



## Council Report

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**Report Number:** CORP 2024-026  
**Meeting Date:** October 22, 2024  
**Title:** Operating Surplus Disposition Policy  
**Description:** Policy to Govern Operating Surplus Disposition  
**Author and Title:** Carolyn Daynes, Treasurer

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### Recommendation(s):

**That** Report CORP2024-026, Operating Surplus Disposition Policy, be received;

**That** the policy entitled Operating Surplus Disposition Policy, attached as Appendix A to CORP2024-026, be adopted and numbered for inclusion in the Corporate Policy Manual;

**That** all reserve transfers in Table 1 in Report CORP2024-026 be approved as part of the Operating Surplus Disposition Policy;

**That** the Water and Wastewater Operating Surplus be transferred to the Water and Wastewater Operating Reserve;

**That** the surplus in wage and benefits from annual budgets be transferred to the People Services Stabilization Reserve; and

**That** any remaining annual operating surplus be transferred to the Tax Stabilization Reserve.

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

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

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

## **Background:**

The Ontario Municipal Act, under s289, requires every Ontario municipality to prepare and approve a balanced budget each year. This section sets out the inclusion of annual revenue and expenses in budgets but also requires the provision for any surplus/deficit from the prior year. Any prior year deficit must be included in the subsequent year and funded either from an increase in the subsequent year tax levy or from reserves that Council approves to be used for funding the deficit. Alternatively, a prior year surplus can be brought into revenue in the subsequent year's budget to finance expenditures or it can be transferred to reserves for future use.

The City achieves this year end reconciliation through the annual Surplus Disposition Report that is presented to Council. Historically, the Operating Surplus has been used as a means to fund important community initiatives, but its primary use has been to increase Asset Management Reserves to assist in the financing of the Capital Budget. The Asset Management Plan (AMP) is maturing and the plan for State of Good Repair assets to be financed from an annual transfer to the Asset Management Reserve is building financial sustainability. The Long Term Financial Plan (LTFP) and AMP goal is to reduce reliance on State of Good Repair debenture financing in the future. The maturity of the financial sustainability plan on the State of Good Repair assets now allows the City to have the Operating Surplus Disposition Policy focus on building resiliency in the reserve strategy on the Operating finances.

In 2022 Staff recommended the creation of a Tax Stabilization Reserve to be used to aid in stabilizing the General Tax levy. The Area Rate Stabilization Reserve was created to stabilize the Area Rate Tax Levy. The Area Rate Stabilization Reserve has been instrumental in reducing fluctuations in the annual area rate tax levies. The primary objective of the LTFP is to ensure that both the General and Area Rate tax levy provide financial sustainability over the long term. Therefore, the Operating Surplus Disposition Policy recommends that operating surpluses, with the exception of previously approved Council resolutions for specific operating areas (see Table 1 below), be transferred to the Tax Stabilization Reserve. The Reserve strategy, which will be presented in the New Year, 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 LTFP.

As stated above, Council has previously approved transfers to various reserves, prior to the calculation of the year end position for the municipality. These reserve transfers aid in streamlining various areas of the budget and it is recommended they be consolidated into a comprehensive policy. Some additional transfers are added to the table below to

assist in stabilizing future general and area rate tax levies. This report is summarizing the recommendations that are set out in this new policy in Appendix A.

**Rationale:**

Council has approved various transfers to reserves, prior to the calculation of the overall year end surplus/deficit position. The transfer to reserves, which are now included in the new Operating Surplus Disposition Policy, are summarized below in Table 1.

**Table 1: Current Council Approved Surplus Reserve Transfers**

Policy Reference	Description
2.02	<b>Debt Payment Surplus</b> The City proposes a budget for debt principle and interest payments annually. Council has formally approved the transfer of any surplus from the budget to actual costs be transferred to the Tax Stabilization Reserve – committed to Debt Payments.
2.03	<b>Sale of Land</b> Land sale proceeds, net of expenses, are transferred to the Property Development Reserve, as per a previous Council Resolution. The Property Development reserve is utilized to finance the purchase of land or land related expenses.
2.04	<b>Fenelon Hydro Generation Revenue</b> Revenue received from the Fenelon Hydro Generation Station is transferred to the Fenelon Falls Power Links Reserve, as per a previous Council resolution. This reserve is utilized for Community projects in Fenelon Falls.
2.05	<b>Norland Dam Reserve</b> Revenues received from the Norland Dam hydro generation is transferred to the Norland Dam Reserve. This reserve is then used for Community Projects in Norland.
2.06	<b>Kawartha Lakes Airport</b> The Municipal Airport surplus will be transferred to the Airport Reserve. This reserve will be used to finance future increase in budgets as well as deficits incurred by the Airport.
2.07	<b>Building Department</b> The Building department surplus is legislated to be transferred to the Building Reserve. This reserve is utilized to streamline fluctuations in the building activity.
2.09	<b>Kawartha Lakes Haliburton Housing Corporation Operating Surplus</b> Council and the KLH HC Board have approved that surpluses incurred in the KLH HC Operating Fund be transferred to the KLH HC Operating

