



City of North Bay Report to Council

Report No: CORP-2021-082

Date: July 20, 2021

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: General Variance Year-end Financial Projection, as at June 30, 2021

Closed Session: yes no

Recommendation

That the City of North Bay's Year-end Financial Projection for the period ending June 30, 2021 be received and filed.

Background

Subsequent to budgetary approval, departments are required to monitor their expenditures and revenues on an on-going basis and project to the end of the year. Year-end projections are reported to Council on a semi-annual basis, being June 30th and September 30th of each year with final results prepared as at December 31st. Projections become more accurate as the year unfolds and more information becomes available. It is common practice for management to make necessary adjustments or reallocations of resources to ensure that departments realize all possible savings and efficiencies.

The 2021 budget was prepared on the basis that services would be gradually phased back in during the first half of the year. Unfortunately, the continuation of facility closures and other restrictive measures resulted in a slower than expected return of services. Managing the 2021 budget variances requires an on-going strategic approach and review of services in order to mitigate the City's losses. Actions such as monitoring discretionary spending and hiring, deferring training and other initiatives, and strategic scheduling of staff will continue. Mitigation actions along with 2021 grant funding, such as the COVID-19 Recovery Funding for Municipalities, Municipal Safe Restart, and Phase 3 Transit Safe Restart, is enabling the City to continue to provide services at reduced levels to ensure the safety of citizens and staff and is assisting to stabilize future budget increases.

During the 2021 budget process, the use of reserves was approved with the understanding that the City may continue to require reserve funding for the 2022 budget process as a means of funding temporary shortfalls in user fee revenues while services gradually return to pre-pandemic levels.

Since setting the 2021 budget, additional municipal funding has been received in the amount of \$250,000 from the Safe Restart Municipal Operating Stream and \$747,129 from the 2021 COVID-19 Recovery Funding for Municipalities program. Phase 3 Transit Safe Restart funding was also received in the amount of \$1,162,221.

These funds are necessary to support balancing the year-end position. Extended COVID-19 closures have placed additional pressures on user fee revenues as the City has not been able to open up ice surfaces, fields and other services as directed by COVID-19 restrictions. Expected 2021 transit ridership has not been realized and parking revenues and fines are well under budget.

The attached June 30th Year-end Financial Projection has been prepared on the basis that the 2021 municipal grant funding received in the amount of \$997,129, Transit Safe Restart funding of \$1,099,125, budgeted reserve transfers, and the full budgeted Mayor's plan transfer of \$699,745 will be utilized in 2021.

Financial/Legal Implications

See Options/Analysis for Financial Implications. No Legal Implications.

Corporate Strategic Plan

- | | |
|---|--|
| <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 checked="" type="checkbox"/> Responsible and Responsive Government | |

Specific Objectives

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

Appendix A to this report provides a summary of the City's 2021 Year-end Financial Projection as at June 30th, 2021. The summary highlights year-end financial projections for each Business Unit and Service Partners. In order to provide the most comprehensive year-end projections possible, each cost center and business unit has been reviewed in detail by Business Unit Managers. Finance provided a general review of all cost centers including a review of wages & benefits, fuel, fleet, utilities, insurance costs, and major revenue generators.

The City is currently projecting to end the year with a deficit of (\$784,887). 2021 municipal funding and Transit Safe Restart funding has been applied against gross COVID-19 revenue losses and increased costs. It is anticipated that cost savings experienced as a result of the City's mitigation efforts will continue to assist in reducing the projected year-end deficit; however, it is recommended any realized shortfalls at year-end will be transferred from the tax stabilization reserve.

The year-end projection includes COVID-19 related facility closures and other restrictions that have reduced the City's expected revenues by approximately \$2.3 million. The mitigating actions established under the direction of the CAO contributed to the year-end projected position including estimated corporate wide net expense savings of approximately \$1.4 million.

The following summary accounts for the major variances between the approved budget and the projected year-end values by business unit:

➤ **Community Services** is currently projecting a year-end deficit of (\$510,591).

Factors contributing to the projected deficit include lower revenues in multiple areas including Arena Services and Parks; partially offset with personnel gapping, scheduling, and vacancies; lower utilities, training, conference, and advertising costs; as well as reduced community programming.

➤ **Corporate Services** is currently projecting a surplus of \$423,090 at year-end.

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

➤ **General Government Activities** is currently anticipating a year-end deficit of (\$567,574).

Factors contributing to the projected deficit include lower revenues (dividends, methane sales, MAT, and education taxes retained), and higher tax adjustments; partially offset with lower contract costs and debenture interest, along with higher investment and bank interest revenues.

➤ **Infrastructure and Operations** is currently projecting a year-end deficit of (\$174,289).

Factors contributing to the projected deficit include lower revenues (Transit, Parking and Facilities); as well as higher contract costs; partially offset with personnel gapping and scheduling, lower fuel, utilities, and Transit Para Bus contract costs.

Based on the winter conditions experienced in the early part of 2021, the City is projecting Winter Maintenance to be on budget by year-end with the possibility of a small transfer to reserve. This projection assumes that the later part of 2021 will be similar to 2020. Currently, the balance in the Winter Control Reserve is nil.

