

2023 Budget Direction

Presented To:	Finance and Administration Committee
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Type:	Managers' Reports
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Recommended by:	General Manager of Corporate Services

Report Summary

This report provides recommendations which will provide directions to guide staff in the preparation of the 2023 Business Plan.

Resolutions

Resolution 1:

THAT the City of Greater Sudbury directs staff to prepare a 2023 Business Plan that includes an operating budget for all tax supported services which considers:

- a. The cost of providing provincially mandated and cost shared programs;
- b. The cost associated with growth in infrastructure that is operated and maintained by the City;
- c. An estimate of assessment growth; and
- d. Recommendations for changes to service levels and/or non-tax revenues so that the level of taxation in 2023 produces no more than a 3.7% property tax increase over 2022 taxation levels, in accordance with the long-term financial plan.

Resolution 2:

THAT the City of Greater Sudbury directs staff to develop the 2023 Capital Budget based on an assessment of the community's highest priority needs consistent with the application of prioritization criteria that considers:

- a. Financial affordability;
- b. Financial commitments and workload requirements in future periods for multi-year projects;
- c. The impact on operating costs associated with new projects;
- d. The probability and potential consequences of asset failure; and
- e. The financial cost and potential service impacts of deferring projects.

Resolution 3:

THAT the City of Greater Sudbury directs staff to prepare a 2023 Business Plan for Water and Wastewater Services that includes:

- a. The cost of maintaining current approved programs at current service levels based on anticipated production volumes;
- b. The cost associated with legislative changes and requirements;

- c. The cost associated with growth in infrastructure operated and maintained by the City;
- d. A reasonable estimate of water consumption; 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 2023 user fees for property tax-supported services 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 funded by 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, 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 2023 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 same 2023 Budget directions approved for the City of Greater Sudbury's municipal services when preparing their 2023 municipal funding request as outlined in the report entitled "2023 Budget Direction", from the General Manager of Corporate Services, presented at the Finance and Administration Committee meeting on June 21, 2022 .

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

This report is informed by 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 2023 Budget is subject to City Council review and approval.

Background

The purpose of this report is to obtain directions from City Council that will guide the development of the 2023 Budget and Business Plan. Recommended directions address:

1. Steps to produce the 2023 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

January/February 2023.

2. A 2023 tax levy consistent with the 2022 Long-Term Financial Plan Update (also on this agenda).
3. Criteria for adjusting services and service levels, if required, for 2023 operating and user rate budgets, and for prioritizing new projects recommended in the 2023 Capital Budget.

Current Economic Conditions and Financial Condition

Greater Sudbury is currently experiencing strong economic performance. Among census metropolitan areas, Greater Sudbury’s unemployment rate is one of the lowest in the country. Forecasts suggest continued growth.

The Long-Term Financial Plan Update, also included on this agenda, provides details about the community’s economic activity and the corporation’s financial condition. Staff believe a key challenge for City Council is balancing the support provided by local government services that help sustain the community’s favorable economic performance with expectations for minimizing taxes, and the associated service adjustments to municipal services that could have unfavorable current or long-term implications for either the local economy or the corporation’s financial condition.

2023 Budget Forecast

The 2023 forecast anticipates consistent services and service levels with the 2022 Budget. Based on current estimates that are subject to change as new/more information becomes available, maintaining this consistency would require an 8.9% taxation levy increase, after factoring in 1.0% assessment growth. This reflects the following anticipated changes:

Table 1: Summary of Forecast Cost Changes

Category	Forecast 2023 Change	% Change 2022-2023	Effect on Tax Levy
Contractual Obligations	\$10.7 million	3.59%	3.4%
Contribution to Capital increase in accordance with Capital Budget Policy and By-law (NRBCPI currently 17.2%)	\$7.5 million	24.3%	2.4%
Service Partners	\$3.9 million	4.82%	1.2%
Contribution to Reserve (1% Previous Year’s Levy in line with LTFP)	\$3.1 million	100%	1.0%
Debt Repayment	\$1.9 million	3.2%	0.6%
Fuel	\$900,000	15.8%	0.3%
Insurance	\$735,000	13.4%	0.2%
Phase Out Administrative Efficiencies (Year 2)	\$600,000	47%	0.2%
Transitional Housing	\$600,000	53.9%	0.2%
Legislated Training for Volunteer Firefighters*	\$525,000	100%	0.2%
Utilities	\$400,000	2.3%	0.1%
Other	\$200,000	0.1%	0.1%
Total	\$31.1 million		9.9%

*This estimate is subject to change. Most recent estimates could result in pressures of an additional

\$750,000 totaling \$1.3 million for 2023. The amount required decreases over time as initial training requirements are met.

