



Financial Services Staff Report

Report Number: F13-2024
 Report Title: 2023 Surplus/Deficit Distribution
 Author: Richard Petherick, Manager of Accounting & Deputy Treasurer
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 Reviewed By: Colm Lynn, Director of Finance & Treasurer
 Final Review: Senior Management Team

Recommendation:

That the Council of the Township of Woolwich, considering Report F13-2024 respecting 2023 Surplus/Deficit Distribution, approve the transfer of the 2023 surplus and deficit distribution as outlined in Attachment 1.

Background:

With the 2023 audit near completion, staff have calculated an accurate year-end surplus figure. The following table outlines the breakdown of the surplus/deficit experienced in 2023.

| | |
|----------------------------|-------------|
| <u>2023 Surplus</u> | |
| Tax-supported Operating | \$216,544 |
| Tax-supported Capital | \$223,575 |
| Water Operating | \$85,261 |
| <u>2023 Deficit</u> | |
| Wastewater Operating | (\$486,346) |

The tax-supported surplus represents approximately 3.07% of the total levy requirement for 2023.

Comments:

In general, when allocating the year-end surplus/deficit balances, the Reserve and Reserve Fund By-law indicates that these balances are a source of funding to either contribute or draw from for specific reserve and reserve funds and their related activities. A revised reserve and reserve fund policy will be presented to Council in Fall 2024 which will outline our reserve policy in more detail. The distribution of year end surplus/deficit balances is still, however, at the sole discretion of Council.

Tax-supported Operating Surplus

The tax-supported Operating Budget experienced a surplus of \$216,544 in 2023. The following list outlines the key drivers of the surplus:

- The Township received approximately \$473,000 more in interest income primarily due to substantial increases in Canada's Prime Bank Rate.
- The Township received \$114,000 more in supplemental tax revenue than budgeted.
- The volunteer fire fighter wage costs were over budget by approximately \$197,000, due to the increased number of hours for training and development activities required for the Township's fire services, as well as responding to fire calls.
- The Township did not spend out the budgeted amount for OLT (Ontario Land Tribunal).
 - The 2023 Budget had an allocation of \$150,000 and the Township only spent close to \$11,300. Staff recommend that these unspent funds would be directed into the OMB/OLT Reserve for future tribunal expenses.
- Equipment allocation in Infrastructure Services was over budget by approximately \$316,000. For Council's benefit, Infrastructure Services are a combination of roads, water and wastewater which share equipment. As equipment is used, whether it is roads, water or sewer works, they are charged out according to established equipment rates. General equipment rates are set based on historical levels of expenditures related to the operation and maintenance of this equipment.
 - In 2023, there were very large expenditures related to significant repairs to one of the Township's Graders.
- Salary expenses in the Recreation & Facility Services department were in total over budget by approximately \$387,000 due to staff directly involved in the delivery of recreation services.
 - While this overage was partially offset by increased recreation fee revenue, approximately \$162,000, there still was an overall shortfall.

Tax-supported Capital Surplus

The tax-supported Capital Budget experienced a surplus of \$223,575 in 2023. The surplus generated in the capital program Information Technology Services and Infrastructure Services Capital Program areas.

Information Technology Services (ITS) capital program had a tax levy surplus of \$16,773 at the end of 2023, mainly due to unspent funds from the Facility UPS Replacement project. Directing the surplus to the capital contingency will allow ITS to use this funding into future IT projects as required.

The tax levy surplus generated in Infrastructure Services was mainly due to shifting grant dollars which had capital levy as a funding source. As the recording of expenses for 2023 was coming to a conclusion, staff realized that OCIF (Ontario Community Infrastructure Fund) grant dollars that was budgeted for the Hot Mix Resurfacing Program would not be fully utilized in 2023. This created the opportunity to shift OCIF grant dollars to the road conversion project, which freed up capital levy dollars, which can then be directed to the Infrastructure Reserve Fund for future projects. Using OCIF for road conversion works still met the intention of the grant for 2023, as it was used for works on the Township's road network.

Over the last number of years Council has chosen to distribute surplus experienced in the capital program either to the Infrastructure Reserve Fund and/or the Capital Contingency Reserve. By doing so these surpluses can be used for future infrastructure projects to help address the Township's infrastructure deficit. The 2023 tax-supported capital surplus is being recommended to be directed to the Infrastructure Reserve Fund for the surplus generated through Infrastructure Services and the capital contingency for the surplus generated from Information Technology Services.

