

2023 Budget Update Report

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Report Summary

This report provides information regarding the status of the 2023 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 21, 2022, the Finance and Administration Committee provided 2023 budget directions following deliberations regarding a variety of service demands and affordability considerations. Staff have been preparing draft business plans and budgets that reflect Council's directions. The work remains on schedule to submit a budget for Council's review on January 17, 2023, with approval anticipated by March 7, 2023.

Greater Sudbury's budget emphasizes the relationship between expected service levels and the costs required to provide them. The focus is on describing planned service levels and outputs based on the resources assigned in the budget. City Council sets the service levels it wants the community to receive, and the budget reflects those choices.

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 2023 Business Plan that includes an operating budget for all tax supported services which 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

- 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.

Current Status

The draft budget remains under development. The budget forecast reflects a property tax levy increase of 9.3% (net of 1% assessment growth), which does not meet the 3.7% guideline. Staff are preparing options for Council's consideration that would reduce net costs by approximately \$17.7 million, which is the amount required to meet the 3.7% guideline. As in prior years, there are familiar, significant financial pressures. There are also additional pressures such as significant price changes due to inflation, affecting a variety of inputs such as increased energy costs, insurance, and contractual obligations. The potential remains for anticipated, but unrealized, senior government funding.

Since preparing the 2023 forecast reported in the June 2023 Budget Directions report, staff have further developed plans and anticipated financing requirements. Below is a summary of the significant items influencing the 2023 budget.

Contribution to Capital

The non-residential building construction price index reached 17.2% as of the first quarter of 2022. Consistent with the Capital Budget Policy, the contribution to capital is increased by the greater of 2% or this index. Along with increases due to the reallocation of retired debt payments as per the Debt Management Policy and reallocations approved for the Pioneer Manor Bed Redevelopment, the contribution to capital increased by \$10.2 million or 3.2% of the tax levy. Reductions are possible, with the consequence being fewer capital projects included in the recommended plan, or additional financing support from other sources (such as senior governments or debt).

Contribution to Reserve

A contribution to reserve amount equal to 1% of the previous year levy is included in the 2023 budget in the amount of \$3.2 million. This reflects alignment with the Long-Term Financial Plan and recognizes the need to address chronically low reserve levels.

Salaries and Benefits

Salaries and benefits will increase in 2023 in accordance with existing contractual arrangements, increased costs for Workplace Safety and Insurance Board claims and reflect planning that is taking place for upcoming negotiations with the majority of the City's unionized employees. Overall, salaries and benefits, excluding Police, reflect an increase of \$5.6 million or a 1.8% tax levy increase.

Fuel

Fuel prices in Canada began to increase in December 2021 with price increases exacerbated after Russia launched a military invasion of Ukraine on February 24, 2022. The 2023 budget reflects a 39% increase in fuel costs totaling \$2.0 million. This represents a 0.6% increase on the tax levy.

Furthermore, the rising cost of fuel will impact purchased/contract services with operational contracts that include a fuel price adjustment clause. This system is designed to adjust contractual rates for the potential volatility in fuel prices in order to achieve best value at the time of contract tender.

Debt Repayment

The low interest rate environment in early 2022 provided an opportunity for the City to borrow funds in advance of approved construction projects at a very favorable rate. Debt was secured on March 7, 2022. The interest and principal payments require \$2.0 million to be included in 2023 for the repayment, resulting in a 0.6% tax levy increase.

Supervised Consumption Site

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. 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. Continuing to support this operation with municipal funds results in a 0.3% tax levy increase.

Legislated Fire Training

New legislation requires additional training for fire services personnel in the amount of \$770,000, resulting in a 0.2% increase to the tax levy. As initial training requirements are met, this requirement will decrease in future periods.

Utilities

The City continues to face pressures relating to the rising cost of natural gas and hydro. Overall, the increase for energy costs, including hydro, water, and natural gas, are anticipated to cost an additional \$430,000 resulting in a 0.1% tax increase for 2023.

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 2023 budget reflects an 8% increase in annual insurance costs. This results in an overall increase of \$380,000 or 0.1% tax levy increase.

Service Partners

Preliminary 2023 budgets for Greater Sudbury Police Services, Nickel District Conservation Authority, Greater Sudbury Public Library Board, Public Health Sudbury & Districts represent an overall increase of \$3.8 million, or a 1.2% tax levy increase for 2023.

