



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: May 28, 2024

Report Number: SRCFS.24.017

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.24.017 - Year-End Operating Results as of December 31, 2023**

Purpose:

To present the financial operating results for the year ending December 31, 2023.

Recommendation(s):

- a) That the 2023 Operating Results overview be received for information purposes;
- b) That the 2023 Operating Budget carryforward items of \$296,700 listed in Appendix "B" be approved and carried over to the 2024 Operating Budget;
- c) That the surplus allocation and deficit funding as detailed in Appendix "C", be approved:
 - i. 2023 Operating Fund surplus of \$5,904,890 be allocated as follows:
 - o \$3,491,900 transferred to the Tax Rate Stabilization Reserve for the surplus related to investment income
 - o \$1,206,495 transferred to the Tax Rate Stabilization Reserve
 - o \$1,206,495 transferred to the Community Enhancement and Economic Vitality Reserve Fund
 - ii. 2023 Water & Wastewater Fund surplus of \$84,181 be transferred to the Water Rate Stabilization Reserve; and
 - iii. 2023 Stormwater Management Fund deficit of \$83,461 be funded from 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, City Manager

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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, 2023. 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, storm 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 2023 Operating Budget items that are being requested as budget carryforwards into the 2024 Operating Budget. Lastly, Appendix "C" provides a breakdown of the surplus/deficit allocations to the various reserves 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 resulting in budget variances.

While in the prior three years (2020-2022), City operations were affected by the COVID-19 pandemic to varying degrees, the fiscal year 2023 represented a continued transition to a new normal. Some of the remnants, such as high inflation, supply chain disruptions and shortage of labour still persisted, however, these factors had less of an impact in 2023.

Ontario CPI¹ rose from 3.5% in 2021, to 6.8% in 2022 and returned down back to 3.8% for 2023. Stabilizing fuel, shipping and raw material costs in addition to reduced labour shortages assisted 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 was helped by the increased efforts to train and hire casual staff, which allowed the City to a quicker return to normal levels of programming and accommodate classes with waitlists. In addition, the levels of inflation did not prompt the Bank of Canada to lower interest rates, therefore benefiting the City's overall return on its investment portfolio.

¹ Source (Monthly York Region Inflation Monitor Report – December 2023)

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Financial/Staffing/Other Implications:

Operating Fund

Budget expense variances occur when there is overspending or savings compared to the original plan. Conversely, Budget revenue variances occur when revenues fall short or exceed 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 departmental 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). A review of prior year budget variances provides a measure of the previous year’s results, as well as, assist in current year forecasting and formulation of the upcoming year’s budgets. The year-end Operating Fund variances are summarized in the following table:

2023 Operating Surplus Summary

Operating Fund	Actual
2023 Year-end Draft Surplus	\$5,993,290
Add: Safe Restart Agreement Funding	183,300
2023 Year-end Draft Surplus Subtotal	\$6,176,590
Minus: Carryforward Requests	(271,700)
Total Operating Surplus	\$5,904,890

The City approved a 2023 Operating Expenditure Budget of \$200.1 million, and completed the fiscal year with a total operating surplus of \$5,904,890 (or 3.0%), which staff propose be allocated between the Tax Rate Stabilization Reserve and the Community Enhancement and Economic Vitality Reserve Fund.

The total operating surplus of \$5.9 million is net of budget carryforward requests and Safe Restart Agreement funding. Budget carryforwards represent unspent 2023 budget for initiatives that have been postponed in 2023 for completion in 2024 (See ‘Appendix B’). As part of the Safe Restart Agreement (SRA), the City received federal and provincial funding in 2020/2021 to assist with COVID-19 operating costs, revenue losses and other pressures. A total of \$11.5 million of funding was received with \$4.1

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million remaining at the beginning of 2023. Of the \$4.1 million remaining, \$2.5 million was used to fund ongoing recovery pressures in 2023, as budgeted. In addition, \$183,300 was drawn from the SRA monies to offset unbudgeted cost of living allowance and minimum wage increases for part-time staff in Recreation.

