

Staff Report

Original signed by: City Manager Johnson

Report Date: February 9, 2023

Meeting Date: February 14, 2023 – Joint Advisory Committee

To: City Manager

From: Director of Community Services

Subject: North Cariboo Recreation and Parks Budget Update

PURPOSE

The purpose of this report is to provide an update to the Joint Advisory Committee (JAC) regarding the 2022 year end operating subsidy for the North Cariboo Recreation and Parks (NCRP) Service.

SUMMARY

- At its meeting on November 15, 2022 the JAC approved the five-year financial plan for the NCRP Service. The plan is based on a 5.2% increase in property taxation in 2023 and a 4% increase in each subsequent year, over the five-year plan.
- Various assumptions were factored into the development of this financial plan including staff projections for 2022 year-end actual totals. At the November 15 meeting, staff noted that the net operating subsidy for the Municipal Contract in 2022 was expected to be approximately \$100,000 more than originally budgeted and that this had been factored into the proposed five-year financial plan.
- When the figures were finalized in early February however the actual net operating subsidy for 2022 was approximately \$100,000 more than had been projected in November (approximately \$200,000 higher than originally budgeted).
- This shortfall has an impact on the 2023 – 2027 Financial Plan that will need to be addressed in order to balance the budget.
- There are three key questions that this report will address related to the 2022 budget shortfall, specifically:
 1. What is the reason for the shortfall?
 2. Why is the shortfall larger than projected by staff in November 2022?
 3. What options are available to address the shortfall?
- These questions are addressed in detail in the Background section of this report.
- The shortfall can be addressed in the financial plan if the West Fraser Centre dry floor project is removed from the 2023 capital plan, in the amount of \$137,500.
- This project is not expected to proceed in 2023 because the City was not successful in obtaining a grant for the balance of funding required.
- If this amendment is made to the financial plan, no other changes are required to address the shortfall. The transfer from capital reserves of \$350,000 in 2023 would remain in the budget as previously planned.



FINANCIAL IMPLICATIONS

- This amendment to the proposed five-year financial plan will have no impact on taxation.
- It is proposed that the 2022 budget shortfall be addressed by removing \$137,500 from the capital plan for a project that is not expected to proceed.
- The transfer from capital reserves of \$350,000 budgeted in 2023 would remain in the budget as planned.

RECOMMENDATION

THAT THE NORTH CARIBOO JOINT ADVISORY COMMITTEE RECOMMEND to the CRD BOARD OF DIRECTORS that the proposed 2023 - 2027 North Cariboo Recreation and Parks Financial Plan be amended to remove \$137,500 from the capital plan for the purchase of a dry floor for the West Fraser Centre.

BACKGROUND

What is the reason for the shortfall?

- The primary reason for the shortfall was COVID-19 and its impact on facility revenues. While revenues improved over 2020 and 2021, revenues in 2022 were still over \$235,000 lower than actual revenues in 2019 (the most recent year not impacted by COVID).
- Pass sales and admissions to the pool and gym at the Arts and Recreation Centre were approximately \$140,000 lower than they were compared to actual revenues in 2019.
- The first quarter of 2022 was especially impacted by COVID. Adult ice rentals were not permitted, youth ice sports were limited, and both the Arts and Recreation Centre and the arenas were required to restrict access to individuals who provided proof of vaccination.
- The majority of the year's revenue shortfall (\$154,000) when compared to 2019 actual revenues, was experienced in the first quarter of 2022.
- Unrelated to COVID-19, another impact to revenues in 2022 was the discontinuation of the carbon tax rebate. \$20,000 was budgeted in 2022 for the rebate which was not realized.
- In addition to the revenue shortfall there were a number of unexpected, or higher than expected expenditures in 2022.
- There was a Human Resources matter in 2022 that resulted in an unbudgeted expense of more than \$60,000.
- Additionally, building maintenance costs at the West Fraser Centre and Arena 2 have escalated and were substantially higher than expected, including a significant increase in natural gas costs and increased costs incurred to meet increasingly more stringent Provincial regulations related to the operation of ammonia refrigeration plants.

Why is the shortfall larger than projected by staff in November 2022?

- The Municipal Contract net operating subsidy was approximately \$100,000 higher than projected by staff at the November 15 JAC meeting.



- While it might be assumed that the November 15 projection was based on data up to that date, this was not the case. The projection was based on data that was available at the time which was to the end of September, with one full quarter of the year remaining.
- At the end of September, the net operating deficit for the Municipal Contract (expenses to date less revenue to date) was approximately \$1.7 million. The budget in 2022 was approximately \$2.3 million.
- To the end September we had seen significant revenue shortfalls in the first quarter (compared to 2019), followed by modest shortfalls in revenue for the balance of the year. There were indications that revenues were improving as the year progressed.
- Expenditures were nearly \$80,000 lower to the end of September when compared to 2019, despite inflation and wage increases.
- The projection made in November was based on the assumption that expenses in the fourth quarter would be relatively consistent with expenditures in 2019 (expenditures in the first three quarters had been lower than 2019) and that revenues would be slightly lower than 2019 (revenues in the second and third quarters suggested that revenues approximately 8% lower than 2019 could be expected in the fourth quarter).
- The modelling based on these assumptions projected a year end operating deficit of just over \$60,000 (not including unbudgeted HR).
- The modelling assumptions regarding revenue at the arenas and Arts and Recreation Centre and expenditures at the Arts and Recreation Centre turned out to be correct (not including unbudgeted HR) however expenditures at the arenas were considerably higher than anticipated.
- Expenditures at the arenas were approximately \$80,000 higher than anticipated in the fourth quarter of 2022 which is the primary reason, when combined with unbudgeted HR, that the staff projection for the year-end subsidy turned out to be incorrect.

What options are available to address the shortfall?

- Generally speaking, budget shortfalls can be addressed by increasing taxes, reducing expenditures, or making a contribution from (or reducing a contribution toward) capital reserves or surplus.
- Current reserve/surplus levels are lower than recommended and a substantial transfer from capital reserves is already included in the 2023 budget. Increases to capital reserves have been incorporated into the five-year financial plan to restore reserve/surplus levels however not until the final two years of the plan.
- Increasing taxation, particularly at this late stage in the budget process is not recommended.
- The preferred option to address the shortfall is to reduce expenditures.
- The capital project included \$137,500 for the Local Government share of funding for a dry floor for the West Fraser Centre however the City recently received notification that the grant for this project was not approved.
- In light of this it is not expected that the project will proceed in 2023 and therefore could be removed from the capital plan.



- If the allocation of \$137,500 for this project is removed from the capital plan, no further change is necessary prior to its adoption by the Regional District Board. The tax rate would remain the same, no further reductions to the budget would be required, and no changes would be needed to planned contributions to or from capital reserves or budgeted surplus.
- Making this adjustment to the capital plan will balance the financial plan and address the 2022 net operating budget shortfall however it should be noted that the North Cariboo Recreation and Parks budget does not have the capacity to sustain similar shortfalls in future years.
- COVID created a period of uncertainty for three years that made the budget process difficult to manage but the situation has changed going into 2023. It is important that the budget be monitored carefully and that options such as service reductions or paring back the capital program be considered if needed to meet budget targets.
- It should also be noted that the five-year financial plan does incorporate contributions to capital reserves and surplus over the life of the plan which will provide greater ability to fund unanticipated expenditures or shortfalls in the future if followed.