



SUBJECT: Operating budget performance report as at December 31, 2022 and summary of year-end financial position

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

FROM: Finance Department

Report Number: F-13-23

Wards Affected: ALL

File Numbers: 435-5

Date to Committee: March 29, 2023

Date to Council: April 18, 2023

Recommendation:

Receive and file finance department report F-13-23 which reports on the 2022 year-end financial position.

PURPOSE:

Vision to Focus Alignment:

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

Background and Discussion:

The 2022 Operating Budget Performance Report (F-30-22) as at June 30, 2022 recommended:

“Direct the Director of Finance to report back on the city’s retained savings strategy upon confirmation of the 2022 year-end actual.”

This report outlines the financial variances realized during 2022. Additional detail is provided in the attached Appendix A, which lists cost elements with a significant favourable or unfavourable 2022 variance of +/- \$100,000 and provides explanatory notes outlining major drivers.

Strategy/process/risk

During the first half of 2022, Council received monthly financial updates on the impact COVID was having on the City's financial position. In the second half of 2022 there was a return to standard quarterly reporting of financial variances.

Budgetary performance is monitored regularly to provide an early indication of potential problems and gives management time to consider appropriate actions. The year-end 2022 financial position has been balanced through business-as-usual savings, use of reserve fund transfers and the use of all remaining Safe Restart Funding.

Federal and Provincial Emergency Funding

To date, approximately \$22.06M in Senior Government Safe Restart funding has been received by the City. \$6.92M of this funding was used to balance the 2020 year-end financial position and \$10.12M was used to balance the 2021 year-end position. The remaining \$5.02M of Senior Government Safe Restart funding was applied in 2022.

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	\$	22.06
2020 Year End Shortfall	\$	(6.92)
2021 Year End Shortfall	\$	(10.12)
2022 Year End Shortfall	\$	(5.02)
Remaining Balance	\$	-

*Numbers may not be exact due to rounding

Financial Matters:

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

(\$ Millions)	2022 Budget	2022 Actual (Unaudited)	Variance Fav./ (Unfav.)
City Services and Boards	\$151.30	\$149.90	\$1.40
Corporate Expenditures	\$53.60	\$55.64	\$(2.04)
Corporate Revenues*	\$(204.90)	\$(205.54)	\$0.64
Total			\$0

*Includes a tax levy of \$188.49 million

Note: figures may not add up due to rounding

As is usual practice, accounts payable and year-end accruals have been made in 2022.

Similarly, year-end transfers to/from 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 for the City's net zero operations:

Business Transfers	2022 Transfer Amount	Reserve Fund Balance (Dec. 31, 2022)
Transfer to/(from) Parking District Reserve Fund	\$431,391	\$9,935,518
Transfer to/(from) Paletta Mansion Reserve Fund	\$132,775	\$788,351
Transfer to/(from) Tyandaga Reserve Fund	\$41,274	\$355,830
Transfer to/(from) LaSalle Park Pavilion Reserve - Fund	\$80,832	\$502,385
Transfer to/(from) Discovery Landing Reserve Fund	\$113,209	\$286,287

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, 2022, the following year-end transfers were made prior to the calculation of the year-end retained savings.

Transfers	2022 Budget Revenues	2022 Actual Revenues (Unaudited)	2022 Provision to / (from) Reserve Fund	Reserve Fund Balance (Dec. 31, 2022)
Engineering Fee Stabilization	\$150,000	\$241,835	\$91,835	\$370,117
Building Permit Stabilization	\$5,342,128	\$6,997,304	\$2,243,386	\$5,201,986
Planning Fee Stabilization	\$4,353,836	\$4,612,110	\$258,274	\$3,470,464

Engineering Fee Stabilization Reserve Fund

The increase in Subdivision Administration Fees has resulted in a provision of \$91,835 from the reserve fund. 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 2022 are \$6,997,304. These revenues are offset by expenditures (both direct and indirect as per the Bill 124 model), resulting in a provision the reserve fund of \$2,243,386.

Planning Fee Stabilization

Planning fee revenues experienced a favourable variance of \$258,274 primarily due to increased demand from residents renovating properties and applicants seeking to get ahead of anticipated legislation changes from the Province. This resulted in a provision to the reserve fund in this amount. The 2023 budget for planning revenues has been increased to \$4,357,830 to reflect a forecasted inflationary increase on fees and a forecasted volume increase.

Revenue Impacts

The City had both favourable (F) and unfavourable (UF) *tax supported* revenues, netting to a \$38,838 F variance. Recreation Community and Culture realized less than expected revenues, leading to a \$1,338,785 UF variance. Changes in customer buying behavior combined with the COVID related January facility closure resulted in an overall decrease of budgeted revenues. Parking Bylaw revenues were unfavourable by \$342,777. This is due to a change in methodology, where certain offenses were acted on a complaint only basis rather than proactive enforcement. Enforcement has returned to the proactive model in the latter half of 2022. These UF revenues were offset by favourable revenue of \$1,613,808 in Transit. The Service had estimated a steady return to normal ridership, the recovery was faster than estimated, with ridership levels reaching approximately 90% of pre-pandemic levels in 2022.

