

**Report from:** Financial Management Services, Director

**Report Date:** June 4, 2022

**Meeting Date:** June 20, 2022

**Report Number:** FMS-B012-2022

**File:** 10.57.10

**Subject:** Year-to-Date Report – 2022 First Quarter Operating Variance and Forecast

## **Recommendation**

The Report FMS-B012-2022, regarding the Year-to-Date Report – 2022 First Quarter Operating Variance and Forecast, be received for information.

## **Summary**

This report provides the insight on the financial position of the City for the first quarter and the forecasted expenditures and revenues in the remainder of the year. It also assesses the projected year-end position in comparison with the annual budget. The information included in this report provides useful and timely information to the Budget Standing Committee (BSC) and Council to assist in decision-making, accountability and tracking of budget performance.

## **Background**

The quarterly year-to-date reports are received initially by the BSC throughout the fiscal year (January 1 – 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 year-to-date (YTD) - 2022 first quarter report is general and summarized.

## **Report**

To prepare this report, City departments were requested to review their first quarter (Q1) 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 (25%) 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 by budget areas (Operating, Parking, Water and Wastewater Operations) can be found in Appendix 1, 2 and 3 of this report.

The City's outside boards and commissions were also requested to provide their first quarter financial results and year-end forecast with brief explanations.

## **Tax Levy Supported Operating Budget**

As of March 2022, the City's total expenditure for fiscal 2022 is at 22% with 25% 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).

## **COVID-19 Financial Impact**

The COVID-19 pandemic continues to pose some risk to the community as well as the City's ability to provide all levels of services in the same manner as they were previously delivered. Lockdowns imposed by the province in early 2022 has impacted revenue generation in the City's recreational facilities, Transit Commission, Meridian Centre, and the First Ontario Performing Arts Centre (FOPAC). The COVID impact was partially mitigated by staff layoffs early in the year as well as a temporary freeze of nonessential spending.

In Q1 2022 the COVID-19 pandemic impact was approximately \$1.61 million. The breakdown of the impact is as followed: revenue from recreational facilities and arenas was impacted by \$0.30 million, revenue loss in the Meridian Centre was impacted by \$0.43 million, revenues and fuel costs for Transit was \$0.49 million, revenue loss for the First Ontario Performing Arts Centre was \$0.21 million, and revenue loss from Provincial Offense Act (POA) by \$0.18 million.

The City's cost savings strategies due to the COVID-19 pandemic were temporary workforce reduction and a temporary pause on non-essential spending. The workforce reductions savings was \$118,000. Non-essential spending pause has been lifted as of May 25, 2022, and city staff have resumed regular budgeted spending.

The City is anticipating covering the loss of recreation program revenues with cost savings from facility shutdowns and higher than anticipated revenue generation from Q2 onward. At the time of this report, City staff is expecting facility revenues to be in line with budget. The net impact from the COVID-19 pandemic at Q1 was \$1.49 million.

## **City Departments**

As of the first quarter (Q1) several city departments are tracking well within the 25% threshold and are anticipated to be in line with the year-end budget.

The office of the Chief Administrative Officer (CAO) is forecasting a favourable variance due to staff vacancies and cost savings at print shop.

Legal Services and Clerks (LCS) is forecasting an unfavourable variance due to marriage license revenue decline from January closures and Break Open license revenue changes in industry resulted in a lower than budget forecast.

Planning and Building Services (PBS) is forecasting a favourable variance due to

higher than budgeted planning application revenue and staff vacancies.

Engineering, Facilities and Environmental Services (EFES) is forecasting a favourable variance in streetlights energy cost savings due to the installation of LED streetlights and lower than budgeted maintenance costs.

Fire Services is forecasting an unfavourable variance for the year due to higher-than-expected overtime costs. Part of the reason for the higher overtime costs is that Fire does not fill vacancies as they arise. Vacancies are filled through a recruitment process which onboards multiple firefighters at one time. The process itself is lengthy (from the time of the decision to hire and the involvement of staff to support the recruitment process). In addition, due to the pandemic and other demands on HR resources which were stretched and unable to fully provide all recruitment needs in 2021. To help address these issues, in 2022, the City is completing recruitment for two recruit classes with one for September 2022 and one for 2023.

Municipal Works (MW), is forecasting a favourable variance in watercourse cleaning. The majority of operational maintenance work is seasonal in nature and an increase in budget utilization in Q2 and Q3 is expected as summer maintenance is being performed. The winter control operations are forecasting to be \$683,000 over budget in 2022 which can be covered by the Winter Control Reserve at the end of the year, if necessary.

