



REPORT

TO: Mayor Lawlor and Members of Council

FROM: Amy Prueter, Manager of Budgets and Financial Reporting

DATE: June 17, 2024

REPORT NO.: CS-2024-011

SUBJECT: Operating Budget Status for the Year Ended December 31, 2023 and Projected Operating Deficit

RECOMMENDATION:

THAT Report No. CS-2024-011 dated June 17, 2024, regarding the operating budget status for the year ended December 31, 2023, and the projected operating deficit be received as information;

AND FURTHER THAT Staff report back to Council following the completion of the 2023 year-end audit on appropriate funding sources for the final deficit.

KEY POINTS:

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

- The Town is forecasting a net overall deficit for 2023 of \$1,631,559 which includes an operating surplus of \$99,051 from Library Services
- As per Town policy, the Library Services operating surplus of \$99,051 will be transferred to the Library Capital Reserve.
- The resulting unfunded Town portion of the net deficit is \$1,730,610 (\$1,631,559 plus \$99,051).
- All recommendations contained within this report do not require the approval of new expenditures, as all referenced expenditures occurred on or before December 31, 2023.
- The funding of the 2023 operating deficit will be addressed through the 2023 Final Operating Budget Position (report no. CS-2024-018) which will be presented to Council at the completion of the 2023 year-end audit.

BACKGROUND AND DISCUSSION:

The purpose of this report is to provide Council with an update on the net position of the 2023 operating results as at December 31, 2023. Appendix 1 summarizes the Town's 2023 operating actuals. As this report is related to 2023, the new Community Services Department (established May 13, 2024) is reported separately as Business, Environment & Culture, and Recreation & Parks.

Operating status for the year ended December 31, 2023

The financial information discussed below represents the forecast operating results for the year ended December 31, 2023.

The components of the forecast net unfunded position of \$1,730,610 for 2023 reflect:

- A net position of \$1,373,556 (as outlined in Appendix 1) prior to any policy related adjustments being made.
- The removal of unused contract funding of \$258,003 – which will be carried forward to 2024 based on policy (CORP-2021-0002). 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. \$1,631,559 (\$1,373,556 plus \$258,003)
- Library Services operating surplus of \$99,051 – 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. This amount totals \$99,051 for 2023, and once the transfer has been made, the projected unfunded deficit is \$1,730,610 (\$1,631,559 plus \$99,051)
- Fire services overtime costs of \$537,507 – The operating deficit in Fire Services is primarily due to overtime costs. It is expected that this deficit will be funded from the Fire Services reserve following the year end audit and finalization of the results
- The remaining unfunded operating deficit of \$1,193,103 (\$1,730,610 less \$537,507) is anticipated to be funded from –the Tax Rate Stabilization reserve.

Table 1

2023 Financial Report				
For the period ending December 31, 2023				
	2023	2023	Remaining	Remaining
	Actuals	Final Budget	\$	%
	31-Dec	Total		
Council	\$ 807,981	\$ 915,700	\$ 107,719	11.8%
Office of the CAO	3,140,000	3,287,900	147,900	4.5%
Business, Environment & Culture	2,034,015	2,183,500	149,485	6.8%
Corporate Services	6,266,919	6,676,800	409,881	6.1%
Library Services	3,980,649	4,079,700	99,051	2.4%
Fire Services	9,337,660	8,529,200	(808,460)	(9.5%)
Transportation & Public Works	15,236,046	15,190,900	(45,146)	(0.3%)
Planning & Development	1,579,224	1,711,300	132,076	7.7%
Recreation & Parks	8,180,636	8,930,000	749,364	8.4%
Corporate	4,686,485	1,565,300	(3,121,185)	(199.4%)
Capital Financing & Other	16,261,563	16,261,700	137	0.0%
Contract Carryforward Transfer	258,003		(258,003)	0.0%
Total Net Expenditures	\$ 71,769,181	\$ 69,332,000	\$ (2,437,181)	(3.5%)
Corporate Revenue				
Provincial Offences	(186,027)	(117,100)	68,927	(58.9%)
Investment Income	(1,155,000)	(1,155,000)	-	0.0%
Corporate Taxation*	(3,722,644)	(2,985,900)	736,744	(24.7%)
HH Community Energy	(1,313,051)	(1,313,100)	(49)	0.0%
Capital Chargeback & Other	(474,100)	(474,100)	-	0.0%
Total Corporate Revenue	\$ (6,850,822)	\$ (6,045,200)	\$ 805,622	(13.3%)
Net Position	\$ 64,918,359	\$ 63,286,800	\$ (1,631,559)	(2.6%)
Levies	(63,286,800)	(63,286,800)		0.0%
	1,631,559	0	(1,631,559)	
Proposed Distribution of Remaining Net Budget				
Library Capital Reserve (transfer to reserve)			99,051	
Fire Services Reserve (funding applied to deficit)			(537,507)	
Tax Rate Stabilization Reserve (funding applied to deficit)			(1,193,103)	
			\$ (1,631,559)	
Forecast Final Net Position			\$ (0)	

