



## Council Report

Report Number CORP2020-008

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**Meeting Date:** September 15, 2020  
**Title:** 2019 Surplus Disposition Report  
**Description:** Disposition of 2019 Surplus  
**Author and Title:** Carolyn Daynes, Treasurer

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### Recommendation(s):

**That** Report CORP2020-008, **2019 Surplus Disposition Report**, be approved as circulated;

**That** the financial statements for 2019 be approved as circulated; and

**That** Council authorizes the transfer of the 2019 Surplus of \$2,999,743 to the Contingency Reserve committed for Council; and

**That** staff report back to Council during the 2021 budget deliberations on options for disposition of the 2019 surplus.

**Department Head:** \_\_\_\_\_

**Financial/Legal/HR/Other:** \_\_\_\_\_

**Chief Administrative Officer:** \_\_\_\_\_

## Background:

This report provides Council with an update on the 2019 financial position. The audited financial statements are included in this report as Attachment A. The 2019 year end and the final (Surplus) Deficit position is as follows:

	<b>(Surplus) Deficit</b>	<b>Transfer to Reserve</b>	<b>(Surplus) Deficit</b>
General Rated Tax Surplus	\$ (2,999,743.00)	\$ -	\$ (2,999,743.00)
Area Rated Tax (Surplus)Deficit	\$ (501,175.00)	\$ 527,097.00	\$ 25,922.00
Water and Sewer (Surplus)	\$ (1,158,172.00)	\$ 1,158,172.00	\$ -
KLHHC (Surplus)	\$ (258,725.00)	\$ -	\$ (258,725.00)
<b>Overall (Surplus)Deficit</b>	<b>\$ (4,917,815.00)</b>	<b>\$ 1,685,269.00</b>	<b>\$ (3,232,546.00)</b>

The City, prior to reserve transfers, has a 2019 surplus of \$4,917,815. This is a result of increased revenue in various areas of the City and reduced expenditures. This is compared to a surplus in the 2018 year of approximately \$5,289,471. The surplus, in the case of Area rates and Water and Sewer, is dealt with prior to year-end and reserve transfers are made to the various reserves, prior to audit. 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 \$2,999,743 was attributable to the following factors:

<b>Description</b>	<b>Budget 2019</b>	<b>Actual 2019</b>	<b>(Surplus) Deficit Variance</b>
Supplementary Taxes	\$ (600,000.00)	\$ (987,477.00)	\$ (387,477.00)
Penalties and Interest on Taxes	\$ (1,107,000.00)	\$ (1,321,908.00)	\$ (214,908.00)
Investment income	\$ (862,779.00)	\$ (1,285,007.00)	\$ (422,228.00)
Tax Sales	\$ -	\$ (190,995.00)	\$ (190,995.00)
Green Shield Recovery	\$ -	\$ (390,131.00)	\$ (390,131.00)
Tax Rebates and Write-Offs	\$ 769,500.00	\$ 596,118.00	\$ (173,382.00)
Special Projects	\$ 822,000.00	\$ 473,530.00	\$ (348,470.00)

Lease Payments	\$ 369,254.00	\$ 34,855.00	\$ (334,399.00)
Arena Hall and Ice Rental	\$ (1,865,181.00)	\$ (2,066,500.00)	\$ (201,319.00)
Pay Equity Accrual	\$ -	\$ (480,610.00)	\$ (480,610.00)
Winter Control	\$ 8,639,221.00	\$ 11,276,163.00	\$ 2,636,942.00
Streetlight	\$ 910,253.00	\$ 790,449.00	\$ (119,804.00)
Roads Projects	\$ 15,450,884.00	\$ 13,233,343.00	\$ (2,217,541.00)
Miscellaneous Items	\$ -	\$ (155,421.00)	\$ (155,421.00)
<b>Total Surplus</b>	<b>\$ 22,526,152.00</b>	<b>\$ 19,526,409.00</b>	<b>\$ (2,999,743.00)</b>

### **Supplemental Taxes**

This budget line is very difficult to predict and the City experience is trending higher than the budget of \$600,000. In 2018 the City raised just over \$1Million in Supplemental taxes compared to \$988,000 in 2019. Total supplemental taxes raised in 2017 were \$605,288.

