

For Information Only

2020 Budget Update

Presented To: Finance and
Administration
Committee

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2019

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Resolution

For Information Only

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

Report Summary

This report provides information regarding the 2020 Budget.

Financial Implications

There are no financial implications associated with this report.

Signed By

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Background

On May 14, 2019, the Finance and Administration Committee provided 2020 budget directions following deliberations regarding a variety of service demands and affordability considerations, all in a context where it was (and remains) unclear how provincial funding changes will affect municipal property taxpayers. Staff have been preparing work 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. Enhancements in 2020 include more key performance indicator reporting, more insights about how changes in either service levels or costs affect the other and emphasis on how the budget addresses Council's strategic priorities.

Simultaneously, work continues on the direction Council provided to conduct a Core Services Review. Council will receive an update at its September 24 meeting, as planned, on the status of this work. Information derived from the core services work also informs the 2020 budget development process.

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 2020 Business Plan that includes an operating budget for all tax supported services that consider:

- a. The cost of maintaining current programs at current service levels based on anticipated 2020 workloads;
- b. The cost of providing provincially mandated and cost shared programs;
- c. The cost associated with growth infrastructure that is operated and maintained by the City;
- d. An estimate in assessment growth;
- e. Recommendations for changes to service levels and/or non-tax revenues so that the level of taxation in 2020 produces no more than a 3.5% property tax increase over 2019 taxation levels in accordance with the Long-Term Financial Plan with options to achieve an increase of 2.5% and 3%, with an option to include a 1% levy designated for road maintenance, and an option for a 4.5% property tax increase.

Status Update

The draft budget remains under development and currently does not meet the 3.5% guideline. As in prior years, there are significant budget pressures such as anticipated reductions in federal and provincial funding, increased employee benefits, energy costs and contractual obligations. As directed by Resolution 1 a), base budgets anticipate maintaining existing services and service levels, with adjustments for 2020 workload forecasts. With changes in funding from other sources, such as the provincial government, and increased costs passed on to the municipality from third parties, such as

employee benefits, maintaining existing service levels will be extremely challenging while also adhering to the 3.5% guideline.

At the May 14th Finance and Administration Committee staff presented a 2020 forecast that anticipated a 5.6% tax levy increase, net of assessment growth, required to maintain existing service levels. The forecast did not consider the potential effect of Provincial funding cuts, which were not announced in time to incorporate them into our report. As those details, along with adjusted workload forecasts and the effect of new terms from the successful negotiations with CUPE 4705, the forecast tax levy required to maintain existing service levels increased. Staff will present a plan that reflects Council's budget directions.

Increased Risk

The CAO and Finance staff met with all operating departments to determine budget changes that could be made with the goal of meeting Council's expected taxation change. Several adjustments were made where changes in estimates could have a significant financial impact. The risk of an unfavorable variance increases if actual results vary to a significant extent from the estimates included in the budget. Such adjustments include the following

- Reduction in the estimated fuel price for both diesel and unleaded by \$0.05/litre;
- Adjusting the anticipated reduction in funding from the Ontario Municipal Partnership Fund (OMPF) from 5% to 2%;
- Reducing the increase in annual funding for 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 6.7%. Instead of increasing funds to the capital budget by 6.7%, which would be consistent with past practice, staff increased the amount for capital projects by 2%;
- Maintaining 2019 budgets for firefighter overtime, although it is highly likely overtime costs will exceed budgeted amounts;
- Decreasing annual transfers to reserve for intermittent expenditures (e.g. Election Reserve Fund)

New 2020 Funding Requirements

Below is additional information related to the pressures that are incorporated in the 2020 base operating budget:

Provincial and Federal Funding – Recent announcements regarding provincial funding continue to put pressure on the City's operating budget. Based on funding announcements for 2019, the City is anticipating the following funding reductions for 2020:

- Housing Services \$250,000
- Children Services \$1.4 Million
- Long-Term Care \$350,000

- OMPF \$300,000

The combined impact of these funding changes is approximately \$2.3 million or 0.8% tax increase for 2020. These provincial funding changes were not known or identified when the forecast was presented.

