

# The Corporation of the City of Kawartha Lakes

## Council Report

Report Number CORP2017-014

---

**Date:** April 18, 2017

**Time:** 2:00 p.m.

**Place:** Council Chambers

---

**Ward Community Identifier:**

**Subject:** Direction to Fund 2016 Anticipated Deficit

**Author/Title:** Mary-Anne Dempster

**Signature:**



**Recommendation(s):**

**RESOLVED THAT** Report CORP2017-014, **Direction to Fund 2016 Anticipated Deficit**, be received;

**RESOLVED THAT** the 2017 tax levy be increased by \$1,141,474.

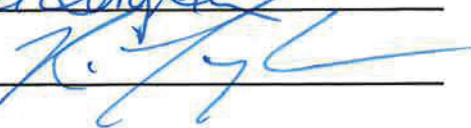
---

**Department Head:**

**Corporate Services Director / Other:**



**Chief Administrative Officer:**



## **Background:**

Historically, the Treasurer reports the financial results of the previous year by June of the current period. This is to ensure that time is appropriately allocated to ensure all invoices and activity has been received, year-end procedures have been completed and the independent auditor has all information relevant to ensure the financial statements present fairly and the time required to conduct their review.

Staff has substantially completed all year end procedures and the auditors have completed two weeks of their field work. At this stage, it has become apparent that the City will incur a deficit in 2016 which must be funded in some manner. Organizations both Public and Private aim to be within 1% of budget either way and for the City of Kawartha Lakes that means up to a \$2 million surplus or deficit. The history of the City's financial statements indicates that this has been achieved. It is preferable to be in a surplus position and be able to use those funds for current unforeseen pressures or plan for future contingencies. The City for the past 5 years has had surpluses within the 1% standard. However, the reserves have been used to fund unbudgeted unforeseen needs.

A contingency reserve is necessary to cover years when the City incurs a deficit. However, we have not adequately planned for this and the contingency reserve would have to be depleted in its entirety to cover the anticipated deficit and may be slightly short. Staff felt it was prudent to ensure Council is made aware of the anticipated deficit as early in the fiscal period as possible to provide Council with more options to cover the cost.

This report addresses that direction.

## **Rationale:**

When a deficit is incurred Council must decide how to fund the shortage. Our current position is showing a deficit of \$1,330,951 of which 189,477 was an area rate deficit in Transit and has already been allocated to the 2017 final tax bill. Area rate deficits automatically are covered through area rate tax levy either through reserve funding or a subsequent area rate levy. The current deficit from general operations is approximately \$1,141,474. There are three main areas that put uncontrollable pressure on the 2016 budget. The total of the three areas was \$2,180,473, but surpluses in other areas reduced this amount to the current unfunded deficit of \$1,141,474. The three main areas and the financial negative impact are:

Land Sales Revenue shortage \$562,006  
WSIB exceeded budget by \$318,467  
Winter control exceeded budget by approximately \$1,300,000

These areas of concern have been known and staff have proposed in the last two budget cycles to address them. It is not in the City's long term best interest to continue to fund operating budgets with the sale of assets. These funds should be placed in a reserve for future property needs. However, the budget of \$640,000 is needed as it is part of the current revenue base and would have to be covered by an alternative funding method. The amount required is approximately a 0.64% increase to the tax levy. The budget for WSIB is underfunded and has been for the past few years. Staff have been annually increasing this budget area by \$50,000 due to budget constraints. This budget area requires an increase of approximately \$350,000, a 0.35% increase to the tax levy.

The third area poses the highest financial pressure for the City. Winter control costs vary significantly based on weather. Over the past several years, staff has work diligently to refine and streamline processes to ensure we are delivering a level of service requested from Council and also meet the provincial minimum maintenance standards. The annual budget provides for approximately 40 events and corresponding activities such as clean up, snow removal and localized response due to drifting snow which are not part of events. This number of events is what would typically be experienced on a light to moderate year. Initial budget requests accommodate a higher number of events, however through draft budget processes and continued budget deliberation with Council, Public Works has been requested to restrict the budget request.

The cost per event can vary significantly based on a number of factors including event duration, amount of precipitation, winds, temperature, type of precipitation, microclimates, time and date of the event. Staff have collected and analyzed data on typical events and determined an estimated cost per event. For a typical full call snow event, based on current service levels the estimated cost is \$115,000 to \$125,000. However, this may vary due to the noted factors above.

The number of events is unpredictable and varies year to year. Improvements to the winter control records management system over the past few years has made it possible for Staff to collect and analyze data for events. Overall 2016 was a heavier year for snow events. The fall of 2016 saw an average of 23 events per depot versus just 9 in the fall of 2015. On average within depots, staff recorded 52 events across the City in 2016. In a simplistic estimate, 12 additional events equates to approximately \$1,380,000 to \$1,500,000 based on the cost per event. This amount does not factor in costs such as snow removal, ice events or overtime for weekend events.