### **Penalties and Interest on Taxes**

The budget in this area has stayed constant at \$1,107,000 for many years. The City has generated over this amount for the past few years. This is an indication of tax arrears as well as the aging of those same arrears. The City earned \$1.3 Million in 2019; \$1.2 Million in 2018 and \$1.1 Million in 2017. The tax arrears in those same years were \$5.6 Million; \$4.9 Million in 2018 and \$4.7 Million in 2017. Therefore, the increased penalties and interest on taxes are indicative of the tax arrears balance.

### **Investment Income**

Short term interest rates rose during 2019 whereas long term rates stayed relatively low. Staff took advantage of the short term rate increase and put money away in high interest savings accounts that generated interest rates higher than the bank account rate. This increased the amount of income the City generated by utilizing surplus funds that could only be invested for a short time period as they would be needed in the short term for cash-flow.

### **Tax Sales – Forfeited Surplus**

Tax Sales result from properties that are more than 3 years in arrears. Properties are sold at public auction and the minimum tender is the value of the tax arrears and any legal fees incurred by the municipality. Any excess money received is held by the Crown and the landowner or any person who had an interest in the land prior to the tax sale can make application to receive the proceeds. If no-one makes any applications Section 380 of the Municipal Act

explains how these excess funds are to be distributed. Prior to 2018 the funds were held by the Crown for one year and if no-one made an application the funds would go to the Municipality involved in the tax sale. This has now changed for properties where tax arrears certificates are registered after January 1, 2018. The proceeds of sale, less the tax arrears and legal costs, are now held for 10 years by the Crown. Application can still be made by the landowner and anyone having an interest in the land, however after 10 years the amount left is now transferred to the Crown.

In 2019 the City received proceeds from tax sales that exceeded the arrears and the legal costs. One property in 2018 sold approximately \$180,000 over the minimum tender bid. As this is a very unreliable source of revenue Staff do not budget for this and any funds received flows to the overall surplus at year end. In 2018 the forfeited surplus was only \$33K and in 2017 there were no forfeited surpluses.

### **Greenshield Benefits**

The overall Greenshield benefits are reconciled to the City's actual experience and has resulted in a refund of approximately \$391,000. This has been adjusted to the various departments in the City.

### **Tax Rebates and Write Offs**

The City offers various tax rebate programs such as Charity Rebates and Low Income Supplement. In some years the rebate is fully utilized while in other years the actual comes in lower than budget. The rebates in 2019 were slightly lower than budget. In addition, there was a budget error in that Staff budgeted for vacancy rebates when this program no longer exists. This resulted in a further surplus in this area.

The City offers a tax write off program as well where property owners can apply to MPAC to get their taxes reassessed. As well fires and various vacancies can result in a tax write off. In 2019 the tax write offs were approximately \$75K below budget.

### **Special Projects**

In 2019 the special project program was still in the operating budget and were often in a surplus position. In 2020, special projects were removed from the operating budget and a separate budget was created to provide greater transparency. These projects, while operating in nature, take longer than one year to complete and these funds would flow to the bottom line of the corporation in one year and then be included again in the budget for the next year, thus raising taxes for the project twice. Some of this surplus was transferred to 2020 special projects but the majority of it flowed to the bottom line of the corporation.

### **Lease Payments**

The delay in the construction of 68 Lindsay Street has resulted in a surplus position in the maintenance expenses for this property as well as the lease payments for the 322 Kent Street property. The Engineering and Public Works move to 322 Kent Street was not accomplished until 2020 and the move of the Human Services staff to 68 Lindsay St. was delayed significantly. Therefore, Community Services had budgeted to pay the 322 Kent Street rent, with the assumption that the Human Services move would happen earlier in the year. Human Services Staff moved in late summer of 2019 and continued paying rent at 322 Kent Street until that time. The maintenance expenses at 68 Lindsay Street did not start occurring until after the Human Service move so they were much lower than anticipated.

### **Arena Hall and Ice Rental**

This revenue area came in approximately \$200,000 over budget. The biggest locations for the increase were in Lindsay and Fenelon Falls. The budget had been increased from 2018 by approximately \$100,000 but the actual revenue received was over \$2 Million as compared to only \$1.7 Million in 2018. In 2017 the amount raised was close to the 2018 level.

### **Pay Equity Accrual**

Staff have been accruing an estimated amount owing for Pay Equity for a number of years. The payout was completed in 2019 and the accrual was approximately \$500K over what was actually paid.

