

Executive Summary

The purpose of this report is to obtain directions from City Council regarding development of the 2020 and 2021 base operating budget. It includes:

- a) A description of the proposed 2020 and 2021 base operating budget development process including a schedule that anticipates Council's approval of the 2020 and 2021 Operating Budget, User Rate Budgets, and the 2020 Capital Budget by December 2019,
- b) A forecast for the 2020 and 2021 base operating budget that anticipates the cost to provide the existing Council approved service levels,
- c) Factors influencing the municipality's 2020 and 2021 operating and user rate budgets, and the 2020 capital budget.

Consistent with budget presentations over the past three years, the 2020 and 2021 operating budgets will emphasize the relationship between services, service levels and expected costs. The presentation will provide a level of detail sufficient for Council to assess the budget's alignment with the strategic plan and its expected outcomes, as well as the fit between daily service expectations and planned service levels.

Business plans for each Division, supported by key performance indicators derived from our benchmarking network and other internal measures of service performance, will serve as the foundation for decision making and demonstrate accountability for results. For a complete picture of the City's service plans and related financial commitments, all Outside Boards are requested to submit their board-approved budgets for 2020 no later than August 1, 2019 so that the Finance and Administration Committee can consider these along with the City's budget during deliberations in late 2019.

The revenue and expenditure projections described in this report reflect several inputs. They include decisions approved in the 2019 budget process, anticipated revenues and costs associated with maintaining current service levels, projected workload volumes and the financial implications of changes in legislation. These projections help provide context to support the Committee's decisions regarding acceptable parameters for setting 2020 and 2021 budget directions.

While useful, such projections will be adjusted as work to finalize the budget proceeds and new information becomes available. These estimates will change as 2020 and 2021 budget submissions are completed.

Preliminary Financial Forecast

After accounting for anticipated assessment growth, scheduled contract price adjustments, the financial impact of labour agreements and energy cost changes, maintaining municipal services at current service levels require a 2.4% change in

taxation. Service partners cost increases and the cost of providing provincially mandated services require an additional 2.9% change in taxation, planned capital expenditures, based on existing forecasts, require an additional 0.9% property tax increase. The following table summarizes the forecast changes:

| | 2020 Forecast % | 2021 Forecast % |
|---|-----------------|-----------------|
| Tax Levy Increase | 6.6 | 4.5 |
| Less: Impact of Assessment Growth | (1.0) | (1.0) |
| Forecasted Municipal Tax Increase | 5.6 | 3.5 |
| Tax Increase Consists of: | | |
| Provincially Mandated Services | 1.0 | 1.0 |
| Municipal Services (net of assessment growth) | 2.4 | 1.3 |
| Capital Projects | 0.9 | 0.3 |
| Outside Boards | 1.3 | 0.9 |
| Forecasted Municipal Tax Increase | 5.6 | 3.5 |

Revenues are projected to increase by approximately \$5.3 million primarily due to an increase in user fee rates for water and wastewater and other fees. This estimate anticipates a reduction in revenue from the Ontario Municipal Partnership Fund (OMPF) of approximately \$1.1 million based on the 2019 announcement.

Operating expenditures are projected to increase by \$21.3 million (6.6%). The increase is primarily due to costs associated with routine service delivery such as salaries and benefits, contractual obligations, and energy costs. Plans for service level changes or service enhancements will be presented separately and supported by a business case so that the Finance and Administration Committee can consider them on their individual merits and decide whether to include them in the 2020 Budget.

The net result of the change in expenditures and revenues translates into a levy increase of \$18.1 million. Including assessment growth of 1.0%, the projected tax increase is 5.6%. The Long-Term Financial Plan anticipates a tax change of 3.5%.

The higher 2019 projection reflects changes in several factors. Specifically, contractual obligations including finalized and arbitrated collective bargaining agreements are higher than what was forecast in the Long-Term Financial Plan. As well, operating costs for services such as Transit, winter control and road maintenance are increasing as service level expectations and greater needs for asset rehabilitation/renewal are addressed.

Although not included in this forecast, staff anticipate reductions in programs that receive funding from the provincial government. As more information becomes known, staff will provide further report(s) on the implications of changes to provincial funding. Since the province's April budget announcement, service partners such as Conservation Sudbury and Public Health Sudbury and District learned details about funding reductions that will likely lead to service adjustments. Similarly, changes in funding for services provided directly by the municipality could prompt a review of service levels. Nevertheless, at this point staff do not anticipate such changes should alter the recommended budget directions presented in this report.

Subject to the Committee's consideration of the recommended motions in this report, staff anticipate presenting a plan that reflects the guidance provided by the Long-Term Financial Plan. In particular, recommended Motion 1 e) will be particularly important as it appears clear that service adjustments and/or adjustments to risk tolerance will be required to present a plan that aligns with the taxation levels anticipated by the Long-Term Financial Plan.

