

For Information Only

2019 Budget Update

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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 City Council with a status update on each of the 2019 budget directions received on May 15, 2018.

Financial Implications

There are no financial implications associated with this report.

Signed By

Report Prepared By

Lisa Brule
Coordinator of Budgets
Digitally Signed Sep 12, 18

Manager Review

Jim Lister
Manager of Financial Planning and
Budgeting
Digitally Signed Sep 12, 18

Division Review

Ed Stankiewicz
Executive Director of Finance, Assets
and Fleet
Digitally Signed Sep 12, 18

Financial Implications

Jim Lister
Manager of Financial Planning and
Budgeting
Digitally Signed Sep 12, 18

Recommended by the Department

Kevin Fowke
General Manager of Corporate
Services
Digitally Signed Sep 12, 18

Recommended by the C.A.O.

Ed Archer
Chief Administrative Officer
Digitally Signed Sep 12, 18

Background

On May 15, 2018, the Finance and Administration Committee recommended directions for staff to use when preparing the 2019 Business Plan and Budget based on an analysis of current or anticipated economic conditions, planned service levels, policy changes and other factors influencing 2019 revenues and expenses. Since then, operational departments have been busy preparing work plans and reviewing their budgets to ensure the recommended Business Plan and Budget that will be presented for approval in January reflects the direction given by Council.

Beginning with the 2017 budget booklet, staff have been producing a service based budget which seeks to help the reader understand the relationship between the services the City provides and the costs for those services. There is an evolution in the budget process underway that, over time, will move the City through a service based budget to a performance budget with robust measures of performance on clear service level definitions including desired service level and quality. The 2019 budget will continue this evolution with enhanced connections between services and costs, more analysis of the incremental costs required to effect service level changes and increased reliance on performance data such as the measures produced by the Municipal Benchmarking Network of Canada. The end goal is a fully costed business plan that aligns with the longer term direction the City desires and ultimately builds trust and confidence in Municipal government.

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 2019 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 2019 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/or non-tax revenues so that the level of taxation in 2019 produces no more than a 3.5% property tax increase over 2018 taxation levels with options that describe required adjustments that would result in property tax increases of 3% and 2.5%.

Status Update

Staff are continuing to review the operating budget, and more work remains before they will be ready for consideration by the Finance and Administration Committee. As in prior years, there are significant budget pressures such as anticipated reductions in federal and provincial funding, increased WSIB premiums, energy costs and contractual obligations. Recall that the base budget simply updates the costs associated with providing existing levels of service. Staff are navigating several significant pressures in 2019 just to maintain the level of service provided. These items place upward pressure on the net tax levy.

Provincial and Federal Funding –With the recent change in Provincial government, the City has experienced reductions in funding, specifically the Social Housing Apartment Improvement Plan and GreenOn programs for Housing Services. Housing Services is also experiencing a reduction in their federal funding used to support Rent-Geared-to-Income housing. These funding reductions put added pressure on the taxation levy.

Fleet – The City continues to incur increased maintenance costs due to an aging fleet of vehicles, equipment and transit busses. The Asset Management Plan as produced by KPMG indicated an immediate \$8 million dollar capital requirement to replace vehicles/equipment that are beyond their useful lives. This compares unfavourably to the capital budget of approximately \$3.3M. As a result, maintenance costs continue to rise. City staff have identified several initiatives that contribute to controlling expenditures in this area in 2017, 2018, and 2019, namely parts inventory and parts quality improvement, a longer term asset management approach, reductions in the size of fleet and the purchase of new heavy vehicles to reduce the average age of equipment. Since implementing these initiatives the City has seen progress in controlling these expenditures.

Facilities – The City owns over 400 buildings with an estimated replacement cost of \$750M. The 2016 Asset Management Plan prepared by KPMG indicates that buildings with a replacement value of approximately \$260M are in need of immediate replacement. These older assets continue to be in use beyond their useful lives and are in need of attention and attract a large amount of maintenance resources. City staff will continue to look at rationalizing and monetizing facilities that can be removed without effects on service.

Minimum Wage Increase – The increase to minimum wage and other changes proposed in Bill 148, Fair Workplaces, Better Jobs Act 2017 continue to come into effect and have an impact on the taxation levy. The estimated impact for 2019 is approximately \$130,000 or 0.05% tax increase. The City is also experiencing the impact of Bill 148 on labour related contracts.

