The Corporation of the City of Kawartha Lakes

Council Report

Report Number CORP2018-005

Date: June 12, 2018
Time: 2:00 p.m.
Place: Council Chambers

Ward Community Identifier: All

Title: **2017 Year End Position**

Author and Title: Carolyn Daynes, Treasurer

Recommendation(s):

That Report CORP2018-005, 2017 Year End Position, be received; and

That the auditor's report be received and the audited financial statements for 2017 be approved as circulated; and

That Council authorizes funding of $439,129 from the General Contingency Reserve to cover the 2017 General Rated Operating Deficit.

Department Head:____________________________________

Financial/Legal/HR/Other:______________________________

Chief Administrative Officer:____________________________

Background:

This report provides Council with an update on the 2017 financial position. The audited financial statements are included in this report as Attachment A. These statements were presented to the Executive Committee on June 7, 2018. The 2017 year end and the final (Surplus) Deficit position is as follows:

	(Surplus) Deficit	**Transfer to Reserve**	**(Surplus) Deficit**
General Rated Tax Deficit	$ 439,129	$ -	$439,129
Area Rated Tax (Surplus)Deficit	(800,996)	878,127	77,131
Water and Sewer (Surplus)	(755,740)	755,740	-
KLHHC (Surplus)	(427,360)		(437,360)
Overall (Surplus)Deficit	**$(1,544,967)**	**$ 1,633,867**	**$88,900**

The City, prior to reserve transfers, has a 2017 surplus of $1,544,967. This is a result of increased revenue in various areas of the City and reduced expenditures, with the exception of those expenses referred to below. This is compared to a deficit in the 2016 year of approximately $1Million. This surplus is dealt with prior to year end, in the case of Area rates and Water and Sewer, through past Council resolutions that are still in force, as discussed below.

There is also attached, in Attachment B, an auditor letter which is addressed to the Executive Committee. It details the audit approach and any findings that they came across during the 2017 year end audit. The letter mentions under note 5 (e) the following:

An uncorrected misstatement was identified in the Kawartha Lakes Haliburton Housing Corporation financial statements relating to amortization of land in 2016 for $422,021. Management corrected the error by adjusting amortization expense in 2017 rather than adjust the opening accumulated surplus.

This relates to an issue with the Housing Corporation but their statements are consolidated into the overall statements, in Attachment A, because the City is the sole shareholder. The interesting part of this misstatement is that it illustrates the issues that Staff had with the Excel based calculations used for Capital Asset Accounting. With the implementation of JDE, the Capital Asset Accounting is now done within the program and there will be no issues with the opening balances going forward.

Rationale:

General Rated Tax Deficit:

The net deficit of $439,129 was attributable to the following factors:

Description	Budget 2017	Actual 2017	(Surplus)Deficit Variance
Winter Control	6,685,505.00	7,811,342.00	1,125,837.00
Workman's Compensation Claims	625,000.00	1,013,325.00	388,325.00
OPP Contract	8,738,634.00	8,503,432.00	(235,202.00)
Land Sales	640,000.00	1,195,423.00	(555,423.00)
Supplementary Taxes	563,000.00	988,983.00	(425,983.00)
Total Factor that Affect the General Rated Deficit Position			**297,554.00**
Miscellaneous Budget Items			(251,783.00)
Funding of 2016 Deficit			393,358.00
2017 Overall (Surplus)Deficit			**439,129.00**

Winter Control

The winter control budget has historically been too low which resulted in a deficit in 2016 of approximately $1.3 million, and in 2017 of $1.1 Million. The 2018 budget was increased by $1.2 Million. Staff anticipates that winter control will continue to be a budget pressure in 2019 as a deficit is anticipated is anticipated again for 2018.

Worker’s Compensation (WSIB) Claims

Council was made aware of the increased costs in the WSIB claim area throughout 2016 and 2017. The budget for 2018 has been adjusted, due to the known increases in this area, and was set at $950,000 which is slightly lower than the 2017 actual. We will be evaluating this area for the 2019 budget and Council could potentially see an increase in this area.

OPP Contract

At the time of the 2017 budget the OPP contract amount was not known and Finance Staff had input an estimate. The actual contract amount came in lower resulting in a surplus in this area.

