City of North Bay
Report to Council

Report No: CORP 2020 – 63  Date: July 20, 2020
Originator: Laura Boissonneault
Business Unit: Corporate Services  Department: Financial Services
Subject: Year-end Financial Projection, as at June 30, 2020
Closed Session: yes ☐ no ☒

Recommendation
That the City of North Bay’s Year-end Financial Projection for the period ending June 30, 2020 be received and filed.

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
☐ Natural North and Near  ☐ Economic Prosperity
☒ Affordable Balanced Growth  ☐ Spirited Safe Community
☒ 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
Appendix A to this report provides a summary of the City’s 2020 Year-end Financial Projection, as at June 30th, 2020. The summary highlights year-end financial projections for each Business Unit and Service Partners. 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 wages & benefits, fuel, fleet, utilities, insurance costs, and major revenue generators.

The City is currently projecting to end the year with an estimated deficit in the amount of ($1,715,292). COVID-19 related facility closures and other restrictions have significantly reduced the City’s revenues. The attached projection includes total anticipated revenue losses in the amount $5.3 million of which the largest reductions are in the user-fee generated revenues within arena services and transit. Revenue losses are expected to be partially offset by corporate wide personnel cost savings of approximately $1.7 million arising from gapping, layoffs and the cancellation of student hires. Cost savings are also anticipated within good and services, agreement costs and Service Partner transfers which is further assisting in offsetting the projected revenue losses. It is estimated that an additional $212,000 in additional costs is required which is directly related to the pandemic and is needed to purchase personal protective equipment, cleaning supplies, support remote access for staff working from home and other infrastructure changes. The year-end projection has been prepared based on the assumption that the various restrictions currently in place remain effective for each of the services areas until the end of the fiscal year. However, the status of the pandemic is continually evolving and the projection is subject to significant fluctuations and risks particularly if there is an increase in cases and previously lifted restrictions are re-instituted.

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

- **Community Services** is currently projecting a year-end deficit of ($585,436).
  
  Factors contributing to the projected deficit include lower revenues in multiple areas (Arenas, Parks, Leisure Services and Planning); partially offset with gapping and vacancies, lower training and conference costs, lower advertising and promotional supplies, as well as reduced community programming.

- **Corporate Services** is currently projecting a deficit of ($39,866) at year-end.
  
  Factors contributing to the projected deficit include lower revenues (licenses, penalties, fines and POA revenues); partially offset with gapping and vacancies, as well as lower training, conference, and contract costs.

- **General Government Activities** is currently anticipating a year-end deficit of ($564,752).
  
  Factors contributing to the projected deficit include lower revenues (dividends, methane sales, supplemental taxes, MAT, penalties and interest); partially offset with lower reserve transfers, contracts, debenture interest, training, and conference costs, along with higher investment and bank interest revenues.

By-law No. 2020-41 ‘Being a By-Law to Set 2020 Tax Rates and Levy Taxes for the Year 2020’ states that no penalty and interest will be imposed within the ‘Special Default Allowance Period’. As per the by-law, this allowance period commenced on “February
28th 2020 and expires on the last day of the calendar month within which falls the 90th day following the day on which Province of Ontario rescinds the Declaration of Emergency imposed on March 17th 2020. The Provincial State of Emergency has now ended and the waiver period will end accordingly on October 31, 2020.

The 2020 budget included a transfer from reserve in the amount of $700,000 as part of the Mayor’s Plan. The attached projection has been prepared on the basis that the full transfer will be utilized in 2020.

A report to Council on July 21, 2020 outlined the impacts of COVID-19 on the North Bay Jack Garland Airport and authorized funding support from the City. The 2020 impact will be funded through the redirection of capital funding to operations and reserves; therefore, no operating variance will be experienced in 2020.

- **Infrastructure and Operations** is currently projecting a year-end deficit of ($714,912).

Factors contributing to the projected deficit include lower revenues (Environmental Services, Transit, Roads, and Parking), as well as higher Environmental Services contact costs; partially offset with gapping and vacancies, lower fuel, utilities, training, conferences, and Transit Para Bus contract costs.

As a result of the winter conditions experienced in the early part of 2020, the City is projecting Winter Maintenance to be on budget by year-end. This projection assumes that the later part of 2020 will be similar to 2019. Currently, the balance in the Winter Control Reserve is nil as the full balance was used in 2019 to offset the Winter Control shortfall.

