



# 2017 Budget Overview



## Budget Overview

The 2017 City of Greater Sudbury Budget describes the City's business plans for the year, along with the related costs and revenues associated with delivering municipal services. It enables readers to build a good understanding about how taxes are used to produce new infrastructure, repair existing assets and provide daily services that significantly influence the quality of life in Greater Sudbury.

This document emphasizes the relationship between services and their costs. More emphasis has been put on describing services, issues and opportunities, and immediate priorities with financial information presented at a summary level. This helps illustrate the effect that changing one element (cost or revenues) can have on the other (services and/or service levels).

Staff have been working on budget estimates since the end of April. These estimates formed the basis of the directions City Council provided regarding its expectations about how the 2017 budget should appear. Council's directions provided staff with guidance for finalizing plans that not only incorporated Council's service expectations, but that also maintained costs within the range Council identified.

The Capital Budget presented in the budget document represents a \$229.7 million investment in municipal assets. The majority of these funds will be invested in roads, assets and water/wastewater infrastructure. This is essential in addressing the infrastructure deficit experienced by municipalities across Canada, and in ensuring the long-term sustainability of our community.

This budget also focuses on key investments in developing tools and methods to identify productivity improvements, which will lead to ongoing affordability:

- Developing and using tools, such as intermunicipal 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 implication of investment opportunities.
- Improving internal processes, policies and information management systems to work as productively as possible.

### Defining Services and Understanding Service Alternatives

It is important to understand how services influence our costs to be able to proactively manage the appropriate balance between managing service levels and affordability. This budget provides narrative information to describe our services and expected results, and uses cost allocation methods that help identify a service's full cost regardless of which division's budget is used to contribute to producing our results. This approach also helps us:

- 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 the services they receive.

### Long-Term Financial Plan

The City is currently completing a comprehensive Long-Term Financial Plan. As outlined in the 2015-2018 Corporate Strategic Plan, it is expected to be complete in early 2017 and will be in effect for ten years, from 2017 to 2026. Some of the key areas of focus to be addressed in this comprehensive financial plan include:

- A financial model which will include forecasted operating revenues, expenses and capital requirements. The model will align with the City's existing financial policies and include a list of assumptions and associated risks.
- Recommendations on changes to existing processes, key policies, alternative tax classes and other revenue sources.

A long-term financial plan that incorporates key goals and objectives while being fiscally responsible and sustainable is a priority of the City of Greater Sudbury.

**Measuring Performance**

By measuring progress toward goals and objectives, Key Performance Indicators (KPIs) enhance the explanation of achieved outcomes in the delivery of municipal services.

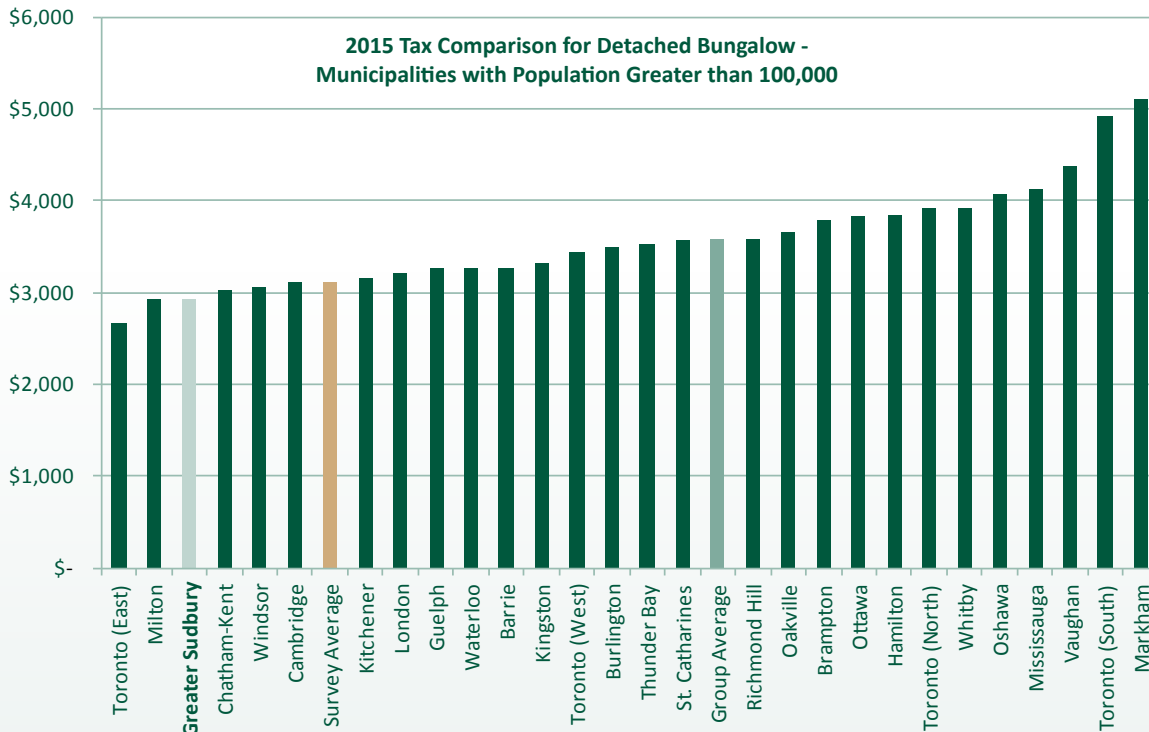
Greater Sudbury participates annually in the BMA Management Consulting Inc. (Ontario) municipal comparative study, more commonly known as the BMA Study. Data from the BMA Study is collected mainly from two reliable sources: Financial Information Returns filed with the Ministry of Municipal Affairs and Housing, and tax roll and assessment data provided by the Municipal Property Assessment Corporation (MPAC). In addition, the City belongs to several industry-specific organizations, which collaboratively compile and analyze benchmarking data to determine service improvements.

