



## **Staff Report for Budget Committee of the Whole Meeting**

**Date of Meeting:** June 27, 2023

**Report Number:** SRCFS.23.029

**Department:** Corporate and Financial Services

**Division:** Financial Services

**Subject:** **SRCFS.23.029 - Year-End Operating Results as of December 31, 2022**

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### **Purpose:**

To present the financial operating results for the year ending December 31, 2022.

### **Recommendation(s):**

- a) That the 2022 Operating Results overview be received for information purposes;
- b) That the 2022 Operating Budget carryforward items of \$212,700 listed in Appendix "B" be approved and carried over to the 2023 Operating Budget;
- c) That the 2022 Operating Fund Covid-related deficit of \$3,045,400 be fully funded from the Safe Restart Agreement funds; and
- d) That the surplus allocation as detailed in Appendix "C", be approved:
  - i. 2022 Operating Fund surplus of \$1,059,800 be transferred to the Tax Rate Stabilization Reserve
  - ii. 2022 Water & Wastewater Fund surplus of \$536,000 be transferred to the Water Rate Stabilization Reserve
  - iii. 2022 Stormwater Management Fund deficit of \$1,936,400 be funded from the Water Quality Protection Reserve Fund

### **Contact Person:**

Andrew Li, Supervisor, Operating Budgets, Ext. 3646

### **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.

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### **Background:**

The purpose of this report is to provide a financial overview of the City's operating results for the year ending December 31, 2022. The City's operations are presented based on their main funding sources. The 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 the details of the operating results by Fund and further by the divisions within each department. Appendix "B" highlights the unspent 2022 Operating Budget items that are being requested as budget carryforwards into the 2023 budget. Lastly, Appendix "C" provides a breakdown of the surplus/deficit allocations to the various reserve and reserve funds.

### **Summary of Year-End Surpluses and Deficits**

Each year, the budget process produces an operating budget that provides residents and businesses 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 thereby creating budget variances.

The 2022 fiscal year was a year of transition from the previous two years which were marked by the COVID-19 pandemic when Provincial regulations reduced travel outside of the home, restricted gatherings to limited numbers and changed community consumption patterns. In March 2022, the Province of Ontario officially lifted capacity limits at all indoor public settings, and marked the beginning of a new normal as the City's recreation programs and facilities gradually reopened permanently. However, it is important to note this period is not a clear delineation between COVID and post-COVID financial impacts. The lingering effects of the pandemic persist to this day.

As the economy began to revive, there was a natural increase in the demand for goods and services. This increase in demand, coupled with geopolitical unrest in Ukraine and other parts of the world, created widespread supply chain disruptions. The imbalance between supply and demand led to significant inflationary pressures, as the Ontario CPI rose to 6.8% by the end of 2022, peaking at 8.1% in June. Rising fuel, shipping and raw material costs in addition to labour shortages all contributed to price increases to the end-users. These factors affected many City services, most notably Public Works Operations, who operate with a large fleet of vehicles that require fuel and maintenance and have many contracts that are based on market rates. The Recreation and Culture Division experienced a shortfall in aquatics program revenues due to labour shortages

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in lifeguarding and instructional staff. On the other hand, the rise in inflation prompted the Bank of Canada to raise interest rates multiple times during the year, which benefited the City's overall short-term investment portfolio.

As part of the Safe Restart Agreement (SRA), the City received federal and provincial funding to assist against COVID-19 operating costs, revenue losses and other pressures. A total of \$11,460,790 was received, with \$4,327,100 used to fund Covid-related deficits from 2020 and 2021. Although it is difficult to precisely quantify the financial impact of the pandemic due to its omnipresence, similar to the 2021 yearend results, staff separated the 2022 year-end results into two categories: Covid-related and business-as-usual. The Covid-related deficit reflects pressures such as high inflation, labour shortages and supply chain disruptions assumed to be a temporary by-product of the pandemic. Staff propose that the 2022 COVID-19 related deficit of \$3,045,400 be funded from the SRA funds, leaving \$4,088,290 available for future budget years.

All other budget variances not recognized as Covid-related are deemed to be business as usual (BAU) variances independent of the pandemic, reflective of a new normal. For example, overspending in winter maintenance contracts is classified as a BAU variance for costs directly related to a greater number of severe weather conditions, while additional costs related to fuel surcharge increases would be considered as Covid-related.