Moving forward, Staff will continue to recommend allocating sufficient funds to the winter control budget to achieve a median point for typical events (approximately 50). Staff recommend the annual balance required being drawn from or allocated to a winter control reserve. This would be fiscally responsible

and provide a sustainability approach to manage years with heavy winter events without impact to other City programs. Staff will continue to actively investigate alternatives to provide the services in a more cost effective manner.

Although Council may choose to use what is remaining in reserves to cover this deficit, staff are not recommending this approach as the reserves are dangerously low and need to be replenished not exhausted as this just perpetuates the issue of not planning for unforeseen circumstances beyond the City's control.

Staff's recommendation is to increase the 2017 tax levy by \$1,141,474 to cover the deficit. This is both feasible and a consistent practice for municipalities. The budget base must be right sized to cover the cost of the existing service level. The current base does not meet that requirement. Staff is concerned that the current fiscal period will experience a deficit as well. We will continue to monitor operations across the City, with special attention to those costs that are beyond our control. However, the only way to cover unbudgeted costs is through reduced service levels.

## **Other Alternatives Considered:**

### **Option 1**

Council may choose to push the recapture of the deficit to the 2018 tax bill, however, the 2018 budget will have its own challenges with the approved asset management plan, pay equity reviews and general operational necessary increases to sustain the current service level set by Council.

To effect this option, the following resolutions are required:

**RESOLVED THAT** the 2018 tax levy be increased by the 2016 final general operating deficit.

### **Option 2**

Council may choose to change the funding model for a capital program that is tax levy funded. This is a feasible option for Council and addresses the current pressures. However, it does not address that the current operating budget is not sufficient to fund current obligations and puts significant pressure on the tax increase required for 2018. This would also be considered bad debt as it is not in relation to our asset management long term plan. Project RD1704 Urban and Arterial-Resurfacing has approximately \$1,800,998 in tax support funding. If Council chooses this option, Staff recommend increasing the debenture tax support ceiling by \$1,800,998. The funding for RD1704 would be changed to remove tax support funding and add debenture funding of \$1,800,998. The current tax support allocation of \$1,800,998 would be transferred to the

contingency reserve to cover the 2016 deficit and the remainder would remain in the reserve to begin building the contingency reserve to a level sufficient for a city our size.

To effect this option, the following resolutions are required:

**RESOLVED THAT** the tax support debt ceiling be increased by \$1,800,998;

**THAT** the funding allocation for RD1704 Urban and Arterial Resurfacing be changed to remove Tax Levy Funding of \$1,800,998 and add debenture funding of \$1,800,998; and

**THAT** the \$1,800,998 tax levy be transferred to the contingency reserve to fund the 2016 operating deficit and any remainder will remain in the reserve for future requirements.

### Option 3

Council may choose to cancel tax levy supported capital projects that have not been committed. Capital projects are controlled at the department level. Although, we would be able to indicate how many capital projects do not have any POs against them, we do not know what is being finalized at the department level that has not been entered in the system. For that reason, if Council chooses to accept this option, we would need to meet with Departments and compile a list of eligible projects for Council consideration. It is important to note that most major infrastructure projects have already been committed in part or fully. It is a fair assumption that this list would contain a number of smaller projects or portions of projects.

To effect this option, the following resolutions are required:

**RESOLVED THAT** the 2016 operating deficit be funded by the cancellation of capital project(s);

**THAT** Staff provide, at the next regular meeting, a list of all 2017 tax supported capital programs that have not been committed; and

**THAT** until Council determines which projects will be cancelled; all capital projects with tax support funding that have not begun, be placed on hold pending the decision at the next meeting.

### **Financial Considerations:**

The current anticipated 2016 deficit for general operations is \$1,141,474. Staff has recommended adding this to the 2017 tax bill. The actual deficit will not be finalized until the financial statements are complete and signed off by the Auditor.

Staff is fairly confident at this stage in the process that the current deficit will be realized.

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

This report has a direct relationship to strategic enabler: Responsible Fiscal Resource Management.

**Review of Accessibility Implications of Any Development or Policy:**

N/A

**Servicing Comments:**

N/A

**Consultations:**

CAO Ron Taylor  
Senior Management Team  
Treasurer

**Attachments:**

N/A

---

Phone: 705-324-9411 Ext. 1311  
E-Mail: [mdempster@city.kawarthalakes.on.ca](mailto:mdempster@city.kawarthalakes.on.ca)  
Department Head: Mary-Anne Dempster  
Department File: