



100 John West Way
Aurora, Ontario
L4G 6J1
(905) 727-3123
aurora.ca

Town of Aurora

General Committee Report

No. FIN20-022

Subject: 2020 Year End Surplus/Deficit Financial Control By-law

Prepared by: Sandy Dhillon, Financial Management Advisor

Department: Finance

Date: September 8, 2020

Recommendation

1. That Report No. FIN20-022 be received; and
2. That a bylaw be enacted to authorize the Treasurer and the Chief Administrative Officer to make the following yearend financial adjustments
 - a) to allocate any 2020 Operating Fund surplus or deficit as set out in Report No. FIN20-022; and
 - b) to allocate any 2020 surplus or alternatively fund any deficit in the Water, Wastewater, or Storm water budgets to or from the appropriate related reserve accounts; and
3. That the Treasurer and Chief Administrative Officer report to Council after the year end surplus/deficit control adjustments and allocations have been completed.

Executive Summary

This report proposes a surplus/deficit control bylaw for the 2020 fiscal yearend, similar to the one used in past years; which will allow the Town to control its yearend surplus amounts through making specific allocations to various reserve funds. Should the town finish the year in a deficit position, this bylaw would also provide the necessary authority to allocate additional funds from its rate stabilization reserve in order to balance its operating budget. This report is an annual report to General Committee/Council prior to yearend.

- The Town uses allocations to/from various reserve funds to mitigate the unpredictable impacts of surpluses or deficits carried over from year-to-year
- A tax funded surplus supports the tax rate stabilization reserve to protect the Town's budget from potential deficits
- The next operating forecast is scheduled for October and will include actual results as of end of August

Background

Surpluses and deficits created by operating results for municipalities must carry into the following budget years as set out in subsection 290(4) of the *Municipal Act, 2001*, S.O. 2001, c. 25, as amended (hereinafter the "*Act*"). Meaning any surpluses or deficits from a previous fiscal year would need to be factored into the following year's budget as a revenue or expense, respectively.

Historically in an effort to manage the unpredictable impacts of a potential operating budget carryover of surplus or deficit, the Town has mitigated this risk through a surplus control bylaw.

Analysis

The Town uses allocations to/from various reserve funds to mitigate the unpredictable impacts of surpluses or deficits carried over from year-to-year

In an effort to mitigate the unpredictable impacts that carry-overs could have on long range tax rates, budgets and budget pressures, the Town should control its yearend surplus or short-fall amounts through making specific allocations to/from various reserve funds as part of the yearend accounting process. However, any such allocation must be authorized by Council before the end of the fiscal year. Since the final results of the calendar year are not known for some time, after the close of the year, a formula approach to surplus allocations is necessary, followed by a detailed report back to Council. Today's report and bylaw (to follow) will set this budget control approach in place for the current year.

A number of municipalities use this same approach as it allows for the separation of the disposition of surpluses or the funding of short-falls of one year from the following year's budget process. It greatly simplifies both the budget process and the yearend reporting process, while also assisting with transparency to the community.

A tax funded surplus supports the tax rate stabilization reserve to protect the Town's budget from potential deficits

The following actions are recommended for a surplus/deficit resulting from the tax funded operating results:

- a) Any unexpended portions of the 2020 operating budgeted contributions from reserves will be returned to source as appropriate. The 2020 budgeted contributions from reserves are as follows:

Table 1
2020 operating budget draws from reserve

Reserve	Amount
Roads & Related Repair & Replacement	\$273,730
Storm	\$243,817
Tax Stabilization	\$ 84,000
WSIB	\$105,000
Facilities Repair & Replacement	\$93,065
Water	\$41,870
Sanitary Sewer	\$42,054
Landscape Fee	\$75,000
Cash-in-Lieu Parkland	\$10,000
Recreation Sponsorship	\$31,000
Arts and Cultural	\$5,000

- b) As required for Bill 124, a Building Permit Fees Reserve Fund was established in which provisions for potential recessionary years may be made. Any surplus in these activities is required by legislation to be allocated to the Building Permit Fees Reserve Fund, while any deficit arising may be funded from this source. The 2020 Budget included a \$614,200 contribution to the building permit fees reserve fund reflecting a budgeted permit revenue surplus driven by 2C lands growth. Any budgetary surplus or deficit in the Building Services Division budget is to be allocated to or funded from the Reserve Fund.
- c) That any net Winter Control operations budget surplus be allocated to the Winter Control reserve fund if the overall operating budget ends the year in a surplus. Alternatively should a Winter Control operations net operating deficit occur that cannot be accommodated within the overall operating budget, any remaining net shortfall will be funded from the Winter Control reserve fund.

