

For Information Only

2018 Budget Update

Presented To: Finance and
Administration
Committee

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Resolution

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Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

Report Summary

This report provides the Finance and Administration Committee with a status update on each of the 2018 budget directions received on May 16, 2017.

Financial Implications

There are no financial Implications associated with this report.

Signed By

Report Prepared By

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Division Review

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Financial Implications

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Background

On May 16, 2017, the Finance and Administration Committee recommended directions for staff to use when preparing the 2018 Business Plan and Budget based on an analysis of current or anticipated economic conditions, planned service levels, policy changes and other factors influencing 2018 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 December reflects the direction given by Council.

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 2018 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 2018 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, work pressures and/or non-tax revenues so that the level of taxation in 2018 produces no more than a 3.5% property tax increase over 2017 taxation levels; and
- f. That staff be directed to develop and present business cases for committee's consideration that illustrates a combination of service adjustments or fee changes that produce reductions to the taxation change in (e) in 0.5% increments from 3.5% to 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 reduced OMPF, increased WSIB premiums, wage and benefit increases, energy costs and general inflation.

Provincial Funding – The City is projecting a continued decline in Ontario Municipal Partnership Funding (OMPF). OMPF is the Province's main unconditional transfer payment to municipalities that primarily supports rural and northern communities in recognition of their unique challenges. The 2018 announcement is anticipated in November of this year. Until the announcement has been made the City is anticipating a 2018 allocation at 92% of that received in 2017. This translates into a loss of revenue of \$1.9 million or a 0.8% tax increase. The City continues to explore efficiencies to reduce this impact 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 \$2.7M. As a result, maintenance costs continue to rise. City staff have identified several initiatives that will contribute to controlling expenditures in this area in both 2017 and 2018, 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.

Facilities – The City owns over 400 buildings with an estimated replacement cost of \$750M. The Asset Management Plan 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 will have an impact on the taxation levy. Until this legislation receives Royal Assent and is enacted into law the impact to the net levy cannot be clearly identified. An estimate using current assumptions results in an impact of approximately \$400,000 or a 0.2% tax increase.

WSIB – Due to the presumptive legislation on Post Traumatic Stress Disorder and cancer, WSIB premiums continue to increase for Police, Fire and EMS. For 2018, the impact is \$770,000 or 0.3% tax increase.

Blue Box Funding – Under the Resource Recovery and Circular Economy Act, 2016, the producers of blue box material are required to manage the collection, processing, and reintegrating residential paper products and packaging into the economy. The minister has since directed the Resource Productivity and Recovery Authority (formerly Waste Diversion Ontario) and Stewardship Ontario to develop a plan for the transition of blue box material by February 2018. It is anticipated that the City should see a positive impact of the new legislation in 2-3 years.

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 for some smaller municipally owned properties as they qualify for the reduction under the Ontario Fair Hydro Plan. However rates are still anticipated to increase by the rate of inflation.

Direction - Resolution Two: THAT the City of Greater Sudbury directs staff to develop the 2018 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. Identify 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 finalizing the 2018 Capital Budget based on the direction provided which will include MR 35, Elgin Greenway, and the Capreol CIP projects.

Staff are also proposing a capital levy of 1.5% this year. The City is facing significant requirements for maintaining existing City 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 our planned project requirements, funding from senior governments could reduce, but not eliminate, our reliance on debt financing.

Staff are working on a strategic session for Council responsive to a Motion by Councilors' Landry-Altman and Reynolds at the January 16th Operations Committee. This session would inform Council of a new approach to managing risk and service impacts in asset investment decisions and in future capital budgets. This Asset Management Approach will lead to changes in the City's capital budget policy and related processes for prioritizing and budgeting for capital expenditure. It is anticipated that this strategic session will take place in October 2017, staff are currently searching for dates for this session. An agenda will be distributed once the dates have been finalized.

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 as current service levels, based on anticipated workloads;
- b. The cost associated with legislative changes and requirements;
- c. The cost associated with growth infrastructure operated and maintained by the City;
- d. Rate increases identified in the Water/Wastewater Financial Plan that requires a 7.4% increase;
- e. Opportunities to reduce operating expenses that would allow for more funding towards capital;
- f. A reasonable estimate for consumption.

Status Update

Water and wastewater services have a financial plan that anticipates a 7.4% rate increase. Staff's work on the 2018 rate budgets anticipate that rate increases will apply to 2018 fees, consistent with the budget direction Council provided in May. The 7.4% increase in rates translates into an additional \$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 fixed assets, net of any subsidy approved by Council;
- b. Increased reliance of non-tax revenues;
- c. 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 to allow Council to Consider each Business Case on a case-by-case basis;

AND THAT any business case request from Councillors must be approved by resolution of Council to be incorporated into the 2018 Budget Document;

AND THAT any business case below \$50,000 (purchasing threshold) be reviewed, and those recommended by ELT be incorporated into the base budget and detailed for Council.

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 base-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.

Currently there are 75 business cases submitted for consideration, totaling \$20 million. A number of additional business cases are currently under development that would meet the Committee's direction in resolution 1 (f) 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 (Greater Sudbury Police Services, Nickel District Conservation Authority, and Sudbury and District Health Unit) to consider the directions in resolution one of the report entitled “2018 Budget Direction” dated May 2, 2017 from the General Manager of Corporate Services when preparing their 2018 municipal funding requests.

Status Update

The outside boards have been requested their 2018 budget presentations to the Finance and Administration Committee on November 7, 2017.

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%.