

Municipality of Lakeshore – Report to Council

Corporate Services

Financial Planning and Analysis



To: Mayor and Members of Council
From: Kate Rowe, Interim Corporate Leader - Chief Financial Officer
Date: September 27, 2024
Subject: 2023 Year End (Q4) Budget to Actual Summaries

Recommendation

Receive the report regarding the 2023 Year End Variances for the general (taxation funded), water and wastewater (sanitary sewer) funds;

Approve the taxation-supported surplus of \$2,002,884 for the year ended December 31, 2023;

Approve a transfer of \$1,514,433 to the Assessment Stabilization Reserve;

Approve a transfer of \$333,932 to the Vehicle and Equipment Reserve;

Approve a transfer of \$115,319 to the Plans and Studies Reserve;

Approve a transfer of \$39,200 to the Tree Replacement Reserve;

Approve a transfer of \$169,446 From the Building Services – Operating Reserve Fund to fund the 2023 Accumulated Net Deficit per the draft 2023 Building Services Statement;

Approve a transfer of \$961,437 representing a surplus from Water operations for the year ended December 31, 2023 be transferred to the Water Reserve Fund;

Approve a transfer of \$2,409,808 representing a surplus from Wastewater (sanitary sewer) operations for the year ended December 31, 2023 to the Wastewater (Sanitary Sewer) Reserve Fund;

Approve reallocation of \$1,022,465 from Working Fund Reserve to Fire Vehicles and Equipment Reserve;

Approve reallocation of \$653,328 from Working Fund Reserve to Vehicles and Equipment Reserve; and

Approve reallocation \$468,250 from Working Fund Reserve to Trail-Existing Reserve, all as presented at the October 22, 2024 Council meeting.

Strategic Objectives

3b) Modernizing and Enhancing Municipal Functions - Revise business processes to establish and employ a risk management framework, improved workflow management, and financial modelling to inform management of reserves

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 ending December 31, 2023 (Q4).

In 2023, the municipality resumed full operation following the COVID pandemic, however, the additional customer services support implemented during the COVID time continued in 2023 to meet the increasing demand.

Comments

This report is provided to advise Council of the results for the 2023 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 \$2,002,884 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 2023 Year End (Q4):

Summary of 2023 Year End Variance

Account Description	Favorable (Unfavorable)
Investment income over budget	2,903,622
Grant revenue received over budget	1,042,860
Revenue from expired deposit on planning application, indemnity deposits	899,000
User fee revenue over budget	347,754
Surplus in Solid Waste	228,884
Savings on Winter Control	208,660
Savings on travel, training and conference	190,251
Savings on professional services - consulting, legal	139,011
Savings on Ontario Provincial Police contract	127,845
Provincial offences revenue over budget	73,035
Transfers to various reserves over budget	(2,621,400)
Shortfall in wages and benefits	(474,904)
Shortfall in roadside, streetlights, loose-top maintenance	(269,168)
Shortfall in licences and permits revenue	(218,397)
Shortfall in utilities	(165,876)
Shortfall in vehicle and equipment maintenance, fuel expense	(162,695)
Net impacts on municipal tax - supplementary tax revenue, special charges on taxes, payments in lieu, tax write-offs	(162,300)
Development charges discounts and exemptions	(130,156)
Shortfall in gaming revenue	(120,828)
Other	(49,704)
Total Surplus prior to the COVID Grant	1,785,494
Public Service positions for extra support and COVID Costs to be funded by a transfer from the COVID Recovery Grant Reserve Fund	217,390
Total Surplus including the COVID Grant	2,002,884

Highlights of the projected results are as follows:

The Municipality earned \$3.44M investment income in 2023 by investing the cash held in the bank, government grants, Development Charges, and other Reserve Funds, along with the interest earned from overdue invoices and property tax bills, resulted a favorable variance of \$2,903,622 in interest income.

The Municipality received \$1,042,860 in government grants in addition to the amount in 2023 budget, including \$886,986 Strategic Priorities Infrastructure Fund (SPIF) grant to build the River Ridge Park amenities.

Community Planning and Finance conducted a review of the expired planning and indemnity deposits and cleared the balances that had been deemed stale or outdated. A total of \$899,000 in deposits that cannot be refunded to residents or businesses has been recognized as revenue for the Municipality.

Ice rental, aquatics programs, and other user fees revenues has seen an overage of \$347,754 compared to the budget.

Solid Waste contributed \$228,884 to the overall surplus. This related to reconciling items in revenue which was partially offset by increased fees.

A mild winter season for 2023 created a surplus in winter control cost of \$208,660.

Net transfers to reserves and reserve funds is \$2,621,400 over budget, primarily contributed by grant revenue, sale of retired vehicles and equipment, and expired indemnity and planning deposits.

Wages and benefits had an overage of \$474,904 compared to the budget, this net overage has taking consideration the favorable variance of \$44,745 wages subsidies from federal and provincial governments for hiring summer and cooperative education students. In addition, Council approved to contract out By-law officer positions funded from Working Fund Reserve, as well as the COVID Restart Grant Reserve Fund to fund the additional customer service support in Public Service, the net impact to budget is \$290,944.

