

Municipality of Lakeshore – Report to Council

Corporate Services

Financial Planning and Analysis



To: Mayor & Members of Council
From: Justin Rousseau, Corporate Leader- Chief Financial Officer
Date: November 22, 2023
Subject: 2022 Year End (Q4) Budget to Actual Summaries

Recommendation

Receive the report regarding the 2022 Year End Variances for the general (taxation funded), wastewater (sanitary sewer) and water funds;

Approve the taxation-supported surplus of \$696,585 for the year ended December 31, 2022;

Approve a transfer of \$642,856 to the Assessment Stabilization Reserve;

Approve a transfer of \$25,500 to the Community Benefit Reserve;

Approve a transfer of \$24,229 to the Insurance Reserve;

Approve a transfer of \$111,021 From the Building Services – Operating reserve fund to transfer the 2022 Accumulated Net Deficit per the draft 2022 Building Services Statement;

Approve a transfer of \$1,720,813 representing a surplus from Water operations for the year ended December 31, 2022 be transferred to the Water Reserve Fund; and

Approve a transfer of \$2,085,659 representing a surplus from Wastewater (sanitary sewer) operations for the year ended December 31, 2022 to the Wastewater (Sanitary Sewer) Reserve Fund, all as described in the December 12, 2023 Council meeting report.

Background

The Municipality's budget is established by Council each year for operating and capital purposes as a cash-based budget used for determination of the annual tax levy requirement and user rate impacts.

The cash-based budget estimates are based on Council direction, economic trends and the best estimates and information available at the time. The actual expenditures and revenues in the various budget centers are monitored by Administration in relation to the approved budget on an ongoing basis. The year to date actual and projected results to the end of the year are reported to Council quarterly. The following report provides the final outcomes of the year ended December 31, 2022 (Q4).

It is important to note that the 2022 Results are not reflective of regular Municipal operations given the pervasive impacts of the pandemic (COVID-19) emergency in 2022. Due to the pandemic emergency the Municipality reduced service levels, including staff redeployments and program reductions, implemented alternate service delivery measures and forwent training and professional development for staff. The Municipality also incurred expenses for emergency response such as enhanced cleaning and various health and safety measures, the costs of which were mitigated to some extent by Ontario grant funding through the Ontario Safe Restart program. Across the corporation the investment in staff training and development had to be curtailed due to resources shortages, heavy workload, and operational restrictions, all related to the pandemic emergency.

In 2022 the quarterly projections proved to be a bit more challenging with the COVID-19 pandemic. The extent of the pandemic on levels of service, on revenues and on expenditures required to address COVID process, were estimated at best efforts given all the uncertainty that evolved throughout the year.

Comments

This report is provided to advise Council of the results for the 2022 fiscal year in relation to the cash-based budget, the following is a breakdown of the major variances by various rates.

Taxation Funded Variances

The taxation-funded variance reports a surplus of \$696,585 as shown in **Appendix A**.

Appendix A: the Taxation Funded Variance Summary provides a summary of the projected year end balances for each budget center with comments.

Below are the major components contributing to the overall surplus as of the 2022 Year End (Q4):

Summary of 2022 Year End Variance

Account Description	Surplus (Deficit)
COVID Expenses	(202,581)
Other Miscellaneous	19,591
Shortfall in Legal Fees	(598,106)
Shortfall in Provincial Offences Revenue	(66,917)
Shortfall on Insurance Premiums	(34,929)
Shortfall in Equipment and Vehicle Repair & Maintenance & Gas	(347,416)
Shortfall in Computer Expenses	(293,649)
Shortfall due to adjustment in Recovery of Development Charges	(419,084)
Savings in Bridges & Culverts, Hardtop, Loose top, Roadside, Sidewalk, Storm Sewer, and streetlight maintenance	58,193
Savings in Facility, Grounds, Playground, Sports field, and Trail Maintenance	28,613
Savings in Insurance Claims	24,229
Overall Savings in Advertising, Meetings, Travel, Training, Memberships, and Staff Appreciation	164,416
Savings in Utilities cost	284,848
Investment Income over budget	554,512
Supplementary Tax Revenue	135,386
Wage Subsidy	120,278
Municipal Tax Write-Offs	110,840
Savings in Winter Control	87,725
Savings in Consulting Services	63,907
Overall Wages Savings	293,391
Transfer From Building Reserve	111,021
Total surplus prior to the COVID grant	94,270
COVID Costs to be funded by a transfer from the COVID Recovery Grant Reserve Fund	602,315
Total Surplus including the COVID grant	696,585
Transfer to Self-Insurance Reserve	(24,229)
Community Benefit Funds Not Spent to be Transferred to reserve	(25,500)
Transfer to Reserves Funds	642,856

Highlights of the projected results are as follows:

Costs directly related to COVID have been tracked in a separate account. The total cost to provide protective equipment for all staff, implement enhanced cleaning services, and implement measures for social distancing, the Municipality has and will continue to incur unavoidable expenses because of the pandemic. Administration has been tracking these

costs separately to ensure mitigation measures were implemented where possible. Costs totaled 202,581 by year end.

