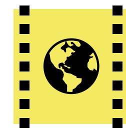
2020 Budget Overview

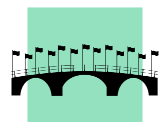
In addition to presenting the City's financial position, the budget acts as a tool to enable residents to build an understanding about how taxes are used to acquire new infrastructure, repair existing assets and provide daily services that significantly impact the quality of life in Greater Sudbury.

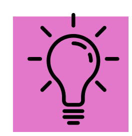
The 2020 Budget is our business plan for the year, demonstrating the costs associated with providing municipal services and the revenues to sustain these services.

The budget is shaped not only by services and their costs, but by the priorities outlined in the Strategic Plan (2019-2027) and the principles in our guiding documents. The seven areas of the Strategic Plan guide decisions about how to balance services and service levels with the investments needed to reach our goals:

- Asset Management and Service Excellence
- Business Attraction, Development and Retention
- Climate Change
- Economic Capacity and Investment Readiness
- Housing
- Create a Healthier Community
- Strengthen Community Vibrancy







The annual operating budget provides the money needed to perform routine operations and daily services. Approximately 47 per cent of the operating budget comes from property taxes, while the remainder comes from provincial and federal government grants and subsidies, user fees and other revenues.

The capital budget provides money for additional investments or projects for the year, such as road construction, recreation facilities, building upgrades and retrofits, and equipment renewal and replacements. The capital budget reflects staff's best judgment about enterprise-wide priorities. This means a team of experienced staff from across the organization collaborate to prioritize all capital budget requests against standard criteria. This produces a ranked list of projects the Executive Leadership Team reviews and, following an analysis of financing options, recommends for Council's approval as part of the 2020 Budget.

The 2020 Budget

The financial information throughout the document reflects choices in line with available resources, planned service levels, tax and user fee increases and other funding sources, to result in a balanced budget, in accordance with the Long-Term Financial Plan.

The municipal operating and capital budgets are prepared annually. City Council is also responsible for funding the budgets of our service partners including Greater Sudbury Police Service, Public Health Sudbury and District, and Conservation Sudbury (Nickel District Conservation Authority).

The first stage of the budget process includes receiving direction from Council regarding 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 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.

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 prepare comprehensive business cases.

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. Furthermore, the Finance and Administration Committee reviews a Capital Variance Report for completed projects.

For the 2020 Budget, Council has directed staff to develop a budget of no more than a 3.5 per cent property tax increase with options to reduce the tax increase to 3 per cent and 2.5 per cent. Staff are also recommending a 1.5 per cent special capital levy designed to address the infrastructure funding requirement, for a total property tax increase of 5 per cent.

What a 3.5% + 1.5% investment represents for taxpayers

Current Value of Your Home	$230,000	$350,000	$450,000
Annual			
2020 Property Tax Increase - 3.5%	$105	$159	$205
2020 Property Tax Increase with special capital levy - 5.0%	$150	$228	$293
Monthly			
2020 Property Tax Increase - 3.5%	$9	$13	$17
2020 Property Tax Increase with special capital levy - 5.0%	$12	$19	$24

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.

The capital fund is comprised of revenues and expenses relating to capital projects, as approved in the capital budget.

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 fees, 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 fees, 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 and we cannot 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 Schedule

May 2019

2020 Budget Direction set by Finance and Administration Committee

September 2019

Update to Finance and Administration Committee

Fall 2019

Get involved! Public input

November 6, 2019

Present proposed 2020 Budget to Finance and Administration Committee

December 3, 4, 5, 2019

Finance and Administration Committee budget deliberations

December 10, 2019

Council approval of 2020 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 2020 Budget, Council directed staff to develop a budget of no more than 3.5% property tax increase.
- As the process unfolds, Council receives updates and provides any feedback necessary to help staff prepare a recommended budget that reflects expectations about anticipated services, service levels and costs, in line with the Long-Term Financial Plan.
- At the conclusion of the process, Council reviews the recommended budget, makes any amendments required and approves the budget.

The Public's Role

Public engagement is essential in building trust and confidence with the community.

These opportunities give residents an opportunity to provide feedback, review and understand the tools staff uses to prepare the budget.

A variety of information channels are available to residents interested in learning how the budget and budget process relates to and affects the services that matter most to the community.

An online budget tool and survey, available at overtoyou.greatersudbury.ca is available to give residents an opportunity to balance the budget and identify spending priorities for the community.

A number of in-person engagement opportunities are also available to offer residents face-to-face interaction with key staff members to learn more about the 2020 Budget and to have questions answered. A list of events is available at greatersudbury.ca/budget.

Defining Services and Understanding Service Alternatives

The 2020 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 and accurate information to residents about services.

Core Services Review

In the second quarter of 2019, City Council directed staff to undertake a two-phase core services review.

Factors influencing this direction included:

- A perception that municipal services provide low value for money, combined with a view that taxation levels should not increase. If service improvements required higher funding levels, the review could identify how the corporation could reallocate available resources to provide the required funding.
- Greater Sudbury's property taxes remain below the provincial average. Council expressed an interest in exploring the potential for changing the municipality's services as a way of sustaining current taxation levels.
- Recognition that years of underinvestment in asset maintenance and renewal are catching up to us in the form of increased emergency repair requirements, service interruptions and dissatisfaction with service levels.
- Consistent annual deficits produced as a consequence of service demands, typically in response to weather events that drive higher maintenance costs, that require more resources than were included in the annual budget.

The first phase, which is now complete, included providing information about services, service levels and performance. The information contained in the phase one report identified a total of 58 services, 11 of which are legislated, mandated or required by senior levels of government, and 47 of which are traditionally offered by municipalities. A full list of these services and their details can be found in the Service Profiles tab of this document.

It also recommended seven areas in which to undertake an in depth third-party analysis, as part of phase two of the project. As approved by City Council, the following service areas are undergoing further review:

- Arenas
- Parks
- Recreation programs
- Assets and facilities management
- Roads operations and maintenance
- Community grants (including those provided by Economic Development)
- Long-term care

This second-phase analysis, which is currently underway, will assess service and service level in the context public interest and public policy considerations, rank services for potential reduction or discontinuation, and identify policy, human resource and financial impacts to generate efficiencies.

Phase two will also assess enterprise systems and make recommendations that will lead to systems that are sufficiently, appropriately integrated and that support routine time, attendance and staff activity reporting.

As part of the province's Audit and Accountability Fund, aimed at helping municipalities conduct independent reviews to find efficiencies, the City has secured $300,000 to pay a third-party to complete this work.

Monthly progress updates are provided to City Council, with a final report anticipated in the first quarter of 2020.

Key Investments in 2020

Roads

The 2020 Budget includes a $74.4 million capital investment in road construction and repair to improve the city's transportation network. From this, $43.7 million will result in the completion of several arterial and collector roads, as well as bridge and culvert rehabilitation projects throughout the community.

The budget provides funding previously approved by Council toward the Maley Drive Extension ($2.3 million) and Municipal Road (MR) 35 ($1.9 million) road projects. The Maley Drive Extension is expected to be open by the end of 2019, and construction of MR 35 is in progress.

Winter road maintenance

This year, $20.4 million has been allocated to winter road maintenance, up from $18.7 million in 2019.

In addition, the corporation will replace four snow plows and add one additional unit for winter road maintenance on the Maley Drive Extension to ensure current service levels in our community are maintained.

Community

Investments in recreation include funding for building upgrades at the Howard Armstrong Recreation Centre, Dowling Leisure Centre and Gerry McCrory Countryside Arena.

Other work includes a chiller replacement at the Sudbury Community Arena, as well as safety upgrades at various arenas throughout the community.

Environment

Several investments in watermain and sanitary sewers will replace aging infrastructure and improve quality of service in relation to water distribution and wastewater collection, as well as protect our environment.

The McNaughton Terrace Treatment Facility project will continue, and the the second phase of the Countryside drainage improvement project will begin, along with completion of various subwatershed planning studies and storm-related projects.

In addition, there are several investments slated for the Sudbury and Hanmer landfills, including work on the scales and the leachate treatment system.

Operating Budget

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

While the overall increase is consistent with previous periods, the 2020 budget is produced in a context which includes significant change in a number of areas which are placing upward pressure on the tax levy.

