



Council Report

Report Number: CORP 2021-011
Meeting Date: June 15, 2021
Title: 2020 Surplus Disposition Report
Description: 2020 Audit Results
Author and Title: Carolyn Daynes, Treasurer

Recommendation(s):

That Report 2021-011, 2020 Surplus Disposition Report, be received;

That the financial statements for 2020 be approved as circulated; and

That Council authorize the transfer of the 2020 Surplus as follows:

- The Winter Control surplus of \$1,000,000 be transferred to the General Contingency Reserve committed to Winter Control; and
- The Workman's Safety and Insurance Board (WSIB) claims surplus of \$300,000 be transferred to the General Contingency Reserve committed to WSIB; and
- That the remainder of the 2020 Surplus of \$3,294,454 be transferred to the Asset Management Reserve (formerly the Capital Reserve).

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

This report provides Council with an update on the final 2020 financial position. The audited financial statements are included in this report as Attachment A. The 2020 year end and the final (Surplus) Deficit position is as follows:

	(Surplus)Deficit	Transfer to Reserve	(Surplus) Deficit
General Rated Tax (Surplus)	\$ (4,594,454)	\$ -	\$ (4,594,454)
Area Rated Tax (Surplus) Deficit	\$ (646,144)	\$ 723,877	\$ 77,733
Water and Sewer (Surplus)	\$ (835,785)	\$ 835,785	\$ -
KLHHC (Surplus)	\$ (155,787)	\$ -	\$ (155,787)
Overall (Surplus) Deficit	\$(6,232,170)	\$1,559,662	\$(4,672,508)

The City, prior to reserve transfers, has a 2020 surplus of \$6,232,170. The COVID19 pandemic has greatly affected many actual 2020 revenue and expenditures. Council will recall that the focus for the first six months of the pandemic was cost reduction. Staff went through an exercise of looking at cash flow and ensuring that there was enough money to pay base operating expenses and manage a reduced capital program, due to delays around government shutdowns. The City was facing the shutdown of many revenue generating programs and an initial estimate of revenue loss was in excess of \$3 Million. Cash flow management was key in trying to recover the projected revenue loss and break even at the end of the year. During this time there was no indication from the Provincial or Federal Government that any pandemic grants were available for the municipal sector, with the exception of Human Services. It was not until mid-August 2020 that the Municipality was informed of Phase 1 of the Safe Restart Program.

The 2020 surplus can be compared to a surplus in the 2019 year of \$4,917,815. 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. The majority of the remaining deficit in the Area Rate will be raised in Tax Levy in 2021. Council resolved, in prior years, that surpluses in Area Rate and Water and Wastewater will be transferred to reserves and any deficits will be funded from these same reserves.

Rationale:

General Rated Tax Surplus:

The net surplus of \$4,594,454 was primarily attributable to the tight cash flow management in the first six months of the pandemic. The focus for the first 6 months of the year was to concentrate on essential expenses only in all departments. The surplus can be attributed to the following areas in the City's budget:

Description	Budget 2020	Actual 2020	(Surplus)Deficit Variance
Supplementary Taxes	\$ (600,000)	\$ (701,763)	\$(101,763)
Overall User Revenue	(14,151,133)	(12,801,023)	1,350,110
Pandemic Expenses	-	605,567	605,567
Overall Training	605,167	232,618	(372,549)
Overall Utilities	3,931,995	3,005,783	(926,212)
Overall Vehicle Fuel	\$2,053,803	1,677,655	(376,148)
Pandemic Wage costs	2,521,492	-	(2,521,492)
Cemetery Administration	232,250	85,512	(146,738)
Ontario Works Administration	2,014,462	1,622,990	(391,472)
Roads City Wide	4,206,753	3,223,353	(983,400)
Winter Control	9,467,654	8,437,621	(1,030,033)
Miscellaneous Items	-	299,676	299,676
Total Surplus	\$ 10,282,443	\$5,687,989	\$(4,594,454)

Supplementary Taxes

This budget line is very difficult to predict. A budget amount of \$600,000 has been included for a number of years for this line item. The actual amount raised in supplemental taxes for 2020 was \$701,763 compared to the 2019 amount of \$987,477. This would be a factor of the pandemic due to government shutdowns during periods of the year. The actual supplemental taxes earned since 2017 is as follows:

2020	\$ 701,763
2019	\$ 987,477
2018	\$1,034,056
2017	\$ 605,288

Overall User Fee Revenue

The pandemic affected user fee revenue especially in Community Services programs, Provincial Offences Revenue, Library Revenues, Transit fees, Tax and Utility Administration Fees and Parking fees. The total lost revenue for the year for these areas was approximately \$2.8 Million.