After funding the \$3,045,400 million Covid-related deficit with SRA funding, staff propose the BAU surplus of \$1,059,800 be allocated to the Tax Rate Stabilization Reserve.

## Financial/Staffing/Other Implications:

### Operating Fund

Budget expense variances occur when there is overspending or savings compared to the original plan. These variances are inherent and occur in the natural course of operations for all municipalities. As a whole, actual financial results are unlikely to perfectly align with budgeted expectations. 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). The year-end Operating Fund variances are summarized in the following table:

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<b>Operating Fund</b>	<b>Business As Usual</b>	<b>Covid-Related</b>	<b>Total</b>
<b>2022 Year-end Draft Surplus/(Deficit)</b>	<b>\$1,272,500</b>	<b>(\$3,045,400)</b>	<b>(\$1,772,900)</b>
Minus: Carryforward Requests	(212,700)	-	(212,700)
Surplus/(Deficit) after Carryforwards	1,059,800	(3,045,400)	(1,985,600)
Add: Safe Restart Agreement Funding	-	3,045,400	3,045,400
<b>Total Operating Surplus</b>	<b>\$1,059,800</b>	<b>\$-</b>	<b>\$1,059,800</b>

The City approved a 2022 Operating Expenditure Budget of \$189.1 million, with the total operating surplus of \$1,059,800 (or 0.6%) that staff propose be allocated to the Tax Rate Stabilization Reserve.

The Tax Rate Stabilization 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. At the 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 per By-Law 109-13 (By-Law to provide Treasurer the Authority to Reallocate any Annual Operating Surplus of Fund any Annual Operating Deficit). This by-law was approved in 2013 and the City will consider an update to the by-law later in 2023, based on a review of best practices with other municipalities.

Based on preliminary benchmarking on surplus allocation policies with neighbouring municipalities, Vaughan distributes the annual surplus to the Tax Rate Stabilization Reserve first, before considering the General Working Capital Reserve and then before any other unfunded liabilities. Markham allocates the surplus to the Corporate Rate Stabilization Reserve (up to 15% of the current year local tax levy) before the Environmental Land Acquisition Reserve to replenish in-year or prior years' spending, and finally to the Life Cycle Replacement and Capital Reserve Fund. At Whitchurch-Stouffville, the annual surplus is allocated to Stabilization Reserves first to achieve the minimum balances, before consideration to other reserves.

Staff propose that the surplus, be allocated to the Tax Rate Stabilization Reserve. As at December 31, 2022, the Tax Rate Stabilization Reserve would be approximately 9.0? million, after the transfer. The City's target balance for this reserve is 10% of budgeted operating expenditures, which is \$18.9 million for 2022.

### **Business as Usual Operations Generated a \$1.3 million Surplus before Carryforward Requests**

The 2022 BAU surplus of \$1,272,500 before carryforwards is the net result of \$3,817,900 positive variance contributors and \$2,545,400 negative variance contributors.

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### Positive Variance Contributors (higher revenues or lower expenditures versus budget)

The following table is a listing of the positive budget variances totaling \$3,817,900.

	Item Description	Variance to Budget
1.	Tax Arrears - Penalties & Interest	\$1,496,300
2.	Insurance Premiums	714,700
3.	PIL (Payment In Lieu) - York Region Transit	605,200
4.	Personnel Gapping (excluding Recreation & Covid-related Fire Overtime)	604,700
5.	Refuse Collection and Recycling Contracts	202,100
6.	Streetlight Hydro	194,900
	<b>Total</b>	<b>\$3,817,900</b>

**Tax Arrears – Penalties & Interest** generated additional revenues of \$1,496,300 over budget. This is a continuation of the positive trend from 2021, when late payment fees were reinstated after previously being waived due to COVID-19. The increase in revenues is consistent with the general increase in the Property Tax Receivables balances.

**Insurance Premiums** generated expense savings of \$714,700 based on the annual renewal rates. The City was able to negotiate a substantial decrease in municipal liability coverages in exchange for an increased insurance deductible threshold. Based on historical information, the savings in insurance premiums more than offset additional costs from insurance claims from higher deductible limits.

