

City of North Bay Report to Council

Report No: CORP-2023-023

Date: February 7, 2023

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: 2023 General Operating Budget

Closed Session: yes ☐ no ☒

Recommendation

1. That Council receive the City of North Bay's 2023 General Operating Budget as set out in Report to Council CORP 2023-23 dated February 7, 2023 from Laura Boissonneault.
2. That Report to Council CORP 2023-23 be referred to a Special Committee Meeting to be held on February 23, 2023.

Background

A budget is an important pillar to the overall success and financial security of a municipality and its services. The presented operating budget details expenses and revenues, by Business Unit and department, that the City of North Bay needs to maintain for existing services for the 2023 fiscal year. A budget is a tool to understand the organization and to support decision making.

During December 2022 and January 2023, 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 2023 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 pressures relating to the recovery from the COVID-19 pandemic and current economic conditions. Although the City has experienced revenue recovery in many areas, there are some services, such as Transit and Parking, that continue to experience lower revenues. The City has not received any confirmation that Transit Safe Restart funding will be available in 2023. As a result, the enclosed budget includes a transfer from the Tax Stabilization Reserve in the amount of \$455,444 to offset the loss of revenues anticipated to continue in 2023 within Transit Services. Additionally, a total of \$1.4 million in reserves has been included in the 2023 budget to assist with one-time expenses and to partially offset economic pressures experienced throughout the various Business Units.

Managing the 2023 budget will require a strategic approach and continual review of services in order to mitigate any year-end variances. Ongoing practices such as

monitoring discretionary spending, maximizing efficiencies within existing services and processes, strategic scheduling of staff, and efforts to find new revenue sources will continue.

Financial/Legal Implications

The operating budget strives to balance various pressures the City must consider on an annual basis including agreements, legislated requirements, contracts, inflation, supply chain issues, capital investments, fuel, utilities, insurance and various service enhancements or reductions.

The initial starting point of the 2023 budget estimated an increase of approximately 10%. Staff were able to find cost savings and additional revenues, together with the use of reserves, to reduce the preliminary levy. The tax levy increase included in the proposed 2023 Operating Budget is 5.77% or \$5,837,100 (before Service Level Changes). Service Level Changes (SLCs) are attached at the end of the budget package for Council's consideration during the Special Committee Meetings scheduled in February and March.

The following is a breakdown of the Levy increase by operational category:

Levy Change by Expense/Revenue Type		
2022 Operating Levy	101,099,612	
		% of Prior Year Levy
Personnel Costs - Salaries and Wages	1,102,570	1.09%
Personnel Costs - Benefits	922,728	0.91%
Goods and Services	1,175,650	1.16%
Financial/Capital/Reserve/Internal Transfers	51,427	0.05%
Service Partners	3,239,524	3.20%
Ancillary Revenues	(654,799)	-0.64%
Net Increase in Levy	5,837,100	5.77%
2023 Operating Levy	106,936,712	

The following is a breakdown of the Levy increase by City Business Unit:

Levy Change by Business Unit		
Community Services	937,439	16%
Corporate Services	448,313	8%
General Government	509,043	9%
Infrastructure and Operations	702,781	12%
Services Partners	3,239,524	55%
2023 Total Net Levy Change	5,837,100	100%

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 2023 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 on page 5 of Appendix A.

Expenditures - 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.)
- Supply chain challenges
- Expected future operational requirements and needs

User Fees - Updated By-laws were passed at the Regular Meeting of Council on January 31st, 2023 to establish user fees for the four year term of Council. Annually, amendments are reviewed each Fall as part of the annual budget process.

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 2023 Budget includes the City's allocation of \$10,156,400, which represents a decrease of (\$197,000) over the 2022 OMPF allocation.

Utility Costs - Budget estimates take into consideration the prior year's data and projected demands. Calculations include such items as the benefit of energy efficiencies gained through capital investments and enhanced education programs to improve energy conservation. Historical trends and anticipated rates are used to project utility costs.

Natural Gas rates have continued to increase since January 2021 (i.e., \$0.13/m³ to current \$0.31/m³). As with past practice, Natural Gas budgets were set with projections plus an 8.3% increase over 2022 (3-year average). There is some indication that rates may stabilize or even reduce in 2023 and savings could be realized by year-end.

Conservatively, Hydro budgets were set using estimated usage with a zero percent increase. Many repairs and maintenance made in the last few years are assisting in overall utility savings. The City continues to review Hydro accounts and look for efficiencies. 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 estimating 2023 Hydro costs for Street Lighting will be lower by (\$400,000). 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).

Fuel – The fuel budget was set based on expected usage at an estimated weighted average rate of \$1.748 per litre (2022 6-month average) plus the increase in carbon tax in April of 2023 at \$0.0326 per litre. The estimated overall weighted average fuel rate totals \$1.78 per litre (\$1.084 per litre – 2022). Under the terms of the current contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate. The budgeted fuel rates exclude the provincial fuel taxes of \$0.057 (Reg) and \$0.053 cents (Diesel) per litre which was deferred by the provincial government in 2022 and anticipated to be extended until December 31, 2023.

