

## Executive Summary

The purpose of this report is to obtain directions from City Council that will guide the development of the 2021 Budget. Recommended directions address:

- a) Process steps to produce the Budget (that includes a tax-supported operating budget, a capital budget and a user-rate supported budget) and a schedule that anticipates final Council approval by March 2021
- b) Forecasted tax increases for 2021 and 2022 are consistent with the 2020 Long-term Financial Plan Update.
- c) Criteria for adjusting services and service levels, if required, for 2021 operating and user rate budgets, and for prioritizing new projects recommended in the 2021 capital budget.

The continued presence of the COVID-19 virus presents several ongoing risks and cost drivers that influence 2021 budget planning.

Consistent with budget presentations over the past four years, the 2021 operating budget will reflect Council's Strategic Plan, key planning documents such as Master Plans, the Asset Management plan, the Customer Service Strategy, the Population Health Calls to Action and the Community Energy and Emissions Plan (CEEP). It will emphasize the relationship between services, service levels and expected costs.

Business plans for each Service, supported by key performance indicators derived from our benchmarking network and other internal measures of service performance, will serve as the foundation for decisions and demonstrate accountability for results. While reduced revenue forecasts and preliminary cost projections indicate a higher tax increase would be needed to support existing service levels, staff recommend a direction that reflects the guidance provided by the Long-term Financial Plan (LTFP). The LTFP anticipated a 3.9% property tax change in 2021.

This means capital investment and service adjustments or alternate means of financing will need to be considered to maintain a balanced budget. Staff will develop broad categories of adjustments for Council's review. There are several considerations required to assess the balance between appropriate taxation levels and service adjustments. As the community continues to adjust and recover from the effects of the COVID-19 virus, the corporation will need to be ready to play a key role in facilitating development opportunities, supporting local businesses, advancing infrastructure projects and continuing to deliver services to residents. 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 2021 no later than September 30, 2020 so that the Finance and Administration Committee can consider these along with the City's budget during deliberations in early 2021.

The revenue and expenditure projections described in this report reflect several inputs. They include decisions approved in the 2020 budget process, anticipated revenues and costs associated with maintaining current service levels, larger service contracts that are subject to renewal/renegotiation, projected workload volumes and the financial implications of changes in legislation. These forecasts help provide context, but will be adjusted throughout the budget development process as new/more information becomes available.

## **Planned Outcomes and Key Deliverables**

The recommended motions recognize both current, approved service levels and work required to the vision of the 2019-2027 City of Greater Sudbury Strategic Plan: to be a Centre of excellence and opportunity – a vibrant community of communities living together. The seven strategic initiatives of the Strategic Plan are:

- Asset Management and Service Excellence
- Business Attraction, Development and Retention
- Climate Change
- Economic Capacity and Investment Readiness
- Housing
- Create a Healthier Community
- Strengthen Community Vibrancy

The Strategic Plan shapes other enterprise planning efforts such as the Community Energy and Emissions Plan, the Customer Service Strategy, advancing the Population Health agenda and the Information Technology Strategy, among many others. The 2021 workplan contains a number of important milestones that support Council's Strategic Plan and accomplish specific outcomes included in various enterprise plans including, but not limited to:

- Deliver the community-wide Automated Water Meter Project
- Introduce a new Land Management Information System
- Continue to achieve goals of the Customer Service Strategy, including completing Customer Service Training for all staff, continue development of the new Customer Relationship Management System, and improve one-stop-shop customer service centre at Tom Davies Square.
- Produce of a community safety and wellness plan.
- Implement recommendations of the Communications Review, including the development of a community engagement strategy.
- Deliver the first phase of detailed Asset Management plans for core

infrastructure.

- Continued implementation of actions associated with the Community Energy and Emissions Plan.
- Continued progress on the four Large Projects.