**Payment In Lieu of Taxation - York Region Transit** generated a surplus of \$605,200 as the transit facility at 55 Orlando Drive remained 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.

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**Personnel Gapping** are savings primarily from temporary vacancies due to attrition, promotions, turnover, maternity leaves and other unpaid absences. The annual budget includes a gapping factor of \$1,165,000 to account for these temporary vacancies when the hiring process is delayed. Overall, the City experienced gapping of \$1,769,700, resulting in total savings of \$604,700.

**Refuse Collection & Recycling Contracts** experienced a surplus of \$202,100 from lower tonnage collection for curbside solid waste, recycling and organics. This is mainly due to the easing of pandemic restrictions combined with residents returning to the office and reduced work from home arrangements.

**Streetlight Hydro** materials and supplies account experienced a savings of \$194,900 due to energy conservation from the successful implementation of the LED streetlight conversion project.

### Negative Variance Contributors (lower revenues or higher expenditures versus budget)

The following is a detailed listing of the negative budget variances of \$2,545,400 that reduced the 2022 year-end BAU surplus.

	Item Description	Variance to Budget
1.	Winter Maintenance Subdivision Revenues	(\$548,700)
2.	Transfer to WSIB Reserve	(500,000)
3.	Transfer to Firefighter Sick Leave Reserve Fund	(500,000)
4.	Supplementary Taxes	(403,800)
5.	Winter Maintenance Contracts	(283,300)
6.	HST Audit Recovery Provision	(269,200)
7.	Other	(40,400)
	<b>Total</b>	<b>(\$2,545,400)</b>

**Winter Maintenance Subdivision** revenues generated an unfavourable variance of \$548,700. With the continued reduction in the development of subdivisions, the City conducted less winter control work at the request of developers.

**Transfer to WSIB Reserve** of \$500,000 to replenish the reserve. The City maintains a WSIB Reserve to help assist staff that are on leave as result of work-related injuries or illnesses. From the findings of the most recent actuarial review, the reserve requires replenishment in order to fulfill the increased future liability and anticipated financial obligation. The transfer to reserve is an adjustment made at the discretion of the Treasurer through By-Law 109-13 (By-law to provide the Treasurer the authority to reallocate any Annual Operating Surplus or fund any Annual Operating Deficit).

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**Transfer to Sick Leave Reserve Fund** of \$500,000 to replenish the reserve. Sick leave credits are accumulated during a firefighter's term of employment and paid out at retirement, voluntary resignation or death. These expenses are historically funded from the sick leave reserve fund, which has been depleted since 2021 and requires further replenishment in order to support the annual sick leave payouts. City staff were monitoring the declining balance in the reserve fund and budgeted for a transfer from the Tax Stabilization Reserve in the 2023 Operating Budget to partially offset these costs. The transfer to reserve fund is an adjustment made at the discretion of the Treasurer through By-Law 10-13.

**Supplementary tax revenues** fell short of budget by \$403,800 as a result of fewer than expected supplementary assessments.

**Winter Maintenance Contract** costs experienced an unfavourable variance of \$283,300 largely due to a greater number of winter events than average occurring in the first quarter of 2022.

**HST Audit Recovery Provision** of \$269,200 has been included as part of the 2022 yearend expenses. In 2021, a consultant-led HST review was performed and the City recognized a net HST recovery of \$269,200 from the Canada Revenue Agency (CRA). However, this triggered a CRA audit on the City's HST filings which is currently underway. Staff included a HST recovery provision in the event of return of funds.

### Covid-Related Operations Generated a \$3.0 million Deficit

The City generated a Covid-related deficit of \$3,045,400, recommended to be funded from the remaining SRA funds. The details are outlined below.

	Item Description	Variance to Budget
1.	Recreation Programs	(\$1,790,200)
2.	Public Works Operations (materials & contracts)	(1,565,400)
3.	Covid-Related Expenses (excluding Recreation)	(448,700)
4.	Development Planning Revenues	(263,000)
5.	Fire (Overtime, vehicle costs, emergency response revenues)	(260,500)
6.	Investment Income	125,000
7.	Facility Maintenance (eg. hydro, water, etc.)	1,157,400
	<b>Total</b>	<b>(\$3,045,400)</b>

**Recreation and Culture Division** finished the year with a \$1,790,200 deficit. The majority of the deficit is a result of aquatic program revenues being lower than projected due to severe shortages in lifeguarding and instructional staff. Further, the requirement for the provincially mandated COVID-19 restrictions in the first quarter of 2022 had a significant impact on the delivery of recreation programs and facilities operations (separately noted as part of the facilities maintenance savings explanation below). The

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decreased revenue was partially mitigated by the redeployment of full time staff to the immunization clinic during the first quarter of the year (as immunization clinic expenditures were fully reimbursed by the Region), hiring delays due to recruiting difficulties, and savings from materials and staffing costs by not running various programs.