Much of the other miscellaneous shortfall in revenue of (\$201,365) is attributable to recreation programming and rentals. As the ATRC was returning to pre-pandemic rentals in 2022. This is offset by cost savings in a variety of ways in the budget to have a net effect of a Budget Surplus of \$19,591

The Legal Budget for the municipality ran a negative variance of \$ (598,106) in 2022 and has also run over budget by Q2 of 2022.

Other contributing factors are a loss in Provincial Offences Act revenue of \$(66,917) as the closure of Courts has negatively affected returns of revenue from fines across the region.

A variance of (\$34,929) was seen in 2022 on our insurance premiums as market trends in the insurance industry created a very hard insurance market in 2022 and the years prior.

Overall repairs and maintenance cost for equipment and vehicles ran a negative variance of (\$347,416) with an older fleet and no ability to order new equipment coupled with record gas prices being the reason for the variance.

Computer expense ran a variance of (\$293,649) as additional resources were required to deal with the issues surrounding the enterprise resource program and payroll program design issues faced by Lakeshore.

As outlined in the 2021 year-end report a significant adjustment was required to the municipalities development charges and a complete review of the fund was done back for a number of years. It was determined that the \$780,000 to be recovered for the construction of the ATRC should only be \$360,916 creating a variance of (\$419,084)

Surplus from budget in the amount of \$58,193 for Bridges & Culverts, Hardtop, Loosetop, roadside, sidewalk, storm sewers and streetlights Maintenance were seen in 2022. As well as \$28,613 in Facilities, Grounds, Playground, Sportsfield and Trail Maintenance.

A surplus of \$24,229 was experienced in Insurance claims and to remain compliant with policy it is recommended this be transferred to the Insurance reserve.

It is also being recommended to transfer unspent community benefit grant dollars in 2022 to the reserve to fund the payouts of the grants completed in 2023.

The pandemic has also caused a positive variance on staff training and travel cost of \$164,416 as the impacts of the pandemic and the return to normal operations have not allowed for such activities to be undertaken.

A positive variance trend on utilities cost of \$284,848 has been observed at municipal facilities like the ATRC have been closed to the public, as well as LED conversion programs are starting to show favorable trends in cost savings.

The Municipality of Lakeshore approved its investment policy in late 2021 and in early 2022 the Corporate Leader-CFO implemented an investment strategy using principal guaranteed notes and GICs as secure investments to maximize municipal returns. A positive variance of \$554,512 dollars over budget has been observed.

Supplemental tax revenue has exceeded budget by \$135,386 as new housing assessment continues to come online from building permits.

The Municipality of Lakeshore was successful in obtaining wage subsidies for summer and coop students via the Canada Summer Jobs grant, this totaled \$120,278

Municipal tax write off were less than expected creating a positive surplus of \$110,840.

A mild winter season for 2022 created a surplus in winter control cost of \$87,725.

A variance of 63,907 was observed in consulting services as some of the studies and consulting services did not get completed in fiscal 2022.

A Transfer of \$111,021 from reserves is required to balance the building department as outlined under legislation. Please see Building Operations below for more details

A surplus of \$293,391 in wages cost was observed in 2022 as the municipality returned to normal operations from 2021, however Lakeshore is still experienced staff vacancies. These are offset by additional dollars being spent on the public service unit to maintain service levels for customer service established during the pandemic. The cost overruns of 104,717 are fully recovered from the Safe Restart fund.

The Municipality has received Safe Restart Funds to help offset Covid-19 cost for 2022. The balance of these funds must remain in a reserve until utilized. This must be done to align with the funding requirements and these funds can be used in 2022 to offset COVID-19 cost.

A total of \$602,315 has been recovered into operations for 2022 and covers the following COVID-19 related cost:

COVID Related Variances	
Revenue Shortfall - ATRC	(132,942)
Revenue Shortfall - Recreation	(68,423)
Revenue Shortfall in Provincial Offences Revenue	(66,916)
COVID Expenses	(202,581)
Public Service Wage Variance - PSU (extra customer service support)	(104,717)
COVID- Janitorial Services	(26,733)
Net COVID Costs	(602,315)

Building Operations

Annual building permit collections amounted to \$928,295 representing \$90,005 less than budgeted. This was primarily due to decreased building activity in 2022 as reported in the Quarterly Building Activity report to Council. Cost also exceeded the budget by \$21,016.

Due to the cyclical nature of development, the Building Code Act mandates municipalities to transfer annual Building-related surpluses to reserves so that in underperforming years, that reserve may be drawn upon to cover deficits. It is recommended that a transfer of \$111,021 be made from the Building Operating Reserve Fund to cover this year's deficit. The projected balance in the building reserve fund following this transfer will be approximately \$1,639,194.