- **Service Partners** are currently expecting to end the year with a surplus of $189,674.

This surplus stems from a change in apportionments between partnering municipalities. Municipal apportionments are usually finalized by the Service Partners around March of each year; therefore there can be variances between budgeted and realized costs.

Through consultation with the Service Partners, it is anticipated that the additional costs incurred due to the pandemic will be covered by the other levels of government. There is a risk that any shortfall in funding by the other levels of government could result in additional amounts being levied to the municipality. This risk will continue to be monitored and any significant changes will be reported to Council.

**Risks**

Corporate areas of on-going budget risk include:

- Utilities, fuel, and insurance costs
- Unrealized revenues as a result of lower volumes and usage
- Emergencies and unforeseen occurrences including weather related incidents
- WSIB rate changes based on experience and trends
- Legislated changes to operations

**Utilities** - Historical trends 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 utility costs are projecting to be under
budget with slight fluctuations between cost centers.

**Fuel** - The current fuel budget was set on expected usage at an estimated rate of $1.03 per litre. Based on the first 6 months of the year, the City has realized lower than budgeted fuel rates. Under the terms of the current contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate. If actual rates and consumption continue to be lower than budgeted values, savings may be realized by year-end. Current estimated fuel savings are $270,773 by year-end if trends continue.

**COVID-19** – The City’s focus has been to maintain operations, limit service interruptions wherever possible, and support safety of its citizens and employees. As the global impact of COVID-19 continues, additional 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’s ability to continue delivering essential services and employ related staff will also depend on the legislative mandates from the various levels of government. Since March, departments have reviewed in detail operational practices and associated COVID-19 restrictions. Accordingly, steps have been taken to mitigate the COVID-19 impact including: waiving of certain fees and penalties (as per By-law 2020 - 31 & 41), introducing protective measures for staff and citizens, scheduling staff and services to meet restriction requirements, temporarily closing facilities, adjusting or cancelling non-essential programs, and deferring numerous projects to a later date. The City continues to closely monitor the COVID-19 outbreak and will provide further updates should there be any major unforeseen service disruptions or financial impacts realized.

**WSIB** – A new rate model came into effect January 1, 2020, changing the way employers are classified and how premium rates are set and adjusted. WSIB uses the insurable earnings, claim costs, and the number of allowed claims over a six-year period to set premium rates. The new model uses a two-step approach to set and adjust premium rates for employers.

- Step one involves setting an average rate for each industry class
- Step two reflects individual claims experience and risk.

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. This reserve will now be used to offset in-year rate changes that vary from budgeted WSIB rate values. This projection does not include any anticipated changes as it is too early to calculate. The balance in the reserve at the date of the report is $297,127.

### Reserves

A year-end deficit is required to be funded otherwise the deficit is rolled into the 2021 budget. Fortunately, the City has reserves available to offset the projected year-end deficit. Operating reserve balances as at the date of this report are as follows:

- **Tax Stabilization Reserve (99529R):** $2,887,718
- **Operating Budget Contingency (99557R):** $1,106,474
The ‘Tax Stabilization Reserve’ balance is currently well below the City’s targeted level of 5% to 10% of the total municipal tax levy being $4.7 million to $9.4 million for 2020. In addition, the ‘Operating Budget Contingency Reserve’ is slightly below the City’s targeted level of 1% of the gross operating budget, being approximately $1.4 million. A replenishment plan for the Operating reserves will be discussed as part of the 2021 budget process.

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.

**Recommendation**

That the City of North Bay’s Year-end Financial Projection for the period ending June 30, 2020 be received and filed.

Respectfully submitted,

Laura Boissonneault, BBA, CPA, CGA  
Manager of Financial Services

We concur in this report and recommendation.

Karen McIsaac  
City Clerk

Peter Leckie  
City Solicitor

Erin Richmond  
Manager Economic Development

Lea Janisse  
Chief Human Resources & Information Officer

Jason Whiteley  
Fire Chief

Ian Kilgour  
Director, Community Development & Growth

John Severino, P.Eng., MBA  
City Engineer, Infrastructure & Operations

Domenic Schiavone  
Director of Public Works and Parks
Personnel designated for continuance: Chief Financial Officer/Treasurer
Attachments: Appendix A - General Business Unit Variance Summary