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Town of Aurora

Audit Committee Report

No. FIN23-029

Subject: 2022 Year-end Operating and Capital Results – As of Dec. 31, 2022

Prepared by: Tracy Evans, Financial Management Advisor

Department: Finance

Date: June 27, 2023

Recommendation

1. That Report No. FIN23-029 be received for information.

Executive Summary

This report presents to Council the year end financial performance of the Town's 2022 operating and capital budgets. In addition, information is provided on the disposition of the Town's operating budget surplus in accordance with the 2022 Surplus Control By-law No. 6455-22.

- Tax levy funded operations ended the year with a surplus of \$1,976,100
- Water, wastewater and storm water operations closed the fiscal year with an operating surplus of \$426,400
- The yearend surplus/deficit management bylaw authorizes the CAO and Treasurer to allocate portions of a yearend operating surplus to specific reserve accounts
- The Town's actual 2022 capital spend of \$35.4M was \$6.7M lower than the previously forecasted spend of \$42.1M

Background

To keep Council informed as to the financial status of the operating budget, Council was presented with interim forecast updates over the course of 2022. This report includes the yearend results now that the external audit is substantially complete.

The Town's auditors will present the 2022 draft financial statements to the Audit Committee for review and approval this evening. The audited financial statements are

presented in a format consistent with the Public Sector Accounting Standards (PSAS). This budget is presented in a format consistent with the “traditional balanced municipal budget” approach. A reconciliation between these two formats is presented within the 2022 Audited Financial Statements and Audit report.

Analysis

Tax levy funded operations ended the year with a surplus of \$1,976,100

The Town’s tax levy funded operations finished the year with a surplus of \$1,976,100, representing a decrease of \$412,300 from the surplus that was reported as of October 31, 2022. Most of the reported surplus consists of savings on staffing, contracts and utilities within Community Services and higher than anticipated development driven revenues within Planning and Development Services. Development revenues are market driven and fluctuate from year-to-year.

A detailed break-down of the Town’s variance by department and division can be found in Attachment #1. This simplified report shows only the net budget amount, the ending position for each item and the variance to budget. Overall, the tax-funded budget for 2022 includes \$75,611,600 in approved expenditures, funded by \$21,407,500 in revenues consisting of user fees, charges, investment income and a total tax levy of \$54,204,100.

Table 1 presents a departmental summary of the variances.

Table 1
2022 Tax-Funded Operating Yearend Results

\$000s	Budget	Final Actuals	Variance Surplus/(Deficit)
Council	588.1	529.7	58.4
CAO	1,454.0	1,422.8	31.2
Corporate Services	5,567.7	5,456.5	111.2
Finance	6,172.4	5,389.8	782.6
Fire	12,294.9	12,294.1	0.8
Operational Services	11,230.2	11,659.3	(429.0)
Community Services	11,142.3	10,367.3	775.0
Planning & Development Services	735.2	(49.4)	784.6
Corporate Revenue & Expenses	5,019.2	5,262.7	(243.4)
Tax Levy	54,204.1	54,308.8	104.7
Total Operating			1,976.1

The budget includes \$150,000 for salary gapping savings which is distributed across the departments. This recognizes that during the year there will be some staff turnover and periodic vacancies. Also included in the 2022 budget under Corporate Revenues & Expenses was an additional \$127,000 for the salary gapping on new positions to account for the July 1st start date. All associated new position savings were recognized within each applicable department.

The following identifies the 2022 year-end variances by department:

CAO and Council

Council and the Office of the CAO budgets ended 2022 with a surplus of \$89,600 on a net operating budget of \$2,042,100. This surplus mostly relates to consulting and conference savings.

Corporate Services

Corporate Services ended 2022 with a surplus of \$111,200 on a total net operating budget of \$5,567,700. This surplus is mostly attributable to savings in emergency preparedness operating expenses, salary & benefit savings due to vacancies as well as lower than anticipated animal shelter costs.