- **Assessment Growth:** The number of properties sharing in the total tax levy has remained roughly the same as 2019. Staff's initial guidance anticipated a 1% increase in the assessed value of properties and yet, values have increased by 0.8% for 2020.
- **Provincial Funding:** Recent announcements from the provincial government have resulted in overall budget pressures in a number of service areas. The uncertainty of future funding levels creates additional pressure as needs for service delivery and asset renewal requirements remain high.
- **WSIB Presumptive Legislation:** Legislation related to the Workplace Safety and Insurance Board, including chronic mental health, continues to put additional financial obligations on the City.
- **Employee Benefits:** Changes to employee benefits and increased utilization rates have resulted in increases to the benefit costs.
- **Winter Control:** The City continues to face pressures largely due to changes in the type and number of winter events we experience. A higher number of freezing rain events, more frequent thaw, and higher than average snowfall continues to put pressure on operations and the ability to meet service standards and road maintenance.
- **Aging Assets:** The municipality owns and maintains several assets that are nearing or are beyond their useful life. As they continue to age, the cost of maintenance increases, resulting in additional resources needed to maintain services and the potential for service disruption and costly emergency repair.
- **Energy Costs:** The introduction of the carbon tax has added additional financial pressures related to the continuous rising prices of unleaded fuel, diesel fuel and natural gas.

Base Budget Adjustments

As a result of these significant pressures, a number of proposed adjustments to services are included to meet the direction provided by Council for no more than a 3.5 per cent tax increase, with options to achieve a 2.5 per cent and 3 per cent increase. In order to meet the target of a 3.5 per cent property tax increase, the following adjustments are being recommended:

Base Budget Adjustments		
Adjustment	**Levy Impact**	**Description**
Children Services Mitigation Funding	1,472,594	Due to reduced funding from the Provincial Government, staff are recommending the use of the Children's Services' obligatory reserve in order to mitigate the impact on the tax levy.
Reduced Contribution to Capital	1,200,000	This reduction in annual funding reflects efforts to balance workload capacity and maintain affordable taxation levels.
Salary Gapping	1,000,000	Salary gapping is the unspent dollars resulting from position vacancies. This would not be applied to operations that require 24/7 services or programs that must maintain regulated staffing. A policy is currently being developed regarding the implementation of this initiative.
Reduction in Discretionary Budget in Social Services	175,000	This reduction represents less funding to participants in the Ontario Works program. The discretionary budget includes items such as dental services, funerals and burials, moving expenses, prosthetic appliances, vision care for adults etc.
Review of Crossing Guards	102,675	Staff believe a review of this service will produce operating cost savings.
Elimination of Social Planning Council Grant	50,000	This is an elimination to the grant provided to the Social Planning Council.
Reducing Hours of Operation for Arenas	30,000	This reduction is possible due to reclassifying Centennial and Dr. Edgar Leclair arenas from Class 1 to Class 2. Class 1 arenas are open Monday through Friday (9:30 a.m. to 3:30 p.m.), whereas Class 2 arenas are closed daytime Mondays through Wednesdays. This would result in a 12.2% reduction of available ice time at each facility.

Capital Budget Highlights

The Capital Budget outlines the investments Council is making now that will provide benefits for years to come. This involves spending on the physical structures that support our City, systems that will increase efficiencies, and strategies that will guide decisions. This includes renewal to extend the useful life of existing assets, as well as new project investments that have been identified as strategically important. Quarterly reports provide updates throughout the year relating to capital project investments and progress.

Renewal

Many of Greater Sudbury's municipal buildings and facilities, such as our arenas, pools, fire and paramedic stations, public works depots and Tom Davies Square, were constructed in the 1960s and 1970s. Many of these buildings are now nearing the end of their forecast useful lives. To keep them in use and in a state of good repair, it is reasonable to anticipate these aging structures require more maintenance as building components fail or just wear out. In some examples, the cost of maintenance or repair exceeds the cost of replacement. The Asset Management Plan, developed to address this reality, demonstrated infrastructure requirements of $1.9 billion at the end of 2016, with the requirements increasing to $3.1 billion by the end of 2026. Since 2016, governments have been dedicating additional funds for roads, water/wastewater, drains/stormwater and transit to address infrastructure needs in those areas. Greater Sudbury continues to invest in and seek funding from other levels of government to renovate and improve municipal facilities, and bring them to a state of good repair.

Key Projects

Roads – total budget for 2020 is $74.4 million, which includes:

- $24.7 million for arterials/collectors
- $19 million for bridges/culverts
- $4 million for large asphalt patches
- $5.3 million for local road rehabilitation and resurfacing
- $5 million for surface treatment
- $3.3 million for road work (that is combined with water/wastewater improvements being completed)
- $2.3 million toward completion of Maley Drive Extension Project
- $1.9 million continued funding for MR 35 (this is annual funding payments from 2019 to 2043)
- $3.4 million for road upgrades in relation to Lively sewer upgrades
- $600,000 for new sidewalks as previously approved by Council
- $800,000 for cycling infrastructure and transportation demand management

Drains – $4.6 million investment, which includes:

- $2.5 million toward the McNaughton Terrace Treatment Facility
- $1.2 million toward Countryside Drainage Improvements

Environmental Services – $1.4 million investment, which includes:

- $555,000 towards the Sudbury Landfill Leachate Treatment System
- $560,000 towards miscellaneous works at the Sudbury Landfill

Greater Sudbury Housing Operations - $910,000 investment, which includes:

- $550,000 towards stormwater improvements at 1960 Paris St.
- $360,000 for elevator modernization at 720 Bruce St.

Leisure Services - $2.4 million investment, which includes:

- $190,000 for new chiller at Sudbury Arena
- $104,000 for safety upgrades at various arenas
- $750,000 for building improvements at Howard Armstrong Recreation Centre
- $250,000 for replacing roof at Dowling Leisure Centre
- $559,000 for improvements at St. Joseph's Parking Lot Redevelopment
- $405,000 continued funding payments for past improvements at the Gerry McCrory Countryside Arena

Transit - investments of $7.8 million (pending ICIP Phase 2 funding approvals), which includes:

- $6.5 million for Accelerated Bus Fleet Replacement Program
- $534,000 towards initial 2020 spending for Bus Rapid Transit Corridors and Major Mobility Hubs

Paramedic Services - $827,000 investment, which includes:

- $510,000 for ambulances
- $267,000 for emergency response vehicles

Fire Services - $2.6 million investment, which includes:

- $1.5 million for Fire engine replacements
- $836,000 for fire tanker replacements
- $100,000 for new Hazmat vehicle as part of 2019 budget

Information Technology - $3.2 million investment, which includes:

- $1.3 million for Land Management Information System
- $256,000 for Meeting Management Solution (to replace AgendasOnline)
- $600,000 for Customer Relationship Management System
- $975,000 for Modern Employee Tools; Email Collaboration Mobility

Facilities - $2.3 million investment, which includes:

- $350,000 for elevator upgrades for 199 Larch St. and 190 Brady St.
- $260,000 for asset management and capital planning enhancements
- $1.2 million for TDS building improvements

Fleet - $4.8 million investment, which includes:

- $2.2 million for heavy duty trucks and equipment including snowplows, loaders and backhoes
- $920,000 for medium duty vehicles
- $775,000 for specialized and miscellaneous vehicles

Police - $2.9 million investment, which includes:

- $1.4 million for building renovations or new building (increase from $900,000 in 2019 budget)
- $858,000 for police fleet vehicles
- $208,000 for automation equipment

Police Communication Infrastructure - $1.1 million, which includes:

- $951,000 for the Voice Radio System replacement (previous commitment)
- $100,000 for Next Generation 911

Water - $19.7 million investment, which includes:

- $11.8 million for watermain replacement priority projects
- $1.6 million for watermain rehabilitation projects
- $600,000 for large water meter replacements
- $1 million toward well building repairs/upgrades and well inspection/rehabilitation
- $3.6 million spending toward the Automatic Meter Reading Water Meters replacement project

Wastewater - $20.7 million investment, which includes:

- $8.1 million toward sanitary sewer replacement and rehabilitation projects
- $3 million toward lift station upgrades
- $1 million for lagoon upgrades
- $2.7 million for various wastewater treatment plants, including Copper Cliff and Sudbury
- $3.6 million toward the Automatic Meter Reading Water Meters replacement project

The Junction, which includes:

- $11.6 million for design of both buildings (the Library/Art Gallery and the Convention and Performance Centre)

Long-Term Financial Plan

The corporation maintains a long-term financial plan that provides a 10-year outlook of anticipated revenues and costs to help build understanding of future financial implications of today's choices and decisions. This planning helps manage resources over the long-term and provides more flexibility to meet infrastructure requirements while maintaining a manageable level of debt to support ongoing services and fiscal sustainability.

The updated plan covers 10 years, 2020 to 2029, and incorporates projected funding requirements, tax levy increases, and reserve balances under the current financial model. Staff uses this information as a benchmark for operating and capital budgeting and forecasting.

The following additional financial strategies were highlighted in the 2017 plan and the actions taken to date are noted below:

1. **Implementation of stormwater management fees.**

- Work continues on the stormwater sustainable funding study in 2020, working toward the implementation of fees targeted for 2022.

