



City of North Bay Report to Council

Report No: CORP 2021 - 32 **Date:** April 27, 2021
Originator: Laura Boissonneault
Business Unit: Corporate Services **Department:** Financial Services
Subject: 2020 General Year-end Financial Report
Closed Session: yes no

Recommendation

1. That the Chief Financial Officer be authorized to complete the 2020 reserve transfers as outlined in Appendix A.
 2. That the City of North Bay's 2020 Year-end General Variance report be received and filed.
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Background

Pending any final year-end entries or external audit adjustments, the City of North Bay is ending the year with a surplus of \$1,348,629.

With the onset of a global pandemic during the first quarter of 2020, several actions were taken to mitigate the City's losses. These actions were outlined to Council through the June 30th Year-end Financial Projection, Report to Council CORP 2020-63, and through the September 30th Year-end Financial Projection, Report to Council CORP 2020-97. These mitigation steps along with the Federal-Provincial Safe Restart funding enabled the City to continue to provide services at reduced levels to ensure the safety of citizens and staff and also assisted in minimizing 2021 budget increases. Additionally, the ability to extend services in the third and fourth quarters reduced the City's initial projected revenue deficit.

During 2020, the City received \$2,978,900 in Municipal Phase 1 Safe Restart and \$1,201,515 in Transit Phase 1 Safe Restart funding. The full amount of the Municipal Safe Restart funding was used in 2020 to offset COVID-19 related revenue losses and operating costs. A total of \$672,755 in Transit Phase 1 Safe Restart funding was utilized in 2020 and the balance of funding received in the amount of \$528,760 remains in reserves at year-end to offset future impacts to the transit operations.

The City's strategy was to use Phase 1 funding prior to the use of reserves for the 2020 fiscal year in an effort to ensure that sufficient reserves remain available for 2021 and future years. In the early 2000's the City of North Bay had no reserves. Through prudent financial planning and the implementation of a Reserve Policy, Long-Term Capital Funding Policy and other related financial policies, the City fulfilled a requirement to implement long-term financial

planning and to establish a stable balance sheet. Due to the steps taken above, the City has now accumulated reserves to a level that is considered healthy. To be prudent, given the uncertainty and the unknown duration of COVID-19, the City is planning to use reserves in the 2021 budget and possibly the 2022 budget as a means of funding the temporary loss of user fee revenues while the economy recovers.

Financial/Legal Implications

The year-end financial position includes the impact of temporary COVID-19 related facility closures and other restrictions that reduced the City's revenues and increased costs. The attached surplus also includes supporting COVID-19 related losses for community partners such as the YMCA, Jack Garland Airport, North Bay Public Library, and the North Bay Police Service as they experienced losses which were eligible for the Municipal Safe Restart funding. The mitigating actions established under the direction of the CAO also contributed to the year-end surplus, including corporate wide personnel savings arising from gapping due to a hiring freeze, scheduling, layoffs and staffing reductions with the cancellation of part-time, summer and student hires. Cuts to discretionary spending such as office supplies, travel, training and deferred service level adjustments also resulted in savings.

A breakdown of the City's 2020 year-end results by business unit is provided in Appendix B and is further summarized as follows:

- **Community Services** is ending the year-end surplus of \$636,112.

Factors contributing to the projected surplus include personnel gapping, scheduling, and vacancies; lower training and conference costs; lower advertising, maintenance, and supplies; as well as reduced community programming; partially offset with lower revenues in multiple areas, such as Arena Services, Parks, Leisure Services and Building.

Parks and Arena revenues have been significantly impacted by COVID-19. Throughout the year, the departments made efforts to review processes and adjust staffing complements including deployment of employees to other departments. Cost savings in various areas were realized. Arena Services was periodically restored at reduced levels which mitigated some of the initial projected revenue losses. West Ferris Arena remained closed and ice rentals within Memorial Gardens and Pete Palangio Arenas occurred while adhering to strict guidelines to ensure the safety of both the participants and staff.

A total of \$959,888 in Municipal Phase 1 Safe Restart funding was allocated to Community Services in order to offset COVID-19 related costs and revenue losses.

- **Corporate Services** is ending the year with a surplus of \$489,303.