Risk

In collaboration with the Auditor General, the Executive Leadership Team has developed an enterprise-wide risk assessment to identify key corporate risks and their potential consequences if the risks become real. "Risk" is defined as anything that can impair the achievement of the corporation's objectives. The corporation has a variety of risks that could influence its ability to achieve results. These include:

- Changes to our population mix that produce changes in service expectations or in the demand for certain services
- Legislative changes that influence how service is delivered and/or how much it costs. As discussed above, the impact of changes in provincial funding is not yet known and therefore poses a higher risk compared to prior periods.
- Aging infrastructure and the related risk of service interruptions
- Climate change that brings more severe/adverse weather and prompts more, or different, service responses
- Technology changes that present opportunities for the corporation to adapt how it provides service, or how it interacts with residents
- Economic conditions that influence perceptions of municipal financial sustainability, service affordability, access to trained workers and/or the relative competitiveness of local businesses

This assessment will inform choices about the emphasis that should be placed in the budget on discrete initiatives that could, among other results, help reduce or at least manage risk.

Property Taxes and Household Income

The 2018 BMA Municipal Study provides information regarding the percentage of household income required to pay for total property taxes of a typical bungalow. For the City of Greater Sudbury, 3.8% of household income is required to support payment of property taxes. The BMA average is 3.8% and the median is 3.9% for municipalities over 100,000 in population.

Factors Influencing the 2020 Operating Budget

The following financial forecasts are based on delivering the same services and level of service that is currently in place for the City of Greater Sudbury. The following economic assumptions influence the figures included in the 2020 operating budget:

1. General inflation factors applied to costs, unless otherwise noted are based on the Bank of Canada inflationary control target of 2.0%. Inflation projections from three of the major banks that have inflation forecasts for 2020 ranging from 2.1% to 2.4%. A 2.0% inflationary increase is worth approximately \$1.5 million or 0.6% tax levy increase.
2. The introduction of the carbon tax in 2019 resulted in a \$0.05 / litre in the price of fuel. For this reason, staff forecast the price of diesel and unleaded fuel to be \$1.12/litre (up from \$1.07/litre in 2019). The financial impact of fuel costs on the City would be approximately \$250,000.

The carbon tax also has an impact on natural gas prices. As a result, staff are forecasting a 5% increase in natural gas costs. The financial impact of this increase is approximately \$100,000.

The Ontario Fair Hydro Plan which was introduced in the summer of 2017 states that rate increases will be held at the rate of inflation for the years 2018-2021. For that reason, staff has used a rate of 2% for 2020. Combined with consumption forecasts, the financial impact is a projected increase of \$270,000.

3. Overall, salaries and benefits reflect the effects of negotiated collective bargaining agreements, and estimated changes to upcoming bargaining agreements.

In addition WSIB premiums have significantly increased for Police, Fire and EMS. The total impact is forecasted to be an additional \$535,000 in 2020. Overall, salaries and benefits account for an \$11.7 million increase over the 2019 budget.

4. User fees have been increased by the estimated 3.0% for 2020 in accordance with the Miscellaneous User Fee By-law. Changes to user fee rates will be incorporated into the 2020 budget.

5. Water/Wastewater, Building Services, 199 Larch Street, and Parking have been assumed to be self-supporting in accordance with policy.
6. Contributions for capital have been increased by 6.7% for 2020 in accordance with the Capital Budget Policy, which calls for the greater of 2.0% or the first quarter increase in the Non-Residential Building Construction Price Index (Ottawa) (NRBCPI Ottawa), or the most current NRBCPIR Ottawa available at the time of developing the forecast. As of the fourth quarter of 2018, this index was 6.7%. This increases capital spending on the tax levy by approximately \$2.5 million or 0.9% property tax levy increase.
7. For 2020, staff are providing for a decrease of \$1.1 million to Ontario Municipal Partnership Fund (OMPF) funding based on 2019 announcements. This represents a reduction of \$950,000 over the 2019 budgeted amount.
8. Preliminary estimates from the outside Boards which includes Nickel District Conservation Authority (2% increase to the operating grant, and a 20% increase to the capital grant), and Greater Sudbury Police Services (GSPS), as well City staff estimate for the Sudbury and District Health Unit (2% to remain consistent with prior years) result in an increase to the 2020 budget by \$3.3 million. The GSPS preliminary budget reflects a 5.5% increase which includes the annualized impact of the four new constables hired in 2019, the requirements of the strategic staffing plan, WSIB and Long Term Disability premium hikes and an additional contribution to the facilities improvement plan.
9. Based on historical trends, staff are providing for an \$830,000 increase in winter control costs.
10. As approved in the 2017, 2018 and 2019 budgets, funding for the large projects including Place des arts and the Kingsway Arena and Event Centre, as well as The Junction have been included in the 2020 forecast resulting in a 0.6% increase on the tax levy.