Finance

Finance ended 2022 with a surplus of \$782,600 on a net operating budget of \$6,172,400. This surplus mostly results from salary savings arising from temporary vacancies as well as savings in software licenses, telephone lines and Webex/zoom contract costs.

Fire Services

As of December 31, 2022, overall Central York Fire Services (CYFS) concluded the year with an operating deficit of \$34,900 on a total approved operating budget of \$29,538,800. This deficit was mostly attributable to a wage gapping transfer for Station 4-5 salary and benefits. Aurora's share of CYFS' total approved budget is \$12,294,900. As per normal practice, the CYFS deficit will be offset by an equal contribution from the shared CYFS general reserve, thus leaving the Town's portion of the Fire Services requirements as budgeted. Aurora's total Fire Services budget is \$12,294,900, with actuals of \$12,294,100 resulting in a minor surplus of \$800.

Operational Services

Operational Services, excluding water, wastewater & storm water services, ended 2022 with a deficit of \$429,000 on a net operating budget of \$11,230,200.

Key contributors to this deficit are \$270,000 in unplanned fuel and vehicle supply costs, as well as a \$240,000 deficit recognized under Road Network operations arising from a larger than anticipated allocation of staff time to this service due to a less demanding winter management season. \$88,000 in additional streetlight maintenance and arboricultural contract costs due to summer storm damage also contributed to this deficit. These unfavourable variances were partially offset by savings in waste and recycling collection of \$201,300 mostly as a result of the three-bag limit. Higher than anticipated ball diamond/soccer field permit revenues as a result of COVID-19 restrictions being lifted during the year also provided some relief.

As per the Town's winter control reserve policy, should winter management operations experience an annual savings, these savings will be allocated toward the winter control reserve. Winter management services recognized a total of \$228,200 in savings in 2022 mostly as a result of less staff time being required for this service. As per the Town's winter control reserve policy, these savings were transferred to the winter control reserve.

Salaries and wages are split between the tax levy and user rate (water, wastewater & storm water services) funded programs. In any given year, the exact extent of operational service staff support of tax levy or rate funded programs is difficult to accurately predict as such some variability is not unusual. Overall, the department's salaries and benefits for tax supported programs finished the year under budget by \$178,100. This is mainly due to savings in part-time within Park Operations for unbudgeted Summer Student Federal Grants, as well as crossing guard salary savings.

Community Services

Community Services ended 2022 with a \$775,000 surplus on a net operating budget of \$11,142,300. The key contributors to this surplus relate to savings of \$448,500 and \$167,700 for salary & benefits and contract savings, respectively. Facility operations utility savings of \$351,200 and larger than expected lease and grant revenues of \$370,800 also contributed to this favourable variance. These surpluses were partially offset by reduced revenues of \$228,500, \$403,600, and \$56,000 from community programs, sponsorship/advertising, and ice rentals, respectively.

The full Aurora Town Square budget (ATS) was consumed by the end of 2022, as a result no contribution or withdrawal from the Town's tax rate stabilization was undertaken. A total of \$704,000 in unused ATS operating funding has accumulated in the Tax Rate Stabilization reserve to date. These funds will remain available to be drawn upon as required in future years in the management of Aurora Town Square's one-time implementation and ongoing operating costs.

Planning & Development Services

Planning & Development Services ended 2022 with a surplus of \$784,600. This surplus is mostly attributable to higher than anticipated development driven engineering revenues of \$854,800 and vacant position savings of \$149,900.

Not included in this variance is a Building Services' surplus of \$831,800 resulting from larger than anticipated development driven revenues of \$551,000 and salary savings of \$280,800. As Building Services is a self-funded function as per provincial legislation, if it is unable to recognize sufficient revenues to offset its expenses in a given fiscal year, it will draw from its dedicated reserve to balance its operating budget. If it recognizes excess revenues, these revenues are used to replenish its reserve. As per legislation, this surplus has been contributed to its dedicated reserve.