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 2024, based on a review of best practices with other municipalities.

The Community Enhancement and Economic Vitality (CEEV) Reserve Fund is utilized for projects that enhance the quality of life or enrich the economic vitality of the community. Recently, the interest generated from this reserve fund has been used to phase in the costs for the Public Works Enhancement Program and the addition of 16 Firefighters from the 2022 budget, as well as the cost of Heritage Grants.

Staff propose that the \$3,491,900 surplus related to investment income be allocated to the Tax Rate Stabilization Reserve. The recent high interest rate environment has led to a significant investment income surplus which is seen as one time in nature. The remaining \$2,412,990 surplus is recommended to be split equally between the Tax Rate Stabilization Reserve (\$1,206,495) and CEEV Reserve Fund (\$1,206,495). As a result, the transfer to the Tax Rate Stabilization Reserve will help achieve the target reserve balance and to potentially offset future tax rates, fluctuations in interest rates and investment income. The surplus allocation to the CEEV Reserve Fund will enhance the balance of the reserve fund for future community projects, whereas the additional interest generated may potentially be used to fund the Community and Cultural Grants Program to support local community and cultural organizations as well as individual artists whose initiatives enhance the quality of life and cultural vibrancy of Richmond Hill residents.

As at December 31, 2023, the Tax Rate Stabilization Reserve would be approximately \$14.5 million, after the transfers. The City's target balance for this reserve is 10% of budgeted operating expenditures, which is \$20.0 million for 2023. As at December 31, 2023, the CEEV Reserve Fund would be approximately \$52.2 million, after the transfer.

The 2023 operating surplus of \$5,904,890, after carryforwards, is the net result of \$9,994,000 positive variance contributors and (\$4,089,110) negative variance contributors.

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

The following table is a list of the positive budget variances totaling \$9,994,000, contributing to the 2023 operating surplus.

2023 Positive Budget Variances Summary

	Item Description	Variance to Budget
1.	Investment Income	\$3,491,900
2.	Tax Arrears - Penalties & Interest (including uncollectible provision)	1,709,200
3.	PIL (Payment In Lieu) – York Region Transit & Metrolinx	895,700
4.	Facility Utilities (e.g., hydro, heating)	830,600
5.	Aquatics and Fitness Program revenues (net of costs)	653,900
6.	Recreation General Program (net of costs) and Building Rental Revenues	566,100
7.	Refuse Collection and Recycling Contracts	456,500
8.	Winter Maintenance Contracts and Materials	373,200
9.	Lottery License Revenues	266,500
10.	Personnel Gapping (excluding firefighter shift premiums/OT, retiree benefits, aquatics/fitness/general program personnel)	251,900
11.	Vehicle maintenance/insurance/rental & Fleet fuel	250,000
12.	IT Software & Hardware Maintenance	248,500
	Total	\$9,994,000

Investment Income results were \$3,491,900 over budget, as short-term rates reached even higher levels, based on additional interest rate hikes enacted by Bank of Canada. The Overnight rate increased from 3.25%, in the fall of 2022, by an additional 175 basis points and reached 5% in July 2023. As a result, the City’s investment portfolio realized much greater interest earned on short term investments, which includes its cash balances and securities that mature 1 year or less. A greater allocation to short term investments and a more competitive deposit rate agreement re-negotiated with the

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City's main bank also contributed positively to the results. Staff propose that the investment income surplus be allocated to the Tax Rate Stabilization Reserve to achieve its target balance, and to mitigate future tax rate impacts from interest rate fluctuations.

Tax Arrears – Penalties & Interest (including provision for uncollectible portion) generated additional revenues of \$1,709,200 greater than budget. 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 actual 2023 penalties and interest revenues reached \$6.5 million (including uncollectible provision). The increase in revenues is consistent with the general increase in the Taxes Receivable balances. With the goal of lowering receivables, the strategy employed in 2023 and 2024 to ramp up collection procedures such as targeted reminder notices to property owners in arrears and tax sale registration for accounts that are four or more years in arrears.

