



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: June 28, 2022

Report Number: SRCFS.22.011

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.22.011 - Year-End Operating Results as of December 31, 2021**

Purpose:

To present the financial operating results for the year ending December 31, 2021.

Recommendation(s):

- a) That the 2021 Operating Results overview be received for information purposes;
- b) That the 2021 Operating Budget carryforward items of \$340,200 listed in Appendix "B" be approved and carried over to the 2022 Operating Budget ;
- c) That the 2021 Operating Fund Covid-related deficit of \$2,773,900 be fully funded from Safe Restart Agreement monies; and
- d) That the surplus allocation detailed in Appendix "C" be approved:
 - 2021 Operating Fund Surplus of \$2,806,700 be transferred to the Tax Rate Stabilization Reserve
 - 2021 Water & Wastewater Related Surplus of \$3,405,500 be transferred to the Water Rate Stabilization Reserve (\$1,702,800) and the Water Quality Protection Reserve Fund (\$1,702,700)
 - 2021 Stormwater Related Surplus of \$131,200 be transferred to the Water Quality Protection Reserve Fund

Contact Person:

Andrew Li, Financial Management Advisor, Ext. 3646

Report Approval:

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

Approved by: Darlene Joslin, Interim 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:

The purpose of this report is to provide a financial overview of the City's operating results for the year ending December 31, 2021. The City's operations are separately presented based on their predominant funding sources. The main Operating Fund is predominantly funded through property tax revenues and user fees, which are used to support City services such as parks operations, road and winter maintenance, recreation and community programs, amongst other services and initiatives.

Water & Wastewater fees collected from residents and businesses help support the operation, maintenance and repair of the water and sanitary system; these financial results are presented under the Water & Wastewater Fund. Moreover, the Stormwater Fund summarizes stormwater fee revenues offset against the costs of maintaining stormwater ponds, sewers and catch basins.

Appendix "A" provides details of the operating results by Fund and furthermore by the divisions within each department. Appendix "B" highlights the unspent 2021 Operating Budget items requested as budget carryforwards. Appendix "C" provides a breakdown of the surplus allocations to the various reserve and reserve funds.

Each year, the budget process establishes an operating budget that provides the community with quality levels of service through the effective and efficient use of resources. The budget is a static plan and over the course of the year, circumstances often arise that change the expected course of action. The 2021 fiscal year was very much an extension of the previous year, which was marked by the emergence of the Covid-19 pandemic. However, with the rollout of a vaccine and subsequent booster shots in 2021, Covid-19 cases in Ontario gradually trended downwards before an uptick towards year-end due to a new virus variant. There were many challenges posed by provincial regulations and community consumption habits in response to a third and fourth wave of the virus. Nevertheless, the City was much better equipped to adapt in year two by streamlining processes, increasing remote services and through financially prudent spending.

Similar to 2020, the prevalence of the virus reduced travel outside of the home and restricted social gatherings to limited numbers. The restrictions that were in place affected almost all facets of the City's operations, either directly or indirectly. Although it is nearly impossible to precisely quantify the financial impact of the pandemic due to its omnipresence, the City makes its best efforts to differentiate the 2021 year-end results into two categories, business-as-usual and Covid-related. Making the distinction between these two types of financial impacts will provide greater context in understanding the draft 2021 year-end surplus of \$2,806,700, after carryforwards.

Business as usual (BAU) budget variances will be generally defined as variances that would have occurred largely independent of the pandemic. For example, savings in winter maintenance contracts is classified as a BAU variance, as these savings were generated mainly based on winter weather conditions and not Covid-related conditions. Also, staff reviewed year-end results from pre-pandemic years to assist in identifying notable recurring items. In past years, the City typically generated large savings on

Page 3

refuse & recycling contract costs based on waste tonnage collection. This item will also be classified as a BAU variance in 2021, despite the fact that it could be argued that increased work from home arrangements may have impacted tonnage collection to a certain degree. In these instances where it is a question of marginal degrees of impact, the City has opted to classify the entire budget variance as BAU. Any variance that wasn't separately identified as BAU is defaulted to be Covid-related.

