



## City of North Bay Report to Council

Report No: CORP-2024-092

Date: November 8, 2024

Originator: Laura Boissonneault

Business Unit: Corporate Services

Department: Financial Services Department

Subject: General Variance Year-end Projections as at September 30<sup>th</sup>, 2024

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<sup>th</sup>, 2024, as set out in Report to Council CORP 2024-092 dated November 8, 2024, 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.

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### Financial/Legal Implications

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

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### Corporate Strategic Plan

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|---|--|
| <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 |  |

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### 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

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 September 30<sup>th</sup>, there is an estimated year-end surplus of \$1,574,189 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 \$677,509.

*Factors contributing to the projected surplus include lower personnel, training, insurance, and utility costs, along with higher revenues; 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 \$507,625.

*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 revenue surpluses by the end of the year. Cost pressures related to software maintenance and licensing has been realized in 2024 due to inflationary pressures as well as more vendors have switched their cost models from ownership to subscription-based pricing.

- **General Government Activities** is projecting a year-end net deficit of (\$464,720).

*The projected deficit is largely due to lower transfers of one-time budgeted reserves, offset by higher net investment and bank interest revenues.*

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. In addition, the budgeted one-time reserve transfer directed to lower the capital levy pressure is not projected to be transferred in the amount of \$1 million.

Investment income and bank interest revenues are 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 future operating budgets.

Expenditures related to tax appeals and minutes of settlement resolved via the Assessment Review Board (ARB) appeal process are expected to be lower than budgeted in 2024. In August 2023, the government announced that until it conducts a review of the accuracy and fairness of the system, the reassessment will remain suspended. Every reassessment brings with it an increased number of appeals that

contributes to higher write offs as part of any new assessment cycle, given the unprecedented delays and the uncertainty surrounding the outcome of the government's findings, it is recommended that savings realized from reduced ARB and Minutes of Settlement decisions in 2024, be transferred to the Tax Policy Development Assessment At Risk Reserve (99541R) at year-end to offset anticipated appeals resulting from the future reassessment process.

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 \$1,254,798 has been received by the City for the period January to September 2024. It is anticipated that Casino revenues will exceed \$1.4 million by year-end. Consistent with the 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 \$854,325.

*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 revenues and higher Fleet repairs/maintenance costs.*

Personnel savings arise from gapping, vacancies and recruiting challenges.

Departmental personnel savings are estimated to be \$1 million 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.

Fleet repair parts and outside repair costs are expected to exceed budget by approximately (\$1,300,000) and is partially offset with a reduction in budgeted Fleet reserve transfers of \$1 million. On-going reduction to 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 \$450,000. 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 (99531R) 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 on budget.

*Municipal apportionments are usually confirmed by Service Partners in the first quarter of each year and it is common 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. The City has realized lower than anticipated Natural Gas rates in 2024. Net utilities are currently trending under budget by approximately \$152,000.
- **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 9 months of the year have been lower than anticipated budget. The current weighted average fuel rate is \$1.42 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 \$219,000 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 \$1,603,800. 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.

**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 (excluding 2024 budgeted one-time reserve transfers of \$1,600,000) are as follows:

- Tax Rate Stabilization Reserve (99529R): \$12,409,791
- 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.

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**Recommended Option**

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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 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