



City of North Bay Report to Council

Report No: CORP-2024-069

Date: August 29, 2024

Originator: Laura Boissonneault

Business Unit: Corporate Services

Department: Financial Services Department

Subject: General Variance Year-end Projections as at June 30th, 2024

Closed Session: yes no

Recommendation

That Council receive and file the City of North Bay's Year-end Financial Projection for the period ending June 30th, 2024, as set out in Report to Council CORP 2024-069 dated August 29, 2024, from Laura Boissonneault.

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 30th and September 30th of each year with final results prepared as at December 31st. 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.

Financial/Legal Implications

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

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 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

Options Analysis

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 revenues, wages & benefits, fuel, fleet, insurance, and utilities. Based on projections prepared as at June 30th, there is an estimated year-end surplus of \$1,868,332 being reported.

A departmental summary of year-to-date actuals and associated budgets is attached to this report as Appendix A and Appendix B. The following summarizes the overall major variances between the approved budget and the projected year-end values:

- **Community Services** is projecting a year-end net surplus of \$333,147.

Factors contributing to the projected surplus include lower personnel, insurance, and utility costs; partially offset with higher material/supplies.

Some City programming such as beach supervision was either reduced or delayed due to hiring challenges, which in turn has resulted in temporary wage savings. Additionally, personnel savings were realized in other areas due to gapping and vacancies.

- **Corporate Services** is projecting a year-end net surplus of \$411,160.

Factors contributing to the projected surplus resulted from personnel savings and anticipated revenues; partially offset by increased software and equipment costs.

Recruitment has been a challenge; as well as some positions have remained temporarily vacant due to gapping. Both By-law and POA departments estimate small revenue surpluses by the end of the year.

- **General Government Activities** is projecting a year-end net surplus of \$712,008.

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

Investment income and bank interest revenue is budgeted based on historical trends for a typical year. The 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 2024, actual interest rates remained high with small drops in recent months. Accordingly, it is anticipated that net investment income and bank interest revenue will exceed budgeted amounts by approximately \$2.3 million. Consistent with the 2024 Budget deliberations, the surplus is planned to be transferred to the Tax Stabilization Reserve to assist in phasing out the use of one-time reserves within the Operating Budget.

Operating Reserve transfers were approved by Council for the 2024 budget to reduce the overall tax levy pressure. However, it is forecasted that the \$1.6 million in budgeted one-time Operating Reserve funds will not be required by year-end due to higher investment and bank interest along with savings in other areas. The budgeted one-time reserve transfer directed to lower the capital levy pressure is projected to be transferred in the amount of \$1 million.

A Supplementary Tax bill is issued by the City for additions, improvements, or adjustments made to a property during the year. 2024 Supplemental revenues are projected to be above budget by approximately \$50,000.

In accordance with the Municipality Contribution Agreement with the Ontario Lottery and Gaming Corporation (OLG), OLG remits quarterly payments to the City for its share of Casino revenues. As at the date of this report, a total of \$777,484 has been received by the City for the period January to June 2024. It is anticipated that Casino revenues will exceed \$1.3 million by year-end. Consistent with policy – 'Allocation and use of Ontario Lottery Gaming Policy', funds received are recommended to be transferred to reserves through the year-end variance report for future consideration by Council.

- **Infrastructure and Operations** is projecting a year-end net surplus of \$395,852.

Factors contributing to the projected surplus include lower personnel, aggregates/materials, and fuel costs; along with lower reserve transfers and higher Transit and equipment disposal revenues; partially offset with lower Environmental and Parking revenues, and higher Fleet repairs/maintenance costs.

Personnel savings arise from gapping, vacancies and recruiting challenges. Departmental personnel savings are estimated to be \$940,000 and are considered one-time and not sustainable as full complement is required to deliver municipal services.

Transit revenues are forecasted to exceed budget by approximately \$286,000 by year-end and is largely due to increased ridership.

The City has realized significant revenue fluctuations for the sale of recyclable goods in recent years. An estimated revenue deficit is anticipated by year-end in the amount of (\$67,000). In addition, environmental agreement revenues are trending below budget by approximately (\$40,000).

