



Staff Report for Council Meeting

Date of Meeting: June 28, 2022

Report Number: SRCFS.22.012

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.22.012 – 2022 Operating Forecast**

Purpose:

To provide an update to the City's 2022 Year End Operating Forecast.

Recommendation(s):

- a) That "SRCFS.22.012 – 2022 Operating Forecast" be received for information purposes;

Contact Person:

Haley Leung, Financial Management Advisor

Sara Beukeboom, Manager, Fiscal Planning & Strategy

Report Approval:

Submitted by: Sherry Adams, Commissioner of Corporate and Financial Services

Approved by: Darlene Joslin, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner, and City Manager. Details of the reports approval are attached.

Page 2

Background:

During 2020 and 2021, the Province has provided \$11,460,790 funding to the City to assist with the ongoing COVID-19 pressures. This funding support has provided the necessary relief to the City for:

- the \$1.56 million deficit in 2020
- the \$2.77 million of COVID-related deficit for 2021 as included in SRCFS. 22.11,
- the remaining \$7.13¹ million to be carried forward and used in 2022. The \$1.55 remaining in the Safe Restart Funding and \$5.58 million in the Provincial COVID-19 Recovery Funding will provide the key support for the City to continue to address the 2022 Operating Budget pressures related to COVID-19.

In November 2021, SRCFS 21.052, staff submitted a 'Business As Usual (BAU)' 2022 Operating Budget consisting of information available at that time. Given the potential impact COVID-19 pandemic may have in the 2022 operating environment, staff was prudent in providing a supplementary COVID-19 budget scenario that better represents what was projected to be the 2022 Operating Budget with a net unfavourable impact of \$5.599 million.

Under the COVID-19 budget scenario, staff anticipated a gradual recovery during 2022 as City facilities open up and starting regular programs under COVID-19 protocols. This scenario, however did not materialize as the City started the year with a Provincially mandated month long partial lock down. The Province slowly lifted most of the COVID-19 restrictions at the end of the first quarter and re-opened the economy, boosting the overall economic well-being. Further to that, the economy has experienced increasing inflation rate and fuel prices, interest rate pressure and supply chain disruptions. These unprecedented economic disruptions created significant financial and operating pressure for the City to maintain consistent service levels to residents, These opposing forces are expected to remain for the duration of the year, creating a fluid operating environment for 2022.

This report intends to update Council on some of the current assumptions staff are projecting and their resulting financial impacts.

As the City progresses through the pandemic impact to the 'Business As Usual' state, staff reviewed year-to-date financial results, re-evaluated original assumptions used to derive the 2022 Approved Budget for both the 'Business As Usual' and COVID-19 budget scenarios. Although it is difficult to precisely quantify the financial impact of the pandemic, the City makes its best efforts to break down the 2022 Operating Forecast

¹ Total COVID-19 Grant to be carryforward to 2022= \$11,460,790 (Total Safe-Restart and Provincial COVID - related Grant)- \$1.56M (2020 COVID-related deficit)- \$2.77M (2021 COVID-related deficit as included in SRCFS.22.11 = \$7.13M

Page 3

results into two categories, business-as-usual (BAU) and COVID-19 related. Making the distinction between these two types of financial impacts will provide greater context in understanding the 2022 Operating Forecast result.

Financial/Staffing/Other Implications:

Financial Outlook - Operating Fund

Based on updated information, Staff are anticipating a total year-end deficit of \$6,284,500 on a \$189.1 million budget or 3.32% deficit (see Table 1 below). This is an unfavourable change of \$685,500 compared to the \$5,599,000 previously anticipated in the COVID-19 budget scenario. The increase in deficit is composed of \$1,269,900 unfavourable variance as a result of COVID-19 related impacts and \$584,400 surplus from BAU operations.

The City's forecasted deficit in 2022 is driven by the significant increase in material and contract expenses. The 2022 operating budget for the City is \$189.1 million, the contract and material expense account for \$46.9 million or 24.8% of this total budget. The additional contract and material expenses on this reforecast are currently anticipated to be \$2.61 million, or 5.57% increase, predominately attributable to the operating projection in Public Works Operations.

Staff propose that the total projected COVID-19 related deficit of \$6,868,900² be funded from the Safe Restart and Provincial COVID-19 Recovery Funding. Any surpluses from the BAU operations can be transferred to the City's Tax Rate Stabilization Reserve.

A summary of the 2022 forecasted variance broken down by BAU and COVID-19 related impact are presented below.

