

Request for Decision

2018 Budget Direction

Presented To: Finance and
Administration
Committee

Presented: Tuesday, May 16, 2017

Report Date Tuesday, May 02, 2017

Type: Managers' Reports

Resolution

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 considers:

- 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 in 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.

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.

Signed By

Report Prepared By

Liisa Brule
Coordinator of Budgets
Digitally Signed May 2, 17

Division Review

Ed Stankiewicz
Executive Director of Finance, Assets
and Fleet
Digitally Signed May 2, 17

Recommended by the Department

Kevin Fowke
General Manager of Corporate
Services
Digitally Signed May 2, 17

Financial Implications

Ed Stankiewicz
Executive Director of Finance, Assets
and Fleet
Digitally Signed May 2, 17

Recommended by the C.A.O.

Ed Archer
Chief Administrative Officer
Digitally Signed May 3, 17

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 in 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 of water consumption.

Resolution Four:

THAT the City of Greater Sudbury directs staff to provide recommendations for changes to user fees that reflect:

- 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 revenue;
- c. Development of new fees for municipal services currently on the tax levy.

Resolution Five:

THAT the City of Greater Sudbury directs staff to present any service enhancements, changes in services, 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 the 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.

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.

Resolution Seven:

THAT the City of Greater Sudbury approves the proposed 2018 Budget Schedule in Appendix B of the report entitled "2018 Budget Direction" dated May 2, 2017 from the General Manager of Corporate Services;

AND THAT the City of Greater Sudbury approves cancelling all other meetings the week of December 4, 2017 as detailed in the report to allow sufficient time for budget deliberations.

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

Report Summary

This report provides an overview of the 2018 Forecast budget, as well as a request for direction for the 2018 budget process.

Financial Implications

If approved, staff will prepare the 2018 operating budget, capital budget, and Water/Wastewater rate increase based on direction received from the Committee.

Executive Summary

The purpose of this report is to provide the Committee with:

- a) A description of the proposed 2018 Budget development process including a schedule that anticipates Council's approval of the 2018 Operating Budget, Capital Budget and User Rate Budgets by December 12, 2017,
- b) A preliminary assessment of factors influencing the municipality's 2018 Operating, Capital and User Rate Budgets, and
- c) An opportunity to provide direction regarding the development of the draft 2018 Budget.

The 2018 Budget process will follow the same format of the 2017 process. Similar to 2017 the emphasis will be on describing plans and priorities with financial information presented at a summary level, sufficient for Council to consider its strategic intent and expected outcomes. 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 no later than October 10, 2017 so that the Finance and Administration Committee can consider these along with the City's budget at its December 5, 2017 meeting.

Staff prepared revenue and expenditure projections which were, in part, determined by decisions approved in the 2017 Budget process and that reflect anticipated revenues and costs associated with maintaining current service levels. These projections are presented to support the Committee's decisions regarding acceptable parameters for setting 2018 Budget directions. They are based on current information and are not final. These estimates will change as 2018 Budget submissions are completed.

Preliminary Financial Forecast

	2018 Forecast %
Tax Levy Increase	4.3
Less: Impact of Assessment Growth	(0.8)
Forecasted Municipal Tax Increase	3.5%
Tax Increase Consists of:	
Provincial Mandated (including loss of OMPF Revenue)	1.0
Municipal Services (net of assessment growth)	1.3

Capital	0.3
Outside Boards	0.9
Forecasted Municipal Tax Increase	3.5%
Annual Impact to the Homeowner*	\$97

*The municipal tax impact is calculated on a property in the former City of Sudbury with a Current Value Assessment of \$232,000.

Revenues are projected to increase by approximately \$3 million primarily due to an increase in user fee rates for water and wastewater and other fees. This is partially offset by an estimated loss in OMPF of \$1.9 million and a reduction in investment income.

Operating expenditures are projected to increase by \$13.6 million (2.5%). The primary cost drivers are salary 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 Council can consider them on their individual merits and decide whether to include them in the 2018 Budget.

