

Report from Financial Management Services, Director

Date of Report: September 15, 2020

Date of Meeting: September 21, 2020

Report Number: FMS-B021-2020

File: 10.57.10

Subject: Year-to-Date Report – 2020 Second Quarter Operating Variance and Forecast Report

Recommendation

That the year-to-date (YTD) report for the second quarter of the year to June 30, 2020 and the year-end forecast for 2020 be received for information.

Background

The quarterly year-to-date reports are received initially by the Budget Standing Committee (BSC) throughout the fiscal year (January 1 to December 31). This report is intended to provide Council with the information and details pertaining to the operating budget performance.

The information contained within this YTD - 2020 second quarter report is general and summarized.

Report

To prepare this report, City departments are requested to review their second quarter (Q2) figures and provide comments on their financial circumstances that would contribute to any significant shortcomings or overages. Any variances greater or less than 10% of the target (50%) have explanations for the discrepancy. Additionally, a forecast based on YTD actuals and planned expenditures for the fiscal year are also provided as an estimate of the City's financial position at year-end. These details can be found in Appendix 1 of this report.

Expenditure Budget

As of June 2020, the City's total expenditure for fiscal 2020 is at 44% with 50% of the year complete. It is important to note that not all expenses are evenly expended throughout the year in the City, and departments have identified these operational situations in their comments (Appendix 1).

As of the end of Q2 approximately \$293,000 has been spent in combating the COVID-19 pandemic which was not budgeted for in 2020. In mid-September 2020, the actual expenditures specifically related to COVID-19 were \$502,000. These are unbudgeted COVID-19 cost for personal protective equipment (PPE) purchases, staff overtime, additional temporary securities (at beaches, Morningstar Mill, City Hall, arenas, etc.), and

the increased cleaning services at City facilities. The annual COVID-19 cost is estimated to be approximately \$800,000 at this point.

With regards to the City departments, Planning and Building Services (PBS) has spent 35% of their annual budgeted expenditures as of Q2. Unfavourable variance is expected for 2020 due to the COVID-19 impact in the building industry and significant revenue reductions, which is offset by favourable variance due to savings in staff vacancies.

Engineering, Facilities and Environmental Services (EFES) has spent 29% of their annual budgeted expenditures as of Q2. EFES is expecting a deficit at yearend in comparison with the 2020 budget due to the significant revenue losses at the arena facilities during COVID-19 pandemic; offset by favourable variance from COVID-19 temporary workforce reductions. The remaining budgeted construction cost for City infrastructure is to occur in Q3 and Q4 2020.

Municipal Works (MW) has spent 35% of their annual budgeted expenditures as of Q2. The reduction of revenue in relations to the Municipal Golf Course was attributed to the opening of operations in July as opposed to earlier in the golf season. The Cemetery is anticipating a reduction in revenues attributed to COVID-19. Parks operations have a reduction of revenue due to the gateway/outreach program cancellation with minor savings from field maintenance fees. Overall MW is forecasting an unfavourable yearend variance which was partially offset with savings attributed to staff vacancies and contract cancellation/delays (sidewalk/road repairs, street cleaning and tree maintenance) due to COVID-19.

Community, Recreation and Culture Services (CRCS) has spent 38% of their annual budgeted expenditures as of Q2. The COVID-19 pandemic resulted in temporary closures of some of the city facilities to ensure public safety. Facility closures have led to both utilities and personnel savings; however many Spring/Summer programs have been cancelled which have affected program revenue generation. Specifically, the Kiwanis Aquatic Centre and Community Centres have been impacted the greatest. The overall yearend variance is forecasted to be unfavourable.

The Meridian Centre has spent 79% of their annual budget expenditures as on Q2. The Meridian Centre has been significantly impacted by the COVID-19 pandemic due to the cancellation/delays in sporting events. The Canadian Elite Basketball League held for 15 days beginning July 24, 2020 generated revenue for the facility in August. Indirect expenses were significantly under budget as a result of the building's closure.