The following chart summarizes the significant increases included within the forecast.

| Category | Budget Increase | % Increase |
|---|------------------------|-------------------|
| General Inflation | \$1.5 million | 0.6 |
| Carbon Tax (Fuel and Natural gas) | \$350,000 | 0.1 |
| Hydro | \$270,000 | 0.1 |
| Increased benefits for CUPE 148 arbitration | \$830,000 | 0.3 |
| WSIB | \$535,000 | 0.2 |
| Contribution to Capital | \$2.5 million | 0.9 |
| OMPF | \$950,000 | 0.3 |
| Outside Boards | \$3.5 million | 1.2 |
| Winter Control | \$830,000 | 0.3 |
| Large Projects | \$1.6 million | 0.6 |
| Total Significant Increases | \$12.9 million | 4.6% |

2021 Forecast

The 2021 forecast was developed using the same assumptions as 2020 with adjustments for known contractual increases, and decisions made by Council in the 2019 budget process. The cost to provide the same level of service represents a 4.5% taxation levy increase before the estimated assessment growth of 1.0%. This results in a net tax impact of 3.5%. These projections are based on current information and are not final. These estimates will change as more information becomes available, and the 2020 budget submissions are completed.

Assessment Growth

For this forecast, estimated assessment growth of 1.0% has been used. It is difficult to project assessment growth as new construction is offset by demolitions and other tax write-offs. It should also be noted that not all construction is subject to taxable assessment, for example construction in underground facilities. In addition, manufacturing and processing properties are not assessed on the equipment or foundations to support the equipment used in the processing. Until projects are

completed and reviewed by MPAC, it is difficult to estimate the assessed value.

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 \$215 million over the current assessment of over \$21.5 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 2020 Capital Budget

In January, 2019 Council approved an updated Capital Budget Policy. The Capital Budget Policy guides the preparation of the City's short and long term capital plans. This revised policy builds on prior 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. This makes choices about capital spending particularly sensitive since tradeoffs are often necessary that can lead to unmet service expectations, unplanned emergency repair or maintenance costs, or higher overall costs.

In line with principles in our Asset Management Policy, the Capital Budget Policy guides capital spending decisions and helps minimize the impact of such tradeoffs. It incorporates data about the serviceability of assets and their state of repair, expected service levels and potential financing sources to carry out planned investments in a fiscally sustainable manner.

The Capital Budget Policy increases the assurance that the corporation's highest priority projects are included in the budget. 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. Similarly, the published Budget will include details about each planned project for Council's review. This increases the likelihood that Council's priority projects will be appropriately considered in the capital budget.

The 2020 Capital Prioritization Tool will include the following criteria:

1. Strategic Priority
 - a. Link to the Strategic Plan
 - b. Project Integration
 - c. Shared Vision with Community Partners
 - d. Societal/Qualitative ROI
2. Financial Considerations
 - a. External Funding Opportunities
 - b. ROI
3. Risk Management
 - a. Legislative Requirements

- b. Health and Safety Impact
- c. Probability and Consequence of Failure
- 4. Asset Renewal/Restoration
 - a. Link to Asset Renewal Life Cycle Costing
 - b. Impact on Service Level
 - c. Overall City Asset Footprint
 - d. Environmental ROI

Water/Wastewater

In 2011, Council accepted a ten year Water and Wastewater Financial Plan which recommended an annual rate increase of 7.4% to achieve financial sustainability. Council approved a 7.4% increase from 2016 to 2019. The City is currently updating its water/wastewater financial plan and will present Council with the proposed new plan on June 4, 2019. For the purpose of this forecast, a 7.0% rate increase has been used.

Service Partners

Once the Committee provides budget direction to staff, a final letter will be sent requesting the city's service partners (i.e. Greater Sudbury Police Services, Nickel District Conservation Authority, and Public Health Sudbury & Districts) to present their budgets to the Finance and Administration Committee. Staff will be requesting their approved budgets in advance of the draft budget being distributed to the Committee. If the approved budget is not available, staff will be requesting an estimate of their budgets. Recommended Resolution Seven, if approved, requests the service partners follow the same guidance staff are using to set the 2020 municipal budget so that the total financial impact is no more than a 3.5% change in taxation.

Multi Year Budgeting

A multi-year budget is a business plan which covers several periods. The Municipal Act, 2001, Section 291(1) allows a municipality to prepare and adopt a budget for a period of two to five years in the first year, or the year immediately preceding the first year in which the budget applies.

