



Subject: Year End Surplus/(Deficit) and Closeout Report

To: Council

From: Corporate Services Department

Report Number: 2021-74

Meeting Date: April 12, 2021

Recommendation:

That Corporate Services Department Report 2021-74 be received; and

That the recommendations set out in the Discussion section and Appendix D of Corporate Services Department Report 2021-74 be approved.

Purpose:

This report highlights the funding budget to actual results, provides recommendations pertaining to surplus/(deficit), capital and related project closeouts and reserve activity.

Background:

This is a new report to the City of Port Colborne (the "City"). Financial Services identifies this report structure is a work-in-progress and hopes Council finds this report to be a positive step towards greater transparency and accountability.

Financial Services cautions Council and other users of this report from trying to tie account groupings in Appendix A to the 2021 budget as the 2020 budget was not developed using the same account groupings. Financial Services is working with a third party to align historical accounts to the new 2021 budget account groups to support multi-year comparatives.

Financial Services identifies this report does contain certain forward-looking information. In preparing this report, certain assumptions and estimates were necessary. They are based on information available to management at the time of preparing this report. Council and other users are cautioned that actual results may vary.

Financial Services also reminds Council and users this report is based on fund accounting. This means this report is based on a management accounting model that can be described as modified cash accounting instead of accrual accounting. In this report, like the City's budget, financial transactions reflect the receipt and disbursement of cash and recording of current assets. This report is not prepared in accordance with full Canadian public sector accounting standards like the audited financial statements. For example, this report reflects capital purchases as cash outlays instead of capitalizing them on the balance sheet and amortizing them over their useful life. As a reminder, fund accounting is utilized by all municipalities as a mechanism to develop budgets and track cashflow. While accrual accounting can provide for a longer-term picture of an organization by capitalizing assets and recording long-term liabilities like employee future benefits, fund accounting helps the municipality ensure funding is available in the immediate to cover current obligations.

Financial Services identifies this is not the end journey for this report's development/progression and look forward to comments and suggestions from Council on how to improve this reporting going forward.

Council is encouraged to reach out to staff with any questions regarding this report.

Discussion:

For the fiscal year ended December 31, 2020 the City experienced the following Surplus/(Deficit):

	Actual	Budget	Net
Levy			
Revenue	\$ 28,733,074	\$ 28,454,024	\$ 279,050
Personnel Expense	\$ 13,592,906	\$ 13,021,105	(\$ 571,801)
Operating Expense	\$ 14,981,727	\$ 15,432,919	\$ 451,192
Surplus	\$ 158,441	\$ -	\$158,411

Revenue was up slightly year over year because of investment income and new assessment growth. In aggregate, the losses in revenue at the Vale Health and Wellness Centre and Sugarloaf Marina were approximately equal to the COVID-19 funding received from the Provincial government.

Personnel expenses were up because of water and wastewater employees being reassigned to levy related activities without budget being established in the levy (this was discussed during the Rate budget) and some organizational changes.

Operating expenses in aggregate were lower with the largest savings coming from the cancellation of various programs and other events during the year.

Appendix A provides some greater detail regarding salient budget to actual differences.

	Actual	Budget	Net
Rate			
Revenue	\$ 10,912,145	\$ 11,943,532	(\$ 1,031,387)
Personnel Expense	\$ 696,775	\$ 1,232,179	\$ 535,404
Operating Expense	\$ 10,784,208	\$ 10,711,353	(\$ 72,855)
Deficit	(\$ 568,838)	\$ -	(\$ 568,838)

The net deficit in the rate budgets is materially the same as shown and discussed during the 2021 Rate budget process. As noted during that budget process, revenue has historically come in under budget which lead to the 2021 rates requiring adjustment. Personnel expenses were under budget because of employee time being redirected to Levy or Drainage related activities and positions remaining unfilled to avoid realizing a deficit.

Included in the Levy figures above are the following salient COVID-19 financial pressures related to non-Self-Sustaining Entities (SSEs) and related funding:

Impact	Amount
Positive Financial Impact	
Vale Health and Wellness Centre reduced Utility Costs	\$ 198,000
Provincial COVID-19 Funding	\$ 622,700
Canal Days, Recreation and Other Events	\$ 476,100
	\$ 1,296,800
Negative Financial Impact	
Personnel Expenses*	\$ 694,200
Information Technology	\$ 103,300
Material, Contract Costs	\$ 151,400
Vale Health and Wellness Centre Lost Revenue	\$ 290,000
	\$ 1,238,900
Net Levy Impact before SSE impact	\$ 57,900
SSE: Sugarloaf Marina Impact (funded through Marina reserve)	(\$ 232,800)
Net Impact	(\$ 174,900)

* Corporate Services identifies this represents employee time redirected to the COVID-19 pandemic. This represents approximately 5% of personnel expense which was related to the COVID-19 pandemic. Corporate Services will identify staff was judicious in how they allocated time to COVID-19. The reality is staff were impacted by the pandemic and working to support the City through the pandemic in 100% of their time and actions.

