



## REPORT

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**TO:** Mayor Lawlor and Members of Council

**FROM:** Amy Prueter, Manager of Budgets and Financial Reporting

**DATE:** May 25, 2023

**REPORT NO.:** CS-2023-009

**SUBJECT:** Operating Budget Status for the Year Ended December 31, 2022 and Projected Operating Deficit

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### RECOMMENDATION:

THAT Report No. CS-2023-009 dated May 25, 2023, regarding the operating budget status for the year ended December 31, 2022, and the projected operating deficit be received as information;

AND FURTHER THAT all COVID-related operating results, including those pertaining to Library operations, be consolidated and the SRA funding be applied as outlined in this report.

AND FURTHER THAT Staff report back following the completion of the 2022 year-end audit on the funding for the identified deficit.

### KEY POINTS:

The following are key points for consideration with respect to this report:

- The Town is forecasting a COVID-related transit deficit of \$29,444, a COVID-related non-transit deficit of \$501,666 and a non-COVID related net deficit of \$796,091.
- A total of \$466,337 of SRA funding is available to offset the Town's COVID-related transit and non-transit operating pressures in 2022.
- The COVID-related transit operations deficit of \$29,444 can be fully funded from the Town's available SRA transit-stream funding.
- The remaining SRA allocation of \$436,893 will only partially offset the \$501,666 non-transit related COVID deficit, leaving an unfunded COVID-related deficit of \$64,773.
- The projected non-COVID related net deficit for 2022 of \$796,091 includes an operating surplus of \$240,627 from library operations, a funding surplus of

\$238,644 that will be used in 2023 for contract labour positions, and an overall Town operating deficit of \$1,275,362.

- Following the application of SRA grants, the transfer of contract funding to 2023 and the transfer of surplus budget dollars to the library reserve, the net remaining unfunded position for the Town is \$1,340,135 (unfunded COVID-related deficit of \$64,773 plus the operating deficit of \$1,275,362).
- All recommendations contained within this report do not involve the approval of new expenditures. All referenced expenditures occurred on or before December 31, 2022.
- The funding of the 2022 operating deficit will be addressed through the 2022 Final Operating Budget Position (Report no. CS-2023-023) which will be presented to Council at the completion of the 2022 year-end audit.

## BACKGROUND AND DISCUSSION:

The purpose of this report is to provide Council with an update on the 2022 operating results as at December 31, 2022, including the financial implications of COVID-19 and the related financial support available through the Federal-Provincial Safe Restart Agreement (SRA) funding.

SRA funding has been made available under two separate funding streams to address municipal operating pressures resulting from COVID-19:

1. Municipal operations excluding transit (non-transit)
2. Transit operations

The SRA funding deferred from 2021 that is available to help address 2022 operating pressures related to COVID-19 totals \$572,190 and is shown below. \$436,893 is available to be applied to non-transit related COVID deficits and \$135,567 is available for the transit stream. In 2022 100% of the non-transit related funding and \$29,444 of the transit related funding was used, leaving \$106,122 of transit stream funding remaining at the end of 2022.

	Non-Transit Stream	Transit Stream	Total
SRA funding deferred from 2021	401,331	129,388	530,719
Interest to date	35,563	6,179	41,741
Applied to eligible pressures	(436,893)	(29,444)	(466,337)
Total SRA funding available in 2023	-	106,122	106,122

Ontario put an end to all COVID-19 related restrictions and lifted mandatory vaccine screening on April 27, 2022. In addition, the community vaccination clinic operated by Halton Region Public Health at the Gellert Community Centre was closed in June 2022, making the site available for normal operations. As a result, the impacts of COVID-19 were significantly reduced in 2022 and will no longer be tracked in 2023 and beyond.

## Operating status for the year ended December 31, 2022

The financial information discussed below represents the forecast operating results for the year ended December 31, 2022.

