BUDGET OVERVIEW

Ramsey Lake

BUDGET OVERVIEW

The 2019 City of Greater Sudbury Budget is the City's business plan for the year. It describes the costs and revenues associated with delivering municipal services and enables residents to build an understanding about how taxes are used to acquire new infrastructure, repair existing assets and provide daily services that significantly impact the quality of life in Greater Sudbury.

The details in this document focus on the relationship between services, service levels and costs and depict the process required to achieve the organization's strategic goals. It incorporates benchmarks to facilitate understanding and provide context about Greater Sudbury's performance compared to other municipalities and, in doing so, emphasizes the value the City places on the delivery of quality, reliable and consistent services to residents.

The Budget has three objectives:

- To strengthen understanding of the relationship between services, service levels and cost.
- To engage City Council throughout the budget development process.
- To improve public engagement opportunities by sharing information with the public.

The budget document describes the municipality's operating environment and general financial condition. Standard business plans for each service area describe performance objectives, the services they provide, key issues and opportunities, and 2019 deliverables. Financial information that includes historical comparisons provides context.

The 2019 document also includes key performance indicators to demonstrate impact, and how the City of Greater Sudbury compares to other municipalities. This helps illustrate the effect that changing one element (cost or revenues) can have on the other (services and/or service levels).

The Capital Budget represents a $117 million investment in municipal assets. The majority of these funds will be invested in roads, environmental services, leisure, facilities, fleet, information technology, and water/wastewater infrastructure. This is essential in addressing infrastructure renewal requirements and ensuring the long-term sustainability of our community.

This budget also focuses on applying tools and methods to identify productivity improvements, which will lead to ongoing affordability:

- Developing and using tools, such as inter-municipal performance benchmarks, to ensure we are delivering services as efficiently and effectively as possible.
- Establishing processes, such as long-range financial planning, to ensure we understand the long-term implications of investment opportunities.
- Improving internal processes, policies and information management systems to work as productively as possible.

Defining Services and Understanding Service Alternatives

This budget uses cost allocation methods that help identify a service's full cost. This approach helps to:

- Identify improvements in operational processes, and program and service delivery.
- Understand service delivery implications of budget reductions or increases.
- Measure and compare service performance annually and in relation to other municipalities.
- Improve business planning processes, in particular to accurately identify capacity constraints and ensure the highest priority work receives sufficient attention.
- Provide clear, accurate information to residents about services.

Long-Term Financial Plan

The City completed a comprehensive Long-Term Financial Plan as identified in the Corporate Strategic Plan (2015-2018). The Long-Term Financial Plan was implemented to better understand the long-term impact of financial decisions made today. This work will help manage resources over the long-term and provide more flexibility to meet infrastructure renewal requirements while maintaining a manageable level of debt to support ongoing services and fiscal sustainability. The plan covers 10 years, 2018 to 2027, and incorporates projected funding requirements, tax levy increases, and reserve balances under the current financial model. Staff will be using this information as a benchmark for operating and capital budgeting and forecasting. The following additional financial strategies were highlighted:

1. Implementation of stormwater management fees.
   - Work will continue with the stormwater sustainable funding study in 2019 toward the implementation of fees targeted for 2021.
2. Use of alternative tax classes and adjusting property tax ratios.
   - The commercial and industrial subclass discounts were eliminated in 2018.

- The commercial and industrial vacancy rebate program will continue to be phased out over 2019 and 2020.

3. Capital financing: using debt to fund the infrastructure renewal/replacement requirement.
   - The use of debt was approved in 2018 for reconstruction on Lorne Street, improvements to Municipal Road 35 and the new Arena/Event Centre project.
   - Debt is proposed to be used in 2019 for refurbishment of a number of bridges in the Capital Budget.
   - More detailed information about debt financing can be found later in this section.
4. Introduction of a capital levy to fund the infrastructure renewal/replacement requirement.
   - For 2019 staff is recommending a 1.5 % special capital levy in the form of increased property taxes to be used on the roads infrastructure renewal requirement. This recommendation is consistent with prior years.
5. Infrastructure and service rationalizations: analyzing current service levels of arenas, community centres, playgrounds, roads, municipal fleet and others.
   - The City continued in 2018 to successfully sell properties deemed to be surplus.
   - The municipal fleet continues to be reviewed and vehicles were removed from the 2019 Budget.

The Long-Term Financial Plan incorporates key goals and objectives while being fiscally responsible and sustainable.

Measuring Performance

By measuring progress toward goals and objectives, key performance indicators (KPIs) build understanding about the delivery of municipal services, and provide context for decision making.

BMA Study

Each year, the City participates in the BMA Management Consulting Inc. (Ontario) municipal comparative study, more commonly known as the BMA Study. Data from the BMA Study is collected mainly from Financial Information Returns filed with the Ministry of Municipal Affairs and tax roll and assessment data provided by the Municipal Property Assessment Corporation (MPAC). The BMA Study provides comparisons of financial information, select user fees, tax policies and rates, sewer and water services, and taxes as a percentage of income. In addition, the City belongs to several industry-specific organizations, which collaboratively compile and analyze benchmarking data to determine service improvements.

MBNCan

The City joined the Municipal Benchmarking Network Canada (MBNCan) to share expertise and data about municipal services. The benchmarking network is designed to highlight opportunities for improving service performance and demonstrate transparency and accountability to taxpayers.

MBNCan collects data for 36 program areas and provides comparisons with municipalities across the country. Staff has access to a secure database of municipal performance data and to a network of peers that meet regularly throughout the year. The data provides staff the opportunity to identify opportunities for change, ask questions and learn from other municipalities to improve performance.

Through an annual process of collecting service performance data, Greater Sudbury's results can be compared with other communities across the country. Results are publicly reported in divisional business plans in the Operating Budget section of this document and on the City's website at www.greatersudbury.ca/MBNCan.

Operating Budget

The annual operating budget includes estimated operating expenditures and revenues required by the City to deliver service levels approved by Council. Increases to the operating budget are limited to contractual and legislated obligations, inflationary increases, and increased costs associated with maintaining current service levels.

While the overall increase is consistent with previous periods, the City is facing significant pressures in some areas:

- Assessment Growth: a low rate of change in the number of properties paying taxes exacerbates a long-standing challenge to address asset renewal requirements because costs increase over time, so leaving asset renewal projects unaddressed leads to higher operating costs and, ultimately, higher replacement costs.
- Provincial and Federal Funding: Recent changes in the provincial government resulted in a reduction of social housing funding, where service needs and asset renewal requirements remain high.
- WSIB Presumptive Legislation: New legislation related to the Workplace Safety and Insurance Board, including chronic mental health, puts additional financial obligations on the City.

CAPITAL BUDGET HIGHLIGHTS

Renewal

The renewal of infrastructure relates to existing infrastructure and other assets to maintain business as usual functions. Generally, it is focused on rebuilding or replacing existing assets that have reached the end of their useful lives, or on repairing and rehabilitating existing assets to extend their useful lives. Asset renewal maintains existing services and service levels. It does not, and is not designed to, address new capacity requirements or enhance service levels.

