

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

Report No: CORP-2022-105

Date: November 1, 2022

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: General Variance Year-end Projections as at September 30, 2022

Closed Session: yes ☐ no ☒

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### **Recommendation**

That Council receive and file the City of North Bay's Year-end Financial Projection for the period ending September 30, 2022, as set out in Report to Council CORP 2022-105 dated November 1, 2022 from Laura Boissonneault.

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### **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 30<sup>th</sup> and September 30<sup>th</sup> of each year with final results prepared as at December 31<sup>st</sup>. 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.

Managing the 2022 budget requires an on-going strategic approach and review of services in order to mitigate variances. Actions such as monitoring discretionary spending, gapping vacant positions, deferring training and other initiatives, and strategic scheduling of staff will continue. Grant funding, such as the Transit Safe Restart, has enabled the City to continue to provide services affected by the pandemic and has reduced future budget pressures.

During the 2022 budget process, the use of reserves was approved with the understanding that the City may require reserve support as a means of funding temporary shortfalls in user fee revenues while services gradually return to pre-pandemic levels. The attached September 30<sup>th</sup> Year-end Financial Projection has been prepared on the basis that the Transit Safe Restart funding of \$656,179 for COVID-19 related issues will be utilized in 2022. However, the \$500,000 budgeted reserve transfer related to the Mayor's plan and \$1,293,487 in other budgeted reserve transfers are not anticipated to be required as operational savings and

other one-time revenues have assisted in offsetting areas of increased costs. The City is currently projecting to end the year with a surplus of \$763,652.

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## Financial/Legal Implications

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

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## 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 2022 Year-end Financial Projection as at September 30<sup>th</sup>, 2022. 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, and major revenue generators.

The City is currently projecting to end the year with a surplus of \$763,652, while using fewer reserve funds than budgeted. 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 favorable year-end position; however, it is recommended any realized shortfalls at year-end be transferred from the tax stabilization reserve.

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

- **Community Services** is currently projecting a year-end net surplus of \$41,800.

*Factors contributing to the projected surplus include lower programming, personnel/gapping, training/conferences, and maintenance costs; partially offset with lower arena, parks and planning revenues, increased utilities and fuel costs.*

COVID-19 related facility closures at the beginning of the year resulted in lower user fee revenues at the arenas. In addition, some City programming such as youth programming and beach supervision was either reduced or delayed due to hiring challenges, which in turn has resulted in temporary wage savings.

To date, the City has experienced record breaking construction values in 2022. As a result of the building permit fees generated from the increased construction activity, there is higher than anticipated revenues in Building Services. The additional revenues must be transferred to the Building Services Reserve fund, as required under the Building Code Act, and do not affect the City's overall year-end surplus/deficit for 2022.

- **Corporate Services** is currently projecting a net surplus of \$113,762 at year-end.

*Factors contributing to the projected surplus include personnel savings and gapping; partially offset with higher contract and supply costs and lower revenues.*

Annually, the City allocates funding for the municipal election through the operating budget as a transfer to the Election Reserve. The reserve funds are then used in an election year towards the cost of the election. The current reserve balance is \$324,539. It is anticipated that after the current election costs are finalized the remaining reserve balance will be approximately \$78,000.

POA revenues are lower than anticipated for 2022. A decline in moving violation tickets filed began in 2011/2012 and has continued to drop each year. Partially due to the pandemic, collection of court-imposed fines remains a continuing challenge across Ontario municipalities. COVID-19 has also created a tremendous backlog in booking trials which have an impact on POA revenues. As of mid-October, over 500 trials with offence dates of 2022 are still waiting to be scheduled.

- **General Government Activities** is currently anticipating a year-end net deficit of (\$522,077).

*Factors contributing to the projected deficit include lower budgeted transfers from reserves, higher tax write-off/adjustments, and an ASO surcharge from the benefit provider; partially offset with higher net investment and bank interest, and higher supplemental revenues.*

In accordance with the Municipality Contribution Agreement with the Ontario Lottery and Gaming Corporation (OLG), OLG has started to remit quarterly payments to the City for its share of Casino revenues. As at the date of this report, a total of \$921,669 has been received by the City for the period

March to September 2022. It is recommended that these funds be transferred to a reserve through the year-end variance report. The year-end financial projection has been prepared on this basis. A Policy regarding the allocation and use of Casino revenue will be brought forward to Council in the new year for approval.

A one-time 'WSIB Fund Surplus' refund has been received in 2022 in the amount of \$475,912. The refund was available to all Ontario participants and stems from a surplus in the insurance fund. Consistent with past practice, these dollars are recommended to be transferred to the City's WSIB reserve at year-end and the projection has been prepared on this basis.

An Administrative Services Only (ASO) Benefit Plan, is one in which the employer obtains a third-party provider to administer benefits on behalf of the corporation. The employer chooses a plan design and assumes the risk of paying these claims up to a certain agreed upon level. A surcharge is issued when usage is above anticipated levels and an ASO refund is realized in the opposite situation. The City has received small refunds for many years; however, in 2022 a surcharge in the amount of \$146,000 was payable.

Interest rates have continued to climb throughout the year. Accordingly, investment and bank interest revenues for 2022 are anticipated to exceed net budgets by approximately \$591,906 by year-end.

During the 2022 budget process, the use of one-time reserves was approved as a means of funding temporary shortfalls in user fee revenues while services gradually returned to pre-pandemic levels. Projected results in Appendix A includes the allocation of reserve funds in the amount of \$718,487 to affected departments, such as arenas and transit, based on budget approval. While these departments require the reserve funds due to COVID-19 related revenue shortfalls within the specific areas, the reserve funds are not needed to balance the City's overall year-end position. Therefore, the reserve transfers have been projected to be transferred back to reserve through the general government area.

