

2022 Year-End Operating Budget Variance Report

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Report Summary

This report provides information regarding the City's year-end financial position.

Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report refers to operational matters and has no direct connection to the Community Energy & Emissions Plan (CEEP).

Financial Implications

There are no financial implications associated with this report.

Background

The purpose of this report is to provide Council with an overview of year-end variances and the variations in service outcomes versus planned 2022 objectives. The monitoring and reporting of variances have been conducted in accordance with the Operating Budget Policy. Council is provided with a variance report on a regular basis throughout the year. This report is an update from the year-end forecast provided to Council in the projections within the 2023 budget binder.

Executive Summary

This report provides Council with an analysis of the City's year-end financial position and related service outcomes for 2022. The 2022 year-end surplus is \$1.9 million. The surplus will be contributed equally to the Tax Rate Stabilization Reserve and Capital Financing Reserve Fund – General in accordance with the Reserves and Reserve Funds By-law.

The City was also able to make the following contributions to Reserves and Reserve Funds:

Capital Financing Reserve Fund – EMS	\$ 775,546
Library & Citizen Services Reserve Fund	\$ 306,325

Cemeteries Reserve Fund	\$ 264,717
Organizational Development Reserve for Training and Professional Development	\$ 215,880
Capital Financing Reserve Fund – General	\$ 128,325
Total Contributions to Reserves and Reserve Funds	\$ 1,690,793

Attached is a schedule (Appendix 1) that reflects the annual net budget, year-end position, and variance for each area. In accordance with the Operating Budget Policy, the following explanations relate to areas where a variance of greater than \$200,000 resulted within a division or section.

Variance Explanations and 2022 Service Performance

1) Revenue Summary

This area is reflecting a net under expenditure of \$2.6 million relating to property taxes as follows:

- Increase in assessment appeal revenue of \$1.7 million due to resolved assessment appeals for mining related properties.
- Decrease in tax write-offs of \$760,000 due to successful assessment appeals.
- Decrease in property tax rebates (charities / elderly tax assistance) \$50,000.

2) Other Revenues and Expenses

This area is reflecting a net under expenditure of \$3.2 million as follows:

- An increase in investment earnings of \$6.7 million due to a higher than expected portfolio value and higher interest rates.
- An increase in municipal accommodation tax of \$330,000 due to stronger recovery in the industry than projected.
- Planned staffing vacancies of \$1.4 million, with actual savings presented within each division.
- Lower than anticipated provincial grant for COVID-19 related expenditures of \$1.0 million offset mostly by savings within each division for less than anticipated COVID-19 costs.
- An increase in debt repayments of \$870,000 for previously approved projects where the City took advantage of the interest rate environment in early 2022 and secured previously approved debt. These debt repayments exclude the portion related to Long-Term Care.
- A reduction in slot revenues of \$400,000 as a result of a delay in return to normal attendance at the casino since COVID-19.

3) Security, By-Law and Parking

This area is reflecting a net over expenditure of \$630,000 as follows:

- An overall net over expenditure of \$330,000 in Security and By-Law. This is due to:
 - A shortfall in parking revenues of \$310,000. This is a direct impact from the continuation of staff working from home and aftereffects of COVID-19.
- An overall net over expenditure of \$300,000 in Animal Control. This is due to:
 - Lower than anticipated canine license sales of \$100,000. This is a result of lower tag sales that are still recovering from the pandemic. An increase is anticipated for 2023.
 - Lower than anticipated shelter redemption, boarding, and adoption user fees of \$30,000. This is a result of the aftereffects of COVID-19.
 - An over expenditure in veterinarian services of \$80,000. This is a result of a decrease in the availability of veterinarian services resulting in a need to use emergency vet services at a higher cost.
 - An over expenditure in salary and benefits of \$60,000. This is a result of an increase in the number of animals at the shelter and care required by temporary staff.

4) Information Technology

This area is reflecting a net under expenditure of \$330,000 as follows:

- An under expenditure in salary and benefits of \$255,000 due to an increase in temporary vacancies as a result of various project assignments and illness, along with a difficult recruiting year.

- An under expenditure of \$100,000 for an Electronic Records Management strategy as a result of unanticipated funding from the Provincial Streamline Development Approvals Fund.
- An under expenditure in Tower Fee Discounts of \$25,000, as none were requested for 2022.
- These were offset by various minor adjustments to other hardware and software costs.