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.
- Property tax ratios are adjusted to ensure fairness to the residential taxpayer and not inhibit commercial or industrial development.

3. **Capital financing: using debt to fund the infrastructure renewal/replacement requirement.**

- The use of debt was approved in 2018 for reconstruction of Lorne Street, improvements to Municipal Road 35 and the replacement of the Sudbury Community Arena. In 2019, debt was approved for bridge refurbishment. The 2020 budget has over $35 million of new debt for numerous infrastructure renewal projects, including the continuation of bridge refurbishment and the rehabilitation and reconstruction of arterial, collector and local roads.

4. **Introduction of a capital levy to fund the infrastructure renewal/replacement requirement.**

- For 2020, staff is recommending a 1.5 per cent special capital levy in the form of increased property taxes to be used on the roads infrastructure requirement. This recommendation is consistent with prior years and aligns with direction from Council.

5. Infrastructure and service rationalizations: analyzing current service levels of arenas, community centres, playgrounds, roads, municipal fleet and others.

- The City is in the process of completing a service level review with final reporting due in early 2020.
- There has been success in selling surplus properties and decreasing the municipal fleet.
- The Long-Term Financial Plan incorporates key goals and objectives while being fiscally responsible and sustainable.

Debt Financing

City Council has recently appoved increased debt financing for several projects. The information below provides important details and context on how debt financing affects our overall financial position.

The corporation has a debt management policy that limits borrowing so that it represents no more than 10 per cent of annual net revenue, which is well below the provincially-imposed maximum for municipalities of no more than 25 per cent of net revenue. The main principles of the Debt Management Policy states debt should be affordable, sustainable and structured in a way 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 previous 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 should lower overall costs in certain circumstances. Although interest rates have fluctuated recently, they remain near historic lows and the City will access debt markets while rates remain low.

In 2018 and 2019, the municipality 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.

In reviewing the City's financial position and projected debt levels S&P noted the following in the Rating Score Snapshot:

S&P Key Rating Factors	S&P Assessment of Greater Sudbury's Financial Position
Institutional Framework	Very predictable and well-balanced
Economy	Strong
Financial Management	Strong
Budgetary Flexibility	Strong
Budgetary Performance	Strong
Liquidity	Exceptional
Debt Burden	Very Low
Contingent Liabilities	Low

This rating anticipates tax-supported debt burden will remain modest and that financial management practices will remain strong. It also anticipates 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, such as significant exposure to the mining industry and the volatility in base metal prices, as well as other subjective factors.

The table below details current outstanding debt and long-term financing commitments. These obligations total $64.3 million and require repayments of $8 million per year.

Debt Financing

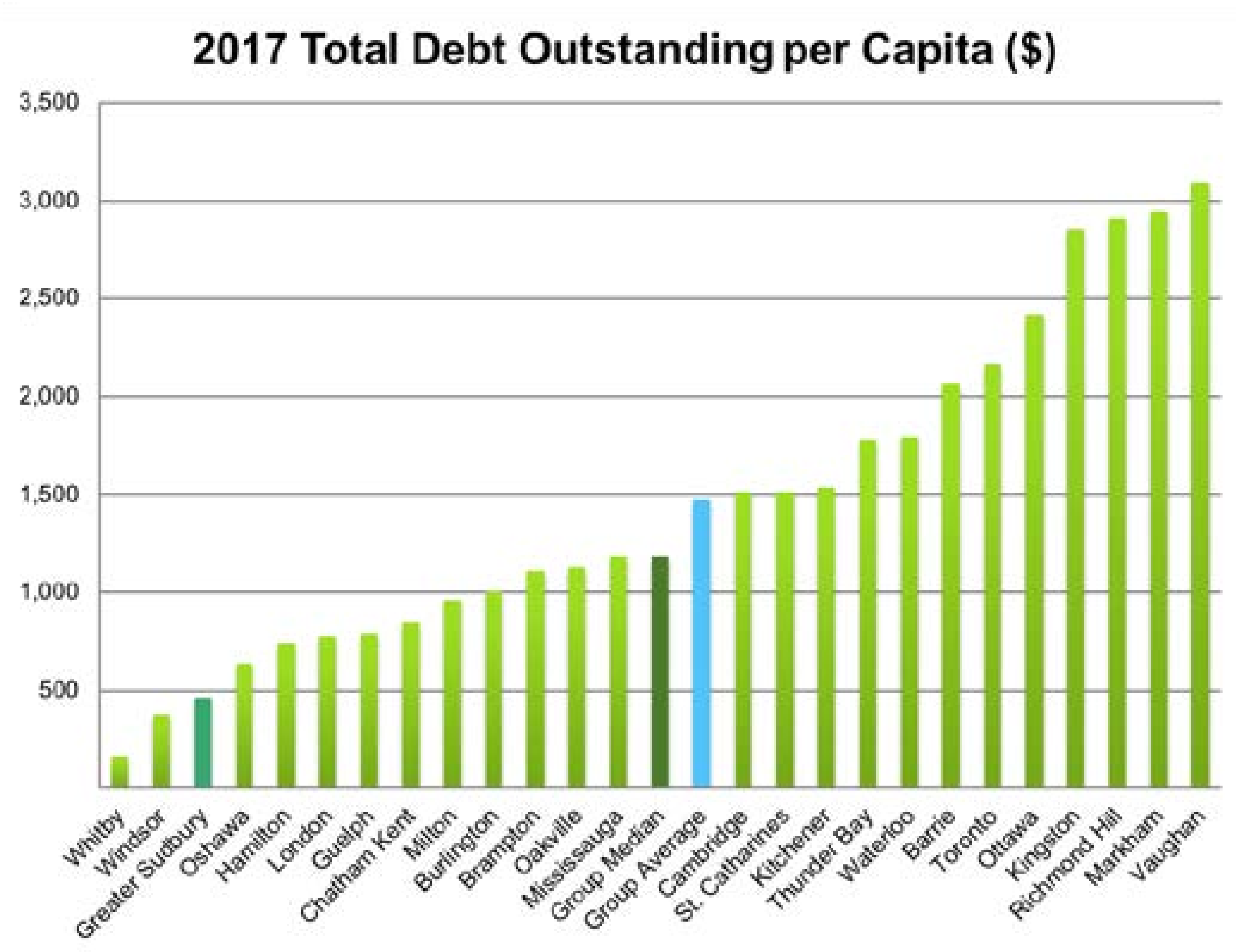
Project Name	Term (Start Date - End Date)	Total Principal Amount Borrowed / Committed	Total Outstanding as of Dec 31, 2019	2020 Debt Payment
External Debt (000's)				
199 Larch St.	2003-2023	17,261	4,307	1,456
Pioneer Manor	2004-2024	10,000	3,578	818
Purchase of Falconbridge wells from Glencore (Xstrata)	2009-2025	2,000	807	181
Purchase of Onaping wells from Glencore (Xstrata)	2010-2029	2,175	1,292	173
1160 Lorne St.	2015-2035	14,000	11,511	940
Biosolids Plant	2015-2035	46,781	39,111	3,456
		92,217	**60,606**	**7,024**
Long Term Financing Commitments (000's)				
Health Sciences North	2001-2023	26,700	3,700	1,000
	Total	**118,917**	**64,306**	**8,024**

Over the last three years, Council has approved a number of projects to be paid for using external debt financing. The approved amount and forecast annual payments follow:

Project	Long-Term Borrowing	Annual Payment	Budget Year Approved
Place des Arts	$5.0 million	$350,000	2017
Arena/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
Bridges and Culverts, Replacement and Rehabilitation	$6.9 million	$433,000	2019
The Junction	$68 million	$3.95 million	2019
Total	**$210.7 million**	**$12.5 million**	

The 2020 Budget includes debt to be issued for numerous infrastructure renewal projects including the continuation of bridge refurbishment and the rehabilitation and reconstruction of arterial, collector and local roads. The debt for these projects total $35.2 million and would require $1.8 million of debt repayments per year when complete. Under current debt limits, borrowing capacity will still be in the range of $300 to $325 million after funding for these projects has been obtained.