**Public Works Operations** had increased costs from vehicle fuel, parts and services contracts, which were market rate contracts susceptible to inflationary increases. Also, the rental contract was up for extension during a period of backlog and extreme low availability of vehicles on the open market. In addition, the City experienced escalating costs of parks materials and supplies (such as seeding treatments) and contracted services (e.g. the tear down and installation of the Richmond Green dome, boulevard maintenance, portable washroom rental costs and increased sports field maintenance costs). With the City slowly opening up post-Covid, more requests were completed in 2022 to deal with sidewalk deficiencies, sign replacements and pavement marking additions, combined with rising contract and material costs.

**Covid-Related Expenses** are costs incurred during the year, across all of the City's departments, 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.

**Development Planning Revenues** fell short of budget by \$263,000 and continue to fluctuate from pre-2020 levels following the pandemic, as a result of economic uncertainty and the changes imposed on municipalities and the development industry brought forth by the approvals of Bills 109 (More Homes for Everyone Act, 2022) and Bill 23 (More Homes Built Faster Act, 2022). This has resulted in a reduction of application submissions to the City as the development industry continues to transition from constructing ground related residential uses to alternative housing in the form of medium and high-density residential uses in the Richmond Hill market.

**Fire and Emergency Services** incurred a total of \$260,500 for Covid-related expenditures and losses in 2022. Fire vehicle maintenance and fuel was over budget by \$111,100 due to fuel inflation and increases in vehicle and equipment impacted contract renewals. The Division also generated less than anticipated emergency response revenues due to reduced traffic levels from COVID-19 restrictions in the first quarter of year. Additionally, overtime charges were required to cover staff that were away on COVID-19 related absences (illness and isolation requirements).

**Investment Income** results were \$125,000 over budget due to higher than expected interest rates, as the City's investment portfolio was able to capture more interest on its cash balances and through reinvestment of short-term securities. The supply-demand imbalance of goods and services brought on by the pandemic created significant inflationary pressures, which led to unprecedented action from the Bank of Canada. This required the central bank to embark on a highly aggressive tightening of monetary



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policy through more frequent and larger interest rate increases, in order to restore price stability by increasing its policy interest rate from 0.25% to 4.25% in 2022.

**Facilities Maintenance** (e.g. hydro, water, etc.) expenditures were underspent mainly due to the unplanned closures of facilities, as a result of COVID-19. City staff were able to find utility efficiencies through the reprogramming of the BAS (Building Automation System), by optimizing and managing building temperature, humidity and internal climate control. Cost savings from water were also realized due to the partial year pool closures at various locations (e.g. Centennial Pool, Wave Pool, Elgin West, Richvale, Bayview Hill and Oak Ridges Community Centres). However, the hydro and water savings were partially offset by additional HVAC costs incurred from inflationary pricing on parts and materials as part of the HVAC operating strategy to improve air quality and provide continuous airflow. Overall, Facility Technical Services staff were able to maximize utility savings, while at the same time providing a safe environment and mitigating the transmission risk of COVID-19.

## Non-Tax Funded Operations

### Building Permits and Inspections Fund

The Building Services Division is responsible for the administration and enforcement of the Ontario Building Code and all of its applicable laws. City staff review building permits for compliance with applicable laws before issuance of the permit. Afterwards, field inspections are performed for all the new building construction. In 2022, building permit fees, plumbing inspection and other related revenues generated a favourable variance of \$1,030,600 as the construction boom witnessed in 2021 continued over into 2022. There is generally a lag between the application date and permit issuance date, based on the volume and efforts required to review building applications. The positive variance in revenues is a result of robust construction activities and likely also benefited from permit applications submitted in the prior year. Overall, any surplus from the net budget is absorbed into the Building Permit Rate Stabilization Reserve Fund. The overall surplus in 2022, mainly from the additional revenues, resulted in a lower than budgeted draw from the Building Permit Rate Stabilization Reserve Fund.

