



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

**Date of Meeting:** September 24, 2024

**Report Number:** SRCFS.24.039

**Department:** Corporate and Financial Services

**Division:** Financial Services

**Subject:** **SRCFS.24.039 – 2024 Year End Operating Forecast**

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### **Purpose:**

To provide an update on the City's 2024 Year End Operating Forecast.

### **Recommendations:**

- a) That "SRCFS.24.039 – 2024 Year End Operating Forecast be received for information purposes.

### **Contact Person:**

- Andrew Li, Financial Management Advisor, Extension 3646
- Lisa Chen, Manager, Fiscal Planning & Analysis, Extension 6311
- Gigi Li, Director Financial Services and Treasurer, Extension 6435
- Sherry Adams, Commissioners Corporate and Financial Services, Extension 2521

### **Report Approval:**

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

### Key Messages:

- 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 (i.e. surplus) of approximately \$1,209,100, or 0.5% of the total budget.
- The projected surplus consists of many factors, but most notably impacted by a favourable forecast of tax arrears penalties and interest revenues.
- Under delegated authority through the Financial Control By-Law, a number of 2025 programs will be advanced. The Financial Control By-Law allows staff to reallocate 2% of the overall budget if required to achieve efficient and effective use of resources, and this translates to an upper limit of \$4.5 million available for reallocation in 2024.
- Staff will accelerate \$707,500 of annual tax-funded operating budget programs or tax-funded capital projects that would have been considered next year including:
  - \$440,000 - Council and Committee Room audio visual and computer upgrades
  - \$145,000 - block and rear yard tree pruning
  - \$110,000 - sidewalk repairs
  - \$12,500 - Ellsworth -de-sac Traffic Circle
- The adjusted year-end surplus of \$501,600 would be transferred to the Tax Rate Stabilization Reserve as part of the year-end process.
- Based on the June year-to-date results, the 2024 Water and Wastewater Fund is forecasted to be \$1,512,400 unfavourable at the end of 2024.

### Background:

An interim operating forecast is a projection of an organization's financial results for the fiscal year. The City's 2024 Operating Forecast combines actual results to date (January to June 2024), with estimates for the second half of the year based on anticipated 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 noted 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 factors, 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 unpredictable weather conditions.

## Page 3

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 year-end outcomes. Forecasting not only assists in current year prognostication but also acts as a 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 2025 Operating Budgets, which are scheduled to be presented to Council at the November 5, 25 and 26 Budget Committee of the Whole (BCW) meetings.

### Discussion:

Budget expense variances occur when there is over-spending 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).

### Operating Fund

The 2024 Operating Budget was approved at \$225 million. 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 (i.e. surplus) of approximately \$1,209,100. The projected surplus consists of many factors, to be detailed in the body of this report, but most notably impacted by a favourable forecast of tax arrears penalties and interest revenues. The Financial Control By-Law provides for administrative flexibility within operating budgets to achieve efficient and effective use of resources. Under delegated authority through the Financial Control By-Law, a number 2025 programs will be advanced in 2024, thereby reducing the related tax impact in 2025. The Financial Control By-Law allows staff to reallocate 2% of the overall budget if required, and this translates to an upper limit of \$4.5 million available for reallocation.

Based on the June year to date results, the 2024 Operating Forecast variances are summarized in the following table:

## Page 4

**Table 1: Year-End Forecast**

Description	Variance to Budget
Favourable Budget Variance	\$2,121,500
Unfavourable Budget Variance	(912,400)
<b>Year-End Forecast - Surplus</b>	<b>1,209,100</b>
Minus: Budget reallocations under the Financial Control By-Law	707,500
<b>Adjusted Year-End Forecast - Surplus</b>	<b>\$501,600</b>

The year-end surplus of \$1,209,100 is summarized by department in Table 2, followed by variances explained by department. References to personnel variances are primarily from temporary vacancies due to attrition, promotions, turnover and other unpaid absences.

**Table 2: Year-End Forecast by Department**

Department	Variance to Budget Fav. / (Unfav.)
Office of the City Manager	\$23,500
Corporate and Financial Services	126,300
Corporate Accounts	1,734,200
Planning and Building Services	237,500
Infrastructure and Engineering Services	(56,800)
Community Services	(55,600)
Taxation	(800,000)
<b>Year-End Forecast - Surplus</b>	<b>\$1,209,100</b>

### **Office of the City Manager - \$23,500 favourable**

The favorable forecast of \$23,500 is primarily due to personnel gapping in Legal Services. Personnel gapping are savings primarily from temporary vacancies due to attrition, promotions, turnover and other unpaid absences.

### **Corporate and Financial Services - \$126,300 favourable**

The Corporate and Financial Services department is expected to have a surplus of \$126,300, or \$73,800 excluding full-time personnel variances, by the end of 2024. The favorable forecast of \$73,800 is attributed to less than anticipated spending for Information Technology software maintenance expenses.

### **Corporate Accounts - \$1,734,200 favourable**

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 million to \$6.0

## Page 5

million over 2021-2023. In 2024, collection procedures were resumed with property accounts registered for the tax sale process. Penalties and interest revenue is forecasted to be \$1.1 million favorable against budgeted revenues. Staff anticipate that the financial impact of the collection measures will reduce penalty and interest revenues in 2025.

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 2024, the City has received a PIL payment from York Region Transit for \$624,800, which has been included in the forecast and is thus a positive variance to budget.

### **Planning and Building Services - \$237,500 favourable**

The Planning and Building Services Department forecasts a positive budget variance of \$237,500 based on the June 30, 2024 year-to-date results, or \$120,000 excluding full-time personnel variances. Development Planning revenues are expected to continue to fluctuate as demonstrated in recent years due to continued economic challenges faced by the building industry, and the most recent legislative changes imposed by Bill 185 (the Cutting Red Tape to Build More Homes Act, 2024) combined with those 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).

While the volume of applications appears to have remained steady/increased slightly in comparison to last year, the number of larger development proposals that are often high revenue generators has decreased and this trend is expected to continue for the short term. Notwithstanding the preceding, Development Planning revenues remain favourable as a result of the elimination of the CAP process and the conversion of CAP submissions to Planning Act applications that no longer require a deferral/credit of a portion of application fees. On this basis, Development Planning revenues are expected to be \$120,000 above the 2024 budget. In addition, the department is also forecasting a positive personnel gapping variance of \$117,300, which are savings primarily from temporary vacancies due to promotions, turnover, maternity/paternity and other unpaid absences.

### **Infrastructure and Engineering Services - \$56,800 unfavourable**

The Infrastructure and Engineering Services Department forecasts a negative budget variance of \$56,800 based on the June 30, 2024 year-to-date results, or negative budget variance of \$382,400 excluding full-time personnel variances. Facilities related items are forecasted to have a net unfavourable budget variance of \$382,300. Facilities maintenance (e.g. hydro, heating fuel) expenditures are expected to be overspent by \$327,900 due to consumption returning to their pre-COVID average usage combined with higher than anticipated increases in unit rates, carbon tax rates for heating fuel. Also, the City will incur additional costs of \$225,400 related to pool repairs and minor capital spending. However, these additional costs are partially offset by expense

## Page 6

savings (\$171,000) in building maintenance, regulatory compliance and other minor capital spending, along with common area maintenance recoveries from a new tenant at the East Beaver Creek office. In addition, the department is also forecasting a positive personnel gapping variance of \$325,600, which are savings primarily from temporary vacancies due to promotions, turnover, parental leave and other unpaid absences.

### **Community Services - \$55,600 unfavourable**

The Community Services Department is expected to have an unfavourable variance of \$55,600 by the end of 2024.

### Fire and Emergency Services Division – \$371,400 unfavourable

The Fire and Emergency Services Division is expected to have a \$371,400 unfavourable variance, or \$70,000 unfavourable variance excluding full-time personnel variances by the end of 2024. The Overtime and Shift Premium budgets in Fire and Emergency Services are forecasted to be over budget by \$160,000 at year-end due to coverage required for health-related absenteeism, and to fill supervisory roles with “acting” promotions as required by the collective agreement.

The vehicle maintenance account is expected to be in a \$70,000 deficit position at year end due to an unexpected major pump failure in an aerial fire apparatus.

### Public Works Operations Division – \$533,300

The Public Works Operations Division is expected to have a \$533,300 unfavourable variance by the end of 2024.

In Public Works Support Services, vehicle maintenance and rental costs are forecasted to be over budget \$266,500 due higher than anticipated costs for minor repairs to rental vehicles and vacancies in mechanical staff positions resulting in the need to contract out mechanical work.

Roads Contracts and Material costs for sidewalks, signs and pavement markings are projected to have \$244,800 unfavourable variance to facilitate requests associated with implementation of the Transportation Safety and Operation Strategy and more sidewalk repairs than anticipated. A decline in subdivision developments across the City has resulted in less winter maintenance being undertaken at the request of developers and an expectation that subdivision maintenance revenues will be \$75,000 unfavourable at year end.

Refuse & Recycling Contracts are forecasted to be \$159,400 favourable as a result of lower than predicted tonnages of waste collected curbside.

Parks Infrastructure is projected to be \$115,000 unfavourable due to urgent repairs for the Saigeon Trail staircase as it does not meet current safety standards.

## **Page 7**

### Recreation and Culture Division – \$519,300 favourable

The Recreation and Culture Division is expected to have a surplus of \$519,300, or \$534,100 excluding full-time personnel, by the end of 2024.

Aquatics and Fitness programs are forecasted to end the year with a \$543,800 net surplus. This is the result of \$690,600 in additional revenue from instructional programs, building rental permits, and aquatics and fitness memberships, offset by \$146,800 in unrealized program and permit revenue due to the extended closure of the Wave Pool.