The Niagara Ice Dogs 2020/21 OHL season has a targeted return date of December 1, 2020. At this time, the OHL return to play plan had not been provided to the venue management and current Ontario Reg. 364/20 does not allow for competitive hockey; therefore no revenues have been forecasted for the remainder of 2020. With the

anticipated return to play by the hockey club later this fall, ASM Global is working with the tenant and the city as user group ice allocations and installation are confirmed.

SMG Canada ULC was successful in their application to the Federal government under the Canadian Emergency Wage Subsidy (CEWS). Receiving this subsidy allows the return to work of employees impacted by reductions and improves the facility's cashflow position. The forecasted year-end position for Meridian Centre is estimated to be \$1.085 million, which is \$419,000 over the 2020 approved budget amount of \$666,000.

The St. Catharines Transit Commission is estimating a yearend deficit of approximately \$3.0 million. Under the Safe Restart Funding provided by the Province of Ontario Transit -will receive \$3.8 million. This will be sufficient to cover the anticipated 2020 forecasted deficit of \$3.0 million. Any excess funding received may be transferred into a reserve that the Transit Commission to use to assist with their 2021 budget.

Both the First Ontario Performing Arts Centre and the St. Catharines Public Library are forecasting positive yearend positions for 2020. PAC is estimating approximately \$28,000. The Library is forecasting a favourable yearend position of approximately \$190,000 with positive variances for both revenues and expenditures.

Non-Tax Revenues

When looking at 2020 revenues at the end of Q2, the City has billed 100% of the 2020 tax levy, with tax instalments being due February 28, April 30, June 28 and September 30.

Contributions from other governments received as of the end of the second quarter are currently at 36% of the annual budget. Most contributions from other governments are received in the third quarter of the year due to invoicing for Payments in Lieu of Taxes occurring in the third quarter.

Tax appeals and tax write-offs are at 42% of annual budget as of Q2. Under the Provincial Emergency Order the processing of ARB and MOS decisions were paused. This restriction was lifted as of September 11th with City staff moving forward with the processing of tax adjustments and write-offs in Q3 and Q4. It is estimated at this time, the actual at yearend to be consistent with the 2020 budget.

Investment income revenues are projected to decrease due to the Bank of Canada lowering interest rates due to economic impact that the COVID-19 pandemic has had on the Canadian economy. Therefore, investment income is expected to earn lower than anticipated amounts by \$150,000 to the end of the year.

Penalties & interest revenues are projected to be under budget by \$885,000, this is due to the COVID-19 pandemic and the city offered a grace period on interest and penalties for any outstanding property tax accounts interest & penalties from March – June 2020. On July 13, 2020 Council approved a tax and interest relief program for residential taxpayers until November 30, 2020. On September 14, Council approved the

establishment of an application-based property tax deferral program for non-residential property owners to allow eligible non-residential properties and eligible owners to defer their final tax instalments until November 30, 2020.

The City has offered a grace period for any outstanding accounts receivables from March to June 2020. Therefore, the unfavorable variance in comparison with the annual budget is estimated to be \$10,000 for 2020.

POA revenues are projected to be under budget due to the Region forecasting a reduction in revenue that is shared amongst the LAMs, St. Catharines' share would amount to an approximate \$132,000 reduction. The POA revenue shortfall is due to the closure of POA courts, the decrease of travel, and the reduction of traffic fines issued.

Overall, in review of non-tax revenue accounts it is estimated at this time that there will be approximately \$1.18 million shortfall compared to the 2020 annual budget.

Parking Budget

The City's parking budget has been hit extremely hard by the COVID-19 pandemic. As of July 1, 2020, the City has resumed charging for all parking and issuance of violations.

At this time, the estimated year end position for parking services is a deficit of \$688,000. Cost containment with enforcement and staffing reductions will reduce the yearend deficit by \$126,000 to \$562,000.

The uncommitted Parking reserve balance at end of 2019 was \$741,000. Therefore, the parking reserve is sufficient to cover the forecasted deficit for 2020.

Assuming parking services continues to run a deficit due to COVID-19, the 2021 parking services budget will need to be supported by the tax levy due to the depleted parking reserve, unless an alternative funding source is identified.

COVID-19 Impact

The City of St. Catharines is receiving from the Province of Ontario approximately \$3.6 million Safe Restart Funding in emergency assistance to address operating costs incurred by COVID-19. Accounting for Safe Restart Agreement funding, the updated estimated impact on the tax levy to the end of 2020 is expected to be \$4.3 million.

