

City of North Bay Report to Council

Report No: CORP-2021-133

Date: November 17, 2021

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: 2022 General Operating Budget

Closed Session: yes ☐ no ☒

Recommendation

That the 2022 Administration Recommended Operating Budget be received and referred to the Special Committee meetings the week of December 6th.

Background

The 2022 Budget Schedule, Report to Council No. CORP 2021-099, was prepared based on the overall objective of having the budget process completed and approved by Council by year-end.

During November, management team members met with the Chief Administrative Officer, Chief Financial Officer, and finance staff to review the Preliminary General Operating Budget submissions. The proposed 2022 Administration Recommended Operating Budget is attached to this report as Appendix A. Detailed budget estimates have been established by each department based on the operational knowledge and expertise of supervisors and managers.

The City and the community continue to adapt and manage through the COVID-19 pandemic. Although the City has experienced some recovery there are services such as Transit and Parking that the future impact on the City's operations remains uncertain. The budget contains several management assumptions with respect to the COVID-19 pandemic recovery and it is possible that some service areas may be affected for a longer period of time. The 2022 budget includes the use of reserve funding from the Tax Rate Stabilization Reserve. Additionally, the budget has been prepared on the basis that the Province will allow any unspent Transit Safe Restart funding to be carried over into 2022. As the budget represents management's best estimates throughout 2022, staff will continue to closely monitor and assess the impacts of COVID-19 to determine if further mitigating actions are necessary.

Financial/Legal Implications

The operating budget endeavors to balance various pressures the City must consider on an annual basis including inflation, capital investment, offset with changes in user fee revenues, efficiencies and service reductions. The tax levy increase (before growth) included in the proposed 2022 Operating Budget is 5.89% or \$5,715,844. This does not include proposed Service Level Changes (SLCs) attached at the end of the budget package.

Corporate Strategic Plan

- | | |
|---|---|
| <input type="checkbox"/> Natural North and Near | <input type="checkbox"/> Economic Prosperity |
| <input checked="" type="checkbox"/> Affordable Balanced Growth | <input checked="" 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 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
- Promote and encourage arts and culture as a cornerstone of a dynamic community

Options Analysis

The 2022 General Operating Budget was prepared with the following guidelines:

Consultative Budget Methodology:

Managers' and supervisors' knowledge of their operations continues to be united with financial budgets and actual expense projections. This practice has led to the development of a budget with sound philosophies and estimates.

Service Delivery:

The Administration Recommended Operating Budget was prepared with management's projections and cost estimates to deliver existing service levels. Suggestions that provide Council with options to change the current level of service have been included in the Service Level section at the end of the budget package. Additional costs or savings resulting from proposed Service Level Changes have been included in the bottom section of the Annual General Levy Summary within Appendix A.

Expenditures:

These represent management's best estimates to deliver the current level of service. Management's estimates include:

- Annualized approved Council initiatives
- Inclusion of contractual agreements (waste collection, Para Bus, Provincial Offences Administration, etc.)
- Legislated changes (i.e. mandatory training, safety guidelines, legal costs, etc.)
- Expected future operational requirements and needs

User Fees:

Report to Council CORP 2018-94 established a user fee by-law for the four year term of Council from 2019 to 2022. Annually amendments are tabled each Fall for the following budget year. All 2022 user fee amendments were tabled to Council on October 19, 2021.

Other Revenue Estimates:

These estimates are based on trends, historical data, current rates, approved rate increases, projections and any known revenue reductions.

OMPF:

The Ontario Municipal Partnership Fund (OMPF) is the Province's main transfer payment to municipalities. The enclosed 2022 Budget includes the City's allocation of \$10,353,400, which represents an increase of \$259,200 over the 2021 OMPF allocation.

Utility Costs:

Budget estimates take into consideration the prior year's data and projected future costs. Calculations include such items as the benefit of energy efficiencies gained through capital investments and enhanced education programs to improve energy conservation. The enclosed budget assumes hydro costs will increase by 1.2% and natural gas by 3.4% from the 2021 projected year-end actuals.