WSIB – Due to the presumptive legislation on Post Traumatic Stress Disorder and cancer, 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 2019, the impact is \$680,000 or 0.3% tax increase.

Sale of Recyclables – The City continues to experience the impact of the bans and restrictions imposed by China regarding the acceptance of recyclable material from North America. As a result of low demand, markets have become saturated which has forced the price of materials down. For this reason, the City is reducing the sale of recyclable material by nearly \$1.2 million. This is offset by a reduction in revenue sharing of 50%. The overall net impact to the tax levy is approximately \$600,000 or a 0.2% tax increase.

Energy Costs – The City continues to face pressures relating to the rising cost of fuel, natural gas, and hydro. The City will see some relief in hydro rates as they are only anticipated to increase by the rate of inflation, however the price of fuel continues to rise. At this point the fuel costs are approximately \$675,000 higher than the 2018 budget resulting in a 0.3% increase for the 2019 levy. Currently, there is

little to no direction from the Provincial Government on the elimination of the cap and trade program which will have an impact on energy costs.

Winter Control – Over the past few years, the City has seen a change in the type of winter events. In past years, the City has experienced a number of freezing rain events combined with higher than average snowfalls. To address this matter, City staff will continue to monitor these types of events and will budget for winter control costs on a 5 year rolling average of winter activities.

Direction - Resolution Two: THAT the City of Greater Sudbury directs staff to develop the 2019 Capital Budget based on an assessment of the community's highest priority needs consistent with the application of 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 asset failure if a project is not undertaken;
- e. Cost of deferring projects.

Status Update

Staff are currently developing the 2019 Capital Budget based on the direction earlier this year whereas it will be based on an assessment of the community's highest priority needs consistent with the application of criteria relating to:

- 1) Strategic Priority
 - a) 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 – determine if the project has a shared vision with a community organization
 - d) Societal/Qualitative ROI – assess the impact enhancing quality of life
- 2) Financial Considerations
 - a) Funding Opportunity/Confirmation - project funding and probability is scored
 - b) Financial ROI – the level of savings or future cost avoidance
- 3) Risk Management
 - a) Legislative Requirement – determine legislative requirements and potential mitigation
 - b) Health and Safety – assess the impact on citizen and employee safety
 - c) Risk Exposure – assess the probability and consequences of failure of the asset
- 4) Asset Renewal/Restoration
 - a) Life-Cycle Costing Link – determine if interventions are being completed at the right time
 - b) Service Level Impact – what will the impact be on service level
 - c) City Footprint – will there be a reduction in assets
 - d) Environmental ROI – impact of the project on carbon footprint or other environmental return

A team of staff with experience in capital planning and budgeting are reviewing submissions with an enterprise wide tool that will place all capital budget proposals in rank order for ELT's consideration in

October. ELT will make judgements using the advice from the capital prioritization team and recommend a list of capital projects for funding. Funding sources will be applied and funds will be committed to all projects in the year they are required. 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. In the end, Council retains the ability to review staff's judgement and amend capital priority as a part of their budget deliberations.

The above criteria principles will result in a change to the City's capital budget policy and processes where the majority of the existing capital envelopes will be consolidated into one and will be used to fund projects determined to be the City's highest priority needs as the City continues towards a full asset management approach.

Staff are also proposing a capital levy of 1.5% this year. The City is facing significant requirements for maintaining existing City assets including roads and facilities such as 199 Larch St., Public Works Depots, Tom Davies Square, L.E.L. Centre, EMS and Fire Halls.

Staff remain vigilant about monitoring opportunities for funding from third parties, especially the provincial and federal governments. Where the funding program criteria match the City's planned project requirements, funding from senior governments could reduce, but not eliminate, the reliance on debt financing.

Direction - Resolution Three: 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 increases not to exceed 7.4%, subject to further review following completion of an updated long-term financial plan for Water/Wastewater services in the third quarter or 2018.

Status Update

Water and wastewater services have a financial plan that anticipates a 7.4% rate increase. Staff's work on the 2019 rate budgets anticipate that rate increases will apply to 2019 fees, consistent with the budget direction Council provided in May. The 7.4% increase in rates translates into an anticipated additional \$3.4 million allocated to Water Wastewater capital projects.

Direction - Resolution Four: 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. The application of the means-based fee policy approved in the second quarter of 2018;
- d. Development of new fees for municipal services currently on the tax levy.