Key Deliverables

- Fixing roadways in our community remains one of the City's top priorities. The City continues to spend record levels on road infrastructure, from $32.8 million in 2009 to $103.4 million in 2018 (including the four-laning of Municipal Road 35 and reconstruction of Lorne Street) to $46.6 million in 2019. The 2019 roads budget includes various replacement and rehabilitation of arterials, collectors and local roads, such as York Street, Attlee Avenue, Dean Avenue, CKSO Road, and many others, as well as $15.6 million for repairs to various bridges and culverts, including the CNR Overpass on Falconbridge Highway and the Allan Street Bridge. In addition, the roads budget includes funding commitments for the Maley Drive Extension project, Municipal Road 35 and Lorne Street. All of these capital investments provide safer and smoother road infrastructure for residents to travel on.
- An increase in the Ontario Community Infrastructure Fund (OCIF) from $2.2 million per year in 2016 to a total of $19 million for the combined years of 2017 to 2019 will be spent on various road-related capital projects. The amount of OCIF funding for the 2019 Budget is $9.3 million (previously announced, but not yet confirmed), an increase from the 2018 grant of $6 million. The funds in 2019 will be used toward various arterial, collector and local roads such as York Street, and Main Street from Municipal Road 15 to the railway tracks. OCIF funds provide much needed investment into addressing the significant infrastructure renewal requirement relating to roads within our city.
- The 2019 Capital Budget includes investments in facilities of $4.5 million. This includes various projects at Tom Davies Square, fire halls and the transit/fleet garage. In addition, the budget includes the previous funding commitments for the Tom Davies Square courtyard renovations.
- The investment to Leisure Services in the amount of $4.3 million includes building upgrades at Howard Armstrong Recreation Centre of $1.5 million and Dowling Leisure Centre of $1.0 million. These improvements will enable residents to enjoy these recreational facilities for years to come.
- Projects at the Azilda and Sudbury landfill sites as well as the Recycling Centre total $3.4 million. These investments will enable the City to responsibly dispose and divert waste collected from residents and to protect the environment around the landfill sites.
- Significant capital investments in Water and Wastewater of $40 million is recommended in 2019. The investments include various watermain and sanitary sewer pipe replacements and rehabilitations, as well as improvements to water and wastewater plants, including wells and lift stations. These improvements ensure that residents continue to have safe and reliable drinking water and proper collection and treatment of wastewater.
- The 2019 Capital Budget includes investments in key information technology projects of $2 million which includes the Customer Relationship Management (CRM) system, the Land and Property Management system, and Meeting Management Solution. Each of these capital projects will provide direct benefits to the community through their interactions with the City for various requests and information.
- Staff is completing capital projects as a result of significant federal and provincial funding announcements that took place in 2016 and were reflected in the 2017 Capital Budget. The funding was used to improve roads, water, wastewater and transit, replacing aging assets and enhancing service quality for residents and transit riders through reconditioned roads, new water and wastewater pipes for decreased number of breaks, new transit buses, and improvements completed at the Transit Terminal building on Elm Street. The majority of these projects are required to be completed during 2019, with the exception of the Maley Drive Extension project that is expected to be completed by the end of 2022.
- The City has, and continues to, contribute $250,000 per year toward subwatershed studies, which will help to protect our environment by assessing the health of area waterways and making recommendations for their care.

- In addition, the City continues to contribute $800,000 per year toward cycling infrastructure. Investments in cycling infrastructure included the construction of the first segment of the Paris-Notre Dame Bikeway from York Street to Walford Road, to provide a signalized trail crossing of the Junction Creek Waterway Park at Regent Street, and to install pavement markings and signage for 16 kilometres of on-street cycling routes. Current and future funds will be allocated to a bike parking program and to complete the construction of the Paris-Notre Dame Bikeway, which is a multi-year construction project.
- The Asset Management Plan was presented to Council in December 2016. The plan shows the City had infrastructure renewal requirements of $1.9 billion at the end of 2016 and that requirements will grow to $3.1 billion by the end of 2026. The additional government funds announced in 2016 for roads, water/wastewater, drains/stormwater and transit will help in addressing requirements in their respective areas, however, facilities are also in need of replacements, renovations and improvements to bring them to a state of good repair. The majority of municipal buildings and facilities were constructed in the 1960s and 1970s and are at the end or close to the end of their estimated useful lives. These facilities include arenas, pools, fire and paramedic stations, public works depots and Tom Davies Square.
- The capital budget reflects staff's best judgment about enterprise-wide priorities. This means a team of experienced staff from across the organization collaborated to assess all capital budget requests against standard criteria. This assessment produced a ranked list of projects that the Executive Leadership Team reviewed and, following an analysis of financing options, recommended for Council's approval as part of the 2019 Budget.

ACCOUNTING PROCESS

Basis of Presentation

The City of Greater Sudbury uses fund accounting, a set of accounts dedicated to specific purposes, for management reporting purposes in the form of operating and capital budgets.

The operating fund is comprised of transactions relating to operational revenues and expenses such as grant revenues, user fees, salaries and benefits, materials, and purchased contract services. The operating budget funds the day-to-day operations of the City. The annual operating budget is in excess of half a billion dollars.

The capital fund is comprised of revenues and expenses relating to capital projects, as approved in the capital budget. These accounts are maintained until projects are complete, which can be over multiple years.

Basis of Accounting

The City of Greater Sudbury uses the modified cash basis of accounting for budgeting purposes, in accordance with the Municipal Act, Budget Preparation Policy and best practices. This translates to the annual operating and capital budgets being tools to raise the funds necessary to meet spending requirements and revenues being recognized as they are earned, while expenses are recognized in the period in which they are expected to be paid.

Revenue recognition policies are classified by major category such as government transfers, taxation revenues, user charges, fines and penalties, other revenue and investment income.

Summary of revenue recognition policies:

- Taxation revenue is recognized when bills are issued.
- Government transfers are recognized when eligibility or stipulation criteria have been met.
- User charges, other revenue and investment income are recognized when services have been provided or the event that has given rise to the revenue has occurred.
- Fines and penalties are recognized on a cash basis as the City is not able to reliably estimate the collection of these revenues.

Revenues with external restrictions, such as grants, which are not earned in the period, are recorded as deferred revenue until the criteria for recognition has been met.

Tangible capital assets are recorded at the cost which includes amounts directly attributable to the acquisition, construction, development or betterment of the asset.

BUDGET PROCESS

The municipal operating and capital budgets are prepared annually. City Council is also responsible for funding its share of three outside boards' budgets: Greater Sudbury Police Service, Public Health Sudbury & District, and Conservation Sudbury (Nickel District Conservation Authority).

The first stage of the budget process includes receiving directions from Council regarding its expectations for service levels and the level of taxation it is willing to consider. An analysis of workload requirements and anticipated service levels for each division, in accordance with Council's budget directions, identifies resource requirements. Financial information is prepared in accordance with the Base Budget Preparation Policy to support preliminary reviews that identify inflationary pressures, such as wage adjustments in accordance with collective bargaining agreements, contract cost changes and material price increases.

Operating departments and finance staff review projected year end actuals against budgets to identify variances such as overruns, areas in need of more resources to maintain service levels, or items that can be reduced. A review of historical trend analysis is performed to assess changes in the budget. Any adjustments are done in accordance with the Base Budget Preparation Policy. The budget also reflects any known funding approvals from senior levels of government or partnerships. Any requests for additional permanent staff must be approved by City Council. The program support allocations and internal recoveries are calculated in accordance with the Municipal Benchmarking Network Canada (MBNCan) methodology.