**Operating Budget**

The annual operating budget includes estimated operating expenditures and revenues required to allow 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 lower than previous periods, the City is facing significant pressures in some areas:

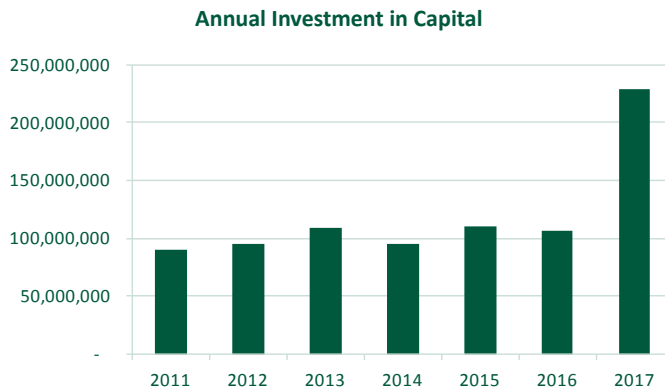
- Anticipated reduction in provincial funding (Ontario Municipal Partnership Fund).
- Lack of Assessment Growth: Minimal increase in the number of new buildings in the community equals minimal change in the number of properties paying taxes, while expenses and costs continue to increase.
- WSIB Presumptive Legislation: New legislation related to the Workplace Safety and Insurance Board puts additional financial obligations on the City.
- Increasing utility rates for electricity and natural gas.
- Higher than expected waste collection contract cost.



\* 2015 BMA Study

## Capital Budget Highlights

The City's capital budget has focused primarily on the renewal of infrastructure due to the size of the infrastructure deficit, a pressure felt by municipalities across the province and the country.



### Renewal:

The renewal of infrastructure relates to existing infrastructure and other assets to maintain business as usual functions. Generally, it's focused on rebuilding or replacing existing assets which have reached the end of their useful lives, or on repairing and rehabilitating existing assets to extend their useful lives. Renewal maintains existing services and service levels versus addressing new capacity needs or enhancing service levels.

### Key Deliverables:

- Fixing roadways in our community continues to be one of the top priorities. In 2010, capital envelopes were reallocated, which resulted in additional capital funding toward roads to improve infrastructure. The City continues to spend record levels on road infrastructure, from \$32.8 million in 2009 to \$133.6 million in 2017, which includes the Maley Drive project at a cost of \$80.1 million.
- Significant federal and provincial funding announcements took place in 2016 which will assist the City particularly in the area of roads, water, wastewater and transit:
  - \$26.7 million was announced from each the federal and provincial governments for the construction of the Maley Drive Extension. The City's share of this project is \$26.7 million, which comes from funds previously committed in capital budgets and annually in the capital budget for future years.

