

As staff finalized preparations of the 2021 Budget document, an amount was included under the title of 'Administrative Efficiencies'. This was intended for organic savings as efficiencies were found throughout the organization through enhanced technologies, consolidation of duties, attrition and not filling vacant positions. This account was originally estimated at \$540,000 but it has increased to approximately \$1.8 million as a result of the summer student limitations. Staff are proposing to remove this reduction in 2022, which puts pressure on the 2022 taxation levy.

#### *Business Cases*

During the 2021 budget deliberations, the Finance and Administration Committee approved a total of 27 business cases with little to no impact on the 2021 taxation levy. While many of these business cases have identified funding sources, approximately \$950,000 has been added to the 2022 forecast adding further pressure to the tax levy. Approximately \$800,000 are for one-time expenditures and can be removed in future years. Later in this report, under the 'Mitigation Strategies to Achieve Budget Direction' section, staff have proposed a number of alternatives to potentially lessen the impact of these items.

## **Factors Influencing the 2022 Operating Budget**

The following forecasts anticipate the same services and level of service approved in the 2021 Budget and reflects a 6.0% taxation levy increase net of 1.0% assessment growth. The chart below summarizes the pressures the organization is facing, as well **Appendix A** provides additional details:

<b>Category</b>	<b>Forecast 21-22 Change</b>
Salaries & Benefits	\$4.4 million
One Time Funding – Draw from Reserve	\$3.8 million
Revenue Increase – Leisure Services	(\$2.2 million)
Contribution to Capital	\$2.0 million
Service Partners	\$3.7 million
Administrative Efficiencies	\$1.8 million

Debt Repayment	\$1.7 million
General Inflation	\$1.4 million
Software Costs	\$1.1 million
Insurance	\$840,000
Housing Funding (Federal)	\$550,000
WSIB	\$375,000
Hydro	\$280,000
<b>Total Significant Increases</b>	<b>\$19.7 million</b>

The taxation levy increase identified in the Long Term Financial Plan and 2022/2023 Forecast can be summarized as follows:

	<b>2022 Forecast %</b>	<b>2023 Forecast %</b>
Tax Levy Increase (As forecast by the Long Range Financial Plan)	7.0	4.8
Less: Impact of Assessment Growth	(1.0)	(1.0)
Projected Municipal Tax Increase	6.0	3.8
<b>Tax Increase Consists of:</b>		
Service Partners	1.0	0.9
Provincially Mandated Services	0.9	0.5
Capital Projects	0.7	0.6
Municipal Services (net of assessment growth)	3.4	1.8
Forecasted Municipal Tax Increase	6.0	3.8

Plans for service level changes or service enhancements will be presented separately and supported by a business case so that the Finance and Administration Committee can consider them on their individual merits and decide whether to include them in the 2022 Budget.

In February 2020, staff presented a revised Reserves, Reserve Funds and Trust Funds By-law report. Included in this report were minimum reserve and reserve fund balances. In order to achieve these minimum levels, staff recommended a plan that increased annual contributions to reserves. The 2023 forecast includes a contribution to reserves equal to 1% of the forecasted 2022 net levy.

## **Continuous Improvement & Service Adjustments**

Greater Sudbury has maintained its low-cost position relative to other municipalities while continuing to deliver Council approved service levels. This has included enhancing some services, all with tax increases consistent with the approved Long-term Financial Plan. Achieving these results has been possible, in part, by ongoing efforts to identify process improvements and service changes.

Greater Sudbury has for many years identified savings and reallocated resources to priority areas to address program pressures and service levels without exceeding Council's budget directions. Many of these savings and efficiencies have been identified in the budget document, with approximately \$22.2 million in cost avoidance or cost adjustments identified between 2016 and 2021 for the Tax and Rate Supported budgets. Continuing this practice through the 2022 budget development process, staff will continue to work to identify savings and opportunities for reallocation of resources to address pressures.