Status Update

Every year staff review their existing user fees to determine if the fees provide an acceptable level of 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.

Direction - Resolution Five: 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 2019 Budget Document;
- b. Any business case with a value of \$50,000 or less be incorporated into the base budget where the Executive Leadership Team supports the change, with a summary of such changes disclosed to Council;
- c. Any business case Council directs to include for consideration that is not recommended by ELT be presented in the 2019 Budget Document regardless of its value.

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.

The ELT will be reviewing each of the business cases for quality, completeness and to assess their relative priority. 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. Business cases that have a levy impact below \$50,000 and are approved by ELT will be incorporated into the base budget and detailed for the Committee in the Budget Document.

A number of business cases are currently under development that would meet the Committee's direction in resolution 1 (e) above, and would adjust service levels in a way that would reduce the proposed tax levy increase. Staff will recommend to the Finance and Administration Committee a number of these business cases with the intent of including a greater number of enhancements and/or decreasing the tax levy increase below 3.5%.

Direction - Resolution Six: THAT the City of Greater Sudbury requests its Service Partners (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 “2019 Budget Direction” from the General Manager of Corporate Services, presented at the Finance and Administration Committee meeting on May 15, 2018, when preparing their 2019 municipal funding requests including options that describe required adjustments that would result in a property tax increase of 3% and 2.5%.

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 2019 budget presentations to the Finance and Administration Committee in February, 2019.

2018 Year End Projected Results

The 2018 year end projected results are on track with the status of the CAO’s 2018 performance objectives as described in Appendix A. The City is projecting a deficit of \$2.2 million based on the results as of June 30th, 2018. Significant pressures on the 2018 year end are as follows:

- Roads winter maintenance and above average snowfall throughout the year is anticipated to cost an additional \$1.25 million.
- Estimated costs associated with the cleanup of the unanticipated storm on July 9th are anticipated to be \$950,000.

Departments have been continually working to mitigate this potential deficit. Staff will continue to implement measures to reduce expenditures wherever possible in order to further reduce this deficit. The City’s projected net year end position will result in a draw from the Winter Control Reserve Fund and the Tax Rate Stabilization Reserve in accordance with the Reserve and Reserve Fund by-law.

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 properly allocated to departments, while maintaining approved service levels, as well as preparing business cases for service level adjustments which would assist the Finance and Administration Committee in including enhancements or decreasing the tax levy increase below 3.5%.

Appendix A: Status of 2018 Performance Objectives

Leadership & Governance

The intended outcomes of these objectives are, generally, to create and maintain an internal environment in which people can become fully involved in achieving the organization's objectives. They have an enterprise-wide impact. Leadership establishes a singular purpose and direction, "clears the path" and demonstrably supports changes necessary for improvement.

Objective	Status at July 10
<p>1. Deliver policy advice for:</p> <ul style="list-style-type: none"> - A corporate Customer Service Strategy 	<p>Underway. <u>Customer Service Issues and Principles</u> report presented to Finance & Administration Committee at its April 17, 2018 meeting. The issues were identified as those that an enterprise-wide customer service strategy needs to address, while the principles are those that should be used to guide the development of such a strategy. Work on the strategy is ongoing and includes a review of the corporation's Customer Relationship Management software. As described at the September 11 Council meeting, the strategy will be reported to Council in November.</p>
<ul style="list-style-type: none"> - Information Technology Strategy 	<p>Complete. <u>IT Strategic Plan</u> report presented to City Council at its June 26, 2018 meeting, following an update first presented to the Finance & Administration Committee March 20. The strategy will guide technology investment decisions and transform the IT department from a cost centre to a value-added service delivery partner. Council and residents will see a transformation to service delivery that emphasizes digitizing city services and follows a set of principles that focus on outcomes for residents.</p>
<ul style="list-style-type: none"> - A new, enterprise-wide approach for Managing Assets, Capital Planning and Budgeting 	<p>Underway. <u>Asset Management Program</u> report presented to Finance & Administration Committee at its April 17, 2018 meeting. Staff presented a status report and plan to develop and implement the City's Asset Management Plan in accordance with the new provincial regulations. Capital Planning and Budgeting process changes were developed and are being implemented as part of the 2019 Budget process, as described in the <u>2019 Budget Directions</u> report presented to Finance & Administration at its May 15, 2018 meeting.</p>
<p>2. In collaboration with the Auditor General, develop an Enterprise Risk Management framework and related processes for the organization's continued use.</p>	<p>Complete. A report recommending an enterprise risk management policy was approved by City at its September 11, 2018 meeting. The CAO and ELT are now responsible for developing administrative processes, staff training and public reports. This work is underway.</p>