As part of the Safe Restart Agreement (SRA), the City received federal and provincial funding to assist municipalities against Covid-19 operating costs, revenue losses and other pressures. A total of \$11,460,790 was received over the past 2 years, with \$1,553,200 used to cover the City's 2020 operating deficit. Staff are proposing that the draft 2021 Covid-19 related deficit of \$2,773,900 be funded from the monies from the SRA, leaving approximately \$7.1 million available to support any potential operating deficits in future years. After funding the \$2.774M Covid-19 related deficit with SRA funding, staff propose that the resulting BAU surplus of \$2.807 million be allocated to the Tax Rate Stabilization Reserve.

Financial/Staffing/Other Implications:

Operating Fund

Budget expense variances occur when there is overspending in some areas and savings in others. These variances are largely unavoidable and happen in the natural course of operations for all municipalities. As a whole, actual financial results will never perfectly align with budgeted expectations, especially given all the uncertainties brought forward by Covid-19. The Financial Control By-law framework was utilized to reallocate personnel and non-personnel resources to fulfill department priorities, in order to effectively accomplish the objectives set forth by Council to remain within respective budgets. The overall surplus is an accumulation of all the budget variances, both positive contributors (higher revenues or lower expenses) and negative contributors (lower revenues or higher expenditures).

	Covid-Related	Business As Usual	Total
2021 Year-end Draft Surplus	(\$2,773,900)	\$3,146,900	\$373,000
Minus: Carryforward Requests	-	(340,200)	(340,200)
Surplus/(Deficit) after Carryforwards	(2,773,900)	2,806,700	32,800
Add: Safe Restart Agreement Funding	2,773,900	-	2,773,900
Total Operating Surplus	\$-	\$2,806,700	\$2,806,700

The City approved a 2021 Operating Expenditure Budget of \$184.2 million, the total draft operating surplus stands at \$2,806,700 (or 1.5%), which staff propose be allocated to the City's Tax Rate Stabilization Reserve. This reserve is generally used to offset extraordinary, one-time expenses or revenue shortfalls in order to mitigate large fluctuations and increases in the annual tax levy to continue delivery of services. At the

Page 4

end of each fiscal year, the Treasurer is authorized to allocate operating surplus funds to the reserve, or draw from the reserve in the event of a deficit.

As at December 31, 2021, the Tax Rate Stabilization Reserve would be approximately \$9.3 million, after allocation of the BAU surplus. The City’s target balance for this reserve is 10% of budgeted operating expenditures, which is \$18.4 million for 2022.

Business As Usual Contributors

The following is a detailed listing of the variances that contributed to the 2021 year-end BAU surplus.

1.	Tax Arrears - Penalties & Interest	\$1,887,100
2.	Personnel Gapping – vacation bank usage	626,000
3.	PIL - York Region Transit	604,100
4.	Winter Maintenance Contracts	500,400
5.	Refuse Collection and Recycling Contracts	436,900
6.	Waste Division Revenue Recoveries	150,300
7.	Supplementary Taxes	(607,000)
8.	Firefighter Sick Leave Payout (unfunded)	(547,500)
9.	Forestry Contracts	(243,600)
	Total BAU Surplus	\$2,806,700

Tax Arrears – Penalties & Interest revenues had been trending upwards over the past few years before 2020, when Council waived the late payment fees as a result of the financial hardships caused by Covid-19. In 2021, these late payment fees were reinstated and generated approximately \$1.9 million in additional revenues over budget. The increase in revenues is consistent with the general increase in the Taxes Receivable balances.

Personnel Gapping, under the context of business as usual, includes savings for staff utilization of vacation days. In 2021, there was an increased effort by the City to encourage staff to utilize accrued vacation days to reduce annual expenses and the year-end liability. The savings of \$626K from vacation usage occurred as a result of City directive.

PIL York Region Transit generated a surplus of \$604,100 due to the transit facility at 55 Orlando Drive remaining eligible for payment in lieu of taxation. The Region is in discussions with the Province to make regulatory changes to exempt the municipal transit facilities from property taxation. This budget variance has been a recurring item for the past several years.