User Rate Supported Results:

Water Rate Funded Variances

The water variance reports a surplus of \$1,720,813, as shown in **Appendix A**. A revenue surplus is of \$761,378 primarily due from higher consumption in the summer months. A significant surplus of \$158,798 occurred in staffing due to vacancies.

As outlined in the 2021 year-end report a significant adjustment was required to the municipalities development charges and a complete review of the fund was done back for a number of years. It was determined that the \$1,233,603 can be recovered annually from the Development charge funds to cover the debt payments of the water network. This created a surplus of \$1,233,603 for recovery from the DC reserve.

Offsetting the surplus is the increased cost of (\$99,843) water purchased from Union Water due to an increase in consumption for those areas. Offsetting this added cost is the corresponding revenue included above. Other shortfalls include variances of (\$135,827) in Water Purification Chemicals, (\$115,007) in System repairs and Maintenance and (\$76,276 in materials and supplies).

As water services are under a self-sustaining model, any actual 2022 surplus/(deficit) will be recommended for transfer to/(from) the Water Reserve Fund as part of the year end variance report.

Wastewater Rate Funded Variances (Sanitary Sewage)

The wastewater variance reports a surplus of \$2,085,659, as shown in **Appendix A**. Like Water, an increase in revenue due to an increase in consumption was realized. An outcome of an additional \$486,476 in revenue occurred for 2022. Also contributing to the surplus is a saving in utilities, consulting \$302,733 and \$39,633 respectively. As well as savings in repairs and maintenance of \$176,843. The Inflow and Infiltration program was also under budget by \$351,325 in 2022.

As outlined in the 2021 year-end report a significant adjustment was required to the municipalities development charges and a complete review of the fund was done back for a number of years. It was determined that the \$768,674 can be recovered annually from the Development charge funds to cover the debt payments of the waste water network. This created a surplus of \$768,674 for recovery from the DC reserve.

Higher than anticipated outside service cost and equipment maintenance (\$44,068) primarily related to the OCWA contract and increased chemical cost to operate these items are offsetting the overall surplus.

As wastewater services are under a self-sustaining model, any actual 2022 surplus/(deficit) will be recommended for transfer to/(from) the Wastewater Reserve Fund as part of the year end variance report.

Financial Impacts

Taxation Supported Results:

In accordance with the current Reserve and Reserve Fund Policy FN-389 (**Appendix B**), the working funds reserve fund has been underfunded for several years. The intent of this reserve is to fund day to day operations, maintain general cash flow and ensure business continuity during unforeseen events that may strain financial resources. The recommended target for this reserve is 2 months of operating costs or approximately \$7,900,000 for 2022. The current forecasted balance of the reserve is \$4,689,647 and it is underfunded by \$3,210,353

The Assessment Stabilization reserve is also underfunded and calls for a balance 5% of prior years' municipal tax assessment or \$1,822,425 (\$36,448,510 (2022 levy) *5%).

The current forecasted balance of the reserve is \$100,187 and it is underfunded by \$1,722,238 as this reserve was used to balance the taxation rate in the 2023 budget to the amount of \$1,574,788.

The Contingency Reserve is also underfunded and calls for a balance of 5% of general funds annual operating expenses or 2,612,428 (\$52,248,564 (2022 operating expense) *5%) the current balance of the reserve is \$1,393,248 and it is underfunded by \$1,219,180.

To return to compliance with the Municipal Reserve and Reserve Fund Policy FN-389, it is recommended that the total surplus of \$642,856 be transferred to the Assessment Stabilization reserve. Which would bring the forecasted balance to \$743,043 going into 2024 budget preparation.

In addition, in accordance with the reserve fund policy and the requirements of the Building Code Act, a transfer of \$111,021 will be made from the Building Operating reserve fund based on the 2022 Accumulated Net deficit for Building.

Administration is also recommending a transfer of \$24,229 to the insurance reserve to fund unanticipated future claim costs. This in accordance with the Municipalities Reserve and Reserve Fund Policy. This transfer has been made in the year-end results based on policy.

It is also being recommended to transfer unspent community benefit grant dollars in 2022 of \$25,500 to the reserve to fund the payouts of the grants completed in 2023.

User Rate Supported Results:

User rate supported surpluses are recommended to be transferred both to the Water Reserve Fund and Wastewater Reserve Fund respectively.

Attachments

Appendix A - Taxation Funded, Water Funded, Wastewater Funded Variance Summary

Appendix B - Reserve and Reserve Fund Policy FN-389

Report Approval Details

Document Title:	2022 Year End (Q4) Budget to Actual Summaries and Transfers.docx
Attachments:	- Appendix A- 2022 Year End Variances.pdf - Appendix B - Policy FN-398 Reserves and Reserve Funds.pdf
Final Approval Date:	Dec 5, 2023

This report and all of its attachments were approved and signed as outlined below:

Prepared by Justin Rousseau

Approved by Truper McBride