A review of provincially-mandated programs and service contracts, costs to service growth, and prior year Council decisions and commitments is also conducted. In order to propose service level changes, operating departments prepared comprehensive business cases. All submitted business cases for service level changes were reviewed by the Executive Leadership Team, and based on priorities and available funds, a recommended list is included in this budget document for Council's consideration (see Business Cases section of this document).

Council provides final approval of the operating and capital budgets. Budgets are monitored by departments in accordance with the Operating Budget and Capital Budget policies. These policies provide fiscal control and accountability. On a quarterly basis, the Finance and Administration Committee of Council reviews variance reports including a year-end projection of operating revenues and expenditures. The variance reports provide Council with an overview of potential year-end variances by division or section. Furthermore, the Finance and Administration Committee reviews a Capital Variance Report for completed projects.

Departments have the ability to amend their Council approved operating budget during the year based on several factors, including announcements of new funding, or by reallocating funds for new contracts. If such changes occur, staff can reallocate funds as long as there is no increase in the Council-approved amount.The Capital Budget Policy outlines how the capital budget can be amended during the year when expected spending on a project is over or under the budget approved by Council, or when new unbudgeted priority investments are required. All amendments to the Capital Budget are subject to limits and reporting requirements. Additional funding for projects, to fund over expenditures can be accessed from the newly created holding accounts, and if significant, via approval by Council with an appropriate funding source, such as reserve funds, including the holding account, or grants. Projects with surplus funds, or deferred and cancelled projects will fund the holding account. Council is informed of all cancelled/deferred projects and all transactions for the holding account within the Capital Variance Reports.

The City of Greater Sudbury is always looking to improve its financial sustainability through a balanced approach to financial management. Finding ways to save money and improve efficiency is always top of mind.

BUDGET SCHEDULE

May 2018
2019 Budget Direction set by Finance and Administration Committee

September 2018
Update to Finance and Administration Committee

January 2019
Present 2019 Budget to Finance and Administration Committee

Get involved! Public input

February 2019
Budget Q&A with Finance and Administration Committee

Finance and Administration Committee budget deliberations

Council approval of 2019 Budget

COUNCIL'S ROLE

Council directly participates in the budget process at three stages:

- At the start of the process, Council provides direction on the building of the budget plan for the upcoming year. For the 2019 Budget, Council directed staff to develop a budget of no more than a 3.5 % property tax increase with options to reduce the tax increase to 3.0 % or 2.5 %.
- As the process unfolds, Council receives an update and provides any feedback necessary to help staff prepare a recommended budget that reflects expectations about anticipated services, service levels and costs.
- At the conclusion of the process, Council reviews the recommended budget, makes any desired amendments and approves the budget.

THE PUBLIC'S ROLE

Public engagement opportunities continue to give interested members of the public the opportunity to review and understand the information staff uses to prepare the budget and provide comments and feedback. Public engagement is essential in building trust and credibility with the community.

An online budget tool and survey will be available to give residents an opportunity to adjust proposed tax amounts for major service areas. This provides a channel for gathering information about residents' views.

The City will host an information fair, following the tabling of the proposed budget. The goal of the fair is to provide residents with an overview of City services, the costs to provide these services, key investments, challenges and how these factors shape the development of the Budget.

FINANCIAL POSITION

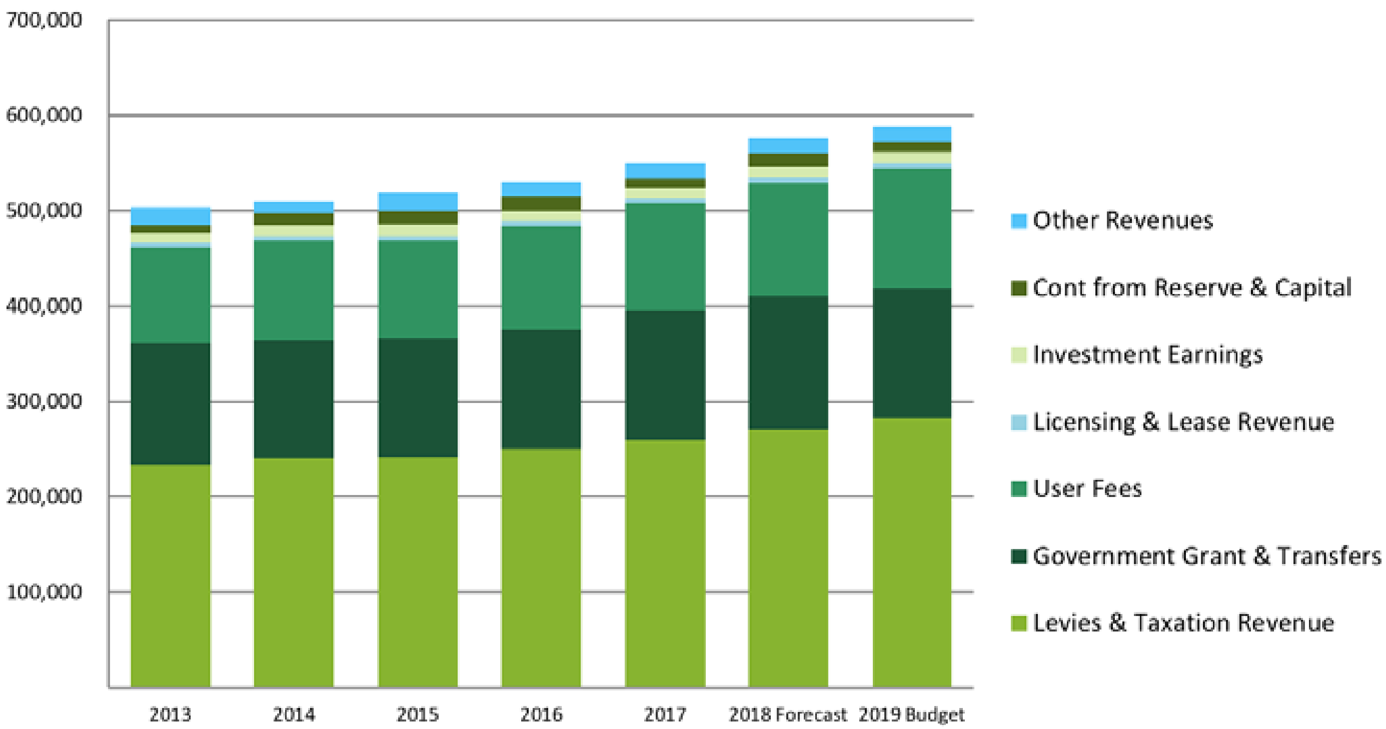
Revenues

The City's revenues are used to provide and maintain existing service levels and sustain infrastructure. Revenues are comprised of government transfers, property taxes, user fees, investment earnings, licensing and lease revenues, and other sources of revenue.

Revenues from property taxes and user fees have seen the greatest increase over the years. The 2019 Budget proposes that the City will collect 46 % of its total revenues from property taxes.

Increasing other revenues, such as user fees, allows the City to maintain lower property taxes while maintaining service levels.