Appendix A: Status of 2018 Performance Objectives

Strategy & Planning

The intended outcomes of these objectives are, generally, to create and maintain an understanding about our key functions and the value they provide. There is a shared view of the direction we are taking, a common understanding of the risks we are managing and methods in place for regularly assessing our performance. They may create enterprise-wide impacts, but at a minimum are expected to have a significant impact on parts of the organization.

Objective	Status at June 30
3. Achieve planned milestones for organizational change initiatives:	
- Annual work planning	Underway. All divisions are using a tool introduced on a pilot basis in 2017 to document planned service efforts and workload requirements, with an emphasis on interdepartmental collaboration needs.
- In-year performance and accountability reporting	Underway. <u>New monthly reports</u> are published to profile 311 performance and other municipal services, with a focus on routine operations. Economic Development staff also introduced a bimonthly Community Economic Indicators report to highlight economic statistics that help support fact-based discussions about community economic performance.
- New Council orientation	Underway. Staff are designing an orientation process based on research, peer reviews, interviews with councilors and collaboration with ELT. It will be ready for use in the fourth quarter.
- Reserve and Reserve Funds Policy review	Underway. With changes to capital budgeting processes, it is reasonable to expect changes in the corporation's use of reserves and reserve funds. Staff are preparing a report for Council's approval to recommend changes in the structure of the corporation's reserves and reserve funds.
- Multi-year budgeting process	Underway. Staff included a two-year outlook, as described in the <u>2019 Budget Directions</u> report presented to Finance & Administration at its May 15, 2018 meeting, as a first step in developing a multi-year budget.
4. Complete preparations for the development of a new corporate Strategic Plan for the 2018-2022 Council term that enables Council to develop a detailed strategy and implementation plan that connects with the organization's mission, vision and values.	Underway. Staff are developing information and designing a process to support the next Council's strategic planning work, anticipating completion of a strategic plan by the end of the second quarter of 2019. A report describing the approach staff is using for this work was presented to Council at its August 14, 2018 meeting.
5. Responding to the Call to Action of the Truth and Reconciliation Commission, prepare a plan for strengthening	Underway. Staff are working with Shkagamik-Kwe Health Centre and its Executive Director, Angela Recollet, to produce a plan that continues the evolution of the corporation's, and the

Appendix A: Status of 2018 Performance Objectives

Objective	Status at June 30
municipal-Indigenous relations designed to achieve a range of objectives, including identifying areas of interest, the potential to create shared initiatives in community development, service delivery or environmental stewardship.	community's, efforts to strengthen municipal-Indigenous relations.

Customer Experience

The intended outcomes of these objectives are, generally, to ensure we have stakeholder needs in mind when designing and delivering our programs and services and that we are responsive to feedback about our performance, or to changes in stakeholder needs.

Objective	Status at June 30
6. Ensure outputs from routine operations are supported by service level descriptions, workplans and key performance indicators so that we clarify the relationship between service levels and costs required to produce them.	Complete. The <u>2018 Budget</u> approved by Council December 12, 2017 has been augmented by new monthly reports profiling 311 performance and other municipal services, with a focus on routine operations. <u>It was recognized by the Government Finance Officers Association of North America with a "Distinguished Budget Presentation Award"</u> . Similarly, the <u>2017 Annual Report to the Community</u> presented to Council April 10, 2018 highlighted service outcomes in an easily understood, graphical format to illustrate the relationship between taxes paid and results produced. Staff support these accountability reports through new internal work processes designed to formalize plans and reduce the risk of resource conflicts
7. Achieve the planned milestones for the following projects: - Corporate website redesign phase II - Land Property Management System - Downtown parking solutions including pay-by-plate technology - Automated Water Meter Infrastructure	<u>Website Redesign Phase II: Complete</u> , report to Finance & Administration published for its July meeting <u>Land Property Management System: Underway</u> , project charter and staff team being assembled <u>Downtown Parking: Underway</u> , report to Finance & Administration published for its July meeting <u>Automated Water Meter Infrastructure: Complete</u> , report to Finance & Administration Committee April 17, 2018
8. Produce a Community Engagement Strategy and related staff guidelines to strengthen the organization's capacity for connecting with interested stakeholders	Underway. Staff introduced "Over to You", a new online community engagement portal on the corporation's website to promote two-way communication about various projects and matters of community interest. A new administrative model for supporting Community Action Networks was rolled out to universally positive feedback from CAN members. Guidelines for staff to develop consistent, regular engagement activities in their projects are under development.

