

## Staff Report

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**Report To:** Corporate Services Committee  
**Report From:** Kate Allan, Director of Corporate Services  
**Meeting Date:** November 14, 2024  
**Report Code:** CR-24-114  
**Subject:** 2024 T2 Financial Update and Year End Forecast

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### **Recommendations:**

THAT in consideration of Staff Report CR-24-114 respecting 2024 T2 Financial Update and Year End Forecast, the Corporate Services Committee recommends that City Council receive the report for information purposes.

### **Highlights:**

- Timely financial reporting ensures the city remains fiscally responsible, enhances decision-making, supports strategic planning, and boosts public confidence.
- The City's total levy for 2024 is \$35,000,000.
- The year-end financial forecast predicts a bottom-line variance from the budgeted levy of 1.5%.

### **Strategic Plan Alignment:**

[Strategic Plan](#) Priority: This report supports the delivery of Core Service.

### **Climate and Environmental Implications:**

There are no anticipated climate or environmental impacts.

## **Previous Report/Authority:**

[CR-24-063 T1 Financial Update](#)

## **Background:**

The City of Owen Sound operates on a calendar year budget cycle, meaning our fiscal year starts in January and ends in December. This report will summarize our financial position for the first nine months of the current fiscal year (January to September) and our forecasted year-end position. This T2 financial update is an important source of context data for the development and review of the 2025 Operating Budget.

Our analytical methods consider two main points of reference:

1. The year-to-date financial results from January to September: This includes expenses, revenues, and any divergences from our budgeted amounts.
2. A forecast for the rest of the fiscal year (October to December): This forecast is derived by considering several variables, the most significant of which is the actual data from the same time period in the prior year.

This approach allows us to capture the cyclical nature of our expenditures and revenues tied to the calendar year. By estimating the October - December period using the prior year's data, we acknowledge that the pattern of expenses and revenues can be largely predictable and influenced by annual trends.

Just as a short recap, we make sure to factor in:

- Seasonal variations in expenditure (e.g., higher maintenance costs during winter months).
- Regular payroll costs and any adjustments due to cost-of-living increases, collective bargaining and/or staff changes.
- Any one-off expenses or revenues in the prior year that are not expected to be repeated.
- Any new contracts or grants that have been awarded during the current year.

The resulting figures will be a forecasted year-end position. This can help us navigate our financial planning for the rest of the year. Further, it provides

insights that can be used to adjust our plans and budgets for the future. Ultimately, effectively and efficiently managing the municipality's financial resources remains our primary concern.

To get a comprehensive view of our financial health, it may also be useful to look at our reserves, long-term debt, and deferred revenues in addition to these operating budget numbers. These figures were provided in the 2023 year end report and remain largely unchanged.

Please note that while prior-year trends can be indicative, they are not 100% predictive due to the dynamic nature of municipal operations and the multitude of factors that influence both revenues and expenditures. Weather patterns have a significant impact on financial outcomes particularly in the winter months. An early start to winter or extreme weather event in November and/or December will impact the cost of winter control, public works overtime, and facility operating costs.

## **Analysis:**

Applying the forecasting methods described in the background section of this report, the city is currently tracking a surplus position at the end of the year.

In the previous financial update, departments associated with growth, including planning and building inspection and control, were forecasting a significant deficit. With a recent influx of building permits issued including at Heritage Grove, the forecast deficit has decreased to \$274,275. The current forecasted deficit is mainly related to the planning division and reflects reduced revenues and higher than budgeted legal and third-party contract expenditures.

Revenue shortfalls have had an impact on parks, recreation programs and art gallery operations as well. Campground booking revenue is trending to be about \$70,000 below budget and continues to trend downwards from prior years. Non-resident fee revenue is \$15,000 under budget and slightly below 2023 levels. The TOM has experienced a variance in revenues of around \$30,000, which is contributing towards the \$80,000 year-end deficit position currently predicted.

Consistent with the previous update, operating costs at the Harrison Park Pool, Bayshore, and Julie McArthur Regional Recreation Centre (JMRRC) are tracking over budget. However, a surplus in facility booking revenues is anticipated to fully offset the operating deficits.

Currently, roads operations, including winter control salt and sand material costs, fleet maintenance, fuel, and staff overtime, are tracking to be under budget by \$62,000. However, as noted previously, weather patterns in November and December will significantly impact these predictions. An early winter or an extreme weather event prior to year-end will eat into this surplus.