Total Annual Revenues ($000's)

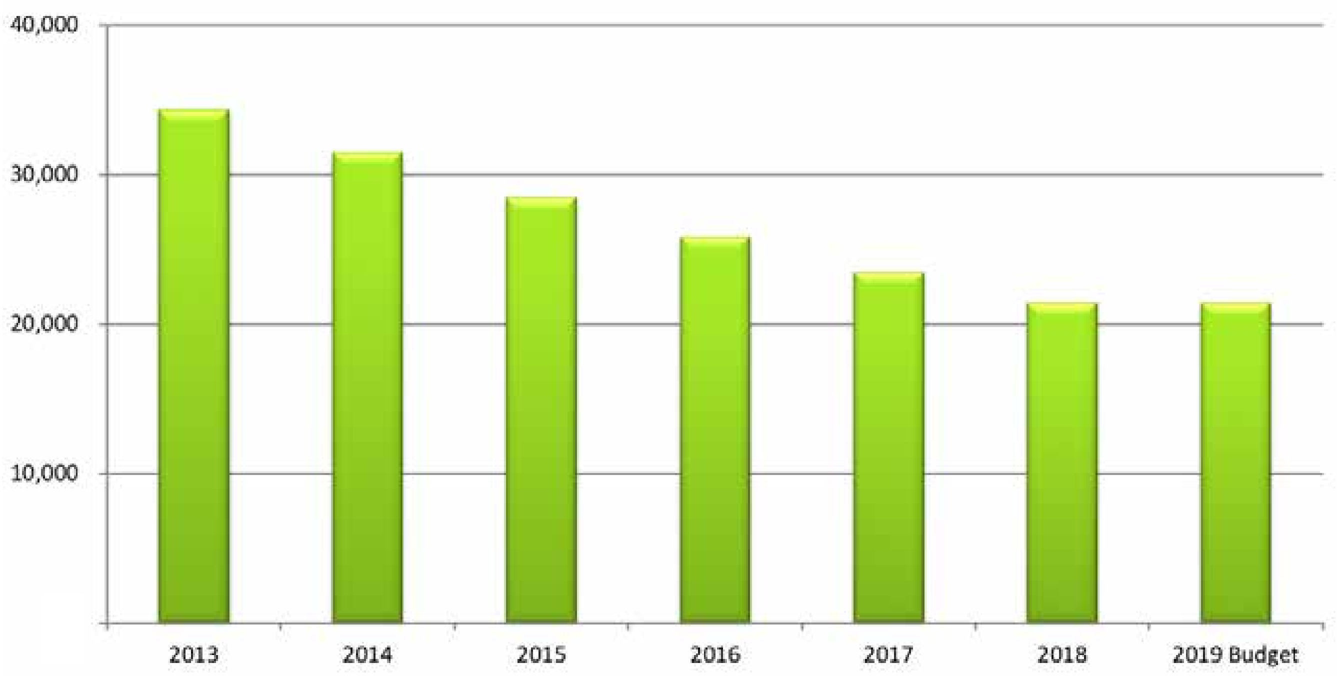


Ontario Municipal Partnership Fund (OMPF)

The OMPF is the province's main unconditional transfer payment to municipalities, which primarily supports rural and northern communities.

Staff were anticipating that the 2019 allocation would remain the same as 2018 based on the current formula that is in place, and budgeted accordingly. However, recent correspondence from the Ministy of Finance has indicated that the OMPF funding envelope may be reduced. If the City's allocation is reduced, service adjustments or increased revenues from other sources may be required in order to reduce pressure on tax rates.

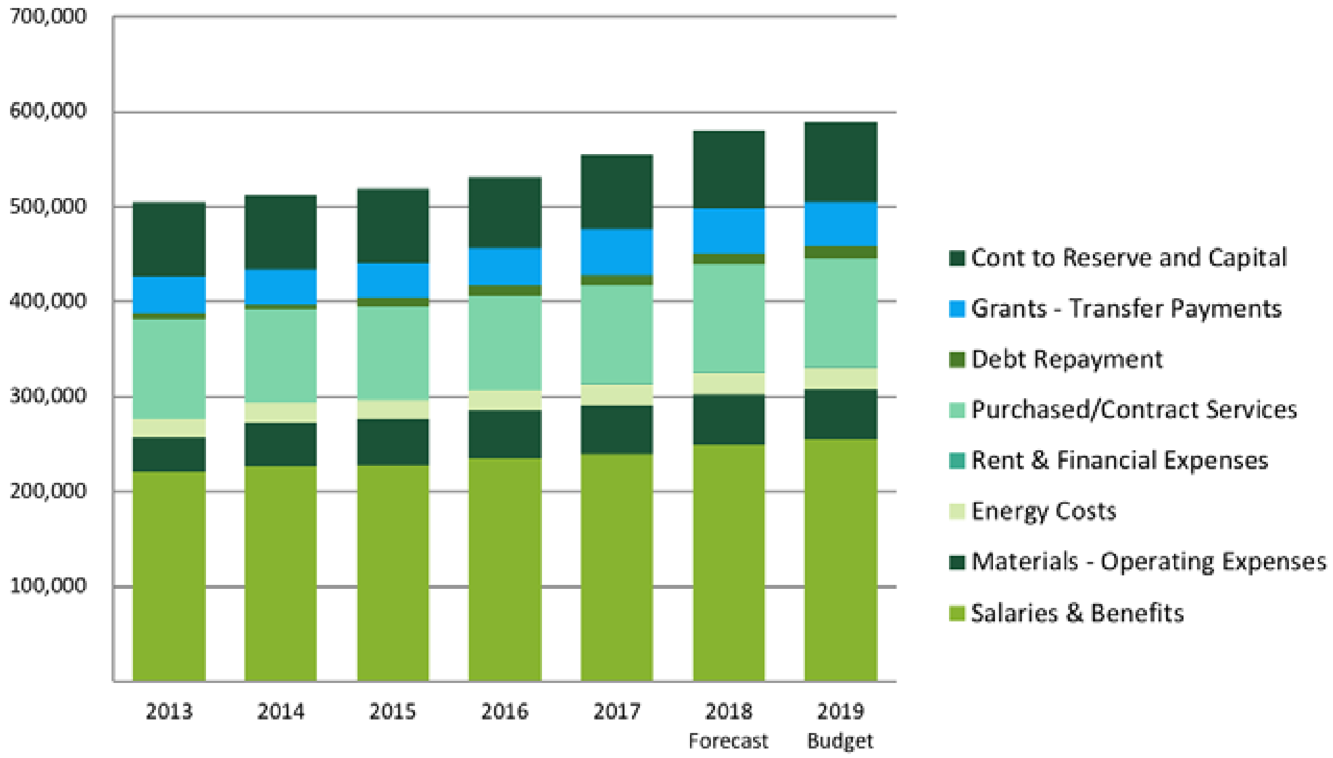
Ontario Municipal Partnership Funding ($000's)



Expenses

The City's expenditures have increased during the past several years to maintain existing service levels and include Council requests for new or enhanced service levels.