	Reserve to finance future deficits or streamline fluctuations in annual budgets.
2.10	<b>Election Surplus</b> A reserve transfer is included in the budget in non- election years in order to fund the election. The budget is set in the election year and the Election Reserve is used to finance the expenses incurred. The year end surplus/deficit in that election year is then transferred to/from this reserve.
2.11	<b>Area Rate Surplus</b> Council has approved that area rate surplus positions will be transferred to individual Area Rate Stabilization Reserves. These reserves are utilized to finance future fluctuations in area rate budgets or fund any deficits incurred.
2.12	<b>Winter Control</b> Council has approved the transfer of the winter control surplus to a Winter Control Stabilization Reserve. This will be used to streamline fluctuations in winter control operating budgets, as well as finance annual deficits.
2.15	<b>Arts and Culture Public Art Purchases</b> A surplus between the annual budget for public art and the actual purchases has been previously approved to be transferred to the City Heritage Reserve committed to future investment in Public Art. This reserve will be utilized to finance future Public Art purchases.

Staff recommend that additional transfers be Council approved in order to account for the entire operating surplus. The full intent of the reserve transfers above and the following recommended transfers is to ensure that future year General and Area Rate tax levies increases are stabilized and predictable.

**2.08 Water and Wastewater Operating Surplus**

Historically, staff have recommended Water and Wastewater operating (surplus) deficits be transferred to the Water and Wastewater (WWW) Infrastructure Reserves. This has built up a sustainable balance in these reserves that have exceeded the Water and Wastewater Rate Study estimates. The Rate Study sets out the ten (10) year capital plan for WWW capital and reserve transfers are built into the annual budget to ensure adequate funding to achieve the capital plan.

Without a WWW rate stabilization strategy, currently any operating deficit is financed from the WWW Infrastructure Reserves and may reduce the Infrastructure reserves to an amount lower than what is required to achieve the capital plan set out in the WWW Rate Study.

Staff believe it prudent to commence building up a WWW rate Operating Stabilization Reserve to offset fluctuations 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 WWW User Rate Stabilization Reserve. Subsequently any deficits in the WWW operating results would be financed by this reserve.

### **2.13 Wage Related 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. After 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 arising from staff wage costs be transferred to the People Services Stabilization Reserve. These funds are intended to streamline fluctuations in wages due to union negotiations, inflationary increases and or market adjustments.

### **2.16 Tax Stabilization Reserve**

In the event there are remaining surpluses following the above noted transfers, any remaining surplus shall be allocated to the Tax Stabilization Reserve. This will be key to the stabilization of future tax levies and will aid in addressing fluctuations in budgets as well as provide a financing source for any future deficits.

As a result of this Operating Surplus Disposition Policy, and the reserve transfers included in the policy, every year end will result in a break even position.

### **Other Alternatives Considered:**

Council could address the surplus disposition on an annual basis, as historically practiced. However, this is not recommended as a tool in achieving the goals of the LTFP.

## **Alignment to Strategic Priorities**

This report achieves the strategic priority of Good Government. This policy is a key component to achieve the LTFP. This policy is a component in ensuring the City is able to provide affordable and sustainable service delivery.

## **Financial/Operation Impacts:**

There is no financial impact to this report. The report and policy itemizes the disposition of the year end surplus and it aids in building the reserves in order to handle any future deficits or any unexpected expenditures. The policy has built in reserve transfers that will help stabilize the General and Area Rate Tax Levy.

## **Consultations:**

Senior Management Team

Supervisor, Budget

## **Attachments:**

Appendix A – Operating Surplus Disposition Policy



Operating Surplus  
Disposition Policy.doc

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