



Subject: 2022 Year End Surplus and Project Close Out

To: Council

From: Corporate Services Department

Report Number: 2023-73

Meeting Date: April 25, 2023

Recommendation:

That Corporate Services Department Report 2023-73 be received; and

That the year-end levy surplus be transferred to the City's Infrastructure Reserve; and

That the capital and related project and reserve balances of Appendices E, F, and G of Corporate Services Department Report 2023-73 be approved.

Purpose:

This report highlights the funding budget to actual results, provides recommendations pertaining to surplus, capital and related project closeouts and reserve activity for 2022.

Background:

This report provides the year-end unaudited actuals for the year ended December 31, 2022. At the time of writing this report, the City's auditors are conducting the annual audit. It is anticipated that the Audited Financial Statements will be available by the second Council meeting in June.

Financial Services identifies this report contains certain forward-looking information. In preparing this report, certain assumptions and estimates were necessary. These estimates 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 reminds Council and users of this report that it is based on fund accounting that follows the cashflow of the budget. For greater clarity, this report is not prepared in accordance with full Canadian public sector accounting standards in the same manner as the audited financial statements that follow accrual accounting. 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 such as employee future benefits, fund accounting helps the municipality ensure funding is available in the immediate term to cover current obligations.

A presentation of the City's financial results has been prepared and will be presented at Council. The presentation is attached as Appendix A.

While high-level comments to the year-end financial results have been provided in the report, Financial Services encourages Council members to reach out to staff for further discussion.

Discussion:

For the fiscal year ended December 31, 2022, the City experienced a Levy surplus of \$212,570 as identified below:

Levy	Actual	Budget	Net
Revenue	37,783,399	31,102,429	6,680,970
Personnel Expense	(16,285,733)	(16,160,150)	(125,583)
Operating Expense	(14,493,279)	(13,565,968)	(927,311)
Surplus before Transfers	7,004,387	1,376,311	5,628,076
Transfer (to)/from Capital	(10,550,683)	(3,932,143)	(6,618,540)
Transfer (to)/from Reserves	342,854	450	342,404
Transfer (to)/from Funds	3,416,012	2,555,382	860,630
Surplus/(Deficit)	212,570	-	212,570
Recommended Transfers	(212,570)		(212,570)
Surplus/(Deficit)	-	-	-

The summarized chart above identifies that the City realized revenue amounts significantly greater than budgeted.

The primary revenue driver was the successful application and award of numerous grants, many of them capital in nature, that arose after the 2022 budget approval, investment income, as well as a contractual settlement related to a previous land sale. In this respect, the increase in revenue was the primary driver of the corresponding increase in funds transferred to capital funds and reserves. Staff highlight these revenue and transfers to capital and reserve funds should not be considered structural in the budget process. **Slide 7 of Appendix A** highlights in greater detail salient budget to actual differences related to revenue.

Personnel expenses ended the year 0.8% over budget and operating expenses were 6.8% over budget. The variance in operating expenses were primarily driven by legal costs related to the contractual settlement of previous land sale, additional consulting costs to support the Planning and Building departments as well as Nickel Beach, property tax reassessments, as well as costs associated with the municipal election, physician recruitment, and community improvement plan programs. These additional expenses were offset by savings in utilities related to the Vale Health and Wellness Centre as well as savings in staff training and development. **Slide 8 of Appendix A** highlights in greater detail salient budget to actual differences related to operating expenses.

The variance in reserve transfers of \$342,404 is made up of both in-year Council approved transfers from reserves as well as transfers to reserve in accordance with the City's Reserve and Reserve Fund Policy. **Slide 9 of Appendix A** highlights salient budget to actual differences related to reserves.

The Transfer from Funds amount relates to transfers from the rate budgets of water, wastewater, and storm sewer. This relates to changes in overhead charges between the Levy and Rate budgets noted in the trimester 2 report and budgeted on a go forward basis in the 2023 budget.

Summary comments related to self-sustaining entities can be found on **Slide 10 of Appendix A**.

For greater detail at an account level Staff encourage Council members and readers to review **Appendix B and C**.

For the fiscal year ended December 31, 2022, the City experienced combined Rate surpluses of \$348,303. This surplus can be seen as the change in reserve transfers as identified below:

Rate	Actual	Budget	Net
Revenue	13,128,065	13,101,067	26,998
Personnel Expense	(1,082,704)	(1,248,700)	165,996
Operating Expense	(7,013,186)	(8,062,655)	1,049,469
Surplus before Transfers	5,032,175	3,789,712	1,242,463
Transfer (to)/from Reserves	(1,552,633)	(1,204,330)	(348,303)
Transfer (to)/from Funds	(3,479,542)	(2,585,382)	(894,160)
Surplus/(Deficit)	-	-	-

The summary chart above identifies that operating expenses were less than budgeted. Operating expenses were less than budget primarily because of improved water loss and inflow and infiltration which, at the time of writing this report, is most likely the result of lower lake levels. These occurrences resulted in Niagara Region wastewater charges being \$711,812 less than budget. At the time of writing this report staff identify water

levels have risen and this savings may reverse in 2023. **Slide 11 and 12 of the Appendix A** highlights in greater detail salient budget to actual differences related to the rate budgets.