Corporate Revenues & Expenses

Corporate Revenues and Expenses ended 2022 with a deficit of \$243,500 on a net operating budget of \$5,019,200. The primary driver of this deficit relates to Town wide salary and benefit adjustments including the \$127,000 salary gapping savings relating to new positions during the first six months of the year. The offsetting gapping savings are reflected in the departmental variances. Other contributors to this variance are a year end investment income shortfall of \$250,000 partially offset by surpluses in tax penalty revenues and tax adjustments.

The Aurora Town Square debt carrying costs over the next year is expected to be under budget. In 2022, the only debt related costs were interest costs arising from the use of the construction line of credit. A total of \$25,800 in unspent ATS debt funds have been contributed to the Facilities Repair & Replacement reserve as planned.

Aurora Public Library Contribution

The Aurora Public Library experienced a surplus of \$100,600 from a total approved net operating budget of \$3,934,100, mostly attributable to salary savings. As per the Town's

surplus / deficit management bylaw, this surplus was returned to the Town and contributed to the Facility Repair & Replacement reserve.

Total Tax Levy

Overall, the Town collected \$104,700 more than what was budgeted in 2022. More specifically, this increase was attributable to the Town's final 2021 tax assessment growth upon which the 2022 tax levy is built, coming in higher than anticipated when the 2022 budgeted tax levy was established. Any additional revenues of this nature are firstly used in support of the Town's service delivery. Any unused funds at fiscal year end are allocated as per the yearend surplus/deficit management bylaw.

Water, wastewater and storm water operations closed the fiscal year with an operating surplus of \$426,400

The Town's user rate funded operations ended 2022 with a surplus \$426,400, representing a decrease of \$28,600 from the surplus that was reported as of October 31, 2022.

The final reported operating budget surplus is driven by favorable variances in storm water and wastewater services. The key contributors to the storm water services' variance was the receipt of an unplanned grant in support of stormwater facility reconstruction and contract savings. Delays in planned repair work contributed to the contract savings; this delayed work is to be completed in 2023.

The wastewater surplus of \$236,500 was mainly driven by contract savings, which stem from doing fewer emergency repairs than anticipated. Larger than anticipated sewer discharge fees being partially offset by higher than budgeted retail revenues have reduced the overall reported surplus.

The storm water and wastewater service surpluses are partially offset by an operating shortfall in water due to higher than anticipated contract repair expenses. Increased wholesale water costs, partially offset by increased retail revenues have also contributed to reported water service deficit.

The user rate funded operations budgets include fixed operational costs, funded by the net proceeds from the sale of water, wastewater and storm water services. These fixed operational costs include staff and service maintenance costs related to maintaining the infrastructure systems, water quality testing, and the billing and customer service functions. These costs are not directly impacted by the volume of water flowing through the system.

Table 2 presents a summary of the Town's final year financial results for its user rate funded operations. More detail can be found in Attachment #2.

Table 2
2022 User Rate Yearend Results

\$000s	Forecast Surplus/(Deficit)
Water Services	(100.1)
Wastewater Services	236.5
Storm Water Services	290.0
Total User Rate Surplus (Deficit)	426.4

As required by legislation, each of these individual service budget variances must be brought into a balanced position at yearend. The appropriate contribution to or from the user rate funded reserves will be used to balance each of these service line budgets as per the Town's 2022 surplus / deficit management bylaw.

The yearend surplus/deficit management bylaw authorizes the CAO and Treasurer to allocate portions of a yearend operating surplus to specific reserve accounts

On September 20, 2022, the 2022 Surplus/Deficit Management By-law No. 6455-22 was passed. This bylaw authorizes the CAO and Treasurer to allocate portions of a yearend surplus to specific reserve accounts, or to offset a yearend operating deficit through a draw from specific reserve accounts as part of the yearend accounting processes. This separates a previous year's budget variance from that of the upcoming year's budget.