The 2022 budget included a planned transfer from reserves in the amount of \$500,000 as part of the Mayor's Plan. This allowance is being phased out and is only utilized if needed to balance the year-end results. Any unused portion will be applied towards future years' budgets in accordance with Council authorization.

Additionally, reserve transfers were approved by Council for the 2022 budget in order to reduce the overall tax levy pressure. \$300,000 was budgeted to be transferred from reserves to offset the annual Capital Levy demands and

\$275,000 as a one-time overall levy reduction. These reserve transfers are not currently projected to be required by year-end.

A Supplementary Tax bill is issued by the City for additions, improvements, or adjustments made to a property during the year. 2022 Supplemental revenues are projected to be above budget by approximately \$794,000.

- **Infrastructure and Operations** is currently projecting a year-end net surplus of \$1,128,658.

*Factors contributing to the projected surplus include higher revenues, lower personnel, training/conferences, and utilities; partially offset with higher fuel, repairs, maintenance, materials and aggregate costs.*

Personnel savings arise from both gapping and vacancies. Some positions are gapped to coincide with operational scheduling including delayed projects. However, many vacancies are a result of recruiting issues. The labour market is experiencing a shortage in many areas, especially in the skilled trades. With this shortage comes increased competition as employers are competing for a smaller pool of candidates. The City has experienced challenges in recruiting employees that meet qualifications especially in Infrastructure and Operations. Personnel savings estimated at \$1.4 million are considered one-time and not sustainable as full complement is required to deliver municipal services. Additionally, some personnel savings have been offset with increased associated costs such as outside repairs and maintenance.

The City has seen a significant price increase for sale of recyclable goods in 2022. The current year-end projection includes a revenue surplus of \$360,500 for recyclables. Collection has remained consistent and the full surplus is rate related and dependent on the market.

Based on the winter conditions experienced in the early part of 2022 and the current mild fall, the City is projecting Winter Maintenance to end the year on budget. This projection assumes that small savings will be realized in personnel and materials that will offset higher fuel rates. Currently, the balance in the Winter Maintenance Reserve is \$207,562. Should a deficit be realized by year-end, it is recommended a transfer be made from the Winter Maintenance Reserve.

Transit revenues have been significantly impacted by COVID-19. 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 funding, expected to be allocated to the 2022 fiscal year is approximately \$656,179 as defined by the eligible costs/revenue losses within the Transit funding stream guidelines.

Hydro costs for street lighting substantially decreased in 2022 due to a 'change in costing methodology' that was set by the province stemming from Hydro's 2021 *Cost of Service Review*. The City is projecting 2022 Hydro cost savings for Street Lighting in the amount of \$514,000. The new Hydro methodology of cost allocations will continue on a go-forward basis until the end of 2026 and will escalate by annual inflation rates each May (dictated by OEB).

- **Service Partners** are currently expecting to end the year with a surplus of \$1,509.

*Municipal apportionments are usually finalized by Service Partners the first quarter of each year; therefore, it is not uncommon to have variances between budgeted and realized costs.*

## **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-19 impacts
  - WSIB rate changes based on experience and trends
  - Economic & Global pressures
  - Legislated changes to operations
- **Utilities** - Historical trends and anticipated rates/usage 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 net utility costs are projecting to be under budget, largely due to Street Lighting hydro savings with minor fluctuations between cost centers, in an estimated amount of \$358,939.
  - **Fuel** - The fuel budget was set based on expected usage at an estimated weighted average rate of \$1.084 per litre. Actual fuel rates for the first 9 months of the year have been higher than budget. The current 9-month weighted average fuel rate is \$1.59 per litre. Under the terms of the current contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate. If usage and rates remain the same for the balance of the year, cost overages are estimated to be (\$393,352) by year-end.
  - **Insurance** - At the time of establishing the 2022 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 2022 was known and the increase was applicable to the remaining 8 months. Insurance costs are expected to be lower by year-end.

- **COVID-19/Global Health Issues** - 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 to evolve, any 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 will provide further updates should there be any major unforeseen service disruptions or financial impacts realized.
- **WSIB** - 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. Given the change in rate structure used by WSIB, the 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 (balance excludes the refund of \$475,912 recommended to be transferred to this reserve as noted earlier in this report).
- **Economic Pressures** – Due to the current economic conditions including high inflation and other industry issues, the City has realized supply chain disruptions and price increases in goods and services. Cost pressures have been realized in multiple cost centers, however management has mitigated most cost overages through other departmental savings such as through temporary gapping of positions.

**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 2022 year-end. Operating reserve balances estimated as at the date of this report (net of the 2022 budgeted transfers) are as follows:

- Tax Rate Stabilization Reserve (99529R): \$4,163,547
- Operating Budget Contingency Reserve (99557R): \$1,106,474

The Tax Rate Stabilization Reserve balance is currently below the City's targeted level of 5% to 10% of the total municipal tax levy (\$101,099,611) being \$5.1 million to \$10.1 million for 2022. In addition, the Operating Budget Contingency Reserve is below the City's targeted level of 1% of the gross operating budget, being approximately \$1.46 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.

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### **Recommended Option**

That Council receive and file the City of North Bay's Year-end Financial Projection for the period ending September 30, 2022, as set out in Report to Council CORP 2022-105 dated November 1, 2022 from Laura Boissonneault.

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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 W. 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