

2024-2025 Budget Direction Report

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 regarding directions to guide staff in the preparation of the 2024-2025 business plan and budget.

Resolutions

Resolution 1:

THAT the City of Greater Sudbury directs staff to prepare a 2024-2025 Business Plan for all tax supported services which considers:

- The cost of providing provincially mandated and cost shared programs;
- The cost of delivering current services at current service levels;
- The cost associated with growth in infrastructure that is operated and maintained by the City;
- A capital budget that reflects a level of investment which aligns with the “base scenario” described in the long-term financial plan;
- An estimate of assessment growth; and
- Recommendations for changes to service levels and/or non-tax revenues so that the level of taxation in 2024 and 2025 produces no more than an average annual 4.7% property tax increase, in accordance with the long-term financial plan.

Resolution 2:

THAT the City of Greater Sudbury directs staff to develop the 2024-2027 Capital Budget based on an assessment of the community's highest priority needs consistent with the application of prioritization criteria that considers:

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

Resolution 3:

THAT the City of Greater Sudbury directs staff to prepare a 2024-2025 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 2024-2025 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 2024-2025 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 indicate to Service Partners (Greater Sudbury Police Services, Nickel District Conservation Authority, Greater Sudbury Public Library Board, Public Health Sudbury & Districts) \ its expectation that each follows the same 2024-2025 Budget directions approved for the City of Greater Sudbury's municipal services when preparing their 2024 and 2025 municipal funding requests.

Resolution 7

THAT Staff be directed to schedule budget deliberations for the Finance and Administration Committee during the daytime commencing at 9:30 am on days identified in Appendix A 2024 Budget Schedule.

Resolution 8

THAT Staff be directed to include an annual amount equal to 0.5 per cent of the 2023 tax levy as a contribution to the Tax Rate Stabilization Reserve in order to improve reserve balances and reduce risk of cost fluctuations from implementing a multi-year budget.

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 2024-2025 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 2024-2025 Budget and Business Plan. Recommended directions address:

1. Steps to produce the Budget (that includes a 2024-2025 tax-supported operating budget, a 2024-2027 capital budget and a 2024-2025 user-rate supported budget) and a schedule that anticipates final Council approval in December 2023.
2. A 2024-2025 tax levy consistent with the 2023 Long-Term Financial Plan Update.
3. Criteria for adjusting services and service levels, if required, for 2024-2025 operating and user rate budgets, and for prioritizing new projects recommended in the 2024-2027 Capital Budget.

2024-2025 Budget Forecast

The 2024-2025 forecast is built based on continuing services at service levels consistent with the 2023 plan. Based on current estimates that are subject to change as new/more information becomes available, maintaining this consistency would require an average 4.7% taxation levy increase, after factoring in 1.0% assessment growth for 2024 and 2025. The forecast also includes the following major anticipated cost changes from 2023.

Table 1: Summary of Major Forecast Cost Changes

Category	Forecast 2024 Change	Effect on Tax Levy	Forecast 2025 Change	Effect on Tax Levy
Sustaining Services	\$15.0 million	4.5%	\$10.5 million	2.9%
Greater Sudbury Police Services (GSPS)	\$7.0 million	2.1%	\$3.9 million	1.1%
Increased Capital Investments in accordance with the Capital Budget Policy	\$6.7 million	2.0%	\$3.5 million	1.0%
Adjust Vacancy Management Plan	\$1.3 million	0.4%	\$0	0.0%
Service Partners (except GSPS)	\$720,000	0.2%	\$680,000	0.2%
Insurance	\$460,000	0.1%	\$440,000	0.1%
199 Larch Street	\$310,000	0.1%	\$60,000	0.0%
Energy Costs (Fuel, Hydro, Natural Gas, etc.)	-\$220,000	-0.1%	\$530,000	0.1%
User Fee Increases	-\$1.4 million	-0.4%	-\$1.4 million	-0.4%
Investment Income	-\$1.7 million	-0.5%	\$2.0 million	0.6%
Total	\$28.1 million	8.5%	\$20.2 million	5.6%

Average Net Levy Change				7.0%
Estimated Annual Assessment Growth				-1.0%
Average Annual Levy Change (Net)				6.0%

Table 2: Summary of Forecast Changes by Service Category

2024-2025 Allocation of Property Tax Increase		
	2024	2025
Provincially Mandated Programs	0.7%	0.6%
Contribution to Capital Increase due to Inflation	2.0%	1.0%
Municipal Services (net of assessment growth)	2.4%	1.7%
Municipal Services Cost Changes	5.1%	3.3%
Service Partners	0.2%	0.2%
Greater Sudbury Police Services	2.1%	1.1%
Forecasted Property Tax Increase	7.5%	4.6%

Mitigation Strategies to Reduce the Tax Levy

Adjustments will be required to achieve the recommended taxation level. To achieve the 2024 levy change anticipated by the Long-Term Financial Plan, approximately \$9.1 million of net levy savings is required. Staff anticipate adjustments in the following:

- On-going review of contractual obligation changes
- Business cases for service level change
- Reduce or defer planned capital expenditures
- Ensure alignment of user fees with approved subsidy levels
- Defer phase down of vacancy management initiative

Assessment Growth

The current assessment growth forecast is 1.0% for each 2024 and 2025. 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 generate an increased weighted assessment of approximately \$230 million over the current assessment of over \$23.0 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 2024-2027 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. This policy will be revised for multi-year capital budgeting.

