

The Corporation of the City of Kawartha Lakes
Council Report

Report Number CORP2019-021

Date: June 11, 2019
Time: 9:00 AM
Place: Council Chambers

Ward Community Identifier: All

Title: 2018 Year End Position

Author and Title: Carolyn Daynes, Treasurer

Recommendation(s):

That Report CORP2019-021, 2018 Year End Position, be received; and

That the auditor's report be received and the audited financial statements for 2018 be approved as circulated; and

That Council authorizes the transfer of the 2018 Surplus of \$2,879,995 to the following reserves

- \$600,000 to the Contingency Reserve for WSIB Rate Stabilization
- \$200,000 to the Lindsay Street Housing Project (953170501)
- \$2,079,995 to the Asset Management Plan Reserve for future capital.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

This report provides Council with an update on the 2018 financial position. The audited financial statements are included in this report as Attachment A. The 2018 year end and the final (Surplus) Deficit position is as follows:

	(Surplus) Deficit	Transfer to Reserve	(Surplus) Deficit
General Rated Tax Surplus	\$(2,879,995)	\$ -	\$(2,879,995)
Area Rated Tax (Surplus)Deficit	(588,297)	836,026	247,729
Water and Sewer (Surplus)	(1,272,064)	1,272,064	-
KLHHC (Surplus)	(549,115)		(549,115)
Overall (Surplus)Deficit	\$(5,289,471)	\$ 2,108,090	\$(3,181,381)

The City, prior to reserve transfers, has a 2018 surplus of \$5,289,471. This is a result of increased revenue in various areas of the City and reduced expenditures. This is compared to a deficit in the 2017 year of approximately \$450,000. The surplus, in the case of Area rates and Water and Sewer, is dealt with prior to year end. Council has resolved that surpluses in these areas will be transferred to the Rate Stabilization reserve in the case of Area Rate and Infrastructure Reserves in the case of Water and Sewer.

Rationale:

General Rated Tax Deficit:

The net surplus of \$2,879,995 was attributable to the following factors:

Description	Budget 2018	Actual 2018	(Surplus) Deficit Variance
WSIB Premiums	\$ 950,000	\$ 535,968	\$ (414,032)
Winter Control	\$ 7,884,435	\$ 8,357,317	\$ 472,882
Landfill Revenue	\$ (3,894,692)	\$ (4,331,274)	\$ (436,582)
Greenshield Benefits	\$ -	\$ (638,117)	\$ (638,117)
Supplementals	\$ (600,000)	\$ (1,034,056)	\$ (434,056)
Basic Income Pilot	\$ -	\$ (401,977)	\$ (401,977)
Roads Projects	\$ 2,262,000	\$ 1,667,250	\$ (594,750)
Investment income	\$ (1,287,009)	\$ (1,489,900)	\$ (202,891)
Miscellaneous Items	\$ -	\$ (230,472)	\$ (230,472)
TOTAL SURPLUS			\$ (2,879,995)

Worker's Compensation (WSIB) Claims

Council was made aware of the increased costs in the WSIB claim area throughout 2017 and 2018. The budget for 2018 was set at \$950,000 due to the claim experience in 2017 which exceeded \$1,000,000. The 2018 actual experience was only \$535,968 due to the fact that there were lower claims in this year. However this is not expected to be repeated in 2019 due to the inclusion of more presumptive legislation that has been added throughout 2017 and 2018. The 2019 budget has been set at \$950,000 and has been trending to at least match this budget amount up to the end of May 2019. This uncertainty is one of the reasons Staff is recommending the transfer of \$600,000 of the 2018 surplus to the Contingency Reserve to stabilize the WSIB uncertainty in future budget years.

Winter Control

The winter control budget has historically been too low and in 2018 Staff increased the budget to \$7,884,435 compared to a 2017 budget of \$6,685,505. The actual experience for 2018 resulted in a total expenditure of \$8,357,318 compared to a 2017 expenditure of \$7,814,383. This increase in budget still resulted in an overage of \$472,882 for the 2018 year which was much less than the overage in 2017. Staff anticipates that winter control will continue to be a budget pressure in 2019 and have increased the budget to \$8,639,221. Up until the end of May 2019 the total expenditures in this area are trending to exceed this budget. The winter control 2019 actual will depend on the winter activity in the latter half of 2019.

