

## **City of North Bay Report to Council**

Report No: CORP-2022-036

Date: April 20, 2022

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: 2021 General Year-end Financial Report

Closed Session: yes ☐ no ☒

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### **Recommendation**

1. That the Chief Financial Officer be authorized to complete the 2021 reserve transfers as outlined in Appendix A.
2. That the City of North Bay's 2021 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 \$1,310,140.

As discussed in the September 30<sup>th</sup> Year-end Financial Projection, Report to Council No. CORP 2021-123, the City's 2021 budget was prepared on the basis that reduced services due to the pandemic would be gradually phased back in during the first half of the year. However, COVID-19 restrictions resulted in extended closures which delayed the opening of ice surfaces and fields and impacted other areas such as transit ridership and parking revenues. Extended closures and restrictions resulted in lower user fee revenues during 2021. Mitigating efforts taken to reduce the overall impact of the pandemic on the City's financial position and additional Provincial COVID-19 funding enabled the City to continue to provide services at reduced levels and assisted in offsetting revenue losses and contributed to the City's overall year-end surplus.

During the 2021 budget process, the use of reserves was approved as a means of funding anticipated temporary shortfalls in user fee revenues while services gradually returned to pre-pandemic levels. A total of \$1,444,640 was budgeted from the Tax Stabilization Reserve for this purpose. Subsequent to budget approval, the City received additional Provincial COVID-19 funding in the amount of \$997,129 (\$747,129 - 2021 COVID -19 Recovery Funding for Municipalities; and \$250,000 - Safe Restart – Municipal Operating Stream) and \$1,162,221 in Phase 3 Safe Restart – Municipal Transit Funding. The City's strategy was to use all COVID-19 funding prior to the use of reserves for the 2021 fiscal year in an effort to ensure that sufficient reserves remain available for 2022 and future years. Accordingly, the full amount of the Municipal Provincial COVID-19 funding was used in 2021 to offset related revenue losses. A total of \$1,054,547 in Transit Phase 1 &

3 Safe Restart funding was utilized in 2021 and the balance of unused funds in the amount of \$646,820 remains in reserves at year-end to offset future impacts to transit operations. As a result of the use of the Provincial funding, the City did not need to use any of the \$1,444,640 in budgeted transfers from the Tax Stabilization Reserve.

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## **Financial/Legal Implications**

Appendix B to this report provides a summary of the City's 2021 year-end results by Business Unit. 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. In addition to the Provincial funding received to offset COVID-19 revenue losses and increased expenses, the mitigating actions established under the direction of the CAO contributed to the year-end surplus. Mitigating actions included reducing corporate wide personnel costs through scheduling changes and gapping, reductions to discretionary spending, and the deferral of travel and training. Notable corporate wide savings include:

- Approximately \$289,000 in net utility savings (Hydro, Gas, and Water) was realized in 2021. City-wide utilities are estimated based on prior year's data and projected future usage and costs. Considerations are given to such items as one-off fluctuations, energy efficiencies gained through capital investments and programs to improve energy conservation. Pandemic circumstances such as closed or reduced facility usage also played a part in utility savings.
- An estimated savings of \$351,000 was realized for 2021 from the reduction and deferral of corporate training. Reinvesting in staff through training, conferences, and seminars provides for the opportunity to meet legislation and mandatory professional requirements, as well as maximizes workforce attributes. Throughout the pandemic, these expenses were reduced or deferred where possible in order to assist with offsetting the pandemic pressures within the overall organization.
- Approximately \$873,000 of personnel savings was realized in 2021 as a result of temporary gapping and vacancies. While positions are vacant, the corresponding workload is either distributed between remaining staff or tasks/projects are cancelled and/or deferred to a later date. With increasing operational pressures, such as adapting to pandemic related restrictions and guidelines, reporting requirements and new service/program initiatives, the use of gapping and vacancies is considered a temporary measure to address the financial pressures related to the pandemic. Over the longer term, it will become difficult to address operational requirements without a full staff compliment.

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

➤ **Community Services** is ending the year with a surplus of \$406,135.

Factors contributing to the projected surplus include personnel gapping, scheduling, and vacancies; lower training, conference, advertising, maintenance, utilities, contracts and supplies; increased COVID-19 funding; as

well as reduced community programming; partially offset with lower arena and parks revenues and higher negotiated wage contract settlement costs.

Parks and Arena revenues have been significantly impacted by COVID-19. Throughout the year, the departments made efforts to review processes and adjust staffing accordingly. Cost savings in various areas were realized. Arena Services was periodically restored at reduced levels which mitigated some of the initial projected revenue losses.

A total of \$789,302 in Municipal COVID-19 funding was allocated to Community Services in order to offset related costs and revenue losses.

➤ **Corporate Services** is ending the year with a surplus of \$1,328,386.

Factors contributing to the projected surplus include gapping and vacancies, as well as lower or deferred training, supplies, and contract costs; partially offset with lower By-law and parking fine revenues.

By-law Enforcement was greatly reduced during lockdown periods. The 5-year average for the number of parking tickets issued is 15,373. In 2021, only 6,416 tickets were issued, which is only 41% of the 5-year average. Parking ticket convictions that were halted by the Province were able to commence in March which allowed conviction revenue to start to recover. Realized revenues were lower than budget by approximately (\$115,000). Savings in other areas due to reduced enforcement/parking tickets resulted in an overall budget shortfall of (\$34,919).