Fuel:

Fuel costs are estimated based on the anticipated usage at an average fuel rate of \$1.084 per litre. This includes an assumption for the annual federal carbon tax increase of \$0.0221 per litre. The federal carbon tax on fuels came into effect on April 1, 2019 and will continue to increase annually until April 2022. Under the terms of the current contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate.

Staff Complement:

All staffing costs and Full Time Equivalents (FTE), including positions grant funded or directly related to Capital, are reported in the personnel costs with any associated offsetting revenues being recorded accordingly. Some vacant positions, where hiring has been postponed, have been annualized to mirror expected actuals with the budget.

Wages:

Personnel costs include negotiated changes to the collective agreements with various bargaining units; non-union changes approved through the City's salary by-law; and estimated increases to student wages.

Fringe Benefits:

Staff benefit costs have been updated by the Finance Department. Benefits include items such as Employment Insurance (EI), Canada Pension Plan (CPP), WSIB, OMERS, EHT, LTD, Life, AD&D, Dental and Health.

EI and CPP rates have been updated according to media releases. 2022 Manulife rates include an estimated combined increase of 9.9% for Health, Dental, Life and AD&D. OMERS and EHT rates have remained the same as 2021.

As of January 1st 2020, a new WSIB methodology was introduced including rates that encompass a base rate plus experience premium. The communicated municipal 2022 WSIB rate of \$4.70 (from \$4.41) has been included in the presented budget. The City has a WSIB reserve (99508R) which was established from past NEER rebates. The balance in the reserve at the date of the report is \$297,127 and can offset any unanticipated in-year rate changes.

Insurance:

The City's insurance period is from May to April. Therefore, the first 4 months of 2022 is known and any risk of variance is applicable to the remaining 8 months. The insurance premiums for 2022/23 were not confirmed as at the date of this report. The enclosed budget has been prepared with a 10% increase in insurance premiums over the 2021/22 insurance package.

Long-Term Capital Financing:

- **Capital Levy** – The capital levy is the annual funding contribution from the City's General Operating Budget that is used to finance projects within the City's General Capital Budget. The calculation of the capital levy includes an increase in the Capital Funding Allowance of 1% over the prior year's budgeted levy representing an increase of approximately \$969,000. As in prior years, this budget does not include a CPI allowance as is recommended in the City's policy.

Upon finalization of the update to the City's Asset Management Plan (June 2022), a recommendation with respect to required changes to the Long-Term Capital Funding Policy will be made to ensure any identified funding gaps have a long term financing plan in place.

- **Debenture Financing** – In accordance with the City's Long-Term Capital Funding Policy, the annual funding allowance for the General Capital Budget includes \$8.5 million in debt financing to support capital projects. Principal and interest payments are budgeted within the General Operating Budget.

Merrick Landfill Site Operations:

As per RTC IO 2021-01 dated February 12, 2021, and associated Resolution No. 2021-108 dated March 23, 2021, the City will assume the site operations at Merrick Landfill on January 1st 2022. The forecasted in-house annual operating costs are budgeted at \$1.1 million and provides for net annual savings of approximately \$180,000. These savings are recommended to be transferred to landfill reserves in order to reimburse the initial capital cost requirements.

Tax Write-offs/Adjustments/Appeals:

The City has approximately 200 appeals outstanding annually. In an effort to manage risks and abide by the Assessment Review Board (ARB) rules and procedures, the City's appeal strategy follows a set of criteria that maximizes resources by focusing on high municipal tax dollar risk, multiple base year appeals and properties of municipal interest. Over the last 5 years, actual settlements have exceeded the budget estimate; therefore, the presented budget includes an increase in ARB and Minutes of Settlement costs in the amount of \$500,000.

Service Partners:

Service Partner budgets represent services that are funded by property taxes in which City Council does not have direct oversight of the boards and agencies; however, City Council is responsible for funding them, in whole or in part. The most notable Service Partners include: North Bay Police Services, North Bay Public Library, Cassellholme, District of Nipissing Social Services Administration Board, MPAC, North Bay Parry Sound District Health Unit and the North Bay-Mattawa Conservation Authority. In early Fall, Service Partners received a letter from the City's CFO outlining budget timelines. The documents requested that each Service Partner communicate its operating budget target to the Chief Financial Officer. The enclosed budget includes projections which are based on varying levels of information and discussions with Service Partners. As with every budget year, the City is holding the risk should estimates be off or if there are shifts in apportionments.