Winter Maintenance Contract costs experienced a surplus variance of \$500,400 due to improved contract pricing and milder winter weather conditions.

Refuse & Recycling Contracts experienced a surplus of \$436,900 as a result of improved contract pricing.

Page 5

Waste Division Revenue Recoveries relates to funding from the Resource Productivity and Recovery Authority for the Blue Box Program in Richmond Hill, which provided a favourable variance of \$150,300 as a result of the City’s revised approach to calculating the Blue Box program cost.

Supplementary tax revenues fell short of budget by \$607,000 as a result of fewer than expected supplementary assessments.

Firefighter sick leave payouts are sick leave credits accumulated during firefighters’ term of employment and paid out at retirement, voluntary resignation or death. Historically, these expenses were funded from the sick leave reserve fund. However, in recent years, the reserve fund has been depleted due to an increase in payouts, (predominantly from retirements), combined with a lack of contributions to the reserved and reduced interest earned on the reduced balance. For 2021, the City’s draw on the reserve fund was lowered based on funding availability. This resulted in a 2021 unfavourable impact of \$547,500 to the City’s operating result and overall surplus.

Forestry contract costs experienced an unfavourable variance of \$243,600. The rise in inflation rates on raw materials and transportation costs coupled with supply chain issues and a backlog of tree replacement planting from 2020 has driven up pricing contract costs.

Covid-Related Contributors

The City generated a Covid-related deficit of \$2,773,900, which is comprised of \$4,572,500 in positive budget variance contributors offset against \$7,346,400 in negative contributors.

Positive Contributors (higher revenues or lower expenditures versus budget)

1.	Facilities Utilities - Hydro, Water, Heat	\$2,315,400
2.	Personnel Gapping (excluding Recreation)	1,897,100
3.	Facilities – HVAC, Plumbing, Electrical, Building Repairs	360,000
	Total Positive Contributors	\$4,572,500

Facilities Utilities (hydro, water, heat) expenditures were underspent by 38% or approximately \$2.3 million. Facility Technical Services staff were able to maximize the utility savings, while at the same time providing a safe environment throughout the COVID-19 pandemic.

Personnel Gapping are savings primarily from temporarily unfilled vacancies due to attrition, promotions or turnover, maternity leaves and other unpaid absences. As a result of the anticipated revenue losses due to Covid-19, the City delayed the hiring of new staff, where feasible, in order to help mitigate the deficit. 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 experienced gapping of \$3,062,100, excluding any Recreation gapping, resulting in total savings of \$1,897,100.

Page 6

Facilities (HVAC, Plumbing, Electrical, Life Safety and Building Repairs) realized savings of 11.5% or \$360,000 compared to budget. Extended closures permitted deferral of some preventative and corrective maintenance needs to realize savings. However, these savings were partially offset by increasing material and contract costs which will continue to impact 2022.

Negative Contributors (lower revenues or higher expenditures versus budget)

1.	Investment Income	(\$2,620,500)
2.	Covid-19 Related Expenses	(1,425,800)
3.	Recreation Programs (includes \$1.96M Provincial recovery for vaccine clinic costs)	(196,000)
4.	Subdivision Maintenance Revenues	(590,100)
5.	Parking Fines Revenues	(509,100)
6.	Transfers from Reserves (EBC & Tree Reserves Fund)	(500,000)
7.	Assessment Appeals	(484,700)
8.	Sportsfield, Picnic Revenues	(231,500)
9.	Fleet Vehicles (fuel & maintenance)	(210,700)
10.	Transfer To WWW – Splash Pads	(204,600)
11.	Development Application Revenues	(140,900)
12.	Other	<u>(232,500)</u>
	Total Negative Contributors	(\$7,346,400)

Investment Income results were \$2,620,500 under budget due to record low short term interest rates, reflective of the Bank of Canada's highly accommodative monetary policy. This was a continuation from the prior year, as part of the central bank's efforts to maintain low borrowing costs, in supporting the economic recovery from the pandemic. This resulted in the City earning its lowest rate of return on short term investments, as the majority of short term investment income is derived from cash balances.