<b>2022 Financial Report</b>					
<b>For the period ending Dec 31, 2022</b>					
	<b>2022</b>		<b>2022</b>		
	<b>YTD Actuals</b>	<b>Final Budget</b>	<b>Remaining</b>	<b>Remaining</b>	
	<b>31-Dec</b>	<b>Total</b>	<b>\$</b>	<b>%</b>	
Council	\$ 818,430	\$ 935,400	\$ 116,970	12.5%	
Office of the CAO	2,945,999	3,104,600	158,601	5.1%	
Business, Environment & Culture	1,753,904	1,906,900	152,996	8.0%	
Corporate Services	6,047,693	6,152,100	104,407	1.7%	
Library Services	3,691,273	3,931,900	240,627	6.1%	
Fire Services	9,960,891	9,538,855	(422,036)	(4.4%)	
Transportation & Public Works	15,393,331	14,732,300	(661,031)	(4.5%)	
Planning & Development	1,459,878	1,570,500	110,622	7.0%	
Recreation & Parks	8,158,285	8,438,800	280,515	3.3%	
Corporate Expenses	4,018,529	2,463,600	(1,554,929)	(63.1%)	
Capital Financing & Other	12,242,126	12,238,045	(4,081)	(0.0%)	
<b>Total Net Expenditures</b>	<b>\$ 66,490,340</b>	<b>\$ 65,013,000</b>	<b>\$ (1,477,340)</b>	<b>(2.3%)</b>	
Corporate Revenue					
Provincial Offences	\$ (154,459)	\$ (170,600)	\$ (16,141)	(9.5%)	
Investment Income	(1,155,000)	(1,155,000)	-	0.0%	
Corporate Taxation*	(3,152,229)	(2,985,900)	166,329	5.6%	
HH Community Energy	(1,313,051)	(1,313,100)	(49)	(0.0%)	
Capital Chargeback & Other	(474,100)	(474,100)	-	0.0%	
<b>Total Corporate Revenue</b>	<b>\$ (6,248,838)</b>	<b>\$ (6,098,700)</b>	<b>\$ 150,139</b>	<b>(2.5%)</b>	
<b>Net Position</b>	<b>\$ 60,241,502</b>	<b>\$ 58,914,300</b>	<b>\$ (1,327,201)</b>	<b>2.3%</b>	
Levies & Special Levies	(58,914,300)	(58,914,300)	-	0.0%	
<b>Categorization of Net Position:</b>					
Non Covid 19 related	796,091	-	(796,091)		
Covid 19 related - Transit	29,444	-	(29,444)		
Covid 19 related - Non Transit	501,666	-	(501,666)		
	<b>\$ 1,327,201</b>	<b>\$ -</b>	<b>\$ (1,327,201)</b>		
SRA Funding - Covid 19 Transit	(29,444)	-	29,444		
SRA Funding - Covid 19 Non-Transit	(436,893)	-	436,893		
<b>Net Position After SRA Funding</b>	<b>\$ 860,864</b>	<b>\$ -</b>	<b>\$ (860,864)</b>	<b>(1.5%)</b>	
<b>Proposed Distribution of Remaining Net Budget</b>					
Library Capital Reserve (transfer to reserve)			240,627		
Contract Carry-forward to 2023			238,644		
Tax Rate Stabilisation Reserve (funding applied to deficit)			(1,340,135)		
			<b>\$ (860,864)</b>		
<b>Forecast Final Net Position</b>			<b>\$ 0</b>		

\* includes PIL, supplementary tax, penalties etc.

Note: Due to rounding, numbers presented in this table may not add up precisely to the totals provided.

The following table summarizes the components of the forecasted final net position for 2022 and the unfunded deficit of \$1,340,135.

	Transit Stream (COVID)	Non Transit Stream (COVID)	Net Position From Regular Operations	Total
Surplus Library Services			-\$240,627	
Unspent Contract Labour			-\$238,644	
<b>Deficit</b>	\$29,444	\$501,666	\$1,275,362	
	\$29,444	\$501,666	\$796,091	\$1,327,201
<b>SRA funding</b>	-\$29,444	-\$436,893	-	-\$466,337
<b>Net position after applying SRA funds</b>				\$860,864
Transfer surplus to reserves			\$240,627	
Transfer unspent contract funds to 2023			\$238,644	
	-\$29,444	-\$436,893	\$479,271	
<b>Total Unfunded</b>	<b>\$0</b>	<b>\$64,773</b>	<b>\$1,275,362</b>	<b>\$1,340,135</b>

- Library surplus of \$240,627 - The Town's reserve policy (PLCY-2018-0004) contains a provision that any annual operating surplus generated by Library Services will be transferred to the Library Capital reserve. Accordingly, the non-COVID related Library surplus will be transferred to the Library Capital reserve.
- Unused contract funding of \$238,644 will be carried forward to 2023 – based on the policy approved through CORPSERV-2021-0006, the total accumulated unused funding related to hiring of approved contract resources will continue to be tracked and carried forward to future operating budgets to fund delayed or unforeseen temporary resource requirements during the year.
- Unfunded COVID-19 deficit \$64,773 – SRA funding for non-transit operations (\$436,893) will be applied to the non-transit related COVID deficit of \$501,666 leaving an unfunded amount of \$64,773. This deficit will require funding from the Tax Rate Stabilization reserve.
- Operating net deficit of \$1,275,362 – the operating deficit totals \$1,275,362, which will require funding from the Tax Rate Stabilization reserve.
- The resulting total deficit to be funded from the Tax Rate Stabilization reserve is \$1,340,135 (\$1,275,362 + \$64,773)

The funding of the 2022 operating deficit will be addressed through the 2022 Final Operating Budget Position (Report no. CS-2023-023) which will be presented to Council at the completion of the 2022 year-end audit.