However, there were areas that had increased revenues that offset the loss above. Paramedics were funded through the Ross Memorial Hospital for the Community Para Medicine Program that Council initially funded in 2019. The landfill tipping fees were actually over budget by approximately \$130,000 due primarily to fees realized at the Somerville Landfill. The Coboconk school house demolition increased tipping fees in that landfill by over \$250,000. Other areas that came in over budget in the revenue area were Cemetery fees, scrap metal sales, Fire recoveries, Fenelon Powerlinks new contract revenue and Engineering development fees.

At the end of the year the user revenue total was only \$1,350,000 under budget.

Pandemic Expenses

Once the pandemic emergency was declared, Finance Staff set up a separate business unit to track all pandemic costs outside of wages. This would include technology related items, cleaning supplies, personal protective equipment, extra cleaning contracts and building maintenance and repair expenses. This would not include any expenses that were covered specifically by a grant for Human Services, Paramedics or Victoria Manor. Those were tracked separately and for the most part funded by COVID19 specific grants. The total remaining expenses totalled \$605,567 and were not

included in the 2020 operating budget. It should be noted that the expenses above do not include employee related pandemic costs (ie. Cost of staff staying home due to illness, quarantine, etc) These are spread out through the departments and are tracked by a separate pay code.

Overall Training

Training, overall for the City, is much lower than budget. This is a direct result of the pandemic as various conferences and meetings that Staff would normally attend were done virtually through webinars. The cost of the conferences was still incurred but there was reduced costs for travel and accommodation. As well some training sessions in the first part of 2020 were cancelled.

Overall Utilities

City buildings were not all open during the pandemic. At the beginning of the pandemic there were very few buildings open to staff or to the public. As the City moved through the summer more buildings were open but then closed again at the end of the year. The utilities would therefore be expected to be significantly under budget as gas, hydro and water would not be utilized to the same extent as the previous year. In addition, the Provincial government reduced the hydro rates in 2020 and this would have an impact on costs. The utility area resulted in reduced expenditures of approximately \$930,000.

Overall Vehicle Fuel

The pandemic lockdowns created an under budget result in vehicle fuel. The initial lockdown saw most vehicles, except essential service vehicles, grounded and not in use. This resulted in a surplus of approximately \$380,000.

Pandemic Wage Costs

When the pandemic hit some services were decreased in the Community Services area which resulted in short term layoffs for staff. In addition, some staff voluntarily chose to take a leave during the pandemic shutdown. As well, a decision was made not to hire students for the summer which further reduced wage costs. And finally all hiring of new staff, included in the budget or replacing a current vacant position, were delayed after the emergency announcement, with the exception of those that were deemed essential. All these total to approximately \$2.5 Million of wage expenses, including reduced benefits, that were in the 2020 budget but were not spent due to the pandemic. It should be highlighted that this does not include employee related

pandemic costs (ie. Cost of staff staying home due to illness, quarantine, etc), similar to the statement included with overall pandemic costs.

Cemetery – Administration

This entire area was under budget by almost \$150,000 in 2020. The reason behind the reduced costs is the departure of the Cemetery administrator in early 2020 and a delay in posting and filling of this position due to the pandemic. The Cemetery administration was handled by various other staff until the position could be filled. Overall the cemetery area performed well with revenues coming in over budget.

Ontario Works Administration

The administration area of Ontario Works had reduced expenses of approximately \$400,000 due to the pandemic. There were reduced wages as staff had retired or were on leaves and there were no replacements hired. In addition, overall regular office expenses were reduced during the pandemic as staff were working from home. And finally there was a reduced demand for clients with regard to Employment Support.