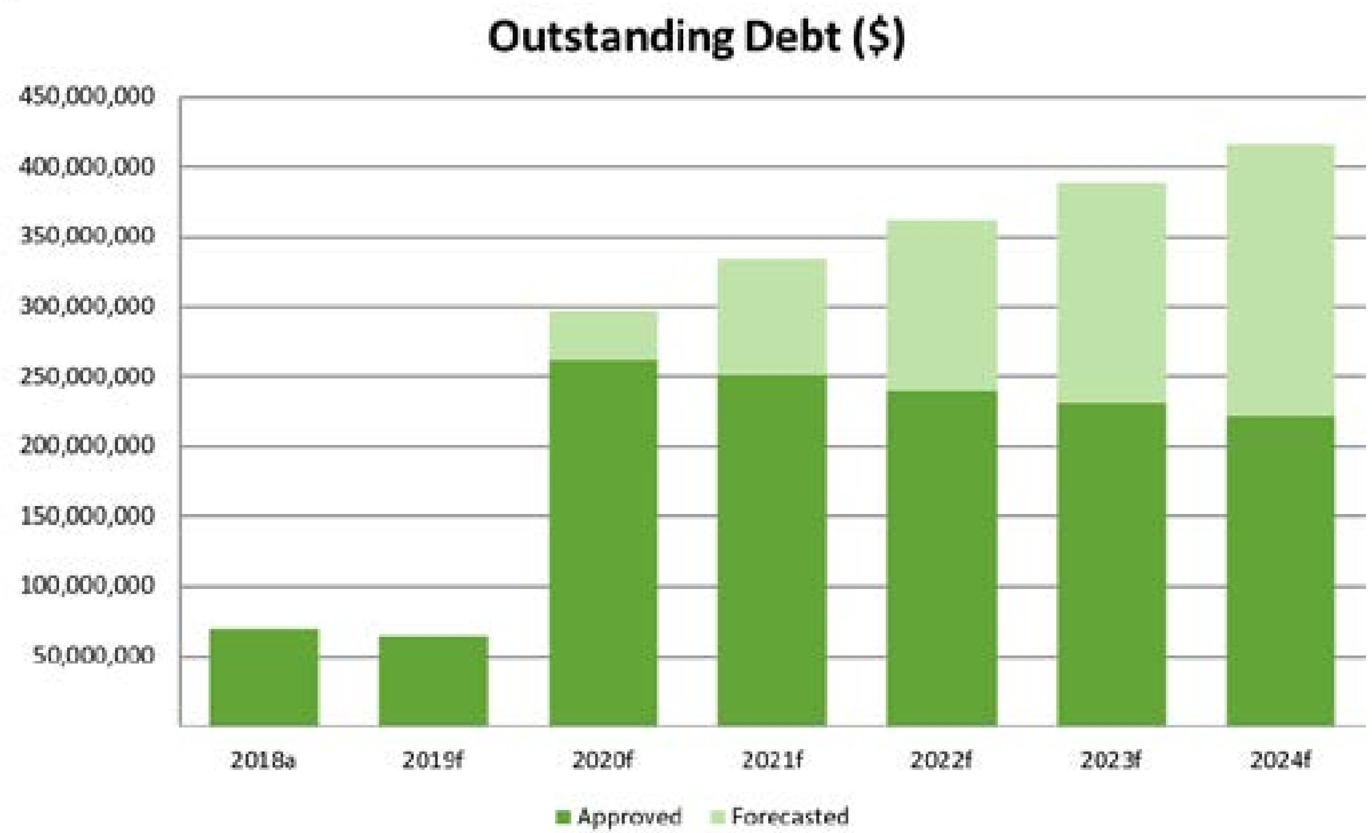
The current debt per capita is much lower than other municipalities with a population over 100,000. Due to continuing low interest rates, Council approved the recommendation to secure all previously approved debt at current low interest rates and this is expected to occur in Q1 2020, at the latest. Once the previously approved debt and the 2020 recommended debt is issued, the debt per capita is projected to increase to over $1,800 compared to $460 in the most recent BMA Study.



Source: 2018 BMA Study

The corporation's planned use of debt keeps it well within the limits imposed by its own policy, and maintains significant flexibility to use debt financing for future needs, should Council wish to do so. For illustrative purposes, the charts below show the impact of the debt discussed above and the impact of incurring a further $40 million of debt dedicated for infrastructure renewal in each of the next four years. Based on a conservative interest rate forecast, the impact on the tax levy in 2021 to 2024 would range between 0.6 per cent and 0.8 per cent per year. The total debt is shown in the outstanding debt graph below.

	Tax Debt Interest as Percentage of Net Revenues	Tax Debt Charges as Percentage of Net Revenues
Greater Sudbury	0.3	2.6
Median	1.0	3.8
Average	1.2	4.4



Priorities and Challenges

Asset Renewal and Financial Viability

A history of minimizing property taxes has prompted the deferral of a variety of needed asset renewal investments. The City has a significant level of capital asset and infrastructure renewal requirements. This includes the renewal and replacement of roads, water and wastewater mains, equipment and facilities.

The risk of service interruption can be managed with asset management plans and an investment strategy for asset replacement that, over time, reduces the likelihood of asset failure.

The Asset Management Plan (2016), was produced by KPMG in conjunction with staff. The plan reflects an approximate level of the financial requirements associated with maintaining assets in a good state of repair. The asset management plan identifies a 10-year infrastructure need of $3.1 billion that includes an immediate infrastructure renewal requirement of $1.9 billion.

On December 13, 2017, the province approved O. Reg. 558/17: Asset Management Planning for Municipal Infrastructure under the Infrastructure for Jobs and Prosperities Act, 2015. We have been working to develop asset management plans for all of infrastructure assets that comply with legislation. This includes describing the asset's expected performance level based on technical data. The implementation of asset management planning will address the unmet infrastructure needs that increase the risk of service interruptions due to asset failure, or lower quality service provision due to poor quality assets.

Additionally, annual maintenance costs are increasing as infrastructure continues to age past its useful life. The asset management plan provides strategies to manage these ongoing pressures with life-cycle analysis and a risk framework prepared to identify, understand and manage the risk of service interruption or failure.

The City is responsible for the maintenance and operation of assets amounting to $10.1 billion (replacement cost). These assets are critical for the delivery of service levels expected by the residents of Greater Sudbury.

Like most Canadian municipalities, we must overcome multiple challenges in managing assets including:

- Aging infrastructure
- Expectations of higher levels of service with minimal financial impact
- Increasingly demanding and complicated legislation with environmental requirements
- Mitigation of the increased risk involved with the execution of service delivery

Employee Engagement and Retention

A city is dependent on the skills and loyalty of its municipal workforce. A great employment experience drives a great citizen service experience.

Fifteen per cent of the City's workforce is eligible to retire in the next five years. Many of these are longer service employees filling key managerial and technical roles. Maintaining service levels in the coming years without proactive strategies to improve recruitment, retention and development of employees with the necessary skills will be critical. To begin to address this risk, various initiatives across the organization aimed at talent management and development, including training to develop future leaders and succession planning, have been implemented.

In addition, we are taking a proactive approach to preparing our workforce for the future. Staff is finalizing a Human Capital Management Plan to ensure we have the right people in place to achieve future strategic priorities.

Risk

There are a number of risks that, if realized, could affect our ability to sustain current service levels.

Asset Condition

Although the Asset Management Plan has been presented, there is still an absence of thorough asset condition information on the majority of assets. There is a risk that one or more assets could deteriorate or even fail, resulting in a reduction of service to residents. The development of strong asset condition information, and plans to address asset weaknesses, is a priority in the coming years.

Base Metal Prices

Base metal prices, overall, fell in the first three quarters of 2019, compared to the 2018 average. The price of nickel, the mineral on which Greater Sudbury's economy was built, has recently been trading at a higher commodity price than the average of 2018. Based on World Bank data, the following highlights are provided for context:

- The 2018 average represents a price of $5.96/lb;
- The third quarter of 2019 represents an average price of $7.11/lb.

Assessment Growth and Economic Development

The last five years have reflected somewhat muted assessment growth in the city, and the cost to provide services to residents continues to increase. With low assessment growth, economic development activities take on greater importance as new taxable assessment helps spread the cost of municipal services over a broader tax base. Economic growth through new private sector investments is needed to help sustain very affordable taxation levels.

Ontario Municipal Partnership Fund (OMPF)

In the last five years, the City of Greater Sudbury has seen a reduction in its Ontario Municipal Partnership Fund annual funding of $7.1 million, from $28.4 million to $21.3 million. Given the recent trend with provincial funding, we are at risk of receiving a reduced OMPF allocation, which may result in more pressure on tax payers. To offset this reduction, service adjustments or increased revenues from other sources are required.

Project Delivery

The scale of the capital plan is significant and continues to fluctuate. The available staffing resources to deliver the capital plan has seen minimal change year over year. Additional costs may be incurred if projects are not completed based on the timelines estimated in the capital plan.

Interest Rates

Council has approved the use of debt to fund significant projects, including The Junction and the bridges and culverts replacement and rehabilitation program, among others. Council has approved borrowing for these projects now since interest rates have stayed low through 2019. Securing debt at the current low rates will reduce the risk of market fluctuations in the future thanks to a 30 year stable interest rate guaranteed through Infrastructure Ontario.