### COVID-19 Related Deficit - Municipal Operations (Non-transit)

The following framework was created to identify costs related to COVID-19 operating pressures:

COVID-19 expenses and savings are those directly attributable to the COVID-19 response and include the purchase of materials and services as well as staffing costs stemming from changes to operations that enabled the Town to continue operations during the pandemic.

The following are the main drivers of the non-transit COVID-19 related operating deficit in 2022:

<b>COVID-19 Drivers</b>	<b>Amount</b>	<b>Total</b>
COVID costs	\$ (228,574)	
Recreation Programs	(149,461)	
R&P Facilities	(94,872)	
Office closure	(79,041)	
Library	(7,038)	
Miscellaneous	(5,909)	
Enforcement	(4,966)	
Increased Costs	68,195	
Total COVID-19 related surplus/(deficit)		\$ (501,666)

COVID-19 costs such as costs related to vaccination screening, health and safety supplies, and IT equipment to ensure online programming, were the highest contributor to the COVID-19 related deficit. As COVID-19 restrictions have ended and non-transit SRA funding is no longer available, cost impacts are now reflective of the new way of providing service. As a result, non-transit COVID-19 expenses will no longer be tracked or reported on separately going forward.

### COVID-19 Related Transit Operations

ActiVan (transit) operations ended 2022 with a COVID-19 related net deficit of \$29,444. A revenue shortfall of (\$124K) was offset by savings in contracted services (95K) due to changes in operations. SRA funds from the transit funding stream will be applied to offset this deficit.

### Non COVID-19 Related Operations

Throughout the course of a typical budget year, the Town would ordinarily experience financial variances that are both positive and negative, relating to non-routine operating

occurrences. To be able to separate these results from those pertaining to the COVID-19 pandemic, staff reviewed the 2022 operating results using the following framework:

Non-COVID expenses and revenues are those costs or savings that would have occurred regardless of the pandemic. Examples include:

- Repairs performed on equipment/buildings
- Variances in investment income
- Legal fees for municipal matters
- Insurance premium increases
- Salary gapping (permanent positions - as a variance to the corporate provision)

In 2022, the non-COVID related operating impact is a net \$796,091 deficit as outlined in the following table:

<b>Non-COVID-19 Operations Drivers</b>	<b>Amount</b>	<b>Total</b>
Council	\$ 116,970	
Office of the CAO	158,601	
Business, Environment & Culture	159,977	
Corporate Services	183,448	
Library Services	240,627	
Fire Services	(341,841)	
Transportation & Public Works	(590,566)	
Planning & Development	110,622	
Recreation & Parks	523,867	
Corporate Expenses	(1,742,496)	
Capital Financing & Other	(4,081)	
Corporate Revenues	388,781	
Total normal operations surplus/(deficit)		\$ (796,091)

The non-COVID related net deficit of \$796,091 was largely driven by corporate expenses in 2022, relating to legal fees, insurance and WSIB expenses. Legal fees for OLT and other municipal matters were \$1.2M over budget as the Town seeks legal advice on increasingly complex matters. WSIB claim costs were \$129K over budget and general insurance premiums were \$107K over budget as premiums increased beyond the budgeted increase for 2022. Finally, higher than budgeted revenues (e.g. gravel royalties, investment income) resulted in higher transfers to reserves. Additional information on variances by department is provided in Appendices 1 and 2.

**STRATEGIC PLAN ALIGNMENT:**

This report is administrative in nature and does not have an impact on the Town’s Strategic Plan.

## **RELATIONSHIP TO CLIMATE CHANGE:**

This report is administrative in nature and does not directly impact or address climate change and the Town's Net Zero target.

## **PUBLIC ENGAGEMENT:**

Public Engagement was not needed as this report is administrative in nature.

## **INTERNAL CONSULTATION:**

Finance staff consulted with the CAO, the Senior Management Team, and Town operating departments.

## **FINANCIAL IMPLICATIONS:**

This report is administrative in nature and does not have any financial implications.

The Town of Halton Hills implemented a comprehensive COVID-19 cost reduction and mitigation plan at the start of the pandemic. Combined with financial support provided through the Federal-Provincial Safe Restart Agreement, the Town has been able to utilize \$466,337 of this funding to offset COVID-19 related expenses in 2022. The remaining unfunded COVID-related deficit of \$64,773 will require funding from the Tax Rate Stabilization reserve.

The Town experienced a net negative position of \$796,091 from routine operations, which includes a projected Town-related operating deficit of \$1,275,362 due to increasing pressures related to corporate expenses.

The funding of the year-end deficit of \$1,340,135 (consisting of the remaining \$64,773 COVID-related deficit added to the \$1,275,362 operating deficit) will be addressed in the 2022 Final Operating Budget Position (Report no. CS-2023-023) which will be presented to Council following completion of the year-end audit.

Reviewed and approved by,

Moya Jane Leighton, Director of Finance & Town Treasurer

Laura Lancaster, Commissioner of Corporate Services

Chris Mills, Chief Administrative Officer