Like several other municipalities, staff are proposing the practice of multi-year budgeting. This practice will see a budget document that reflects two or more years of base budget assuming the same Council approved service level. Service level changes will be presented as business cases for Council direction. The Municipal Act directs that municipalities must approve an annual budget and taxation levy. For this reason, years two and on will be presented in the form of a report detailing all changes to the base budget previously presented, as well as business cases for service level changes. The intent of this adjustment is not to open up the plans and budgets for a full-scale review, but to adhere to the multi-year budget and to provide the opportunity to

fine-tune the budgets only when circumstances warrant.

Finance investigated the opportunities of longer term planning as part of the budget process and identified that multi-year budgeting offers significant benefits and some challenges as presented below:

Benefits:

- Promotes long-range thinking and strategic planning: Most programs, services and capital investments that the City undertake have impacts and need funding over more than a single year. A multi-year budget will help strengthen longer-term planning focus for the City and improve implementation of the strategic and business plans by ensuring longer-term goals and objectives are supported by longer-term funding plans.
- Improves financial management: By providing estimates for service needs, commitments, and funding requirements for a long-term period, multi-year budgets help determine potential funding gaps and stimulate discussions around strategies to address the funding gaps. This will help improve the City's financial sustainability.
- Reduces uncertainty: Multi-year budgets provide a more in-depth estimate of service delivery expectations and the City's ability to fund those services over the long-term. Proper alignment of service cost projections with tax and other revenue sources provides greater degree of certainty for the citizens about what services they will receive and what taxes they will pay for those services.
- Promotes service-based planning: Multi-year budgets promote service-based planning by integrating resource allocations to service objectives and targets driven by Council priorities over a multi-year timeframe. It also links operating and capital activities and spending.
- Manages risk: Developing a multi-year spending plan and having indicators that signal when the budget is off course increases the City ability to make corrections before risks become realized, even when they result from circumstances outside of the City's control.
- Strengthens communication, accountability and transparency: Multi-year budgets can also improve accountability, transparency and decision-making by providing Council and citizens more contextual information about the consequences of current period decisions in future periods. Multi-year budgets help connect discussions regarding the achievement of long-term goals and short-term spending decisions.
- Improves efficiency and potentially reduce time dedicated to budget development: The annual budget process requires substantial time and effort for staff and Council on an annual basis. Although multi-year budgeting requires significant effort in the first year, it should only require minimal effort for annual

adjustments in subsequent years, provided annual adjustments are limited to external factors such as federal or provincial budgets, Council directed changes to priorities, or unforeseen and significant changes to economic factors. This could potentially save time each year, and create capacity for other important functions, including strategic and business planning as well as budget monitoring and evaluation.

- Supports credit rating: Financial management and budgetary performance are among key rating factors used by bond rating agencies in assessing the credit rating of municipalities. In 2018, Standards & Poor's (S&P), the City's credit rating agency, initiated an AA rating for the City of Greater Sudbury. This is partly due to the City's strong financial management and very strong budgetary performance. Implementing multi-year budgeting would be viewed positively by S&P as it would demonstrate the City has solid grasp of long-term financial planning and commitment to addressing long-term financial issues and concerns.

Challenges:

- Relies on estimates: One challenge with multi-year budgeting is the difficulty in accurately projecting revenues and expenses for multiple years. Projections are based on several controllable and uncontrollable elements including, but not limited to, collective agreements, inflation rates, population growth, and general economic conditions. Unanticipated changes in any of these factors could have significant impacts on budget plans. This would be mitigated by including an annual review and adjustment step in the budget development process.
- Impacts Council's ability to reallocate funding: A multi-year budget signals Council's intention about the services to be provided and the long-term financial direction of the City. This could be perceived as a constraint on Council's decision making ability. The annual review and adjustment process would mitigate this risk.

If approved, staff will be preparing and presenting a multi-year budget for the years 2020 and 2021. A multi-year budget is very timely at this stage in the Council term. Change priorities established in the Council Strategic Planning process can be incorporated and Council and the community will have predictable service levels and costs for the core period of its mandate.

2019 Budget – Debrief

Staff are in the process of conducting debrief meetings with members of the Finance and Administration Committee to discuss the 2019 budget process. Any suggestions or recommendations from these meetings will be considered for the 2020 budget process and detailed in the September update report.

2020/2021 Budget Schedule

The 2020 budget schedule has been attached for the Committee's review in Appendix A. The budget schedule reflects a similar process as prior budgets and requires the committee's approval to reschedule existing meeting dates to accommodate time for budget deliberations.

Summary

This budget forecast is based on the best estimates available at this time. As time progresses, these estimates will be refined and form part of the draft 2020 and 2021 base operating budget, which according to the budget schedule will be presented on November 6, 2019. The services provided and the level of service offered drives the municipality's costs. Staff will continue to investigate opportunities for net cost reductions that could minimize any property tax increase.

Staff is seeking direction from the Committee to construct a budget at a 3.5% tax increase and a Water and Wastewater increase consistent with the financial plan adopted by Council.