

# Corporate Report

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**REPORT NUMBER** 165-2023-Corporate Services & Long-Term Care-Financial Services

**DATE**

**PREPARED**

April 20, 2023

**FILE**

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**MEETING DATE**

May 15, 2023

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**SUBJECT**

Year-end Variance and Reserve Fund Update

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## RECOMMENDATION

WITH RESPECT to Report 165/2023 Corporate Services & Long Term Care - Financial Services, we recommend that the 2022 tax-supported net deficit of \$5.0 million be funded as follows:

- \$2.5 million from the Winter Roads Reserve Fund;
- \$1.2 million from the Insurance Reserve Fund;
- \$1.1 million from the Stabilization Reserve Fund;
- \$0.3 million from the WSIB Reserve Fund;
- \$0.2 million from the Legal Fees Reserve Fund; and
- \$0.3 million to the Building Permit Reserve Fund.

AND THAT any necessary by-laws be presented to City Council for ratification.

## EXECUTIVE SUMMARY

For the year ended December 31, 2022, there was an overall unfavourable variance from tax-supported operations related to non-COVID-19 of \$5.0 million, which represents 1.8% of the total net tax supported operating budget of \$284.8 million. The overall variance related to COVID-19 was favourable by \$2.9 million.

Rate-supported operations resulted in an unfavourable variance of \$0.1 million, representing 0.2% of the total gross rate-supported budget of \$66.2 million.

Of the \$5.0 million unfavourable non-COVID-19 variance, Administration recommends funding \$2.5 million from the Winter Control Reserve Fund, \$1.2 million from the Insurance Reserve Fund, \$0.3 million from the WSIB Reserve Fund, \$0.2 million from the Legal Fees Reserve Fund and \$0.3 million to be transferred to the Building Permit Reserve Fund. These transfers are equal to the 2022 variances in those areas and are inline with the purpose of these Reserve Funds.

This leaves a non-COVID-19 unfavourable variance of \$1.1 million recommended to be funded from the Stabilization Reserve Fund. Transferring this unfavourable variance results in a current estimated uncommitted balance at of \$9.0 million in the Stabilization Reserve Fund.

Reserves and reserve funds are a critical component of the City of Thunder Bay's long-term financial plan. This Report also includes an annual reserve fund update and Non-Consolidated Statement of Continuity of Reserves and Reserve Funds, as appended as Attachment A.

The year-end variance and reserve and reserve fund update, including the Non-Consolidated Statement of Continuity of Reserves and Reserve Funds was presented to the City's Audit Committee on May 3, 2023.

## ***DISCUSSION***

Consistent with the 2022 budget presentation, this report provides the year-end variances due to COVID-19 separately from non-COVID-19 related variances.

## ***FINANCIAL IMPLICATION***

### **COVID-19 Variance**

For the year ended December 31, 2022, there was a favourable year-end COVID-19 variance of \$2.9 million due primarily to the following:

1. Transit – favourable, approval to use carry forward Transit Safe-Restart funds for 2022, \$1.9 million
2. Childcare - favourable, additional funding received during the year and vacancy savings due to elimination of screeners and additional staff, \$1.3 million
3. Long Term Care and Senior Services – favourable, increased pandemic grant revenues partially offset by increased costs for screeners and testers, \$0.5 million
4. Recreation & Culture – favourable, savings in facility costs due to closures at the start of the year, cost savings for screeners and extra staff due to lifting of restrictions offset slightly by lost revenue due to closures, \$0.3 million
5. Parking – unfavourable, additional lost revenues, \$0.2 million
6. Thunder Bay Fire Rescue – unfavourable, due to additional overtime associated with the pandemic, \$0.3 million
7. Landfill – unfavourable, revenue shortfall mainly due to lower commercial activity, \$0.7 million

The 2022 budget included \$7.1 million for the impact of COVID-19. This was to be funded from the Stabilization Reserve Fund, which included prior year operating Safe

Restart & COVID-19 Recovery funds. Given the favourable COVID-19 variance, the amount of funds required from the Stabilization Reserve Fund are less than budgeted by \$2.9 million. The following chart provides a summary of the impact:

<b>COVID-19 2022 Impact</b>	<b>\$ (in millions)</b>
<b>2022 COVID-19 impact (Per Approved Budget)</b>	<b>\$ 7.1</b>
Less: 2022 COVID-19 favourable variance	(\$2.9)
<b>2022 COVID-19 Impact (Updated)</b>	<b>\$ 4.2</b>
Less: Prior Year Operating Safe Restart & COVID-19 Recovery funding carried forward to 2022	(\$3.0)
<b>Stabilization RF funding required to cover 2022 COVID-19 impact</b>	<b>\$ 1.2</b>

### **Tax Supported Operations (Non-COVID-19)**

For the year ended December 31, 2022, there was an unfavourable year-end non-COVID-19 variance of \$5.0 million due primarily to the following:

1. Thunder Bay Police Services – unfavourable, investigation costs mandated by the *Police Services Act*, wages, benefits, and overtime costs offset slightly by increases in grant and user fee revenues, \$3.5 million
2. Winter Control – unfavourable, due to higher number of weather events and inflationary increases seen in fuel, salt, parts, service, and maintenance costs, \$2.5 million
3. Insurance Claims – unfavourable, \$1.2 million
4. Police Services Board – unfavourable, legal expenses, \$0.7 million
5. Early Leave – unfavourable, \$0.4 million
6. Recreation & Culture – unfavourable, inflationary increases contractor fees for facility maintenance services and snow removal, \$0.4 million
7. Roads – unfavourable, costs associate with spring flooding, \$0.4 million
8. Corporate WSIB – unfavourable, \$0.3 million
9. Thunder Bay Fire Rescue – unfavourable, due to additional overtime & WSIB expenses, \$0.3 million
10. Licensing & Enforcement – unfavourable, increases in contracted services and revenue shortfall in animal services, \$0.2 million
11. Parks – unfavourable, increased costs for materials and contracted services, inflationary impacts on fleet expenses such as fuel offset by additional user fee revenues for campground and golf, \$0.2 million
12. Legal Fees – unfavourable, \$0.2 million
13. Building Permit Revenues – favourable, \$0.3 million
14. Long Term Care – favourable, additional funding received from the province, partially offset revenue increases, \$0.5 million
15. Other Revenues – favourable, primarily due to investment income and penalties & interest on tax, \$0.9 million

16. Tax Write-offs – favourable, due to settlement of previous years' assessment appeals (\$1.9 million)
17. Vacancy Savings – favourable, hiring gap savings (\$2.0 million)

Of the \$5.0 million unfavourable variance, Administration recommends funding \$2.5 million from the Winter Control Reserve Fund, \$1.2 million from the Insurance Reserve Fund, \$0.3 million from the WSIB Reserve Fund, \$0.2 million from the Legal Fees Reserve Fund and \$0.3 million to be transferred to the Building Permit Reserve Fund. These transfers are equal to the 2022 variances in those areas and consistent with the purpose of these Reserve Funds. Transferring these variances would result in an estimated uncommitted balance of \$1.3 million in the Winter Roads Reserve Fund, \$1.5 million in the Insurance Reserve Fund, \$3.2 million in the WSIB Reserve Fund and \$3.7 million in the Legal Fees Reserve Fund.

Consistent with 2021 and given the sufficient balance in the Tax Assessment Appeals Reserve Fund, Administration recommends the favourable variance for tax-write off be used to reduce the overall unfavourable variance thereby reducing the impact to the Stabilization Reserve Fund. This will leave a remaining non-COVID-19 unfavourable variance of \$1.1 million recommended to be funded from the Stabilization Reserve Fund. Transferring this unfavourable variance would result in an estimated uncommitted balance of \$9.0 million in the Stabilization Reserve Fund.

Transit Operations overall ended the year with a favourable variance of \$0.4 million, which was transferred to the Capital Transit Reserve Fund in accordance with its by-law. The variance was due to additional user fees and vacancy savings that were offset by inflationary increases in fuel, parts, service, and maintenance costs.

### **Rate Supported Operations**

Rate-supported operations resulted in an unfavourable variance of \$0.1 million representing 0.2% of the total gross rate-supported budget of \$66.2 million.

Waterworks is unfavourable by \$1.2 million primarily due to higher than budgeted material and contracted services costs.