Further detail can be found in the City of Greater Sudbury Long-Term Financial Plan Update 2022, also included on this agenda.

Mitigation Strategies to Reduce the Tax Levy

Budget adjustments will be required to achieve the recommended taxation level. To achieve the 2023 levy change anticipated by the Long-Term Financial Plan, approximately \$16.3 million of net levy savings is required. Staff anticipate adjustments in the following:

- Reduce planned capital expenditures
- Ensure alignment of user fees to approved subsidized rate
- Defer phase out of administrative efficiencies
- On-going review of contractual obligation changes
- Service level changes

Assessment Growth

The current assessment growth forecast is 1.0%. It is difficult to project assessment growth as several factors influence this amount that are not within the City's 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 \$228 million over the current assessment of over \$22.8 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 2023 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. 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 2023 capital prioritization process (with minor revisions to weighting from 2022) will include the following criteria and the corresponding weights:

1. Strategic Priority	11
Link to the Strategic Plan	8
Societal/Qualitative ROI	3
2. Financial Considerations	6
External Funding Opportunities	4
Return on Investment	2

3. Risk Management	22
Legislative Requirements	6
Probability and Consequence of Failure	16
4. Asset Renewal/Restoration	11
Link to Asset Renewal Life Cycle Costing	3
Impact on Service Level	3
Overall City Asset Footprint	1
Environmental ROI / Relationship to CEEP	4
Total	50

The reverberating effect of the pandemic is 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, fuel, 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 2022 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 and for new proposed projects in the 2023 Capital Budget. Council continues to have the discretion 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 will be 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

Resolution #6, if approved, calls for 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 in line with the guidance provided in this report. Staff will communicate this request to the service partners, and request copies of their budgets for inclusion in the City’s draft budget.

2023 Budget Schedule

The 2023 budget schedule has been attached for the Committee’s review in Appendix A. The budget schedule reflects a similar process as prior budgets. Meetings will be scheduled for late January/early February 2023. The schedule assumes that a new Council is engaged in orientation and transition activities in early 2023 including a review of Council’s 2019 – 2027 Strategic Plan and the directions it suggests for the City’s work in the 2023 – 2027 period.

Service Based Budgeting and Multi-Year Budgeting

The corporation’s budget currently reflects department/division allocations. As described in several reports and presentations to the Finance and Administration Committee and City Council over the past five years, progressive municipalities are adopting budget presentation methods that emphasize the services and service levels they provide. This promotes transparency and understanding about the factors driving

municipal costs, the choices Council must address for unmet service needs or the financial implications of any service adjustments it may wish to consider. With information from COMPASS expected to come online later this year, staff anticipate further evolution in the corporation's efforts to publish a service-based budget. Work continues to design a budget presentation that fully reflects the enterprise-wide effort to deliver the corporation's services.

Staff were also directed to plan the introduction of multi-year budgeting. At this point in the work, introducing multi-year budgets are anticipated to reflect two-year budgets that reflect the following features:

1. Reflect the Long-Term Financial Plan principles of demonstrating financial sustainability, maximizing financial flexibility, and minimizing financial vulnerability.
2. Allow for Council review and approval to support stable and efficient financial management, and predictable taxation and user rates.
3. Provide opportunities for Council to assess and confirm annual budgets within a current multi-year planning period.
4. Ensure local boards and agencies integrate their planning processes as required to support Council's desired financial planning outcomes.

Based on staff's analysis to date, Greater Sudbury's review of several other municipalities that use multi-year budgeting suggest we would be most successful with an approach that started in 2024. This would extend across Council terms and support an effective transition for incoming Councils. For example, this approach allows time for a new Council to verify strategic plan direction prior to establishing a multi-year budget. It is good practice to have each new Council review and approve the corporation's key financial policies. Staff anticipate bringing all applicable budget policies (Operating and Capital), including a recommendation regarding multi-year budgeting, for Council's consideration in 2023.

Summary

Staff recommend that Council provide direction so that the 2023 Budget is prepared with a 3.7% net 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 January 2023 with an update in September 2022.

Resources Cited

1. City of Greater Sudbury Long-Term Financial Plan Update 2022