Appendix A: Status of 2018 Performance Objectives

People Engagement

The intended outcomes of these objectives are, generally, to demonstrate we operate in a safe environment where staff expertise is valued and staff feel like they have a role to play in the organization's performance.

Objective	Status as at June 30
8. Report on the results of plans that respond to 2016 employee survey feedback and initiate a 2018 employee survey to assess the current state of employee views and attitudes.	Underway. 2018 employee survey launched June 19; preliminary results are under review by ELT. Directors shared results of plans developed in response to the 2016 employee survey with their staff in advance of the 2018 survey launch. All 2016 survey action plans are available on CityLinks for anyone to review. Responses to the 2018 survey feedback will also be reported on CityLinks when they are developed.
9. Continue the evolution of the corporation's management systems, ensuring they reflect the organization's values, policies and performance metrics, providing a basis for ELT to actively manage both organizational health and organizational performance. For 2018 this includes, in collaboration with the entire leadership team:	
- Reviewing the Organizational Mission, Vision and Values	Not started. This work will commence with ELT in the third quarter.
- Continuing the development of a high functioning, aligned executive team whose members share a passion for what they do and collaborate to achieve organizational objectives	Underway. ELT meets weekly to review specific reports and recommendations prepared by Directors that advance the corporation's change efforts. ELT also reviews all presentations to Committees and City Council to ensure all collaboration opportunities and connections amongst various issues are proactively identified and managed.
- Creating clarity about the top collective priorities of the organization and how every individual in the organization contributes to achieving them	Underway. A 2018 Workplan poster was created and distributed throughout the corporation to ensure all staff could see the CAO's performance objectives and have an opportunity to understand how their contributions fit into corporate service efforts. On a monthly basis, ELT and all Directors meet and discuss issues of common interest with the purpose of, among other outcomes, ensuring alignment exists among the leadership team
- Improving communication about a clear plan for success and celebrating and rewarding accomplishment	Underway. More emphasis in the annual Service Awards event will be placed on noteworthy outcomes and service efforts, not just years of service.

Process & Project Management

The intended outcomes of these objectives are, generally, to establish standards for key processes and demonstrate that they are efficiently and effectively delivered. Performance improvements, where required, are identified and sufficient resources are assigned to address them.

Appendix A: Status of 2018 Performance Objectives

Objective	Status at June 30
11. Continue to implement Council directions regarding the development of its four “Large Projects” so that Council’s desired outcomes are realized, performed at a pace that has been generally described as “working at the speed of business” and understood to mean that work should proceed without delay as quickly as possible.	Underway. City Council has received monthly status updates that are also available via the corporation’s website. Work proceeds on schedule for all four projects.
12. Achieve desired results for the following key capital projects:	
- Elgin Greenway/Brady Green Stair	Underway. All key capital projects are on time and on budget
- Maley Drive	
- Tom Davies Square Courtyard	
- Public Transit Infrastructure Fund projects	
- Community Water Wastewater Fund projects	

Partners & Suppliers

The intended outcomes of these objectives are, generally, to recognize that key partners and suppliers are an extension of what our stakeholders receive from us, so they are integral to our success. We actively manage key relationships and measure their performance so that they positively contribute to outcomes and take corrective action, where required.

Objective	Status at June 30
13. Review and recommend changes to the corporation’s General Terms and Conditions for Council’s approval.	Underway. Staffing changes in Legal Services could produce a delay in this work. Currently, it is scheduled for completion in Q4.
14. Review and recommend changes to the corporation’s Purchasing Bylaw for Council’s approval.	Underway. A bylaw for Council’s approval is part of the September 25 City Council agenda. It responds recommended changes from the Auditor General’s findings and reflects staff’s judgment about changes to the Purchasing Bylaw that reflect appropriate, contemporary practices