Transit revenues have been significantly impacted by COVID-19. In addition, Transit has incurred increased costs as a result of implementing 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 offset the revenue deficit and additional costs incurred. Transit Safe Restart grant funding in the amount of \$393,412 was carried forward from 2020. In addition, Transit has received funding through the Phase 3 Transit Safe Restart Agreement in the amount of \$1,162,221. Transit Safe Restart funding expected to be allocated to the 2021 fiscal year is approximately \$1,099,125 as defined by the eligible costs/revenue losses within the Transit funding stream guidelines. It is anticipated that approximately \$456,508 of Transit Safe Restart will be carried forward to 2022.

➤ **Service Partners** are currently expecting to end the year with a surplus of \$44,477.

The net surplus includes the projected year-end results of the North Bay Police Service Board as well as the changes in apportionments between partnering municipalities for certain Service Partners. Municipal apportionments are usually finalized by the Service Partners around March of each year; therefore, there can be variances between budgeted and realized costs.

Risks - Corporate areas of on-going budget risk include:

- Utilities, fuel, and insurance costs
- Unrealized revenues as a result of lower volumes and usage
- Emergencies and unforeseen occurrences such as COVID impacts
- WSIB surcharges and rate changes based on experience and trends
- Legislated changes to operations

Utilities - Historical trends are used to project utility costs; however, many variables can have an effect on actual utility costs and there is always a risk that variances will be realized between budget and actual costs. To date, overall utility costs are projecting to be under budget with minor fluctuations between cost centers in an estimated amount of \$104,000.

Fuel - The current fuel budget was set based on expected usage at an estimated rate of \$1.01 per litre. Based on the first 6 months of the year, the City has realized comparable fuel rates. Under the terms of the current contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate. If actual rates and consumption trends continue, savings may be realized by year-end. Current estimated fuel savings for 2021 is approximately \$85,287.

Insurance - At the time of establishing the 2021 budget, insurance costs were estimated to increase by 10% upon renewal. The City's insurance period is from May to April. Therefore, the first 4 months of 2021 was known and the increase was applicable to the remaining 8 months. Insurance costs are expected to exceed the 2021 budget by approximately \$173,000.

COVID-19 - The City's focus has been to maintain operations, limit service interruptions wherever possible and support the safety of its citizens and employees. As the global impact of COVID-19 continues, any additional future effects on operations are unknown and the duration of any disruptions or the related financial impacts cannot be reasonably estimated at this time. The City's ability to continue delivering essential services will also depend on the legislative mandates from the various levels of government as the number of COVID cases in the North Bay area changes. Departments have reviewed in detail operational practices and associated COVID-19 restrictions. In 2021, steps have been taken to mitigate the COVID-19 impact such as continuing protective measures for staff and citizens, scheduling staff and services to meet restriction requirements, temporarily closing facilities, and adjusting or cancelling non-essential programs. The City continues to closely monitor the COVID-19 outbreak and will provide further updates should there be any major unforeseen service disruptions or financial impacts realized.

WSIB - A new 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 NEER rebates and was earmarked to offset years in which the City was assessed a surcharge. This reserve will now be used to offset in-year rate changes that vary from budgeted

WSIB rate values or NEER surcharges. The attached projection does not include any in-year rate changes from budgeted rates. Should a WSIB deficit be realized by year-end the WSIB reserve is available with a current balance of \$297,127.

Reserves - The City has reserves available to offset any projected year-end deficit. If a year-end deficit is realized, it would be recommended to offset the deficit by the Tax Rate Stabilization reserve for the purposes of closing the 2021 year end. Operating reserve balances as at the date of this report (net of 2021 budgeted transfers) are as follows:

- Tax Rate Stabilization Reserve (99529R): \$1,855,398
- Operating Budget Contingency Reserve (99557R): \$1,106,474

The Tax Rate Stabilization Reserve balance is currently well below the City's targeted level of 5% to 10% of the total municipal tax levy being \$4.9 million to \$9.7 million for 2021. In addition, the Operating Budget Contingency Reserve is slightly below the City's targeted level of 1% of the gross operating budget, being approximately \$1.43 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.

Recommended Option

That the City of North Bay's Year-end Financial Projection for the period ending June 30, 2021 be received and filed.

Respectfully submitted,

Name: Laura Boissonneault, CPA, CGA
Title: Manager, Financial Services

I concur with this report and recommendation.

Name: Karen McIsaac, Dipl. M.A.
Title: City Clerk

Name: Peter E.G. Leckie, B.A. (Hons.), LL.B.
Title: City Solicitor

Name: Erin Richmond, Ec.D., CEcD
Title: Manager, Economic Development

Name: Domenic Schiavone
Title: Director Public Works

Name: Jason Whiteley
Title: Fire Chief

Name: Ian Kilgour, MCIP, RPP
Title: Director, Community Development and Growth

Name: John Severino, P.Eng, MBA
Title: City Engineer – Infrastructure and Operations

Name: Margaret Karpenko, CPA, CMA
Title: Chief Financial Officer /Treasurer

Name: David Euler, P.Eng., PMP
Title: Chief Administrative Officer

Personnel designated for continuance:

Name: Laura Boissonneault, CPA, CGA
Title: Manager, Financial Services

Attachments: Appendix A - General Business Unit Variance Summary