

2022 Budget Update

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Report Summary

This report provides information regarding the status of the 2022 Budget.

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

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

Financial Implications

There are no financial implications associated with this report.

Background

On June 22, 2021, the Finance and Administration Committee provided 2022 budget directions following deliberations regarding a variety of service demands and affordability considerations. Staff have been preparing business plans and budgets that reflect Council's directions. The work remains on schedule to submit a budget for Council's review in November, with approval anticipated in December.

Greater Sudbury's budget emphasizes the relationship between expected service levels and the costs required to provide them. Information to support understanding about this relationship continues to evolve.

ANALYSIS

The following is a status update on the directions given by Council:

Direction - Resolution One: THAT the City of Greater Sudbury directs staff to prepare a 2022 Business Plan that includes an operating budget for all tax supported services that consider:

- The cost of providing provincially mandated and cost shared programs;
- The cost associated with growth infrastructure that is operated and maintained by the City;
- An estimate in assessment growth;

- d. Recommendations for changes to service levels and/or non-tax revenues so that the level of taxation in 2022 produces no more than a 3.0% property tax increase over 2021 taxation levels.

Status Update

The draft budget remains under development. The budget currently reflects a property tax levy increase of 3.4%, which does not meet the 3.0% guideline. Staff will reduce the net budget by approximately \$1.1 million to meet the guideline prior to its publication in November. There are significant budget pressures such as increased salary and benefits, energy costs, insurance and contractual obligations as well as approved changes in social services.

At the June 22nd Finance and Administration Committee staff presented a 2022 forecast that anticipated a 6.0% tax levy increase, net of assessment growth, required to maintain existing service levels. Several changes have happened from the time that the forecast was prepared and need to be considered for the 2022 budget. Below is a summary of the significant items impacting the 2022 budget.

Salaries and Benefits – Salaries and Benefits continue to see large increases due to contractual obligations and collective bargaining agreements. Throughout 2020 and 2021 there has also been an increase in utilization of benefits, particularly short and long term disability. Preliminary rates proposed by the City's benefits carrier, Great West Life reflects a \$1.17 million increase to the base budget. Overall Salaries and Benefits, excluding Police reflect an increase of \$7 million or a 2.3% tax levy increase.

Winter Control – The anticipated cost for winter control is increasing due to significant increases in the cost of materials and contractual obligations. The 2022 base budget for winter control costs will be increased by \$670,000 or a 0.2% tax levy increase.

Energy Costs – The City continues to face pressures relating to the rising cost of fuel, natural gas, and hydro. The Federal government introduced the carbon tax which came into effect in 2019. This tax anticipates increases in unleaded fuel, diesel fuel, and natural gas each year until 2022. Overall the increase for energy costs, including hydro and water, are anticipated to cost approximately \$760,000 or 0.3% tax increase for 2022.

Insurance – Insurance costs for all municipalities across Ontario are on the rise primarily due to a tight insurance market, increased litigation, climate change, and other factors increasing claims. The 2022 budget reflects a 30% increase in annual insurance costs. This results in an overall increase of \$1.3 million or 0.4% tax levy increase.

Service Partners – The City has received a 2022 preliminary budget from Greater Sudbury Police Services, however still waiting on confirmation from Public Health Sudbury and Districts, and Conservation Sudbury. Preliminary estimates for these budgets represent an overall increase of \$3 million, or a 1% tax levy increase for 2022.

Supervised Consumption Site – At the June 29 City Council meeting, Council approved funding in the amount of \$1.1 million in the form of a grant to Public Health Sudbury and Districts to operate a supervised consumption site. This direction was given after the presentation of the 2022 forecast and not included when contemplating budget direction for 2022. While efforts to engage the provincial government remain ongoing to secure funds that would support this public health service, no provincial funding has yet been committed. If municipal taxes are required to support this service in 2022, this results in a 0.4% tax increase.

Increased Risk

As part of the regular budget development process, staff continuously look for areas where an acceptable level of risk can be taken. That is, staff examine estimates of expenditures or revenues to consider whether a change can be made that helps bring the budget in line with the Committee's budget directions. The risk of an unfavorable variance increases if actual results vary to a significant extent from the estimates included in the budget. The 2022 budget already includes several examples where estimates were reviewed to help produce a budget that fulfills the Committee's directions. This includes:

- Anticipating 2022 will reflect a post-pandemic era and most costs associated with pandemic response have been removed from the budget. Where pandemic-related costs are anticipated, staff also anticipate additional funding will be available to support them. In 2022, staff anticipate \$1 million in funding will be available to offset COVID-19 expenditures.
- Reducing the inflationary adjustment associated with capital projects. The City's formula for calculating an amount to direct to the capital budget looks at the Non-residential Building Construction Price Index. This year, the index increased 4.9% in the first quarter. Instead of increasing funds to the capital budget by 4.9%, which would be consistent with past practice, the 2022 budget reflects an increase in the amount for capital projects by 2%;
- Deferral of budgeting for debt repayments until 2023 on debt not yet secured. This represents increased risk as the securing of debt at a later date may result in higher interest rates.

Direction - Resolution Two: THAT the City of Greater Sudbury directs staff to develop the 2020 Capital Budget based on an assessment of the community's highest priority needs consistent with the application of prioritization criteria described in this report and 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 of potential consequences of asset failure if a project is not undertaken; and
- e. The financial cost of deferring projects.