The savings related to gapping have grown to approximately \$300,000, excluding fire services and nearly \$550,000 when fire protection services are included. Gapping occurs when a vacancy for a full-time position remains unfilled for a portion of the year. Gapping is a normal and anticipated part of operations. The City’s budget includes an anticipated \$85,000 in gapping savings annually. When gapping savings exceed expectations, there is a positive financial outcome; however, the downside of gapping includes decreased productivity, decreased employee morale, operational inefficiencies, reduced service delivery and ultimately, future financial costs associated with recruiting and training new staff. As a KPI for these drivers, we would strive to reduce this financial variance.

The forecast for year-end insurance costs is less than budgeted. As part of the 2024 renewal, staff increased deductibles to reduce the overall premium. The savings from the increase in deductibles have more than offset the increased deductible expenses, resulting in a positive variance in insurance costs. These “savings” will be reflected in the 2025 budget and reduce the overall levy burden for that fiscal year.

The analysis does not include an in-depth review of police services and financial updates from police are provided to Council through their respective minutes. At the time of writing this report, the predicted year-end deficit associated with Police is \$160,000.

To summarize the forecasted variance from budget related to City operations is as follows:

General Operating Surplus	-276,105.11
Police Deficit	158,213.81
<b>Net Operating Surplus</b>	<b>-117,891.30</b>

The operating surplus forecast represents a 0.3% variance from budget.

In addition to the operating surplus, improved since the T1 update, the City is forecasting a surplus in general revenues including tax related adjustments, penalty and interest revenue on tax balances and interest revenue on general city bank accounts. The combined surplus from these sources is tracking to be \$380,000.

Supplemental tax revenue has exceeded the budget by \$40,000 and is anticipated to reach \$325,000 by year-end. The influx in supplemental tax revenue is due to the additions to the tax roll related to the Hedera Development, 28th St West residential complex, and Grey Bruce Living on 8<sup>th</sup> Ave E. These supplemental revenues in 2024 will also provide the foundation for assessment growth on the 2025 budget, alleviating some of the burden of taxation on the existing assessment base. This is a very good indicator.

The ongoing delay in reassessment has also resulted in lower-than-budgeted tax write-off expenses and is contributing to the forecasted surplus related to downward tax adjustments of \$100,000.

As the city continues to hold cash balances in general accounts due to the value of discretionary reserves and timing differences between the collection of tax and grant dollars and the disbursement of capital expenditures. With the favourable interest rate environment, there is an anticipated surplus in interest revenue of \$50,000. This interest rate environment is not predicted to remain in place as rates are slowly decreasing; however, it has resulted in a positive financial position in 2024.

Finally, penalty and interest on tax revenue are forecasted to reach \$480,000 by the end of the year, a surplus of \$130,000. While this is a financial benefit to the city's overall position, it is a poor KPI indicating a declining ability to pay associated with the overall tax base. This variance may be seen as an economic distress signal. High penalty and interest revenues often reflect financial hardships faced by residents and businesses, indicating they are struggling to meet their tax obligations. In fact, for the 2023 year-end, we have seen taxes receivable grow to 8.3% of tax revenues, up from 6.8% the year before. While this ratio is slightly higher than the 20-year average of 8.1%, it is still well below the ratios of 12% realized in the early 2000's. The Bruce/Grey average ratio is slightly over 6%.

## Financial Implications:

Combining the surplus from general revenues with the overall operating surplus, we have a forecasted year-end surplus of \$500,000. Per the reserve policy, any surplus that persists to year-end will be added to the tax stabilization reserve. The balance of that reserve at the end of 2023 is \$700,000.

<b>Net Operating Surplus</b>	-	<b>117,891.30</b>
General Revenue Surplus	-	386,226.40
<b>Net Forecasted Surplus</b>	-	<b>504,117.70</b>

## Communication Strategy:

A detailed year end report including departmental variances will be presented to corporate service committee in April 2025. The City's financial statements are available on the City's website.

## Consultation:

City Staff

Police Chief

## Attachments:

None.

## Recommended by:

Kate Allan, Director of Corporate Services

## Submission approved by:

Tim Simmonds, City Manager

For more information on this report, please contact Kate Allan at [kallan@owensound.ca](mailto:kallan@owensound.ca) or 519-376-4440 ext. 1238.