



Council Report

Report Number: CORP2024-011
Meeting Date: April 30, 2024
Title: 2023 Surplus Disposition
Description: 2023 Surplus Disposition and consolidation and restructuring of reserves
Author and Title: Carolyn Daynes, CPA, CA Treasurer

Recommendation(s):

That Report 2024-011, **2023 Surplus Disposition**, be received;

That Council approve the creation of a new reserve titled "Environmental Disaster Recovery Reserve"; and,

That Council approve the creation of a new reserve titled "Primary Care Recruitment and Retention Reserve"; and,

That Council approve the creation of a new reserve titled "Water and Sewer User Rate Stabilization Reserve"; and

That Council authorize the transfer of the 2023 Surplus of \$3,204,262.62 as follows:

- \$150,000 donation to Kawartha Art Gallery
- \$28,000 donation to Contingency Reserve – held for Community Foundation funding decision scheduled for June 2024
- \$100,000 donation to Kawartha Lakes Healthcare Initiative (KLHCI)
- \$100,000 be transferred to Environment Disaster Recovery Reserve
- \$1,100,000 be transferred to Asset Management Reserve committed to Victoria Manor lifecycle extension capital improvements
- \$500,000 to Primary Care Recruitment and Retention Reserve
- \$1,226.262.62 be transferred to General Tax Stabilization Reserve

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

That Council approve the reclassification of the following reserves:

- 911 Atlas Reserves (1.32075) of \$16,134.50 be transferred to General Contingency Reserve – committed to Planning (1.32090), and;
- Somerville Heritage Reserve (1.24065) of \$8,539.63 be transferred to City Heritage Reserve committed to Somerville Heritage (1.32275); and,
- Economic Development Reserve (1.32080) of \$576,743.34 be transferred to Tax Stabilization Reserve, committed for Economic Development (1.32285) and the Economic Development reserve category be eliminated; and,
- Fire Grant commitment in General Contingency Reserve (1.32090) of \$14,512.85 be transferred to Fleet Reserve – committed to Fire (1.32070); and,
- Employee Survey commitment in General Contingency Reserve (1.32090) of \$24,429.25 be moved to People Services Rate Stabilization Reserve (1.32040); and,
- Agriculture Land Lease commitment in General Contingency Reserve (1.32090) of \$125,702.81 be moved to Property Development Reserve. (1.32035); and,
- Lindsay Tree Levy Reserve (3.24085) of \$18,656.77 be transferred to Tree Canopy Reserve (3.32272); and,
- General Contingency Reserve – committed to Winter Control (1.32090) of \$2,131,473.12 be transferred to General Tax Stabilization Reserve (1.32285) - committed to Winter Control; and,
- Social Committee Reserve (1.32240) of \$10,661.03 be transferred to People Services division 2024 Budget; and,
- Legacy CHEST Funds totaling approximately \$23 Million be transferred to a new Reserve Category entitled Legacy CHEST Funds; and,
- Building Reserve (1.32205) of \$3,712,985.13 be categorized as an obligatory reserve with interest applied annually and placed in Obligatory Reserve category; and,
- Developing Opportunities to Ontario Renters (DOOR) Reserve of \$1,325,191.73 be transferred from Rate Reserve Category to Obligatory Reserve category; and,
- Forbert Pool/Dike Downey Estate Reserve (3.24060) of \$211,203.44 be transferred to City's Trust Fund as a separate fund; and,
- A. Smith Manvers Reserve (3.24075) of \$44,364.75 be transferred to City's Trust Fund as a separate fund.

That Council approve the transfer of deferred grant revenue of \$347,552.02 to the following reserves as per Table F below:

• Capital Contingency Reserve -1.32248	\$ 17,224.73
• Fleet Reserve –Committed to PW Fleet – 1.32070	\$ 7,364.88
• Fleet Reserve – Committed to Paramedics-1.32070	\$ 4,781.48
• Asset Management Reserve – 1.32045	\$318,180.93

Background:

The purpose of this report is to provide a financial overview of the City's operating results for the year ending December 31, 2023. The Operating Budget is predominantly financed through property tax revenues and user fees, which are used to support City service delivery. The Operating Budget is segregated into the General surplus/deficit and the Area rated surplus/deficit. The audited 2023 financial statements will be presented at the June 2024 Council meeting.

Water and Wastewater fees collected from residents and businesses support the operation, maintenance and repair of the water and sanitary systems; these financial results are included in the Water & Wastewater Fund.

Kawartha Lakes Haliburton Housing Corporation is also included in this surplus disposition report.

The economy is adjusting to a post Covid world, and this is evident in the CPI fluctuations. Ending 2022 CPI was 6.8%, while 2023 year-end witnessed a 3.9% CPI on an annual average basis. Price growth for goods eased in 2023 amid the continued easing of supply chain pressures. This CPI reduction is indicative in the City's 2023 Operating surplus.

