

The Corporation of the City of Kawartha Lakes

Council Report

Report Number CORP2017-021

Date: June 27, 2017
Time: 2:00 p.m.
Place: Council Chambers

Ward Community Identifier: All

Subject: 2016 Audited Financial Statements

Author Name and Title: Carolyn Daynes, Treasurer

Recommendation(s):

RESOLVED THAT Report CORP2017-021, 2016 Audited Financial Statements, be received;

THAT the Water and Sewer surplus of \$107,070.88 be transferred to the Sewer and Water Infrastructure Reserves (1.32030 and 1.32050); and

THAT the following transfers to/ (from) the Area Rate Stabilization Reserve be approved; and

Fire Area A Reserve	(13,936.30)
Fire Area C Reserve	(52,629.47)
Lindsay Parks Area Reserve	(56,316.78)
OPP Rate Stabilization Reserve	(7.32)
Kawartha Lakes Police Area Reserve	(2,419.93)

THAT Council approve the 2016 Audited Financial Statements of the City of Kawartha Lakes.

Department Head:_____

Financial/Legal/HR/Other:_____

Chief Administrative Officer:_____

Background:

This report provides Council with a final update on the 2016 financial position. Corporate Services Staff provided Council with a status of the 2016 deficit at the April 18, 2017 Council meeting. At that time Staff were aware that the 2016 year would end in a deficit of approximately \$1,330,951 which included both area rate and general rate activity. As there were no reserves to deal with this deficit staff needed Council direction as to how to deal with the shortfall. At that meeting Council passed the following resolution:

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 audit is now complete for the 2016 year end and the final (surplus) deficit position is as follows:

	(Surplus) Deficit
General Rated Tax Surplus	993,359
Area Rated Tax Surplus	308,169
Water and Sewer Surplus	(107,071)
KLHHC Surplus	(528,500)
Overall Deficit	\$665,958

The final audited deficit for the Operating Fund in 2016 was \$1,301,528, which involves adding the General Rated Tax Surplus and the Area Rate Surplus from the table above. The table below details the handling of the deficit by the Council Resolution mentioned above, as well as resolution in the past dealing with Area Rate surpluses and deficits. The remaining deficit for 2016 will be funded in the 2018 tax levy to the amount of \$393,358.

Overall 2016 Deficit – General and Area Rated	\$1,301,528
Handled by Area Rate Reserves	(125,310)
Handled by 2017 Tax Levy - General	(600,000)
Handled by 2017 Tax Levy – Transit Area	(182,860)
Total 2016 Deficit – Added to 2018 Levy	\$393,358

Rationale:

General Rated Tax Deficit:

The 2016 general rated tax deficit is \$993,359. This is primarily due to the winter control season which resulted in a deficit of approximately \$1.3 Million, increase in WSIB premiums of approximately \$320,000 and lower than budgeted land sale shortfall of \$562,000. This is discussed in the April 18th report which is attached here under Attachment B. There was some good news in the 2016 year and some highlights were as follows:

- OPP reconciliation of approximately \$160,000 resulting from work done by the Revenue and Taxation department in challenging the number of household counts used in the OPP funding formula. It was discovered and confirmed by OPP that they had counted some properties that were in the Ops/Lindsay area, which should have been excluded.
- Supplementary taxes were approximately \$400,000 over budget
- Building Permit revenue and other planning revenue met budget targets and remains strong indicating that there is development happening in the area
- Community Service's Programming Revenue is up from budget indicating that programs are well used in the community

In order to understand the significance (or insignificance) of the 2016 deficit it must be put into terms of the overall budget for the City. The City's total operating budget for 2016 was approximately \$206,000,000. The level of deficit (combining general and area rate) amounts to .0063% of that overall budget which is a very small percentage and indicates there is no reason for concern. The table below illustrates the (surplus) deficit results by department.

	Budget	Actual	\$ Variance	
	2016	2016	FAV(UNFAV)	% Spent
Corporate and Governance				
CAO, Mayor and Council	4,043,980.00	4,277,204.06	(233,224.06)	106%
Corporate Items	(89,018,422.00)	(88,806,073.53)	(212,348.47)	100%
Corporate Services	6,561,129.00	6,650,173.96	(89,044.96)	101%
Operations				
Community Services	10,333,324.00	10,001,632.23	331,691.77	97%
Fire Services	7,106,571.00	7,470,453.17	(363,882.17)	105%
Paramedic Service	4,412,538.00	4,368,385.70	44,152.30	99%
Police Services	7,751,911.00	7,866,921.57	(115,010.57)	101%
Ontario Provincial Police	8,308,461.00	8,152,821.16	155,639.84	98%
Health and Social Services	10,588,946.00	10,326,000.14	262,945.86	98%
Development Services	4,819,804.00	4,691,320.59	128,483.41	97%
Engineering Services	2,218,319.00	1,704,452.07	513,866.93	77%
Public Works	16,614,307.00	17,007,661.72	(393,354.72)	102%
Public Works - Winter	6,259,132.00	7,590,576.47	(1,331,444.47)	121%
Water and Wastewater	-	(107,070.88)	107,070.88	0%
	-	1,194,458.43	(1,194,458.43)	
		SUMMARY		
GENERAL RATE		993,359.90		
AREA RATE		308,169.41		
WWW		(107,070.88)		
		1,194,458.43		

