Long-Term Financial Plan Update

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Report Summary

This report provides an outlook of the corporation's financial condition over the next 10 years. A model of anticipated revenues and expenditures from 2023 to 2032 indicates that the City's financial condition should remain relatively strong considering the highlighted 2023 budget pressures.

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

This report provides Council with an assessment of the corporation's most likely financial condition over the next 10 years. These details will inform decisions that drive progress on fulfilling Strategic Plan objectives. Greater Sudbury is poised to play an increasingly important role in the developing electric vehicle industry due to its strong metal mining sector, which aligns indirectly with Goals 9 and 10 of the Community Energy & Emissions Plan (CEEP). Council's direction to achieve net-zero GHG emissions by 2050, which serves as the CEEP's overarching goal, will create short-term challenges as asset replacements and retrofits (Goals 2, 3 and 4) must consider high performing and energy efficient options that tend to be much more costly than ones based on standard specifications. Longer term, however, energy and GHG savings are anticipated to outweigh initial costs.

Financial Implications

There are no financial implications associated with this report.

Background

Experience shows how decisions taken in prior periods, sometimes decades ago, produce a consequence that affects current financial position and/or service capacity. For example, decisions to forego preventive maintenance expenditures 10 or 15, or even 20 years ago in favor of lower overall taxation levels have the effect of premature asset renewal needs, or increased repair expenditures to keep assets operational. A long-term financial plan offers a view, or several potential views, to show how current decisions can accumulate to produce long-term outcomes. In this way, a long-term financial plan is a tool that helps Council assess choices and understand their potential impacts now and in the future. It can provide a guide to shape service plans, budgets and strategies that consider the variety of competing priorities Council must regularly address. It is most effective when decision makers have a clear understanding of the service levels they want to provide and can assess the effect of changes in either costs, service levels or innovation on the corporation's financial performance.

Since 2017, financial policy and annual budget choices have been made based on the principles set out in the corporation's Long-Term Financial Plan. These principles include:

- Long-term sustainability: a long-term perspective on the City's financial position, funding sources and resource allocations
- Respect for the taxpayer: quality services at an affordable cost
- Appropriate funding for services: a recognition that service levels are the key driver for the corporation's costs, with non-tax revenues based on fair allocation of costs based on service utilization and ability to pay
- Planning for infrastructure: investments consider required asset levels of service in the long term and alternative means of procuring and financing

Factors Influencing the Long-Term Financial Plan

Economic Condition

The Long-Term Financial Plan reflects the following assumptions about local trends:

- Slow to moderate growth in the medium to long term (the City's population is expected to grow by 6,900 - 15,000 persons, 6,000 - 8500 households and 6,400 - 11,000 jobs from 2016 to 2046). (Hemson, 2018)
- Aging infrastructure requiring significant capital investment (with specific investments identified in asset management plans, some of which remain under development).
- The anticipated effects of climate change and changing weather patterns will produce increased costs for responding to storm events, change the timing and type of assets that need to be replaced and increase the use of green technologies and assets that may require more capital investment and/or help avoid certain operating expenditure increases.
- Our workforce will continue demonstrating resiliency and its unique skills, such as bilingualism and in-demand trades, add stability to our local economy. This supports the view that taxation revenues can be considered a reliable funding source.
- Senior government funding will be uncertain. Cost-shared programs or infrastructure projects that rely on senior funding in their financing plans may not proceed at the same level/pace compared to prior periods without some further intervention by the municipality.
- New service demands from existing residents can be expected. A growing population of aging and vulnerable citizens will increase the demand for some services, such as emergency services (especially paramedic services), subsidy and relief programs. There will also be calls for changes to existing services to ensure an appropriate balance between access, taxpayer subsidy and user fees.
- Rapidly changing technology will continue to drive new costs associated with how the corporation connects with residents and delivers services. This introduces a variety of effects because many residents, familiar with private sector technology changes that make access easier and more efficient, will expect their local government to evolve and adopt similar approaches. Meanwhile, a segment of the population that is comfortable with current processes and/or that may not have access to technology to take advantage of digital service access will want to avoid such expenditures. The long-range financial plan anticipates technology investments will be made to provide new opportunities for service access.
- Broad global disruption effects from the Covid-19 pandemic, Russian conflict with Ukraine and the associated supply chain challenges, all contributing to price inflation at levels not experienced in Canada since the early 1990s.

Population Growth and Assessment

The City of Greater Sudbury continues a steady, slow growth trajectory as the only city in Northern Ontario with continued population growth; in the 2021 Census both North Bay and Thunder Bay experienced minimal growth. As reported by Statistics Canada, Greater Sudbury's 2021 Census population is approximately 171,000 up from 166,000 in the 2016 census (this includes the estimated net undercount). With slow to moderate growth, increased taxable assessment alone will be insufficient to support anticipated municipal service levels. Staff will be undertaking an update to the Population and Household Projection study using the 2021 Census. This will be available in early 2023.

The plan reflects 1.0% annual assessment growth. This is comprised partially of growth in households (approximately 285 per year) and anticipated assessment growth resulting from increases in construction and renovations (net of demolitions). Efforts aimed at assessment protection (i.e. ensuring property values are properly assessed by the Municipal Property Assessment Corporation and defending appeals) are also important to make sure our assessment growth is appropriately captured and included in tax calculations.

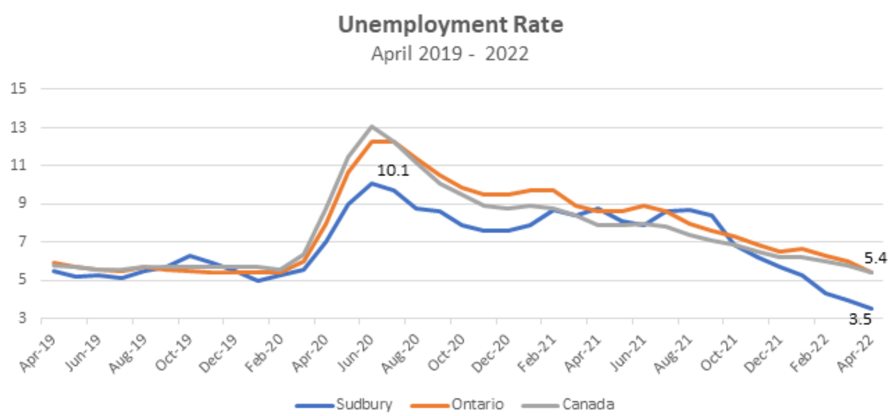
Gross Domestic Product (GDP)

According to the Conference Board of Canada (Major City Insights, March 2022), Greater Sudbury's economy is expected to grow 3.5% in 2022, after experiencing a 6.5% rebound in 2021 from the decline it experienced due to the pandemic in 2020. This increase will cause 2022 GDP levels to be above pre-pandemic levels. It is expected that GDP will increase an additional 0.8% in 2023. The Conference Board estimates that nickel demand will continue over the long term due to the increased demand for battery electric vehicles and strong demand in base metals markets.

Employment

The unemployment rate for Greater Sudbury in April 2022 was 3.5%, which indicates a decrease of 0.5% compared to March 2022. Year over year rates indicate a decrease of 5.3% compared to April 2021. There are few other Census Metropolitan Areas in Canada that reported a rate below 4% in April 2022. The unemployment rate in Ontario and Canada is 5.4%. The number of people employed in the city is 87,100, up from 87,000 in March 2022. The City has seen a steady increase in employment over the last ten months. The participation rate is 61.8%, down slightly from 62.1% in March 2022.

Figure 1: Unemployment Rate, CGS/GSDC April Economic Bulletin



Building Construction Activity

Building permit value for the first five months of 2022 is $100 million compared with $117 million for the first five months of 2021, despite ongoing supply chain shortages and economic pressures from the response to the Covid-19 pandemic. Housing starts remain healthy for 2022 with 128 units with a total value of $27.2 million for the first five months of 2022 compared to 123 units with a total value of $24.7 million at this time last year. This number of new housing starts is important since it indicates a continuing strong market demand for new housing. Although building permit values were higher in 2021, new housing unit starts were not negatively affected by the pandemic response or supply chain/labor shortage challenges. Furthermore, other sectors such as industrial, commercial, and institutional show positive development signals.

Household Income

The assumption used for average household income for the present modelling purposes (2022) for Greater Sudbury is $107,728 in line with the BMA report methodology. This is increased by 2% each year thereafter in the 10-year financial model below. This level of household income is slightly lower than the provincial average.

Inflation

Growth and high demand for Sudbury's resource rich domestic product is good news, but it also signals the risk of price inflation in many categories of goods and services, supply chain interruption and the potential for higher interest rates and a higher Canadian dollar. The Consumer Price Index reached a 30-year high at 6.7% in April 2022. Not only does this rate of inflation increase forecast costs, but it could also lead to higher costs for future borrowing. It does not affect interest rates on existing, outstanding debt.

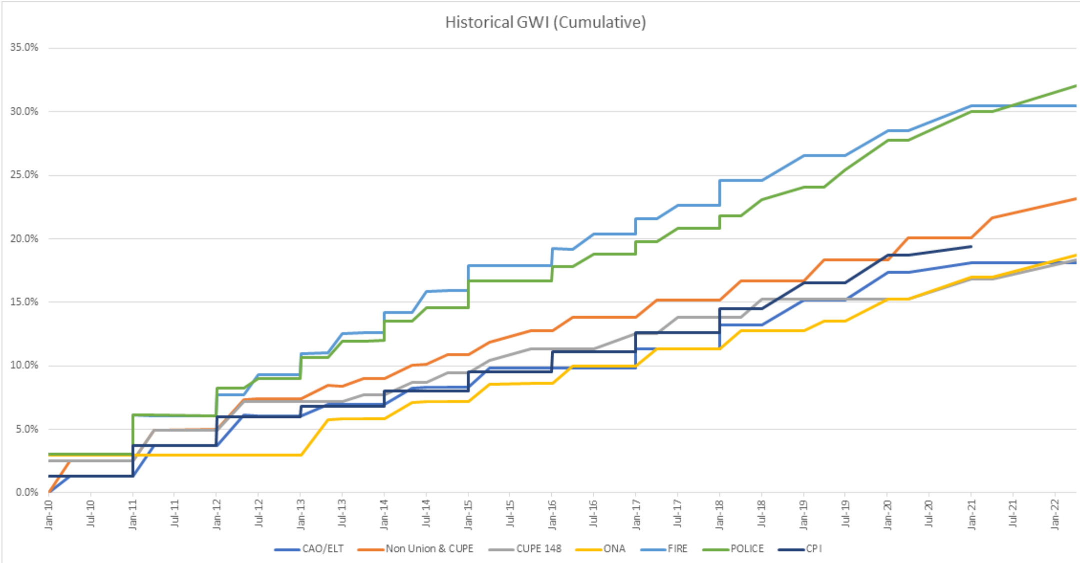
Labour and Employment Costs

The City's service lines are primarily community, resident, business or personal services. As a result, forty-three (43%) percent of total expenses are salary and benefits costs. The value of benefits as a proportion of the roughly $298 million the corporation plans to spend on salaries and benefits combined in 2023 is over $63 million, or approximately 21% of total costs.

Over the past five years the corporation experienced, on average, 7% annual increases in the cost of benefits and 13% increases in the cost of workplace safety and insurance board (WSIB) premiums. Our employee population is older than the Provincial average, making the corporation more susceptible to higher rates of benefit use or WSIB claims. At the same time, Provincial legislation is changing to incorporate more health conditions and illness among those covered by the Workplace Safety and Insurance Act. For example, the prevalence of psychological and mental stress-related injuries, resulting in lost time from work, has been increasing over the past several years.

Contractual obligations also drive employment cost changes. In particular, negotiations that are subject to interest arbitration, such as in Police and Fire Services, as a settlement mechanism for collective bargaining are driving employment costs across the municipal sector. These influence the expenditure escalation assumptions in the base model in this report.

Figure 2: Cumulative History of General Wage Increases for Various Employee Groups 2010-2021



Financial Condition

Standard & Poors AA+ (Stable) Rating

From 2018 - 2021, the municipality received an AA credit rating from S&P Global Ratings (S&P) with a stable outlook. In 2022, the City's rating was upgraded to AA+. A credit rating is an indicator of a corporation's creditworthiness and is a signal to the market of its ability to meet its financial obligations. Greater Sudbury's credit rating is an investment grade rating that signals it has a very strong capacity to pay interest and repay principal loans.

This means it is a relatively low risk borrower, so it will obtain relatively lower interest rates compared to municipalities with less favorable credit ratings. For the purposes of long-term financial planning, this excellent credit rating provides flexibility regarding financing choices, in that the corporation could include more debt financing in its plans.

The current trends and forecasts included in this long-term financial plan update are consistent with the data S&P used to develop its analysis and support its credit rating assessment. Our assessment for 2021 is anticipated in Q3 of 2022. This financial plan will produce results, with all other factors remaining consistent with the assumptions described here, that should sustain the City's credit rating throughout the plan period.

Monitoring and Performance Reporting: Three Categories of Financial Condition Indicators

The Long-Term Financial Plan is built on the four financial principles, measured by three groups of financial condition indicators. Each group of indicators, as defined by the Public Sector Accounting Board, provides insights into a specific aspect of financial condition. Collectively, they address how the corporation is managing its financial health. The principles and indicators also guide Council and staff when making decisions related to service and program planning. The three groups are:

- Sustainability – the ability of a municipality to maintain existing service levels and meet existing requirements without increasing its relative debt or property tax levels.
- Flexibility - the ability of a municipality to increase its financial resources to address additional commitments and changes to service levels. This is done by increasing property tax revenues, fees, reserve balances or by taking on additional debt.
- Vulnerability - the degree to which the City is susceptible to changes in funding sources outside of its control. There is a risk in relying too heavily on funding sources outside a municipality's direct control because they can be reduced or eliminated without notice.

Appendix A contains comparisons on the financial indicators for 2017 to 2021. The corporation compares its financial performance to a typical range of indicators in selected municipalities whose features are similar to Greater Sudbury. Since 2017, comparisons with the following municipalities have provided further context for understanding the corporation's financial condition: Thunder Bay, Sault Ste. Marie, Timmins, North Bay, Barrie, Kingston, Brantford, Windsor and Chatham-Kent.

10-Year Financial Plan Model

The 10-year financial model uses the following assumptions:

- The corporation returns to pre-pandemic user fee revenues in 2023.
- Social housing allocations from senior governments decline over the next ten years.
- Water and Wastewater user fees increase by 4.8% per year in accordance with the Water/Wastewater Financial Plan.
- Investment earnings are expected to return to 2% for the term of the plan.
- Expenditures increase by 5.9% in 2023 and approximately 3% in 2023 and future years. Contributions to capital increase 14.0% in 2023 and between 4-5% annually thereafter.
- Salaries and Benefits increase by contractually committed amounts, with higher costs than previously projected for long-term disability and WSIB premiums. The forecast includes the effect of wage increases associated with Council's recent decision to adjust entry-level wages in consideration of living wage principles.
- The Capital Levy approved in 2020 (1.5%) is included as part of the capital financing plan.
- The non-residential building consumer price index reflects a 17.2% increase and is reflected in the capital contribution for 2023.
- Fuel price forecasts reflect recent substantial market increases. For example, the 2023 operating budget for unleaded and diesel fuel was increased by 16% to $1.30/liter.
- Includes an annual amount equal to 1% of the total 2022 levy as a contribution to reserves to address chronically low reserve levels and strengthen the corporation's financial flexibility.
- Average household income increases an average 2% per year, in accordance with the BMA study.
- Net taxable assessment increases by 1% per year throughout the plan period.

Financial Plan (Current Model)

The 10-year operating budget (revenues and expenditures) projection is summarized in the table below:

Table 1: Forecasted Municipal Levy

CITY OF GREATER SUDBURY
Long-Term Financial Plan

Forecasted Operating Budget
(In thousands of dollars)

	Budgeted	----------	----------	----------	----------	----------	Forecasted	----------	----------	----------	----------	----------
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Ten Year Total
Revenues	342,504	349,894	353,495	360,412	367,612	375,109	382,916	391,046	399,512	408,331	417,518	3,805,846
Expenditures	657,062	695,532	717,410	739,289	761,916	785,519	809,983	835,328	861,459	888,714	916,972	8,012,122
Municipal Levy	**$ 314,559**	**$ 345,638**	**$ 363,915**	**$ 378,877**	**$ 394,304**	**$ 410,409**	**$ 427,067**	**$ 444,283**	**$ 461,947**	**$ 480,382**	**$ 499,455**	**$ 4,206,276**
							Average Annual Increase				**4.7%**	

Assuming assessment growth of 1.0%, the base 10-year operating model results in a net tax levy change averaging 3.7% per year. This reflects planned capital investments and recent price increases for materials, supplies and contracted services. It is important to remember that this is a forecast intended to support effective strategic plans and annual business plans. Council always has control over actual tax levy changes through the decisions it makes when it reviews the corporation's budget.

Appendix B provides forecasted financial indicators for the financial plan. Overall, financial ratios improve over the course of the 10-year operating budget. Taxation levels remain among the lowest in Ontario for cities with a population greater than 100,000. Furthermore, reserve ratios begin to improve beginning in 2027 and forward.

The model provides a 10-year summary of projections for the capital budget and the resulting levels of debt, debt payments and reserve and reserve fund balances.

Reserve and Reserve Funds

The 10-year summary projections show that our reserve and reserve funds per household remain at levels below our comparators ($2,000-$3,500). They rise slightly at the end of the period (2027 – 2032) as some long-term debt is retired and there are increases in the reserves for capital. Also, staff anticipate that Council will want to take steps to increase reserves closer to their minimum levels and have placed an amount equal to 1% of the 2022 levy into contributions to reserves and capital in the 2023 projection. Of course, Council retains full discretion to apply these funds for other purposes, or to exclude them from the annual budget. Reserve and reserve funds matter because they increase flexibility, protect against one-time or unanticipated pressures and they enable the corporation to respond to unplanned opportunity when, for example, new investment opportunities arise, or senior orders of government introduce funding programs that require an unbudgeted municipal contribution. Appendix C provides a detailed summary of reserves and their balances as of December 31, 2021.

Future Capital Programs

With historically large capital programs in 2017 – 2022 and anticipated multi-year projects carrying over into 2021 through to 2023, contributions to capital in the early years of the model are largely committed to projects approved in prior periods. This means that the City needs to maximize funding opportunities from senior governments and find innovative ways to manage its aging assets, while also shrinking its overall asset footprint.

The Non-Residential Building Construction Price Index for Q1 2022 was 17.2%. Should construction costs continue to escalate, there is a risk that the capital program and/or large projects would realize larger than estimated tender results. This could result in fewer capital funds available for new capital projects in upcoming years.

Debt

The Long-Term Financial Plan anticipates the 10-year projection of debt per household peaks in 2022. This fully incorporates the cost of annual debt payments on the $200 million debenture issued in 2020 and the $103 million debenture issued in 2022.

Current forecasts show the City remains within the established ranges defined in the Debt Management Policy, which Council approved in 2017. These ranges are much lower than the municipal debt limit prescribed by the province.

It is important to recall that debt enables investments in community assets that support Council's strategic plan goals, asset renewal or bringing new assets into service that support residents' quality of life. Greater Sudbury will benefit greatly from the funds it borrowed at historically low rates in 2021 and 2022 to fund its strategic priorities.

Alternate Scenario – Fully-funded Asset Management Plans

Appendix D contains an alternative scenario that reflects fully funding the City's capital program as recommended in the City's Enterprise Asset Management Plan. This scenario would see the $49.2 million funding deficit eliminated in equal annual amounts over 10 years. This model reflects an average 6.2% net levy impact (net of assessment growth).

The use of a special capital levy helps realize this accelerated asset renewal work. For example, this would be addressed with the inclusion of a 1.5% special capital levy during 2023 deliberations and each year thereafter to aid in the reduction of the capital program deficit.

Key Enterprise Risks

There are a number of risks that, if realized, could affect the City's ability to sustain current service levels.

Asset Condition

The Enterprise Asset Management Plan was presented to Committee in August 2021 and includes comprehensive asset condition data for a large portion of City assets. The plan provides details to facilitate the best possible decisions regarding construction, operation, maintenance, renewal, replacement, expansion, and disposal of infrastructure assets while minimizing risk and cost and maximizing service delivery.

The asset management plan provides a framework that functions along with annual budgets and long-term financial plans to help understand the implications of budget and investment planning decisions on infrastructure. The 2021 Enterprise Asset Management Plan establishes a baseline of current asset management practices and establishes the infrastructure deficit and funding gap with greater accuracy for the City's infrastructure.

While the available asset data and information did not indicate that there are any major physical issues with the assets at the network level, normal degradation of assets will continue at the individual asset level and will require funding to address future needs. Leading up to 2021, the City has greatly increased the maturity and availability of datasets for the major asset classes.

Base Metal Prices

The price of nickel, a commodity that is key to the Greater Sudbury economy, continues to have good prospects thanks to its importance in the production of electric vehicle (EV) batteries. The Sudbury Basin also produces other critical minerals such as cobalt, copper and platinum group metals – also important to EVs and other modern technologies. In the last four months, nickel prices have stayed above $10 per pound while hitting a value of $20 per pound in March 2022. Currently, nickel is trading above $12 per pound. Global inventories continue to be drawn down, which looks promising for the commodity going forward. Copper has continued to show strength by trading above $4 per pound over the last year which shows confidence in the global economy for base metals. As with nickel, global inventories continue to be drawn down signaling sustained higher prices in 2023.

Assessment Growth and Economic Development

The cost to provide services to residents continues to increase. With low assessment growth, economic development activities take on greater importance as new taxable assessment helps spread the cost of municipal services over a broader tax base. Economic growth through new private sector investments is needed to help sustain the City's taxation levels.

Throughout the pandemic, staff in Economic Development, Planning and Building Services have worked collaboratively to foster and support growth with particular focus on outreach to the industrial, commercial and institutional (ICI) sectors to engage development and outline how the City is supporting these efforts.

At the local level, Economic Development staff have been conducting outreach to businesses throughout Greater Sudbury to assess the impact Covid-19 is having on business and what resources are required for recovery. Staff have also provided other supports for growth and development such as streamlining approvals for patios and outdoor commercial spaces, outreach calls and visits to businesses, webinars and workshops to share lessons learned and leading practices, as well as a coordinated multi-departmental approach to supporting downtown Sudbury and other stakeholders in reactivating downtown to create safe, welcoming and vibrant spaces.

Funding from Senior Levels of Government

Staff continue to monitor the forecasted provincial and federal deficits (and debt) as this may impact existing funding sources and new opportunities.

As presented at the May 2022 Finance and Administration Committee, staff are coordinating with two other municipalities to request from the Province that they remove the $10 million cap for the Ontario Community Infrastructure Fund.

Operating funding of $1.1 million has not been secured for the Safe Consumption Site in 2023. Staff are continuing efforts on lobbying the Provincial government. In addition, confirmation has not been received for operational costs related to Transitional Housing for a net levy amount of $636,000 in 2023 and future years.

Infection prevention and control protocols are still being maintained while the risk of a reduction/end of provincial Covid-19 funding exists. It is anticipated that the effects of Covid-19 will be minimal in 2023 with Covid-19 related funding decreasing/ending.

These examples encourage municipalities to be increasingly self-reliant and develop financing plans that are less dependent on senior government funding.

Project Delivery

The scale of the capital plan is significant and continues to grow. The available staffing resources to deliver the capital plan has seen minimal change year over year. Price increases for construction materials in early 2022 may be short term in nature and reflect immediate shipping and supply chain interruption. If they persist however, cost estimates/budgets may understate actual costs. More recently, shortages and turnover of professional and skilled labor and project managers are causing project schedule delays related risks. Navigating these risks in a tight labor market with ongoing pandemic absences and impacts is challenging.

Increased expectations, unavoidable delays, inflation, and labor shortages are already resulting in estimated construction costs for projects that are higher than originally estimated. Budget allocations may no longer be sufficient to address expected project budgets.

Enterprise Risk Management Update and Annual Register of Key Enterprise Risks

The Enterprise Risk Management Update and Annual Register of Key Enterprise Risks was presented to Finance and Administration Committee in June 2021. This report identified the following key enterprise risk items:

- Misalignment may exist between financial resource allocations and Council's priorities.
- Asset renewal investments may be insufficient to maintain acceptable condition and service levels.
- The corporation, or the City as a whole, is insufficiently resilient to respond to environmental or economic shocks.
- Global connections and business attraction/development efforts may be insufficient for ensuring Greater Sudbury's economic competitiveness.
- Communications and engagement efforts may be insufficient for building resident trust and confidence.
- Existing human capital management policies and practices may be insufficient for attracting, managing, developing, and retaining top talent to support existing and future operations.
- The corporation may be unprepared for the effects of climate change.
- Corporate service delivery may be insufficiently supported by appropriate technology, datasets, training, or equipment.
- Information entrusted to the corporation may be inadequately protected from unauthorized access.

Covid-19 Virus Response & Economic Effect

The continued pandemic response poses a risk. This means that the single greatest potential risk is any continued presence of the virus or its variants which causes governments and health authorities to intervene in the economy. There is risk for the potential for future waves of Covid-19 that prolong the pandemic response and delay recovery.

Summary

The Long-Term Financial Plan is updated annually to provide Council a framework for longer-term financial and strategic decision making. It also should assure taxpayers that the City is accountable and transparent about future risks and mitigation strategies for those risks.

Greater Sudbury is poised to play an increasingly important role in the rapidly evolving, broad-scale electric vehicle industry due to its strong metal mining sector, which bodes well for its economic future and concomitant benefits to municipal growth and financing. Council's direction to achieve net-zero GHG emissions by 2050, which serves as the CEEP's overarching goal, will create short-term challenges as asset replacements and retrofits (Goals 2, 3 and 4) must consider high performing and energy efficient options that tend to be much more costly than ones based on standard specifications. Longer term, however, energy and GHG savings are anticipated to outweigh initial costs.

The corporation's financial condition is strong and has been strengthened through prudent management of finances through the Covid-19 pandemic and support from senior governments. Financial condition could be further strengthened with concerted efforts to improve the corporation's level of reserve and reserve funds and address known asset replacement and life-cycle intervention needs. Throughout the forecast period this plan shows the corporation has sufficient flexibility to finance its service efforts and make investments that fulfill Council's strategic priorities. It maintains a net taxation levy which is in the lowest quartile for benchmark properties among comparators with greater than 100,000 population.

The Long-Term Financial Plan completes the analysis required for the 2023 Budget Direction Report. The 2023 Budget Direction Report provides recommendation regarding tax increases and seeks directions to guide staff in the preparation of the 2023 Business Plan.

Resources Cited

1. Outlook for Growth – Hemson Consulting

   https://pub-greatersudbury.escribemeetings.com/filestream.ashx?documentid=6298

2. Enterprise Asset Management Plan

   https://www.greatersudbury.ca/city-hall/budget-and-finance/financial-reports-and-plans/

3. Supporting Equitable OCIF Funding for Single-Tier Municipalities

   https://pub-greatersudbury.escribemeetings.com/filestream.ashx?DocumentId=44292

4. Ontario Living Wage Certification

   https://pub-greatersudbury.escribemeetings.com/filestream.ashx?DocumentId=44301

5. Enterprise Risk Management Update and Annual Register of Key Enterprise Risks

   https://pub-greatersudbury.escribemeetings.com/filestream.ashx?DocumentId=40438

   https://pub-greatersudbury.escribemeetings.com/filestream.ashx?DocumentId=40439