## Factors Influencing the 2021 Operating Budget

The following forecasts anticipate the same services and level of service approved in the 2020 Budget. **Appendix A** provides additional details:

Category	Forecast 20-21 Change
General Inflation	\$1.4 million
Transit Revenue	\$1.6 million
Leisure Revenue	\$2.3 million
Hydro	\$270,000
Salaries & Benefits	\$6.4 million
WSIB	\$585,000
Contribution to Capital	\$1.2 million
Service Partners	\$4.9 million
Large Projects	\$2.4 million
Insurance	\$600,000
New Software	\$440,000
Roads Contractual Obligations	\$1.2 million
Housing Funding	\$550,000
Waste Collection Contract	(\$950,000)
<b>Total Significant Increases</b>	<b>\$22.9 million</b>

In order to reach the recommended direction of 3.9%, Municipal Services can only increase by 1% net of assessment growth. The following table summarizes the forecast changes:

	<b>2021 Forecast %</b>	<b>2022 Forecast %</b>
Tax Levy Increase (As forecast by the Long Range Financial Plan)	4.4	4.9
Less: Impact of Assessment Growth	(0.5)	(1.0)
Projected Municipal Tax Increase	3.9	3.9
<b>Tax Increase Consists of:</b>		
Service Partners	1.8	1.0
Provincially Mandated Services	0.8	0.5
Capital Projects	0.3	0.3
Municipal Services (net of assessment growth)	1.0	2.1
Forecasted Municipal Tax Increase	3.9	3.9

Including an estimated assessment growth of 0.5%, the directed tax increase is 3.9% which is consistent with the 2019 Long-term Financial Plan.

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 2021 Budget.

As more information becomes known, staff will provide further report(s) on the implications of changes to provincial funding. Changes in funding for services provided directly by the municipality could prompt a further review of service levels. Nevertheless, at this point staff do not anticipate such changes should alter the recommended budget directions presented in this report.

In February 2020, staff presented a revised Reserves, Reserve Funds and Trust Funds By-law report. Included in this report were minimum reserve and reserve fund balances. In order to achieve these minimum levels, staff recommended a plan that increased annual contributions to reserves starting in 2021. Due to the pressures of lost revenues because of COVID-19, along with increasing contractual obligations, staff have not incorporated these increases. Staff anticipate increased reserve contributions will be included in the 2022 Budget Direction report and budget process.

## **Continuous Improvement & Service Adjustments**

Greater Sudbury has maintained its low-cost position relative to other municipalities while continuing to deliver Council approved service levels. This has included

enhancing some services, all with tax increases consistent with the approved Long-term Financial Plan. Achieving these results has been possible, in part, by ongoing efforts to identify process improvements and service changes.

Greater Sudbury has for many years identified savings and reallocated resources to priority areas to address program pressures and service levels without exceeding Council's budget directions. Many of these savings and efficiencies have been identified in the budget book, with approximately \$15.4 million in cost avoidance or cost adjustments identified between 2016 and 2020 for the Tax and Rate Supported budgets. Continuing this practice through the 2021 budget development process, staff will continue to work to identify savings and opportunities for reallocation of resources to address pressures.

## **Mitigation Strategies to Achieve Budget Direction**

Service adjustments will be required to achieve the recommended taxation level identified in Recommended Motion #1. In order to achieve the target, approximately \$13.1 million of net levy savings is required. To confirm the adjustments as part of the budget development process, staff will prepare further analysis that builds on reports previously presented to Council about services and service levels.

The purpose of this analysis will be to support further review by Council that identifies acceptable approaches to service adjustments and maintains the required balance between services, service levels and cost. Adjustment options will include:

- Further review of discretionary services (from the Core Services Review)
- Changes to existing service levels that reduce net costs, which could include fee increases that offset subsidy requirements
- Maintaining current service suspensions/reductions that reflect reduced service demand prompted by the ongoing presence of the COVID-19 virus
- Reducing the size of the capital plan
- Potential reallocation of the Special Capital Levy

It should also be noted that the Core Service Review reflected approximately \$4 million in total potential financial benefits. Included in the analysis performed by KPMG were potential improvements to some of the City's services. Detailed service reviews were prepared for the following:

- Community grants
- Roadways – operations and maintenance
- Facilities management

- Arenas
- Parks
- Long-term care

Also included in the review were service profiles, which outlined both qualitative and quantitative information for each of the corporation's 58 lines of service. The service profiles also highlight the net levy impact. For the 2021 Budget, each 1% is worth approximately \$2.9 million. This information is a good starting point for conversations impacting tax levies. The recommendations within that report may help reduce future tax levies.