Payment In Lieu of Taxation generated a combined surplus of \$895,700 between the York Region Transit and Metrolinx. As the York Region transit facility at 55 Orlando Drive remained eligible for payment in lieu of taxation, the City received unbudgeted PIL of \$610,800. 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. The City also received additional PIL from Metrolinx (Bloomington GO station) of \$284,900 as a result of reassessment values from 2020-2022.

Facilities Utilities (e.g., hydro, heating) expenditures were underspent mainly due to lower hydro consumption at major facilities, falling below the average of the past 3 pre-COVID years, contributing to budget savings of approximately \$1 million. City staff were able to find utility efficiencies through the reprogramming of the Building Automation System (BAS), by optimizing and managing building temperature, humidity and internal climate control. These efficiencies and savings have been reflected in the 2024 Operating Budget. Also, hydro savings were partially offset by overages in heating fuel expenses of \$197,000, as actual unit rate increases were greater than budgeted rates.

The Aquatic and Fitness Section ended the year with a \$653,900 favourable variance, with \$390,000 due to stronger than expected membership returns and additional fitness classes added to accommodate waitlists. The remaining favourable variance in aquatics is attributed to a substantial effort in the training and hiring of casual aquatic staff that has led to a quicker return to normal programming at open aquatic facilities, including offering a full complement of programs.

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The Recreation Program Section completed the year with a \$371,700 favourable variance resulting from increased program offerings and higher participation rates in recreation programs offered at the various community centres. Recreation Building Rental revenue has exceeded the budget by \$194,400 as a result of additional indoor soccer booking for Richmond Green Sports Complex and Dome.

Refuse & Recycling Contracts experienced a surplus of \$456,500 as a result of lower than predicted tonnage of waste collected curbside. Waste tonnage increased during the pandemic period when residents stayed and worked from home, generating more waste at home. This changed in 2023 as residents returned to work and continued to dine out, thus generating less waste at home.

Winter Maintenance Contract and Material costs experienced a favourable variance of \$373,200. The variance is related to a milder winter in 2023 that required fewer contractor deployments.

Lottery License Revenues reflect the City's share of lottery and gaming revenues from Bingo World and Gaming Richmond Hill as determined by the Alcohol and Gaming Commission of Ontario. After a period of decline, from the effects of COVID-19, there has been an upward trend in commission revenues since 2022. The City completed the year with a favourable budget variance of \$266,500 in lottery license and gaming commission revenues.

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 experienced gapping of \$1,726,200, resulting in total savings of \$251,900. The City's actual gapping excludes firefighter shift premiums/overtime, retiree benefits and aquatics/fitness/general program staffing which have been noted separately in the report.

Overall reduction in **vehicle fuel, vehicle/equipment maintenance costs, vehicle rentals and vehicle insurance deductible** have resulted in a favourable variance of \$250,000. By late 2023, fuel costs were lower than forecasted and some vehicle/equipment maintenance costs were avoided by replacing more end-of-life assets. Vehicle rentals were also lower than expected in the last quarter as the rental fleet was downsized early. The City did not use the Vehicle Insurance Deductible budget as there were no at fault claims that required a deductible payment.

IT Software & Hardware budget was underspent by a total of \$248,500. The City was able to negotiate more favourable contract renewal rates than forecasted. Software licensing growth was not as high as forecasted due to a greater focus on license optimization and usage.

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

The following is a detailed listing of the negative budget variances of \$4,089,110 that reduced the 2023 year-end surplus.

