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Date June 15, 2022 **Report No.** 2022-407

To Chair and Members
Finance Committee

From Joelle Daniels
Director of Finance/City Treasurer

1.0 Type of Report

Consent Item ☐
Item For Consideration ☒

2.0 Topic 2021 Yearend Operating Budget Surplus [Financial Impact - \$2,978,113 Operating Surplus]

3.0 Recommendation

- A. THAT Report 2022-407 regarding the 2021 Operating Budget Surplus BE RECEIVED; and
- B. THAT a Winter Control Reserve BE ESTABLISHED; and
- C. THAT the 2021 Operating Surplus in the amount of \$2,978,113 BE TRANSFERRED as follows:
 - i. \$1,595,008 to the Corporate Contingency Reserve (RF0554)
 - ii. \$572,190 to the Council Priorities Reserve (RF0558)
 - iii. \$810,915 to the Winter Control Reserve; and
- D. THAT a By-law to amend By-law 70-2010, Being a By-law to Adopt Various City of Brantford Policies and to Create a Corporate Policy Manual (By

amending Finance Policy – 002 – Budget Items Balanced by Reserves and Reserve Funds) BE PRESENTED to City Council for adoption.

4.0 Executive Summary

This report provides an overview of the 2021 yearend surplus in the amount of \$2,978,113, which represents 1.78% of the 2021 operating budget. This surplus is approximately \$141,950 higher than the preliminary estimation provided to the Finance Committee in April. The report seeks authority for the distribution of this surplus to the Corporate Contingency Reserve, Council Priorities Reserve and a newly created Winter Control Reserve which would be used to smooth the fluctuations of uncontrollable winter conditions annually.

It also provides an explanation of budget variances experienced by services that are balanced against reserve or reserve funds in accordance with Finance Policy #002 – Budget Items Balanced by Reserve Funds (FP2). Additionally, this report provides an analysis of the Golf 2021 operations as required.

5.0 Purpose and Overview

The purpose of this report is to update the Finance Committee on the final 2021 surplus, and to provide an explanation as to the main factors contributing to the overall yearend financial result. This report also updates the Finance Committee on the surplus/deficits realized in 2021 for business units or operations that fall under FP2, and outlines the transfers that were necessary to balance actual results to budget in accordance with FP2.

6.0 Background

In April 2022, Council received report 2022-19, 2021 Preliminary Year End Variance Report which forecasted a year surplus of \$2,836,163. The final 2021 result has been confirmed at a surplus of \$2,978,113 after transfers to and from reserve and reserve funds have been made in accordance with FP2.

7.0 Corporate Policy Context

Desired Outcome #4 of Council's Priorities is "There is high trust in the City through demonstrated progress in taxpayer affordability and value for money", A Tier 2 priority to achieve this outcome is to "Enhance communication to residents demonstrating evidence of high value for tax dollars".

This report also includes an analysis of reserve transfers made in accordance with Finance Policy #002 – Budget Items Balanced By Reserve Funds.

8.0 Input From Other Sources

All departments responsible for Operating accounts were involved in the review of variances to ensure accuracy and provide explanations.

9.0 Analysis

9.1 Overall Budget Surplus

Prior to making the necessary yearend reserve and reserve fund transfers in accordance with FP2, the net surplus from all City services was \$13,923,762. A number of services, including water and wastewater, see their surplus transferred to their reserves at yearend. Table-1 below provides a breakdown of the overall yearend budget results for 2021.

Table 1: Summary of yearend budget results for 2021

Category	Amount
Net Surplus for Services Included in FP2	\$10,945,649
Net Surplus for Services Not Included in FP2	\$2,978,113
Total Net Surplus for All Services	\$13,923,762
FP2 Reserve/Reserve Fund Transfers Made	(\$10,945,649)
Net Tax Supported Surplus	\$2,978,113

Further details of the significant financial variances experienced are provided in Sections 9.2 and 9.3 below.

9.2 Surplus for Services Included in Finance Policy #002

The net surplus realized in 2021 by all FP2 business units was \$10,945,649 and was comprised of the following:

- Total Surplus - \$10,992,413
- Total Deficits – (\$46,764)

Table-2 provides an explanation of the significant variances experienced in services that are included in FP2.