Total Annual Expenditures ($000's)



Capital Assets

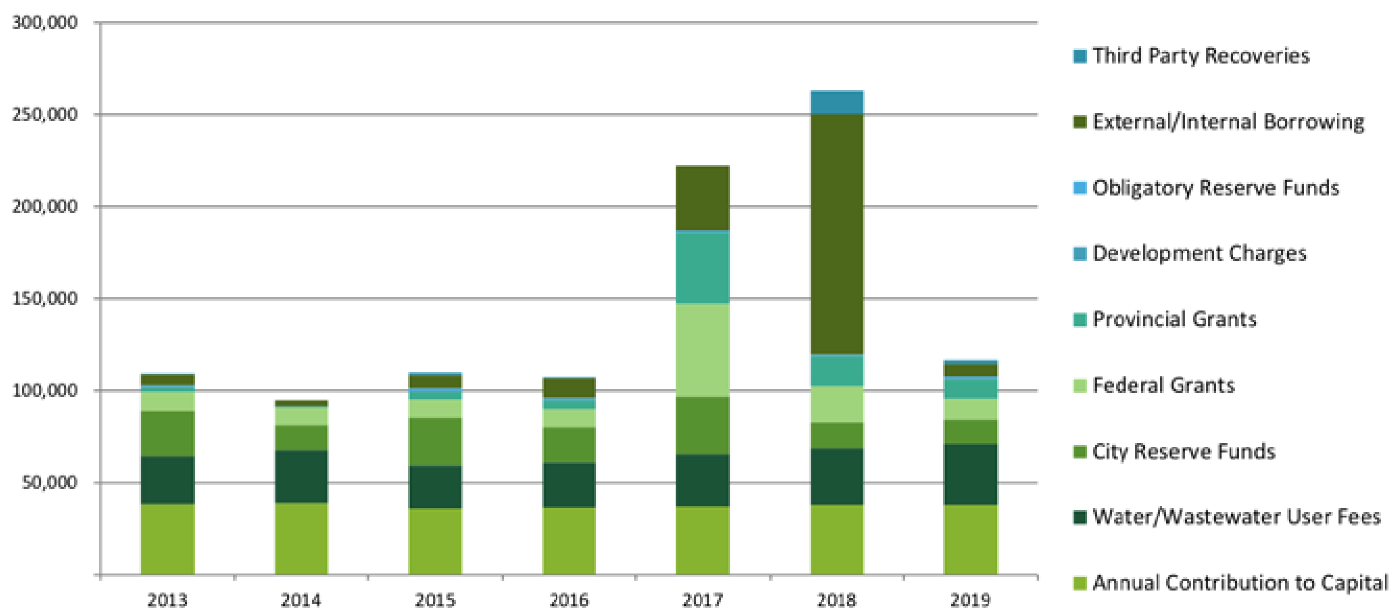
The capital budget represents the City's investment in capital assets, including roads, buildings, water and wastewater pipes and facilities, equipment and vehicles for use by staff to provide services to residents, as well as facilities for residents to enjoy the services provided by the municipality.

The total capital budget varies based on the estimate of government grants and debt financing on a year over year basis. Any reduction in funding from other levels of government means the City uses more of its own financing sources (such as the annual contribution to capital from the property tax levy) to cover infrastructure costs. In addition, new debt financing approved for a capital budget results in new debt repayments included in the annual operating budget that would be funded from the annual property tax levy. The intent is to maintain capital funding to address aging infrastructure replacements.

The chart below illustrates the increase to the capital budget over the years and how it has changed year over year based on the amount of estimated government grants and debt financing.

Consistent with prior years, staff is recommending a special capital levy of 1.5 % to advance key projects in roads and reduce the infrastructure renewal requirements estimated in the Asset Management Plan (please refer to the Capital Budget tab for further information).

Capital Funding Sources 2013-2019 ($000's)



RESERVES AND RESERVE FUNDS

Reserves and reserve funds are a critical component of a municipality's long-term financing plan. The purpose of maintaining reserves is to:

- Provide stability of tax rates in the face of variable and uncontrollable factors, including water consumption, interest rates, unemployment rates and changes in subsidies from other levels of government.
- Provide financing for one-time or short-term requirements without permanently impacting property tax and utility rates.
- Make provisions for replacements and acquisitions of assets and infrastructure currently being consumed and depreciated.
- Avoid spikes in funding requirements of the capital budget by reducing reliance on long-term debt borrowings.

- Provide a source of internal financing.
- Ensure adequate cash flows.
- Provide flexibility to manage debt levels and protect the municipality's financial position.
- Provide for liabilities incurred in the current year, but paid for in the future.

In 2019, reserves will fund $12.7 million in capital projects. The net impact of the 2019 Capital Budget results in a reduction of City reserves and reserve funds.

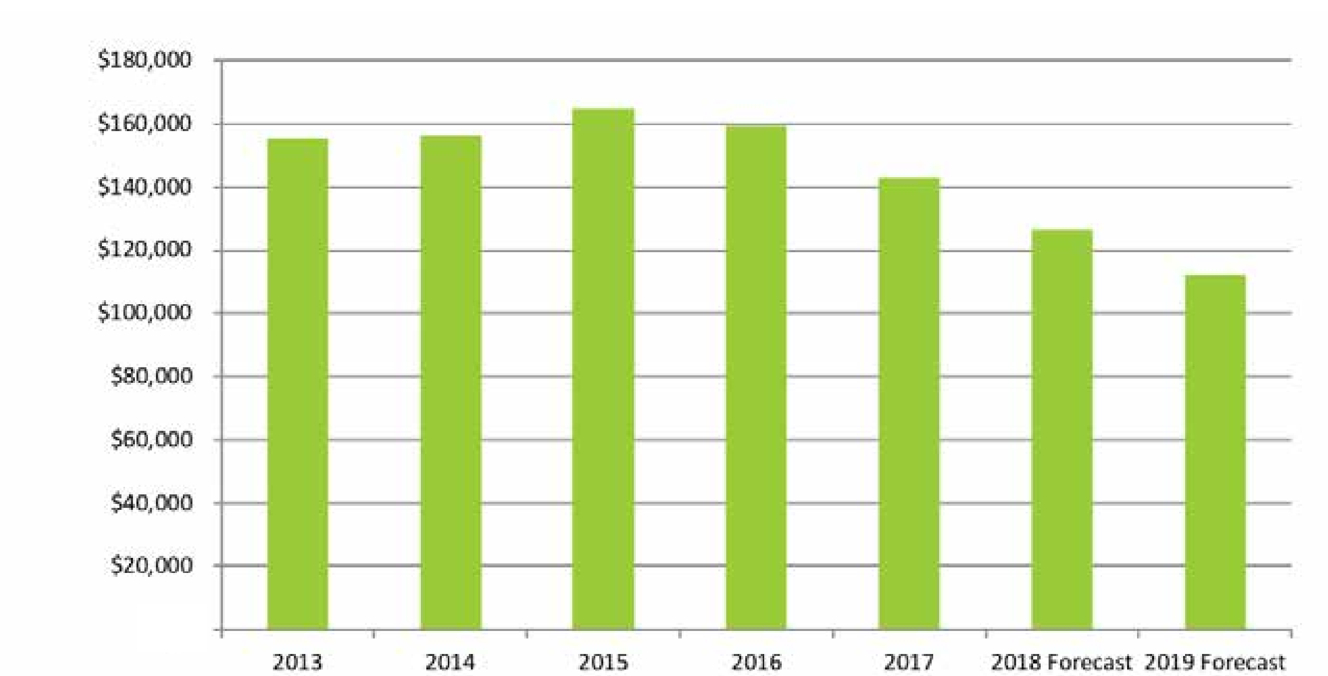
It is important to note that a significant portion of the reserve funds are committed to previous Council approved capital and other projects. These funds remain in reserves and reserve funds until spent on the related project.