On May 16th, the Finance & Administration Committee approved a change in the capital budget process requesting a four year multi-year capital budget as part of the overall business plan to be presented to committee in the fall of 2023. This capital budget will be for the period of years 2024 to 2027. Subsequent

annual budget updates to capital may include changes for:

- New or revised projects with federal and/or provincial grant funding
- New projects required due to legislation
- Consideration for any new priority and unbudgeted projects
- Cancellation or delay of capital projects in order to reallocate funding to other projects
- Additional funding requests or funding reallocations based on changes in estimates or tendered amounts

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 to rank asset investments and reflects the expertise of a cross-functional staff team from across the corporation. Once the order of priorities is determined, potential financing sources are identified.

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 2024 to 2027 capital prioritization process will be used for all areas, except infrastructure services (roads, bridges, stormwater), and will include the following criteria and the corresponding weights and be reviewed by the Peer Committee:

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

Infrastructure services (roads, bridges, stormwater) will provide a ranked prioritization list based on asset management plan data, from highest to lowest priority. This will be considered alongside the ranking of other projects in order to provide a four year capital budget for the years 2024 to 2027 and will be based on available funding.

Also, there will be a four-year capital budget developed by Water & Wastewater Services Staff based on available water & wastewater user fees to support both operating & capital budgets. This may be revised on the annual budget updates to ensure that water and wastewater user rates are supporting the greatest need.

Supply chain issues for a variety of construction materials (such as lumber, steel, fuel, and other items) continue to be problematic which has resulted in both timing delays to receive the material, and/or significant price increases largely due to lower or no availability. These issues continue to impact the ability to complete capital projects in a timely manner and may result in higher than expected costs.

In addition, during 2022 and 2023 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 2024 to 2027 Capital Budget. Council continues to have the discretion to secure additional debt or cancel other capital projects if it wants to access funds to address other priorities.

Water/Wastewater

In June 2019, the Finance and Administration Committee approved the Water and Wastewater Long-Range Financial Plan. It is a 20 year plan 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. The next update will incorporate estimates from upcoming revisions to the Water Wastewater Master Plan and Asset Management Plan.

Service Partners

Resolution six, if approved, calls for the City's service partners (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 2024 and 2025 budgets for inclusion in the City's draft budget.

2024 Budget Schedule

The 2024 budget schedule has been attached for the Committee's review in Appendix A. This schedule is consistent with past budget schedules with the budget document presented on November 15. Budget deliberations will occur on December 13 and 14, with additional meetings to be scheduled as required.

In response to some inquiries from Committee Members, resolution seven proposes two full-day budget deliberation meetings as opposed to meetings scheduled in the evenings.

Multi-Year Budgeting

On May 16, 2023, the Finance and Administration Committee approved the implementation of a multi-year budget process with a two-year operating budget term and a four-year capital budget term. This process will better enable Council to implement a multi-year vision which flows through business plans and encourages a focus on achieving longer-term plans, goals and objectives. Annually, and in accordance with the Municipal Act, 2001, Council will have the opportunity to readopt the budget and include such adjustments as:

1. New or Changed Regulations
2. New Council Directions
3. Cost or Revenue Driver Changes

As of June 5, Staff are currently in the testing stage for the information technology required to support the multi-year budget process. Furthermore, Staff anticipate amending all applicable budget policies (Operating and Capital) to reflect updates to incorporate multi-year budgeting.

Municipal practice when implementing a multi-year budget is to include an amount that contributes to the Tax Rate Stabilization Reserve to reduce the risk of cost fluctuations from year to year. Resolution eight provides for a 0.5% tax levy increase as a contribution to the Tax Rate Stabilization Reserve. This will further support improving reserve balances if the funds are not required to address unplanned operational requirements.

Service Based 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 seven 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. Information from COMPASS is currently being accumulated and 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.

Summary

Staff recommend that Council provide direction so that the 2024-2025 Budget is prepared with an average annual 4.7% property tax increase net of assessment growth. 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 providing an update on the status of the 2024-2025 Budget in September, with a draft budget tabled for review in November. Meetings in December will be scheduled to finalize the 2024-2025 Budget.

Resources Cited

1. City of Greater Sudbury Long-Term Financial Plan Update 2023