Landfill Revenue

Tipping fee revenue has exceeded budget and in particular in the Fenelon (\$82,000 over budget) and Lindsay landfill (\$137,000 over budget). In addition the Blue Box grant received was approximately \$107,000 more than budgeted. This program has been overhauled resulting in a larger grant to the City of Kawartha Lakes. Finally both Scrap Metal Sales and Tire Recycling revenue generated income that was approximately \$50,000 over the 2018 budgeted amount.

Greenshield Benefits

The overall Greenshield benefits are reconciled to the City's actual experience and has resulted in a refund of approximately \$638,000. This has been adjusted to the various departments in the City.

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 2018 the total Supplementary taxes were \$1,034,055 compared to an annual budget of \$600,000. This compares to an actual in 2017 of \$605,288.

Basic Income Pilot

The Basic Income Pilot affected total expenses in the Ontario Works area as well as rent supplement expenses in the Housing division. Those programs that are income based experienced a decrease in expenses due to the increased income of the participants.

Road Projects

Various roads projects were reduced or not started due to the hot, dry summer and the early winter. There was less grass cutting and weed spraying. The ditching projects were not completed due to an early winter. Several sweeping contracts were not initiated as a decision was made to use the City equipment rather than contracting out.

Investment Income

Investment income was higher than budget due to the increased interest rate that the City was able to realize due to investment in a high interest saving account with the Municipal Finance Officer's Association's ONE fund. This saving account was open to municipalities even if other aspects of the ONE fund were not accessed, such as bond and stock trading.

Area Rated Surplus:

The area rated surplus of \$588,297 can be broken down further but it is worth noting that Staff have already dealt with the majority of the 2018 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	\$(138,791)	\$138,791	\$ -
Fire Area C	181,602		181,602
Lindsay Parks	39,513	-	39,513
OPP Area	(121,124)	121,124	-
Kawartha Lakes Police Area	(288,675)	288,675	-
Street-lighting Area	(287,436)	287,436	-
Transit Area	26,615	-	26,615
TOTAL (SURPLUS) DEFICIT	(588,297)	\$836,026	\$247,729

There are no reserves left in the Transit, Lindsay Parks or Fire Area C to draw down this deficit. The deficit in transit is due to lower than budgeted revenue, especially in the cash fares area. The Token sales for adults and seniors were over budget but the cash fares were under budget by approximately \$30,000. In regards to Lindsay Parks area revenues remained strong throughout the 2018 year and there were increased expenses in the fleet area that led to the approximate \$40,000 deficit. Overall the Fire Area C had an increased call volume that resulted in increased volunteer firefighter time as well as fleet fuel, material and repair.

Water and Sewer Surplus:

The Water and Sewer area had a surplus of \$1,272,064. 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 and increased rental revenue due to the Basic Income Pilot increase renter's income.

Balance Sheet Accounts

Cash and Investments

Cash has decreased and investments have decreased as well. There were a few large capital projects, namely the new Housing building that required

significant cash flow. Finance staff have moved around a portion of the City's investments into the higher interest savings account with the ONE Fund, as mentioned above to maximize the interest earned in the Corporation.

Taxes Receivable

The balance in tax receivable stayed at a stable level of \$4.9 million as compared to a 2017 level of \$4.7 Million. This is down from the 2016 level of over \$6 Million and is a very low level of taxes owing compared to the total taxes billed at the City of over \$135 Million.

Accounts Receivable

Accounts receivable has increased primarily by the various Housing grants for the new Housing building capital project. There are approximately \$3.6 Million in grants owing upon completion of the housing project. In addition there is the aggregate resource amount owing for 2018 which is at a higher amount than previous years due to the increase in rates for aggregate. In 2019, the receivable is \$1 Million whereas in 2017 the receivable was only \$490,000. 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 \$18,588,800 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 or 2018 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 2019 but nothing is committed at this point; however there is approval activity on various lots in Lindsay.

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.

Please note that the note above has been duplicated from the 2017 note, with only the balance and dates changed, as nothing significant has changed in this area over the 2018 year.

