



SUBJECT: Operating budget performance as at December 31, 2021
and summary of year-end financial position

TO: Corporate Services, Strategy, Risk & Accountability Cttee.

FROM: Finance Department

Report Number: F-09-22

Wards Affected: All

File Numbers: 435-5

Date to Committee: March 2, 2022

Date to Council: March 22, 2022

Recommendation:

Receive and file finance department report F-09-22 reporting on 2021 year-end financial position.

PURPOSE:

Address other area of responsibility

Vision to Focus Alignment:

- Deliver customer centric services with a focus on efficiency and technology transformation

Background and Discussion:

In March 2020, the City declared a state of emergency in response to the COVID-19 pandemic. This unprecedented pandemic and associated provincial restrictions has greatly impacted city service delivery resulting in significant financial impacts. This report outlines the financial variances realized during 2021.

Strategy/process

Budgetary performance is monitored regularly to provide an early indication of potential problems and gives management time to consider appropriate actions.

Since the onset of the pandemic, Council receives monthly financial updates on the impact COVID is having on the City's financial position. The variances outlined in this report have been structured in a similar manner to those monthly financial updates.

Due to the continued financial pressures of the ongoing COVID-19 Pandemic, the 2021 Approved Budget was developed as two budgets in one. To estimate and track COVID financial impacts, the Budget was presented as the sum of two components:

- Base Budget - The budget was first built under traditional business as usual assumptions with all City services adjusting their ongoing base budgets to reflect service efficiencies and standard inflationary pressures offset with "normal" changes to revenues based on fee changes and volumes.
- COVID Budget – All City services were asked to separately identify one-time budget adjustments required as a result of COVID-19. These adjustments include one-time reductions in budgeted revenues and changes in expenses to recognize temporary Service redesign plans required to protect the health and wellbeing of residents, businesses and staff. Finally, services were asked to make further one-time budget adjustments to expenditures reflecting continued travel restrictions and additional savings resulting from remote working such as decreases in professional development given virtual training opportunities, meeting expenses and mileage.

Any budget variances highlighted in this report are above and beyond the COVID impacts already incorporated into the 2021 Budget, using the methodology outlined above.

Additional detail is provided in the attached Appendix A, which lists cost elements with a significant favourable or unfavourable 2021 variance of +/- \$100,000 and provides explanatory notes outlining drivers.

Federal and Provincial Emergency Funding

To date, approximately \$19.7M in Senior Government Safe Restart funding has been received by the City. \$6.9M of this funding was used to balance the 2020 year-end financial position. The 2021 Budget included estimated expense and revenue impacts from the ongoing pandemic and related provincial restrictions. To mitigate these impacts, the budget included \$6.7M of Safe Restart funding, the repurposing of \$2.18M of infrastructure funding and \$450,000 of one-time funding from the tax rate stabilization reserve fund. This totaled \$9.3M of estimated mitigation funding requirements. At December 31, 2021, the Operating Budget was unfavourable by approximately \$837K. This shortfall was funded by Safe Restart Funding to bring total 2021 use to approximately \$10.14M.

The following table provides a high-level summary of the City's use of Safe Restart Funding to date:

Summary of Safe Restart Funding Usage	(\$ Millions)
Total Safe Restart Funding Received	\$ 19.71
2020 Year End Shortfall	\$ (6.92)
2021 Budget	\$ (6.66)
2021 Repurposing Infrastructure Levy back to Capital	\$ (2.18)
2021 Offset of One-Time Tax Rate Stabilization Funding	\$ (0.45)
2021 Year End Shortfall	\$ (0.84)
Remaining Balance	\$ 2.66

*Numbers may not be exact due to rounding

All Safe Restart funding that was specified for Transit related financial pressures as well as the \$89K of Municipal Transit Enhanced Cleaning funding has been fully applied to offset COVID impacts. There is no balance remaining in either account.

The remaining \$2,660,350 of Municipal Operating Pressures Safe Restart Funding will be used to offset COVID impacts in the 2022 budget. These impacts are estimated at \$6.58M. Should these estimated impacts be realized and additional Safe Restart funding is not provided the city will look to realize temporary expenditure savings, reduced provisions to reserve funds as well as require a draw of approximately \$2.89M from the tax rate stabilization reserve fund to balance the 2022 budget at year-end.

Financial Matters:

The balanced year end position is outlined below. The revenue shortfall was fully mitigated from savings in part time staffing, other operational savings not directly related to the pandemic and Safe Restart funding provided by senior levels of government.