5) Human Resources and Organizational Development

This area is reflecting a net over expenditure of \$3.5 million as follows:

- Over expenditure of \$2.85 million to record the liability relating to the long-term disability portion of employee benefits. When funded, the City will no longer incur interest charges on the deficit amount.
- Over expenditure in legal counsel expense of \$110,000 due to increased costs associated with various labor relations and employment matters, including interest arbitration, individual employment matters, and costs associated with grievance mediation and arbitration. There is no impact on service levels and is in large part due to contractual obligations.
- Over expenditure of \$200,000 for costs associated with self-insured WSIB claims. These costs are typically funded through the WSIB reserve fund. In 2022, the WSIB reserve fund was insufficient to cover the full costs incurred.
- Over expenditure of \$160,000 due to additional staffing support required to meet increased demands related to rehabilitation and health & safety.
- Over expenditure for retirement allowances of \$230,000 as budget for retiring allowance and retiree benefits was insufficient due to increases in rates.

6) Social Services

This area is reflecting a net under expenditure of \$1.6 million as follows:

- An under expenditure of \$1.7 million in salaries and benefits due to staff absences and vacancies in the year.
- An under expenditure of \$250,000 due to a reduction in caseloads and changes to employment services.
- An overall deficit of \$450,000 in the Homelessness Initiatives and Support and Outreach programs due to a lack of Provincial funding for the Supervised Consumption Site and unbudgeted cost of repairs for the 199 Larch Street emergency warming centre.

7) Leisure and Cemetery Services

This area is reflecting a net over expenditure of \$1.0 million as follows:

- A shortfall of \$1.3 million in user fees, advertising revenue, and concession revenue as a result of suspended programs and closed facilities in Q1. Program participation achieved pre-pandemic levels in Q4.
- Offsetting the shortfall in revenues is an estimated operating and maintenance under expenditure of \$300,000, the majority of which results from:
 - An under expenditure of \$960,000 in part-time salaries due to reduced staffing levels in Q1 and a shortage of summer students/seasonal employees for parks and recreation activities. This is net of the financial impact of the Living Wage initiative which added approximately \$340,000 to salaries and benefit costs.
 - An over expenditure in purchased/contract services of approximately \$550,000 due to the lack of student/seasonal employees.
 - An over expenditure in Park's fleet rental costs of \$290,000 due to COVID-19 restrictions and contractual rate increases during the year.
 - An under expenditure for grants of \$100,000 due to eligibility criteria not being met by applicants and/or applicants requiring less funds than budgeted.
 - An under expenditure in material costs of \$80,000.

8) Transit

This area is reflecting a net over expenditure of \$610,000 as follows:

- A shortfall in revenues of \$1.7 million due to reduced ridership.
- An under expenditure in operating and maintenance expenses of \$1.6 million.
- An over expenditure in energy costs of \$1.1 million, primarily due to higher fuel rates.

- These variances were offset by funding provided under the Safe Restart Agreement (SRA) which contributed \$600,000 to assist with the financial impacts of COVID-19.

9) Infrastructure Capital Planning

This area is reflecting a net under expenditure of \$600,000 as follows:

- The surplus is largely due to the delay in implementation of the Red Light Camera Program as well as some staff vacancies.

10) Engineering Services

This area is reflecting a net under expenditure of \$340,000. This is a result of the following:

- An under expenditure in salary and benefits of \$260,000 resulting from in-year vacancies.
- Other small under expenditures in various material operating expenses.

11) Linear Infrastructure Services

This area is reflecting a net over expenditure of \$2.3 million. This is a result of the following:

- An over expenditure in the summer maintenance program of \$990,000 due to increased fuel costs and unforeseen culvert and storm sewer maintenance, asphalt patching, and guidepost repairs.
- An over expenditure in the winter maintenance program of \$2.0 million due to increased costs in pothole patching, roadway plowing and winter ditching/spring cleanup. These over expenditures were attributable to above average snow accumulation, on-going precipitation, and fluctuating weather conditions.
- An under expenditure of \$740,000 in public works depots primarily due to a decrease in COVID-19 labour related expenditures. This was offset by unrealized funding budgeting within Other Revenues and Expenses.

12) Environmental Services

This area is reflecting a net under expenditure of \$1.7 million as a result of the following:

- A surplus in Blue Box Program funding of \$1.1 million, due to a permanent recalculation of distribution of Blue Box funding payments to municipalities. This adjustment has been reflected in the 2023 budget.
- A surplus in the sale of recyclable materials of \$150,000. Markets for blue box materials have increased significantly for a portion of the year before falling again.
- A surplus in tipping fee revenue of \$310,000 because of the removal of COVID-19 restrictions on business operations.
- An under expenditure in blue box recycling processing of \$110,000 as the amount of blue box materials being processed has not yet increased to pre-pandemic levels.