Provincial Offences (POA) Courts in the Northeastern Region resumed operations via Zoom in July 2021; however, part 1 tickets continued to decline in 2021 (down by 575 tickets from 2020). The impact of COVID-19 on the municipally administered provincial offences court has resulted in a higher volume of pending POA trial matters.

Due to limited (or no) access to various facilities during the pandemic, reduced staffing and support levels, and impact of the pandemic on supply chains, several internet-based services/projects could not be replaced or upgraded in 2021. Consequently, Information Systems had savings of approximately \$400,000 in software and internet fees as well as \$268,000 in personnel savings.

A total of \$125,707 in Municipal COVID-19 funding was allocated to Corporate Services in order to offset associated revenue losses.

➤ **General Government Activities** is ending the year with a deficit of (\$1,269,705).

Factors contributing to the projected deficit include lower reserve transfers and revenues (methane sales and education taxes retained) and higher write-offs; partially offset with lower debenture interest, legal fees (integrity commissioner), training and conference costs; along with higher investment & bank interest, dividends, penalties and interest and supplemental tax revenues.

The 2021 Budget included a transfer from reserve in the amount of \$699,745 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 2021 and will remain

available for future years. In addition, a reserve transfer budgeted from the tax stabilization reserve in the amount of \$375,000 will not be required to balance the 2021 year.

As communicated during the 2022 budget process, expenditures related to tax appeals and minutes of settlement approved through the Assessment Review Board have been in excess of budget estimates for the last several years. Starting with the 2022 budget, increases are being phased-in to account for the budget gap. For 2021, actual write-offs were in excess of budgeted write-offs by approximately \$1.1 million.

No Municipal COVID-19 funding was allocated to General Government.

➤ **Infrastructure and Operations** is ending the year with a surplus of \$609,017.

Factors contributing to the projected surplus include personnel gapping and scheduling, lower fuel, utilities, training, conferences, aggregates/materials and Transit Para Bus contract costs, along with higher sales of recyclable goods; partially offset with lower revenues (Transit, Parking and agreements), as well as increased Safe Restart Funding, repairs and maintenance costs.

The City's Winter Maintenance ended the year with a surplus of \$207,562. Currently, the balance in the Winter Control Reserve is nil as the full balance was used in 2019 to offset the Winter Control shortfall. As with past practice, this surplus is recommended to be transferred to reserves in order to offset any future winter maintenance overages.

Transit revenues have been significantly impacted by COVID-19. In addition, Transit has incurred increased costs as a result of continuing 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. Transit has received funding through Phase 1 and Phase 3 Transit Safe Restart funding to further offset lost revenues and increased costs in 2021.

COVID-19 has had a negative impact on parking revenues since March 2020. In 2021, metered and permit parking revenues were down 20% and 11% respectively. Throughout the year, the department reviewed processes to achieve spending reductions. 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.

The City generates revenue through the sale of recyclable materials. The market for resale of recyclables has been on a steady decline for a number of years; however, there are indications in the market that the value of reselling recycled materials is starting to go up. The average \$/tonne of recyclable materials for North Bay went from \$124/tonne in 2020 to \$265/tonne in 2021. It's difficult to predict how that trend will go into 2022 and future years. Another factor is an increase in the amount of recyclables collected as the city shifts its garbage pickup regulations in terms of bag limits. An estimated \$310,000 revenue surplus in the sale of recyclable goods was realized in 2021.

A total of \$85,395 in Municipal COVID-19 and \$1,054,547 in Transit Safe Restart funding have been allocated to Infrastructure and Operations in order to offset associated revenue losses.

- **Service Partners** is ending the year with a surplus of \$236,307.

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. 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. The aforementioned surplus stems from a change in budgets or apportionments between partnering municipalities. Municipal apportionments are usually finalized by the Service Partners around March of each year; therefore there can be variances between budgeted and realized costs.

No Municipal COVID-19 funding was allocated to Service Partners.

### **Notable Reserve Transfers included in Appendix A:**

In order to close the financial records for 2021, 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 2021 financial records in preparation for the external audit.

- 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 2021, \$70,740 in fuel surcharge revenue was collected from fuel activities and \$19,541 of this revenue is needed to cover in-year operating repair and maintenance expenses. Fuel system costs are not included in the internal vehicle usage rates.
- 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 City of North Bay Merrick Landfill site is approved by the Ministry of Environment Conservation and Parks to receive contaminated fill in compliance with ON. Reg 347. As per RTC 2018-009, dated November 21, 2018, it is recommended that the \$20/tonne of contaminated fill collected each year be

transferred to Merrick Landfill Reserves to assist in funding the Merrick landfill capital program.

- The 2021 net Fire revenues related to 'Fire Marque', in the amount of \$20,505 must be transferred to the Fire Reserve Fund (99550R) to be used for future training and equipment.
- The Tax Stabilization Reserve (99529R) balance of \$3,345,098 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. It is recommended that the Chief Financial Officer be authorized to transfer the \$1,310,140 year-end surplus to the Tax Stabilization Reserve Fund.

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.

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### **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 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

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### **Options Analysis**

#### **Option # 1**

Council authorizes the Chief Financial Officer to complete the 2021 reserve transfers as outlined in Appendix A. Authorizing the transfers will enable staff to finalize the 2021 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 2021 reserve transfers as outlined in Appendix A. If Council does not authorize the transfers to be completed then there would be a delay in closing the 2021 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.

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### **Recommended Option**

1. That the Chief Financial Officer be authorized to complete the 2021 reserve

transfers as outlined in Appendix A.

2. That the City of North Bay's 2021 Year-end General Variance report be received and filed.

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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 Steven Melnichuk

Title: Director, Information Systems

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