Roads City Wide

This is an area of the Public Works budget where various items that are considered common to all areas of the City are included. This would include shoulder rehabilitation, roadside protection, line and symbol painting to name a few. This area was under budget by approximately \$1,000,000. As noted earlier in the report, at the beginning of the pandemic in the Spring of 2020, all departments were asked to indicate areas where costs could be reduced in order to offset the overall projected revenue loss of the City as a whole. This area was a primary focus of the Public Works reductions. In total, Public Works reduced this area by approximately \$600,000. This included reductions in all areas but the larger reductions were in ditching, sweeping and roadside protection. The further \$400,000 was realized through activities that could not be completed due to the pandemic shutdowns and stay at home orders.

Winter Control

In 2020 the City experienced a much milder winter. The total average number of winter events in 2020 were 42 compared to 2019 where there were 56. This led to a reduction in costs and an under budget position of over \$1,000,000 at the end of the year. One of the resolutions above is to transfer this surplus into the Contingency Reserve, committed to Winter Control. This is greatly needed to offset the volatility and unknown weather patterns from year to year.

The history of Winter control expenditures over the past 5 years is as follows:

Year	Budget	Actual	(Surplus) Deficit Variance
2020	\$ 9,467,654	\$ 8,437,621	\$ (1,030,033)
2019	8,639,221	11,276,163	2,636,942
2018	7,884,435	8,357,318	472,883
2017	6,685,505	7,814,383	1,128,878
2016	6,259,132	5,894,050	(365,082)

It can be seen by the table above that there is no predictably as to the total winter control expenses on a year to year basis. The only commonality is that the costs are increasing, except for the 2020 pandemic year. This unpredictability can be lessened by establishing a reserve where surpluses in prior years will fund overages in future years.

The 2021 Winter Control area is trending lower than 2020 and 2019 at this time. If there is a typical winter season in the final quarter of 2021 Staff are projecting that there will a surplus in the winter control portion of the budget in 2021.

Area Rated Surplus:

The area rated surplus of \$646,144 can be broken down further into the various area rates. It should be noted that Staff have already transferred any 2020 surplus positions to reserves and funded any deficit positions if there were funds in that portion of the Area Rate Stabilization Reserve. In 2016, 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) deficit and reserve treatment are as follows:

Area Rate	Initial (Surplus) Deficit	To/(From) Reserve	Remaining (Surplus) Deficit
Fire Area A	\$ 122,093	\$ (67,965)	\$ 54,128
Fire Area C	(536,384)	536,014	(370)
Lindsay Parks	(78,648)	78,854	206
OPP Area	4,866	(4,866)	-
Kawartha Lakes Police Area	(10,242)	11,067	825
Street lighting Area	(170,717)	170,773	56
Transit Area	22,888	-	22,888
Total (Surplus) Deficit	\$ (646,144)	\$ 723,877	\$ 77,733

Fire Area A

Fire Area A was over budget in 2020 primarily due to some insurance claims on various equipment that were funded by the area rate tax levy. There was only enough left in the Fire Area A Rate Stabilization Reserve to fund a portion of the deficit. Therefore, the remaining deficit will be raised in the 2021 tax levy calculation.

Fire Area C

Fire Area C was significantly under budget due primarily to lower Volunteer Firefighter (VFF) wages than projected. The VFF wages were under budget by approximately \$390,000. The reason for the reduction in costs can be attributed to the following:

- The number of fire calls in 2020 was 1,504 in Area C compared to a 2019 total of 1,672 which is a 10% reduction. This would show up in reduced VFF wages
- Calls to Motor Vehicle accidents were decreased in 2020 due to the pandemic and people travelling less
- There was no recruit hiring in 2020 which would reduce wage expense.
- Training for all fire fighters was significantly affected by the pandemic. This is reflected in wages as well as training above as the VFF are paid for their training hours. The ability to have on-site training for a group of staff was severely limited throughout 2020 and resulted in reduced wages. In addition, the Fire college was shut down at the beginning of the pandemic and therefore further restricted the ability for training within the fire service.

Lindsay Parks

Lindsay Parks surplus was entirely due to the COVID19 Pandemic. There were losses in revenue but there were also reductions in wages as students were not hired in the Summer of 2020.

