

THE CORPORATION OF THE TOWN OF GEORGINA

REPORT NO. CAO-2017-0016

FOR THE CONSIDERATION OF COUNCIL

December 6, 2017

**SUBJECT: SERVICE DELIVERY REVIEW (SDR) PROGRESS REPORT NO. 8
FINANCIAL POLICY FRAMEWORK
PART D – SURPLUS/DEFICIT CONTROL MEASURES BY-LAW**

1. RECOMMENDATION:

- 1. That Council receive Report No. CAO-2017-0016, prepared by the Office of the CAO dated December 6, 2017, respecting SDR Progress Report No. 8 Financial Policy Framework Part D – Surplus/Deficit Control Measures By-law;**
- 2. That Council approve the measures introduced in section 4.6 of this report to minimize any potential fluctuation on property tax rates and/or user fees, and adopt the proposed Surplus-Deficit Control Measures By-law authorizing the Town Treasurer to implement the approved recommended measures, commencing with the 2017 fiscal year end;**
- 3. That the Treasurer be directed to report on these transactions as part of the annual presentation of Audited Financial Statements;**
- 4. That the Treasurer monitor the outcome of actions included in this By-law and bring forward a report with updated recommendations, when necessary.**
- 5. That the newly approved Surplus-Deficit Control Measures By-law to over-ride and supersede any previous related by-laws, policies and resolutions.**

2. PURPOSE:

Further to the adoption of the recent Reserves and Reserve Funds Policy by Council on October 18, 2017, this report provides new mechanisms and the opportunity to automatically set aside additional funds for the Town's Tax Rate Stabilization

Reserve, the Working Capital Reserve and Capital Reserves, in order to meet the needs of the Town's future funding requirements. This report will also introduce new financial tools and control measures for the Town of Georgina for the purpose of minimizing any potential fluctuation in operating budget affecting the property tax rates and user fees.

3. BACKGROUND

It is quite common for multi-million dollar operations, including Ontario municipalities, to have a variance between their final actual numbers versus the approved budget numbers. This is simply because the budget process at its best, provides estimated numbers for a complex work environment in a complex business world, influenced with many unknown facts and unexpected events. As such, in order to offset future uncertainties and to stabilize fluctuations caused by any unexpected revenue/expenditure windfalls/shortfalls that were not anticipated in the budget, Council can approve the recommended measures hereby mitigating erratic impacts on the operating budget, property tax rates, and the user fees & charges.

4. ANALYSIS:

4.1 General

The terms "surplus" and "deficit" are commonly used in a municipal government environment and can be described in a more simplified accounting term as follows:

"A difference between a municipality's annual operating budget and the final actual statement of revenue and expenditure will be recognized a surplus (favourable) or deficit (unfavourable)"

4.2 Municipal Act 2001 and the Annual Municipal Budget Process

Section 290 of the Municipal Act requires all Ontario Municipalities to prepare and adopt budgets including estimates of sums required for the duration of the fiscal year. The budgeting process allows municipalities to prioritize projects, programs and service levels based on anticipated revenue and expenses. A municipality's annual budget routinely consists of two components:

The operating budget plans for a municipality's day-to-day expenditures (e.g. salaries, wages, benefits, heat, hydro and maintenance of buildings and infrastructure).

The capital budget plans for the purchase and financing of assets or improvement of existing infrastructure (e.g. libraries, storm sewers, recreation centres, parks and roads).

Under “Allowance” Subsection 4, the Municipal Act states; *in preparing the budget for a year, the local municipality:*

shall treat as estimated revenues any surplus of any previous year that resulted because;

- (i) Revenues for that year were greater than the amount estimated for the year*
 - (ii) Expenses for that year were less than the amount estimated for the year*
- Section 290, S (4)(b)*

Shall provide for any deficit of any previous year that resulted because;

- (iii) Revenues for that year were less than the amount estimated for the year*
 - (iv) Expenses were incurred by the municipality that were not in the budget for that year or were greater than the amount estimated for the year*
- Section 290, S (4)(c)*

4.3 Understanding Various Definitions

In a municipal budget, the annual calculation for surplus/deficit of the previous year shows whether the planned revenues for the previous year were sufficient to cover the planned expenses (cash outlays). Any differences are to be carried forward into the budget year period as revenue (surplus) or expense (deficit) in accordance with the rules in the legislation. This however may create unnecessary fluctuations in the calculation of the annual property taxes as the amount of year end surplus/deficit varies from one year to another.