This report seeks Council approval of the staff recommended 2023 Surplus disposition allocation and reserve reclassifications. This report also aligns to the recommended Draft Operating Surplus Disposition Policy attached to this report as Appendix A. An additional purpose of this report is to adjust the Reserves classification to allow for a more streamlined approach.

Rationale:

Annually, the budget process produces an operating budget that provides residents and businesses with quality levels of service through the effective and efficient use of resources. The budget is a static plan and over the course of the year, circumstances arise that amend the expected course of action thereby creating budget variances.

General Rated Tax Rate Surplus

The City incurred a gross General Rated Tax Surplus of \$5,877,950.

This was reduced by legislated transfers to the Building Reserve of \$989,945 (Table A); as well as; historical Council approved reserve transfers of \$1,683,742 (Table B) for a total of \$2,673,687. This leaves a net surplus of \$3,204,263 (Table C).

Table A Legislation Driven Reserve Transfers:

Type of Legislation and Department	Amount
Building Code Act – Building Division of Planning and Development: <i>The Building Code Act prescribes that a portion of the building permit fee be designated to be transferred to a reserve fund. "The reserve fund is intended to ensure that, even if building activity in a municipality slows down, there are sufficient funds to maintain building department services for a time without affecting the municipality's finances or staffing. Money in the reserve fund can only be used for costs related to the administration and enforcement of the Building Code Act. The reserve fund, is therefore not accessible for council to use to fund other municipal activities."</i> Note: this will change for 2024 and future years.	\$ (989,945)
Total Legislated Revenue Transfers	\$ (989,945)

Table B General Tax Rate Council Approved Reserve Transfers:

CR Number	Resolution	(Surplus) Deficit
CR2017-680	Library Agreement 2017: THAT the 2017 Memorandum of Understanding (MOU) as outlined in Appendix A to Report CAO2017-004, be approved; and THAT the Mayor and Clerk be authorized to execute the 2017 Memorandum of Understanding (MOU) between the City of Kawartha Lakes and City of Kawartha Lakes Public Library. <p style="text-align: right;">CARRIED</p> In the Library Agreement: A resulting annual operating surplus (for 2017 and following years will be placed in a reserve under the control of the library Board, and may be used to cover any potential future library deficits or future Council approved library operating or capital budget needs, at the request of the Library Board.	\$4,468
2021	Sale of Land Council approved the resolution that all net proceeds from the sale of land is transferred to the Property Development Reserve (1.32035) early in 2001. The	(1,659,817)

	Property Development Reserve is then to be used in various capital projects relating to purchase of land and land related expenditures.	
CR2016-001	<p>Fleet Maintenance Reserve THAT the policy entitled Non-Emergency Fleet Policy appended to Report 2016-003 be adopted, numbered and inserted in the Corporate Policy and Procedures Manual.</p> <p>Policy:</p> <p>In the event of internal recoveries that result in a surplus in the Fleet department the savings will be reconciled and transferred back to the department or alternatively if the surplus amount is small (under \$250,000) it will be channelled into an operating Fleet Maintenance Reserve for future fleet operating expenses.</p> <p>This reserve will be used in the subsequent year to offset vehicle maintenance and repair expenses or be used in the event of major unanticipated breakdowns of equipment. This reserve will be mandated to not exceed \$500,000 at any given time and any major overhauls will be documented in a report to Council to request permission to utilize the reserve following purchasing policy.</p>	(4,516)
CR2018-400	<p>Arts and Heritage That any unspent funds in the Public Art area be transferred annually to the City's Contingency Reserve for future use in the Public Art initiative. (1.32090)</p>	(12,491)
CR2016-1006	<p>Debenture Surplus Resolved that a Debt Repayment Stabilization Reserve be established for tax support debt repayment and than any fiscal period surplus remaining in the debt repayment accounts be transferred to reserve for future periods.</p>	(11,386)
	Total Council Approved Revenue Transfers	\$(1,638,742)

After making these legislated and historical Council approved reserve transfers as described, the 2023 net general tax surplus remaining is \$3,204,263.

The net surplus is attributed to the following major factors:

Table C

	Description	Budget 2023	Actual 2023	(Surplus)/Deficit Variance
1.	Supplementary Taxes	\$ (600,000)	\$ (1,460,217)	\$ (860,217)
2.	Insurance Premium	2,500,000	2,198,696	(301,304)
3.	Engineering Development Fees	(245,000)	(937,219)	(692,219)
4.	Victoria Manor	2,316,271	982,406	(1,333,865)
5.	DC Exemptions	300,000	-	(300,000)
6.	Winter Control	10,042,724	10,695,730	653,006
7.	Arena Net Surplus	2,343,232	2,017,482	(325,750)
8.	Miscellaneous	-	(43,914)	(43,914)
	Total (Surplus)/Deficit			\$ (3,204,263)

1. Supplementary Taxes

Supplementary taxes are an indicator of growth in the community. It reflects the assessment added to a municipality during the year. In 2022 the supplemental tax revenue earned was \$1,189,249 compared to 2023 supplemental tax revenue of \$1,460,217. The 2024 budget for supplemental tax revenue has increased to \$2,020,000 to reflect the City's growth trend.

2. Insurance Premium

The City's insurance premium in 2023 was \$2,198,697 as compared to a budget of \$2,500,000. This was a decrease from the 2022 premium of \$2,287,621. In 2024 Staff reduced the insurance premium budget to \$2,400,000 reflecting this reduced amount.

3. Engineering Development Fees

The increase growth in the community is further reflected in increased development fees in the Engineering area.

4. Victoria Manor

Victoria Manor was successful in securing a grant to fund other pandemic expenses that were not covered by the initial funding secured during Covid. This resulted in a surplus of \$1,333,865. During 2023, Victoria Manor underwent a Facility Master Plan which resulted in a ten-year capital plan. Staff are recommending that \$1,100,000 of this surplus be transferred to the Asset Management Reserve committed to the Victoria Manor to ensure sustainable funding for these recommended capital works.

5. Development Charge (DC) Exemptions

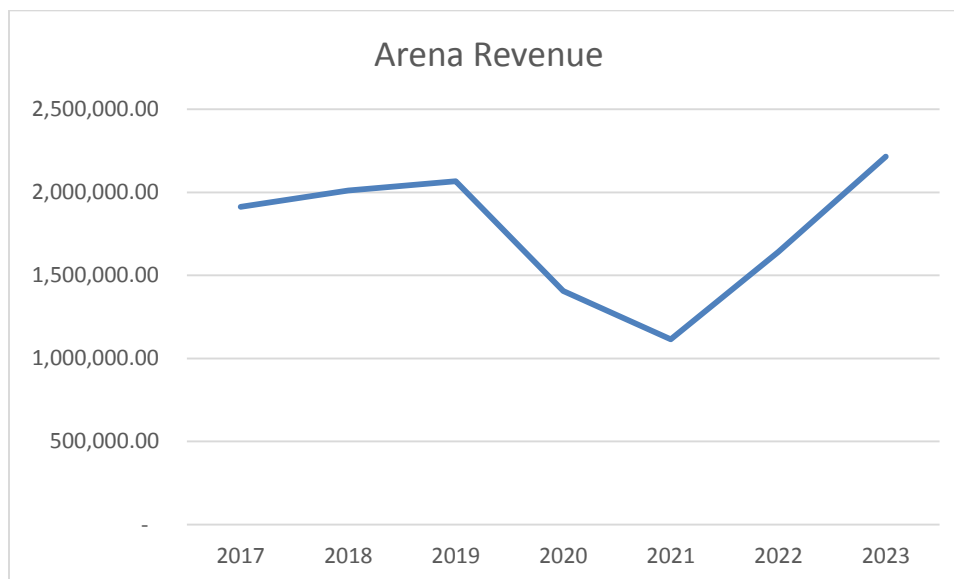
Annually, a DC exemption of \$300,000 is included in the City Budget to approve forgiveness of Development Charges. For every resolution supporting these exemptions, Council must provide a source of funding to replenish the Development Charge Reserve, as per DC legislation. In 2023 there were no such Council resolutions to support DC exemptions. This budget has been utilized historically to facilitate exemptions for affordable housing and community not-for-profit projects.

6. Winter Control

There is a Council resolution that directs Winter Control surplus be transferred into a Winter Control stabilization reserve that would be utilized to fund any future deficits. Therefore, the annual Winter Control budget has been set at an average annual expense with the rationale that if winter control expenses exceeded the budget, the reserve could be used to offset it. In 2023 there was a winter control deficit of \$653,006. Due to the City's overall surplus position, staff recommend the deficit be funded from the overall surplus and not draw upon the Winter Control reserve.

7. Arena Net Surplus

City arena revenue was one of the hardest hit Covid impacts due to closures of the arenas. In 2023 the amount of revenue has increased above pre-Covid levels. See below for a graph that depicts arena revenue from 2018 through to 2023.



Arena revenue earned was approximately \$561,000 above the budget. In contrast expenditures were \$235,000 over budget, resulting in a net surplus of \$325,750 in 2023.

Area Rated Deficit

The treatment of area rate surpluses and deficits is governed by a 2016 approved council resolution that states the following:

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 transfer as follows:

Table D

Area Rate	Initial (Surplus) Deficit	To/(From) Reserve	Remaining (Surplus) Deficit
Fire Area A	\$ 61,443	\$ -	\$ 61,443
Fire Area C	338,371	(338,371)	-
Lindsay Parks	(189,855)	175,911	(13,944)
Ontario Provincial Police	14,116	(14,116)	-
Kawartha Lakes Police Area	300,997	(100,997)	200,000
Street lighting Area	310,072	(184,167)	125,905
Transit Area	(8,419)	16,836	8,418
Total (Surplus) Deficit	\$ 626,725	\$ (444,903)	\$ 381,822

The contributing factors that resulted in 2023 surpluses and deficits are explained below. In the case of deficits, Fire Area A, Kawartha Lakes Police and Street lighting had insufficient coverage from current area rate reserves, and these will be funded by an increase in the 2024 area tax levy.

Fire Area A

Firefighter certification legislation came into effect July 1, 2022. Fire Area A is in a deficit of \$61,443 as a result of this legislation. All firefighters must be certified by

2026. This applies to every firefighter in Ontario. Volunteer Firefighters are paid wages to attend training but the number of hours for this training has increased wages higher than budget. Full Time firefighters must be certified but it is already part of their salary unless they must attend a course externally.

Fire Area C

Fire Area C is the area manned exclusively by Volunteer Firefighters and therefore this firefighter certification legislation has impacted the budget significantly and resulted in a much larger deficit than Fire Area A. In addition, Fire Area C has the largest number of fire depots and costs for snow removal have increased over budget due to inflationary costs in the market.

Lindsay Parks

Lindsay Parks was in a surplus amount of approximately \$189,855. This is attributable to significant staff vacancies in this area which had the result of lower wages as well as reduced fleet costs due to lack of staffing.

Kawartha Lakes Police Area

The Kawartha Lakes Police Area is in a deficit due to an increase in Workmen's Compensation costs of approximately \$200,000. In 2024, the Police budget commenced budgeting for Workman's Compensation costs.

In addition, overtime was slightly higher than budget.

Street lighting Area rate

The Streetlight area of the Public Works generated a deficit of \$310,072. This was due to the following factors:

- Increased hydro expenses resulted in an \$85K over budget position. Since the installation of LED lights many years ago hydro expenses decreased from a high of approximately \$700k in 2018 to a current 2023 expense of \$583K. The hydro budget has been decreased since the installation of the new lights, but it is apparent that the lowest point for hydro has been reached and hydro budgets will have to increase in 2025.
- The department addressed needed streetlight repairs, resulting from year over year staff vacancies. In 2023 the Department hired contracted services to address the backlog of repairs. This resulted in increased material usage which resulted in an increase of \$110K over the 2023 budget.

- A Streetlight material inventory was performed, and obsolete parts were written off. The department currently works without an inventory and purchases materials when needed. This resulted in an inventory write-off of approximately \$72K.

Water and Wastewater Surplus

Table E

	2023 Budget	2023 Actual	Variance
WWW Revenue:			
NWT Interest on Capital Charge	\$ -	\$ (732,623)	\$ (732,623)
NWT Intensification	-	(568,134)	(568,134)
Development Charge Funding of Debt	(1,526,079)	(1,526,333)	(254)
Water and Wastewater User Fee Revenue	(23,093,286)	(23,774,363)	(681,077)
Total Revenue	\$ (24,619,365)	\$ (26,601,453)	\$ (1,982,088)
WWW Expenses:			
Wages	\$ 1,886,073	\$ 1,690,223	\$ (195,850)
Debenture Principal and Interest	6,111,257	5,999,547	(111,710)
Contracted OCWA Costs	7,637,300	7,527,699	(109,601)
Other Contract and Material Costs	4,484,735	4,718,623	233,888
Transfer to Reserve – WWW Rate Study	4,500,000	4,500,000	-
Transfer to Reserve-Surplus	-	2,165,362	2,165,362
Total Expenses	\$ 24,619,365	\$ 26,601,453	\$ 1,982,088
(Surplus)Deficit	\$ -	\$ -	\$ -

The Water and Sewer Operations (WWW) had a surplus of \$2,165,362. This has been transferred to Water and Sewer Infrastructure Reserves, as per a previous Council resolution. The reason for the surplus position is follows:

- Payments made for the North West Trunk (NWT) Capital Charge accounts receivable result in interest income that has accumulated since the developer charge was emplaced. This resulted in increased revenue for the WWW 2023 financial results of \$732,623
- Landowners that have a capital charge applicable in the NWT area and intensify more than originally anticipated, result in additional amounts owing. This is reflected as income to the WWW financial results of \$568,134
- Water and Sewer user revenue was approximately \$700K higher than budget indicating greater consumption levels in 2023
- All other expenses were consistent with budget

Kawartha Lakes Haliburton Housing Corporation (KLH HC) Surplus

The KLH HC incurred an operating surplus of \$382,494. This originated from reductions in building maintenance resulting from the 2023 Canadian Mortgage and Housing Corporation (CMHC) grant received. Building maintenance expenses were eligible to be funded by this grant and therefore were transferred from the operating to the capital fund.

The surplus amount will be transferred to the KLH HC Surplus Reserve as per previous Council resolution. This motion was passed at the KLH HC Board level as well as City Council during the first years of amalgamation and after the devolution of housing to the City of Kawartha Lakes as Service Manager. Additionally, all Capital Project surpluses are transferred to KLH HC reserves and capital project deficits are funded by this reserve.

Surplus Disposition Recommendations

The City has experienced a history of operating surpluses since 2018. It should be noted that the current 2023 surplus of \$3.2M represents approximately 1% of the overall 2023 operating budget of \$238M.

The 2024 budget right sized some of the areas that have historically been creating surpluses, and therefore, it is anticipated that 2024 will not generate a significant surplus. (i.e. supplemental taxation)

The reserve strategy coming forward to Council in June, will include a long-term plan for reserve transfers to build reserves to optimal levels. The City needs to prioritize the build-up of reserves to ensure the financial stability of the City.

See below for a history of operating surpluses from 2018 to 2023.



The Draft Operating Surplus Disposition policy, attached to this report, recommends that all operating surpluses be transferred to the General Tax Stabilization Reserve to aid in stabilizing increased budgets and operating projects in the future. If Council approves this surplus policy, later in the Spring, future operating surpluses will be transferred to the General Tax Stabilization Reserve prior to year-end completion.

The 2023 surplus has been reviewed with Senior Staff, the CAO and the Mayor, and the following is recommended funding for 2024 requests:

Kawartha Art Gallery - \$150,000

Kawartha Art Gallery attended the April 9, 2024, Committee of the Whole to present the business case for funding from the City. The Art Gallery has been offered an opportunity for rental space that will enable them to move from their current location at the Lindsay Library and expand their programming and operations. This comes at a time when the Lindsay Library requires more space, and the vacated Art Gallery space could be utilized for expansion of that library. The Kawartha Art Gallery request for additional funding beyond the previously approved 2023-2025 operating funding is as follows:

2024	\$150,000
2025	\$150,000
2026	\$200,000

Staff are recommending that Council approve the 2024 request of \$150,000 from the 2023 surplus. Additionally, Staff recommend that the 2025 and 2026 requests be built into future budgets, with annual reporting to Council from the Art Gallery.

Community Foundation - \$28,000

The Community Foundation requested funding for administration and operating costs through the 2024 budget process. Council referred their request to staff for review and recommendations back by end of Q2 2024. Discussions have been ongoing, and staffing is targeting June to report back to Council. A partnership agreement will be recommended, outlining service(s) the Foundation can deliver on the City's behalf, as well as core Foundation services to the community not offered by the City or other organizations. Staff recommend that Council retain funding of \$28,000 from the 2023 surplus, with details and approval of the 2024 donation following the June reporting.

Doctor Recruitment and Retention Reserve - \$100,000

Doctor recruitment and retention has become very competitive throughout Ontario. The City has provided annual funding to the Kawartha Lakes Healthcare Initiative (KLHCI) to attract family doctors to the community. More funds are needed to incentivize and attract doctors in this increasingly competitive environment. Staff recommend that Council approve funding of \$100,000 to be transferred to the Doctor Recruitment and Retention Reserve for use by KLHCI.

Environment Disaster Recovery Reserve - \$100,000

A disaster recovery reserve is needed given more frequent climate change and extreme weather events that the City of Kawartha has experienced over the past few years. These funds would be utilized for damage and recovery efforts to City and private property. Recommendations for use of these funds would come from the internal Emergency Control Group (consisting of the Mayor, CAO and Fire Chief). Staff recommend that Council approve start-up funds of \$100,000, from the 2023 operating surplus, with reserve transfers built into future budgets through the reserve strategy.

Asset Management Reserve committed to Victoria Manor - \$1,100,000

Victoria Manor ended the 2023 year with a surplus of \$1,133,865 due to pandemic grant funding. The Victoria Manor Committee of Management passed the following motion at the February 12, 2024 meeting:

VMCM2024-004

Moved By Councillor Perry

Seconded By Councillor Yeo

Resolved That the February 12, 2024 Memorandum - 002 from Carolyn Daynes, regarding the 2023 Victoria Manor Operating Surplus, be received, and;

That the Victoria Manor Committee of Management recommend to the Council of the City of Kawartha Lakes that the Manor surplus, either in whole or part, be transferred to the City Capital Contingency reserve and committed to capital work as indicated in the Victoria Manor Strategic Facility Master Plan completed in 2023. The amount of the transfer will be limited to the overall City surplus for the 2023-year end.

Carried

Staff recommend that Council approve the transfer of \$1,100,000 from the 2023 surplus to the Asset Management Reserve – committed to the Manor. The Manor has a detailed 10-year capital plan that was produced in collaboration with Colliers Project Leaders. It summarizes approximately \$1.7 Million in capital work required to maintain the current Manor building while planning is under way for a new building.

Primary Care Recruitment and Retention Reserve - \$500,000

Given the current and projected growth in the City, and the increasing demand for healthcare system supports, it is recommended that a reserve be established to support local requests for assistance from physician and healthcare providers and groups. Staff recommend that \$500,000 of the 2023 surplus be put in the Contingency Reserve committed to Primary Care Recruitment and Retention. This commitment to supporting primary care in the community is supported through the City's recent approval of the 2024-2027 Strategic Plan.

General Tax Stabilization Reserve - \$1,226,262.62

As per the Draft Operating Surplus Disposition Policy, attached to this report, it is recommended that future operating surpluses will be transferred to the General Tax Stabilization Reserve. This reserve needs to be increased to provide streamlined approach to offset impacts of increased demands in CKL operating budgets due to increased growth as well as increasing costs for material and services. Staff recommend that the remainder of the 2023 surplus or \$1,226,262.62 be transferred to the General Tax Stabilization Reserve.

Reserve Reclassifications and Consolidations

Staff have reviewed reserves and reserve funds to streamline and reduce the number of reserves. Currently City Staff administer forty-nine (49) separate reserves. The following recommendations will reduce the number of reserves by six (6). Once these reserves are consolidated and closed, staff will continue work on the Reserve Strategy to be presented to Council in June 2024. Please see below for the recommended reserve transfers.

Reserve Consolidations:

911 Atlas Reserve

The 911 Atlas Reserve (1.32075) is a Planning reserve created to cover the cost of printing atlases for sale and distribution to City departments. Atlas books are no longer being produced and in lieu are available on the website. Staff recommend that this reserve, in the amount of \$16,134.50, be transferred to the General Contingency Reserve-Committed to Planning matters (1.32090).

Somerville Heritage Reserve

Somerville Heritage Park Reserve (1.24065) is a reserve created at amalgamation and to be used for Heritage purposes in the former township of Somerville. There has been no activity on this reserve since 2001. Staff recommend that these funds of \$8,539.63 be transferred to the City Heritage Reserve (1.32275) and committed to the Somerville area.

Economic Development Reserve

The Economic Development Reserve (1.32080) is a reserve set up by a former Council to fund economic development in the City. Since the creation of this reserve, it has been used for funding Economic Development grants when a City contribution was required. Staff recommend that this reserve, in the amount of \$576,743.34, be transferred to the General Contingency Reserve – committed for Economic Development (1.32090).

General Contingency Reserve – Fire Grant Commitment

The General Contingency Reserve (1.32090) has a Fire Grant commitment that has been in this reserve for over ten (10) years. To ensure that this money is utilized for Fire activities Staff recommend that this grant commitment, in the amount of \$14,512.85, be transferred to the Fleet Reserve – committed to Fire (1.32070) to assist in the Fire Fleet replacement plan.

General Contingency Reserve – Employee Survey Commitment

The General Contingency Reserve (1.32090) has an employee survey commitment that resulted from surplus funds following an employee survey conducted many years ago. Staff recommend that this commitment, in the amount of \$24,429.25, be transferred to the People Services Rate Stabilization Reserve (1.32040) for future priorities in the People Services area.

General Contingency Reserve – Agriculture Land Lease

The General Contingency Reserve (1.32090) has a commitment for Agriculture Land Leases which was set up in 2013 through a Policy for Lease of Agriculture Land. At that time all revenue from Agriculture Land Leases was to be transferred into the reserve to be used for “projects related to Councils Strategic Priority on developing a knowledge-based economy with a focus on water and agriculture sectors.”

Report RS2018-005 (Proposed Amendments to Realty Services Policies and Procedures) intended to transfer these funds to the Property Development reserve to be used “for the purpose of land acquisition and capital repair to existing property” however there was not a formal Council resolution to approve this transfer. Staff recommend that this transfer occur and the Agriculture Land Lease funds in the General Contingency Reserve (1.32090), of \$125,702.81, be transferred to the Property Development Reserve. (1.32035). In addition, Staff recommend that all future Agriculture Land Lease revenue be transferred to the Property Development Reserve. (1.32035)

Lindsay Tree Levy

The Lindsay Tree Levy (3.24085) is no longer collected as Developers are responsible for the provision of trees as part of the subdivision agreements. Council recently approved the creation of a Tree Canopy Reserve (3.32272) which has similar uses to the former Lindsay Tree Levy. Staff recommend the balance in the Lindsay Tree Levy of \$18,656.77 be transferred to the Tree Canopy Reserve.

General Contingency Reserve – Winter Control Commitment

The General Contingency Reserve (1.32090) has a commitment related to Winter Control. These funds were generated from surpluses in the Winter Control area in the past. They are to be used to offset deficits in the Winter Control operations. Staff recommend that the Winter Control commitment of \$2,131,473.12 be transferred to the General Tax Stabilization Reserve as this aligns with the intent of the reserve, being, is to reduce the General tax levy effect of budget increases in the future.