### Water & Wastewater Fund

The City purchases water from York Region at a wholesale rate and in turn, charges properties a retail rate based on actual water usage. Wastewater is then collected from the individual properties and directed back to York Region sanitary sewer mains. In addition to the cost of water, the City also incurs expenses related to the daily maintenance, inspection and repair of the water distribution system and wastewater collection system. The Drinking Water Quality Management System and Policy provides guidance to operations and ensures that the community is provided with safe drinking water and safely treated wastewater. Overall, the Water & Wastewater Fund ended the year with total surplus of \$536,000, which staff propose be transferred to the Water Rate Stabilization Reserve.

Water and wastewater services for residential, commercial and industrial accounts produced a deficit variance of \$924,900. Although actual water volume consumption

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was only 0.28% lower than budgeted, the City experienced a higher percentage of unbilled water (14.20% actual compared to the 12.9% budget). As the City's infrastructure continues to age, there has been a rise in the number of watermain breaks in 2022, amounting to unbilled water consumption and increased costs of emergency repairs.

Maintenance Administration and Operations generated savings of \$1,060,700 predominantly the result of a significant recovery from development securities to cover the cost of 2021 works undertaken to resolve issues with a defaulting subdivision, increased water and sewer service revenues due to more requests for service than anticipated in association with new infill developments, and full-time staff gapping.

Revenue Services experienced savings in water meter reading and repair costs due to the installation of remote water meters reading technology, which provides for greater reading accuracy. Water Collection charges attributed to transfers of the water arrears to the property tax bill, along with ownership fee changes revenues increased due to real estate sales activity in 2022. Overall, Revenue Services contributed a net surplus of \$400,200.

### **Stormwater Management Fund**

Stormwater refers to the leftover water from rain and melting snow that flows over land or other impervious surfaces. The City's stormwater management systems store and control the stormwater through storm sewers, ponds and catch basins. In some cases, the runoff is released back into natural streams and rivers. The costs to manage and operate the program are recovered through stormwater management fees, which are charged to residents and businesses through a multi-tier rate structure based on property type. Overall, the Stormwater Management Fund experienced a total year-end deficit of \$1,936,400, which staff recommend be funded from the Water Quality Protection Reserve Fund.

The Stormwater Fund deficit is primarily due to the change in the rate structure in 2022, which incorporated the capping of eligible areas for residential properties (1 acre), vacant land (10 acres), golf courses (10 acres) and farmland (10 acres) as well as changes to land area classifications reducing overall revenues. In addition, there was an increase in the number of emergency infrastructure repairs incurred in 2022.

### **Carryforward and Surplus Allocation**

The 2022 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 2020-2022:**

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

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- 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.

### **Conclusion:**

Based on the 2022 year-end results, the Operating Fund has produced a Covid-related deficit of \$3,045,400, which staff propose be funded from the Safe Restart Agreement monies.

The remaining BAU surplus is \$1,059,800, after considering a \$212,700 budget carryforward. Staff propose that the BAU surplus be allocated to the Tax Rate Stabilization Reserve.

Based on the 2022 year-end results, the Water & Wastewater Fund generated a surplus of \$536,000. Staff recommend that the surplus be allocated to the Water Rate Stabilization Reserve.

Based on the 2022 year-end results, the Stormwater Management Fund generated a deficit of \$1,936,400. Staff recommend that the deficit be funded by 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 – 2022 Surplus Allocation and 2022 Deficit Funding

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### Report Approval Details

Document Title:	SRCFS.23.029 2022 Year-End Operating Results.docx
Attachments:	- SRCFS.23.029 Appendix A - Financial Overview.pdf - SRCFS.23.029 Appendix B - Budget Carryforward Requests.pdf - SRCFS.23.029 Appendix C - 2022 Surplus Allocation and 2022 Deficit Funding.pdf
Final Approval Date:	Jun 20, 2023

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

**Gigi Li - Jun 19, 2023 - 8:24 PM**

**Sherry Adams - Jun 20, 2023 - 8:59 AM**

**Darlene Joslin - Jun 20, 2023 - 10:47 AM**