## Mitigation Strategies to Achieve Budget Direction

Budget adjustments will be required to achieve the recommended taxation level identified in Recommended Resolution #1. In order to achieve the target, approximately \$7.5 million of net levy savings is required. Staff have identified areas where the City can take risk to achieve a 3.6% tax levy increase.

Adjust the contribution to capital to reflect a 2% increase over 2021	\$1,195,000
Defer budgeting for debt repayment to 2023	\$1,740,000
Remove inflation factored in to Purchased Services and Materials	\$1,360,000
Increase Transit revenues for anticipated normal return to in class learning for post-secondary	\$910,000
Remove all Covid-19 related expenses	\$875,000
Fund the 2022 impact of one time business cases	\$800,000
Phase out the Administrative Efficiencies over three years	\$595,000
<b>Total</b>	<b>\$7,475,000</b>

As with any reduction to the budget that does not alter approved service levels, there is inherent risk. In the list noted above, the City is proposing to take the following risk:

- A reduced capital plan will be sufficient to maintain capital assets going forward.
- All legislative measures related to Covid-19 will be lifted, and that many operations will return to a pre-pandemic state.
- The cost to acquire materials and supplies will remain the same and not be subject to inflation. It should be noted that the April 2021 CPI is 3.4%.
- Reserves will remain sufficient to continue to fund one time business cases approved in the 2021 budget.

If all of these initiatives are taken into effect, a taxation levy increase of 3.6% can be achieved.

## Risk

In collaboration with the Auditor General, the Executive Leadership Team has developed 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
- Legislative changes that influence how service is delivered and/or how much it costs. As discussed above, the impact of changes in provincial funding is not yet known and therefore poses a higher risk compared to prior periods.
- Aging infrastructure and the related risk of service interruptions
- Climate change that brings more severe/adverse weather and prompts more, or different, service responses
- Technology changes that present opportunities for the corporation to adapt how it provides service, or how it interacts with residents
- Economic conditions that influence perceptions of municipal financial sustainability, service affordability, access to trained workers and/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 2020 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 and median is also 3.8%.

When comparing to other municipalities with a population of greater than 100,000, Sudbury ranks as the second lowest in property taxes for a typical detached bungalow.

## **2023 Forecast**

The 2023 forecast was developed using the same assumptions as 2022 with adjustments for known contractual increases, and decisions made by Council in the 2021 budget process. The cost to provide the same level of service represents a 4.8% taxation levy increase before the estimated assessment growth of 1.0%. This results in a net tax impact of 3.8%. These projections are based on current information and are not final. These estimates will change as more information becomes available, and the 2022 budget submissions are completed.

## **Assessment Growth**

The current assessment growth forecast is 1.0%. It is difficult to project assessment growth as new construction is offset by demolitions and other tax write-offs. To maximize the potential for assessment growth, staff are providing building plans electronically to assist MPAC in assessing new properties, but the timing of their addition to tax rolls is not within staff's full control.

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 \$226 million over the current assessment of over \$22.6 billion. This 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. The Finance and Administration Committee will receive updated assessment information through the budget process.

## Factors Influencing the 2022 Capital Budget

The Capital Budget Policy guides the preparation of the City’s short and long term capital plans. This policy builds on direction from City Council about the City’s asset management strategy and the City’s Long-term Financial Plan.

It is typical for a local government’s capital renewal or replacement needs to exceed its available funds. This makes choices about capital spending particularly sensitive since tradeoffs are often necessary that can lead to unmet service expectations, unplanned emergency repair or maintenance costs, or higher overall costs.

Identifying capital budget priorities incorporates data about the serviceability of assets, their state of repair, impact on emissions and expected service levels. An enterprise-wide prioritization process is used for determining the greatest service needs and reflects the expertise of a cross-functional staff team from across the corporation. With these priorities in place, potential financing sources are identified to fund the work in a fiscally sustainable manner.

The Capital Budget Policy increases the assurance that the corporation’s highest priority projects are included in the budget. Similarly, the published Budget will include details about each planned project.