Landfill tipping revenues are anticipated to be lower than budget by approximately (\$234,000) by year-end. In addition, Methane Sale revenues are not expected to be fully realized with an anticipated deficit of (\$45,000). Landfill budgets are based on historical averages and realized usage can fluctuate from year to year due to consumer habits and large-scale commercial projects/activities.

Fleet repair parts and outside repair costs are expected to exceed budget by approximately (\$800,000) and is partially offset with a reduction in budgeted Fleet reserve transfers of \$503,000. Reducing the annual reserve transfer will impact the sustainability of the Fleet Life Cycle Reserve that has been established for all future vehicle and equipment requirements.

Based on the winter conditions experienced in the early part of 2024, the City is projecting Winter Maintenance to end the year with an anticipated surplus of \$369,000. Approximately \$193,000 of the savings is related to aggregates. This projection is based on the last part of 2024 being similar to the fall and early winter of 2023. Currently, the balance in the Winter Maintenance Reserve is \$344,907. Should a surplus/deficit be realized by year-end, a transfer to/from the Winter Maintenance Reserve is recommended.

➤ **Service Partners** are expecting to end the year with a surplus of \$16,165.

Municipal apportionments are usually confirmed by Service Partners the first quarter of each year and it is not uncommon to have variances between budgeted and final costs.

Risks

Corporate areas of on-going budget risks include:

- Recruitment of qualified personnel
- Utilities, fuel, and insurance costs
- Unrealized revenues due to lower volumes and usage
- Emergencies and unforeseen occurrences
- WSIB rate changes based on experience and trends
- Economic & Global pressures
- Legislated changes to operations

➤ **Utility Costs** - Historical trends and anticipated price increases are used to project utility costs; however, many variables can influence actual utility costs and there is always a risk that variances will be realized between budget and actual costs. Net utilities are currently trending under budget by approximately \$122,000.

➤ **Insurance** – At the time of establishing the 2024 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 2024 were known, and the increase was applicable

to the remaining 8 months. Actual insurance costs are slightly over budget by approximately (\$7,000).

- **Fuel** - The fuel budget was set based on expected usage at an estimated weighted average rate of \$1.62 per litre. Actual fuel rates for the first 6 months of the year have been lower than budget. The current weighted average fuel rate is \$1.44 per litre. Projections are based on current realized savings with projected rates for the remainder of the year. Under the terms of the current contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate. If usage remains the same for the balance of the year, savings are estimated to be approximately \$156,000 by year-end.
- **Personnel** - Several vacancies continue to be the result of recruiting issues. The labour market is experiencing a shortage in many areas, especially in the skilled trades. The City has experienced challenges in recruiting employees that meet qualifications. Estimated net personnel savings projected for 2024 are approximately \$1,287,000. Note, overtime and/or contracting out of certain services has been realized and is necessary to meet on-going operational needs. Realized personnel savings are considered one-time and not sustainable as full complement is required to deliver budgeted municipal service levels and meet legislative requirements.
- **WSIB** - The City has a WSIB reserve (99508R) earmarked to offset any in-year rate changes stemming from WSIB rate reassessments which is based on pooled experience and trends. No significant rate changes have been identified for 2024 as at the date of this report. Should a WSIB rate change be realized in a year where it cannot be offset with other surpluses, the WSIB reserve is available with a current balance of \$773,155.

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 purpose of closing the 2024 year-end. Year-end Operating Reserve balances as at December 31, 2023, (excluding 2024 budgeted one-time reserve transfers of \$1,600,000) are as follows:

- Tax Rate Stabilization Reserve (99529R): \$12,482,487
- Operating Budget Contingency Reserve (99557R): \$1,106,474

The Tax Rate Stabilization Reserve balance meets the City's targeted level of 5% to 10% of the total municipal tax levy (\$109,961,836) being \$5.5 million to \$11 million for 2024.

However, the Operating Budget Contingency Reserve is below the City's targeted level of 1% of the gross operating budget (\$159,786,844), being approximately \$1.6 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.

Recommended Option

That Council receive and file the City of North Bay's Year-end Financial Projection for the period ending June 30th, 2024, as set out in Report to Council CORP 2024-069 dated August 29, 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 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