Factors contributing to the projected surplus include gapping and vacancies, as well as lower training, supplies, and contract costs; partially offset with lower revenues (licenses, penalties, fines and POA revenues).

On March 16, 2020, the Ontario Court of Justice suspended the operation of all municipally administered Provincial Offences (POA) Courts in Ontario. The Chief Justice of the Ontario Court of Justice extended most timelines under the Provincial Offences Act until February 26, 2021. This means individuals receiving a Provincial Offences ticket after March 1, 2020 had the option to pay for the ticket or proceed to court which was extended to 2021. These pandemic related extensions have largely reduced POA revenues in 2020 and the revenue reductions are anticipated to continue into 2021.

A total of \$408,103 in Municipal Phase 1 Safe Restart funding was allocated to Corporate Services in order to offset revenue losses attributable to COVID-19.

➤ **General Government Activities** is ending the year-end with a deficit of (\$575,664).

Factors contributing to the projected deficit include lower revenues (dividends, methane sales, MAT, reserve transfers, penalties and interest), higher write-offs, and a NEER surcharge; partially offset with lower contract costs, debenture interest, training, and conference costs, along with higher investment & bank interest, and supplemental revenues.

By-law No. 2020-41 '*Being a By-Law to Set 2020 Tax Rates and Levy Taxes for the Year 2020*' stated that due to the pandemic, no penalty and interest would be imposed within the Special Default Allowance Period. As per the by-law, this allowance period commenced on February 28th, 2020 and expired on November 1st, 2020. Waived fees resulted in a revenue deficit in General Government of approximately (\$156,835) and Corporate Services (\$73,095).

A new WSIB rate model came into effect January 1, 2020, changing the way employers are classified and how premium rates are set and adjusted. WSIB uses the insurable earnings, claim costs, and the number of allowed claims over a six-year period to set premium rates. The new model uses a two-step approach to set and adjust premium rates for employers.

- Step one involves setting an average rate for each industry class
- Step two reflects individual claims experience and risk

The City has a WSIB reserve (99508R) which was established from past NEER rebates and was earmarked to offset years in which the City was assessed a surcharge. The current balance in the reserve is \$297,127. This reserve is now being used to offset in-year rate changes that vary from budgeted WSIB rate values or NEER surcharges. In the summer of 2020, the City received notification of a reduced WSIB rate change retroactive to January 1st. However, in December the City was notified of a WSIB error resulting in the rate being changed back to the former rate effective October 1st, 2020. The total net WSIB rate savings for 2020 amounted to approximately \$128,415 (9 months at a reduced rate). In addition to the rate change, the City had a net NEER surcharge for 2020 in the amount of (\$294,959). Due to the City's overall year-end surplus position, it is not recommended to transfer any dollars from the WSIB reserve for 2020.

The 2020 budget included a transfer from reserve in the amount of \$700,000 as part of the Mayor's Plan. The attached year-end position has been prepared on the basis that this transfer will not be utilized in 2020 and will remain available for future years.

Municipal Phase 1 Safe Restart funding in the amount of \$361,362 was allocated to General Government activities to partially offset COVID-19 related lost revenues.

➤ **Infrastructure and Operations** is ending the year-end with a surplus of \$498,829.

Factors contributing to the projected surplus include personnel gapping and scheduling, lower fuel, utilities, training, conferences, insurance and Transit Para Bus contract costs; partially offset with lower revenues (Environmental Services, Transit, By-law, and Parking), as well as higher Environmental Services contract costs.

The City's Winter Maintenance ended the year with a deficit of (\$33,162). Currently, the balance in the Winter Control Reserve is nil as the full balance was used in 2019 to offset the Winter Control shortfall.

Transit revenues have been significantly impacted by COVID-19. In addition, Transit has incurred increased costs as a result of implementing enhanced safety and sanitizing protocols on City Transit buses and in Transit facilities. From the beginning of the pandemic, Transit has adjusted routes and schedules to align with ridership utilization realizing cost savings to help mitigate the revenue deficit and additional costs incurred. Transit has received funding through the Municipal Transit Enhanced Cleaning (MTEC) program and the Phase 1 Transit Safe Restart program to further offset lost revenues and increased costs in 2020.

COVID-19 has had a negative impact on parking revenues since March 2020. In 2020, metered and permit parking revenues were down 18% and 16% respectively.