2023 Negative Budget Variances Summary

	Item Description	Variance to Budget
1.	Supplementary Taxes	(\$829,700)
2.	Firefighter Shift Premiums & Overtime	(559,700)
3.	Transfer to WSIB Reserve	(500,000)
4.	Transfer to Firefighter Sick Leave Reserve Fund	(500,000)
5.	Provision for Uncollectible Taxes	(349,500)
6.	Roads Contracts/Materials (e.g., boulevards, sidewalks, sign pavement markings)	(345,400)
7.	Activenet software contract	(328,600)
8.	Subdivision Winter Maintenance Revenues	(310,800)
9.	Janitorial Expenses (Operations Centre)	(161,100)
10.	Retiree Benefits	(153,500)
11.	Other	(50,810)
	Total	(\$4,089,110)

Supplementary Taxes fell short of budget by \$829,700 as a result of fewer than expected supplementary assessments. 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 assessments is lower than their forecast.

Firefighter Shift Premiums & Overtime were higher than budgeted by a total of \$559,700. Overtime expenses were over budget by \$233,500 mainly due to backfilling vacancies in the Dispatch and Operations divisions from long-term WSIB injuries sustained, mid-year retirements, maternity leaves and requirements in the Fire collective agreement on how these absences can be covered. Shift premiums costs were over budget by \$326,200 as a result of the collective agreement requirement to fill vacant supervisory roles with temporary acting supervisors. In 2023, the shift premium costs were not budgeted separately as it was thought that the costs would be covered by corporate salary gapping, however, the amounts exceeded available gapping funds. Fire shift premiums are shown as a separate line item in the 2024 operating budget.

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Transfer to Sick Leave Reserve Fund and WSIB Reserve of \$500,000 each to replenish the reserve and reserve fund. 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, as noted in the 2021 actuarial review. Similar to the prior year, the City transferred \$500,000 to the reserve fund balance.

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 2021 actuarial review, the reserve requires continued replenishment in order to fulfill the increased future liability and anticipated financial obligation. Similar to the prior year, the City transferred \$500,000 to the reserve balance.

Provision for Uncollectible Taxes of \$349,500 was set aside to account for properties with tax arrears that are deemed to be at risk of being uncollectible. The properties captured in this provision have two characteristics: (1) arrears dating back to 2019 or prior and (2) the arrears owing are greater than 10% of the current value assessment for taxation purposes. Due to the nature of a small number of properties within this provision, the City may not be able to recover the outstanding taxes, which could result in staff recommending to write-off the outstanding taxes in the future.

Roads Contracts and Materials costs were higher for boulevards, sidewalks and sign pavement markings amounting to a \$345,400 unfavourable variance caused by the rising costs in material goods, higher contract pricing, and increased requests for traffic related street signs and pavement markings throughout the City.

The Activenet Software Contract has an unfavorable variance of \$328,600 due to a 4% unbudgeted increase in contract prices, as well as an increase in registrant transactions in 2023 resulting from the strong performance in the Aquatic and General Program sections (as previously mentioned in the favourable variance explanation). There was a 72% increase in registration volume compared to the prior year, and the number of permits issued has also increased by 31% compared to the previous year.

Subdivision Winter Maintenance Revenues generated an unfavourable variance of \$310,800. With the continued reduction in the development of subdivisions, the City is conducting less winter control work at the request of the developer.

Janitorial Expenses at the Operations Centre generated a \$161,100 unfavourable variance. The rise in materials costs for cleaning supplies coupled with the continued post-COVID-19 safety precautions to keep high traffic areas clean and sanitized for staff working in the Operations Centre offices.

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Retiree Benefits have been trending upwards over the past few years and are \$153,500 over budget at the end of 2023. Eligible retirees receive health and dental benefits coverage for a period of time during retirement. There has been an increasing number of City staff that have retired over the past years, and as a result, the number of eligible retirees and associate benefits costs have also increased.

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 2023, building permit fees, plumbing inspection and other related revenues were comparable to budget. There is generally a lag between the application date and permit issuance date, based on the volume and efforts required to review building applications. Overall, any surplus from the net budget is absorbed into the Building Permit Rate Stabilization Reserve Fund. The overall surplus in 2023 resulted in a lower than budgeted draw from the Building Permit Rate Stabilization Reserve Fund.