(\$ Millions)	2021 Budget	2021 Actual (Unaudited)	Variance Fav./(Unfav.)
City Services and Boards	\$148.24	\$143.40	\$4.84
Corporate Expenditures	\$47.34	\$52.29	\$(4.96)
Corporate Revenues*	\$(195.58)	\$(195.70)	\$0.12
Total			\$0

*Includes a tax levy of \$179.2 million

Note: figures may not add up due to rounding

As is usual practice, accounts payable and year-end accruals have been made in 2021.

Similarly, year-end transfers to reserves funds and use of Safe Restart funding was brought in as revenue to ensure year end could be closed off and end the year in a balanced financial position.

The following tables provide information regarding transfers to and from reserve funds:

Business Transfers	2021 Transfer Amount	Reserve Fund Balance (Dec. 31, 2021)
Transfer to/(from) Parking District Reserve Fund	\$275,798	\$9,896,825
Transfer to/(from) Paletta Mansion Reserve Fund	\$99,841	\$702,389
Transfer to/(from) Tyandaga Reserve Fund	\$75,639	\$307,002
Transfer to/(from) LaSalle Park Pavilion Reserve Fund	\$66,650	\$431,319
Transfer to/(from) Discovery Landing Reserve Fund	\$148,293	\$178,850

Development Application Reserve Funds

In 2005, the Engineering Fee Stabilization Reserve Fund, the Building Permit Stabilization Reserve Fund and the Planning Fee Stabilization Reserve Fund were created (refer to BP-10-05) to ease budget pressures should development revenues slow down due to economic and/or market conditions.

As of December 31, 2021, the following year-end transfers were made:

Transfers	2021 Budget Revenues	2021 Actual Revenues (Unaudited)	2021 Provision to / (from) Reserve Fund	Reserve Fund Balance (Dec. 31, 2021)
Engineering Fee Stabilization	\$150,000	\$8,832	(\$141,168)	\$272,289
Building Permit Stabilization	\$4,765,584	\$4,740,079	\$421,260	\$2,894,113
Planning Fee Stabilization	\$2,950,267	\$3,322,110	\$371,844	\$3,181,683

Engineering Fee Stabilization Reserve Fund

The decrease in Subdivision Administration Fees has resulted in a draw of \$141,168 from the reserve fund. Residential development in Burlington has changed from Greenfield subdivision applications to infill and intensification sites requiring OPA,

zoning, site plan and condominium approvals. The reserve fund will be used over the next five years to phase out our reliance on this funding source in the budget.

Building Permit Stabilization Reserve Fund

Building permit services are based on a “Fee for Service” model that is not supported by municipal taxes and is in full compliance with legislation. The intent behind establishing a Building Permit Stabilization Reserve fund is to provide municipalities with a sustainable tool for providing and maintaining building permit and inspection services throughout a fluctuating construction industry and overall economy. The Building Permit revenues for 2021 are \$4,740,079. These revenues are offset by expenditures (both direct and indirect as per the Bill 124 model), resulting in a provision the reserve fund of \$421,260. The 2022 budget for building permit revenues has been increased to \$5,342,129 to reflect the increased HR costs to deliver this service.

Planning Fee Stabilization

Planning fee revenues experienced a positive variance of \$371,844 primarily due to higher than expected rezoning fees. This resulted in a provision to the reserve fund in this amount. The 2022 budget for planning revenues has been increased to \$4,353,836, to offset the additional fee funded positions included in the 2022 budget and an inflationary increase on certain fees.

Budget Variance Summary

Throughout 2021, staff have been monitoring and reporting monthly on the 2021 budget, the effects of COVID restrictions and mitigation efforts. This has allowed the City to better understand and manage the financial impacts of the pandemic. The results of these efforts, as well as external factors beyond the City’s control, makes up the 2021 year-end financial position, which is primarily a result of the items highlighted below and are outlined in greater detail in the attached Appendix A.

Revenue Impacts

The City had both favourable and unfavourable revenues, netting to a \$321,597 UF variance. Halton Court Services revenues were \$424,684 less than budgeted due to the ongoing closure of the courthouse and the significant drop in number of charges laid by enforcement agencies. Parking By-law Enforcement revenues were \$415,240 unfavourable as Parking Services paused the 5-hour and 1-6am parking enforcement to support residents working from home; this was reinstated mid July 2021. Parking is being enforced on complaint basis only, which has resulted in less tickets being issued and less revenue collected. Recreation Community and Culture realized less than

expected revenues, leading to a \$223,393 unfavorable variance. This was the result of closures and restrictions on Facility rentals including Sport Fields.