Solid Waste ended with a \$0.3 million unfavourable variance that was attributed to higher material costs due to inflation. The COVID-19 variance for Solid Waste rate supported operations was included in the COVID-19 variance section of the report.

Wastewater was favourable by \$1.3 million due to internal interest savings and vacancy savings offset partially by higher fees and contracted services.

For the year ended December 31, 2022, no significant variances for Boater Services.

### **Non-Consolidated Statement of Continuity of Reserves and Reserve Funds**

Attachment A provides details of the activities in reserves and reserve funds for the year and includes the recommended transfers identified in this report.

The overall decrease of \$1.6 million reflects contributions of \$49.8 million in net funding provided for capital projects and \$14.8 million in funding for operations that are offset by interest and investment earnings of \$6.3 million, contributions from operations of \$50.9 million, contributions from capital of \$5.7 million, and contributions from developers of \$0.1 million.

Tax-supported reserve fund balances are \$168.2 million (2021 - \$174.6 million) and rate-supported reserve fund balances at December 31, 2022 are \$44.5 million (2021 – \$39.6 million).

### **Update of Reserve and Reserve Fund Balances**

Reserves and reserve funds are a critical component of a long-term financial plan. Adequate levels of reserves and reserve funds demonstrate financial flexibility and an ability to adapt to fiscal challenges.

#### **Tax-Supported**

The 2022 tax-supported reserve and reserve fund balance is \$168.2 million representing a decrease of \$6.4 million.

The 2022 decrease mainly relates to decreases in the Stabilization Reserve Fund (\$6.4 million), Winter Roads Reserve Fund (\$2.4 million), Renew Thunder Bay Reserve Fund (\$2.0 million), and Capital Transit Reserve Fund (\$2.0 million) offset by net contributions to the Capital Expenditure Reserve (\$3.1 million).

The net decrease of the Stabilization Reserve Fund is primarily due to funding the \$4.2 million 2022 impact of COVID-19 (includes prior year operating Safe Restart & COVID-19 Recovery funding of \$3.0 million that was held in the reserve fund at the start of the year), and \$1.9 million contributed to the Thunder Bay Community Auditorium for the purpose of eliminating the organizations accumulated deficit as of December 31, 2022 (R122-2022 Corporate Services & Long Term Care).

#### **Rate-Supported**

Long-range financial plans are in place for the City's rate-supported operations (waterworks, wastewater, and solid waste). User fees are based on future cash flow requirements for operating (including borrowing costs), capital, and reserve fund contributions. The long-term strategy for rate-supported operations is expected to provide for a gradual increase to reserve fund balances for future capital asset replacement.

## **Reserve Fund Update**

Administration is bringing a Reserve & Reserve Fund Policy and Consolidated Reserve Fund By-law to Council in Q2. The purpose of the policy will be to establish guiding principles for the establishment, maintenance, management and accounting of reserves and reserve funds. The By-law will consolidate and provide for the establishment of and maintenance of all reserve funds of the City.

### ***CONCLUSION***

It is concluded that City Council should approve the year end reserve fund transfers from the Winter Roads Reserve Fund, Insurance Reserve Fund, Stabilization Reserve Fund, WSIB Reserve Fund, and Legal Fees Reserve Fund and the contribution to the Building Permit Reserve Fund as detailed in this Report and in Attachment A.

Administration provides the Non-Consolidated Statement of Continuity of Reserves and Reserve Funds (Attachment A) to City Council for information purposes.

### ***BACKGROUND***

The Operating Budget for the fiscal year January 1, 2022 to December 31, 2022 was approved by City Council on February 7, 2022.

The City of Thunder Bay experienced COVID-19 related closures & capacity limits for the first 6 weeks of 2022.

### ***REFERENCE MATERIAL ATTACHED***

Attachment A - Non-Consolidated Statement of Continuity of Reserves and Reserve Funds

### ***REPORT PREPARED BY***

Jesse Langen, Manager – Budgets & Long Term Planning  
Kristie Sinclair, Accountant – Financial Services

### ***REPORT SIGNED AND VERIFIED BY***

Emma Westover, General Manager – Corporate Services & Long-Term Care and City Treasurer (Acting)

05/01/2023