Covid-19 related expenses are costs that were incurred during the year specifically due to the circumstances brought about by the pandemic. These costs were not budgeted for and included such items as increased cleaning supplies, IT requirements, vehicle rentals, as well as greater communication and signage needs for the community.

The Recreation and Culture Division provides a variety of services to the community that relies heavily on public participation to generate revenues. The requirement for the emergency closure of facilities in the first half of 2021, as well as capacity limits and vaccine certificate policy restrictions, had a significant impact on operations. The division finished the year with a \$196,000 deficit, given the ability to partially offset decreased revenue by the redeployment of full time and casual staff to the immunization clinic, hiring freeze for staff turnover and savings on materials/staffing costs from not running various programs and events. Expenditures incurred as a result of the immunization clinics were fully reimbursed by the Region.

Page 7

Winter Maintenance Subdivision revenues generated an unfavourable variance of \$590,100. With pandemic restrictions continuing throughout the Province for most of 2021, there was a reduction in the development of subdivisions due to Covid-19 delays. The City is not conducting any winter control work prior to resumption due to safety precautions.

Parking Fine revenues were under budget by \$509,100. The Administrative Monetary Penalty System provides reductions to parking fines in response to financial hardship. The Covid-19 pandemic has resulted in income loss and unemployment, which provides acceptable rationale for fine reductions. In addition, closure of schools in York Region during the first six weeks of 2021 and staff absences due to Covid-19 resulted in reduced ticket issuance over the course of the year.

Transfer from EBC Reserve was budgeted at \$300,000, as a draw from the reserve to help subsidize the cost of annual building repairs. Additionally, a \$200,000 draw was budgeted from the Trees Reserves to fund tree planting costs. Both draws were not required in 2021, as the corresponding expenditures were below budget and to preserve reserve balances in light of the overall City surplus position.

Assessment Appeals expenses were over budget by approximately \$484,700 due to an increase in the number of cases (eg. commercial/industrial appeals settlements) and provisions for potential tax appeals currently under review with the Assessment Review Board.

Sportsfield, Picnic Revenues generated an unfavourable variance of \$231,500. The extended Provincial 'Stay-at-Home' order and outdoor gathering limits delayed the issuance of outdoor facility permits until July, together with the closure of the turf field over the summer months for renovations, has created a negative impact on the sportsfield revenues and picnic / outdoor space rental revenues in 2021.

Fleet Vehicles (fuel & maintenance) costs were more than budgeted by \$210,700. As a result of increased vehicle fuel and vehicle maintenance costs from global supply chain disruptions.

Transfers to Water & Wastewater Fund (Cost of Splash Pads) were greater than budgeted by \$204,600. In 2021, the City experienced a substantial increase in park use resulting in additional water resources needed for splash pads, washrooms and irrigation systems.

Development Application Revenues continue to fluctuate from pre-2020 levels as a result of the ongoing Covid-19 pandemic. This has resulted in reduced Committee of Adjustment applications to date as the development industry continues to transition from constructing ground related residential development to providing alternative housing in the form of high density residential development to the Richmond Hill market. For 2021 Development Planning revenues fell short of budget by \$140,900.

Page 8

Fully Funded Surplus - Building Permits & Inspection Revenues

Building Permit Fee, Plumbing Inspection and related revenues generated a favourable variance of \$1,892,800. In 2021, the City of Richmond Hill saw a construction boom, as the industry recovered and thrived after the immediate impact of Covid-related emergency and the associated economic uncertainties of 2020. Builders moved swiftly to benefit from a highly elevated real estate demand fueled by low interest rates, initiating many projects and catching up from the previous year. The increase in revenues from building and plumbing permits, and largely related to it, compliance letters, were commensurate to the high level of construction activity throughout 2021. The additional revenues eliminated the need to draw \$1,189,600 from the Building Permit Rate Stabilization Reserve Fund and will result in a transfer of \$1,157,100 to the same reserve fund.

Water & Wastewater & Stormwater Fund

The Water, Wastewater & Stormwater Fund has a total year-end surplus of \$3,536,700, after budget carryforward requests.