Long Term Debt **Note 7 – page 14 of the Financial Statements**

In Note 7 the level of Debt has increased from \$115 Million in 2017 to \$117 Million in 2018. The General tax levy debt has increased slightly indicating a larger debenture issuance than debt repayment. The Water and Wastewater debt has increased as older projects were finally completed and were financed by debentures. Overall the City 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 \$3.2 Million. This is primarily in the Development Charge Reserve area as can be seen in Note 4 on page 10. Staff have advised Council on the actual DC revenue earned and the fact that it does not match the DC study estimated revenue. In 2017 the DC revenue earned was \$3,674,105 and in 2018 the DC revenue earned was \$4,862,067 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 than we have collected in revenue. Staff are estimating that the City will have to go out for debenture towards the end of 2019 to offset a debit balance of approximately \$10,000,000. 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 of this report.

Reserves and Reserve Funds **Note 8 – page 16 of the Financial Statements**

Reserves and reserve funds have decreased from \$47 Million in 2017 to \$41 Million in 2018. This is primarily due to the use of a portion of the \$25 Million

debenture that was raised in 2017 for the 2018 capital program. A list of reserves at December 31st, 2018 is included in Attachment B.

Staff Recommendation for Surplus:

Staff are recommending that the 2018 General Rated Surplus of \$2,879,995 be dispersed as follows:

Contingency Reserve – WSIB	\$ 600,000
Housing Project	200,000
Asset Management Plan Reserve	<u>2,079,995</u>
	<u>\$ 2,879,995</u>

The reasoning behind each transfer is described below.

Contingency Reserve - WSIB:

The amount of presumptive legislation that is being added each year for the WSIB liability gives Staff cause for concern as to the level of WSIB payments that will be incurred in future years. Major claims are expected that could be retroactive to the year of occurrence as new legislation comes into play. The budget for WSIB claims in 2019 has stayed the same as 2018 however if a reserve is established that can be used in years where expenditures sky rocket then we can better smooth out the WSIB effect on the bottom line of the corporation. The under expenditure for 2018 was approximately \$600,000 and that is what is being recommended to be transferred to the Contingency Reserve to be committed to WSIB rate stabilization.

Housing Project:

In 2016 the Housing Project on Lindsay Street was started. PUR2016-045 which was a Feasibility Study/Design for Affordable Housing and City Office Space was presented to Council with a request for funding of \$100,000 from the Property Development Reserve which was transferred in 2016 to the Capital Project. However included in that report was the operating funding of \$200,000 from the Building and Property Division Budget that was never transferred to the Capital Project. It is recommended that this \$200,000 be taken from the 2018 surplus and transferred to the Housing Project on Lindsay Street (Project # 953170501) in order to balance out their original budget allocation.

Asset Management Plan Reserve:

By the end of 2019 the Asset Management Plan Reserve will have a balance of \$1,183,865 which is lower than predicted by the Long Term Financial Plan. This is the reserve that holds the money from the \$25 Million debenture. At the time

of the adoption of the Long Term Financial Plan in 2016 the balance in this reserve was predicted to be \$10.4 million at the end of 2019. Therefore Staff are recommending that the remainder of the surplus, or \$2,079,995, be transferred to the Asset Management Plan Reserve for use in future capital budgets.

The Capital reserve, which is used to fund deficits in current capital projects, has an estimated balance of \$1,607,742, which is sufficient for its purpose.

Other Alternatives Considered:

Council could choose to transfer the overall surplus to other reserves however this is not recommended. Finance staff will be bringing out a long term reserve plan in the fall of 2019 and for the short-term the reserve balances are sufficient for the purposes of the 2019 budget, with the exception of the WSIB issue as well as the Asset Management Plan Reserve balance. The need to top up the financing for the Lindsay Street Housing project is only to bring the project up to the correct financing level. There are no other alternatives to consider.

Financial/Operation Impacts:

The General Rated surplus of \$2,879,995 will be transferred to the areas mentioned above and will have no effect on the bottom line of the City for 2019. The deficit from the Area Rate Deficits will be financed by 2019 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 2018 Year End Position 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 -
CKL.pdf

Attachment A – 2018 Financial Statements



ATTACHMENT A1 -
TRUST.pdf



ATTACHMENT B.pdf

Attachment B – 2018 Auditor Communication

Attachment C – 2018 Balance in Deferred Revenue Reserves



ATTACHMENT C.pdf



ATTACHMENT_D_xls
x.pdf

Attachment D – 2018 Balance in Reserves

Department Head E-Mail: jstover@kawarthalakes.ca

Department Head: Jennifer Stover, Director of Corporate Services

Department File: Corporate Services