Water & Wastewater Fund

2023 Water & Wastewater Surplus Summary

Operating Fund	Actual
2023 Year-end Draft Surplus/(Deficit)	\$109,181
Minus: Carryforward Requests	(25,000)
Total Operating Surplus	\$84,181

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 \$84,181, after carryforwards, which staff propose be transferred to the Water Rate Stabilization Reserve.

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Water and wastewater services for residential, commercial and industrial accounts produced a deficit variance of (\$1,658,258). Although actual water volume consumption was only 1.2% lower than budgeted, the City experienced a higher percentage of unbilled water (13.26% actual compared to the 11.9% budget). As the City's infrastructure continues to age each year, a rise in the number of watermain breaks occurred in 2023 amounting to unbilled water consumption and increased costs of emergency repairs.

Maintenance Administration and Operations generated savings of \$1,109,683 resulting from increased infill service revenues. Requests for service increased more than anticipated due to increased new infill developments throughout the City. There is a \$25,000 budget carryforward request related to rehabilitation of sanitary prevention maintenance work to be completed in early next year.

The City was able to benefit from the continued high interest rate environment set by the Bank of Canada on its short-term securities. As a result, investment income produced a favourable surplus of \$519,392 for the WWW fund.

Revenue Services experienced savings in water meter contracted services such as meter testing, reading and investigative services. The implementation of AMI meter reading led to fewer data log requests and greater accuracy in monitoring the sudden spikes in water use. In 2023, greater emphasis was placed in replacing older ICI meters to be compatible with AMI, thus lessening need to perform repairs to old meters. Overall, Revenue Services contributed a net surplus of \$138,365.

Stormwater Management Fund

Stormwater refers to the runoff 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 \$83,461 due to the increased number of infrastructure repairs for rehabilitation of storm sewers work incurred in 2023, which staff recommend be funded from the Water Quality Protection Reserve Fund.

Carryforward and Surplus Allocation

The 2023 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 and Water & Wastewater Fund as well as a deficit allocation for the Stormwater Fund.

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Relationship to Strategic Plan:

The presentation of the Year-End Operating results relates to Pillar 3, Strengthening our Foundations, specifically Priority 1, Make decisions that are evidence based and data driven to enable the City's long term financial sustainability, as well as social, environmental and economic sustainability.

Conclusion:

Based on the 2023 year-end results, the Operating Fund has produced a surplus of \$5,904,890. Staff recommend that the surplus be allocated as follows: \$3,491,900 to the Tax Rate Stabilization Reserve for the surplus related to investment income, an additional \$1,206,495 also to the Tax Rate Stabilization Reserve and the remaining \$1,206,495 to the Community Enhancement and Economic Vitality Reserve Fund.

Based on the 2023 year-end results, the Water & Wastewater Fund generated a surplus of \$84,181. Staff recommend that the surplus be allocated to the Water Rate Stabilization Reserve.

Based on the 2023 year-end results, the Stormwater Management Fund generated a deficit of \$83,461. 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 – 2023 Surplus Allocation and 2023 Deficit Funding

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Report Approval Details

Document Title:	SRCFS.24.017 2023 Year-End Operating Result.docx
Attachments:	- SRCFS.24.017 - Appendix A - Financial Overview.pdf - SRCFS.24.017 - Appendix B - Budget Carryforward Requests.pdf - SRCFS.24.017 - Appendix C - 2023 Surplus Allocation and 2023 Deficit Funding.pdf
Final Approval Date:	May 21, 2024

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

Gigi Li - May 21, 2024 - 10:30 AM

Task assigned to Sherry Adams was completed by Gigi Li

Gigi Li on behalf of Sherry Adams - May 21, 2024 - 10:43 AM

Darlene Joslin - May 21, 2024 - 12:59 PM