Total	
2021 Year-end Surplus	\$3,836,700
Minus: Carryforward Requests	(300,000)
Total WWW & SWM Surplus	\$3,536,700

Water and wastewater services for residential, commercial and industrial accounts produced a favourable net variance of \$2,194,900. With the ongoing uncertainties as a result of this pandemic creating many challenges for Richmond Hill residents and businesses, Council deferred the 2021 retail and wholesale rate increases for combined water and wastewater services. Although actual water volume consumption was 1% lower than budgeted, a surplus was achieved due to greater accuracy in water meter readings, via the newly installed LCD water meters, and less water loss resulting in greater billed revenues.

Maintenance Administration and Operations completed the year with a savings of \$962,000 resulting from increased infill service revenues received, decreases in emergency infrastructure repairs and less restoration work in 2021. The \$300,000 carryforward request is related to the delayed rehabilitation of sanitary prevention maintenance work caused by province-wide Covid-19 restrictions.

Revenue Services experienced savings in water reading & repair costs, in addition to increased revenues from ownership change fees and water collection charges. Overall, Revenue Services contributed a net surplus of \$235,200.

Storm Water Management resulted in a \$131,200 surplus primarily due to the reduced number of emergency infrastructure repairs and materials used for 2021.

Page 9

Carry Forward and Surplus Allocation

The 2021 Budget Carryforward requests are listed in Appendix “B”.

In accordance with the Surplus Control Bylaws No 109-13 and 110-13, Appendix “C” lists the surplus allocation of the Operating Fund as well as the surplus allocation of the Water, Wastewater & Stormwater Fund.

Relationship to Council’s Strategic Priorities:

Presentation of the Year-End Operating results reflects wise management of resources but also touches on other goals within the Strategic Priorities:

- a) Fiscal Responsibility in Richmond Hill to serve as a role model for municipal management. Based on the forecasting process through to the year-end results reporting; staff have been able to analyze municipal operations, adjust resourcing levels and position surpluses and reserve levels for use in future year(s); and
- b) Stronger Sense of Belonging in Richmond Hill provided through improved access to financial information and local services.

Climate Change Considerations:

Climate change considerations are not applicable to this staff report.

Conclusion:

Based on the 2021 year-end results, the Operating Fund has produced a surplus of \$3,146,900, offset by a Covid-related deficit of \$2,773,900 and before a \$340,200 carry-forward is considered. Staff recommend that the Covid-related deficit be fully funded from monies received as part of the Safe Restart Agreement and resulting surplus of \$2,806,700, after carryforwards, be allocated to the Tax Rate Stabilization Reserve.

Based on the 2021 year-end results, the Water & Wastewater Fund generated a surplus of \$3,705,500, before a \$300,000 budget carryforward request is considered. Staff recommend that the resulting \$3,405,500 surplus be allocated 50/50 to the Water Rate Stabilization Reserve and the Water Quality Protection Reserve Fund.

Based on the 2021 year-end results, the Stormwater Fund generated a surplus of \$131,200. Staff recommend that the surplus be allocated to the Water Quality Protection Reserve Fund.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. All attachments have been reviewed and made accessible. If you require an alternative format please call the contact person listed in this document.

- Appendix A – Financial Overview
- Appendix B – Budget Carryforward Requests
- Appendix C – 2021 Surplus Allocation

Page 10

Report Approval Details

Document Title:	SRCFS.22.011 Staff Report - 2021 Year-End Operating Results.docx
Attachments:	- SRCFS.22.011 Staff Report - Appendix A - Financial Overview.pdf - SRCFS.22.011 Staff Report - Appendix B - Budget Carryforward Requests.pdf - SRCFS.22.011 Staff Report - Appendix C - 2021 Surplus Allocation.pdf
Final Approval Date:	Jun 14, 2022

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

Gigi Li - Jun 13, 2022 - 2:09 PM

Sherry Adams - Jun 13, 2022 - 4:27 PM

Darlene Joslin - Jun 14, 2022 - 8:41 AM