Our current public debt rating of AA stable is viewed as a sign of financial stability. This rating presents a number of beneficial options for the overall financing plan, including borrowing funds today to secure a firm rate for 30 years and securing debt with funds to be borrowed in 2020.

If the results of a request for proposal do not yield the desired effect, the City may engage a financial institution to assist in issuing debentures.

Provincial Funding

Staff continuously monitors changes in funding announced by the province of Ontario due to the concerns with the size of the forecast provincial deficit. The 2020 Budget includes the impact of the provincial government's plan to eliminate the projected deficit. These pressures impact public health, child care and land ambulance as of January 1, 2020 .

Cybersecurity

Cybersecurity risk is increasing. Five municipalities in Ontario reported cyberattacks in the last year. In 2017, the Chartered Professional Accountants (CPA) Canada assessed the average cost of a cyberattack at approximately $6.1 million with costs anticipated to increase. Cybersecurity threats can result in serious disruption to services, prolonged investigations and data theft.

Enterprise Risk Management

It is important to acknowledge that every activity carries some degree of risk in which municipalities are continually exposed. To best support Council and staff in identifying, recognizing, evaluating and mitigating risks, the City has developed an Enterprise Risk Management (ERM) policy.

The policy, which includes the development of an ERM framework, ensures that managing risks is a routine part of decision-making. The framework includes the tools required for decision makers to proactively manage risk that could have adverse impacts on strategic goals.

Growth Management and Economic Development

Within this economic context, Greater Sudbury's employment and population is expected to grow modestly over the next 20 years. This growth will be driven by labour force turnover and ongoing economic development efforts. At the same time, the population will continue to age. It is expected that this aging and trend toward smaller housing types will generate demand for new housing.

Given the city's relatively low growth, the municipality must find ways to manage costs and improve revenue growth.

The municipality has undertaken an update of its population, household and employment growth projections to the year 2046 based on data from the 2016 Census. The City of Greater Sudbury Outlook for Growth to 2046 report will be used to inform capital, service level and policy planning. The major findings of this report are:

- The city stands out as the only major urban area in northern Ontario with a growing population. By contrast, Thunder Bay, Sault Ste. Marie, Timmins and North Bay have either experienced no increase or a declining population since 2001.
- Over the next 30 years, Greater Sudbury is expected to grow by between 6,900 to 15,000 people, 6,000 to 8,400 households and 6,400 to 11,000 jobs under modest and high growth scenarios.
- Mining continues to be the most important economic factor affecting the growth outlook for Greater Sudbury. It creates variability with respect to the city's economic outlook, and over the longer term can be influenced by resources outside of Greater Sudbury, such as the Ring of Fire west of James Bay.
- Greater Sudbury acts as a regional service centre for nearby municipalities including North Bay and Sault Ste. Marie, and provides a draw with additional amenities. This regional service function provides some stability to the long-term growth outlook.
- The age structure of the population will have a wide range of influence on how Greater Sudbury grows, specifically regarding housing demand.

Measuring Performance

The City of Greater Sudbury is committed to continuous improvement, and the best way to make things better is by measuring progress toward goals and objectives. Key performance indicators (KPIs) allow for measurement and comparison across municipalities, thereby building understanding about the delivery of municipal services, and providing context for decision making.

Performance Dashboards

Monthly dashboards are released to the public to illustrate information about different services. Infographics provide easy to understand context and timely information, including comparisons to other similar-sized cities, to offer a perspective on the service experience users can anticipate. Dashboards are featured in our newsletter, City Connect, available on the website.

MBNCan

Municipalities share information with each other to help the whole sector improve its performance. To make the most of this, Greater Sudbury is part of a network of municipalities that uses standard data collection and reporting methods to compare service performance and share expertise. Membership in the Municipal Benchmarking Network Canada (MBNCan) provides Greater Sudbury with ready access to staff expertise and experience in other communities. It also provides data we need to help us make meaningful measurements and comparisons. The benchmarking network collects data for 36 program areas and provides comparisons with up to 16 other municipalities across the country. It helps highlight opportunities for improving service performance and demonstrates transparency and accountability to taxpayers.

BMA Study

Greater Sudbury participates in a yearly study performed by BMA Management Consulting Inc. that analyzes financial performance. The BMA Study assesses Key Financial Indicators that help evaluate our existing financial condition and highlight possible future challenges and opportunities. This includes assessing our Sustainability, Flexibility and Vulnerability, and provides provincial context in terms of overall averages, as well as comparisons across the north. Data is collected from Financial Information Returns filed with the Ministry of Municipal Affairs and tax roll assessments provided to 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 property taxes.

Financial Position

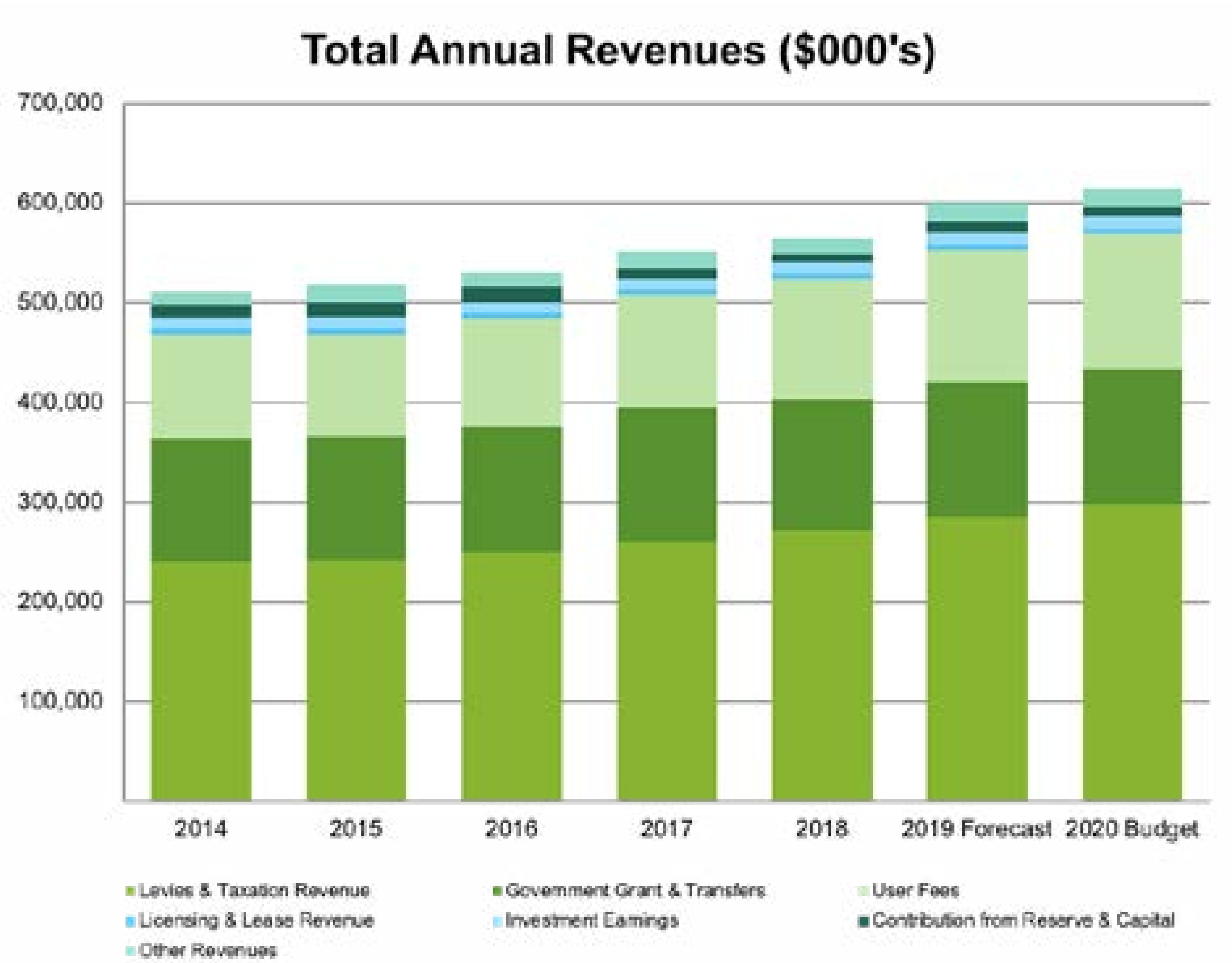
Revenues

Revenues are used to provide and maintain existing service levels and sustain infrastructure.

