



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: September 26, 2023

Report Number: SRCFS.23.042

Department: Corporate and Financial Services

Division: Financial Services

Subject: SRCFS.23.042 – 2023 Operating Forecast

Purpose:

To provide an update on the City's 2023 Year End Operating Forecast.

Recommendation(s):

- a) That "SRCFS.23.042 – 2023 Operating Forecast" be received for information purposes.

Contact Person:

Andrew Li, Supervisor, Operating Budgets

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:

An interim operating forecast is a projection of an organization's financial results for the fiscal year. The City's 2023 Operating Forecast combines actual results to date (January to June 2023), with estimates for the second half of the year based on anticipated market trends and assumptions. To provide context, the forecast is compared to the annual budget to identify any significant forecast to budget variances. The projected annual surplus/deficit is the aggregation of all budget variances.

The forecast provides management and stakeholders with a tool to monitor trends and obtain feedback about expected variances, and if necessary, course correct operating decisions moving forward. It is an estimate based on many variables, some that are within the City's discretion and others that are based on external factors. For example, investment income is dependent on the City's selection and collection of financial instruments but also subject to economic factors and Bank of Canada decisions. Recreational program pricing is set by the City, however, projected enrollment is still reliant on the preferences of residents, which can be difficult to predict. The City can procure and secure pricing on winter maintenance contracts but total annual spend is also contingent on usage and future weather conditions.

In general, a forecast produced towards the latter part of the year will have greater accuracy than a forecast produced at the beginning of the year. The trending of data is included with fewer estimates and assumptions required. It is important to keep track of year to date trends to identify an organization's current financial position, with an eye towards future projections to understand potential yearend outcomes. Forecasting not only assists in current year prognostication but also acts as a very useful resource in preparing the upcoming year's budget. City staff will leverage the forecasting exercise within this staff report to help inform and build the 2024 Operating Budgets, which are scheduled to be presented to Council at the November 21 and 28 Budget Committee of the Whole (BCW) meetings.

As part of the Safe Restart Agreement (SRA) and the Provincial COVID-19 Recovery Funds, the City received total federal and provincial funding of \$11,460,790. These funds were provided to assist municipalities against COVID-19 operating costs and pressures. The funding has provided much needed relief to the City starting in 2020 and onwards to combat COVID-related deficits. At the end of 2022, there was approximately \$4.1 million of SRA funding left unspent, with a \$2.5 million draw included as part of the 2023 Operating Budget. The City's 2023 Operating Forecast (SRA portion) includes the budgeted \$2.5 million base draw, combined with an additional draw of \$217,200 to fully offset against minimum wage and cost of living increases for part-time Recreation staff. The net impact of the SRA funding and related part-time Recreation staff costs is zero.

All other forecasted budget variances are incorporated into the City's overall Operating Forecast. After consideration of the June year to date actuals (See Appendix 'A'), combined with a projection for the second half of the year, the City forecasts a favourable budget variance (ie. surplus) of approximately \$3,275,200. The projected

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surplus consists of many factors, to be detailed in the body of this report, but most notably it is impacted by a favourable forecast of investment income. As a result of rising interest rates, investment income is projected to reach \$9.6 million, which is \$3.2 million more than budgeted and represents the majority of the projected \$3,275,200 surplus. As part of the investment income strategy, the City proposes that the \$3.2 million surplus be transferred to the Tax Rate Stabilization reserve to offset future investment income fluctuations and tax rate impacts, leaving an adjusted year-end forecast surplus of \$75,200.

Financial/Staffing/Other Implications:

Financial Outlook - Operating Fund

Budget expense variances occur when there is overspending or savings compared to the original plan. Budget revenue variances occur when generated revenues either exceed or underperform expectations. These variances are inherent and occur in the natural course of operations for all municipalities. An overall surplus is an accumulation of all budget variances, both positive contributors (higher revenues or lower expenses) and negative contributors (lower revenues or higher expenditures). Based on the June year to date results, the 2023 Operating Forecast variances are summarized in the following table:

Item Description	Variance to Budget
Positive Variance Contributors	\$5,203,500
Negative Variance Contributors	(1,928,300)
Projected Surplus	3,275,200
Minus: Transfer to Tax Rate Stabilization Reserve	(3,200,000)
Adjusted Surplus	\$75,200

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

The following table is a listing of the positive budget variances totaling \$5,203,500.