### **Winter Control**

In the last few years the City has experienced early winters beginning in October/November, which extend the winter season and impacts costs. There has been an increase in the number of winter ice storms of continuous duration, as well as freeze/thaw events; which impacts material costs due to the application of pure salt on arterial roads. Contract costs are also impacted due to the prolonged nature of these events. In 2019 the total spent on winter control exceeded \$11.2 Million to manage winter events to meet the City's desired level of service. Winter control is highly unpredictable and the reason PW and Finance Staff continue to recommend that a Winter Control Contingency Reserve is required to manage annual fluctuations.

## **Streetlights**

The City has undertaken projects for the installation of LED lights in streetlights, with approximately 80% being converted at this time. The budget and expenditures have been gradually decreased. The budget for hydro in this area had decreased from 2018 by \$25K and 2020 is decreased even further. The following shows the hydro expenses from 2017 to 2019.

2017	\$ 663,183
2018	\$ 663,726
2019	\$ 596,536

Staff continue to monitor the savings and adjust budgets accordingly.

## **Road Projects**

Due to the weather patterns, there was less grass cutting and weed spraying required in 2019 which led to reduced costs when compared to budget. The ditching projects were cut short due to an early onset of winter. Several sweeping contracts were not initiated as a decision was made to use the City equipment rather than contracting out.

Staff continue to balance operational priorities with staffing limitation when delivering work programs.

## **Area Rated Surplus:**

The area rated surplus of \$501,175 can be broken down further but it is worth noting that Staff have already dealt with the majority of the 2019 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:

<b>Area Rate</b>	<b>Initial (Surplus)Deficit</b>	<b>To/(From) Reserve</b>	<b>Remaining (Surplus)Deficit</b>
Fire Area A	\$ 30,918.00	\$ (30,918.00)	\$ -
Fire Area C	\$ (21,316.00)	\$ 21,316.00	\$ -
Lindsay Parks	\$ (35,357.00)	\$ 35,357.00	\$ -
OPP Area	\$ (9,363.00)	\$ 9,363.00	\$ -
Kawartha Lakes Police Area	\$ (291,553.00)	\$ 291,553.00	\$ -
Street-lighting Area	\$ (200,426.00)	\$ 200,426.00	\$ -
Transit Area	\$ 25,922.00	\$ -	\$ 25,922.00
<b>Total (Surplus) Deficit</b>	<b>\$ (501,175.00)</b>	<b>\$ 527,097.00</b>	<b>\$ 25,922.00</b>

There are no reserves left in the Transit Area to draw down this deficit. The deficit will be funded through the 2020 tax levy. Revenues for ridership were up from 2018 but still slightly below budget.

#### **Water and Sewer Surplus:**

The Water and Sewer area had a surplus of \$1,158,172. This surplus, as per Council resolution, goes to the Water and Sewer Infrastructure Reserves to support the capital program in future years. The surplus is primarily due to under expenditure of debt principle and interest payments. This is due to the length of time taken to complete projects and therefore the timing of the debenture.

#### **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 leasing costs for 68 Lindsay Street due to the delay in moving tenants into the building as well as increased rental revenue.

#### **Balance Sheet Accounts**

##### **Cash and Investments**

Overall Cash and Investments are lower than 2018 by approximately \$8 Million. This is due to some large capital projects in Housing and in the City that place a demand on cash flow. The lower Development Charge Reserve has also reduced cash balances as the money is spent prior to the funds being available in the reserve. Staff are working with Engineering to ensure that Development

Charges are minimally used in the Capital budget, until DC collections start replenishing the reserve.

### **Taxes Receivable**

The balance in tax receivable has risen slightly from the 2018 balance of \$4.9 million. The 2019 tax arrears balance of \$5.6 Million is still well within guidelines prescribed by the Ministry of Municipal Affairs for this line item. The tax arrears balance should be below 10% of the total taxes levied. The total taxes levied for the City, including the School Board levy, is approximately \$141 Million in 2019. The total tax arrears as a percentage of total tax revenue is only 3.9% which is an exceptional ratio value.

### **North West Trunk (NWT) Receivable from Landowners**

The North West Trunk (NWT) Receivable has not had any payments received from developers in a number of years. As stated in last year's report this is something that the auditors wanted to bring to Council's attention to ensure that they are aware of this going forward.