The most significant revenue source for most municipalities is property tax, which accounts for 47 per cent of the proposed 2020 Operating Budget.

Revenue is also generated from user fees for services such as water and wastewater, transit fares, parking, fitness, recreation and leisure programs, facility and field rentals, cemetery services, event tickets, licensing and permits.

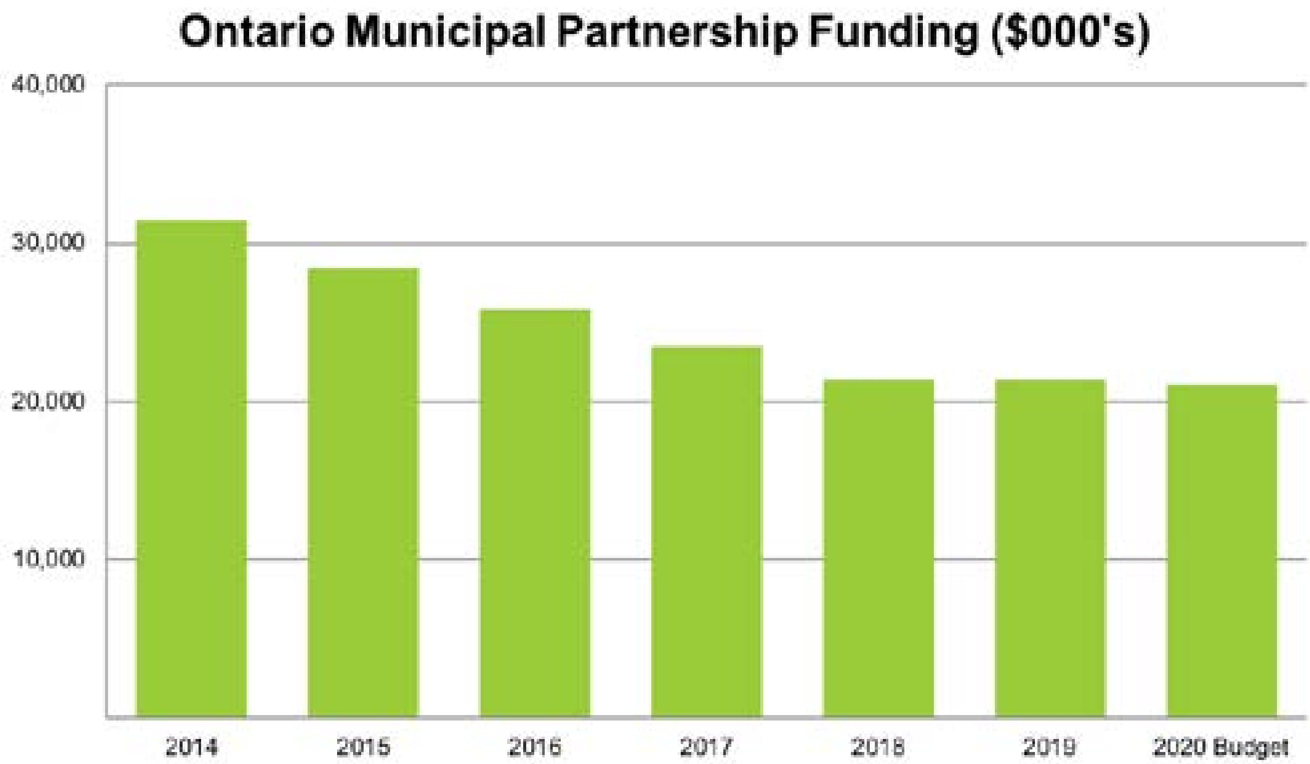
Other revenue comes from various avenues including government transfers and investment earnings.



Ontario Municipal Partnership Fund (OMPF)

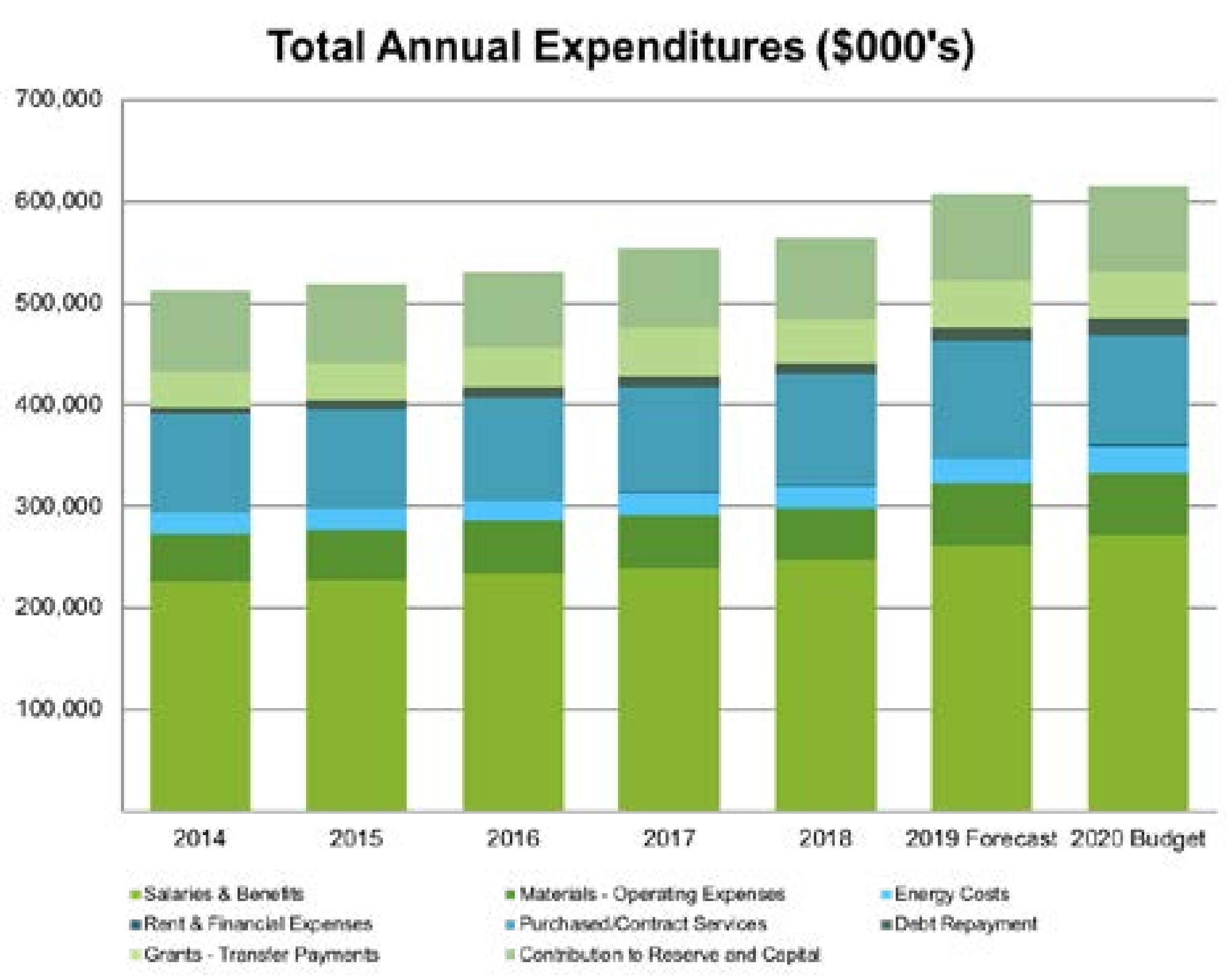
The OMPF is the province's main unconditional transfer payment to municipalities, which primarily supports rural and northern communities.

Staff anticipates 2020 funding levels will be generally consistent with 2019, based on the current formula in place and discussions with the Province.



Expenditures

Expenditures have increased during the past several years to maintain existing service levels.