Social Committee Reserve

The Social Committee Reserve (1.32240) is a fund built up from employee contributions to be used for social events. There is little activity in this reserve as the social committee is not currently active. Staff recommend that this reserve be reduced to zero and the balance of \$10,661.03 be allocated to the People Services business unit. This usage would support staff social events.

Reserve Reclassification:

Legacy CHEST Reserve

Legacy CHEST funds are currently included in the "Other" Reserve category along with various other reserves. Legacy CHEST reserves are obligatory reserve funds that can only be used for community projects. The funds are governed by external committees and have a separate investment strategy. Staff recommend that the reserve funds over \$22M, be moved to a separate reserve category called Legacy CHEST.

Building Reserve

The Building Reserve was originally set up as a Council reserve. However, Council has no authority over the use of the Building Reserve. All surplus Building funds are to be transferred to the Building Reserve and the reserve can only be used for the Building department operations. The Building Reserve should have been set up as an Obligatory reserve. Staff recommend that the Building Reserve, of \$3,711,0550.44, be categorized as an obligatory reserve fund and transferred to the Obligatory Reserve category.

DOOR Reserve

The Developing Opportunities to Ontario Renters (DOOR) reserve have been set up in the Rate reserve category, however, it is an obligatory reserve. The funds are required to be used for Affordable Housing and can't be re-directed for other uses. Therefore, Staff recommend that the DOOR reserve, \$1,325,191.73, be categorized as an obligatory reserve fund and transferred to the Obligatory Reserve category.

Reserve Reclassifications- City Trust Fund:

Forbert Pool/Dike Downey Estate Reserve

The Forbert Pool/Dike Downey Estate (3.24060) is a bequest that originated from the former Verulam Township. The investment is managed by an external trust and the City is paid the interest income. The principle remains intact and in the hands of the external investor. This income is allocated to fund the Forbert Pool operating budget.

Due to these characteristics, this reserve belongs in the City Trust fund. Staff recommend that the balance in this reserve of \$211,203.44 be transferred to the City Trust Fund and shown as a separate Trust account.

A.Smith Manvers Reserve

The A. Smith Manvers Reserve (3.24075) is a bequest that originated from the former Manvers township and is to be used at the Manvers arena garden and the Manvers cenotaph. The interest is paid out and the principle remains intact. Staff recommend that the A. Smith Manvers Reserve, \$44,364.75, be transferred to the City's Trust Fund as a separate fund.

Deferred Grant Revenues -Transfer to Reserve

Deferred revenue is revenue that has not yet been earned. For example, a department will be awarded a grant of \$10,000 but will only spend \$8,000. The \$2,000 remaining grant will be allocated to deferred revenue to either be used for other projects or be sent back to the grant funding agency. Some grants do not require a grant reconciliation and therefore will never be paid back.

There are many grant deferrals that have been in deferred revenue for years, and it is time to transfer them to a reserve to be used to fund other capital projects. Staff are confident that these grants will not be recovered by the funding agency, given the length of time that has elapsed since the grant was active.

The following grant deferrals will be transferred to the Capital Contingency Reserve (1.32248):

Table F

Deferred Revenue	Year	Total	To Reserve
Accessibility Grant	2019	\$ 2,546.37	Capital Contingency Reserve
Ontario Municipal Commuter Cycling	2020	7,850.09	Capital Contingency Reserve
Rotary Club Grant	2022	311.43	Capital Contingency Reserve

Donations	2010	6,320.47	Capital Contingency Reserve
Library Service Ontario Grant	2009	196.37	Capital Contingency Reserve
Total Transfer		\$17,224.73	Capital Contingency Reserve

The following grant deferrals will be transferred to the Fleet Reserve (1.32070) to various committed portions of the reserve:

Deferred Revenue	Year	Total	To Reserve
Fleet Deferred	2009	\$ 7,364.88	Fleet Reserve – Public Works
Land Ambulance Grant	2009 & 2020	4,781.48	Fleet Reserve – Paramedics
Total Transfer		\$12,146.36	Fleet Reserve

The following grant deferrals will be transferred to the Asset Management Reserve (1.32045):

MTO Funding	2009	\$ 27,503.42	Asset Management Reserve
Move Ontario Grant	2012	205,850.14	Asset Management Reserve
Move Ontario Grant	2013	73,827.37	Asset Management Reserve
Quarry/OMB Hearing	2015	11,000.00	Asset Management Reserve
Total Transfer		\$318,180.93	Asset Management Reserve

Draft Operating Surplus Disposition Policy

Historically surpluses are transferred into reserves based on previous council motions, as discussed above. These reserve transfers aid in streamlining various areas of the budget and it is recommended they be consolidated into a comprehensive policy.