Risks:

As with any budget, there are risks associated with forecasting expenditures and revenues. A contingency allowance of approximately \$230,600 is included in the operating budget to provide

funding for one-time expenditures that were not known or expected at the time the operating budget was approved by Council. The establishment of an appropriate contingency budget is necessary in order to provide administration with the ability to react to unforeseen events that may occur during the year without placing immediate financial pressure on the current budget or the City's reserve balances. A reasonable contingency allowance of ½ percent of the gross operating budget, or approximately \$736,000, would better able the City to absorb reasonable levels of fluctuations expected for a budget of this magnitude.

COVID-19:

The future still poses challenges and contains many unknowns. With operational adjustments and the continued commitment from our federal and provincial partners, the City is on a solid footing to meet challenges of the changing world in which we live. The 2022 Administration Recommended Budget has been cautiously developed with some revenues still being phased in and additional costs phased out. Difficult decisions were made in 2020 and 2021 to generate savings to offset COVID-19 costs and revenue losses; however, many savings are not sustainable.

Details regarding the ability to carry forward unspent Transit Safe Restart funding into 2022 are pending from the Province. The budget has been prepared on the basis that the City will be permitted to use estimated unspent funding from 2021 of approximately \$935,000 to offset anticipated revenue shortfalls and additional costs in Transit operations in 2022. Should the ability to use the funding in 2022 be denied, additional funding from the Tax Stabilization Reserve will be required.

Reserves:

The establishment of reserves assists to stabilize tax rates by offsetting the budget effects that would otherwise be one-time in nature, as well as those caused by uncontrollable events or activities that can be phased in. The use of reserves in the 2021 and 2022 budget years aligns with the intended purpose of the reserves.

As at the date of the report, projected December 31, 2021 balances in the associated reserves are as follows:

- Tax Rate Stabilization Reserve (99529R): \$2,231,771
- Operating Budget Contingency Reserve (99557R): \$1,106,474

Note the above balances are subject to year-end accruals and allocations.

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. The presented budget includes a continued use of reserves specifically for COVID-19 revenue losses in the amount of \$440,000 for various departments (arenas, parks, licenses, etc.).

The 2021 budget included a planned transfer from reserve in the amount of \$699,745 as part of the Mayor's Plan. This allowance is being phased out to \$500,000 in the 2022 budget. However, only the portion required to balance the year-end results will be transferred from the reserve at year-end and the unused portion will remain in the reserve and can be applied towards future years' budgets in accordance with Council authorization.

The City of North Bay's Reserve Policy forms a critical component of the municipality's Long-Term Financial Plan. The above noted reserves are the primary reserves relating to the Operating

Budget. The Tax Stabilization Reserve balance is currently well below the City's targeted level of 5% to 10% of the total municipal tax levy being \$5.1 to \$10.3 million for 2022 (based on municipal levy before the inclusion of service level changes). In addition, the Operating Budget Contingency Reserve is slightly below the City's targeted level of 1% of the 2022 gross operating budget, being approximately \$1.5 million.

Recommended Option

That the 2022 Administration Recommended Operating Budget be received and referred to the Special Committee meetings the week of December 6th.

Respectfully submitted,

Name: Laura Boissonneault, CPA, CGA

Title: Manager, Financial Services

I concur with this report and recommendation

Name Erin Richmond, Ec.D., CEcD

Title: Manager, Economic Development

Name Jason Whiteley

Title: Fire Chief

Name Ian Kilgour, MCIP, RPP

Title: Director, Community Development and Growth

Name Peter E.G. Leckie, B.A. (Hons.), LL.B.

Title: City Solicitor

Name Karen McIsaac, Dipl. M.A.

Title: City Clerk

Name Domenic Schiavone

Title: Director Public Works and Parks

Name Wanda Trottier, CHRL

Title: Director, Human Resources

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:

Margaret Karpenko, CPA, CMA

Chief Financial Officer /Treasurer