- \$2.3 million from the Province for Stormwater Subwatershed Planning capital projects which must be spent by March 2018. The City has, and continues to contribute \$250,000 per year toward this project, which will help to protect our ecological functions.
- \$10.5 million from the Clean Water and Wastewater Fund is being used for stormwater projects, and the replacements of watermains, sewer mains and culverts. These funds must be spent by March 2018. The City is contributing approximately \$3.5 million toward these initiatives. These projects will replace aging assets and improve service quality for residents.
- \$7.4 million from the Public Transit Infrastructure Fund for bus replacements, Transit-related equipment and ridership initiatives, and pedestrian/bike path improvements to access Transit. The City has allocated \$5.3 million from Provincial Gas Tax funds and \$2.1 million in City funds toward these projects, which will provide significant improvements for riders.
- An increase in the Ontario Community Infrastructure Fund from 2017 to 2019 from \$2.2 million per year to a total of \$19 million for the next three years will be spent on various road-related capital projects.
- The City is in the final stages of an asset management plan, expected to be complete by the end of 2016. The preliminary amounts based on financial plans completed in 2012 for roads and in 2011 for water/wastewater, showed a significant infrastructure deficit of approximately \$1.1 billion. The additional government funds announced in 2016 for roads, water/wastewater, drains/stormwater, and transit will help in addressing deficits in their respective areas, however, City facilities are also in need of replacements, renovations and improvements to bring them back to a state of good repair. The majority of City 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.
- Council directed staff to identify capital projects that can be advanced through funds from a special 1.5 % capital levy in 2017, which would mean a \$3.6 million investment into our capital assets (see Capital section of this document).

## Accounting Process

### Basis of Presentation

The City of Greater Sudbury uses fund accounting 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 utilizes the modified cash basis of accounting for budgeting purposes, in accordance with the Municipal Act, Budget Preparation Policy and best practices. The annual operating and capital budgets are tools to raise the funds necessary to meet spending requirements. Revenues are recognized as they are earned, and 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: recognized when bills are issued.
- Government transfers: recognized when eligibility or stipulation criteria have been met.
- User charges, other revenue and investment income: recognized when services have been provided or the event that has given rise to the revenue has occurred.
- Fines and penalties: 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

Every year, Council adopts an operating budget and a capital budget. The operating and capital budgets are prepared annually, with the capital budget providing a four-year outlook. City Council is also responsible for funding its share of the three outside boards' budgets: Greater Sudbury Police Service, the Sudbury & District Health Unit, and Conservation Sudbury (Nickel District Conservation Authority).

The first stage of the budget process is prepared in accordance with the Base Budget Preparation Policy. An analysis of inflationary pressures, such as wage adjustments in accordance with collective bargaining agreements, and contract and material price increases, is prepared.

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 cut or reduced while maintaining service levels. A review of historical trend analysis is performed to verify the accuracy of 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 Ontario Municipal Benchmarking Initiative (OMBI) methodology.

A review of provincially-mandated programs and service contracts, costs to service growth, and prior year Council decisions and commitments is also conducted. Assessment growth is applied to total pressures to reduce the impact on property taxes.

New to the process in 2017, operating departments prepared comprehensive business cases for all changes in service levels. The business cases for service level changes requested was reviewed by the Executive Leadership Team, and based on priorities, available funds, and need, a prioritized 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. Monitoring and amendments to approved budgets must be made in accordance with Operating Budget and Capital Budget Policies.

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.

The City of Greater Sudbury is constantly looking at ways 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.

### Changes to the Budget Process for 2017

This year, the budget process has undergone a transformation with three objectives in mind:

- 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.

Understanding the relationship between services, service levels and cost is done through the presentation of additional background details. A general narrative text describes the municipality's operating environment and general financial condition. Standard business plans for each major service areas describes performance objectives, the services they provide, key issues and opportunities, and 2017 deliverables. Financial information that includes historical comparisons is included for context.

## Council's Role

Under the new process, Council's direct participation is anticipated at three stages:

At the start of the process, to provide direction on the building of the budget plan for 2017.

In the middle of the process, to receive an update and provide 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, to review the recommended budget, make any amendments required and approve the budget.