## **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 2019 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 and median is also 3.8%.

When comparing to other municipalities with a population of greater than 100,000, Sudbury ranks as the second lowest in property taxes for a typical detached bungalow.

## **2022 Forecast**

The 2022 forecast was developed using the same assumptions as 2021 with adjustments for known contractual increases, and decisions made by Council in the 2020 budget process. The cost to provide the same level of service represents a 4.9% taxation levy increase before the estimated assessment growth of 1.0%. This results in a net tax impact of 3.9%. These projections are based on current information and are not final. These estimates will change as more information becomes available, and the 2021 budget submissions are completed.

## **Assessment Growth**

The current assessment growth forecast is 0.5%. It is difficult to project assessment growth as new construction is offset by demolitions and other tax write-offs. To maximize the potential for assessment growth, staff are providing building plans electronically to assist MPAC in assessing new properties, but the timing of their addition to tax rolls is not within staff's full control.

To put the estimated growth into perspective, the value of 0.5% growth each year would have to generate an increased weighted assessment of approximately \$113 million over the current assessment of over \$22.5 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 2021 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.

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.

Identifying capital budget priorities incorporates data about the serviceability of assets, their state of repair, impact on emissions and expected service levels. 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. With these priorities in place, potential financing sources are identified to fund the work in a fiscally sustainable manner.

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. This increases the likelihood that Council's priority projects will be appropriately considered in the capital budget.

The 2021 capital prioritization process (similar to 2020) will include the following criteria and the corresponding weights:

<b>1. Strategic Priority</b>	<b>13</b>
Link to the Strategic Plan	7
Project Integration	2
Shared Vision with Community Partners	1
Societal/Qualitative ROI	3
<b>2. Financial Considerations</b>	<b>6</b>
External Funding Opportunities	4
Return on Investment	2
<b>3. Risk Management</b>	<b>22</b>
Legislative Requirements	8
Health and Safety Impact	4
Probability and Consequence of Failure	10
<b>4. Asset Renewal/Restoration</b>	<b>9</b>
Link to Asset Renewal Life Cycle Costing	3
Impact on Service Level	3
Overall City Asset Footprint	1
Environmental ROI	2
<b>Total</b>	<b>50</b>

## Water/Wastewater

In June 2019, the Finance and Administration Committee approved the Water and Wastewater Long-Range Financial Plan. The timeframe of the Plan is 20 years, until 2039, 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.

## Service Partners

Once the Committee provides budget direction to staff, a letter will be sent requesting the city's service partners (i.e. 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. 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 2021 municipal budget so that the total financial impact is no more than a 3.9% change in taxation.

## **2020 Budget – Debrief**

Staff conducted debrief meetings with members of the Finance and Administration Committee to discuss the 2020 budget process. Suggestions or recommendations from these meetings have been considered for the 2021 budget process.

## **2021 Budget Schedule**

The 2021 budget schedule has been attached for the Committee's review in **Appendix B**. 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. Public input into the municipal budget is fundamental to strategic goals to encourage meaningful resident engagement. Given the uncertainties in the annual projections for 2021 and 2022, the continued global pandemic response underway, and in alignment with feedback from the 2020 budget process, staff will begin engagement activities in the coming days. Although more formal opportunities for engagement are scheduled for November and December of this year, online engagement will begin as soon as possible to ensure a fulsome opportunity to engage in feedback and expectations for the 2021 budget.

## **Summary**

Staff recommends the 2021 Budget include a 3.9% property tax increase, consistent with the forecast presented in the Long-term Financial Plan. 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 the budget will be presented in January 2021.

## References

Core Services Review -

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=25&id=1462>

Long-term Financial Plan (2019 Update) –

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&attachment=27551.pdf>

Council Strategic Plan –

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=2&id=1434>

2020 Budget Process Evaluation –

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=6&id=1558>

Greater Sudbury Community Energy and Emissions Plan (CEEP) –

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=9&id=1332>