There are still several areas where the City has yet to receive Provincial funding announcements, or confirmation of the impact of Provincial funding changes on our Service Partner budgets, and potentially more risk:

- Social Services
- Land Ambulance Off Load Delay Nurse
- Police Services
- Public Health Sudbury & Districts
- Nickel District Conservation Authority (Conservation Sudbury)

Employee Benefits – Throughout 2019 there have been several changes to employee benefits, and utilization of those benefits has increased, particularly short and long term disability. These changes in benefits have resulted in increases to the operating budget. Staff are still waiting for final rates from the benefit provider, however preliminary rates proposed by the City's benefits carrier, Great West Life reflect a \$1.1 million dollar increase to the base budget or a 0.4% tax increase for 2020.

Winter Control – Over the past few years, the City has seen a change in the type of winter events, with a higher number of freezing rain events combined with higher than average snowfalls. Budgets have been inadequate to fund the service response expected by the community. Our 2020 base budget for winter control costs will be increased by \$830,000 or a 0.3% tax levy increase.

Fleet – The City continues to incur increased maintenance costs due to an aging fleet of vehicles, equipment and transit busses. We continue to invest less in asset renewal than our 2016 Asset Management Plan indicated was required and, as a result, maintenance costs continue to rise. Staff have identified several initiatives to control operating expenditures, focusing on parts inventory control and parts quality improvement, reductions in the size of fleet and more timely renewal/replacement of heavy equipment (snow plows, garbage packers) to reduce the average age and associated maintenance costs. These initiatives have produced the desired effect, yet there is still a significant asset investment gap that results in emergency repair costs and service disruptions.

Facilities – The City owns over 400 buildings with an estimated replacement cost of \$850M, excluding Water and Wastewater buildings. Our 2016 Asset Management Plan suggests buildings with a replacement value of approximately \$260M should be replaced, but they remain in service and require asset renewal and maintenance investments. They also increase the risk of service interruptions and unplanned costs due to emergency repair requirements. Work continues to examine the potential for rationalizing and monetizing facilities that can be removed without effects on service.

Workplace Safety Insurance Board (WSIB) – Due to the presumptive legislation which deems Post Traumatic Stress Disorder, certain cardiac conditions and cancers as occupational illness, WSIB

premiums continue to increase for Police, Fire and EMS. Most recently, changes in legislation allow for chronic mental health to be covered under WSIB. This becomes a concern for all employees, not just emergency responders. For 2020, the impact is anticipated to be \$550,000 or 0.2% tax 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. For 2020, unleaded fuel is anticipated to increase an additional 2.2 cents per litre, diesel fuel is expected to increase 2.6 cents per litre, and natural gas is anticipating a 2.0 cents per cubic metre increase. Overall these increases are anticipated to cost approximately \$300,000 or 0.1% tax increase for 2020. As mentioned above, staff reduced the anticipated fuel rate for 2020. At this time staff are confident that the reduced rate will be sufficient to cover the increase in fuel costs. Staff will prepare an energy management plan in 2020 which will demonstrate steps that we have taken to reduce these pressures and plans that will inform our asset and facilities management approaches moving forward.

Direction - Resolution Three: 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;
- 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. A set of criteria approved by Council guides staff's review of potential capital projects, with an expectation that a recommended list of capital projects provides good alignment with Council's strategic priorities, financial policies, risk management and asset renewal needs. A staff team is providing an assessment of the community's highest priority capital needs consistent with the application of enterprise wide criteria as follows:

- 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 potential capital projects to be included in the 2020 capital budget. Finance staff are now building a financing plan. This increases the assurance that approved work will be done as planned, on schedule. It also lays out 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.

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 \$4.25 million to support asset renewal requirements.

Direction - Resolution Four: THAT the City of Greater Sudbury directs staff to prepare a 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;
- e. A rate increase not to exceed the rate contained in the Water/Wastewater Financial Plan to be 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 2020 Water Wastewater budget anticipates that the rate increase will apply to 2020 fees, consistent with the budget direction Council provided in May. The 4.8% increase in rates translates into an anticipated additional \$2.15 million allocated to Water Wastewater capital projects.

Direction - Resolution Five: THAT the City of Greater Sudbury directs staff to provide recommendations for changes to user fees 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;
- d. A user fee schedule for 2020.

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 Six: 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 City Council on a case-by-case basis, subject to the following conditions:

- a. Any business case request from Councillors must be approved by resolution of Council or Committee to be incorporated into the 2020 Budget Document;
- b. That all business cases be incorporated in the Budget Document for Council approval.