Economic Pressures – Due to the current economic conditions including high inflation and other supply chain issues, the City has experienced increased contract costs, supply chain disruptions and price increases in various goods and services. Cost pressures have been realized in multiple cost centers.

Staff Complement – All staffing costs and Full Time Equivalents (FTE), including positions grant funded or directly funded from Capital, are reported in the personnel costs with any associated offsetting revenues being recorded accordingly. An FTE is used to measure a worker's involvement in the service and indicates the workload of an employed person in a way that makes workloads comparable across various contexts. Therefore, an FTE of 1.0 means that the person is equal to a full-time worker, while an FTE of 0.5 signals that the worker is only allocated to the service half the time. Throughout the City's budget, one staff may be allocated to several services.

Wages - Personnel costs include 2023 anticipated wages costs, phase-in of annualized positions, and anticipated contractual salary & benefits increases. Approved Union Contracts are in effect until December 31, 2024, as well as the approved Non-Union Salary By-law. The Fire Collective Agreement was finalized in 2020 for fiscal years 2021 to 2025. Student wages have been adjusted to the new Provincial Minimum Wage rate.

Fringe Benefits - Benefits include items such as Employment Insurance, Canada Pension Plan, WSIB, OMERS, EHT, LTD, Life, AD&D, dental and major medical. Effective November 1st, group benefit rates increased by 7.1%. The new rates have been reflected in the enclosed budget.

Insurance – At the time of establishing the 2023 budget, insurance costs are estimated to increase by 10% upon renewal. The City's insurance period is from May to April. Therefore, the first 4 months of 2023 is known and the increase applicable to the

remaining 8 months.

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. In accordance with the City's Long-Term Capital Funding Policy, the Capital Funding Allowance increase of 1% was included in the 2023 Preliminary Budget which represented an increase of \$1,010,997. Upon further review of the 2023 Capital Budget requirements and in consideration of Council's request to review the Long-Term Capital Funding Policy, the 2023 Administrative Budget has been prepared with a reduction in the Capital Funding Allowance from 1% to 0.5% for 2023 or \$505,498.

As in prior years, the budget does not include an inflationary adjustment in the calculation of the Capital Levy. Upon finalization of a review of the City's Long-Term Capital Funding Policy, recommendations will be brought forward for Council's consideration.

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

Service Partners - Service Partner budgets represent services that are funded by property taxes, in whole or in part, but operated directly by various boards and agencies. 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, the North Bay-Mattawa Conservation Authority and the Capitol Centre.

In December, Service Partners received a letter from the City's CFO/Treasurer requesting submissions outlining operating budget requirements for 2023. The enclosed budget includes approved and projected Service Partner budgets. As with every budget year, the City is holding the risk should Service Partner estimates not be realized or if there are shifts in apportionments. Approximately 55% of the 2023 levy increase is directly related to Service Partners.

Risks - As with any budget, there are risks associated with forecasting expenditures and revenues. A contingency allowance of approximately \$230,000 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 \$766,000, would better able the City to absorb reasonable levels of fluctuations expected for a budget of this magnitude.

Reserves - The establishment of reserves assists in stabilizing 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.

As at the date of the report, December 31, 2022 balances in the associated reserves were as follows:

- Tax Rate Stabilization Reserve (99529R): \$4,864,839
- Operating Budget Contingency Reserve (99557R): \$1,106,474

The above noted balances are subject to year-end accruals and allocations.

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 General Operating Budget. The Tax Stabilization Reserve balance is currently below the City's targeted level of 5% to 10% of the total municipal tax levy being \$5.4 to \$10.7 million for 2023 (based on the presented 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 2023 gross operating budget, being approximately \$1.53 million.

Next Steps – The 2023 General Operating Budget is recommended to be referred to the Special Committee Meetings of Council scheduled to discuss the 2023 Operating and Capital Budgets together with a review of options and associated risks. The first meeting is scheduled for February 23rd, 2023. Additional meetings will take place on the 27th of February and the 1st, 2nd and 6th of March. The 2023 Operating Budget is tentatively scheduled to be approved by Council at the Regular Meeting of Council on March 14th, 2023.

Recommended Option

1. That Council receive the City of North Bay's 2023 General Operating Budget as set out in Report to Council CORP 2023-23 dated February 7, 2023 from Laura Boissonneault.
2. That Report to Council CORP 2023-23 be referred to a Special Committee Meeting to be held on February 23, 2023.

Respectfully submitted,

Name: Laura Boissonneault, CPA, CGA

Title: Manager, Financial Services

I concur with this report and recommendation

Name Jason Whiteley

Title: Fire Chief

Name Ian Kilgour, MCIP, RPP

Title: Director, Community Services

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: Steven W. Melnichuk

Title: Director, Information Systems

Name Wanda Trottier, CHRL
Title: Director, Human Resources

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

Name John Severino, P.Eng., MBA
Title: Interim Chief Administrative Officer

Personnel designated for continuance:

Margaret Karpenko, CPA, CMA
Chief Financial Officer /Treasurer