## The Public's Role

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

An interactive, online budget balancing tool provided residents with an opportunity to adjust the proposed 2017 budgets for major service areas. This was an important step in identifying where residents' priorities lie and the level of spending they believe is appropriate.

Several ward budget meetings were held across Greater Sudbury where the City's Chief Administrative Officer and Chief Financial Officer presented the basis of the 2017 budget to attendees and answered questions. The Mayor and Members of Council were also in attendance and were an integral part of the discussions.



## Financial Management

The City of Greater Sudbury maintains appropriate systems of internal controls to ensure effective financial management, reliable and relevant financial information, and the safeguarding of assets. Management systems, policies and by-laws are in place for financial management, accounting and budgeting to ensure transactions are appropriately authorized and recorded, and the integrity and completeness of financial records are assured. Key policies and by-laws include the Purchasing By-Law, and the Operating Budget, Capital Budget, and Investment Policies.

### **Budget Preparation Policy**

To ensure that effective policies and procedures governing budget preparation are developed and maintained; to encourage initiative, responsibility, and planning, while ensuring effective budget preparation control.

### **Capital Budget Policy**

To provide fiscal control and accountability related to the preparation and monitoring of the capital budget.

### **Charity Rebate Policy**

To establish responsibilities and guidelines for ensuring that charity rebate applications and recalculations are valid, equitable and completed within the appropriate guidelines.

### **Debt Management Policy**

To set out the parameters for securing debt, managing outstanding debt and provides guidance regarding the timing of debt, type of debt instrument and the purpose for which the debt will be used.

### **Development Charges By-law**

For the imposition of development charges against land within the municipality for growth-related capital costs required because of the need for municipal services arising from development.

### **Donation Policy**

To provide general guidelines for receiving and accounting for donations that are gifts and for which an official income tax receipt will be issued.

### **Investment Policy**

To provide an investment framework that allows the City to invest excess cash resources within statutory limitations; to protect and preserve capital; to maintain solvency and liquidity to meet ongoing financial requirements; and to earn the highest rate of return possible.

### **Operating Budget Policy**

To provide fiscal control and accountability related to the approved operating budget.

### **Purchasing By-law 2014-1**

To encourage competition among suppliers; to maximize savings for taxpayers; to ensure service and product deliver, quality, efficiency and effectiveness; to ensure fairness among bidders; to ensure openness, accountability and transparency while protecting the financial best interests of the City; to have regard to the accessibility for persons with disabilities to the Goods, Services and Construction purchased by the City; and to have regard to the preservation of the natural environment and to encourage the use of environmentally friendly Goods, Services and Construction.

### **Tax Adjustments under Section 357 and 358 Policy**

To establish responsibilities and guidelines for ensuring that tax adjustments under Sections 357 and 358 are valid, necessary and completed within the guidelines of the Municipal Act, 2001, and municipal by-laws.

### **Tax Adjustments under Section 39.1 and 40 Policy**

To establish responsibilities and guidelines for ensuring that tax adjustments under Sections 39.1 and 40 are valid, necessary and completed within the guidelines of the Assessment Act and municipal by-laws.

### **Travel and Business Expense Policy**

To establish responsibilities and guidelines for ensuring that travel, Council and employee expenses are valid, necessary and economical.

### **Vacancy Rebate Policy**

To establish responsibilities and guidelines for ensuring that vacancy rebate applications and recalculations are valid, necessary and completed within the guidelines of the Municipal Act, 2001, and municipal by-laws.

### **Elderly Property Tax Rebate Policy**

To provide guidelines for property tax rebates to eligible low-income seniors owning and occupying residential property.

## Financial Condition

The Public Sector Accounting Board has a Statement of Recommended Practice for governments to support discussions about a government's financial condition.

The financial condition of the City is determined using three elements: Sustainability, Flexibility and Vulnerability.

### Sustainability

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

The City shows positive sustainability even with the increase in debt per household, as the City still has a low ratio of debt to revenue.

Sustainability Indicators	2010	2011	2012	2013	2014	2015
Ratio of Financial Assets to Liabilities	1.59	1.70	1.86	1.80	1.54	1.62
Ratio of Debt to Revenue	0.07	0.09	0.08	0.07	0.06	0.16
Debt Per Household	\$532	\$629	\$588	\$502	\$434	\$1,178

### Flexibility

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

The City's taxes as a percentage of household income have been slightly decreasing over the last five years. This is a result of the City's efforts to maintain low property taxes, coupled with continuous efforts to be fiscally sustainable.

