



## REPORT

**REPORT TO:** Mayor Bonnette and Members of Council

**REPORT FROM:** Duncan Robertson, CPA, CMA  
Budgets & Financial Reporting Supervisor

Dana Stanescu, CPA, CGA  
Accounting Supervisor

**DATE:** June 13, 2019

**REPORT NO.:** CORPSERV-2019-0028

**RE:** Operating Budget Status as at December 31, 2018 and Final  
Operating Surplus Distribution

### RECOMMENDATION:

THAT Report No. CORPSERV-2019-0003 dated June 13, 2019 regarding the Operating Budget Status as at December 31, 2018 and Final Operating Surplus Distribution be received;

AND FURTHER THAT Council receive for information the 2018 net operating surplus of \$1,644,939;

AND FURTHER THAT Council approve the transfer of \$870,300 of the operating surplus to the Tax Rate Stabilization Reserve and \$51,300 to the Fire Services Reserve for the purposes of funding the approved one-time 2019 contractual positions in the 2019 Operating Budget;

AND FURTHER THAT Council approve the distribution of \$250,000 of the operating surplus to the Tax Rate Stabilization Reserve for the purposes of funding affordable housing initiatives, as per the confidential attachment;

AND FURTHER THAT Council approve the distribution of the remaining 2018 operating surplus to the Library Capital Reserve in the amount of \$85,921 and the Tax Rate Stabilization Reserve in the amount of \$280,531.

## **BACKGROUND:**

The purpose of this report is to provide Council with an update on the 2018 Operating Budget results. Appendix A summarizes the Town's 2018 actual operating activities from January 1 to December 31 inclusive. In addition, this report seeks Council's approval on the distribution of the operating surplus in accordance with the General Reserve and Reserve Fund Policy (PLCY-2018-0004).

## **COMMENTS:**

As illustrated in Appendix A, the Town has a net operating surplus for 2018 of \$1,644,939. This surplus represents positive variances of \$381,634 in net expenditures and \$1,263,305 in corporate revenue received through supplementary taxes, the Provincial Offences Act and other revenue sources. There were two main drivers for the 2018 operating surplus: supplementary taxes and staff gapping.

The corporate revenue section in Appendix A indicates that the Town received an additional \$1,064,680 from supplementary taxes in 2018. Supplemental assessment occurs when new construction is completed or when there is an increase in the value of property during the current tax year, e.g., after a major renovation/addition. The timing of supplementary assessment is dependent upon the completion of construction and subject to an independent review by MPAC. As such, accurate forecasting of these unknown variances cannot be accomplished during the budget process.

As detailed in Appendix B, staffing gaps account for \$1,132,854 of the surplus, net of a contingency for gapping of \$276,300. It is important to note that the Town's average recruitment period for full-time staff is 9 weeks, which is in line with industry standards. Moreover, the employee turnover rate in 2018 of 3.9% was below the market average of 6%. The budgeted contingency for gapping will be reviewed during the 2020 budget process.

Staff is seeking approval for the transfer of \$106,887 in general surplus to fund the balance for contractual positions that were approved through the 2018 Operating Budget, as outlined in Appendix C.

Staff is also seeking approval for the transfer of \$921,600 of the operating surplus to the Tax Rate Stabilization and Fire Services Reserves to fund contractual positions; funding for these positions through the 2018 operating surplus was approved in the 2019 Operating Budget.

It is further recommended that up to \$250,000 of the 2018 unallocated surplus be used to fund affordable housing initiatives; further details are provided under separate cover in the confidential attachment. This amount will be transferred to the Tax Rate Stabilization Reserve and drawn down when required in 2019.

The remaining unallocated operating surplus of \$366,452 is recommended to be transferred to the Library Capital Reserve in the amount of \$85,921 and the Tax Rate

Stabilization Reserve in the amount of \$280,531, as per policy number PLCY-2018-0004 General Reserve and Reserve Fund Policy. Reserve balances will be aligned with the expected December, 2018 Long Range Financial Plan targets.