Land Sales

The Land Sale revenue came in over-budget in 2017 by approximately 555,423. A portion of this surplus was used to finance the 2016 deficit remaining of approximately $394,000 from 2016. Council will recall that in 2017 staff dealt with the 2016 deficit of $993,359 by passing the following motion:

> **CR2017-343**
> **Moved By** Councillor Miller
> **Seconded By** Councillor Yeo
>
> **RESOLVED THAT** Report CORP2017-014, **Direction to Fund 2016 Anticipated Deficit**, be received;
> **THAT** the 2017 tax levy be increased by $600,000.00 to fund the 2016 deficit; and
> **THAT** the balance of the 2016 deficit be funded by the 2018 tax levy.
>
> **CARRIED**

The balance of the 2016 deficit, rather than being funded by the 2018 tax levy, was covered by the increased land sale trending that Staff had noted to Council as the 2017 year progressed. During the 2018 budget deliberations, on December 13, 2017, the following motion was passed:

> **CR2017-1082**
> **Moved By** Councillor Elmslie
> **Seconded By** Councillor Seymour-Fagan
>
> **Resolved That** the 2018 Tax-Supported Operating Budget, attached as Appendix A to Report CORP2017-030, as amended, be adopted;
>
> **That** the transfers to and from reserves identified in Appendix C to Report CORP2017-030, be approved for the 2017 Tax-Supported Operating Budget; and
>
> **That** the 2016 tax-supported deficit remaining of $393,358.00, be funded from the 2017 surplus in land sales.
>
> **CARRIED**

Supplementary Taxes

This is always a hard revenue line to predict and it fluctuates from year to year depending on the assessment appeals as well as new housing and commercial development. In 2016 the Total Supplementary taxes were $871,000 compared to $988,983 in 2017.

Area Rated Deficit:

The area rated deficit of $77,130.72 can be broken down further but it is worth noting that Staff have already dealt with the majority of the 2017 Surplus positions by transferring these amounts to the Area Rate Stabilization Reserves during the year. In 2006 Council approved this treatment through the following resolution:

CR2016-164
On a go forward basis, Council support transferring surplus from area-rated services into an area-rated service rate stabilization/contingency reserve to be used to offset any future deficits and/or for other purposes specific to that future services area.

The area rate overall (surplus) deficits and reserve treatment are as follows:

Area Rate	**Initial (Surplus)Deficit**	**To/(From) Reserve**	**Remaining (Surplus)Deficit**
Fire Area A	$(166,639.25)	$166,639.25	**$ -**
Fire Area C	(94,217.49)	94,217.49	**-**
Lindsay Parks	22,848.82	-	**22,848.82**
OPP Area	(291,871.32)	291,871.32	**-**
Kawartha Lakes Police Area	(82,413.40)	82,413.40	**-**
Street-lighting Area	(242,985.69)	242,985.69	**-**
Transit Area	54,281.90	-	**54,281.90**
TOTAL (SURPLUS) DEFICIT	**(800,996.43)**	**$878,127.15**	**$77,130.72**

There are no reserves left in the Transit and Lindsay Parks area to draw down this deficit. In the past the transit deficit has been driven by lower than budget revenues however in 2017 the revenue is in line with budget. The main reason for the increased expenditures was that the Transit Strategic Plan was not budgeted and was only partially funded by Development Charges. This led to the approximately $24,000 more in deficit. In regards to Lindsay Parks area revenues remained strong throughout the 2017 year and there were increased expenses in the fleet area, with decreases in the wage area that resulted in the deficit of approximately $23,000.

Water and Sewer Surplus:

The Water and Sewer area had a surplus of $755,740. This surplus, as per Council resolution, goes to the Water and Sewer Infrastructure Reserves to support the capital program in future years.

Kawartha Lakes Haliburton Housing (KLHHC) Surplus:

Any surplus in KLHHC will be transferred to the Operating Surplus reserve in that Corporation and will be handled through motions of their Board of Directors. The surplus has arisen due to lower than expected utility costs.

Balance Sheet Accounts

Cash and Investments

Cash has decreased and investments have increased as Finance staff are trying to maximize the interest earned on excess cash. Overall the Cash and Investment area is approximately $20 Million over the previous balance in 2016. This is due to the $25 Million debenture that was raised to support the Ten Year Plan that was presented and adopted by Council in 2017.

Taxes Receivable

The balance in tax receivable went down from $6.1 Million to $4.7 Million. This shows effective collection policies however the allowance set up for doubtful collection was higher in 2017. This would involve adjustments related to appeals from various taxpayers for issues that have been resolved at the Provincial level. The resolution might result in properties receiving reduced assessment and therefore resulting in tax credits.

Accounts Receivable

Accounts receivable has increased primarily by the Water and Sewer grants that are outstanding on capital projects. This accounts for approximately $1.8 Million of the $4.9 Million increase. Another $1Million can be attributed to the amount owing back from our Benefit provider for reconciliation of actual 2017 charges versus billed 2017 charges. The rest was normal increases for grants and receivables outstanding at year end.