Street lighting

This area continues to show a surplus each year due to the installation of LED streetlights. The budget for 2020 hydro was reduced to \$700,000 from \$720,000 in 2019 however, the actual hydro expense was only \$520,756 which is a surplus of approximately \$178,000.

The installation of LED streetlights has resulted in a decrease in hydro each year from 2018 as illustrated below:

2020	\$520,756
2019	\$596,536
2018	\$663,726

Staff continue to monitor the savings and adjust budgets accordingly.

Transit

The Transit area was significantly affected by the COVID pandemic lockdowns. The total user fee revenue, included in the 2020 budget, was \$188,250 and actual revenue earned was only \$99,000. This resulted in a budget deficit of \$89,250. There were reductions in other budget lines and the area received Transit Safe Restart grants to offset these reductions in revenue as well as the extra cleaning needed for the buses due to the pandemic. The overall deficit of \$22,888 was a combination of reduced revenue and reduced expenses as well as grants to offset some of these budget deficits. The deficit will be included in the 2021 tax levy calculations.

Water and Sewer Surplus:

The Water and Sewer area had a surplus of \$835,785. This surplus, as per Council resolution, goes to the Water and Sewer Infrastructure Reserves to support the capital program in future years.

This area was not as affected by the COVID pandemic as other areas in the City. Water and Sewer user fees were slightly over budget for the year. There was some fluctuation in the materials and contracted expenses areas and this is contributing to a portion of the surplus. Principle and interest payments on long term debt were on budget this year. Finally, Internal allocations were under budget for the year due to reduced expenses in the utility billing area.

Kawartha Lakes Haliburton Housing (KLHHC) Surplus:

The KLHHC area had a surplus of \$155,787. This will be transferred to the KLHHC Operating Surplus Reserve in 2021. This surplus resulted from increased rental income as well as decreased costs in property taxes and utilities.

Trust Financial Statements:

The Trust Financial Statements in Attachment D represent funds that are specifically set aside by legislation. The largest trust fund that the City administers is the Cemetery Perpetual Care Trust Funds. This is a fee that is collected as part of the cemetery plot sale which is required to be put in a separate fund to allow for care and maintenance of the cemetery for future years. This revenue is to be invested and only the interest portion of the investment can be utilized each year to cover cemetery maintenance expenses.

Balance Sheet Accounts:

Cash

The Cash balance is up from last year due to the many pandemic grants that were received later in the year. In addition, the tax due dates were later this year due to the pandemic and therefore more cash was on hand at the end of the year. In a typical year, the cash balance is lower due to the fact that the due date is in September and our next large cash infusion is not until the first due date in February of the following year.

Investments

The Investment balance is lower in 2020 than in 2019 due to the later due date, as mentioned above, due to the pandemic. In addition, Treasury cashed in approximately \$10Million in investments in order to cash flow the City until the government funding was received in early Fall. This was restored in the 2021 year, after the 2020 year end was complete.

Taxes Receivable

The balance in taxes receivable has risen approximately \$5 Million from the 2019 level. This is primarily due to the pandemic and the state of the economy during the 2020 year. The total tax arrears as a percentage of total tax revenue is 7% which is well within the Ministry guideline of 10% of total tax revenue. It is worth noting, that the 2019 tax arrears ratio of 3.9%. The collections of taxes will be a focus in the next few years as the economy recovers.

North West Trunk Receivable from Landowners

The North West Trunk (NWT) Receivable has been a concern with the auditors as there have been no significant payments over the last few years. In 2020 we did receive payments totalling \$425,336 bringing the receivable to a balance of \$19,651,876. This amount is included in the total Accounts receivable figure of \$45.6 Million.

The Auditors have asked to provide some background so that all councillors and the public understand the large receivable balance. Council 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.

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 (included debenture interest and COLA). There has been some activity in 2020 within the three large parcels of land bounded by Colborne, Highway 35 and Angeline Street which is good news considering these areas contain the largest portion of what makes up the NWT capital charge. Staff has committed to updating Council each year on the balance and the collections in this receivable.