In a financial statement, the annual surplus/deficit shows whether the revenues generated were greater than the expenses incurred, including non-cash expenses such as amortization. The year-end closing surplus or deficit shown in an audited financial statement does not necessarily represent the “operating” surplus/deficit or indicate “operating” performance.

For example:

- A surplus does not mean that a municipality has extra funds to spend. It could mean that a municipality has funds reserved for future obligations
- A deficit could be the result of an unexpected emergency, or the reporting of amortization expense.

4.4 Public Sector Accounting Board (PSAB) Rules

Under the recently updated guidelines of PSAB, when calculating the annual surplus/deficit in the audited financial statements, the costs of using capital assets over the lives of the assets is recognized — meaning a portion of the asset’s cost is

charged as an amortization cost each year, until the asset is considered to be fully paid off. The focus of this report however, is on the “operating” surplus/deficit only.

4.5 History of Town’s Operating Surplus/Deficit Amount and Follow-up Actions

According to Town’s Financial Statements, over the past three years, the Town of Georgina has posted annual operating surplus results which could be seen as an indicator for reasonable estimation by operating departments.

The annual surplus amounts for the 3 years are as follows:

2016: \$361,387, out of which \$100,000 was used towards the 2017 Budget and the balance was forwarded to Fire Vehicles and Equipment Reserve

2015: \$401,641, out of which \$200,000 was used towards 2016 Budget, the remaining balance was transferred to the Reserve for Insurance \$128,641 and Municipal Law Enforcement (MLEO) Vehicle Reserve \$73,000

2014: \$226,703, out of which \$200,000 was used towards 2015 Budget, the remaining of \$26,703 was left in the 2015 surplus.

4.6 Proposed New Control Measures

To fully comply with the requirement of the Municipal Act while mitigating any major fluctuations in the annual municipal operating budget as described in previous sections, the following it is recommended to implement the following actions as the final steps of preparation of the annual Financial Statements:

- a) An amount equivalent to up to a maximum one percent (1%) of the current tax levy from the operating surplus be transferred to the Rate Stabilization Reserve until the balance of the reserve reaches ten percent (10%) of the total approved operating budget. This would also be applicable to Water/Wastewater and other separate operating funds.
- b) An amount equivalent to up to a maximum one percent (1%) of the current tax levy from the operating surplus be transferred to Working Capital Reserve until the balance of the reserve reaches ten percent (10%) of the total approved operating budget.
- c) Any operating deficit shall be funded from the Rate Stabilization Reserve. This would also be applicable to Water/Wastewater and other separate operating funds.

- d) In case of lack of funds availability, the Treasurer shall report to Council and recommend alternative sources of funding for Council's approval before the completion of the year-end audit process.
- e) Any remainder of the annual surplus after the transfer of funds as described in steps a and b, shall be transferred to Corporate Capital Reserve or respective Lifecycle Replacement Reserves for other separate funds.
- f) The Treasurer or designate shall report to Council on the allocations performed
- g) at the time when annual financial statements are presented to Council or as soon thereafter, as practical.

5. RELATIONSHIP TO STRATEGIC PLAN

The Surplus/Deficit Control By-law provides an efficient way of dealing with the annual year end process and removes any potential fluctuation from the property tax and other user fee calculations resulting in further financial sustainability of the Town's service delivery and stewardship of the Town's operations, as well as rate stabilization, supporting the following goal in the Town's Strategic Plan:

Strategic Goal #4 "Provide Exceptional Municipal Service" – Organizational and Operational Excellence:

- Open, accountable and responsive government
- Proactive financial and municipal asset management
- Progressive organizational practices
- Engaged and collaborative leadership.

6. FINANCIAL AND BUDGETARY IMPACT

The recommendations in this report are intended to provide a consistent approach for occasional top-ups (when available) for:

- 1- Rate Stabilization Reserve, which is needed to provide incidental funding to the operating budget (e.g. Winter Maintenance or Economic Development)
- 2- Working Capital Reserve, which preserves funding for growing day-to-day operations
- 3- Capital Reserve, which may assist to close the funding gaps identified through Long-term Financial Plan

Filing this report and introduction of the financial control measures will result in higher financial stability for the Town while providing an opportunity to top up crucial reserve and reserve funds for capital or operating programs. The proposed By-law also provides clear guidance and set criteria for the staff in order to better manage the year end process in an efficient manner.

7. PUBLIC CONSULTATION AND NOTICE REQUIREMENTS :

This report is administrative in nature and there has been no related public consultation.

8. CONCLUSION:

This report recommends that Council receive and approve the Surplus/Deficit Control Measures By-law, presented as Attachment 1 to this report.

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Attachment 1: Surplus Deficit Control Measures By-law