North West Trunk (NWT) Receivable from Landowners

Included in the Accounts receivable balance is approximately $18,367,000 in amounts owing from landowners after the construction of the NWT. Council has passed resolutions that imposed a capital charge on these landowners and also built into the resolution that their amount was not due until time of “development permission”. “Development Permission” is defined in the Capital Charge By-Law as “the permit or approval which is the earlier of the permit allowing connection of the Benefitting Owner’s land to the Northwest Sanitary Sewer Works, the issuance of a Building Permit, or approval to create a residential lot pursuant to Sections 50, 51 or 52 of the Planning Act.” In simple terms this means that the charge will primarily be paid at time of execution of a subdivision or site plan agreement. In addition to the portion of costs incurred to build the NWT Sewer infrastructure, for the landowner, Finance Staff are adding debenture interest costs and Cost of Living (COLA) increases to the receivable each year.

The external auditor has expressed concern that there have been no collections in 2017 from any landowner currently owing money on the NWT Receivable. In 2016 the landowners, who started their development, paid approximately $212,200 on this receivable. In 2017 there were no landowner payments. There is the potential for landowners to start their development in 2018 but nothing is committed at this point; however there is approval activity on approximately 200 new lots.

Council is aware that each of the properties that have not paid their capital charge, currently have a lien imposed on their property so that they can’t subdivide or develop the property without paying the NWT capital charge, at the current value (including debenture interest and COLA). It is also important to note that the majority of the lots and development are contained within the three large parcels of land bounded by Colborne, Highway 35, Thunder Bridge and Angeline Streets. Once these three parcels of land start developing, the majority of the NWT capital charges will be collected. Staff will update Council on this receivable each year to ensure that Council members are aware of the balances.

Long Term Debt
Note 7 – page 13 of the Financial Statements

In Note 7 the level of Debt has increased from $101 Million in 2016 to $115 Million in 2017. The General tax levy debt and Water and Wastewater debt has decreased indicating payments on the debt are exceeding new debt issued to finance capital projects. The only increase in 2017 is the 10 Year financial plan debt, which is not part of the overall Council imposed debt limit. As it is paid off it does not build up room in the debt limit. Debt is within the prescribed City debt limits and the annual repayment limit prescribed by the Ministry.

Deferred Revenue

Deferred Revenue has decreased by approximately $3.5 Million. This is primarily in the Development Charge Reserve area as can be seen in Note 4 on page 8. Staff have advised Council on the actual DC revenue earned and the fact that it does not match the DC study estimated revenue. In 2016 the DC revenue earned was $2,375,830 and in 2017 the DC revenue earned was $3,674,105, which indicates a modest growth. The DC reserve is currently in a Debit position, which means that we have taken more out of it for capital and operating expenditures then we have collected in revenue. Staff are estimating that the City will have to go out for debenture towards the end of 2018 to offset a debit balance of approximately $5,000,000. Finance staff are working with Engineering staff to forecast revenues and expenditures to understand future debenture requirements. A detailed listing of Deferred Revenue reserves is included in Attachment C.

Reserves and Reserve Funds
Note 8 – page 15 of the Financial Statements

Reserves and reserve funds have increased from $20.3 Million in 2016 to $47 Million in 2017. This is primarily due to the $25Million debenture that was raised in 2017 for the 10 year plan and immediately put into a committed portion of the City Capital Reserve. A list of reserves at December 31st, 2017 is included in Attachment D.

Other Alternatives Considered:

Council could choose to fund the General Rated Tax Deficit by choosing another reserve. This is not recommended as the Contingency Reserve is the primary vehicle used to fund deficits. No other operating reserve, other than area rate stabilization reserve, has enough money in it to fund this. Area rate reserves must be used on the area that they deliver services in, and there are outstanding older resolutions, mentioned in this report, that deal with surpluses in the Area Rate Deficit, Water and Sewer Surplus and the KLHHC Surplus. There are no other alternatives to consider.

Financial/Operation Impacts:

The deficit from the General Rate Deficit of $439,129 will be funded by the Contingency Reserve and will have no effect on income. The balance in the uncommitted portion of the Contingency Reserve, after this financing, will be $1,047,168.22. The deficit from the Area Rate Deficits will be financed by 2018 tax levy increases as per Council policy. The surpluses in Water and Wastewater will be transferred to the Sewer and Water Infrastructure Reserves. The KLHHC surplus will be transferred to the KLHHC Operating Reserves as per Council Policy.

Relationship of Recommendation(s) To The 2016-2019 Strategic Plan:

The 2017 Deficit Disposition Report supports the strategic goal of responsible fiscal resource management. This report details the effective use of financial resources by departments working within budget constraints.

Consultations:

Senior Management Team
Executive Assistants

Attachments:

Attachment A – 2017 Financial Statements

ATTACHMENT A - 2017 Audited Financia

Attachment B – 2017 Auditor Communication

ATTACHMENT B - 2017 Auditor Commu

Attachment C – 2017 Balance in Deferred Revenue Reserves

CORP2018-005-ATTACHMENT C.xlsx

Attachment D – 2017 Balance in Reserves

CORP2018-005-ATTACHMENT D.xlsx

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