The below table summarizes the recommended surplus distribution:

	<b>Surplus Distribution</b>
<b>General Surplus</b>	
Contract Carry-forward	<u>\$106,887</u>
<b>Contributions to Reserves</b>	
Library Capital Reserve	\$85,921
Fire Services Reserve	
2019 Contractual-staff	\$51,300
Tax Rate Stabilization Reserve	
2019 Contractual-staff	\$870,300
Affordable Housing Initiatives	\$250,000
Remaining Surplus Distribution	<u>\$280,531</u>
	<u>\$1,538,052</u>
<b>Total Surplus 2018</b>	<u><b>\$1,644,939</b></u>

As noted in report CORPSERV-2019-0005, there was \$2,097,626 returned to reserves throughout 2018 related to the completion of capital projects. Of this amount, \$451,822 was directed towards funding other capital projects. This leaves a net total of \$1,645,804 being returned to reserves following the completion of capital projects in 2018. The 2018 operating surplus of \$1,644,939 less the approved transfers of funds for contract staff in 2019 and the recommended affordable housing initiatives is \$366,452. Combining the \$1,645,804 returned to reserves from the completion of capital projects and the \$366,452 from the operating surplus, the total contribution to reserves will be \$2,012,256. As noted in report CORPSERV-2019-0011 regarding reserve balances as at December 31, 2018, the \$2,012,256 cash inflow to reserves is consistent with the Long Range Financial Plan assumptions.

	2018 Surplus	Net Transferred to Capital Fund	Recommended Transfers to Operating Fund
Completed Capital Projects	(2,097,626)		
2018 Operating Budget	(1,644,939)		
Open Capital Projects		451,822	
Contract Carry-forward			106,887
2019 Contractual-staff			921,600
Affordable Housing Initiatives			250,000
Total	(3,742,565)	451,822	1,278,487
<b>Net Balance to Remain in Reserves</b>			<b>(2,012,256)</b>

The following is a synopsis of operating results provided by each Commissioner for inclusion in this report. Note that all staff gapping amounts are included in the comments below, amounting to a surplus of \$1,132,854.

#### Council

The Council Department had a year-end surplus of \$26,438 (3.3%); due to generalized savings within Council Committees and discretionary allowances which offsets the increased spending in municipal assistance.

#### Office of the CAO

The Office of the CAO had a year-end surplus of \$78,223 (2.9%) in 2018. The surplus is the result of staffing changes and vacancies within the department, as well as cost savings for part-time wages. Internal restructuring has resulted in staff savings within the Office of the CAO with an offsetting increase to staff wages in both Corporate Services and Recreation & Parks.

#### Corporate Services

Corporate Services finished 2018 with a year-end deficit of \$4,825 (-0.1%), due to the immediate need to hire an Assessment Analyst on a contract basis. The Assessment Review Board announced numerous changes to the appeal process with the objective of providing a more efficient and timely resolution to appeals. These changes have had major impacts on municipalities across the province in their ability to defend their assessment base. Without the addition of this dedicated resource, the Town runs the risk of forfeiting its right to be part of any negotiations or settlements in assessment

appeals, negatively impacting the Town's ability to protect the assessment base. The deficit generated from this position was offset by savings in salaries and benefits resulting from staff vacancies.

### Library Services

Library Services had a year-end surplus of \$85,921 (2.4%) for 2018 resulting from savings due to staff vacancies. Additional revenue from various grants; the New Horizons for Seniors grant; the Seniors Community grant; and the Improving Library Digital Services grant has funded community initiatives, including programs for seniors and youth. Savings in staff wages due to position vacancies were partially offset by an increase in contracted services for computer support.

### Fire Services

Fire Services had an operating surplus of \$351,875 (5.3%), as a result of staff vacancies. The 2018 firefighter recruitment process was completed in November with the hiring of two full-time firefighters. The transition of dispatch services to the Burlington Fire Department was successfully implemented resulting in an annualized savings of \$125,900.

### Transportation & Public Works

The Transportation and Public Works department had a surplus of \$842,207 (7.0%). This surplus is driven by \$292,853 in savings on materials and supplies, as well as \$405,762 in savings due to staff vacancies throughout the department.

Savings on materials and supplies were primarily related to lower than expected material requirements for asphalt and sanding activities. Asphalt patching activities remained at expected levels; however, material requirements were less than anticipated. Sanding requirements were less than expected due to lighter winter weather in the later part of the year. The total winter control budget was in a \$372,437 surplus position at the end of 2018.