Flexibility Indicators	2010	2011	2012	2013	2014	2015
Ratio of Debt Charges to Total Revenue	0.01	0.00	0.00	0.01	0.01	0.01
Municipal Taxes as % of Household Income	3.84%	4.49%	4.11%	3.71%	4.01%	3.76%

### Vulnerability

Vulnerability is the degree to which the City is susceptible to changes in funding sources outside of the City's 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 Provincial and Federal gas taxes, Stewardship Ontario blue box funding, and Ontario Municipal Partnership Fund allocations, to name a few.

Total provincial and federal funding provided to the City has fluctuated over the past few years, while revenues from our own sources, such as taxation revenue and user fees, have increased. This shows the City has the ability to maintain existing services while not relying heavily on other sources of government funding.

Vulnerability Indicators	2010	2011	2012	2013	2014	2015
Ratio of Government Transfers to Total Revenue	0.42	0.30	0.26	0.26	0.26	0.27

### Summary

The City of Greater Sudbury's current financial condition is stable and trends show we are headed in the right direction. However, the City is facing several pressures from continuing rising costs of service delivery, and is at a risk of experiencing asset failure/service interruption, potentially leading to higher cost and lower public satisfaction. Staff are currently exploring options for debt financing to help alleviate some of these pressures but a slow economy and minimal growth in the city make it challenging to maintain existing service levels at a low cost to taxpayers.

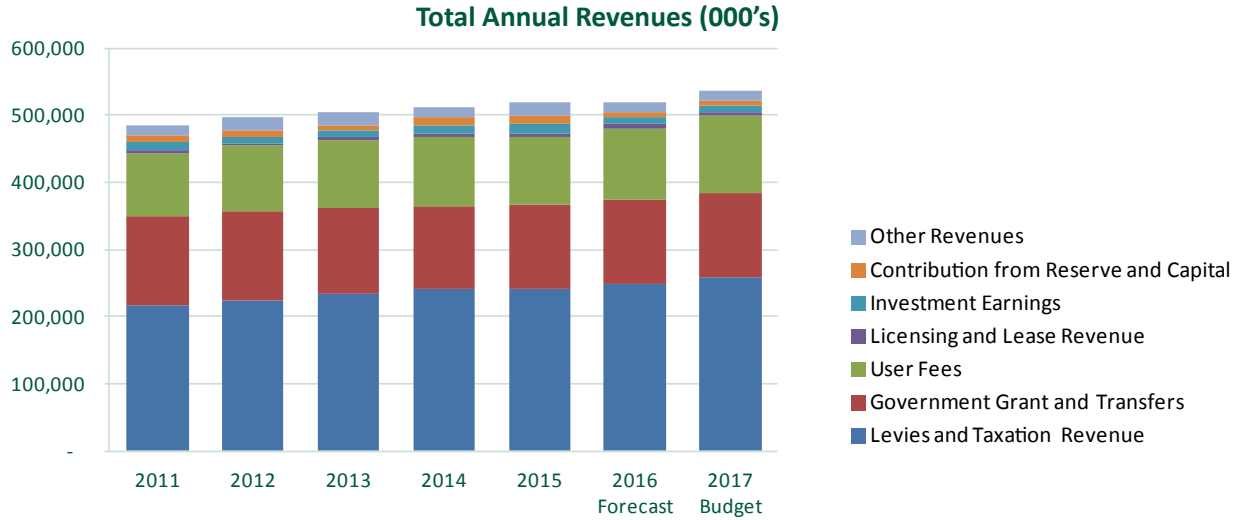
## Financial Position

### 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.

Revenues from property taxes and user fees have seen the greatest increase over the years. The 2017 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.

