



City of North Bay Report to Council

Report No: CORP 2020 - 96

Date: November 13, 2020

Originator: Margaret Karpenko

Business Unit: Corporate Services

Department: Financial Services

Subject: 2021 General Operating Budget

Closed Session: yes no

Recommendation

That the 2021 Administration Operating Budget be received and referred to the Special Committee meetings.

Background

During September and October, 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 2021 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.

To date, the budget process has included two town hall webcasts and collection of community suggestions via emails. This has provided Council with an opportunity to understand public needs, wants and concerns.

The 2021 Budget Schedule, Report to Council No. CORP 2020-104, was prepared based on the overall objective of having the budget process completed and approved by Council by year-end.

The City and the community continue to adapt and manage through the COVID-19 pandemic and the future impact on the City's operations remains uncertain. The budget contains several management assumptions with respect to the COVID-19 pandemic recovery and it is possible that some service areas may be affected for a longer period of time. The 2021 budget supports the continuation of existing service levels through the use of one-time reserve funding. A total of \$1.44 million from the tax rate stabilization reserve is planned to be used to offset one-time revenue losses or expense increases with the expectation that operations will resume to normal levels in 2022. However, there are certain service areas, such as Transit, where user pay services may take several years to recover. In these instances, the City will have to slowly reduce the use of funding from the Tax Rate Stabilization reserve in order to mitigate any sharp increases in future tax levies. Throughout 2021, staff will continue to assess the impacts of COVID-19 to determine which impacts may become permanent and require budget adjustments in future years.

Economic Outlook

As part of the 2021 budget process, Deputy Mayor and Budget Chief, Tanya Vrebosch called an economic and employment update meeting of community stakeholders in order to gain insights regarding the impacts of the COVID-19 pandemic and what this will mean to businesses in 2021. The pandemic remains a fluid situation and the impacts to our business community have

been significant and varied. Many observations were captured during the meeting for consideration during budget deliberations. Key observations have been summarized as follows:

- Recognizing that all sectors of our local economy have been impacted by the pandemic, some were impacted more severely than others. Sectors facing particular concern during the shutdown were those operations that rely heavily on consumer spending and engagement such as tourism and hospitality, retail along with personal and professional services and the creative sector. Among those heavily hit are small businesses and those who are self-employed.
 - Although not all sectors were able to take advantage of public funding support, some businesses have benefited from relief programs. Some, particularly in manufacturing, have been able to be innovative and pivot products/services to meet the changing market demands. Retailers who were either already engaged in online commerce or able to quickly pivot their sales strategies have fared reasonably well. Programs such as the *Digital Main Street* and *Future Proofing* have been deployed locally to help assist those who require resources and support to enhance their online presence.
 - According to *Labour Focus* reports produced by The Labour Market Group, more than half of Ontario businesses experienced a year-over-year drop in revenue between April 2019 and April 2020 of more than 30%. Employment trends in Northeastern Ontario follow similar patterns when compared to Ontario as a whole with unemployment rates spiking May through July. April 2020 saw a drop of 59.4% in the number of job postings within the district but the number of job postings has increased and is now on par with pre-pandemic monthly averages.
 - Businesses continue to face workforce challenges associated with skills gaps and recruitment. The unintended consequences of COVID-19 relief programs like CERB seem to be compounding workforce challenges including new recruitment, which impacts business growth. The termination of these temporary support programs will be felt in 2021 and will likely coincide with potential impacts to the transformation of local employment services delivery.
 - Moving forward, reliable access to public transit will remain important to employers looking to attract workers and investments in critical infrastructure such as telecommunications that enable remote working. These services are important not only to our local business community and residents, but also to those currently considering relocating to and investing in our community.
 - 2020 saw North Bay's highest single family dwelling housing start since 2012 and can be attributed somewhat to a strong real estate market fuelled in part by an increased interest to move out of larger urban centres.
 - Businesses recognize the need for growth and are looking to the municipality to be prudent and strike a balanced approach moving forward. Priority projects resulting in significant capital pressures require careful consideration. With a quiet optimism for 2021, businesses continue to struggle while looking for opportunities to pivot, innovate and grow in the face of the pandemic.
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Financial/Legal Implications

The operating budget endeavors to balance various pressures the City must consider on an annual basis including inflation, capital investment, offset with changes in user fee revenues, efficiencies and service reductions. The tax levy increase included in the proposed 2021 Operating Budget is 3.83% or \$3,595,577. This does not include proposed Service Level Changes (SLCs) attached at the end of the budget package.

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
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Options/Analysis

The 2021 General Operating Budget was prepared with the following guidelines:

Consultative Budget Methodology:

Managers and supervisor's knowledge of their operations continues to be united with financial budgets and actual expense projections. This practice has led to the development of a 2021 budget with sound philosophies and estimates.

User Fees:

Report to Council CORP 2018-94 established a user fee by-law for the next four year term of Council from 2019 to 2022. The 2021 user fee amendments were tabled in Report to Council CORP 2020-102 City of North Bay User Fees. The enclosed 2021 Budget reflects presented user fees.

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 2021 Budget includes the City's allocation of \$10,094,200 which represents a decrease of (\$113,600) over the 2020 OMPF allocation.

Service Delivery:

The preliminary 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 (page 6 of Appendix A).

Expenditures:

These represent management's best estimates to deliver the current level of service.