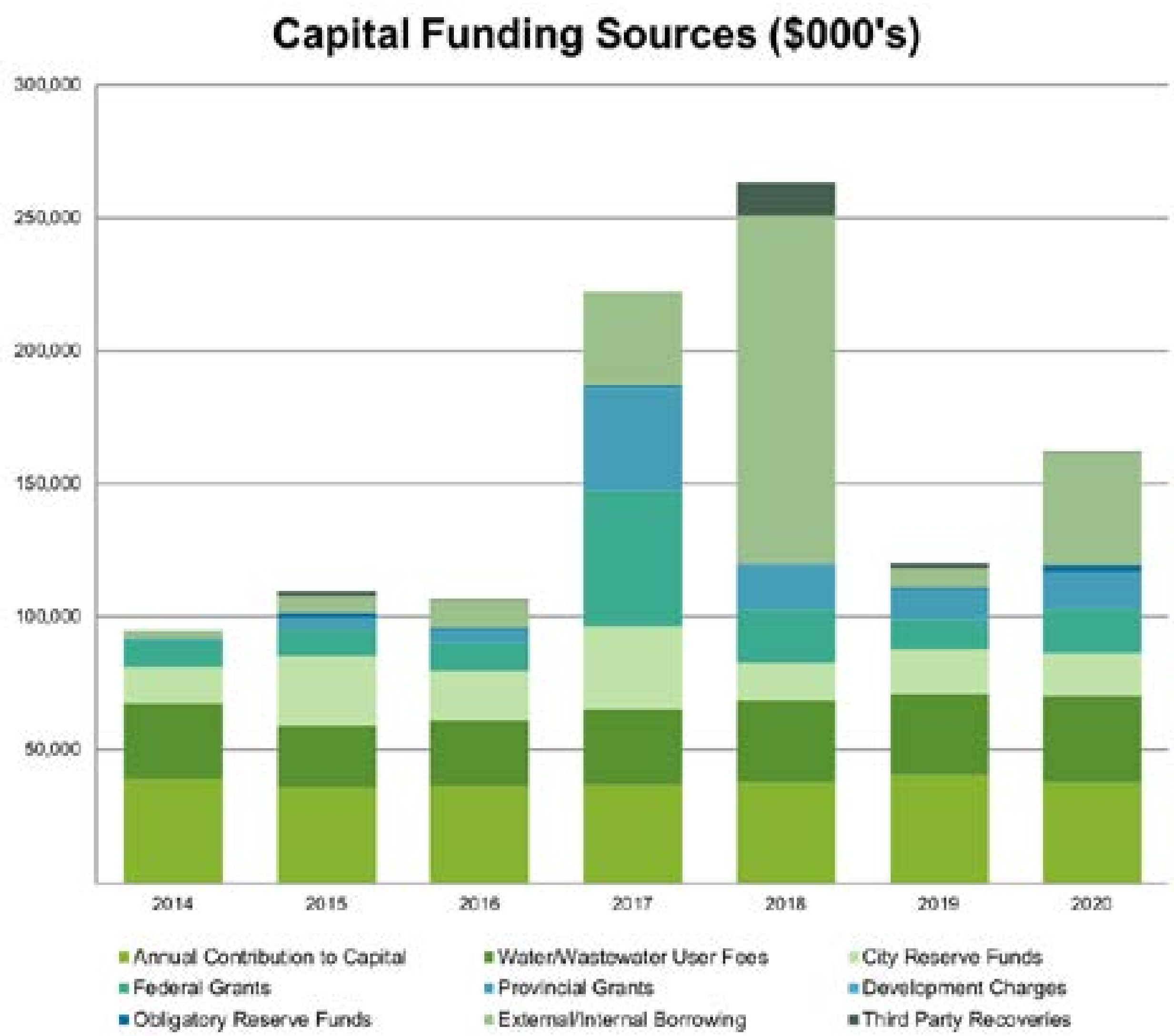
Capital Assets

The capital budget represents investment in capital assets, including roads, buildings, water and wastewater pipes and facilities, equipment and vehicles, as well as facilities.

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 we use more of our 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 operating budget, funded from the property tax levy or as a reallocation from contribution to capital to fund the new debt repayments. The intent is to maintain capital funding to address aging infrastructure replacements.

The graph below illustrates the increase to the capital budget over the years and how it has changed 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 per cent 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).



Reserves and Reserve Funds

Reserves and reserve funds are a critical component of a municipality's long-term financing plan. These funds are set aside to help offset future capital needs, obligations, pressures and costs.

A reserve is generally used either to mitigate the impact of fluctuations in operating costs and revenue, or to accumulate funds for future or contingent liabilities.

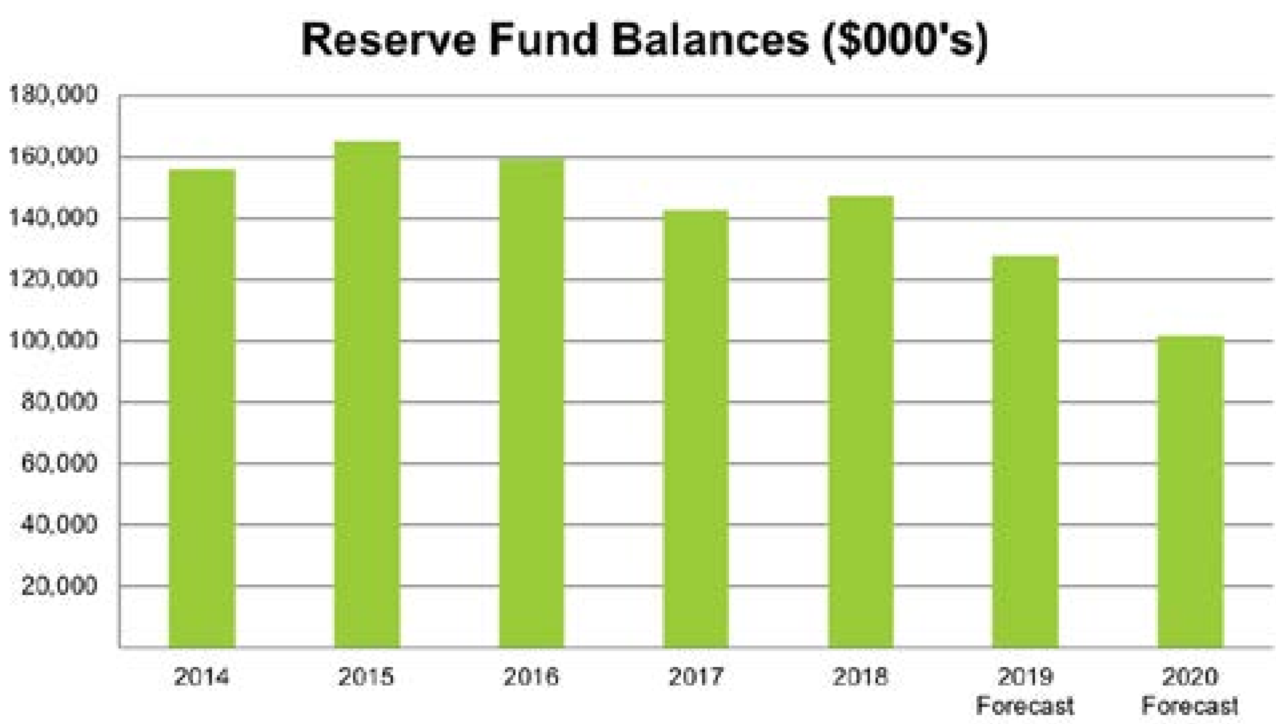
Reserve funds are segregated and restricted to meet a specific purpose:

- 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 2020, reserves will fund $16.2 million in capital projects. The net impact of the 2020 Capital Budget results in a reduction of reserves and reserve funds.

It is important to note that a significant portion of the reserve funds are committed for 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.



Development Charges

Development Charges are fees collected from developers before a building permit is issued to help pay for infrastructure costs needed for new development such as roads, transit, water and wastewater, and emergency services. The fee is applied to new development, redevelopment or expansions for residential and non-residential buildings.

Development charges provide municipalities with a tool to help fund the infrastructure needed to serve new growth. Most municipalities in Ontario use development charges to ensure that 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. This means developers pay a portion of capital costs associated with new growth and development, while taxpayers fund capital infrastructure.

Growth-related capital costs are costs that result from the expansion of services to meet the needs of new development and overall increase in the population, households and employment. These capital costs are reduced by provincial and federal grants and other sources of funding (plus deductions required by the Development Charges Act) to determine development charges.