The net result of the change in expenditures and revenues translates into a levy increase of \$10.8 million. When assessment growth of 0.8% is factored, the projected tax increase is 3.5%.

Staff are currently reviewing the capital budget policy with the intent of reallocating capital funding to where it is most required. ELT is currently reviewing principles and criteria in attempt to address critical needs and growth related priorities. The 2018 capital budget plan will be brought forward to Council prior to the 2018 budget.

Background

Property Taxes and Household Income

The 2016 BMA 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 3.6% of household income is required to support payment of property taxes. The BMA average is 3.6% and the median is 3.7% for municipalities over 100,000 in population.

Financial Projection for 2018

The information contained in this report is based on factors that Finance and the operating departments know as of today, and will be refined before the budget document and the final projections are made to Council in November 2017.

The following financial forecasts are based on delivering the same level of service that

is currently in place for the City of Greater Sudbury, and the following assumptions and key highlights:

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 2018 ranging from 2.1% to 2.3%.

The rate of 2.0% has been used for the 2018 forecast. For 2018, the 2% inflation on non-contractual obligations is approximately worth \$1.6 million or 0.6% tax increase.

2. The price of crude oil has been trading in a range from \$48 to \$56 per barrel. United States and world oil inventories continue to be at elevated levels providing no further upward pressures on the price of crude. For that reason, staff are projecting unleaded and diesel fuel prices at \$.90/litre. The financial impact of fuel costs on the City would be approximately \$270,000.

The Ontario Fair Hydro Plan being introduced in summer 2017 will provide a 25% reduction in Hydro bills for residential customers. Some smaller municipally owned properties qualify for this reduction. This represents an approximate \$750,000 reduction to the City. The plan also states that rate increases will be held at the rate of inflation for the next four years. For that reason, staff have used a rate of 2% for 2018. Increased utilization has also impacted the overall budget for Hydro resulting in a net increase of \$760,000.

3. Overall, salary and benefits have been increased based on the CUPE 4705 Inside and Outside contracts.

Increases in health benefits, short and long term disability premiums are estimated to cost the City an additional \$1 million in 2018, or approximately a 0.4% levy increase. The City is currently anticipating results from a benefit provider RFP. Updated information for this will be reflected in the 2018 base budget.

In addition, due to presumptive legislation on Post Traumatic Stress Disorder and cancer, WSIB premiums have significantly increased for Police, Fire and EMS. The total impact is \$770,000.

In total, salaries and benefits account for a \$5.5 million increase over the 2017 budget.

4. Generally, user fees have been increased by the estimated 3.0% for 2018 in accordance with the Miscellaneous User Fee Bylaw.
5. Water/Wastewater, Cemetery, 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 2.0% for 2018 in accordance with the Capital Policy, which calls for the greater of 2.0% or the first quarter increase in the Non-Residential Building Construction Price Index. This index is currently under 2%, therefore, a 2% increase will be used. The impact of the 2.0% to the 2018 budget is approximately \$700,000 and represents 0.3% increase to the net levy.

7. Revenue from supplementary taxation has been flat lined based on previous years history.

Investment income has been reduced by \$200,000 as interest rates are still relatively low and the bond market so far for 2017 has not been as volatile as prior years. Even with this reduction, the budget includes \$200,000 anticipated from capital gains.

8. For 2017, staff are taking a conservative approach to OMPF funding and projecting a potential loss of \$1.9 million or 0.8% of the levy. A more detailed explanation of the OMPF is contained in the latter part of this report.

9. Preliminary estimates for the outside Boards: Nickel District Conservation Authority (2% increase) Sudbury and District Health Unit (2% increase). During the approval of the 2017 operating budget for Police Services, the board also approved a budget forecast for 2018 and 2019. The 2018 forecast, which includes an additional annual provision to fund the Facilities Improvement Plan, reflects a 3.9% increase over the 2017 approved budget. The total estimated impact for all three outside boards over 2017 is \$2.3 million.