SLT and staff have continued to focus their efforts to mitigate costs through workforce reductions and hiring deferrals, which reduces the tax levy forecasted deficit by \$2.76 million. In addition, reductions in expenses related to utility costs due to facility closures are estimated to be \$672,000. Other miscellaneous cost containments totaling \$94,000 can be attributed to staff not attending conferences and training, office supply reduction

and postage decrease. The total cost containment implementation is expected to be \$3.5 million.

The overall anticipated funding shortfall due to the COVID-19 pandemic is expected to be \$0.8 million at the 2020 yearend. The City is planning on applying for the second phase funding from the Provincial Government through the Safe Restart Program. SLT will continue exploring viable options to mitigate the \$0.8 million deficit for 2020 yearend and will report to BSC at a later date.

Financial Implications

Based on YTD actuals, planned expenditures and departmental comments as of June 30, 2020, it's forecasted that the City's financial position will show as an unfavourable variance of approximately \$0.8 million.

Relationship to Strategic Plan

Economic Sustainability is further enhanced with YTD variance reporting to Council. With these financial controls in place it improves the City's ability to be affordable for young people, families and retired older adults.

Conclusion

The year-to-date report is an important management tool. It also provides useful and timely information to Council to assist in decision-making, accountability and tracking of budget performance.

Prepared by:

Sebastian Zukowski
Budget Specialist, FMS

Submitted by:

Lucia Chen CPA, CMA
Manager, Budgets and Procurement, FMS

Approved by:

Kristine Douglas CPA, CMA
Director of Financial Management Services / City Treasurer, FMS

	Jun 2020					Budget to Forecast \$ Variance Favourable / (Unfavourable)	
	Actuals	2020 Budget	% Used	Variance	2020 Forecast		Comments
Office of Mayor and Members of Council	375,193	829,662	45.22%	454,469	807,557	22,105	Favourable Budget variance due to COVID-19 and the cancellation of conferences and celebratory events.
Grants and Committees	82	21,000	0.39%	20,918	21,000	0	Favourable budget variance due to COVID-19 and reduced grant activities in Q1 and Q2.
City Departments							
CAO	771,354	1,771,636	43.54%	1,000,282	1,796,989	-25,353	Unfavourable variance due to COVID-19 impact of significant reduction in advertising revenue in Communications, offset by savings from gapping and cancellation of conferences.
COVID-19	292,373	0	100.00%	-292,373	800,000	-800,000	Unfavourable variance item not budgeted for in 2020. These are COVID-19 costs for personal protective equipment (PPE) purchases, staff overtime, additional temporary securities (at beaches, Morningstar Mill, City Hall, arenas etc.), and increased cleaning services at City facilities.
Legal Services and Clerks	803,510	1,667,751	48.18%	864,241	1,862,100	-194,349	Unfavourable variance in forecasted revenues due to the closure of City Hall to public during COVID-19 pandemic, specifically issuing licenses, canceled charities, service charges, and civil ceremonies revenues impacted.
Planning and Building Services	824,063	2,364,661	34.85%	1,540,598	3,086,599	-721,938	Unfavourable variance due to COVID-19 impact in the building industry and significant revenue reductions, offset by favourable variance due to gapping of staff vacancies.
Fire Services	13,083,890	26,250,428	49.84%	13,166,538	26,207,780	42,648	Fire Services in line with budget. Although unfavourable sick pay variances exist due to personnel on long-term sick leave. Overtime budget at higher variance to maintain minimum staffing requirements. Personnel off on vacation, statutory holidays, and parental leave also impacts overtime. Remaining expenditures expected to be on track.
Salaries/Wages-Overtime Sick Pay	709,719 669,755	1,090,098 1,099,999	65.11% 60.89%	380,379 430,244	1,419,438 1,339,510	-329,340 -239,511	
Economic Development & Tourism	549,854	1,321,580	41.61%	771,726	1,366,046	-44,466	Unfavourable variance due to revenue loss from tourism promotion and advertising; offset by favourable variance due to cancellation of brochure printing and distribution.
Engineering, Facilities and Environmental Services	3,199,582	10,880,981	29.41%	7,681,399	11,647,953	-766,972	Unfavourable variance due to revenue losses at arena facilities during COVID-19 pandemic; offset by favourable variance due to temporary workforce reductions. Remaining construction cost to occur in Q3 and Q4.
Municipal Works	7,002,819	19,728,090	35.50%	12,725,271	19,879,394	-151,304	Unfavourable variance due to revenue loss at golf course, cemetery, sports fields, etc.; offset by favourable variance due to staff vacancies, contract cancellations/delays due to COVID-19.
Community, Recreation and Culture Services	2,579,408	6,858,878	37.61%	4,279,470	6,893,440	-34,562	Unfavourable variance due to revenue loss at KAC and community centres during COVID-19 facility closures; offset by favourable variance due to staff vacancies and operational savings.
Meridian Centre	556,698	700,449	79.48%	143,751	1,119,449	-419,000	Unfavourable variance due to the cancellation/delays in sporting events. The shutdown of the Centre is now projected to last until the end of 2020, with the exception of the Canadian Elite Basketball League held for 15 days beginning July 24th, no other event income is anticipated for the remainder of 2020. Indirect expenses were significantly under budget as a result of the building's closure.