Community, Recreation and Culture Services (CRCS) is forecasting an unfavourable variance due to more than anticipated online / called in transaction fees through recreation program registration.

Financial Management Services (FMS) is forecasting a favourable variance due to mortgage company fees and water admin fees.

### **Meridian Centre**

At quarter end, the Meridian Centre is forecasting a year-end unfavourable variance of \$118,000 to budget. As a result of COVID-19 protocols restricting events and attendance in the building for parts of the first two months of 2022, the Meridian Centre is forecasting an unfavourable variance in Event revenue; this is partially offset by savings in general operating costs and utilities.

### **Boards and Commissions**

Transit is forecasting to be overbudget by \$1.6 million at year-end due to Ridership and Farebox revenue not fully recovered from the impacts of the COVID-19 pandemic, and unfavourable diesel fuel prices at an all-time high. The Provincial Government has committed to Operating Funding to help support Transit in the continued recovery from the COVID-19 pandemic. Transit is waiting on confirmation of funding from the province now that the election has been completed. If needed, Transit would utilize additional Provincial Gas Tax funds provided by the province for the 2021 / 2022 year of \$0.58 million in recognition of the impact of the COVID-19 pandemic to partially offset the year-end deficit.

Performing Arts Centre (the PAC) is forecasting a negative year-end position of \$135,000. The unfavourable variance of \$90,800 from the 2022 approved budget is driven by the decline in revenues from the January and February closures due to government restrictions and changes to summer and fall programming, with the number of impacted events and performances reaching 46. It is important to note that the FOPAC continues to be ineligible for many pandemic relief programs such as Canadian Emergency Wage Subsidy, Tourism and Hospitality Recovery Program, Hardest Hit Business recovery, Regional Relief and Recovery Programs, and many others. The favourable variances in operating expenditures are due to the changes in activity levels associated with the closures. The PAC has been successful in obtaining grant funding from different levels of government that support the PAC's mandate / programs and to offset some of the impact of the closures. The PAC will continue to monitor the financial impact of the COVID-19 pandemic.

The Public Library is forecasting to be in line with the 2022 budget. Early in 2022, lower than budgeted salaries and positive outcome to the annual benefits renewal has eliminated the risk built into the 2022 budget.

Niagara District Airport (NDA) is forecasting a negative year-end position for 2022 of approximately \$98,000. NDA continues to see a reduction in landing and parking fees, generally related to the lack of scheduled service for the first two months of the year and the slow uptake on the resumption of said service in March of 2022. From an operational perspective, NDA has had significant costs associated with the maintenance of winter equipment, especially with the significant snowfalls that occurred in Q1. Additionally, used far more fuel in Q1 than expected given the 24/7 nature of winter operations for multiple days, through multiple storms. The NDA will continue to monitor the financial impact of the COVID-19 pandemic.

## **Non-Tax Revenues**

Investment and bank interest income is expected to generate a \$838,000 favourable variance at 2022 year-end due to higher-than-expected return on investment income as well as bank interest income. The main driver of the bank interest income increase was due to the Bank of Canada increasing the interest rate benchmarks in March, April and June. The excess generated in the Hydro Dividend accounts will be transferred into the City's reserve funds in accordance with the excess hydro dividends policy ([BSC-B018-2021](#)).

It is estimated at this time that there will be approximately \$182,000 unfavourable variance in Provincial Offense Act (POA) revenue sharing as the Region is projecting a net expenditure for 2022 instead of a net revenue. As per the Inter-municipal agreement, 50% of this loss will be shared with all the Local Area Municipalities, based on their proportionate allocation.

Overall, the non-tax revenues have a forecasted \$656,000 favourable variance over budget. The other non-tax revenues are anticipated to be at budget at this time.

## **Parking Budget**

The City's parking budget is forecasting an unfavourable variance of \$0.24 million; this is driven by lower than anticipated violation enforcement revenues generated, on street parking meter revenues and lower than projected beach residential parking permit sales.

Staff remain optimistic regarding the downtown parking revenues as the City continues to host special events in the summer months and employers begin to review their work from home policies.

However, should the parking operations end the year with \$0.24 million unfavourable variance to the budget, total of \$1.09 million will be required to be transferred from the Parking Reserve to close out the year. And this will result in a negative balance of (\$109,000) by the end of 2022 for the parking reserve.

Staff will continue monitoring the parking budget and report back to BSC and Council through quarterly financial updates later this year.

## **Water and Wastewater Budget**

Overall, the Water and Wastewater Budget is estimated to generate a favourable variance of \$0.38 million at 2022 year-end. The favourable variance is due to a higher than budgeted sewer surcharge revenue. Any surplus will remain in the Water / Wastewater Reserve at year-end.

## **Financial Implications**

Based on Q1 YTD actuals, planned expenditures and departmental comments as of March 31, 2022, it's forecasted that the City's tax levy operating budget will show as a favourable variance of approximately \$0.21 million. Any surplus at the end of 2022 will be allocated first towards the 2023 tax levy budget as per policy of one percent of the prior year tax levy and any remaining amount to the Tax Rate Stabilization Reserve.

This forecast was developed based on the current situation and assumptions until the end of March 2022.

City staff will continue to monitor the City's financials and provide updated financial forecasts to BSC and Council in the following quarterly variance reports.

## **Conclusion**

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

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**Appendices**

- Appendix 1 – 2022 Operating Budget Variance as at March 31, 2022
- Appendix 2 – 2022 Parking Budget Variance as at March 31, 2022
- Appendix 3 – 2022 Water and Wastewater Budget Variance as at March 31, 2022

	2022 Q1 Actuals	2022 Budget	% Used	Budget to Actual \$ Variance Favourable / (Unfavourable)	2022 Year End Forecast	Budget to Forecast \$ Variance Favourable / (Unfavourable)	Variance Comments
Office of Mayor and Members of Council	206,680	945,146	21.87%	738,466	940,377	4,769	In line with Budget
Grants and Committees	2,032	23,000	8.83%	20,968	23,000	0	
City Departments							
CAO	422,873	2,101,789	20.12%	1,678,916	1,982,338	119,451	Favourable variance due to staff vacancies and cost savings at print shop.
COVID-19	31,595	468,000	6.75%	436,405	468,000	0	In line with Budget
Legal Services and Clerks	461,383	1,811,240	25.47%	1,349,857	1,870,237	-58,997	Unfavourable variance due to a decline in marriage license revenue from January closures and changes in the Break Open license industry resulted in a lower than budget forecast.
Planning and Building Services	375,778	2,716,052	13.84%	2,340,274	2,539,551	176,501	Favourable variance due to higher than budgeted planning application revenue and staff vacancies.
Fire Services	6,679,746	27,209,794	24.55%	20,530,048	27,982,748	-772,954	Unfavourable variance due to higher than budgeted overtime costs, part of the reason for the higher overtime costs is that Fire does not fill vacancies as they arise. Vacancies are filled through a recruitment process which onboards multiple firefighters at one time. The process itself is lengthy (from the time of the decision to hire and the involvement of staff to support the recruitment process). In addition, due to the pandemic and other demands on HR resources which were stretched and unable to fully provide all recruitment needs in 2021. To help address these issues, in 2022, the city is completing recruitment for two recruit classes with one for September 2022 and one for 2023.
Fire Services Salaries/Wages-Overtime	700,329	1,215,648	57.61%	515,319	2,147,606	-931,958	
Fire Services Sick Pay	338,613	1,099,999	30.78%	761,386	940,995	159,004	
Economic Development & Tourism	263,706	1,361,022	19.38%	1,097,316	1,331,644	29,378	Favourable variance due to staff vacancies which is partially offset by unfavourable yearend variance due to advertising and visitors guide revenues that are impacted by COVID-19.

	2022 Q1 Actuals	2022 Budget	% Used	Budget to Actual \$ Variance Favourable / (Unfavourable)	2022 Year End Forecast	Budget to Forecast \$ Variance Favourable / (Unfavourable)	Variance Comments
Engineering, Facilities and Environmental Services	1,550,310	9,754,340	15.89%	8,204,030	9,623,067	131,273	Favourable variance in streetlights energy cost savings due to the installation of energy efficient LED streetlights and lower than budgeted maintenance costs.
Municipal Works	4,617,491	21,038,768	21.95%	16,421,277	20,926,052	112,716	Favourable variance due to staff vacancies and watercourse cleaning contract savings. The winter control operations are forecasting to be \$683,000 over budget in 2022 which will be covered by the Winter Control Reserve at the end of the year if necessary.
Community, Recreation and Culture Services	1,325,775	7,447,403	17.80%	6,121,628	7,465,768	-18,365	Unfavourable variance to a more than anticipated online/called in transaction fees through recreation program registration.
Meridian Centre	266,418	747,471	35.64%	481,053	865,080	-117,609	Meridian Centre is forecasting an unfavourable year end variance of \$118,000 due to events being postponed in early January this is partially offset by cost savings in indirect expenses from reduced usage of the facility because of COVID restrictions.
Canada Summer Games	122,561	490,242	25.00%	367,682	490,242	0	In line with Budget
Financial Management Services	706,686	4,395,239	16.08%	3,688,553	4,314,033	81,206	Favourable year end variance driven by Mortgage info revenues, and water admin fees.
Corporate Support Services	1,894,957	6,249,375	30.32%	4,354,418	6,249,375	0	In line with Budget
Contribution to Capital	274,750	1,099,000	25.00%	824,250	1,099,000	0	In line with Budget
<b>Total City Departments &amp; Commissions</b>	<b>19,202,740</b>	<b>87,857,881</b>	<b>21.86%</b>	<b>68,655,141</b>	<b>88,170,513</b>	<b>-312,632</b>	
Debt Repayment	3,894,570	16,374,343	23.78%	12,479,773	16,374,343	0	In line with Budget
<b>Total City Expenditures</b>	<b>23,097,310</b>	<b>104,232,224</b>	<b>22.16%</b>	<b>81,134,914</b>	<b>104,544,856</b>	<b>-312,632</b>	



	2022 Q1 Actuals	2022 Budget	% Used	Budget to Actual \$ Variance Favourable / (Unfavourable)	2022 Year End Forecast	Budget to Forecast \$ Variance Favourable / (Unfavourable)	Variance Comments
<b>Outside Boards and Commissions</b>							
First Ontario Performing Arts Centre	432,230	1,716,038	25.19%	1,283,808	1,851,038	-135,000	Performing Arts Centre (the PAC) is forecasting a negative yearend position of \$135,000. The unfavourable variance of \$90,800 from the 2022 approved budget is driven by the decline in revenues from the January and February closures due to government restrictions and changes to summer and fall programming, with the number of impacted events and performances reaching forty-six (46). It is important to note that the FOPAC continues to be ineligible for many pandemic relief programs such as Canadian Emergency Wage Subsidy, Tourism and Hospitality Recovery Program, Hardest Hit Business recovery, Regional Relief and Recovery Programs, and many others. The favourable variances in operating expenditures are due to the changes in activity levels associated with the closures. The PAC has been successful in obtaining grant funding from different levels of government that support the PAC's mandate/programs and to offset some of the impact of the closures. The PAC will continue to monitor the financial impact of the COVID-19 pandemic.
Library Board	1,470,044	5,876,428	25.02%	4,406,384	5,876,428	0	The Public Library is forecasting to be in line with the 2022 budget. Early in 2022, lower than budgeted salaries and positive outcome to the annual benefits renewal has eliminated the risk built into the 2022 budget.
Transit Commission	6,547,786	14,044,000	46.62%	7,496,214	14,044,000	0	Transit is forecasting to be overbudget by \$1,600,000 at year end due to Ridership and Farebox revenue not fully recovered from the impacts of the Pandemic, and unfavourable diesel fuel prices at an all-time high. The Provincial Government has committed to Operating Funding to help support Transit in the continued recovery from COVID. Transit is waiting on confirmation of funding from the province now that the election has been completed. If needed, Transit would utilize additional Provincial Gas Tax funds provided by the province for the 2021/2022 year of \$580,000 in recognition of the impact of COVID-19 to partially offset the year end deficit.
Niagara District Airport	111,784	447,134	25.00%	335,351	447,134	0	Niagara District Airport (NDA) is forecasting a negative yearend position for 2022 of approximately \$98,000. NDA continues to see a reduction in landing and parking fees, generally related to the lack of scheduled service for the first two months of the year, and the slow uptake on the resumption of said service in March of 2022. From an operational perspective, NDA has had significant costs associated with the maintenance of winter equipment, especially with the significant snowfalls that occurred in Q1. Additionally, used far more fuel in Q1 than expected given the 24/7 nature of winter operations for multiple days, through multiple storms. The NDA will continue to monitor the financial impact of the COVID-19 pandemic.
<b>Total Expenditures</b>	<b>31,659,152</b>	<b>126,315,824</b>	<b>25.06%</b>	<b>94,656,672</b>	<b>126,763,456</b>	<b>-447,632</b>	
<b>Total Tax Levy &amp; Non-Tax Revenues</b>	<b>-101,914,973</b>	<b>-126,315,824</b>	<b>80.68%</b>	<b>-24,400,851</b>	<b>-126,971,782</b>	<b>655,958</b>	Favourable variance in bank interest income due to interest rate hikes by the Bank of Canada in March, April, and June 2022. This is partially offset by an unfavourable variance due to POA revenue sharing and POA is forecasting net expenditure at 2022 yearend which is to be shared with Region and LAMs.
<b>Net Tax Levy Budget</b>	<b>-70,255,821</b>	<b>0</b>	<b>0.00%</b>	<b>70,255,821</b>	<b>-208,325</b>	<b>208,325</b>	

**City of St. Catharines - 2022 Parking  
Variance**  
as of March 31, 2022

Appendix 2  
25% of the Year

	2022 Q1 Actuals	2022 Budget	% Used	Budget to Actual \$ Variance Favourable / (Unfavourable)	2022 Forecast	Budget to Forecast \$ Variance Favourable / (Unfavourable)
<b>Parking Reserve at Beginning of Year (Surplus)/Deficit)</b>	<b>-981,782</b>	<b>-981,782</b>			<b>-981,782</b>	
Meters	-91,638	-513,407	17.85%	-421,769	-407,149	-106,258
Parking Violations	76,269	45,659	167.04%	-30,610	145,659	-100,000
Off Street Parking	-5,820	-73,056	7.97%	-67,236	-73,056	0
Ontario Street Garage	99,648	412,628	24.15%	312,980	412,902	-274
Carlisle St Garage	192,870	815,333	23.66%	622,463	816,961	-1,628
Beaches	0	0	0.00%	0	33,507	-33,507
Investment Income	-2,380	-19,600	12.14%	-17,220	-17,617	-1,983
<b>Net Expenditures</b>	<b>268,949</b>	<b>667,557</b>	<b>40.29%</b>	<b>398,608</b>	<b>911,207</b>	<b>-243,650</b>
Transfer to/(from) Tax Levy Budget	45,000	180,000	25.00%	135,000	180,000	0
<b>Net Expenditures After Transfers</b>	<b>313,949</b>	<b>847,557</b>	<b>37.04%</b>	<b>533,608</b>	<b>1,091,207</b>	<b>-243,650</b>
<b>Parking Reserve at End of Year (Surplus)/Deficit)</b>	<b>-667,833</b>	<b>-134,225</b>			<b>109,425</b>	<b>-243,650</b>

**City of St. Catharines - 2022 Water Treatment and Wastewater Operations**  
**Variance**  
as of March 31, 2022

**Appendix 3**  
**25% of the Year**

	<b>2022 Q1 Actuals</b>	<b>2022 Budget</b>	<b>% Used</b>	<b>Budget to Actual \$ Variance Favourable / (Unfavourable)</b>	<b>2022 Forecast</b>	<b>Budget to Forecast \$ Variance Favourable / (Unfavourable)</b>
<b>Water &amp; Wastewater Reserve at Beginning of Year (Surplus)/Deficit</b>	<b>-4,493,676</b>	<b>-4,493,676</b>			<b>-4,493,676</b>	
Revenues	-10,380,428	-56,674,291	18.32%	-46,293,863	-56,923,456	249,165
Less: Region expenditures	8,127,309	36,828,256	22.07%	28,700,947	36,696,421	131,835
<b>Net Revenue</b>	<b>-2,253,119</b>	<b>-19,846,035</b>	<b>11.35%</b>	<b>-17,592,916</b>	<b>-20,227,035</b>	<b>381,000</b>
City Expenditures						
Water Operating costs	1,303,399	7,692,288	16.94%	6,388,889	7,692,288	0
Water Debenture debt	109,908	439,655	25.00%	329,747	439,655	0
Water Infrastructure costs	0	5,332,608	0.00%	5,332,608	5,332,608	0
Sewer Operating costs	718,918	4,738,879	15.17%	4,019,961	4,738,879	0
Sewer Debenture debt	191,772	767,081	25.00%	575,309	767,081	0
Sewer Infrastructure costs	0	1,849,854	0.00%	1,849,854	1,849,854	0
<b>Net City Expenditures</b>	<b>2,323,997</b>	<b>20,820,365</b>	<b>11.16%</b>	<b>18,496,368</b>	<b>20,820,365</b>	<b>0</b>
<b>Annual (Surplus)/Deficit</b>	<b>70,878</b>	<b>974,330</b>	<b>7.27%</b>	<b>903,452</b>	<b>593,330</b>	<b>381,000</b>
<b>Water &amp; Wastewater Reserve at End of Year (Surplus)/Deficit</b>	<b>-4,422,798</b>	<b>-3,519,346</b>			<b>-3,900,346</b>	<b>381,000</b>