Favourable Recreation Program revenues of \$63,700 due to new partnerships and increased partnership programs is further enhanced by \$66,000 additional revenue gained from increasing the number of spaces and classes in weekly arena programming.

Facilities building rental is also forecasted to have a favourable variance of \$83,300 due to higher demands for indoor space at Richmond Green, Richvale and Rouge Woods Community Centre.

The surpluses summarized above are offset by Activenet software charges trending toward an unfavourable variance of \$155,700 due to a 5% unbudgeted increase in contract prices, and higher than expected transaction charges due largely to increased Aquatic and General Program registrations (discussed above).

The October 1, 2024 minimum wage increase announced by the Provincial government, together with associated adjustments necessary to maintain the wage gap between other casual recreation positions, will have an impact of \$67,000 on casual wages and benefits.

### Community Standards Division - \$330,000 favourable

The Community Standards Division is expected to end the year with a \$330,00 surplus. This is mainly a result of increased penalty notice issuance made possible as a result of converting Parking Enforcement Officers to Community Standards Officers.

### **Taxation - \$800,000 unfavourable**

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. Supplementary tax revenue is directly affected by real estate market conditions (i.e., mortgage interest rates). As a result, supplementary revenues in 2024 are forecasted to be unfavorable by approximately \$800,000.

## Page 8

### Water and Wastewater Fund

Based on the June year-to-date results, the 2024 Water and Wastewater Fund is forecasted to be \$1,512,400 unfavourable at the end of 2024. Water and wastewater consumption volumes are trending below the 20.6 million cubic meters budget, and the water loss percentage is projected to be 12.6% compared to the 11.5% budget due to 18 watermain breaks experienced as of June 2024. The net impact of \$2.7 million decrease in revenues offset by a \$1.2 million decrease in wholesale purchases of water services from the Region of York is a \$1.5 million deficit. This will be mitigated with a draw from the Water Rate Stabilization Reserve at year-end.

### Stormwater Fund

Based on the June year-to-date results, there are no significant budget variances anticipated for the end of 2024.

### Financial Implications:

As discussed on the top of page 3, with the anticipated year-end surplus of \$1.2 million in the operating fund, staff will accelerate annual tax-funded operating budget programs or tax-funded capital projects that would have been considered next year. Budget reallocations are permitted under the Financial Control By-Law within a 2% limit of the overall approved budget. Table 3 provides a list of funding for \$707,500 of initiatives to be funded from the 2024 forecasted surplus. The adjusted year-end surplus of \$501,600 would be transferred to the Tax Rate Stabilization Reserve as part of the year-end process.

Table 3: Budget Reallocations under the Financial Control By-Law

<b>Description</b>	<b>Amount</b>
<b>Year-End Forecast - Surplus</b>	<b>\$1,209,100</b>
<b>Tax-Funded Capital Projects</b>	
Council and Committee Rooms - audio visual and computer hardware upgrades	440,000
Ellsworth Cul-de-sac Traffic Circle	12,500
<b>Annual Tax-Funded Operating Programs</b>	
Block and Rear Yard Tree Pruning	145,000
Sidewalks	110,000
<b>Financial Control By-Law Budget Reallocations</b>	<b>\$707,500</b>
<b>Adjusted Year-End Forecast - Surplus</b>	<b>\$501,600</b>



## **Page 9**

### **Tax-Funded Capital Projects**

Council and Committee Rooms require a refresh of the audio, visual equipment and computer hardware. Purchase and installation are estimated at \$440,000 and proceeding in 2024 will alleviate the capital budget pressures for 2025.

The Ellsworth cul-de-sac traffic circle is different than others within the city. Currently it is interlock and the \$12,500 funding would facilitate landscaping it similar to other cul-de-sacs. Staff would not typically include retrofits in the annual operating program and this would have been submitted as a tax-funded capital project for consideration.

### **Annual Tax-Funded Operating Programs**

Public Works Operations budgets include an annual tree pruning and sidewalk repairs program. The annual budget allows the City to undertake a certain amount of work each year based on priority areas. Adding funds in 2024 will advance work that would otherwise be completed in 2025.

### **Relationship to Strategic Plan 2024-2027:**

The presentation of the 2024 Operating Forecast 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.*

### **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

## Page 10

### Report Approval Details

Document Title:	SRCFS.24.039 - 2024 Year-End Operating Forecast.docx
Attachments:	- SRCFS.24.039 - Appendix A 2024 Year-End Forecast as of June 30, 2024.pdf
Final Approval Date:	Sep 19, 2024

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

**Gigi Li - Sep 19, 2024 - 10:56 AM**

**Sherry Adams - Sep 19, 2024 - 11:32 AM**

**Darlene Joslin - Sep 19, 2024 - 2:28 PM**