Impact of the Ontario Municipal Partnership Grant (OMPF)

The 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 Province has committed to continue to work closely with municipalities to review feedback, present options and analysis based on the feedback.

Staff do not anticipate the Province will be varying from its current practice of allocation of the OMPF based on the municipality's fiscal health. The criteria used to determine fiscal health relates to such items as weighted assessment per household and median household income as the primary indicators and new construction and employment issues as secondary indicators. Fiscal health of a community ranges from 0 (strong) to 10 (weak). The City of Greater Sudbury rating is 3.6, which indicates relatively strong fiscal health.

The Municipal Fiscal Circumstances Index that determines the fiscal health of a municipality has used trailing indicators in the past such as data received from the 2011 Census. For the 2018 OMPF, the 2016 Census data will be used and should not reflect a

major variance in the City's fiscal health. As a result, staff are using a conservative estimate for loss of OMPF funding. This forecast reflects 92% of the 2017 OMPF allocation for 2018. This translates into a loss of \$1.9 million or 0.8% tax increase.

Assessment Growth

For this forecast, an estimated assessment growth of 0.8% has been used. This is consistent with the growth in assessment seen in 2016. It is difficult to project assessment growth as new construction is also offset by demolitions and other tax write-offs. It should also be noted that not all construction is subject to taxable assessment. Construction in underground facilities is not subject to taxation. In addition, manufacturing and processing properties would not be 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 0.8% growth each year would have to generate an increased weighted assessment of approximately \$160 million over the current assessment of over \$20.0 billion. This number 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. Council will be kept apprised of assessment growth through the budget variance reports, which will report on the supplementary taxation rolls received from MPAC.

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 in 2016 and 2017. In order to achieve this plan, Council should consider continuing with this rate increase which has been incorporated in this forecast.

Service Partners

Once the Committee provides budget direction to staff, a final letter will be sent requesting the Outside Boards 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. In light of the budget pressures facing the City, staff will request Outside Boards minimize any budget increases to ensure costs reflect Council's expectations for affordable property taxes.

2018 Budget Schedule

The 2018 budget schedule has been attached for the Committees review in Appendix A. The budget schedule reflects a similar process as the 2017 budget and also incorporates changes as reported to the Finance and Administration Committee on April 12, 2017. As discussed in that report, staff have identified three consecutive dates

for budget deliberations (December 5th, 6th, and 7th, 2017) if needed. In order to accommodate these budget meetings in advance of the final Council meeting in December, staff are seeking Council's approval to cancel or reschedule the following meetings:

- Operations Committee – December 4, 2017 at 3:00pm
- Community Services Committee – December 4, 2017 at 6:00pm
- Emergency Services Committee – December 6, 2017 at 4:00pm
- Hearing Committee (tentative) – December 6, 2017 at 6:00pm

Summary

This budget forecast is based on the best estimates available at this time. As the time progresses, these estimates will be refined and form part of the draft 2018 Base Budget. The services we provide 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 of 7.4%.

2018 Budget Schedule

2018 Budget Direction Preliminary Forecast of Operating and Capital Budgets and Water/Wastewater Rate Increase	May 16, 2017
Community Consultation Session <ul style="list-style-type: none"> • On-Line Submissions 	Summer 2017
Update Meeting	September 19th , 2017
Table Budget Document 2018 Operating and Capital Budget Overview Presentation (CAO & CFO) Presentation from Outside Boards (tentative)	Tuesday, November 7, 2017 4:00 p.m. – 9:00 p.m.
Budget Meeting <ul style="list-style-type: none"> • Review and approve Operating and Capital Budgets and Water/Wastewater Rates • Three consecutive meetings have been scheduled 	December 5 – 7th, 2017 6:00 p.m. – 9:00 p.m.
City Council Approval of 2018 Operating and Capital Budget	Council Meeting Tuesday, December 12, 2017
Approval of 2018 Property Tax Policy	April 2018