



City of North Bay Report to Council

Report No: CORP-2021-123

Date: October 20, 2021

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: General Variance Year-end Projections as at September 30, 2021

Closed Session: yes no

Recommendation

That the City of North Bay's Year-end Financial Projection for the period ending September 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 reduced services, due to the on-going pandemic, would be gradually phased back in during the first half of the year. Unfortunately, the City has realized a slower than expected return of services. Extended COVID-19 closures has resulted in lower user fee revenues as the City was delayed in opening 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 also well under budget.

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, gapping vacant positions, 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, has enabled the City to continue to provide services at reduced levels to ensure the safety of citizens and staff and has reduced 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 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.

The attached September 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 \$1,030,966, the full budgeted Mayor's plan transfer of \$699,745 and the majority of the other budgeted reserve transfers will be utilized in 2021. As a September 30th, approximately \$726,000 in budgeted reserves will not be required to fund 2021 operations and will be available to assist in offsetting the anticipated loss of user fees revenues continuing into 2022.

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 September 30th, 2021. The summary highlights year-end financial projections for each Business Unit and Service Partner. 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 personnel, fuel, fleet, utilities, insurance costs, and major revenue generators.

The City is currently projecting to end the year on budget and reduce the draw on reserves. 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 attaining a balanced year-end position; however, it is recommended any realized shortfalls at year-end 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 \$1.8 million. The mitigation actions established under the direction of the CAO contributed to the year-end projected position including estimated corporate wide

net expense savings of approximately \$1.7 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 surplus of \$132,349. Factors contributing to the projected surplus include COVID-19 grant funding, lower utilities, training, conference, supplies, maintenance costs, and reduced community programming; partially offset with lower revenues in multiple areas including Arena Services and Parks; as well as increased negotiated contract costs.
- **Corporate Services** is currently projecting a surplus of \$911,166 at year-end. Factors contributing to the projected surplus include COVID-19 grant funding transfers, 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 (\$956,707). Factors contributing to the projected deficit include lower revenues (dividends, methane sales, MAT, and education taxes retained), higher tax adjustments, and an ASO benefit surcharge; partially offset with lower contract, training, conference and debenture interest costs; along with higher investment and bank interest revenues.
- **Infrastructure and Operations** is currently projecting a year-end deficit of (\$1,289). Factors contributing to the projected deficit include lower revenues (Transit, Parking, Facilities and methane sales); as well as higher repair and maintenance costs; partially offset with COVID-19 grant funding, personnel gapping and scheduling, lower training, fuel, materials/supplies, utilities, and 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 \$1,030,966 as defined by the eligible costs/revenue losses within the Transit funding stream guidelines. It is anticipated that any unused Transit Safe Restart dollars will be carried forward to 2022.

- **Service Partners** are currently expecting to end the year with a deficit of (\$85,519).

The net deficit includes the projected year-end requirements for the North Bay Police Service Board; as well as changes in apportionments between some partnering municipalities. Municipal apportionments are usually finalized by the Service Partners around March of each year; therefore, it is not uncommon to have variances between budgeted and realized costs. The North Bay Jack Garland Airport Corporation (the "Airport") has secured funding from the Government of Canada's Regional Aviation Transportation Initiative to help offset the economic impacts of COVID-19 experienced by the airport. This funding together with the return of some of Air Canada's scheduled flights from North Bay to Toronto will sustain the operational financial requirements of the Airport through 2021; therefore, no budgeted transfer of funds from the City to the Airport will be required in 2021.

Risks - Corporate areas of on-going budget risks 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 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 \$158,636.

Fuel - The current fuel budget was set based on expected usage at an estimated rate of \$1.01 per litre. Based on the first 9 months of the year, the City has realized slightly higher 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 \$32,160.

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 exceed the 2021 budget by approximately (\$166,102).

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 situation 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. The attached projection does not include any in-year rate changes. Should a WSIB rate change 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 estimated as at the date of this report (net of estimated 2021 budgeted transfers) are as follows:

- Tax Rate Stabilization Reserve (99529R): \$2,231,771
- 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 September 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 and Parks

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 Wanda Trottier, CHRL

Title: Director, Human Resources

Name Margaret Karpenko, CPA, CMA

Title: Chief Financial Officer /Treasurer

Name David Euler, P.Eng., PMP

Title: Chief Administrative Officer

Personnel designated for continuance:

Margaret Karpenko, CPA, CMA

Chief Financial Officer /Treasurer