13) Planning and Development

This area is reflecting a net under expenditure of \$660,000 as follows:

- An under expenditure of \$290,000 for the Land Management Information System (LMIS) project as a result of unanticipated funding from the Provincial Streamline Development Approvals Fund.
- An under expenditure in salaries and benefits of \$220,000 as a result of in year vacancies, secondments of staff to other City departments, short-term leaves, and unanticipated funding from the Provincial Streamline Development Approvals Fund.
- Additional Development Application user fee revenue of \$146,000 due to an increase in building and development activity.

14) Fire Services

This area is reflecting a net over expenditure of \$1.1 million as follows:

- An over expenditure of \$1.1 million in overtime wage costs due to staffing requirements, training, and on-going absences (including COVID-19, sick time, WSIB, vacation, retirements, maternity/paternity leaves, etc.).

Non-Tax Levy Supported Areas

In addition to the operating variances reported above, there are a number of areas, which are not funded by

the municipal tax levy, and therefore, any over or under expenditures result in increased contributions to or from reserves. The chart below indicates the variances between the budgeted and actual contributions to reserve for these areas.

Area	Budgeted Contribution to (from) Reserve	Actual Contribution to (from) Reserve	Difference in Contribution to (from) Reserve
Parking Services	\$865,360	\$1,109,446	\$244,087
Building Services	(\$1,207,134)	(\$1,141,402)	\$65,732
Water/Wastewater	\$0	(\$609,717)	(\$609,717)
Regional Business Centre	(\$87,514)	(\$31,596)	\$55,918

Parking Services

Parking Services experienced a significant loss in revenue as a result of aftereffects of COVID-19 and many people working from home. This shortfall in revenue is eligible to be funded through the Safe Restart – Transit program. As a result, Parking Services realized \$1.2 million in provincial funding.

Building Services

Building Services experienced a net under expenditure of \$66,000. In accordance with provincial regulations under the Ontario Building Code Act, Building Services operates as an enterprise model without tax levy impact. Revenues generated from building permits are to be used to support the Building Services department. Therefore, any deficit and/or shortfall in building permit revenue is funded by a draw from Building Services Revenue Stabilization Reserve. In 2022, the Building Services budget included a draw from reserve of \$1,141,402 to balance the budget. Therefore, there were no impacts on service levels arising from these variances.

Water Wastewater Services

- User fee revenues were under budget by \$1.1 million as actual billed consumption was 12.9 million cubic meters while the budget for 2022 was 13.2 million cubic meters. Other user fees including bulk water and hauled liquid waste were over budget by \$540,000.
- Treatment and Compliance was under budget by \$20,000 on budgeted expenditures of \$29.4 million:
 - Salaries and benefits were under budget by \$540,000 due to administrative vacancies and absences.
 - Purchased Services were under budget by \$210,000.
 - Energy costs were under budget by \$660,000, largely resulting from the energy saving initiative at the Kelly Lake Wastewater Treatment Plant.
 - Chemical costs were over budget by \$350,000 due primarily to price increases, the additional operation of six dechlorination processes at outlying wastewater plants, and the newly commissioned ferric sulphate dosing system at the Capreol Lagoon for phosphorus removal. Other operating materials were over budget by \$730,000 due to equipment repairs and replacements on aging infrastructure.
- Distribution and Collection was over budget by \$530,000 on budgeted net expenditures of \$11.0 million:
 - Salaries and benefits were under budget by \$800,000 resulting primarily from permanent and casual vacancies. The department was unable to fill vacancies due in part to difficulty in recruiting licensed operators. As a result, the department was not able to enhance the preventative maintenance program.
 - Purchased services and materials were over budget by \$1.2 million, due primarily to overages in road restoration costs of \$800,000 as a result of an above average number of watermain breaks. Although most emergency repairs are being performed with City crews, there were several large watermain repairs contracted out.
 - User fees related to road repairs were under budget by \$180,000.
- Infrastructure Capital Planning and Business Improvement sections reflected savings in salaries and benefits of \$470,000 due to unfilled vacancies and absences. These vacancies will cause a delay in implementing some Master Plan recommendations and business improvement reviews.

- In summary, there was a net over expenditure of \$610,000 in Water and Wastewater Services for 2022. Water had an under expenditure of \$390,000 which was contributed to the Capital Financing Reserve Fund – Water in accordance with the Reserves and Reserve Funds By-Law. Wastewater had an over expenditure of \$1.0 million which was funded by a contribution from the Capital Financing Reserve Fund - Wastewater in accordance with the Reserves and Reserve Funds By-Law.

Summary

The City's 2022 net year-end surplus was \$1.9 million. This surplus is contributed equally to the Tax Rate Stabilization Reserve and Capital Financing Reserve Fund – General, in accordance with the Reserves and Reserve Funds By-Law.