² \$5,599,000 (2022 Covid Budget)+\$1,269,900 (additional COVID-related impact from 2022 Reforecast)
=\$6,868,900

Page 4

Table 1: Summary of the Forecasted Variance compare to the 2022 COVID Budget Impact

Revenues	2022 COVID BUDGET IMPACT (UN)/FAV A	Changes (UN)/FAV		2022 Total Forecast Impact (UN) / FAV D=B+C	2022 TOTAL FORECAST IMPACT (UN)/FAV E=A+D	2022 COVID FORECAST IMPACT (UN)/FAV F=A+C
		Business As Usual B	COVID RELATED IMPACT C			
User Fees and Fines	(7,292,000)	900,000	(1,891,600)	(991,600)	(8,283,600)	(9,183,600)
Investment Income	(1,235,000)	-	100,000	100,000	(1,135,000)	(1,135,000)
Grants/Donations	(67,400)	-	-	-	(67,400)	(67,400)
Total Revenues (UN) / FAV	\$ (8,594,400)	\$ 900,000	\$ (1,791,600)	\$ (891,600)	\$ (9,486,000)	\$ (10,386,000)
Expenditures						
Personnel - Permanent	16,600	474,900	967,700	1,442,600	1,459,200	984,300
Personnel - Casual	1,575,200	-	1,373,500	1,373,500	2,948,700	2,948,700
Contracts Services	615,000	(641,900)	(1,495,600)	(2,137,500)	(1,522,500)	(880,600)
Materials/Supplies	690,700	(148,600)	(323,900)	(472,500)	218,200	366,800
Other Expenditures	52,300	-	-	-	52,300	52,300
Transfers to Other Funds	45,600	-	-	-	45,600	45,600
Total Expenditures (UN) / FAV	\$ 2,995,400	\$ (315,600)	\$ 521,700	\$ 206,100	\$ 3,201,500	\$ 3,517,100
Net Budget (UN) / FAV	\$ (5,599,000)	\$ 584,400	\$ (1,269,900)	\$ (685,500)	\$ (6,284,500)	\$ (6,868,900)
Safe Restart Funding 2020-Ph1	-				-	0
Safe Restart Funding 2021-Ph2	-					1,551,800
2021 Provincial COVID-19 Recovery Funding	4,872,590					5,581,890
Tax Rate Stabilization	726,410					
Safe Restart and Provincial COVID- 19 Recovery Funding Carryforward	\$ -	\$ 584,400	\$ (1,269,900)	\$ (685,500)	\$ (6,284,500)	\$ 264,790
Net Budget (RHPL)	254,800			-	254,800	254,800

Below provides a brief description of the major areas of changes as part of this forecast.

COVID-19 Related Changes

The City is forecasted to generate a COVID-19 related deficit of \$1,269,900.

Public Works Operations (PWO)

PWO is experiencing substantial escalation in material goods and contract pricing due to COVID-19 for a total increase of \$2,285,000. For example, with many residents still working from home, the refuse and waste tonnages contract costs remain escalated. Materials and supplies increases due to COVID-19 are forecasted to have an

Page 5

unfavourable variance of \$789,400 (mainly due to fuel, winter maintenance, janitorial services, park and forestry operations and waste containers). The projected variance for PWO contracts due to COVID-19 is estimated to be \$1,495,600, predominantly due to snow removal, refuse and recycling, vehicle repairs and maintenance, and parks and forestry contracts mitigated against slight favourable waste tonnage reforecast (\$210,900 Reforecast vs \$281,200 2022 COVID Budget). PWO is experiencing many contract renewals in which fuel surcharges are being added to final costs. (Please refer to Appendix A for a listing of the COVID- 19 related impact in PWO)

Recreation and Culture Division

Based on revenues and expenditures to date, it is projected that the 2022 year-end *Recreation and Culture* budget will have a favourable forecasted change of \$1,193,100 compared to the COVID-19 budget scenario submitted as part of the 2022 operating budget process (\$2.548M deficit in Reforecast vs \$3.741 deficit from 2022 COVID budget). This is due to personnel savings resulting from full time staff vacancies and turnover, and staff redeployments to other departments and immunization clinics (expenditures and revenue losses associated with the immunization clinic are fully reimbursed by the York Region).

It should be noted that, despite the overall improved budget forecast for Recreation and Culture, recreation programs continue to operate below pre-pandemic capacity as a result of staffing impacts and mandated health and safety changes to programs. This situation is anticipated to continue for the most part of 2022.

Fire - Overtime

The *Overtime* in the Fire Services Division is forecasted to be over budget by \$193,000 at year end as a result of coverage required from COVID-19 related absenteeism (illness and isolation requirements), this is consistent with the current trend of the other Ontario Fire Departments.

Investment Income

Investment income is forecasted to be approximately \$100,000 more favourable than previous projections. There has been a major pivot from global central banks, including Bank of Canada, to hike rates more aggressively to tame inflationary pressures, as it continues to deviate farther up from their 2% target. As a result, we have experienced more frequent and larger rate increases than compared to initial expectations, which have led to a higher forecast for short-term investment income.

Business As Usual Changes

The City is forecasted to generate a surplus of \$584,400 from Business As Usual operations.