A portion of the above paragraphs have been duplicated from the 2018 and 2019 note, in accordance with auditor direction.

Deferred Revenue

Note 4 – page 11 of the Financial Statements

The deferred revenue balance has decreased by approximately \$3 Million. This is primarily found in the Obligatory reserve funds and specifically in the Federal and Provincial Gas Tax Reserves. The Gas Tax Reserve balance of \$6.6 million in 2019 includes an extra Federal Gas Tax payment of \$4.7 Million. The City was given the original Gas Tax grant in 2019 and later in the year were advanced an additional payment of slightly more than their first Gas Tax Grant. This second Gas Tax amount was utilized in 2020 on various capital projects.

A list of deferred revenue reserve funds at December 31, 2020 is included in Attachment B.

Long Term Debt

Note 7 – page 14 of the Financial Statements

In Note 7 there is a breakdown of debt by Tax levy, Water and Sewer, Northwest Trunk Developer Debt, Tile Drainage and Kawartha Lakes Haliburton Housing Debt. Total debt increased approximately \$15Million as we debentured the remainder of 68 Lindsay Street in the amount of \$5 Million and financed approximately \$8Million in order to top up the DC reserve. The remainder of the increase was split between projects in the Tax Levy and Water and Sewer category. The projects funded in 2020 were previously budgeted and are now complete. Overall the City Debt is within the prescribed City debt limits and the annual repayment limit (ARL) prescribed by the Ministry.

Reserves

Note 8 - Page 15 of the Financial Statements

Reserves and reserve funds have increased from \$33.6 Million in 2019 to \$47.4 Million in 2020. This large increase of approximately \$13.8 Million is due to the following increases:

Type of Reserve Transfer	Amount of Increase
2019 Surplus Transfer to Contingency Reserve	\$ 3,012,282
Safe Restart Grant to Contingency Reserve	4,835,000
Water and Sewer Surplus to Infrastructure Reserves	835,785

Type of Reserve Transfer	Amount of Increase
Area Rate Surplus Transfer to Area Rate Reserve	723,878
Library Surplus to Library Reserve	507,287
Fenelon Powerlinks New Contract Transfer	392,777
Working Capital Reserve Reduction for HVAC	(2,760,234)
Development Charge Reconciliation	5,265,598
Miscellaneous Reserve transfers	987,627
Total Transfers	\$13,800,000

A list of reserves at December 31, 2020 is included in Attachment C.

Other Alternatives Considered:

Staff are recommending that Council pass the following resolution:

That Council authorizes the transfer of the 2020 Surplus as follows:

- The Winter Control surplus of \$1,000,000 be transferred to the General Contingency Reserve committed to Winter Control; and
- The Workman’s Safety and Insurance Board (WSIB) claims surplus of \$300,000 be transferred to the General Contingency Reserve committed to WSIB; and
- That the remainder of the 2020 Surplus of \$3,294,454 be transferred to the Asset Management Reserve (formerly the Capital Reserve).

The Winter Control reserve is highly recommended given the volatility of this area of the budget. The WSIB reserve transfer is highly recommended given a history of over expenditures due to difficulty in projecting future injuries that could give rise to WSIB claims. And finally the Asset Management reserve is being recommended for the remainder of the surplus given the need for capital financing within the budget process.

Council could choose to put the surplus in other reserves but the resolution above takes into account all the major budget pressures that are present at this time.

Alignment to Strategic Priorities:

The 2020 Surplus Disposition 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 \$4,594,454 will be transferred to the various reserves with no effect on the bottom line of the City for 2021. The deficit from the Area Rate Deficits has been financed by 2021 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.

Servicing Implications:

Not applicable

Consultations:

Senior Management Team
Executive Assistants

Attachments:

Attachment A – 2020 Draft Financial Statements



CORP2021-011-ATT
ACHMENT A.pdf

Attachment B – 2020 Balance in Deferred Revenue



CORP2021-011-ATT
ACHMENT B.xlsx

Attachment C – 2020 Balance in Reserves



CORP2021-011 -
ATTACHMENT C.xlsx

Attachment D – 2020 Draft Trust Financial Statements



CORP2021-011-ATT
ACHMENT D.pdf

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