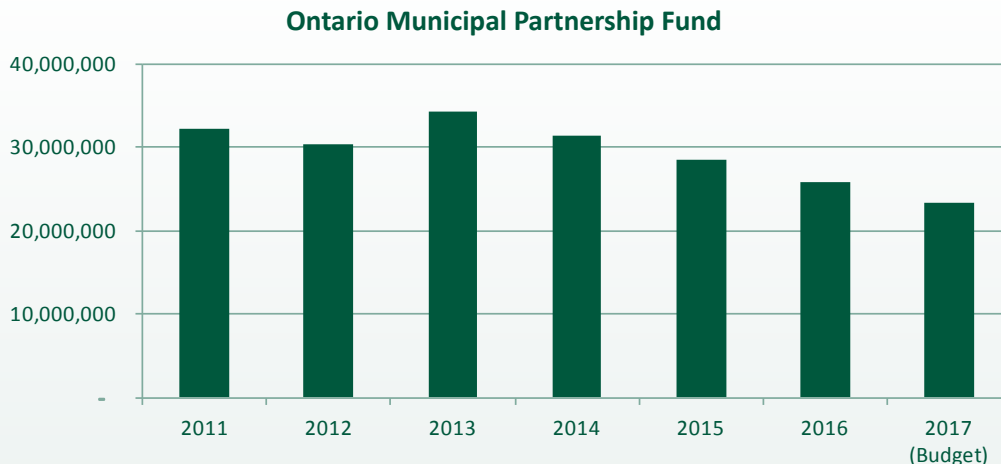


### Ontario Municipal Partnership Fund (OMPF)

The OMPF is the Province’s main unconditional transfer payment to municipalities which primarily supports rural and northern communities.

There is no anticipation that the Ontario government will vary from its current practice of allocation of the OMPF based on the municipality’s fiscal health.

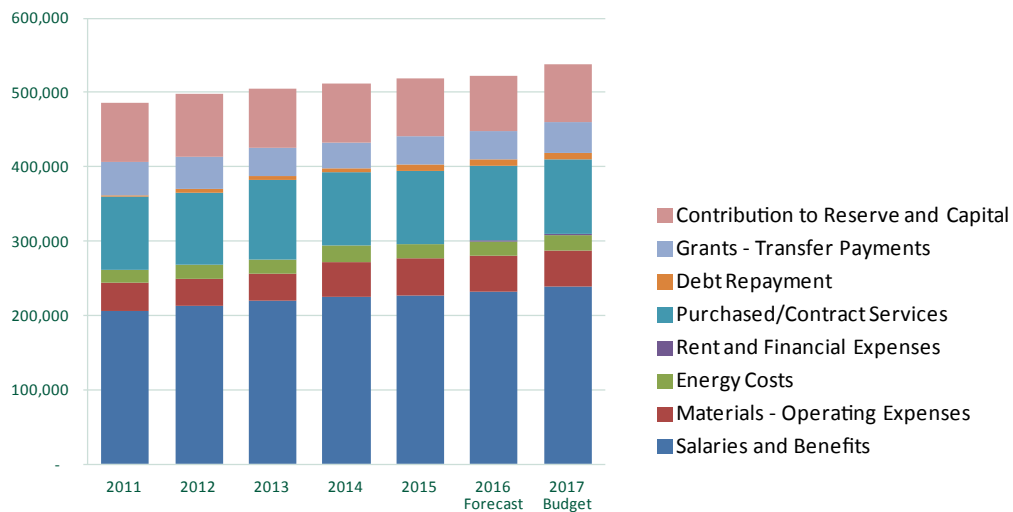
The Municipal Fiscal Circumstances Index, which determines the fiscal health of a municipality, uses trailing indicators, such as data received from the 2011 Census. For this reason, Greater Sudbury will reflect the same fiscal health as in previous years. As a result, staff are using a conservative estimate for loss of OMPF funding similar to 2016. This budget reflects 90.5 % of the 2016 OMPF allocation for 2017. This translates to a loss of \$2.5 million equivalent to a 1 % property tax increase.



### Expenses

The City's expenditures have increased over the past several years to maintain existing service levels.

**Total Annual Expenditures (000's)**



### Capital Assets

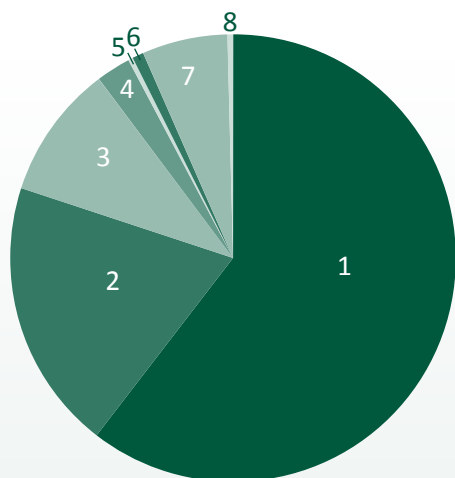
In 2016, senior levels of government announced significant amounts of capital funding from the federal and provincial levels of government, consistent with other municipalities in Ontario. The majority of this capital funding is one time and is required to be spent by March 31, 2018.