Status Update

Departments have been generating business cases for service enhancements, changes in service levels and new service proposals that compliment Council’s strategic direction. Approximately twenty (20) business cases have been received and reviewed by ELT.

Business cases with sufficiently high quality that align with Council’s priorities will be presented to the Committee for approval on a case-by-case basis.

Below is a list of business cases currently being prepared by staff:

Business Case Title	Reference
Addition of three full time Paramedics	ES2019-03
Lorne St. rejuvenation project	FA2019-27
Business opportunities in Roads and Distribution and Collection Maintenance Services	CC2018-259 (note 1)
Climate change adaptation strategy	CC2019-151
Human league association emergency funding	CC2019-254
Collaboration with reThink Green re: climate change	CC2019-255
Increased annual funding for Northern Ontario Railway Museum and Heritage Centre	CC2019-259
Green initiative CIP	OP2019-11 (note 2)

Maintaining trail from Dundas Street to Silver Hills Drive	FA2019-15A8
Additional labour resources for capital project delivery	FA2019-15A1
Lasalle Boulevard corridor plan and strategy - streetscape design pilot	FA2019-15A2
Development of additional universal recreation programs	FA2019-15A3
New full time position for Tenant Relations Coordinator at GSHC	
Establish a new playfield user fee for recreational leagues	
Used needle recovery services	
Increased hours of operation and staffing for transit kiosk	
Pioneer Manor bed redevelopment	<p>City Council, December 12, 2017 Report: Pioneer Manor Capital Redevelopment http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1138&itemid=14272&lang=en</p> <p>Community Services Committee, April 15, 2019 Presentation: Overview of Pioneer Manor http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1352&itemid=16183&lang=en</p>
Implementation of a tactical medic program	
New full time Property Assessment Assistant	
New full time Cyber Security Officer	
Increased security for downtown city facilities	<p>Community Services Committee, July 9, 2018 Report: Security at Transit Terminal http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&lang=en&id=1264&itemid=15318</p>
Increase in parking fees	
Convert Youth Strategy Coordinator to Business Development Officer	
New full time Small Business Specialist for Regional Business Centre	
Rural and Northern Immigration pilot program	
Increase in part time hours for Engineering Services	
Enhanced spreader laid patching program	
New full time Tool Crib Operator	
Electronic road patrol system	
Survey service review for Planning Services	

Strategic land use planning - Nodes and Corridors Phase 2	Planning Committee, September 26, 2016 Report: Proposed City-Wide Nodes and Corridors Strategy http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=992&itemid=11977&lang=en
Electric vehicle charging stations	

Business Case Updates:

Note 1: Business opportunities in Roads and Distribution and Collection Maintenance Services (CC2018-259): Since the request for this business case in September of 2018, staff have been able to identify opportunities and achieve service level changes through the collective bargaining process. At this time, no further opportunities have presented themselves. As staff continue to review the services offered, Council will be requested through business case to approve changes where appropriate.

Note 2: Green initiative CIP Program: At the July 8, 2019 Operations Committee meeting the committee passed resolution OP2019-11 requesting a report describing steps to introduce incentives for green development initiatives for multi-residential and non-residential based buildings. Staff intend to present the initiative as a business case for Committee’s direction.

Direction - Resolution Seven: THAT the City of Greater Sudbury requests its Service Partners (Greater Sudbury Police Services Board, Nickel District Conservation Authority, and Public Health Sudbury & District) to follow the directions in resolution one, as amended, of the report entitled “2020-2021 Budget Direction and Two Year Financial Forecast” from the General Manager of Corporate Services, presented at the Finance and Administration Committee meeting on May 14, 2019, when preparing their 2020 municipal funding requests.

Status Update

The outside boards have been requested to follow the direction given to staff with regards to the taxation levy increase, and to present their 2020 budget presentations to the Finance and Administration Committee in November, 2020. Similar to the City, the Service Partners are also facing provincial funding cuts. At the time this report was written, the Service Partners have not received all of their funding announcements for 2020, and as a result their request from the City is unknown.

Summary

Work continues on reviewing both operating and capital budgets to ensure the final recommended budget reflects Council’s budget direction. Staff are currently reviewing their budgets in an attempt to ensure funds are appropriately allocated to services, while noting potential service level adjustments required to meet Council’s budget directions. This task is challenging given the fact that the current forecast needs to be reduced by roughly \$6 million to arrive at a net 3.5% tax levy increase.