Increased revenues will be required to replace and strengthen reserve balances over the long-term. Alternatively, a service could undergo changes in which it requires less municipal funding, such as public-private partnerships, or service levels could be reduced.

The City has a low debt to reserve ratio in comparison to the median of 0.7 and the average of 1.0. This means the City has relatively more reserves in place to support its debt obligations, so it presents lower risk from a lender's perspective. This supports the City's strong credit rating. The results of this ratio is a strong indicator for assessing long-term sustainability and the ability to meet the City's debt obligations.

Debt to Reserve Ratio

Reserve Fund Balances 2013-2019 ($000's)



DEBT FINANCING

The Debt Management Policy, approved by City Council in 2013, was revised in 2017 to increase the amount of debt the City can obtain. The limit on annual debt repayment was approved to be increased from 5 % to 10 % of the City's net revenues. The limit provides more flexibility for the City, but remains below the provincial limit of 25 % of net revenues. The main principles of the Debt Management Policy state that debt should be affordable, sustainable, and structured in a way that those who benefit from the asset pay for the debt. The policy also sets out the principles that debt financing should only be considered for:

- new, non-reoccurring infrastructure renewal requirements
- self-supporting programs and facilities
- projects where the cost of deferring expenditures exceeds debt servicing costs
- debt with terms no longer than the anticipated life of the funded asset

The City's current reliance on its own source of funding for capital investment has also impacted debt levels. While the issuance of debt can provide increased capital funding, the amount owing, plus the related interest must be paid off in future years from operating funds. Debt is a trade-off between increased fiscal flexibility in the short-term, versus reduced fiscal flexibility over the term of the repayment.

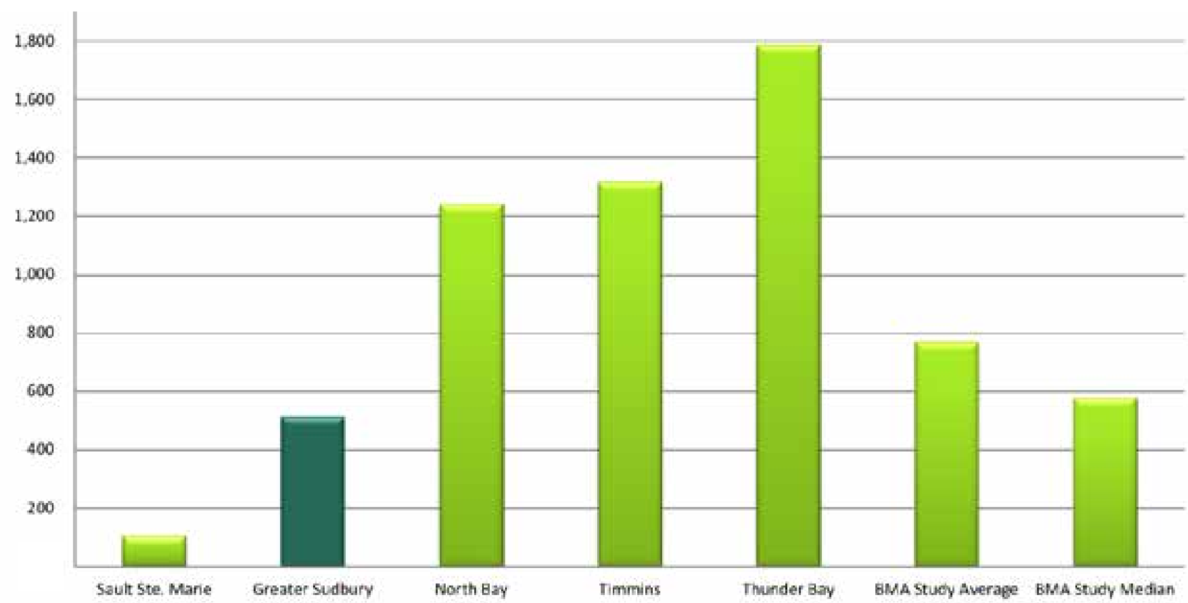
While interest costs will add to the total bill, the rapid escalation of construction costs over the past few years indicates debt financing could lower overall costs in certain circumstances. Although interest rates have increased recently, they remain near historic lows and the City will access debt markets while rates remain low.

In 2018, the City received a AA debt rating from S&P Global Ratings (S&P) with a stable outlook. A debt rating is intended to represent an evaluation of the credit risk of a debtor, anticipating their ability to pay debt. The AA rating indicates the City has a very strong capacity to pay interest and repay principal loans.

This rating anticipates that the City's tax-supported debt burden will remain modest, and that financial management practices will remain strong. It also anticipates that the City's plans and administration remain stable, political direction reflects current, or consistent policies and key staff positions do not experience turnover. In determining an appropriate rating, S&P took several factors into consideration, including the City's plan to issue debt to fund capital projects to reduce the infrastructure funding requirement, current economic conditions, including the significant exposure to the mining industry and the volatility in base metal prices, as well as other subjective factors.

Having a debt rating can provide the City with more control over the rates that will be paid in the future by securing rates up to one year into the future.

Debt per Capita 2016 ($)



Source: 2017 BMA Study

The chart below details the current outstanding external debt and long-term financing commitments of the City. These obligations total $70.2 million and require repayments of $8.5 million per year.

DEBT FINANCING

Project Name	Term (Start Date - End Date)	Total Principal Amount Borrowed/ Committed	Total Outstanding as of Dec 31, 2018	2019 External Debt Payment
External Debt (000's)				
199 Larch St	2003-2023	17,261	5,479	1,456
Pioneer Manor	2004-2024	10,000	4,185	818
Purchase of Falconbridge wells from Glencore (Xstrata)	2009-2025	2,000	937	181
Purchase of Onaping wells from Glencore (Xstrata)	2010-2029	2,175	1,388	173
1160 Lorne St	2015-2035	14,000	12,084	940
Biosolids Plant	2015-2035	46,781	40,898	3,456
Total External Debt		**92,217**	**64,971**	**7,024**
Long Term Financing Commitments (000's)				
Health Sciences North	2001-2023	26,700	4,700	1,000
Northern Ontario School of Architecture	2009-2019	10,000	500	500
Total Long-Term Financing Commitments		**36,700**	**5,200**	**1,500**
	Total	**128,917**	**70,171**	**8,524**

Over the past two years, Council has approved a number of projects that will be paid for using external debt financing. The approved amount and forecasted annual payment follow:

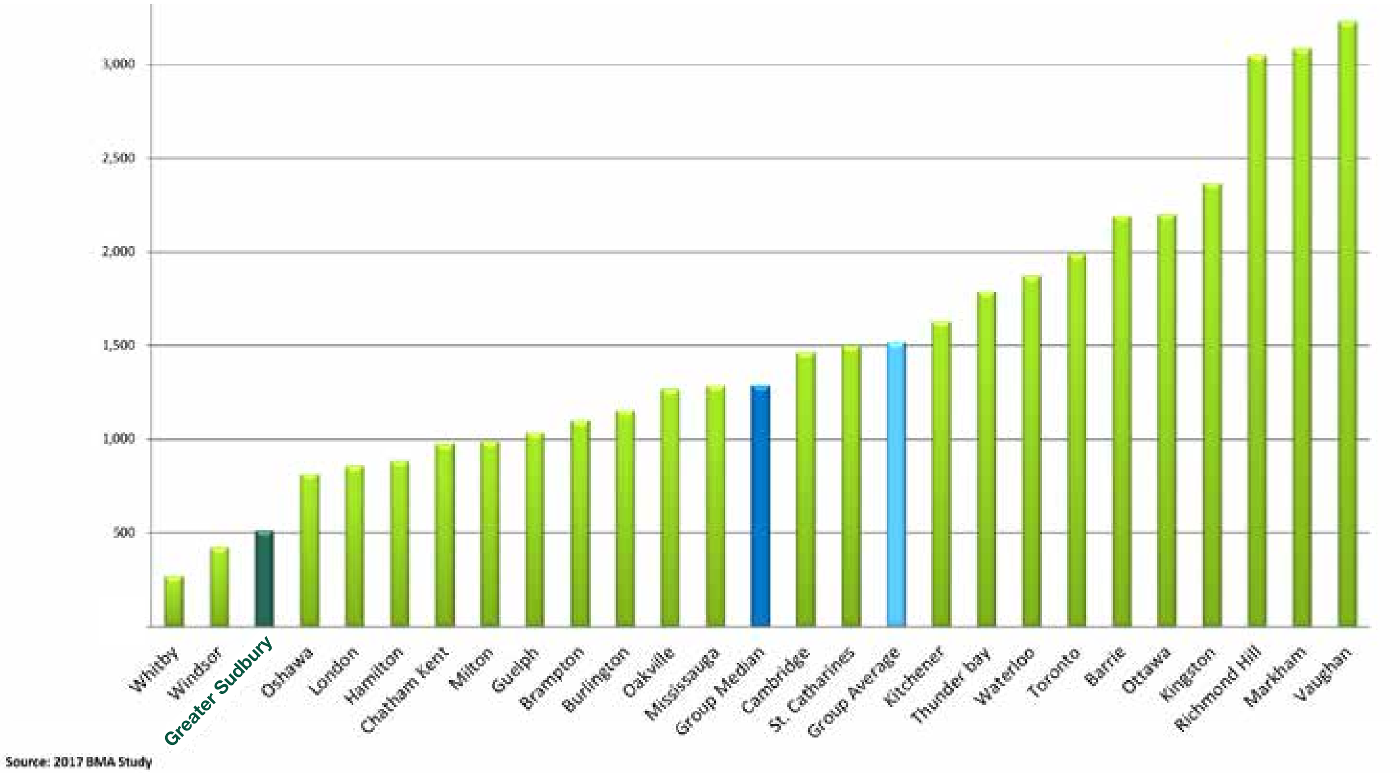
Project	Long-Term Borrowing	Annual Payment	Budget Year Approved
Place des arts	$5.0 million	$350,000	2017
Event Centre	$90.0 million	$5.2 million	2018
Municipal Road 35	$30.8 million	$1.9 million	2018
Lorne Street	$7.7 million	$560,000	2018
Playground Revitalization	$2.3 million	$150,000	2018
Total	**$135.8 million**	**$8.2 million**	

The 2019 Budget includes debt to be issued for bridge renewal. The Library/Art Gallery and Convention and Performance Centre business case is also recommended to use debt financing. These projects total $75 million and would require $7.4 million of debt repayments per year when complete. Under current debt limits, the City's borrowing capacity will still be in the range of $300 to $325 million after funding for these projects has been obtained.

The City's debt per capita is currently much lower than those of other municipalities with a population over 100,000.

Based on the current Council approved limit of 10.0 % of net revenues and taking into account debt currently incurred, prior year approvals, and projects to be approved in current budget, the City does have the capacity to incur more debt. Any new debt incurred will move the debt per capita ratio higher but the current conservative debt limit ceiling should limit the potential impact as noted by S&P in their rating analysis.

2016 Total Debt Outstanding per Capita ($)



DEBT FINANCING

The chart below reflects the City's current external debt and long-term financial commitments.

	Tax Debt Interest as Percentage of Net Revenues	Tax Debt Charges as Percentage of Net Revenues
Greater Sudbury	0.3	2.7
Median	1.1	4.0
Average	1.3	4.4

Source: 2017 BMA Study

DEVELOPMENT CHARGES

Development Charges (DCs) are established by municipalities in accordance with the Development Charges Act. These charges are collected before a building permit is issued when new development, redevelopment or expansions for residential and non-residential buildings or structures occur.

Most municipalities in Ontario use DCs to ensure the cost of providing the infrastructure to service new development is not carried by existing residents and businesses in the form of higher property taxes. The principle behind DCs is that growth pays for growth, meaning development pays a portion of capital costs associated with new growth and development, while taxpayers fund capital infrastructure which benefits the existing population. Development charges provide municipalities with a tool to help fund the infrastructure needed to serve new growth.

Growth related capital costs are costs that result from the expansion of services to meet the needs to new development and overall increase in the population, households and employment. These capital costs are reduced by an allowance for provincial and federal grants and other sources of funding as well as other deductions required by the DC Act to determine the net capital cost for DC recovery.

In the current by-law, DCs are levied on the following municipal services: water, wastewater, roads, police, general government, libraries, fire, recreation, cemeteries, emergency services and transit.

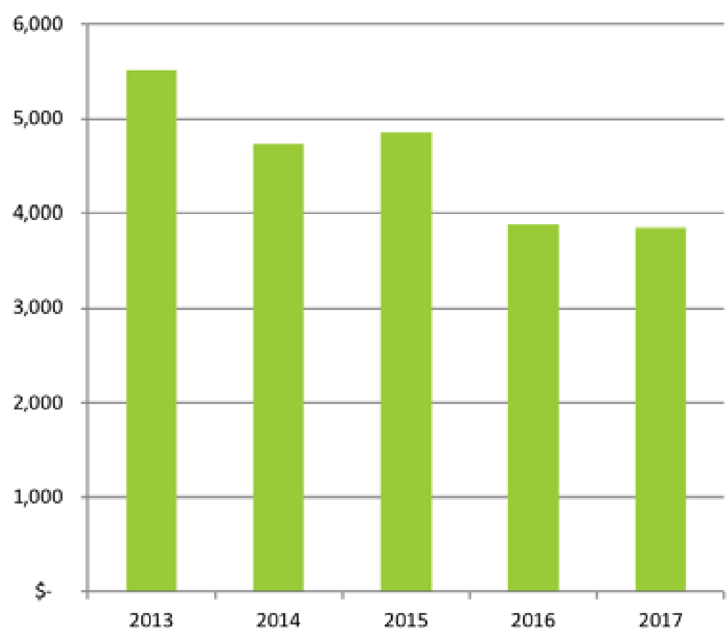
Generally, the City finances the growth-related portion of capital projects. At the end of each year, the capital projects are reviewed, and the growth-related portion of the capital costs are identified. Actual development charges collected during the year are then applied to fund any growth-related portion of the project as identified in the current DC Background Study.

The current by-law expires on June 30, 2019, as the by-law has a maximum life of five years. In order to continue collecting development charges, the 2019 background study and by-law, which includes the DCs rates, must be approved by Council before June 30, 2019.

The background study will illustrate the City's existing service levels, the growth-related short and long-term capital program on a ten-year planning period from 2019 to 2028 for soft services (includes recreation, police, fire, transit, and more) and 2019 to 2041 for engineered services (includes roads, water/wastewater and drains/stormwater) and the proposed development charge rates.