Overall *non-tax supported* revenues were \$514,298 UF. Major drivers of this were Parking District Revenues which were \$182,921 UF. This is attributable to lower rental revenues and parking fines, both driven by lower customer volume in the downtown. As Parking District is a net zero City operation, the variance in the Service was offset by a lower provision to the Parking District Reserve of \$250,967. The favourable variance of Planning Fee DAAP Revenues of \$350,109 were provided to the Planning Fee Reserve fund as is standard practice. Lastly, Building permit revenues exceeded budget, leading to \$1,655,175 F variance. The revenue was higher than anticipated due to an influx of several large industrial buildings, multi-residential, mid/high-rise buildings and continued investment by homeowners. As per Bill 124 Model, higher building permit revenues resulted in a provision to the reserve fund of \$2,237,519.

COVID Related Costs

The City realized \$779,977 of additional un-budgeted COVID related costs. These additional costs are a result of enhanced cleaning services, purchase of PPE and other related costs. The unfavourable variance was partially offset by lower than anticipated costs related to active screening and implementation of the enhanced vaccine certificate in Recreation, Community, and Culture.

Human Resource Savings

The City realized net savings of \$1,803,203 in HR related costs. This was the result of staff gapping savings from the annualized cost of vacant newly approved positions in the 2022 Budget and other temporary vacancies which we partially offset by significant UF Overtime and Sick Leave variances (primarily in Fire Management and Transit Services) as a result of COVID related staffing pressures and temporary vacancies.

Other Operational Impacts

Contracted Services were UF by \$876,273. This is due mainly to over expenditures in Tree Management, driven by higher than expected contract costs as well as the May 21 windstorm. A draw of \$494,128 F from the Severe Weather Reserve Fund was made to offset the impacts of the windstorm costs.

The City's fuel costs were unfavourable by \$610,877. This is due to record high fuel prices throughout 2022. A draw from the Commodity Reserve Fund of \$233,622 was made to offset the over expenditure excluding Transit. Safe Restart funding mitigated the over expenditure in Transit.

Lastly, Equipment Repair and Building Maintenance expenses were \$853,002 UF. The variance is due to higher than anticipated repair costs in Transit, unplanned repairs at the pools (waterslide, compressors, pumps and sprinklers) and an increase in preventative maintenance to manage aging arena facilities and equipment.

Corporate Expenditures

To minimize risk and ensure the City is financially prepared for both expected and unexpected costs, we maintain and provide to a number of reserve funds. As such, a \$1,500,000 provision was made to Allowance for Prior Year Tax Write offs due to significant appeals relating to prior years taxes resulting in an insufficient balance in the allowance account at year end. Aligning with this observed trend, the City saw over expenditures of \$177,697 in Current Year Tax Write Offs.

Corporate Revenues

The City realized higher than anticipated supplementary taxes for current and previous years resulting in a favourable variance of \$188,995 and higher than anticipated Penalty and Interest on Taxes resulting in a favourable variance of \$189,653. Additionally, the City proactively engaged Deloitte to evaluate sales tax payments and credits. This exercise resulted in a net savings in HST Recovered of \$317,746.

Additional Safe Restart Funding and Reserve Fund Draws

The 2022 year-end financial position was a deficit of \$1,954,312. As noted earlier in this report, all remaining Safe Restart Funding has been applied to balance the 2022 year-end position. This included additional Transit Safe Restart funding of \$2,366,850 (top up, supplementary and Phase 4 funding). As a result of the additional Safe Restart Funding received and draws from Severe Weather Reserve Fund and Commodity Reserve Fund, the budgeted draw from Tax Rate Stabilization Reserve Fund was reduced by \$412,538, thereby balancing the year-end position.

Transfers	2022 Budget Revenues	2022 Actual Revenues (Unaudited)	Variance	Reserve Fund Balance (Dec. 31, 2022)
Safe Restart Funding	\$2,660,350	\$5,027,200	+\$2,366,850	\$0
Tax Rate Stabilization Reserve Fund Draw	\$2,888,612	\$2,476,074	-\$412,538	\$1,997,986
Severe Weather Reserve Fund Draw	\$0	\$494,128	+\$494,128	\$5,241,890
Commodity Reserve Fund Draw	\$0	\$233,622	+\$233,622	\$933,921

Conclusion:

This report provides Committee and Council with the City’s preliminary unaudited 2022 year-end position. The City’s unfavourable year-end revenue losses were fully mitigated from a combination of business as usual savings, Transfers from Reserve Funds and the use of Safe Restart Funding.

Respectfully submitted,

Gurpinder Grewal

Financial Analyst, Budgets & Policies

Appendices: (if none delete section)

A. 2022 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.