

City of North Bay Report to Council

Report No: CORP-2024-050

Date: August 1, 2024

Originator: Laura Boissonneault

Business Unit: Corporate Services

Department: Financial Services Department

Subject: 2023 General Year-end Variance Report

Closed Session: yes no

Recommendation

That Council:

1. authorize the Chief Financial Officer to complete the 2023 reserve transfers as outlined in Appendix A; and
2. receive and file the City of North Bay's 2023 General Year-end Variance report, as set out in Report to Council CORP 2024-050 dated August 1, 2024 from Laura Boissonneault.

Background

Pending any final year-end entries or external audit adjustments, the City of North Bay is expected to end the year with a surplus of \$3,664,578.

As projected in the September 30th Year-end Financial Projection, Report to Council No. CORP 2023-123, the primary factors contributing to the surplus include higher net investment and bank interest revenues as well as personnel savings arising from gapping and vacancies.

Financial/Legal Implications

Appendix B to this report provides a summary of the City's 2023 year-end results by Business Unit. Appendix C provides a summary of the City's year-end results by revenue and expenditure type.

Notable corporate wide savings include:

- The City realized combined utility savings of approximately \$127,000. Natural gas rates stabilized throughout the year and resulted in cost savings by year end, while hydro and water costs were slightly over budget. City-wide utilities are budgeted based on historical and projected usage, as well as anticipated rates.
- Corporate training savings in 2023 was approximately \$181,000. 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.
- Overall, net corporate wide operating personnel savings for 2023 was approximately \$789,000 resulting from gapping, vacancies and recruiting issues. The labour market is experiencing a labour shortage and there is increased competition for employees, especially in skilled trades. The City has experienced challenges in recruiting employees that meet required qualifications in many areas. 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 new legislated guidelines, increased reporting requirements and new service/program initiatives, gapping and vacancies are considered one-time and not sustainable. Certain departments experienced vacancies for which recruitment was delayed pending the results of the Organizational Review.

- The fuel budget was set based on expected usage at an estimated weighted average rate of \$1.78 per litre. Actual weighted average fuel rate for 2023 was \$1.52 per litre. Under the terms of the current contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate. The 2023 fuel savings are approximately \$255,000.

Notable variances by business unit:

- **Community Services** is ending the year with a net surplus of \$824,119.

Factors contributing to the surplus include higher revenues, lower programming, personnel, supplies, utilities, and training/conference costs.

Arena revenues exceeded budget by an estimated net amount of \$188,000. 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, as well as reduced programming operating costs. Additionally, personnel savings were realized in other areas due to gapping and vacancies.

- **Corporate Services** is ending the year-end with a net surplus of \$781,779.

Factors contributing to the surplus mainly result from personnel savings, deferral of some operating expenses, and delayed project rollouts, as well as revenue surpluses.

Recruitment has been a challenge; as well as some positions have remained temporarily vacant due to gapping. Savings in training and conferences are also attributable to personnel vacancies. The deferral of some Information Systems (IS) projects has resulted in temporary savings within software/internet/maintenance contract costs. POA, IS, and By-law Enforcement realized higher than anticipated revenues.

- **General Government** is ending the year with a net surplus of \$2,467,402.

The surplus is largely due to higher net investment and bank interest revenues.

Investment and bank interest revenues are budgeted based on historical trends for a typical year. The annual budget is not adjusted to account for temporary fluctuations in market rates and/or cash balances. This approach has been adopted to minimize the tax levy impacts for periods of fluctuating interest rates and/or temporary changes in cash balances. During 2023, actual interest rates continued to remain high resulting in increased interest revenues in the approximate net amount of \$2.5 million. Consistent with the 2024 Budget deliberations, the surplus is recommended to be transferred to the tax stabilization reserve to assist in phasing-out the use of reserves within the Operating budget.

Reserve transfers were approved by Council for the 2023 budget to reduce the overall tax levy pressure. Approximately \$2.3 million in budgeted one-time reserve funds are not required to close the year.

Supplementary Tax bills are issued by the City for additions, improvements, or adjustments made to a property during the year. The 2023 Supplemental Revenues were above budget by approximately \$750,000. In addition, other revenue surpluses

were realized including higher dividend revenues.

Expenditures related to tax appeals and minutes of settlement approved through the Assessment Review Board were lower than budget in 2023 by an estimated amount of \$330,000. Some larger potential reassessments are expected to be finalized after year-end.

Annually, management estimates the amount of assessment at risk and establishes an appropriate liability. A recent decision issued by the Divisional Court favors the Municipal position regarding several outstanding appeals. This resulted in a reduction of the reasonable estimate to assessment at risk by \$1,166,326. It is recommended that this amended amount be transferred to the Tax Policy / Assessment at Risk Reserve (99541R) given there is a new reassessment cycle pending with anticipated new appeals. Appendix B and C include the transfer to the recommended reserve.

In accordance with the Municipality Contribution Agreement with the Ontario Lottery and Gaming Corporation (OLG), OLG remitted a total of \$1,466,264 gaming revenues for the period January to December 2023. Consistent with the previous year, funds received are recommended to be transferred to reserves. The current year-end projection is based on this recommendation.

- **Infrastructure and Operations** is ending the year-end with a net deficit of (\$387,295).