	Item Description	Variance to Budget
1.	Investment Income	\$3,200,000
2.	Tax Arrears - Penalties & Interest Revenues	1,210,200
3.	PIL (Payment In Lieu) - York Region Transit	610,800
4.	Lottery/Bingo Licenses and Marriage License Revenues	182,500
	Total	\$5,203,500

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Investment Income

Investment income is forecasted to be approximately \$3.2 million over budget, as persistent inflationary pressures and a stronger than expected economy have led the Bank of Canada to continue hiking interest rates. The Overnight rate has increased to 5% (September 2023), as compared to 3.75% at the same time last year (September 2022). Although inflation on materials and supplies has declined largely due to lower energy prices, elevated demand and a tight labour market creates upwards pressure on the services side of the economy.

Resilient consumer spending, elevated wage growth and corporate pricing behavior that has yet to normalize, has led the Bank of Canada to stay preemptive in restoring price stability by lifting its policy rate higher than initial expectations. As a result, more frequent and larger rate increases than initial expectations, particularly on the short end, have enabled the City's investment portfolio to earn even more interest on its cash balances and purchases made in short-term securities. Overall, 2023 short-term investment income currently projects to be around \$9.6 million, compared to a budget of \$6.4 million. The favourable variance has contributed largely to the City's overall unsustainable, one-time in nature forecasted surplus. As a result, the City proposes to transfer \$3.2 million of the investment surplus to the Tax Rate Stabilization reserve to mitigate any future investment income fluctuations.

Tax Arrears – Penalties & Interest

Consistent with the prior years, penalties and interest revenues on tax arrears have been trending upwards. The late payment fees were waived in 2020, as per Council direction, to provide relief to residents and businesses at the onset of COVID-19. Since the reinstatement of the fees, revenues have been trending around \$5.9 to \$6.0 million over 2021-2022. The current trend in 2023 projects penalty and interest revenues to be around \$6.0 million, which contributes a positive forecast to budget variance of \$1.21 million. The increase in revenues is consistent with the general increase in the Taxes Receivable balances.

Payment In Lieu of Taxation - York Region Transit

The transit facility at 55 Orlando Avenue remains eligible for payment in lieu of taxation and has been a recurring unbudgeted item for the past several years due to discussions, between the Region and Province, on exempting municipal transit facilities from property taxation. In 2023, the City has received a PIL payment from York Region Transit for \$610,800, which has been included in the forecast and is a positive forecast to budget variance.

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Lottery/Bingo Licenses and Marriage License Revenues

The City receives commissions on gaming revenues from Bingo World and Gaming Richmond Hill. After a period of decline, from the effects of COVID-19, there has been an upward trend in commission revenues in 2022 and this continues into 2023. The City projects a favourable budget variance of \$160,000 in lottery license and gaming commission revenues. Similarly, the number of marriage applications has risen over the past years and the City forecasts a favourable budget variance of \$22,500 in marriage license revenues.

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

The following is a listing of the negative budget variances totaling \$1,928,300 that reduced the 2023 operating forecast surplus.

	Item Description	Variance to Budget
1.	Supplementary Taxes	(\$890,800)
2.	Development Planning Revenues	(350,000)
3.	Personnel Gapping	(328,300)
4.	Fire – Emergency Response/False Alarm Revenues and Bad Debts Provision	(225,000)
5.	Facility Related (Utilities, HVAC, Life Safety Systems, Janitorial)	(93,100)
6.	Other	(41,100)
	Total	(\$1,928,300)

Supplementary Tax Revenues

Supplementary tax revenues are generally related to new properties or properties that have had alterations or improvements that were not reflected on the previous interim or final billing. As a result, a change in assessment classification or value would take place and the property would be billed for supplementary taxes. After two years of supplementary revenue growth post COVID-19, in 2021 and 2022, MPAC reporting of 2023 residential and multi-residential property new assessment is lower than their forecast.

Development Planning Revenues

Development planning revenues continue to fluctuate from pre-2020 levels, following the aftermath of COVID-19, as a result of economic uncertainty and the changes imposed on both municipalities and the development industry through the Province's approval of Bills 109 (More Homes for Everyone Act, 2022), Bill 23 (More Homes Built Faster Act, 2022) and Bill 97 (Helping Homebuyers, Protecting Tenants Act). This has

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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 forms such as medium and high-density residential uses in the Richmond Hill housing market. For 2023, development planning (zoning applications, subdivision & condominium processing) revenues are forecasted to be approximately \$350,000 below budget.