City of St. Catharines - 2020 Operating Expenditure Variance
as at June 30, 2020

50% of the Year

	Jun 2020						
	Actuals	2020 Budget	% Used	Variance	2020 Forecast	Budget to Forecast \$ Variance Favourable / (Unfavourable)	Comments
Financial Management Services	1,811,471	3,768,034	48.07%	1,956,563	3,889,282	-121,248	Unfavourable variance due to revenue loss due to COVID-19 (tax certificate, new ownership fee, tax arrears fee, etc.) and higher than budgeted insurance liability cost; offset by savings in postage, copying and cancelled conferences.
Corporate Support Services	2,863,769	5,871,793	48.77%	3,008,024	5,871,887	-94	In line with Budget
Contribution to Capital	1,751,000	1,751,000	100.00%	0	1,751,000	0	In line with Budget
Total City Departments & Commissions	36,393,026	83,785,943	43.44%	47,392,917	87,000,476	-3,214,533	
Debt Repayment	7,280,773	14,814,087	49.15%	7,533,314	14,814,087	0	In line with Budget
Total City Expenditures	43,673,799	98,600,030	44.29%	54,926,231	101,814,563	-3,214,533	
Outside Boards and Commissions							
First Ontario Performing Arts Centre	520,332	1,592,857	32.67%	1,072,525	1,592,857	0	Forecasted Revenue loss of \$2,191k, Expenditure reduction \$2,220k. Anticipated net gain \$28.6k.
Library Board	2,790,000	5,677,708	49.14%	2,887,708	5,677,708	0	The library received a Canada Emergency Wage Subsidy (CEWS) that covers 75% of employee wages federal government is extending this program until Dec 19 2020. The Library is anticipating a \$160k favourable revenue variance and a \$30k favourable expenditure variance for a net favourable variance of \$190k.
Transit Commission	9,288,849	12,924,768	71.87%	3,635,919	12,924,768	0	As of June 30, 2020 Transit was over budget by \$490k. Expected Revenue loss of \$4,810k. Diesel prices have continued to be lower than forecasted in previous COVID estimates (\$962k savings). Services have been reduced (\$1,314k savings). Additional Cleaning/PPE due to Covid (\$240k cost) - Receiving \$3,849,909 Safe Restart Funding.
Niagara District Airport	186,092	430,357	43.24%	244,265	430,357	0	in line with budget
Total Expenditures	56,459,072	119,225,720	47.35%	62,766,648	122,440,253	-3,214,533	
Total Non-Tax Revenues	-113,453,031	-119,225,720	95.16%	-5,772,689	-118,048,253	-1,177,467	
Net Tax Levy Budget	-56,993,959	0	100.00%	56,993,959	4,392,000	-4,392,000	
Safe Restart Funding - City					-3,623,600	3,623,600	
Net Tax Levy Budget After Funding					768,400	-768,400	