The 2022 capital prioritization process (with minor revisions to weighting from 2021) will include the following criteria and the corresponding weights:

<b>1. Strategic Priority</b>	<b>13</b>
Link to the Strategic Plan	8
Project Integration	2
Societal/Qualitative ROI	3
<b>2. Financial Considerations</b>	<b>6</b>
External Funding Opportunities	4
Return on Investment	2
<b>3. Risk Management</b>	<b>21</b>
Legislative Requirements	6
Health and Safety Impact	3
Probability and Consequence of Failure	12
<b>4. Asset Renewal/Restoration</b>	<b>10</b>
Link to Asset Renewal Life Cycle Costing	3
Impact on Service Level	2
Overall City Asset Footprint	1
Environmental ROI / Relationship to CEEP	4
<b>Total</b>	<b>50</b>

The ongoing pandemic related disruptions and material prices are causing significant pressures on the completion of capital projects. This is the result of supply chain issues for a variety of construction materials (such as lumber, steel and other items), which is causing significant pricing increases, as well as lower or no availability and/or delay in delivery of materials. This will result in capital projects with longer completion

times as well as higher costs than expected.

In addition, during 2021 budget deliberations, reserve funds have been committed and utilized towards completion of new capital projects, which has reduced the availability of funds to cover over expenditures, contingency with COVID and other tax levy pressures, and for new proposed projects in the 2022 Capital Budget. As a result, Council may be required to secure additional debt or cancel other capital projects depending on the pressures faced.

## **Water/Wastewater**

In June 2019, the Finance and Administration Committee approved the Water and Wastewater Long-Range Financial Plan. The timeframe of the plan is 20 years, until 2039, with an annual rate increase of 4.8% each year during this period to achieve financial sustainability. Staff anticipate rates will increase by 4.8%, as planned. By legislation, the plan is subject to revision every five years prior to the City applying for renewals to its drinking water licenses. The next application to renew will be in the fall of 2024. The next Plan revision will occur during the latter part of 2023 and early 2024 and presented to Council in advance of the next license renewal period. Staff anticipates that the next update will incorporate estimates from upcoming revisions to the Water Wastewater Master Plan and Asset Management Plan.

## **Service Partners**

Once the Committee provides budget direction to staff, a letter will be sent requesting the city's service partners (i.e. Greater Sudbury Police Services, Nickel District Conservation Authority, Greater Sudbury Public Library Board 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 Seven, if approved, requests the service partners follow the same guidance staff are using to set the 2022 municipal budget so that the total financial impact is no more than a 3.6% change in taxation.

## **2022 Budget Schedule**

The 2022 budget schedule has been attached for the Committee's review in **Appendix B**. The budget schedule reflects a similar process as prior budgets. Three back-to-back meetings have been scheduled for deliberations the week of November 29th, however if required time is available for additional meetings the week of December 6<sup>th</sup>.

## **Summary**

Staff recommends that the Finance and Administration Committee provide direction for the 2022 Budget to include a 3.6% property tax increase. This will require service adjustments that will be subject to further review by Council as part of the budget development process. Staff also recommend a 4.8% Water and Wastewater rate increase, consistent with the financial plan adopted by Council in 2019. Further, staff

recommend the City's Service Partners follow the same directions presented in this report to facilitate Council's desired level of taxation, services and service levels.

The forecast information presented here is based on the best estimates available at this time. It is important to note that the figures and related assumptions about these forecasts will change throughout the budget process. Staff anticipate the budget will be presented in November 2021.

## **Resources Cited**

Core Services Review –

<https://pub-greatersudbury.escribemeetings.com/filestream.ashx?documentid=1158>

Long-term Financial Plan (2020 Update) –

<https://pub-greatersudbury.escribemeetings.com/filestream.ashx?documentid=39387>

Council Strategic Plan –

<https://pub-greatersudbury.escribemeetings.com/filestream.ashx?documentid=2542>

Greater Sudbury Community Energy and Emissions Plan (CEEP) –

<https://pub-greatersudbury.escribemeetings.com/filestream.ashx?documentid=39068>