A list of historical reserve transfers, summarized in the draft policy being developed, are summarized as follows:

- Debt Principle and interest payment (surplus)deficits
- Sale of Land
- Fenelon Falls Hydro Generation
- Norland Dam licensing fees
- Airport (surplus) deficits
- Building Permit division (surplus)deficits
- Kawartha Lakes Haliburton Housing Corporation (surplus) deficits
- Election (surplus) deficits
- Area Rate (surplus) deficits
- Fleet Maintenance (surplus) deficits
- Winter Control (surplus) deficits
- Public Art purchase budget unused

There are two sections in the draft Operating Surplus Policy that have not been approved by Council and Staff will be seeking resolution at the June Council meeting.

2.08 Water and Wastewater Operating Surplus

In the past, Staff have transferred Water and Wastewater operating (surplus) deficits to the Water and Wastewater (WWW) Infrastructure Reserves. This has built up a healthy balance in both these reserves that have exceeded the Water and Wastewater Rate Study estimates. This Rate Study sets out the ten (10) year capital plan for WWW capital and reserve transfers are built into the budget annually to ensure that there is adequate funding to achieve the capital plan.

This leaves the operating area exposed as well as puts this capital plan in jeopardy if there is a year of significant deficit. Currently any deficit financing would be pulled from the WWW Infrastructure Reserves and may reduce the Infrastructure reserves to an amount lower than what is needed to achieve the capital plan set out in the WWW Rate Study.

Staff believe it is prudent to commence building up an Operating Stabilization Reserve to offset increases in the WWW rate as well as manage any deficits incurred. Staff propose that surpluses earned in the Water and Wastewater Operating budget be

transferred to a Water and Wastewater User Rate Stabilization Reserve. Subsequently any deficits in the WWW operating results would be funded by this reserve.

2.13 Staff salary and benefit Surplus

The City has a large workforce that is constantly changing. It is rare for 100% of staff positions to be filled every day of the year. Post the pandemic, recruitment had been a challenge in all municipalities in the province. This often leaves the actual salary and benefit expenses to be under the annual wage budget.

Staff recommend that the surplus in staff salary and wages be transferred to the People Services Rate Stabilization and these funds be used to streamline and offset increases in wages due to union negotiations and inflationary increases. Language will be included in the Draft Operating Surplus Disposition Policy coming forward.

In the past Staff have utilized the Operating Surplus annually to fund important community initiatives, but it's primary use has been to increase Asset Management Reserves to assist in the financing of the Capital Budget. Capital Budget Staff are currently developing the overall Asset Management Plan (AMP) that is funded from an annual transfer to the Asset Management Reserve which increases by the increase in tax levy as well as a further increase of 1.5% of the overall Operating Tax Levy annually. The primary objective of this annual transfer is to ensure that the AMP reserve financing will reduce the reliance on State of Good Repair debenture financing in the future. The goal is that the annual State of Good Repair Capital budget will be funded predominantly by the Asset Management Reserve. This AMP strategy allows the attached Draft Operating Surplus Disposition Policy to be more centred around the pressures in the Operating budget.

Staff currently have a resolution to ensure that Area Rate Surpluses be transferred to an Area Rate Stabilization Reserve. These reserves aid in keeping future Area Rate tax levies stable and be used to offset future budget pressures or fund a deficit position. In 2022 Staff recommended the creation of a General Tax Stabilization Reserve which will be used to help stabilize the General Tax levy. The primary objective of the Long Range Financial Operating Plan is to ensure that both the General and Area Rate tax levy stabilize over the long term. Therefore, the Draft Operating Surplus Disposition Policy recommends that future operating surpluses be transferred to the General Tax Stabilization Reserve. The forthcoming Reserve strategy will build annual reserve transfers into the Operating budget to further build this reserve. This is integral to the City's long term stability and will form an essential part of the long range financial plan.

Additionally, Staff are preparing a Reserve Policy that will recommend optimal values for reserves that centre around key pressures in the operating budget. This policy will form an integral part of the long Range Financial Plan and assist in the overall financial stability of the City of Kawartha Lakes. An important piece of the Reserve Strategy is an Operating Surplus Disposition Policy, attached as draft in Appendix A to this report.

Other Alternatives Considered:

Council could recommend transferring the surplus to other reserves, however staff recommendations account for some major budget pressures in 2024 and future budget years.

Alignment to Strategic Priorities

The 2023 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 Rate Surplus of \$3,204,263 will be transferred to the reserves with no effect on the bottom line of the City for 2024.

The deficit from the Area Rate Surplus has been financed by the 2024 tax levy increases as per Council policy.

The surplus in Water and Wastewater has been transferred to the Sewer and Water Infrastructure Reserves.

The KLH HC surplus has been transferred to the KLH HC Surplus Reserve.

Consultations:

Senior Management Team

Executive Assistants

Attachments:



Draft Operating
Surplus Disposition

Appendix A – Draft Operating Surplus Disposition Policy

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Department Head: Sara Beukeboom

Department File: Corporate Services