For greater detail at an account level Staff encourage Council and readers to review **Appendix D**.

Included in the Levy figures above are the following salient COVID-19 financial pressures with a three-year view:

Positive Financial Impact	2020	2021	2022	Total
Vale Health and Wellness Centre reduced Utility Costs	198,000	378,600	-	576,600
COVID-19 Funding	622,700	666,600	9,100	1,298,400
Programs, Grants and Activities	476,100	203,000	79,700	758,800
Total - Positive Financial Impacts	1,296,800	1,248,200	88,800	2,633,800
Additional Costs				
Personnel Expenses*	694,200	397,200	74,700	1,166,100
Information Technology	103,300	24,700	47,600	175,600
Material, Contract Costs	151,400	107,300	268,800	527,500
Vale Health and Wellness Centre Lost Revenue, Net YMCA costs	290,000	298,600	-	588,600
Total - Additional Costs	1,238,900	827,800	391,100	2,457,800
Net Levy Impact Before SSE Impact	57,900	420,400	(302,300)	176,000
Less: Sugarloaf Marina Impact (funded through Marina reserve)	232,800			232,800
Net Impact	(174,900)	420,400	(302,300)	(56,800)
Less: Sugarloaf Marina Impact 2020 Reimbursement		125,000		125,000
Remaining Grant Funding Available/(Net Impact of COVID-19)		295,400		(181,800)

The “Net Impact” line represents the net cost of COVID-19 represented by grants and savings less costs to date. At the end of 2022 the grant funding received has been fully spent. Going forward the City will no longer be tracking costs associated with COVID-19.

This report contains a summary of Capital and Related Projects recommended for closeout and still on-going in **Appendices E and F. Slide 13 and 14 of Appendix A** highlight that, as of 2022, 90 approved capital and related projects remain open. Staff completed 67 projects and closed out/transferred 32 projects and in doing so made \$2,519,142 available for 2023 budgeted capital projects. The dollar figure associated with the 90 remaining projects is \$18,132,215. The three largest projects are Vale Health and Wellness Centre Roof Repair, Fleet Replacement, and the Watermain Replacement and Looping project. An update on 2023 activity will be provided with the first trimester reporting that will be prepared for the period ending April 30, 2023. Financial Services is planning to present this update at the June 13 Council meeting.

In **Appendix G**, Financial Services has summarized reserve activity and identified the approved reserve targets and/or progress or steps required to establish a final target.

The completion of the Infrastructure Needs Study will help establish targets for many of the reserves still requiring targets.

Council and users of this report will also find **Appendix H – Investments** and **Appendix I – 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 I** the City's borrowing capacity as defined by the annual repayment limit (ARL) is forecasted to expand over time and is forecasted at 5.9% in 2023 on an in-year basis, 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.

Financial Implications:

This report recommends allocating the year-end levy surplus to the City's Infrastructure Reserve.

The capital and related project and reserve balances are presented in **Appendices E, F, and G** following City policies and practices, including that of the Reserve Policy. One area requiring additional disclosure is that of the encumbrance reserve which is a reserve utilized when there is no other reserve but funds have been budgeted in one year and/or are needed or required to be carried forward to the following year. The encumbrance reserve is made up of the following:

Encumbrance Reserve	Opening Balance	In-Year Transfers	Ending Balance
Cannabis Grant	34,548		34,548
Cannabis Strategy	30,000		30,000
HH Knoll Washroom	21,878	(21,878)	-
Physician Recruitment	110,900	(108,848)	2,052
Purchasing staff payroll	92,600	(92,600)	-
Smoke Alarm Program	5,437		5,437
Total	295,363	(223,326)	72,037

The majority of the balance relates to Cannabis Grant and Cannabis Strategy. The funding for Cannabis Grant came from unspent grant funds in 2019. The funding for the Cannabis Strategy was approved by Council previously in 2020

Public Engagement:

The City's Budget and Financial Reporting can be found at:

<https://www.portcolborne.ca/en/city-hall/budget-and-financial-reporting.aspx>

Strategic Plan Alignment:

The initiative contained within this report supports the following pillar(s) of the strategic plan:

- Service and Simplicity - Quality and Innovative Delivery of Customer Services
 - Attracting Business Investment and Tourists to Port Colborne
 - City-Wide Investments in Infrastructure and Recreational/Cultural Spaces
 - Value: Financial Management to Achieve Financial Sustainability
 - People: Supporting and Investing in Human Capital
 - Governance: Communications, Engagement, and Decision-Making
-

Conclusion:

That the recommendations contained in this report be approved.

Appendices:

- a. Appendix A – 2022 Year End Financial Presentation
- b. Appendix B – 2022 Year End Levy Summary
- c. Appendix C – 2022 Year End Levy Department and Division Summaries
- d. Appendix D – 2022 Year End Rate Summary and Department Detail
- e. Appendix E – Capital and Related Projects Summary
- f. Appendix F – Capital and Related Project Holding Accounts
- g. Appendix G – Reserves
- h. Appendix H – Investments
- i. Appendix I – Debt Management

Respectfully submitted,

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

Adam Pigeau, CPA, CA
Manager, Financial Services
(905) 835-2900 Ext. 101
Adam.Pigeau@portcolborne.ca

Report Approval:

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