Throughout the year, the department reviewed processes to achieve spending reductions. Cost savings were achieved through reduced summer staff and using City Staff to complete historically contracted work. Various operating expenses increased due to the pandemic including the impact of social distancing on operations, the need for social distancing barriers, increased pay and display maintenance expenses and increased sanitization.

By-law Enforcement was greatly reduced during lockdown periods. The 5-year average for the number of parking tickets issued is 15,373. In 2020, only 9,958 tickets were issued, which is a reduction of 35%. In addition, parking ticket convictions were halted by the Province. Realized revenues were lower than budget by approximately \$97,300. Additional Commissionaire costs were incurred due to officers being assigned to City Hall security.

A total of \$299,481 in Municipal Phase 1 Safe Restart funding has been allocated to Infrastructure and Operations in order to offset revenue losses attributable to COVID-19.

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- **Service Partners** ended the year with a surplus of \$300,049.

This surplus stems from a change in apportionments between partnering municipalities and a reassessment from the Health Unit. Municipal apportionments are usually finalized by the Service Partners around March of each year; therefore, there can be variances between budgeted and realized costs.

Additional costs incurred by the Health Unit and DNSSAB due to the pandemic have been covered by other levels of government. There continues to be a risk in future years and any shortfall in funding by the other levels of government could result in additional amounts being levied to the municipality. This risk will continue to be monitored and any significant changes will be reported to Council.

As noted in the background section of this report, the City's strategy for the Safe Restart funding was to fully allocate Phase 1 funding to gross COVID-19 revenue losses and increased costs prior to use of City reserves. This approach also included assisting service and community partners in 2020 in order to relieve tax levy and reserve pressures in 2021 as follows:

- **North Bay Police Service** - In consultation with the Police department, it was determined that increased costs in the amount of \$160,127 due to COVID-19 were eligible under the Phase 1 Safe Restart funding agreement. Similar to the City, Police Services have implemented mitigation activities to offset increased costs.
- **North Bay Public Library** - The Library incurred eligible costs in the amount of \$16,214 under the Municipal Phase 1 Safe Restart funding program. Accordingly, \$16,214 of the Phase 1 Safe Restart funding is being allocated to the Library.
- **North Bay Jack Garland Airport (NBJGA)** - Reports to Council IO 2020-12 and IO 2020-05 provided detailed background information regarding the importance of the NBJGA to the City and the region. The NBJGA is an important municipal and regional economic and community asset. It is used by local and export oriented businesses, plays an important role in transportation for critical healthcare situations and supports national and international strategic partnerships (Wing 22, NORAD, NATO).

Council Resolution No. 2020-218 dated July 21, 2020, directed staff through the 2021 Operating and Capital Budget preparation to identify the projected requirements for the continued operation of the North Bay Jack Garland Airport for 2021. The Airport demonstrated prudent financial responsibility by reducing costs, applying for wage subsidy grants and implementing service level reductions in order to reduce their overall deficit. As a result of the defined eligible costs within the Phase 1 Municipal Safe Restart program, \$600,000 was allocated to the Airport for the 2020 fiscal year.

- **North Bay YMCA** – In October 2020, the YMCA of North Eastern Ontario forwarded a financial request to Council seeking support from the City in the amount of \$173,725 to cover the Health and Fitness deficit the North Bay YMCA incurred as a result of the lockdown period from March 17th to September 31st. Phase 1 Municipal Safe Restart funding was applied accordingly.

Notable Reserve Transfers included in Appendix A:

In order to close the financial records for 2020, year-end transfers are required to be approved to the appropriate reserves. Council retains the discretion to re-allocate funds as required at a later date. A summary of the recommended transfers has been included in Appendix A. Finalizing these transfers will allow for the closing of the 2020 financial records in preparation for the external audit.