The net impact above forms part of the City's Levy surplus at year end. Financial Services highlights that Sugarloaf Marina is funding the impact through reserves (**Appendix D**).

This report contains a summary of Capital and Related Projects by way of **Appendix B and C**. **Appendix B** represents capital projects and remaining funding that has been approved previously or recommended for approval in this report. The balance of these projects represents \$10,134,933. An update on 2021 activity will be provided with the first trimester reporting that will be prepared for the period ending April 30, 2021.

Members of Council and users of this report will identify a capital account "Capital and Related Project Budget Over/Short" in the amount of \$280,108 in **Appendix B**. This balance was the result of Financial Services and other departments closing out completed projects or projects no longer required. Council and users of this report will note the net balance is positive. In recognition of the \$10,134,933 capital backlog staff recommend most of these funds be used to hire temporary purchasing and project coordinator support until December 31, 2022. The estimated cost of this assistance is \$273,600.

Appendix C is a linkage/bridge between **Appendix B** and Report 2020-116 that served to summarize all projects approved in 2020 and prior.

Council and Users of this report will find **Appendix B** ties into the "work-in-progress" reserve line on **Appendix D**. This report through **Appendix D** makes the following reserve recommendations:

- The Year End Levy (non-SSE) Surplus be allocated as follows:

Reserve	Rational	Amount
Canada Summer Games Reserve	To match Council commitment	\$2,500
Municipal Election Reserve	To increase reserve to level anticipated for the next election	\$25,000
Encumbrance Reserve	To allow for \$30,000 for a cannabis strategy and \$58,000 to fund identified pressures related to the General Insurance contract (Report 2021-25)	\$88,000
Future Liabilities Reserve	To fund WSIB claims and potential claims. Align with Confidential Report 2021-91.	\$209,644
Working Capital Reserve	To align reserve with funding target.	\$15,477
Total		\$340,621

- SSE and Rate surplus/deficits be director to and/or funded from their respected reserves.

- The following reserve additions/deletions be made:
 - A Community Safety Committee reserve be added in a manner like other Committee reserves. This Committee was overlooked when the Reserve Policy was developed.
 - A Roselawn reserve be added with a funding target to be determined once a Roselawn Plan is developed. The funds identified in Appendix D are from previously approved and closed out projects. The funds have been put in this reserve for future use dependent on a Roselawn Plan being developed.
 - The Show Boat reserve be removed recognizing this reserve will not be required because of the agreement that has been developed and is being presented to Council via Report 2021-115.
- The following funding substitutions and/or transfers be made:
 - In 2021 the Province of Ontario has provided the City with \$630,536 of additional COVID-19 funding. As a result, staff recommended leaving the funds previously budgeted from the General Sustainability Reserve in the amount of \$253,400 in the reserve.
 - The Federal Government has announced \$558,126 in new one-time gas tax funding to the City. Financial Services recommends the previously approved Clarence Street Sidewalk project be 80% or \$132,000 funded from Gas Tax instead of the 2021 Capital Budget contingency fund. See additional comments related to Gas Tax funding below.
- The following Capital and Related Projects be added:
 - Recognizing the new funding from the Federal Government with respect to gas tax and the health and safety concern regarding the elevator in City Hall, it is recommended that a project for \$100,000 be established to fix the electrical equipment associated with the elevator. Funding would be 80% from this new Gas Tax funding and 20% from the 2021 Capital Budget contingency fund. This Capital and Related Project addition plus the Clarence Street Sidewalk funding substitution will leave the 2021 Capital Budget contingency fund with a balance of \$172,654.

Appendix D provides some greater detail regarding salient reserve fund activity, including the recommendations noted above.

Financial Services has in **Appendix D** also identified the approved reserve targets and/or progress or steps required to establishing a final target.

Council and users of this report will also find **Appendix E – Investments** and **Appendix F – Debt Management** that highlight the City's investment returns and debt management along with related compliance with approved policies.

Financial Services identifies there is no new debt approved or forecasted at this time. As forecasted in **Appendix F** the City's ARL is forecasted to decline over time and at 6.5% forecasted for in-year 2021, it remains well below the City's self-imposed limit of 15% and the Province of Ontario maximum of 25%.

Internal Consultations:

Financial Services would like to thank all departments for their assistance and cooperation.

Conclusion:

That the recommendations contained in this report be approved.

Appendices:

- a. Appendix A – Surplus/(Deficit)
- b. Appendix B – Capital and Related Projects
- c. Appendix C – Prior Year Capital and Related Projects
- d. Appendix D – Reserves
- e. Appendix E – Investments
- f. Appendix F – Debt Management

Respectfully submitted,

Bryan Boles, CPA, CA, MBA
Director, Corporate Services/Treasurer
(905) 835-2900 Ext. 105
Bryan.Boles@portcolborne.ca

Report Approval:

All reports reviewed and approved by the Department Director and also the City Treasurer when relevant. Final approval is by the Chief Administrative Officer.