Increased Risk

As part of the regular budget development process, staff examine all accounts 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 2023 budget already includes several examples where estimates were reviewed to help produce a budget that fulfills the Committee's directions. This includes:

- Anticipating 2023 will reflect a post-pandemic era and costs associated with pandemic response have been removed from the budget. This includes the assumption that participation rates will return to pre-pandemic levels, specifically for Leisure Services and Transit.
- Recent rates released by Union Gas may further increase the 2023 budget request. Staff are closely monitoring the volatility of rates and a further adjustment may be required.
- The Province has provided notice of their intent to vacate a portion of 199 Larch Street during 2023. Rental revenue has been decreased based on an estimated reduction in its use of space.

Direction - Resolution Two: 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.

Current Status

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, which guide recommendations about which projects to recommend for Council's consideration.

ELT determine which capital projects to recommend in the 2023 capital budget based on the work of an enterprise-wide staff team that considers capital project proposals and their fit with the Council-approved

prioritization criteria. This 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 2023 capital budget relates to prior period decisions. Recent capital budgets, such as the 2021 and 2022 capital budgets, included several multi-year projects. Funds have been committed towards these projects, which results in a lower amount of funding available for new projects recommended in the 2023 Capital Budget.

Additional planned funding sources for the 2023 capital budget includes (with a significant portion of funding below being allocated to cash flows for previously approved capital projects):

- Recurring annual funding of \$10.7 million from the Canada Community Building Fund (previously known as Federal Gas Tax) has been included for capital projects. Additional one-time funding has also been approved by the Federal Government during 2022 of \$9.8 million.
- The Provincial Government through the Ontario Community Infrastructure Fund (OCIF) provides \$10 million to assist with capital projects.
- The Federal Government also announced in 2022 the Northern Ontario Resource Development Support (NORDS) Fund which provided \$400,000 to the City. These funds will be used for the Maley/Frood Road Roundabout Enhancement project in 2022. A total of \$2 million has been granted to the City over five years to use for future capital projects; the remaining \$1.6 million will be used in 2023 and future years.

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 \$4.7 million to support asset renewal requirements.

During 2020 budget deliberations, Council approved a 1.5% capital levy, which is now 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 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.

Current Status

Water and Wastewater Services have a financial plan that anticipates a 4.8% rate increase. Staff's work on the 2023 water and wastewater budget anticipates that the rate increase will apply to 2023 fees, consistent with the budget direction Council provided in June. The 4.8% increase in rates translates into an anticipated additional \$1.3 million allocated to Water Wastewater capital projects.

Direction - Resolution Four: 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;
- c. Development of new fees for municipal services currently on the tax levy.

Status Update

User fees reduce tax levy requirements. Instead of a tax subsidy where everyone pays for a portion of the service, a user fee assigns the responsibility for funding a service to the people that actually use it. 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 will also be presented for the committee's consideration in the form of a business case.

The User Fee Framework was approved through 2022 budget deliberations and was established to support an expectation that fees, or lack of them, demonstrate a thoughtful perspective about how services fit into the community's quality of life. The framework is based on a set of strategic pricing principles which are reflected in cost recovery targets for each service that has a fee. It also provides a useful source of criteria when introducing new services or making service level adjustments.

Staff will be providing options for Committee's consideration that may change the ratio of tax support for fees that fall within the four framework categories. These categories range from a "Community Benefit" to an "Individual Benefit". Some services to be analyzed include those within Leisure Services, Animal Control, Transit, and Environmental Services.

Direction - Resolution Five: 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 business 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.

Current Status

A report will be presented to Council in the fourth quarter of 2022 describing draft business cases. Along with including options for service level enhancements, this report will also include business cases that examine revenue generating and service reduction options for Council's consideration as one measure to achieve the 3.7% budget direction. 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, 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.

Current Status

The service partners have been requested to follow the direction given to staff for their own budget development, and to deliver their 2023 budget presentations to the Finance and Administration Committee in February 2023.

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 January 17th, 2023 and, subject to a public review period, be considered by the Committee in February.

Resources Cited

- 2023 Budget Direction

<https://pub-greatersudbury.escribemeetings.com/filestream.ashx?DocumentId=46659>