- As best practices, debenture issues are matched with capital spending requirements. The deferral of issuing some of the authorized debenture authority resulted in 2020 budget savings due to reduced principal and interest payments. It is recommended that the savings realized from reduced principal payments in the amount of \$461,127 be transferred to the Capital Financing General Reserve Fund (99544R) to offset the actual principal payments delayed to future years. This will help stabilize the impact that principal payments will have in future years.
- In order to manage the City's fuel system, fuel system maintenance and repair costs are now isolated in the operating budget. The fuel system is expected to be self-sustaining and as such these costs are recommended to be funded through the Fuel Dispensing Reserve (99553R). These reserve funds arise from a fuel surcharge included in fuel costs dispensed throughout the year. In 2020, a \$75,000 fuel surcharge was collected from fuel activities and \$22,762 of these dollars is needed to cover in-year operating repair and maintenance expenses. Fuel system costs are not included in the vehicle usage rates. In order to manage the fuel system program, it is recommended that direction provided from CORP 2017-46 dated April 20, 2017 stating to merge the Fuel Dispensing Reserve with the Fleet Life Cycle Reserve be withdrawn and that the Fuel Dispensing Reserve continue as an independent reserve dedicated to fuel system repairs, maintenance and replacement.
- Both the North Bay Public Library and Police Services Boards finalized their respective year end positions. Annually, all year-end balances are required to be transferred to or from their corresponding reserves as outlined in Appendix A.
- The City maintains a vested sick leave plan covering all Fire Association employees hired before December 31, 1997. Upon retirement, unused vested sick leave is payable to the employee. Annually these costs are funded through the Vested Sick Leave Reserve (99510R).
- The Tax Stabilization Reserve (99529R) balance of \$2,887,718 is currently well below the City's targeted level of 5% to 10% of the total municipal tax levy being \$4.7 million to \$9.4 million for 2020. It is recommended that the Chief Financial Officer be authorized to

transfer the \$1,348,629 year-end surplus to the Tax Stabilization Reserve Fund. The 2021 budget process earmarked this reserve fund for COVID-19 related pressures in the approximate amount of \$1.4 million.

The City of North Bay's Reserve Policy forms a critical component of the municipality's Long-Term Financial Plan. Reserves are intended to be used to offset one-time expenses and reduce the risk to the taxpayers of significant budget impacts arising from uncontrollable events and activities.

Corporate Strategic Plan

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| <input type="checkbox"/> Natural North and Near | <input type="checkbox"/> Economic Prosperity |
| <input checked="" type="checkbox"/> Affordable Balanced Growth | <input type="checkbox"/> Spirited Safe Community |
| <input type="checkbox"/> Responsible and Responsive Government | |

Specific Objectives

- Provide smart, cost effective services and programs to residents and businesses
 - Ensure that Council and staff have a shared perception of goals
 - Ensure the efficient and effective operations of the City, with particular consideration to the impact of decisions on the property tax rate
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Options/Analysis

Option # 1

Council authorizes the Chief Financial Officer to complete the 2020 reserve transfers as outlined in Appendix A to Report to Council CORP 2021-32. Authorizing the transfers will enable staff to finalize the 2020 financial records in preparation for the external audit. This option is recommended.

Option # 2

Council does not authorize the Chief Financial Officer to complete the 2020 reserve transfers as outlined in Appendix A to Report to Council CORP 2021-32. If Council does not authorize the transfers to be completed then there would be a delay in closing the 2020 financial records which is required for the external audit. This option is not being recommended as there are commitments that must be fulfilled following completion of the audit. Financial Statements as well as the Provincial Financial Information Return (FIR) must also be completed and submitted.

Recommendation

1. That the Chief Financial Officer be authorized to complete the 2020 reserve transfers as outlined in Appendix A.
 2. That the City of North Bay's 2020 Year-end General Variance report be received and filed.
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Respectfully submitted,

Laura Boissonneault, BBA, CPA, CGA
Manager of Financial Services

We concur in this report and recommendation.

Karen McIsaac
City Clerk

Peter Leckie
City Solicitor

Erin Richmond
Manager Economic Development

Domenic Schiavone
Director of Public Works and Parks

Jason Whiteley
Fire Chief

Ian Kilgour
Director, Community Development & Growth

John Severino, P.Eng., MBA
City Engineer, Infrastructure & Operations

Margaret Karpenko, CPA, CMA
Chief Financial Officer / Treasurer

David Euler, P.Eng., PMP
Chief Administrative Officer

Personnel designated for continuance: Chief Financial Officer/Treasurer

Attachment: Appendix A 2020 Reserve Transfers
Appendix B 2020 Business Unit Summary as at December 31, 2020