Page 6

Public Works Operations

In 2022, *PWO* has experienced significant vendor pricing increases in contracted supplies and material goods. Snow removal, streetlight maintenance, forestry and vehicle maintenance are all examples of contracted services for which we are currently experiencing cost increases that amount to an unfavourable variance of \$641,900. Materials and utility costs in hydro, vehicle fuel, roads materials, building maintenance and fleet supplies costs are projected to have an unfavourable variance of \$148,600. (Please refer to Appendix A for a listing of the BAU related impact in PWO)

Corporate Gapping

Personnel Gapping are savings primarily from temporarily unfilled vacancies due to attrition, promotions or turnover, new staff starting at lower step, maternity leaves and other unpaid absences. The annual budget includes a gapping factor of \$1,165,000 to account for these temporary vacancies where the hiring process may be delayed. Overall, the City is forecasted to incur gapping of \$1,883,600 by the end of the year, excluding any Recreation gapping, resulting in total projected savings of \$718,600.

York Region Transit PIL

The City has been receiving payment for the *York Region PIL* for the past several years. To date, there has been no communication that the PIL will discontinue in 2022, therefore, the City forecasts a positive business as usual variance of \$600,000.

Tax Arrears – Penalties & Interest

Consistent with the prior year, *penalties and interest revenues* on tax payments have been trending upwards. Based on the revenues generated in the first quarter of 2022, the City forecasts that these revenues may be approximately \$400,000 more than budgeted.

Firefighter Sick Leave Payout

Firefighter sick leave payouts are sick leave credits accumulated during firefighters' term of employment and paid out at retirement, voluntary resignation or death in accordance with the Firefighter Collective Agreement. Historically, these expenses were funded from the sick leave reserve fund (established in 1991). However, the reserve fund has been depleted in recent years due to increased payouts (predominantly from retirements) combined with a lack of contributions to the reserve and reduced interest earned on the reduced balance. For 2022, the City is forecasting a payout of \$243,700 based on an actuarial valuation, creating a deficit at the 2022 year end result.

Page 7

Parking Fines

Parking Fines revenue is projected to end the year with a \$100,000 unfavourable variance due to the historical overestimation of parking fines and normal annual fluctuation in ticket issuance.

Financial Outlook – Water & Wastewater and Stormwater Fund

Current Water and Wastewater volumes of consumption appear to be reasonable and in line with projections to date. Staff are not anticipating impacts at this point and will continue to monitor consumption over the heavier summer usage. Budgeted water loss for 2022 is at 12.9% and anticipated to be consistent with the forecast at this point.

The WWW & SWM Operations is anticipating an unfavourable variance of \$551,800 due to COVID-19, predominantly as a result of the increased fuel surcharge cost of the contract associated with establishing service connections for infill lots. (Please refer to Appendix B for a listing of the COVID- 19 related impact for the Operation section of W&WW and SWM)

Increases to supplier costs, predominantly due to inflation, are also affecting WWW & SWM Operations, resulting in a BAU unfavourable variance of \$95,700. (Please refer to Appendix B for a listing of the BAU related impact for the Operation section of W&WW and SWM)

Typically, deficits at year-end related to Water & Wastewater and Stormwater Fund are mitigated by funding from the Water & Sewer Rate Stabilization Reserve and Water Quality Protection Reserve Fund respectively.

Relationship to Council's Strategic Priorities 2020-2022:

Presentation of the Interim 2022 Operating Forecast and determination of measure to mitigate deficits reflects Council's direction to be Fiscally Responsible and avoid unnecessary expenditures to emerge from COVID-19 in a stronger financial position.

Climate Change Considerations:

Climate change considerations are not applicable to this staff report.

Conclusion:

Based on the 2022 operating forecast, the Operating Fund is anticipated to generate a total year end deficit of \$6,284,500, an increase of \$685,500 compared to the 2022 COVID budget. The increase is comprised of \$1,269,900 deficit from COVID-related impact and a forecasted BAU surplus of \$584,400. Through the Safe Restart Agreement funding program, staff anticipate that the combination of the remaining unused funding support carryforward from 2021 will provide the necessary relief to mitigate the currently anticipated deficit as a result of the COVID-19 situation. The

Page 8

projected surplus resulting from the BAU operation will typically be transferred to the Tax Rate Stabilization Reserve. Staff intend to provide the next update as part of the 2023 Draft Operating Budget presentation.

Page 9

Report Approval Details

Document Title:	SRCFS.22.012 – 2022 Operating Forecast
Attachments:	<ul style="list-style-type: none">– SRCFS.22.012 – Appendix A – Breakdown of the COVID-19 and BAU impact from PWO final.pdf– SRCFS.22.012 – Appendix B – Breakdown of the COVID-19 and BAU impact from WWW SWM final.pdf
Final Approval Date:	Jun 3, 2022

This report and all of its attachments were approved and signed as outlined below:

Gigi Li - Jun 8, 2022 - 9:54 AM

Sherry Adams - Jun 8, 2022 - 10:31 AM

Darlene Joslin - Jun 8, 2022 - 4:30 PM