Management's estimates include:

- Annualized approved Council initiatives
- Inclusion of contractual agreements (landfill, waste collection, Para Bus, etc.)
- Legislated changes (i.e. mandatory training, safety guideline changes, legal costs, etc.)
- Expected future operational requirements and needs

Utility Costs:

Budget estimates take into consideration the prior year's data, projected actual billings as well as expected future trends. Calculations include such items as the benefit of energy efficiencies gained through capital investments and enhanced education programs to improve energy conservation. The enclosed budget assumes hydro costs will increase by 1.1% and natural gas by 3.4% from the 2020 projected year-end actuals.

Fuel:

Fuel costs are estimated based on the anticipated usage for 2021 and the average fuel rate of \$1.014 per litre. This figure includes the \$0.022 per litre for the phase-in of the federal carbon tax. The federal carbon tax on fuels came into effect on April 1, 2019.

Staff Complement:

All staffing costs and Full Time Equivalents (FTE), including positions grant funded or directly related to Capital, are reported in the personnel costs with any associated offsetting revenues being recorded accordingly.

Fringe Benefits:

Staff benefit costs have been updated by the Finance Department and are reflected within the departments that individuals are assigned. Benefits include items such as Employment Insurance, Canada Pension Plan, WSIB, OMERS, EHT, LTD, Life, AD&D, dental and major medical.

Insurance:

Based on current information, these 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 2020 is known and the increase is applicable to the remaining 8 months.

Debenture Financing:

As per the City's Long-Term Capital Funding Policy, the annual funding allowance for the General Capital Budget includes \$8.5 million in debt financing to support capital projects. The corresponding principal and interest payments are budgeted within the General Operating Budget. The 2021 forecasted principal and interest payments includes an adjustment for the debt authority recommended to be cancelled as outlined in the 2021 Capital Budget Report to Council No. 2020-120.

Service Partners:

Service Partner budgets represent services that are funded by property taxes in which City Council does not have direct oversight of the boards and agencies; however, City Council is responsible for funding them, in whole or in part. The most notable Service Partners include: North Bay Police

Services, North Bay Public Library, Cassleholme, District Social Services Administration Board, MPAC, North Bay Parry Sound District Health Unit and the North Bay-Mattawa Conservation Authority. In early fall, Service Partners received a letter from the City's CFO outlining budget timelines. The documents requested that each Service Partner communicate its operating budget target to the Chief Financial Officer. The enclosed budget includes projections which are based on varying levels of information and discussions with certain service partners. As with every budget year, the City is holding the risk should estimates be off or if there are shifts in apportionments.

Mayor's Plan:

The 2021 Budget includes a planned transfer from reserve in the amount of \$309,745 as part of the Mayor's Plan. Only the portion required to balance the year-end results will be transferred from reserve at year-end and the unused portion will remain in the reserve and can be applied towards future years' budgets in accordance with Council authorization.

Risks:

As with any budget, there are risks associated with forecasting expenditures and revenues. A contingency allowance of \$206,502 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 \$701,392, would better able the City to absorb reasonable levels of fluctuations expected for a budget of this magnitude.

The New Experimental Experience Rating (NEER) program administered by WSIB compared the expected cost of claims to the actual NEER cost and a portion of the difference was either refunded or charged back annually to the employer. As of January 1st 2020, a new WSIB methodology along with rates was realized that encompasses a base rate plus experience premium. The adjusted base rate has been included in the presented budget. Additional experience rate premiums are unknown at the date of this report. The City has a WSIB reserve (99508R) which was established from past NEER rebates. The balance in the reserve at the date of the report is \$297,127.

COVID-19:

The year ahead still poses challenges and contains many unknowns, but a long history of careful financial stewardship has made the City resilient. With the continued commitment from our federal and provincial partners, the City is on solid footing as we work towards a vibrant future and continue to meet the challenges of the changing world in which we live. The 2021 Draft Budget has been cautiously developed while the City awaits further information on additional municipal funding from the federal and provincial Phase 2 Safe Restart funding. Phase 2 funding will help the City to preserve its reserves for the financial burden that will likely continue in subsequent years. Difficult decisions were made in 2020 to generate savings to offset COVID-19 costs/revenue losses; however, the savings are not sustainable and the City's reserves will be critical in offsetting and stabilizing the 2021 and 2022 operating budgets potentially leaving the City vulnerable in future years. As per the strategy outline in the September 30th Variance Report to Council No. CORP 2020-97, the anticipated surplus in 2020 (approximately \$900,000) will be

transferred to the tax rate stabilization reserve to partially offset the 2021 anticipated reserve funding in the amount of \$1.44 million.

Reserves:

The establishment of reserves assists to stabilize 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 noted in this report, 2021 is a budget year which aligns with the intended purpose of the below reserves. The balance in the associated reserves at the date of this report is as follows:

- Tax Stabilization Reserve (99529R): \$2,887,719
- Operating Budget Contingency (99557R): \$1,208,860

* Note the above balances are subject to year-end accruals and allocations.

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 \$4.9 million to \$9.7 million for 2021 (based on 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 2021 gross operating budget, being approximately \$1.4 million.

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 Operating Budget.

Recommendation

That the 2021 Administration Operating Budget be received and referred to the Special Committee meetings.

Respectfully submitted,

Margaret Karpenko, CPA, CMA
Chief Financial Officer / Treasurer

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

David Euler, P.Eng., PMP
Chief Administrative Officer

Personnel designated for continuance: Chief Financial Officer/Treasurer
Attachments: Appendix A – 2021 Administration Recommended Operating Budget