Included in the Accounts receivable balance is approximately \$19,566,080 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 since 2016 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. While there is approval activity and construction in the NWT area there have been no payments received since 2016.

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 paragraphs above has been duplicated from the 2017 and 2018 note, with only the balance and dates changed, as nothing significant has changed in this area over the 2019 year.

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

In Note 7 the level of Debt has increased from \$117 Million in 2018 to \$121 Million in 2019. The General tax levy debt has increased by approximately \$8.5 Million but this increase is primarily a special debenture to offset a negative balance in the Development Charge Reserve. The repayment of this debt will be from future Development Charge revenue. The Water and Wastewater debt has decreased as the Water and Sewer Infrastructure Reserves are being utilized to fund capital projects and therefore not requiring as much debenture financing as in previous years. 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 increased by approximately \$8Million. This increase is in two areas. The first area is the Federal and Provincial Gas Tax Reserves. The City received an additional amount from Infrastructure Gas Tax of approximately \$4.6 Million. This is being used to fund projects in 2019 as well as 2020.

The second area is the Development Charge Reserve which has gone into a negative position in 2019. Staff have advised Council on the actual DC revenue earned and the fact that it does not match the DC study estimated revenue. Council has been advised that the current capital program, set out in the DC study, can't be executed unless we see a significant increase in DC collections. Please see below for the amount of DC revenue that has been collected since 2017:

2017	\$3,674,105
2018	\$4,862,067
2019	\$ 409,759

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 went out for debenture of \$7.9 Million, at the end of 2019, to replenish the DC reserve. Finance staff are working with Engineering staff to forecast revenues and expenditures to understand future debenture

requirements. A list of deferred revenue reserves at December 31, 2019 is included in Attachment B.

### **Reserves and Reserve Funds**

Note 8 – page 16 of the Financial Statements

Reserves and reserve funds have decreased from \$41 Million in 2018 to \$34 Million in 2019. This is primarily due to the reduction in the Capital Reserve, which is used to fund capital projects as per the 10 Year financial plan. A list of reserves at December 31<sup>st</sup>, 2019 is included in Attachment C.

### **Staff Recommendation for Surplus:**

Staff are recommending that the 2019 General Rated Surplus of \$2,999,370 be dispersed as follows:

Contingency Reserve – Council	\$	2,999,370
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The resolution to transfer to the Contingency Reserve is being recommended due to the uncertainty around the estimated 2020 year-end surplus/deficit. The Covid pandemic has caused major reductions in revenue and increased costs in many areas of the City for emergency response as well as personal protective equipment. The uncertainty around a second wave of the pandemic is a concern and the further impact that will have on the finances in the City. In putting this to the Contingency Reserve Council can utilize it to help finance 2021 operating and capital budgets or deal with the second wave of the pandemic.

Staff would be remiss if the Winter Control Contingency Reserve was not strongly recommended as a use for a portion of this surplus. The unpredictability of that area requires that the City prepares for future highs and lows in this area over the next few years. A Contingency reserve is ideal to help normalize the swings in this area.

### **Other Alternatives Considered:**

Council could choose to transfer the overall surplus to other reserves however this is not recommended.

### **Alignment to Strategic Priorities**

The 2019 Year End Position Report supports the strategic goal of Good Government. This report details the effective use of financial resources by departments working within budget constraints.

## Financial/Operation Impacts:

The General Rated surplus of \$2,999,753 will be transferred to the Contingency Reserve committed to Council no effect on the bottom line of the City for 2020. The deficit from the Area Rate Deficits has been financed by 2020 tax levy increases as per Council policy. The surpluses in Water and Wastewater has been transferred to the Sewer and Water Infrastructure Reserves. The KLHHC surplus will be transferred to the KLHHC Operating Reserves as per Council Policy.

## Consultations:

Senior Management Team  
Executive Assistants

## Attachments:



ATTACHMENT A -  
2019 Draft Financial S

### Attachment A – 2019 Draft Financial Statements



ATTACHMENT B -  
2019 Balance in Defer

### Attachment B – 2019 Balance in Deferred Revenue Balances



ATTACHMENT C -  
2019 Balance in Reser

### Attachment C – 2019 Balance in Reserves

Department Head E-Mail: [jstover@kawarthalakes.ca](mailto:jstover@kawarthalakes.ca)

Department Head: Jennifer Stover

Department File: Corporate Services