Status Update

Consistent with our asset management policy, the capital budget focuses on completing projects approved in prior periods and on approving projects that meet the city's highest needs. Council approved criteria for staff to use when considering potential capital projects. These criteria are important because demands for capital projects exceed the funds available, so choices need to be made about which projects to recommend for Council's consideration. The approved criteria address the following:

- 1) Strategic Priority
 - a) Link to Strategic Plan – assess the link to Council's Strategic Plan or corporate goals
 - b) Project Integration – determine the level of integration of this project to other projects
 - c) Shared Vision with Community Partners – determine if the project has a shared vision with a community organization
 - d) Societal/Qualitative ROI (return on investment) – assess the impact enhancing quality of life
- 2) Financial Considerations
 - a) External Funding Opportunity - project funding and probability is scored
 - b) Financial ROI – the level of savings or future cost avoidance
- 3) Risk Management
 - a) Legislative Requirements – determine legislative requirements and potential mitigation
 - b) Health and Safety Impact – assess the impact on citizen and employee safety
 - c) Probability and Consequence of Failure – assess the probability and consequences of failure of the asset
- 4) Asset Renewal/Restoration
 - a) Link to Asset Renewal Life-Cycle Costing – determine if interventions are being completed at the right time
 - b) Impact on Service Level – what will the impact be on service level
 - c) Overall City Footprint – will there be a reduction in assets
 - d) Environmental ROI – impact of the project on carbon footprint or other environmental return

ELT reviewed and recommended the capital projects that will be included in the 2022 capital budget. This increases the assurance that approved work will be done as planned, on schedule. It identifies the highest

enterprise risk priorities for Council's decision making and approval. Council retains the ability to review and amend capital priority as a part of their budget deliberations.

An influencing factor affecting the scale of the 2022 capital budget relates to prior period decisions. Recent capital budgets, such as the 2021 capital budget, included several multi-year projects. Funds have been committed towards these projects, which results in lower amount of funding available for new projects recommended in the 2022 Capital Budget.

Additional planned funding sources for the 2022 Capital Budget include:

- Additional one-time funding (Federal Gas Tax) approved by the Federal Government during 2021. In 2022, \$9.8 million has been included for various road projects.
- The Federal government also announced additional \$1.375 billion, nationally, in federal funding over 12 years to renew the Disaster Mitigation and Adaptation Fund (DMAF). Staff believes that the Capreol Stormwater project fits the criteria and have included estimated grant funding. Staff have not received confirmation of DMAF funding as of yet.
- Majority of remaining funds for the 2020 Special Capital Levy as well as Cancelled Capital Projects.

Capital Levy

There are many more capital investment needs than current funding levels can address. Staff anticipate recommending a capital levy of 1.5% which would provide an additional \$4.54 million to support asset renewal requirements.

During the 2020 budget deliberations, Council did approve a 1.5% capital levy, which is not part of the funding of the capital program. It is important to note the long-term financial plan recommended an additional 1.5% capital levy be approved every year to address the significant infrastructure requirements and asset management needs of the City.

Direction - Resolution Three: THAT the City of Greater Sudbury directs staff to prepare a Business Plan for user fee supported 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; and
- e. A rate increase not to exceed 4.8% consistent with the Water/Wastewater Long-Range Financial Plan approved by the Finance and Administration Committee on June 4, 2019.

Status Update

Water and wastewater services have a financial plan that anticipates a 4.8% rate increase. Staff's work on the 2022 Water Wastewater budget anticipates that the rate increase will apply to 2022 fees, consistent with the budget direction Council provided in May. The 4.8% increase in rates translates into an anticipated additional \$2.2 million allocated to Water Wastewater capital projects.

Direction - Resolution Four: THAT the City of Greater Sudbury directs staff to provide recommendations for changes to user fees (non Water/Wastewater) 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 revenues;
- c. Development on new fees for municipal services currently on the tax levy;

Status Update

Every year staff review their existing user fees to determine if the fees provide an acceptable level of cost recovery for services. Any adjustments to fees outside the Miscellaneous User Fee By-Law will be presented to the Committee for consideration. In addition, new fees that staff consider appropriate will also be

presented to the committee in the form of a business case.

Direction - Resolution Five: THAT the City of Greater Sudbury directs staff to present any service enhancements, changes in service, or new service proposals as Business Cases for consideration by the Finance and Administration Committee on a case-by-case basis, subject to the following conditions:

- a. All business cases must be approved by resolution of the Finance and Administration Committee to be incorporated into the 2022 Budget Document;
- 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;
- c. Council directed business cases, resolved by August 18, 2021 be presented to the Finance and Administration Committee on October 5, 2021.

Status Update

Business cases were presented to the Finance and Administration Committee at the October 5th meeting. The total value of the presented business cases is \$7.2 million. If all proposed business cases were to be accepted an additional tax levy increase of 2.4% would be required. Alternatively, changes to existing service levels resulting in a net savings could be used to fund business cases without requiring an increase in the property tax levy.

Direction - Resolution Six: THAT the City of Greater Sudbury requests its Service Partners (Greater Sudbury Police Services Board, Nickel District Conservation Authority, and Public Health Sudbury & Districts) to follow the directions in resolution one of 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.

Status Update

The service partners have been requested to follow the direction given to staff for their own budget development, and to deliver their 2022 budget presentations to the Finance and Administration Committee in November 2022.

Summary

Work continues on reviewing both operating and capital budgets to ensure the final recommended budget reflects Council’s budget direction. The draft budget will be presented November 2nd and, subject to a public review period, be considered by the Committee in December.

Resources Cited

- 2022 Budget Direction <https://pub-greatersudbury.escribemeetings.com/filestream.ashx?DocumentId=40223>
- 2022 Business Cases <https://pub-greatersudbury.escribemeetings.com/filestream.ashx?DocumentId=41992>