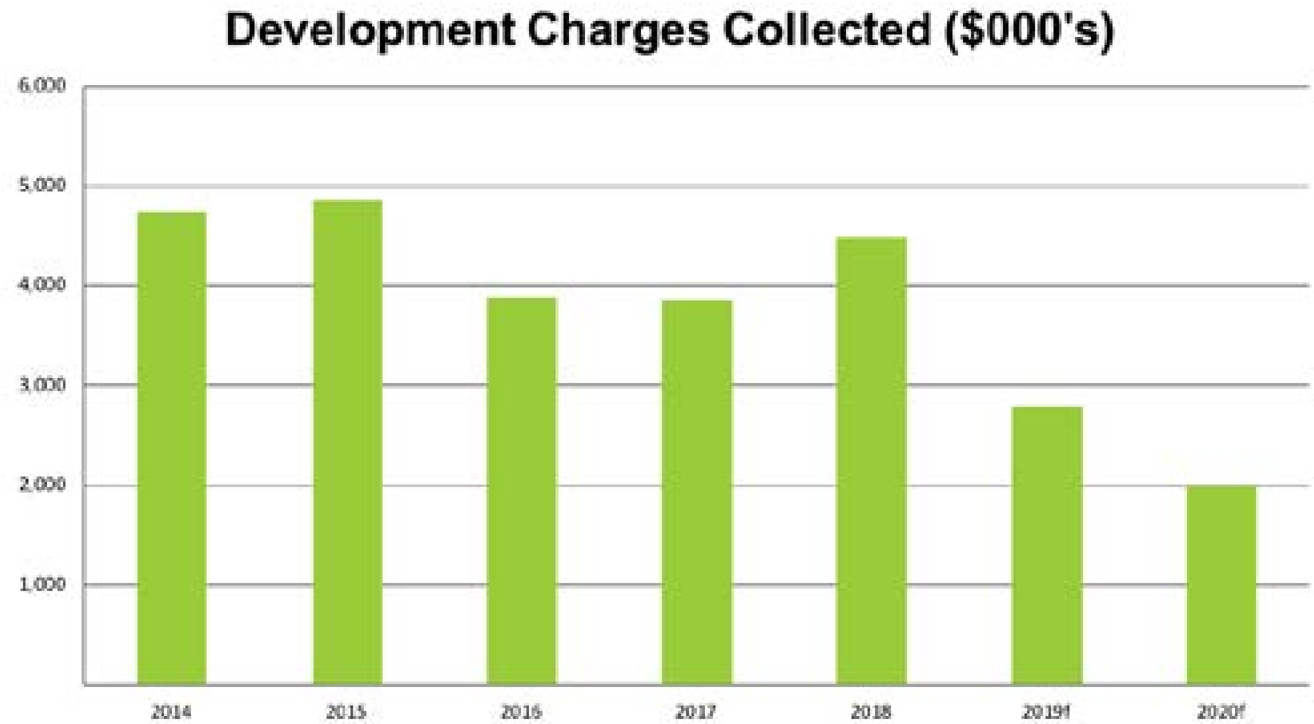
In the current by-law, Development Charges are levied on the following municipal services: water, wastewater, roads, police, general government, libraries, fire, recreation, emergency services and transit.

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.

A number of infrastructure projects are anticipated to be funded through development charges, including the Maley Drive Extension, Municipal Road 35, Second Avenue, the Countryside stormwater pond and channel, and various water and wastewater plant upgrades.

The Development Charges By-law expires every five years. The most recent renewal came in June 2019. At that time, City Council approved the lowering of development charges for non-residential buildings (industrial, commercial and institutional) by 50 per cent. Other updates to the by-law include:

- A new rate for single-family and semi-detached dwellings, less than 1,000 square feet;
- A 50 per cent reduction for multi-unit residential buildings along nodes or corridors with a 100 metre set back from the corridor; and
- Exemptions for hospices and non-profit long-term care homes which do not pay property taxes.



Financial Condition

The Public Sector Accounting Board (PSAB) has a Statement of Recommended Practice, which offers guidance to public sector entities in support of 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 for a description of the calculation of all financial condition indicators.

Sustainability

Sustainability is the ability of a municipality 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 this ratio has historically remained much stronger than the average and median of all municipalities in the BMA Study. This ratio provides an indication of the affordability of future municipal spending. The asset consumption ratio shows that the City's assets are not being replaced as quickly as comparators. This ratio seeks to highlight the aged condition of the stock of physical assets. The ratio of financial assets to liabilities at 1.66 is higher than the recommended range of 0.75 to 1.5, and much higher than the comparators. This presents the possibility that we are more liquid than its competitors or the level of debt is not as high. Either scenario results in the opportunity to secure more debt and still remain within the recommended range of the Long-Term Financial Plan. Another ratio that creates a similar interpretation is the ratio of debt to revenue, which 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 debt relative to the size of the community. The long-range financial plan includes repayment of all debt in its forecasts. Although we do not have an exact comparison to similar municipalities, the Association of Municipal Clerks and Treasurers of Ontario (AMCTO) presented a debt per household amount of approximately $1,500 (June 2018) for municipalities with stable population growth.

It should be noted that many of these ratios will change to be more in line with the median as the debt approved in prior budgets and proposed in the 2020 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 comparable municipalities. Without additional debt, assets will continue to age, the risk of service interruptions will grow and the cost of maintaining those assets will increase.

Sustainability

BMA Study	2014	2015	2016	2017	BMA Average	BMA Median
Financial Position Per Capita	$906	$1,042	$1,226	$1,162	$435	$651
Net Financial Liability Ratio	(0.39)	(0.45)	(0.50)	(0.47)	(0.40)	(0.34)
Asset Consumption Ratio	49.3%	48.6%	55.0%	55.4%	43.8%	43.1%

PSAB Indicators	2014	2015	2016	2017	2018
Ratio of Financial Assets to Liablities	1.54	1.62	1.67	1.66	1.66
Ratio of Debt to Revenue	0.06	0.16	0.15	0.13	0.12
Debt Per Household	$434	$1,178	$1,096	$1,027	$1,012

Source: 2018 BMA Study

Flexibility

Flexibility is the ability of a municipality to increase its financial resources to address additional commitments and change service levels. This is done by increasing property tax revenues, increasing reserve balances 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 the we do not have as much flexibility as the comparators to use reserve funds to immediately address unanticipated expenditures. The City has a much lower debt per capita and other debt ratios than the median comparator municipalities. Our ability to react to unanticipated expenditures, take on new capital spending and change service levels is quite strong if we are willing to issue new debt or raise more revenue. This indicates there is capacity for increased borrowing, which was noted in the Long-Term Financial Plan and by S&P Global when it issued its credit rating analysis. The opposite can be said if reserves are recommended as the main funding source. Debt, particularly combined with funding opportunities from senior levels of government, is a viable, partial solution to the asset condition issues.

Flexibility

BMA Study	2014	2015	2016	2017	BMA Average	BMA Median
Tax Discretionary Reserves as % of Taxation	54%	57%	52%	44%	73%	68%
Discretionary Reserves as % of Own Source Revenues	39%	41%	38%	33%	52%	48%
Tax Debt Interest as % of Own Source Revenues	0.3%	0.4%	0.3%	0.3%	1.2%	1.0%
Debt to Reserve Ratio	0.20	0.50	0.50	0.50	1.00	0.60
Total Reserves per Capita		$998	$994	$865	$931	$820
Total Debt Charges as % of Own Source Revenues		1.9%	2.3%	2.2%	4.4%	3.8%
Total Debt Outstanding per Capita		$532	$511	$460	$731	$555
Debt Outstanding as % of Own Source Revenues		22.8%	20.7%	18.7%	40.9%	38.5%

PSAB Indicators	2014	2015	2016	2017	2018
Ratio of Debt Charges to Total Revenue	0.01	0.01	0.01	0.01	0.01
Municipal Taxes as % of Household Income	4.01%	3.76%	3.63%	3.85%	3.83%

Source: 2018 BMA Study

Vulnerability

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

The municipality receives several funding grants from senior levels of government, including Ontario Municipal Partnership Fund allocations, Provincial and Federal gas taxes, and funding agreements with numerous ministries (health and long-term care, education, community and social services etc.).

The rates covered ratio describes the ability to cover operating expenses without the use of external funding. The data states that the City is able to cover 74.3 per cent of the municipality's cost without the use of external funding such a government grants. According to the Ministry of Municipal Affairs, a basic target is 40 to 60 per cent, an intermediate target is 60 to 90 per cent, and an advanced target is 90% or greater. This is a common theme throughout this document. We are faced with significant budget pressures with anticipated reductions in provincial funding. This ratio states that we are not collecting as many own source revenues (property taxation, user fees, others) or expenditures are proportionately higher.

Over a number of years, the City's reliance on federal and provincial funding has remained consistent as shown by minor fluctuations in government transfers to total revenue. This reliance increased 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 initiatives. In 2018, this trend reverted back as funding for large, one time projects was no longer available. It may be perceived that a higher ratio indicates higher vulnerability, however we may see increased ratios due to new funding for specific capital projects. The City will continue to maximize grant revenue whenever possible to help address the infrastructure requirements. Taking advantage of these opportunities is reflected in the indicators below.

Vulnerability

BMA Study	2014	2015	2016	2017	BMA Average	BMA Median
Taxes Receivable as % of Tax Levied	2.3%	2.5%	2.4%	3.0%	7.3%	6.5%
Rates Covered Ratio		75.1%	74.2%	74.3%	92.1%	92.3%

PSAB Indicators	2014	2015	2016	2017	2018
Ratio of Government Transfers to Total Revenue	0.26	0.27	0.25	0.30	0.28

Source: 2018 BMA Study