Factors contributing to the deficit include lower revenues, higher repairs, maintenance, and contract costs; partially offset with lower personnel, fuel, and materials costs.

The City has realized a significant price decrease for the sale of recyclable goods in 2023. The year ended with a revenue deficit of \$179,000 for recyclables. Collection has remained consistent, and the full deficit is rate related and dependent on the market. In addition, environmental agreement revenues were below budget by approximately \$264,000.

Landfill revenues were lower than budget in the net amount of \$234,000 by year-end. Landfill budgets are based on historical averages and realized usage can fluctuate from year to year due to consumer habits and large-scale commercial activities.

Parking revenues exceeded budget by approximately \$54,000 by year-end due to increased usage for on-street and metered parking in various City lots.

Transit revenues in 2023 exceeded budget by approximately \$413,000. During the 2023 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. Due to the overall year-end position, the budget allocation of reserve funds in the amount of \$455,444 for Transit operations will not be required.

Winter Maintenance ended the year with a surplus of approximately \$137,000. Currently, the balance in the Winter Maintenance Reserve is \$207,562. As past practice, the realized surplus is recommended to be transferred to the Winter Maintenance Reserve for future use.

- **Service Partners** are expecting to end the year with a deficit of (\$21,427).

Municipal apportionments are usually finalized by Service Partners post City budget approval; therefore, it's not uncommon to have variances realized.

Notable Reserve Transfers included in Appendix A:

To close the 2023 financial records, year-end transfers are required to be approved to the appropriate reserves. Council retains the option to re-allocate discretionary funds as required at a later date. A summary of the recommended transfers has been included in Appendix A. Finalizing these transfers will align with preparation for the external audit.

- To manage the City's insurance deductibles, the annual budget is based on historical deductible payments for a typical year and is not adjusted to account for large fluctuations in any given year. This approach has been adopted to minimize tax levy impacts. As past practice, a year-end reserve transfer is made to or from the Insurance Deductible Reserve (99503R) to balance annual deductible activities.
- 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.
- It is recommended that the Chief Financial Officer be authorized to transfer the City's year-end surplus to the Tax Stabilization Reserve (99529R). The reserve fund will be used to assist with future years' operating budgets and the gradual phasing out of reserves within the General Operating Budget.
- It is recommended that \$1,116,326 be transferred to the Tax Policy / Assessment at Risk Reserve (99541R) as explained earlier in this report.
- The 2023 net Fire revenues related to 'Fire Marque', totaling \$26,424, is required to be transferred to the Fire Reserve (99550R) for future training and equipment.
- To manage the City's 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 dollars arise from a fuel surcharge included in fuel costs dispensed throughout the year. In 2023, \$108,918 in fuel surcharge revenue was collected from fuel activities and (\$10,013) 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.
- Annually, the City receives \$150,000 in grant funding for the Hazardous Material Team operations. Any unspent dollars are to be transferred to the Hazardous Material Vehicle Reserve (99594R) for the specific purchase of a Hazardous Material Team vehicle. Unused funds for the 2022-23 funding year were \$65,436.
- 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).
- Proceeds from approved sales of City properties are transferred to the Property Development Reserve (99535R) and are used for purposes as directed by Council. Associated on-going expenses for the preparation and sale of City properties are funded from the reserve on an annual basis. In 2023, the City incurred \$1,745 in net associated expenses.
- In accordance with the Municipality Contribution Agreement with the Ontario Lottery and Gaming Corporation (OLG), quarterly payments totaling \$1,466,264 were received during the City's 2023 fiscal year. It is recommended that these funds be transferred to

the Casino Revenue Reserve (99601R).

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.

Corporate Strategic Plan

- | | |
|---|--|
| <input checked="" 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

Options Analysis

Option # 1

Council authorizes the Chief Financial Officer to complete the 2023 reserve transfers as outlined in Appendix A. Authorizing the transfers will enable staff to finalize the 2023 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 2023 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 2023 financial records which is required for the external audit. This option is not being recommended as Financial Statements, as well as the Provincial Financial Information Return (FIR), must be completed and submitted.

Recommended Option

That Council:

1. authorize the Chief Financial Officer to complete the 2023 reserve transfers as outlined in Appendix A; and
2. receive and file the City of North Bay's 2023 General Year-end Variance report, as set out in Report to Council CORP 2024-050 dated August 1, 2024 from Laura Boissonneault.

Respectfully submitted,

Name: Laura Boissonneault, CPA, CGA

Title: Manager, Financial Services

I concur with this report and recommendation,

Name Shannon Saucier, CPA, CA

Title: Director, Strategic Initiatives

Name Karen McIsaac, Dipl. M.A.

Title: City Clerk

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

Title: City Solicitor

Name Alan Korell P.Eng.

Title: Interim City Engineer

Name Jason Whiteley

Title: Fire Chief

Name Ian Kilgour, MCIP, RPP

Title: Director, Community Services

Name Domenic Schiavone

Title: Director, Public Works and Parks

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 John Severino, P.Eng., MBA

Title: Chief Administrative Officer

Personnel designated for continuance:

Margaret Karpenko, CPA, CMA

Chief Financial Officer /Treasurer

Attachments:

Appendix A 2023 Reserve Transfers

Appendix B 2023 General Operating Variance Summary

Appendix C 2023 Budget vs Actual Year-end Details