Water Operating Surplus

At the end of the fiscal period 2023 the Water Operating Program experienced a surplus in the amount of \$85,261. The Township's net controllable costs (i.e., costs for work conducted on our water system) were lower than expected by approximately \$52,000. Second, the Township caught up on missed water billings from 2022. This resulted in approximately \$245,000 in additional net revenue (i.e. difference between water revenue and Regional Billings) being recorded in 2023 than budgeted.

On the negative side, the Township's equipment allocation was overbudget. Infrastructure Services operations uses shared equipment and as overages occur they are proportionally allocated over general operating, water operating and wastewater operating budgets.

Given that no surplus or deficit was budgeted for in 2023 it is staff's recommendation that the surplus is transferred to the Water Reserve Fund as per our reserve and reserve fund by-law.

Wastewater Operating Deficit

The Wastewater Operating Program ended 2023 in a deficit position of \$486,386. This was driven by two key factors. The first is Township's regional billings were significantly above budget expectations due to an overall wet year and Elmira, St. Jacobs and Breslau currently having inflow and infiltration issues. Which caused increased costs to the

Township. The second factor is the decline in Township wastewater revenues which has been showing a decline in recent years despite and increase in rates. This revenue issue is continuing throughout 2024 and staff are currently analysing the wastewater program in more detail to determine the cause.

It should be noted that both Water and Wastewater have no rate stabilization reserve. As a result any deficit in the operating program will need to be funded from the capital reserves. Staff are recommending that the 2023 deficit be funded from the wastewater reserve fund which may have an impact on future capital works. This 2023 year end deficit draw will create a negative balance in the wastewater reserve fund which will need to be addressed. Staff will report back to Council in Fall 2024 on the wastewater program in more detail outlining options to reach financial sustainability.

Interdepartmental Impacts:

None.

Financial Impacts:

Upon approval, all transfers will be made within the 2023 fiscal year. Staff have added a chart below which shows the effect that the recommended 2023 Surplus/Deficit Distribution will have on the applicable Reserve & Reserve Funds.

| Reserve/Reserve Fund | 2024 Projected Balance | 2023 Surplus/(Deficit) | Balance Effect |
|-------------------------------|-------------------------------|-------------------------------|-----------------------|
| Capital Contingency Reserve | \$148,611 | \$16,773 | \$165,384 |
| Infrastructure Reserve Fund | \$173,804 | \$206,802 | \$380,606 |
| OMB Legal Reserve | \$162,254 | \$138,703 | \$300,957 |
| Operating Contingency Reserve | \$364,912 | \$77,463 | \$442,375 |
| Wastewater Reserve Fund** | \$283,130 | (\$486,346) | (\$203,216) |
| Water Reserve Fund | \$13,300 | \$85,261 | \$98,561 |

- *Note: The projected balances in the table above includes the projected revenues and expenses based on the 2024 Budget but does not include any current or projected deficits experienced in 2024*
- ***The Wastewater Reserve Fund is now in a deficit position and a plan will need to be developed to reach sustainability*

Community Strategic Plan Impacts:

Not applicable.

Conclusion:

Staff recommend that Council approve the distribution of the 2023 operating, capital, water, and wastewater surplus as outlined in report F13-2024.

Attachments:

1. 2023 Surplus/Deficit Distribution Details

F13-2024 Attachment 1

2023 Surplus/Deficit Distribution Details

| <u>From</u> | <u>To</u> | <u>Amount</u> |
|-------------------------|--|---------------|
| Tax Levy | Infrastructure Reserve Fund (from Capital Levy) | \$206,802 |
| Tax Levy | Capital Contingency Reserve – IT (from Capital Levy) | \$16,773 |
| Tax Levy | Operating Contingency Reserve (from Operating Levy) | \$77,463 |
| Tax Levy | OMB Reserve (from Operating Levy) | \$138,703 |
| Tax Levy | Special Circumstances Reserve - Grants (from Operating Levy) | \$378 |
| Water Operating | Water Reserve Fund | \$85,261 |
| Wastewater Reserve Fund | Wastewater Operating | \$486,346 |