Personnel Gapping

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 \$1,474,300 to account for these temporary vacancies when the hiring process is delayed. Overall, the City forecasts gapping of \$1,146,000, resulting in an unfavourable budget variance of \$328,300. Part of the explanation for lower than budgeted gapping are the higher than expected Fire & Emergency Services Division overtime (\$120,000 forecast variance) due to maternity leaves, long-term injuries sustained and limitations in the Fire collective agreement on how these absences can be covered. Moreover, Fire Division shift premiums (\$220,000 forecasted variance) reflect the cost to fill supervisory roles with temporary acting promotions, as required by the Fire collective agreement. Lastly, the City has seen an increase in the cost of retiree benefits (\$150,000 forecasted variance), as the number of eligible retirees has grown in recent years.

Fire – Emergency Response/False Alarm Revenues and Bad Debts Provision

The Fire Division attends to emergency response and false fire alarm incidents, which generate revenues for the City. There have been fewer than anticipated such incidents in 2023, resulting in projected revenues below budget of \$125,000. In addition, an accounting adjustment of \$100,000 for bad debts provision is forecasted to be required, as a result of uncollectible motor vehicle accident cost recovery and false alarm revenues. The provision is an offset to revenues and the City is exploring opportunities to reduce the uncollectible portions.

Facility Related (Utilities, HVAC, Life Safety Systems, Janitorial)

Facilities related items are forecasted to have a net unfavourable budget variance of \$931,100. Facilities maintenance (eg. hydro, heating fuel) expenditures are expected to be underspent by \$345,000 due to a reduction in consumption at major City facilities trending below their pre-COVID average usage. These savings are offset by increases in HVAC and life safety systems costs (\$310,000 forecasted variance) due to growing materials, parts and labour costs, as well as increases in the number of annual inspections leading to additional testing requirements and costs. The Public Works Operations division manages the expenses surrounding janitorial and other contracted services in the City's parks. Significant vendor pricing increases in supplies, services and material goods have contributed to an unfavourable budget variance of \$128,100.

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Other

The City also identified other smaller variances which net out to a total unfavourable forecasted variance of \$41,100. These variances include additional building rental revenues due to an increase in indoor soccer bookings at Richmond Green and aquatics membership revenues from a successful post-COVID promotional campaign. However, these favourable budget variances are fully offset by contract costs in parks operation due to the installation of a new pump at the Richmond Green waterfall and lower tow truck license/late renewal fee revenues due to legislated changes in the transferring of tow truck certifications.

Financial Outlook – Water & Wastewater and Stormwater 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.

Current Water and Wastewater (WWw) volumes of consumption appear to be reasonable and in line with the 20.7 million cubic metres budgeted. However, projected water loss for 2023 is trending towards 14%, compared to the budgeted 11.9%. This difference contributes to an unfavourable revenue variance of \$1.43 million. There has been a high number of watermain breaks in 2023, which has also contributed to the increase in unbillable water.

Conversely, the City has noted an increase in forecasted water collection charges and water meter reading fee revenues, which are expected to generate an additional \$35,000 in revenues over budget. Contract expense savings of \$89,000 are also forecasted from meter testing, reading and AMI monitoring costs as a result of reduced data log requests, implementation of N360 and replacement of faulty ICI meters. Overall, the Water and Wastewater fund is forecasting an overall deficit of \$1.31 million. Typically, any water and wastewater fund deficits at yearend are mitigated by funding from the Water and Sewer Rate Stabilization Reserve.

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. The City forecasts stormwater operations to be trending to budget and no significant forecast variances have been noted at this time.

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Relationship to Council's Strategic Priorities 2020-2022:

Presentation of the 2023 Operating Forecast 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. Through the forecasting process, 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 2023 Operating Forecast, the Operating Fund is projecting a surplus of \$3,275,200, before a transfer of \$3,200,000 to the Tax Rate Stabilization Reserve as part of the investment income strategy. Net adjusted surplus is \$75,200.

Based on the 2023 Operating Forecast, the Water and Wastewater Fund is projecting a deficit of \$1,306,600, which the City will look to mitigate through funding from the Water and Sewer Rate Stabilization Reserve.

Based on the 2023 Operating Forecast, the Stormwater Fund is projecting results to be in line with budget and no significant forecast variances identified at this time.

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 – 2023 Operating Forecast by Department

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Report Approval Details

Document Title:	SRCFS.23.042 - 2023 Operating Forecast.docx
Attachments:	- SRCFS.23.042 - 2023 Operating Forecast - Appendix A.pdf
Final Approval Date:	Sep 20, 2023

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

Gigi Li - Sep 18, 2023 - 11:46 AM

Sherry Adams - Sep 18, 2023 - 2:18 PM

Darlene Joslin - Sep 20, 2023 - 8:50 AM