The City also had favourable revenues in certain areas. Transit had a \$305,968 favourable variance in Advertising Revenues, this was related to a one-time payment upon the conclusion of a longer-term advertising contract and therefore does not impact future budget years. Transit also realized a \$283,021 favourable variance in revenues versus the 2021 Approved Budget that had included the financial impact of COVID restrictions and changing consumer behaviors. With low ridership in the first half of the year, Transit showed a strong recovery in the latter part of the year then experienced lower ridership late-December in response to the rise in COVID cases and the Provincial lockdown effective December 31st, 2021. Lastly, the City realized favourable revenues of \$152,730 from Fire Fines. A combination of the fee structure, the increased number of alarms, an increased MTO rate (which is what is used to establish the per apparatus rate), and other internal efficiencies led to the favourable position.

COVID Related Costs

The City faced a number of additional expenses incurred directly as a result of COVID-19. This led to an unfavourable variance of \$1,850,476. The main drivers were the Summer Park Experience program, parking adjustments at Beachway and Lowville Parks, synthetic outdoor ice rinks approved by Council, supplies and signage to ensure safe operating environments and costs for screeners to verify vaccine passports.

Savings in Part Time Wages

The City realized savings of \$1,981,331 as a result of temporary part-time staff lay-offs across various programs between March and June and the delay in hiring of summer students.

Other Operational Impacts

Winter Maintenance operations were favourable by \$965,745 due to a reduced requirement for salt and sand usage, as well as savings in external services resulting from mild winter seasons. Given the favourable variance in Winter Maintenance, a \$500,000 provision was made to Severe Weather Reserve Fund. This reserve fund is used to alleviate the impact of unforeseen fluctuations in costs associated with severe weather events and the reserve fund is below the target balance.

Utility savings such as heat, hydro and water resulted from the closure of many City facilities. Additionally, the city experienced savings in fuel primarily in Transit due to favourable pricing and reduced consumption. This resulted in an overall favourable commodity variance of \$962,765. A portion of this variance was used to offset COVID related revenue losses resulting from facility closures. A provision of \$200,000 was

made to the Commodity Stabilization Reserve Fund to reflect the favourable fuel pricing experienced during 2022. This reserve fund assists in mitigating future in year fluctuations due to price and/or volume changes.

The City also realized savings of \$407,483 in Contracted Services. These were primarily the result of janitorial services costs in Transit and Recreation Facilities coming in below budgeted estimates. \$220,744 of savings in Information Technology Services were realized as a result of negotiated cost savings with key software vendors and \$213,614 in travel related savings were a result of the remote working environment.

Partially offsetting these savings, a number of operational impacts led to unfavourable variances. The main drivers were \$384,829 of over expenditures in Equipment Repair and Building Maintenance primarily to address maintenance in Arena Facilities, \$370,307 of over expenditures due to higher than anticipated overtime costs as a result of temporary vacancies and \$265,237 higher than anticipated spend in Professional Consulting, in Services such as Corporate Legal, Information Technology and Development Review and Planning

Corporate Expenditures

In 2021, a number of long standing, multi-year assessment appeals were resolved through the Assessment Review Board affecting both current year and prior year tax write offs. Budgeted current year write offs were unfavourable by \$346,070. The balance in the Allowance for Prior Year Tax Write offs was exhausted which required a \$1,000,000 provision to ensure sufficient funding is available to address bad debts in 2022.

Corporate Revenues

The City realized higher than anticipated supplementary taxes for current and previous years resulting in a favourable variance of \$507,145 as well as higher than anticipated Penalty and Interest on Taxes resulting in a favourable variance of \$272,557.

As Transit Operations experienced favourable variances, the \$764,200 of provincial gas tax funding was not required. By not drawing this funding into the operating budget it remains available to support future Transit capital needs.

Additional Safe Restart Funding Used

As noted earlier in this report, the 2021 Budget was developed as two budgets in one, the normal base budget and COVID impacts. The 2021 year-end financial position was a deficit of \$837,833. This is above and beyond those impacts anticipated and incorporated into the budget at the time it was approved. This remaining shortfall was

mitigated with higher than budgeted use of Safe Restart Funding, thereby balancing the year-end financial position for the City.

Conclusion:

This report provides Committee and Council with the City's preliminary unaudited 2021 year-end position. The City's unfavourable year-end revenue losses were fully mitigated from a combination of business as usual savings and the use of Safe Restart Funding.

Respectfully submitted,

Gurpinder Grewal

Financial Analyst, Budgets & Policies

Appendices:

A. 2021 Expense and Revenue Analysis by Cost Element

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.