- d) Any remaining surplus may be allocated toward approved carry-forwards to 2021, if any.
- e) Any remaining 2020 net operating surplus after approved carry-forwards will be allocated in a ratio of 50 percent to the Town's rate stabilization reserve and 50 percent to be allocated proportionately to the Town's tax funded Repair & Replacement reserves.

It is wise for a municipality to maintain reserves specifically intended to stabilize or cushion annual tax rates from significant one-time or temporary pressures. Such pressures could include the impacts from significant new service or facility costs, market conditions affecting revenues, adverse weather or climate events, or other factors. Staff normally recommend that the Town's rate stabilization reserve's target balance should be approximately 10% of annual tax revenue, which is a benchmark used by many municipalities. Once this reserve's ceiling has been reached any remaining eligible funds to be allocated can instead be redirected toward other town infrastructure reserves.

Alternatively, should a net operating deficit occur in 2020, adjustments a), and b) above are still required, with the remaining net shortfall to be funded from the tax rate stabilization reserve.

The following actions are recommended for a surplus or deficit in the water, wastewater and stormwater operating budget. Any surplus or deficit for this budget be allocated to or be funded from the appropriate related reserve fund(s). This will assist in meeting the requirements of Bill 175 which requires that water and wastewater costs relating to the replacement of their infrastructure be fully recovered through their rates.

The adjustments authorized by the surplus control bylaw are to have an effective date of December 31, 2020, whether determined prior to or after that date.

The next operating forecast is scheduled for October and will include actual results as of end of August

As of the previous forecast review which took place at the end of May, the corporation was on track to conclude the fiscal year essentially at breakeven from its tax levy funded operations and a zero variance was projected for the Town's rate funded operations. The Town's next planned review and update of its annual forecasted financial results will commence at the end of August which should offer further clarity on what the Town's final yearend position will be.

Advisory Committee Review

Not applicable

Legal Considerations

The Municipal Act, subsection 11(2) (3) allows the municipality to pass bylaw s respecting the financial management of the municipality and its local boards.

Financial Implications

This report outlines how the yearend surplus or deficit in the tax funded and rate funded operations. The Municipal Act requires that any surplus or deficit be carried forward into the following year's budget, unless otherwise controlled through reserves as proposed in this report. Using the controls, the surplus or deficit will become zero, avoiding the need for any budget carry-forwards.

Communications Considerations

The Town of Aurora will use 'Inform' as the level of engagement for this project. There are five different levels of community engagement to consider, with each level providing the community more involvement in the decision making process. These levels are: Inform, Consult, Involve, Collaborate and Empower. Examples of each can be found in the Community Engagement Policy. These options are based on the International Association of Public Participation (IAP2) Spectrum and assist in establishing guidelines for clearly communicating with our public and managing community engagement. In order to inform, this report with be posted to the Town's website.

Link to Strategic Plan

Outlining a strategic approach to managing year end surpluses and/or deficits, and thereby avoiding the need to complicate the following year's budget with such matters, contributes to achieving the Strategic Plan guiding principle of "Leadership in Corporate Management" and improves transparency and accountability to the community.

Alternative(s) to the Recommendation

1. Council could choose not to approve the Surplus/Deficit Control bylaw and address any year end results by way of budget amendment following early budget approval.

Conclusions

Staff are recommending that a bylaw be adopted which will authorize the Director of Finance – Treasurer and the Chief Administrative Officer to control the 2020 tax levy funded operating surplus/deficit and the surpluses or deficits arising from Water, Wastewater, Stormwater operations by giving them authority to make adjustments and allocate surplus funds or fund deficits strictly as itemized in this report. Not doing so will cause all fund surpluses or deficits to be carried forward into the 2021 operating budget which would result in required adjustments to this budget subsequent to its reaffirmation by Council.

As part of the year end procedures, staff will report back to the General Committee as to the actual yearend results and the final surplus allocations made for 2020.

Attachments

None

Previous Reports

None. A new bylaw is required each year. This equivalent report for 2019 was FS19-038 which went to General Committee on November 19, 2019.

Pre-submission Review

Reviewed by the CAO on August 26, 2020

Approvals

Approved by Rachel Wainwright-van Kessel, Director, Finance/Treasurer

Approved by Doug Nadorozny, Chief Administrative Officer