The deficit was predominantly attributed to uncontrollable pressures of approximately \$2.2 Million which is made up of winter control, Workman's Compensation payments and land sales, as mentioned above. It was considerably minimized through operating surpluses in departments, shown in the above table, totaling over \$1 Million.

As well there is good news in the 2017 year and beyond. Council will be presented with options under the Asset Management Plan in July which finally gives Council a plan for maintaining our large asset base. In addition two of the areas of concern in the 2016 deficit are trending much better in 2017.

2017 Winter Control:

The 2017 winter control expenditures are down compared to the 2016 season by approximately \$1Million. Whether that will translate to a surplus at year end is not known as this is a very unpredictable part of our budget. If the 2017 winter control season does result in a surplus there should be serious consideration into putting that in a reserve to offset future deficits.

2017 Land Sales:

The land sale area in 2017 has already realized \$642,220 in revenue. In the past budgets have been set for land sales but the properties needed to be prepped for sale with the proper valuations, survey, etc. which has delayed the sales. This work has been put in over the last few years and the City is starting to realize the gains of this work. Staff recognize the time lag to realize land sale revenues, and are targeting additional 2017 sales to offset the 2016 deficit.

Area Rated Deficit:

The area rated deficit of \$308,169 can be broken down further but it is worth noting that Staff have already dealt with the majority of the 2016 deficits in this area by drawing on 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 deficits and reserve financing area as follows:

Area Rate	Initial (Surplus)Deficit	To/(From) Reserve	Remaining (Surplus)Deficit
Fire Area A	\$49,630	\$(35,694)	\$13,936
Fire Area B	247,790	(195,160)	52,630
Lindsay Parks	7,426	48,890	56,316
OPP Area	(185,574)	185,581	7
Kawartha Lakes Police Area	51,281	(48,861)	2,420
Street-lighting Area	(12,509)	12,509	-
Transit Area	182,860	-	182,860
TOTAL DEFICIT	\$340,904	\$(32,735)	\$308,169

There are still reserves left in all areas but Transit and thus further reserve transfers are requested in this report. Transit has been trending in a deficit over the past few years. In the past the deficit has been driven by lower than budget revenues however in 2016 the revenue is only under budget by approximately \$20,000. Equipment expense overage is the primary reason for the deficit this year.

Water and Sewer Surplus:

Traditionally Staff bring the Water and Sewer surplus to zero each year as the surplus is transferred to reserve during the year. There were amounts transferred to the reserve in the year that relate to the surplus in the amount of \$571,583. The amount remaining of \$107,071 is due to late adjustments that were not offset by reserve transfers for the resulting surplus that was generated. In total the 2016 surplus in the Water and Sewer area was \$678,674. This can be compared to a surplus budget of \$543,622 as we budget for a surplus to replenish Water and Sewer Infrastructure Reserve for the Capital budget.

Kawartha Lakes Haliburton Housing (KLHHC) Surplus:

In prior years there were two divisions in KLHHC; the Non-Profit Housing Division and the Local Housing Division. In 2016 these were combined into one division which makes accounting and administration less complicated. 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.

Other Alternatives Considered:

Council has already passed a resolution with regards to the 2016 General Rated deficit. And there are outstanding older resolutions, mentioned in the 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 majority of the deficits have been handled by increasing the tax levy in 2017 and 2018 and the use of Area Rate reserves. There will be no other impact of these surplus or deficits on the bottom line of the City of Kawartha Lakes.

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

The 2016 Audited Financial Statement 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:

Director of Corporate Services
Executive Committee

Attachments:



CORP2017-021
ATTACHMENT A.pdf

Attachment A – 2016 Audited Financial Statements

Attachment B – CORP2017-014-Direction to Fund 2016 Anticipated Deficit



CORP2017-021
ATTACHMENT B.pdf

Department Head E-Mail:mdempster@city.kawarthalakes.on.ca

Department Head:Mary-Anne Dempster