Prior to 2016, a reduction in funding from other levels of government meant the City used more of its own financing sources to cover infrastructure costs.

From 2012 to 2016, operating contributions to capital and reserves accounted for 80 % of capital funding. This will decrease to 61 % from 2017 to 2021. Funding from current operating contributions has increased from \$60 million in 2012 to a projected \$70 million in 2021.

In the figure that follows, the larger section of each pie chart represents the percentage of the City's resources which have been allocated, or are anticipated to be allocated, to capital projects. The No. 3 and 4 areas represent resources received from other levels of government.

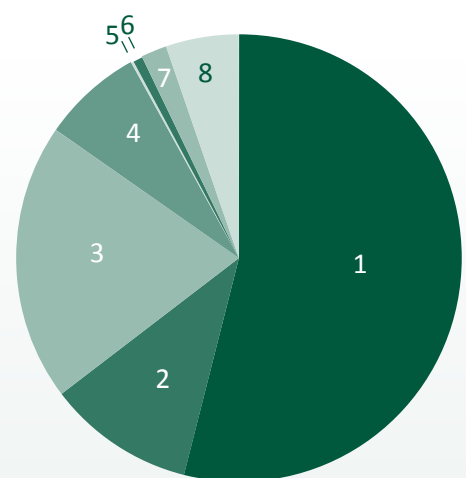
Council directed staff to present options for an additional capital levy of 1.5 % to advance key projects which is explained more thoroughly in the 2017-2021 Capital Budget section of this document.



2012 - 2016

### Capital Funding Sources

1. Capital Envelopes
2. City Reserve Funds
3. Federal Grants
4. Provincial Grants
5. Development Charges
6. Obligatory Reserve Funds
7. External Debt Financing/  
Future Internal Borrowing
8. Third Party Recoveries



2017 - 2021

## Reserves and Reserve Funds

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

- Provide stability of tax rates in the face of variable and uncontrollable factors, including consumption, interest rates, unemployment rates and changes in subsidies.
- 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 2017, reserves will fund \$33 million in capital projects. The net impact of the 2017 capital budget results in a reduction of City reserves and reserve funds.

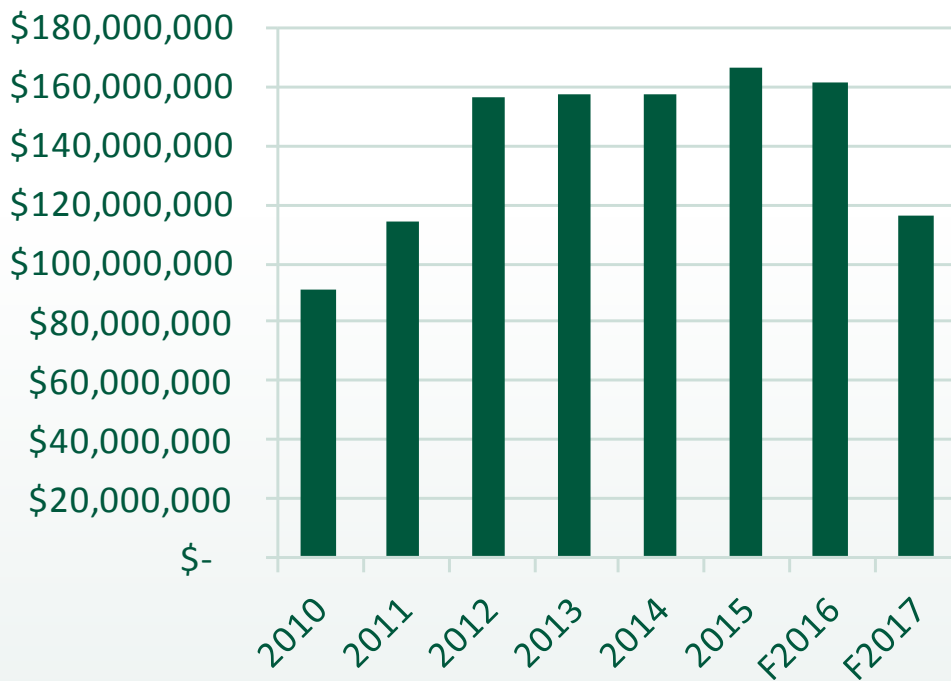
It’s important to note that a significant portion of the reserve funds are committed to previous Council approved capital and other projects. These funds remain in reserves and reserve funds until spent on the related project.