*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 funding of the operating deficit will be addressed through the 2023 Final Operating Budget Position (report no. CS-2024-018) which will be presented to Council at the completion of the 2023 year-end audit.

The key drivers to the 2023 operating deficit include legal costs related to Ontario Land Tribunal (OLT) matters and enforcement costs, overtime in Fire Suppression, severance costs and tax write offs from large appeals. The deficit has been partially mitigated by surplus user fees, additional supplementary taxes, tax penalties and salary savings related to position gapping.

Salary Gapping

Salary gapping from delays in hiring full-time staff total, savings of \$1,828,221 for 2023 as outlined in table 2 below:

Table 2 Salary Gapping

Department	Salary Gapping Savings
Office of the CAO	51,724
Business, Environment & Culture	53,187
Corporate Services	742,833
Fire	286,309
Transportation & Public Works	487,970
Planning & Development	130,066
Recreation & Parks	76,131
Total Salary Gapping	1,828,221

The majority of salary gapping is due to the timing of recruitment for new positions or existing employee turnover, which leaves a position vacant for a portion of the year. Salary gapping creates a surplus in salaries and benefits in department operating budgets and while backfilling positions with temporary staff reduces the surplus, most backfill costs are less than the salary budgeted. Additionally, some departments intentionally delay hiring positions with severance implications to minimize budget impacts. A provision for gapping of \$560,000 is included in the Corporate Expenses section of the budget to assume some gapping will occur each year and to partially offset the surplus in departments.

The following section provides a summary of 2023 operating results by department prior to the application of any policy related transfers, as outlined in Appendix 1.

Council

The Council department is expecting a year-end surplus of \$107,719 (11.8%). The Community Partnership Program was \$35K under budget for special event fee waivers and equipment expenses. Additionally, there was \$40K in savings in Councillor benefits, and discretionary spending was \$47K under budget due to reduced travel expenses, meals and training costs.

Office of the CAO

The Office of the CAO is forecasting a year-end surplus of \$147,900 (4.5%). The surplus is the result of salary gapping of \$233K that is partially offset by a deficit in contracted services for enforcement and parking control (\$36K). Revenue also had a shortfall of \$74K from parking tickets which is partially offset by a surplus of \$37K in business license fees.

Business, Environment & Culture

The Business, Environment and Culture department is forecasting a year-end surplus of \$149,485 (6.8%). The surplus is mainly due to the receipt of \$65K in unbudgeted grants and \$33K in unused contract funding that will be carried over to 2024. Contracted services were \$49K under budget as community engagement for climate change and staff training for Equity, Diversity and Inclusion (EDI) implementation were delayed due to staffing constraints.

Corporate Services

Corporate Services is forecasting a year-end surplus of \$409,881 (6.1%). The surplus is primarily the result of salary gapping due to staffing vacancies. The majority of savings occur during recruitment time to fill vacant positions, or extended leaves of absence in existing positions. Some vacancies were temporarily filled with contract staff, which reduced the gapping surplus slightly.

Library Services

Library Services is forecasting a year-end surplus of \$99,051 (2.4%). The surplus is the result of increased revenues (\$14K) and salary gapping savings (\$110K) due to a number of staffing vacancies. The surplus was reduced by \$15K from overspending on contracted services, training fees and repair expenses.