Table 2: Significant Finance Policy 002 Variances

Department/ Business Unit	Surplus Transferred to Reserve Fund	Explanation
Building Services	\$ 3,098,754	Building permit fees are established to recover 100% of costs of permit issuance, inspection and monitoring and do not impact the property tax supported budget. The costs associated with a permit extend beyond one calendar year, and a reserve fund was established in 2005 in accordance with the Ontario Building Code Act to allow fees to be deferred and matched with those future expenses. This surplus represents permit fee revenues collected above what was needed to administer permits in 2020. In 2021, the Building Department issued a total of 1508 building permits which resulted in the highest recorded year-end construction value of \$472 million.

Department/ Business Unit	Surplus Transferred to Reserve Fund	Explanation
Water	\$ 2,621,553	Water consumption was significantly higher than expected producing additional water revenue of \$1.84M, primarily in residential revenues as residents continued to work from home and user fee and services charges increase of \$77K. A change to the methodology used to establish the Allowance for Doubtful resulted in a positive impact of \$72K to Bad Debt Expense. Significant savings in electricity of \$190K due to consolidation of accounts to one primary meter, being billed under Global Adjustment Class A category and switch to LED lighting. There were savings in chemical costs of \$131K and landscaping and snow removal costs of \$51K (due to new contractor and lower costing) and a reduction in private lead water service removal grant program costs by \$36K due to lower uptake.
Wastewater	\$ 2,545,832	Increased bill volume resulted in additional wastewater revenues of \$1.7M, primarily in residential revenues as residents continued to work from home and an additional high strength surcharge of \$485k due to companies still working through Compliance programs. A change to the methodology used to establish the Allowance for Doubtful resulted in a positive impact of \$186K in Bad Debt Expense, there was a savings in chemical costs of \$44K and landscaping and snow removal costs of \$46K (due to new contractor and lower costing) and sludge haulage experienced savings of \$177K (new contractor with lower price for haulage and new biosolids decanting system reduces volumes that need hauling)

Department/ Business Unit	Surplus Transferred to Reserve Fund	Explanation
Development Engineering	\$ 1,814,243	Surplus is a result of increased Developer Contributions (\$1.4M), Inspection Fees (\$120K), and Application Fees (\$112K). There was also savings of \$157K in salaries and benefits due to staff vacancies.
Insurance	\$327,273	The surplus was a result of the total payout for claims being lower than anticipated and the claims budget being increased to account for the anticipated resolution of a greater number of claims in 2021. The pace at which claims have been processed over the past two years did not increase and as a result the total amount paid out was lower than anticipated. The 2022 claims budget was adjusted down to account for the static pace at which claims have been processed
BHOMES	\$300,346	The amount transferred to the reserve represents the amount repaid from previous loans as a result of sales or renegotiation of mortgages.
All Other Services	\$337,348	Net surplus for all other FP2 services
TOTAL	\$10,945,649	

All surplus experienced in FP2 services has been transferred to the applicable reserves/reserve funds. Affordable Housing experienced a deficit of \$46,764 as a result of insurance claims and extensive repairs at 40 Queen Street that was funded from the applicable reserve. The attached Appendix A outlines the full listing of all FP2 surpluses and deficits, transfers made, shortfalls identified, and yearend reserve fund balances.

9.3 Golf Operations- 2021 Annual Report

As a result of COVID-19, the 2021 golf season was once again impacted with Provincial Restrictions and a Stay at Home Order. The golf season began early on April 6, 2021 but a surge in COVID-19 cases lead to another Provincial Lockdown and Stay at Home Order and the course closed again after just ten days. The Lockdown lasted for six weeks and the golf course reopened on Saturday May 22.

Despite an increase in tee time intervals to promote physical distancing, and the lack of tournaments and functions due to gathering restrictions, Walter Gretzky Municipal Golf Course had a 15% increase in the number of rounds played, with a total of 37,778 compared to 32,968 in 2020. As a result, Golf Operations was not only able to meet, but exceed its Council mandated goal of being revenue neutral and finished the year with a surplus of \$66,574, which was \$15,275 over the 2021 budget. The total surplus was transferred to the Golf Operations Reserve as per FP2.