Lower than anticipated revenues from building permits and new development applications were partially offset by lower departmental expenses.

## Planning & Sustainability

The Planning and Sustainability department had a year-end surplus of \$613,408 (34.1%) due primarily to the recognition of \$275,000 from deferred development application revenue. Additional savings were realized from staff vacancies in the amount of \$234,144, as well as lower discretionary expenses and annual maintenance support costs for the Energy Management System of \$15,000.

## Recreation & Parks

The Recreation and Parks department finished with a year-end surplus of \$43,951 (0.7%), resulting from generalized savings in utilities. Grants received in 2018 from the Ontario Sport & Recreation Fund and Seniors Active Living Centre helped to update and improve the Active Living and Older Adult programs, facilitating the funding of additional programs.

## Corporate Expenses

Corporate expenditures such as legal services, financing, insurance, advertising, health and safety, professional development, and voice and data coverage, are included in the Corporate Expenses operating budget.

Corporate expenses resulted in a year-end deficit of \$1,701,279 (-92.3%), mainly driven from additional financing expenditure. The Town has a contractual agreement in place with the Halton District School Board to fund the re-skinning of the Kiwanis playing field. An accrual of \$500,000 was made for these costs, which is payable at a future date. Other higher than anticipated corporate expenses include corporate legal expenses, primarily associated with Vision Georgetown and the Halton Hills Premier Gateway, at \$394,046 over budget, as well as tax write-offs and allowances for bad debt in the amount of \$295,980 and \$204,904 respectively.

Tax write-offs represent property taxes that are deemed no longer collectible as a result or pending result of property assessment appeals. Similarly, bad debt expenses represent receivable amounts owing that are likely not to be recovered.

## Capital Financing & Other

The Capital Financing section, which includes all budgeted transfers to reserves and debenture payments, had a year-end surplus of \$45,746 (0.4%).

## Corporate Revenue & General Levy

Corporate revenues resulted in a surplus of \$1,263,274 (2.4%), due to favourable supplementary tax revenues.

### **RELATIONSHIP TO STRATEGIC PLAN:**

This report supports the following strategic objectives:

- Establish sustainable financing, asset management and master plans to acquire, operate, maintain, renew and replace infrastructure.
- Continue to provide timely and transparent communications with the Town's residents and business owners.

### **FINANCIAL IMPACT:**

The surplus distribution outlined in this report assists with achieving the strategic goals of the Town through supporting the recommendations put forward in the 2019 Operating Budget, affordable housing initiatives and reserve contribution targets outlined in the Long Range Financial Plan.

### **CONSULTATION:**

Accounting staff consulted with all departments to review operating amounts at December 31, 2018 and received a synopsis of comments from each Commissioner and the CAO to be included in this report.

### **PUBLIC ENGAGEMENT:**

No public engagement is required in reference to this report.

### **SUSTAINABILITY IMPLICATIONS:**

The sustainability implications of the recommendations of the report were reviewed against the requirements of the Town's Sustainability Implications Worksheet. The Worksheet is completed for substantial non-administrative reports, major projects, studies, policies and initiatives that are relevant to advancing the Town's economic, cultural, environmental and social wellbeing, and quality of life. Since this report is none of the latter, the Sustainability Implications section is not applicable.

**COMMUNICATIONS:**

There is no communications impact.

**CONCLUSION:**

In summary, the Town has a net operating surplus of \$1,644,939 in 2018. After factoring in the total approved funding for 2019 contract staff (\$1,028,487), the recommended affordable housing initiatives (\$250,000), and the \$1,645,804 returned to reserves through the completion of capital projects, the net impact on reserves is \$2,012,256. This is consistent with the Long Range Financial Plan assumptions as at December 31, 2018.

Reviewed and Approved by,

A handwritten signature in black ink, appearing to read "M. J. Leighton".

**Moya Jane Leighton, Manager of Accounting and Town Treasurer**

A handwritten signature in black ink, appearing to read "Jane Diamanti".

**Jane Diamanti, Commissioner of Corporate Services**

A handwritten signature in black ink, appearing to read "Brent Marshall".

**Brent Marshall, Chief Administrative Officer**