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 1.1.

	Debt to Reserve Ratio
Greater Sudbury	0.2
Median	0.7
Average	1.1

**Reserve Fund Balances 2010 – 2017**



## Debt Financing

The Debt Management Policy, approved by City Council in 2013, states that debt should be affordable and sustainable, and structured in a way that those who benefit from the asset pay for the debt. The policy also sets out the principles of debt financing in accordance with the City’s Long-Term Financial Plan. These principles state that debt financing should only be considered for:

- New, non-reoccurring infrastructure 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.

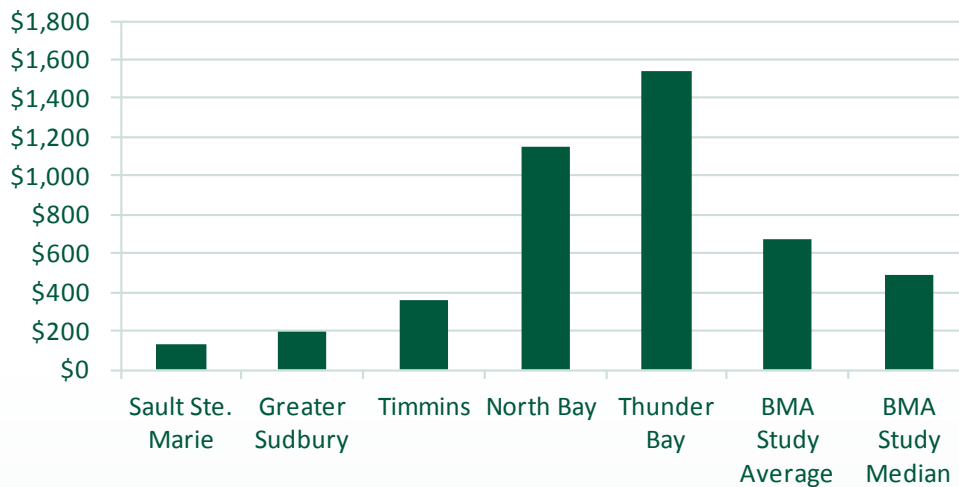
The City’s reliance on its own source of funding for capital investment has also impacted debt levels. While the issuance of debt can provide increased capital funding, the amount owing, plus the related interest must be paid off in future years from operating funds. Debt is a trade-off between increased 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 that debt financing could lower overall costs in certain circumstances. With interest rates continuing to be near historic lows, more municipalities are turning to debt to finance infrastructure requirements.

The City has an approved debt limit of 5 % of the City’s own purpose revenue. Based on the City’s current external debt, there is approximately \$140 million in debt capacity within the current 5 % debt repayment limit. Increased reliance on debt financing reduces future spending flexibility.

The City’s debt levels are very low compared to those of other municipalities. The chart below compares the City’s debt per capita to other cities in Northern Ontario. In 2015, the City obtained external debt for the Biosolids Management Facility (\$46.8 million) and the Transit/ Fleet Garage (\$14 million), for a total of \$60.8 million.

**Debt per Capita 2014**



	Tax Debt Interest as percentage of Net Revenues (2015)	Tax Debt Charges as percentage of Net Revenues (2015)
Greater Sudbury	0.3%	1.5%
Median	1.3%	3.2%
Average	1.4%	4.2%

## Development Charges (DCs)

DCs are established by municipalities in accordance with the Development Charges Act. These charges are collected when new development, redevelopment and expansions for residential and non-residential buildings or structures occur.

Most municipalities in Ontario use development charges 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 development charges is 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.

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. The actual development charges revenues collected during the year are then applied to fund any growth-related portion of the project as identified in the current Development Charges Background Study.

Development Charges Collected 2009 - 2015