During the Estimates Committee for 2021, Council directed Golf to transfer \$50,000 per year from the Golf Operations Reserve to the Capital Funding Envelope Reserve in repayment for funding used for the new Clubhouse at Walter Gretzky Municipal Golf Course. This transfer has been made.

9.4 General Operating Surplus

At the April Finance Committee, staff forecasted the preliminary surplus to be \$2,836,163. The 2021 budget was prepared including COVID-19 impacts that were either known or anticipated at a point in time prior to provincially mandated closures and restrictions that occurred during 2021. While there were significant additional pressures seen in areas such as arenas, aquatics, transit, housing and homelessness, additional grant funding and expenditure savings throughout the organization has resulted in an estimated surplus of \$2.8 million. This report estimated that net COVID-19 pressures amounted to \$2,139,583 in 2021. A copy of report 2022-196, 2021 Preliminary Year End Variance is attached as Appendix B.

The financial statements have now been prepared for 2021, and staff can confirm that the final operating surplus is \$2,978,113. The increase from the previous report is mainly attributable to addition of surplus recognized following the completion of yearend activities at the John Noble Home and Paramedic Services.

9.5 Winter Control

In 2021, winter control operations recognized a savings of \$810,915 in its Salt and Sand and Contracted Services accounts as a result of the light winter. This savings equate to 37 percent of the operating budget for these accounts. The Winter Control budget and expenses fluctuate depending on weather events and conditions. Since 2013, the City's Winter Control operations have experienced significant deficits in five years while in the other four years experienced surpluses. During the last nine years annual variances have ranged from a

surplus of \$810,000 to a deficit of \$630,000. A Winter Control Reserve will aid in minimizing the financial impact resulting from extreme winter weather conditions. The 2022 winter season saw four (4) significant events with full plow operations and many smaller events where only salt or sand was applied. Typically, Operational Services budgets for 12 snow events per calendar year and has capacity for an additional 3 events in case of consecutive snowfalls. In a review of similar and neighbouring municipalities, staff is aware of 12 other municipalities that have a similar reserve. Staff is recommending that a Winter Control Reserve be established, and that the savings from 2021 be transferred to this reserve to be utilized to offset years in which these operations experience a deficit due to harsh winters. Staff is also recommending that the Winter Control accounts related to salt, sand and the contract with the external snow clearing providers be added to Finance Policy 002 – Budget Items Balanced By Reserves and Reserve Funds.

10.0 Financial Implications

The net tax-supported surplus realized for 2021 is \$2,978,113. This amount of surplus represents approximately 1.78% of the tax levy, and 0.84% of gross expenditures.

Historically, any yearend surplus has been used first to top up the yearend balance in the Corporate Contingency Reserve to a target level of 1.5% of the operating budget, with any excess fund transferred to the Council Priorities Reserve. The uncommitted balance in the Contingency Reserve at yearend was \$912,539 or 0.55% of the operating budget. A top-up of \$1,595,008 is required to bring the Corporate Contingency Reserve to its target balance.

Due to uncontrollable nature of annual winter control activities, staff is recommending to utilize the surplus recognized in 2021 salt/sand and contracted snow clearing accounts totaling \$810,915 as an initial contribution to a newly established Winter Control Reserve. The intent of this reserve is to mitigate against large cost fluctuations that can occur year over year.

The remaining surplus totaling \$572,190 would be transferred to the Council Priorities Reserve.

11.0 Conclusion

The City ended 2021 with a net operating surplus of \$2,978,113, representing 1.78% of the 2021 operating budget.



Joelle Daniels
Director of Finance/City Treasurer

Prepared By:

Kelly Schmitte, Manager of Financial Analysis

Attachments (if applicable)

Appendix A – 2021 Finance Policy 2 Transfers

Appendix B – 2021 Preliminary Year End Variance Report

Copy to:

NA

In adopting this report, is a by-law or agreement required? If so, it should be referenced in the recommendation section.

By-law required ☒ yes ☐ no

Agreement(s) or other documents to be signed by Mayor and/or City Clerk ☐ yes ☒ no

Is the necessary by-law or agreement being sent concurrently to Council? ☒ yes ☐ no