

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%.