As part of developing the 2019 Development Charges Background Study and By-law, a working group was established with representation from the Sudbury and District Homebuilders Association, Northeastern Ontario Construction Association, Greater Sudbury Chamber of Commerce, local developers, Hemson Consulting and City staff. To date, the Development Charges working group has reviewed and provided input on the current by-law, policy items such as secondary units, exemption areas, as well as the draft list of capital projects.

Development Charges Collected 2013-2017 (000's)



FINANCIAL CONDITION

The Public Sector Accounting Board (PSAB) has a Statement of Recommended Practice, which offers guidance to public sector entities to support discussions about their financial condition.

A city's financial condition reflects its financial health in the context of the overall economic and financial environment, as well as its ability to meet service commitments to the public and financial obligations to creditors, employees and others. PSAB's recommendations define a government's financial condition using the elements of sustainability, flexibility and vulnerability.

See the Glossary in the Appendices for a description of the calculation of all financial condition indicators.

Sustainability

Sustainability is the ability to maintain existing service levels and meet existing requirements without increasing its relative debt or property tax levels.

The financial position per capita can vary on a year over year basis but remains much stronger than the average and median of all municipalities in the BMA Study. The City's asset consumption ratio shows that the City's assets are not being replaced as quickly as the City's comparators. The City's ratio of financial assets and liabilities at 1.66 is higher than the recommended range of 0.75 to 1.5 and much higher than the City's comparators as noted in the City's Long-Term Financial Plan. The ratio of debt to revenue is quite low compared to other municipalities.

The debt per household is not an estimate of how much each household must contribute to debt repayment. It is simply a way of describing the City's debt relative to the size of the community. The City's long-range financial plan includes repayment of all debt in its forecasts.

It should be noted that many of these ratios will move more in line with the median as the City incurs the debt that has been approved in the 2017 and 2018 budgets and is proposed in the 2019 Budget. The Long-Term Financial Plan includes further use of debt to address infrastructure renewal/replacement requirements. These plans, if followed, would bring the City in line with asset consumption ratios seen in comparator municipalities. Without the additional debt, City assets will continue to age, the risk of service interruptions will grow and the cost of maintaining those assets will increase.

SUSTAINABILITY

BMA Study	2013	2014	2015	2016	BMA Average	BMA Median
Financial Position Per Capita	$1,126	$906	$1,042	$1,226	$454	$597
Net Financial Liability Ratio	(0.49)	(0.39)	(0.45)	(0.50)	(0.40)	(0.31)
Asset Consumption Ratio	49.1%	49.3%	48.6%	55.0%	42.3%	41.8%

PSAB Indicators	2013	2014	2015	2016	2017
Ratio of Financial Assets to Liablities	1.80	1.54	1.62	1.67	1.66
Ratio of Debt to Revenue	0.07	0.06	0.16	0.15	0.13
Debt Per Household	$502	$434	$1,178	$1,096	$1,027

Source: 2017 BMA Study

Flexibility

Flexibility is the City's ability to increase its financial resources to address additional commitments and change service levels. This is done by increasing property tax revenues or by taking on additional debt.

When analyzing the flexibility indicators, the two major factors to consider are reserves and debt. Compared to other municipalities, discretionary reserve funds are lower than the average, which indicates that the City does not have as much flexibility as the comparators to use reserve funds to immediately address unanticipated expenditures. The City does have a much lower debt per capita and other debt ratios than the median comparator municipalities. The City's ability to react to unanticipated expenditures, take on new capital spending and change service levels is quite strong if it is willing to issue new debt or raise more revenue. Debt, particularly combined with funding opportunities from senior levels of government, is a viable, partial solution to the City's asset condition issues.

The City's debt outstanding per capita is low compared to the median and average municipality of a comparable size. This indicates there is capacity for increased borrowing, which was noted in the Long-Term Financial Plan and by S&P when it issued its credit rating analysis.

FLEXIBILITY

BMA Study	2013	2014	2015	2016	BMA Average	BMA Median
Tax Discretionary Reserves as a % of Taxation	54%	54%	57%	52%	71%	64%
Discretionary Reserves as a % of Own Source Revenues	39%	39%	41%	38%	51%	47%
Tax Debt Interest as a % of Own Source Revenues	0.3%	0.3%	0.4%	0.3%	1.3%	1.1%
Debt to Reserve Ratio	0.20	0.20	0.50	0.50	1.00	0.70
Total Reserves per Capita			$998	$994	$911	$750
Total Debt Charges as a % of Own Source Revenues			1.9%	2.3%	5.3%	5.2%
Total Debt Outstanding per Capita			$532	$511	$769	$577
Debt Outstanding as a % of Own Source Revenues			22.8%	20.7%	41.9%	37.8%

PSAB Indicators	2013	2014	2015	2016	2017
Ratio of Debt Charges to Total Revenue	0.01	0.01	0.01	0.01	0.01
Municipal Taxes as % of Household Income	3.71%	4.01%	3.76%	3.63%	3.85%

Source: 2017 BMA Study

Vulnerability

Vulnerability is the degree to which the City is susceptible to changes in funding sources outside its control. There is a risk in relying too heavily on funding sources, which can be reduced or eliminated without notice.

The City receives several funding grants from senior levels of government, including Ontario Municipal Partnership Fund allocations, Provincial and Federal gas taxes, and Stewardship Ontario blue box funding, to name a few.

The rates covered ratio states that the City is able to cover 74.2 % of the municipality's cost without the use of external funding. According to the Ministry of Municipal Affairs, a basic target is 40 to 60 %, an intermediate target is 60 to 90 %, and an advanced target is 90 % or greater. Although the City's ratio is intermediate, the comparable municipalities are within advanced range.

The trend over the last number of years had been a decrease in reliance on federal and provincial funding sources as shown by a decrease in the City's government transfers to total revenue. This trend reversed in 2017 due to new programs in Social Housing and significant investments in infrastructure projects such as the Maley Drive Extension and Clean Water and Wastewater Funding. Although a higher ratio indicates higher vulnerability, the City will continue to maximize grant revenue.

Summary

The City of Greater Sudbury's financial condition has been relatively stable over the last three years with many areas showing improvement. As noted in the discussion above, many of the financial ratios compare favourably to other municipalities, when considering taxation and debt.

Costs for maintaining existing services and service levels exceed the rate of general inflation. Coupled with the need to address long-term asset renewals/ replacements, there will be continued upward pressure on the tax levy and user fees. The City is embarking upon a robust asset planning methodology to minimize long-term costs as assets are rehabilitated or replaced. The City will be using its Asset Management Plan and Long-Term Financial Plan as tools to address the infrastructure renewal requirement, and has significant debt capacity to address these challenges.

VULNERABILITY

BMA Study	2013	2014	2015	2016	BMA Average	BMA Median
Taxes Receivable as a % of Tax Levied	2.8%	2.3%	2.5%	2.4%	6.7%	4.6%
Rates Covered Ratio			75.1%	74.2%	90.8%	90.7%

PSAB Indicators	2013	2014	2015	2016	2017
Ratio of Government Transfers to Total Revenue	0.26	0.26	0.27	0.25	0.30

2017 BMA Study
Public Sector Accouting Board (PSAB) Indicators