The maintenance costs on streetlights, roadside, bridges and coverts, as well as loose-top maintenance ran an unfavorable variance of \$269,168, with additional \$33,134 approved to supply and replace gravel program during the year, net impact to budget is \$236,034. Administration was faced with several maintenance issues in 2023 in the streetlights system. The repairs and maintenance required an electrician which resulted in substantial increases to the associated costs. Roadside maintenance is over budget due to cleaning up of brush along our Municipal roads as the result of several storms that damaged trees.

Licences and Permits revenue was \$218,397 under the budget mainly due to declining building permit activity.

Utilities ended at \$165,876 over budget, which is in line with the user fees revenue increases for ice rental and aquatics programs.

Repairs and maintenance costs for vehicles and equipment resulted in a negative variance of \$162,695 with rising fuel costs.

Special charges on taxes and supplementary tax revenue resulted in a variance of \$162,300 due to the timing of works, completed projects and drains billed to benefitting land owners.

The Municipality has received funding from the Safe Restart Grant program to help offset COVID related costs, the balance of the fund must remain in a reserve fund until utilized. Furthermore, Council has approved to use this grant to fund the additional customer service support in the Public Service Unit. The total of \$217,390 can be recovered by COVID Restart Grant, details are:

COVID Related Variances	
Public Service Wage Variance - PSU (extra customer service support)	(174,565)
COVID - Janitorial Services	(42,826)
Net COVID Costs	(217,390)

Building Operations

Annual building permit collections amounted to \$791,457 representing \$183,543 less than budgeted. This was primarily due to decreased building activity in 2023 as reported in the Quarterly Building Activity report to Council.

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 \$169,446 be made from the Building Operating Reserve Fund to cover the current deficit. The projected balance in the building reserve fund following this transfer will be approximately \$1,318,217.

User Rate Supported Results:

Water Rate Funded Variances

The water variance reports a surplus of \$961,437, as shown in Appendix A. The water usage charge surplus is \$385,367 due from higher consumption in the summer months. A significant surplus of \$402,436 occurred in staffing due to vacancies.

Offsetting the surplus is primarily by the decrease of meter sales of \$161,158 and increased cost of \$287,602 water purchased from Union Water Supply System due to an increase in consumption for those areas. Other shortfalls include unfavorable variances of \$258,673 in water purification chemicals, \$183,220 in system repairs and maintenance and \$100,754 in materials and supplies.

As water services are under a self-sustaining model, the actual 2023 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 \$2,409,808, as shown in Appendix A. Like Water, an increase in revenue due to an increase in consumption was realized. An outcome of an additional \$506,158 in high consumption for 2023. Other factors that contributed to the surplus are savings on inflow and infiltration program of \$326,611, system repairs and maintenance of \$267,971, OCWA contract \$271,254, Consulting \$110,200, and utilities \$90,167, the Wastewater Operator position of \$98,694 was not filled in 2023. In addition, due to unfavourable interest rates and the timing of completing the project, the debt from Infrastructure Ontario was approved by Council but has not been executed. Therefore, the budgeted transfer from Development Charges to recover the debt payment was not needed.

As wastewater services are under a self-sustaining model, any actual 2023 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:

As outlined in the Reserve Forecast in 2024 Council approved budget, several reserve accounts are expected to run deficit and will not be able to fund 2025 capital budget requests. Working Fund Reserve has an anticipated balance of \$2,144,043 as at the end of 2024 with consideration of approved commitments, Administration is recommending reallocation of the Working Fund Reserve account balance to replenish anticipated deficit.

In accordance with the current Reserve and Reserve Fund Policy FN-389 (Appendix B), the Assessment Stabilization reserve is underfunded and calls for a balance 5% of prior years' municipal tax assessment or \$1,939,651 ($\$38,793,013$ (2023 levy) *5%). The current forecasted balance of the reserve is \$425,218 and it is underfunded by \$1,514,433.

There are number of Reserve accounts are running low and are in risk of funding potential 2025 capital budget requests. To return to compliance with the Municipal Reserve and Reserve Fund Policy FN-389, administration recommends the following transfers:

Transfer \$1,514,433 of the 2023 surplus to the Assessment Stabilization reserve, which would bring the forecasted balance to \$1,939,651 going into 2025 budget preparation.

Transfer \$15,319 of the 2023 surplus to the Plans and Studies reserve.

Transfer \$39,200 of the 2023 surplus to the Tree Replacement reserve.

Transfer \$333,932 of 2023 forecasted surplus and \$653,328 from Working Fund reserve to Vehicle and Equipment reserve to fund the potential deficit of the 2025 capital requests.

Transfer \$1,022,465 from Working Fund reserve to Fire Vehicles and Equipment reserve to fund the shortfall of the preapproved 2025 Fire capital purchase of Tanker 2 and Engine 5, as well as 2025 Bunker Gear Replacement.

Transfer \$468,250 from Working Fund reserve to Trail-Existing reserve to fund the potential deficit of 2025 capital requests.

In addition, in accordance with the reserve fund policy and the requirements of the Building Code Act, a transfer of \$169,446 will be made from the Building Operating reserve fund based on the 2023 Accumulated Net deficit for Building.

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:	2025 Council Meeting Schedule.docx
Attachments:	- Appendix A - Taxation Funded, Water Funded, Wastewater Funded Variance Summary.pdf - Appendix B - Reserve and Reserve Fund Policy FN-389.pdf
Final Approval Date:	Oct 11, 2024

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

Prepared by Kate Rowe

Submitted by Justin Rousseau

Approved by the Corporate Leadership Team