Fire Services

Fire Services is forecasting a year-end deficit of \$808,460 (9.5%). The main driver of the deficit is overtime costs associated with the operations of the three fire stations having 24/7 coverage (\$446K), multiple full-time firefighters on a leave of absence (\$252K), and costs related to an eligibility review of cost of living increases for part-time firefighters (\$82K). In addition, the service contract with the City of Burlington to supply dispatch services was \$33K over budget.

Transportation & Public Works

The Transportation and Public Works department is forecasting a year-end deficit of \$45,146 (0.3%). There are several key drivers that offset each other due to timing and recognition of expenses. The department shows a large overall revenue surplus at the end of 2023 related to the timing of building permit revenue and funding from the building permit reserve. Building permits received during the last 4 months of 2023 will be recognized in 2024 when the work is substantially performed, and as a result the revenue is transferred to a deferred revenue account for recognition in 2024.

A surplus of \$500K for full time and \$116K for part time wages was realized in salaries and benefits for 2023. However, rising prices for vehicle supplies (\$200K), and increased contract costs for pavement markings and streetlighting maintenance (\$199K) and additional costs of \$134K in repair and maintenance related to growth in the fleet size resulted in unfavourable operating variances.

Planning & Development

Planning and Development is forecasting a year-end surplus of \$132,076 (7.7%). This surplus is the result of favourable salary gapping variances in full time and contract positions during 2023 (\$159K).

Recreation & Parks

The Recreation and Parks department is forecasting a year-end surplus of \$749,364 (8.4%). The surplus is driven by additional revenues of \$702K associated with Council approved rates and user fees. All other revenues including recoveries, donations, sponsorships, and grants result in a favourable operating variance of \$92K. At year-end the operating costs to provide recreation services for the Town were over budget by \$114K as a direct result of programs and facilities operating at capacity. Reallocated expenses and revenues are internal transfers and are sitting in a surplus position of \$69K at the end of 2023 and are offset by deficits in other departments with a net zero impact to the Town's bottom line.

Corporate Expenses

Corporate expenses are the largest contributor to the deficit at \$3,121,185 (199.4%) and are the result of the following key drivers:

- In 2023 unfavourable variances to budget for salary gapping and severance costs at the Corporate Expense line, totaled \$1.57M. However, there are offsetting positive variances from salary gapping at the departmental level of \$1.8M (see Table 2) resulting in an overall net positive surplus position of \$145K, after taking into account the costs of backfilling vacant positions \$357K and utilization of funding from deferred building permit fees. \$244K.
- Legal fees for OLT costs totaled \$1.1M of which \$767K was related to Vision Georgetown and \$288K was related to other OLT matters. Expenses for Vision Georgetown are higher than expected but substantially complete at the end of 2023. Other OLT matters are being monitored by staff and adjustments will be made to future operating budgets to reflect increasing legal costs.
- Contracted services for enforcement are \$264K overbudget for enforcement matters that were approved by Council.
- There was an unfavourable variance of \$812K in tax write offs from large appeals that were resolved in 2023.
- Savings were realized in other areas such as insurance adjuster fees, contributions from reserves, and other revenues.

Corporate Revenues

The Corporate revenue section is forecasting a year-end surplus of \$805,622 (13.3%), as a result of additional revenues collected from supplementary taxes (\$379K) and tax penalties (\$324K) creating a favourable variance. In addition, Provincial Offences Act (POA) revenues and POA fine distributions resulted in a favourable variance of \$126K. There was also a positive variance of \$492K in receipts of investment income, however, there is an offsetting transfer to reserves for this amount, and as such, is a net zero impact to the operating budget's bottom line.

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, Senior Management Team, and department staff.

FINANCIAL IMPLICATIONS:

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

The Town is currently forecasting a net negative position from operations in 2023, which includes a projected Town-related unfunded operating deficit of \$1,730,610 (net of the transfer of \$99,051 to the Library Capital reserve) due to increasing pressures from various corporate expenses. Staff identified growing budget shortfalls in legal costs, enforcement, insurance and other corporate services. To address these shortfalls adjustments have been made to increase the budget to adequate levels where these costs are expected to continue or increase in the future.

The funding of the year-end deficit, once finalized, will be addressed in the 2023 Final Operating Budget Position (Report no. CS-2024-018) 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

Jonna Ison, Director of Human Resources and Acting Commissioner of Corporate Services

Chris Mills, Chief Administrative Officer