The year end surpluses and water services deficit were adjusted by transfers from/to reserves in accordance with the 2022 surplus/deficit management as follows:

Table 3
2022 Surplus Disposition

Reserve Transfer	Amount
Transfer to Roads Asset Management reserve	1,061,726
Transfer to Studies & Other reserve	523,041
Transfer from Water reserve	(100,261)
Transfer to Wastewater reserve	236,505
Transfer to Storm Water reserve	290,035
Tax Rate Stabilization reserve	391,454
Total	\$2,402,500

An additional \$130,186 in one-time excess supplementary tax revenues which were collected in 2022 were contributed to the Growth & New reserve as per the yearend surplus/deficit management bylaw.

The Town's actual 2022 capital spend of \$35.4M was \$6.7M lower than the previously forecasted spend of \$42.1M

The forecasted spend of \$42.1M represents the planned 2022 capital project cash outlay that was presented to Council as part of the Interim Forecast Update as of October 31, 2022. As many projects span multiple years, any planned amounts that are not spent in 2022 can be rolled forward to the following future years through the capital budget process, if needed.

The Town's 2022 actual capital spending for the year ending is \$6.7M (16%) lower than what was forecasted on October 31, 2022 for all approved capital projects. There may be many different reasons for why a given capital project's forecasted spend may not happen. A detailed breakdown of the Town's actual capital spend by individual capital project can be found in Attachment 3. A summary of the forecasted vs. actual capital spend in 2022 can be found under Table 4.

Table 4
Forecasted vs. Actual 2022 Capital Spending

\$000s	Planned / Budgeted Spend 2022	Forecasted Spend for 2022	Actual Spend for 2022	Variance: Forecast vs. Actuals
Growth & New	57,962.0	28,985.2	25,375.2	3,610.0
Asset Management	25,505.5	12,427.5	9,412.3	3,015.2
Studies & Other	1,523.1	775.2	636.3	138.9
Total	84,990.6	42,187.9	35,423.8	6,764.1

Attachment 3 presents the variance between each individual active capital project's actual spend compared to its forecasted spend for 2022 and provides a brief explanation for each identified material variance. The 2022 actual capital spend does not include any projects that were proposed for closure prior to April 30th, 2022; the list of the projects identified for closure over the course of 2022 was included under chapter 19 of the 2023 budget binder that was provided to Council on January 31, 2023.

The following summary presents the 2022 capital variances between the most recent forecasted spend from October 31, 2022 and actual spend by department for its active capital projects.

CAO

The office of the CAO does not have any material variances of note.

Corporate Services

Overall, Corporate Services had actual capital spending of \$400K in 2022, which is \$152K lower than the forecasted annual spend. The key contributor to this variance includes the Administrative Monetary Penalty System (AMPS) Implementation which will continue into 2023.

Finance

Finance had actual capital spending of \$1.4M in 2022, which is \$1.3M lower than the forecasted annual spend. The key contributors to this variance include the Advanced Metering Infrastructure and Ethernet Switch Design projects due to delays in delivery of required equipment, an overestimation of 2022 requirements for computer & related infrastructure renewal, and the Financial System project of which its first phase went live on May 31, 2023, with its final phase scheduled to come online in July 2023.

Fire Services

Fire Services does not have any material variances of note.

Operational Services

Overall, Operational Services had actual capital spending of \$3.3M in 2022, which is \$405K lower than the forecasted annual spend. Significant contributors to this variance include the playground replacement and walkway repaving at Lambert Willson Park for approximately \$94K, the delayed delivery of a ¾ Ton Pick Up for the Roads Division for approximately \$75K, and trail construction at the Pandolfo/Glen Ridge development area for approximately \$65K.

Community Services

Community Services had actual capital spending of \$20.1M in 2022, which is \$3.0M lower than the forecasted annual spend. This variance is heavily driven by the actual 2022 spending for the Aurora Town Square project being \$2.2M less than forecasted.

This outstanding forecasted amount will be spent in 2023 when the project is expected to be substantially completed. The other major projects whose 2022 forecasted spending has been deferred to 2023 and beyond include the installation of backflow prevention meters in Town facilities and the implementation of recommendations identified in the Security Risk Assessment audit.

Planning & Development Services

Planning and Development Services had actual capital spending of \$6.8M in 2022, which is \$1.7M lower than the forecasted annual spend. The primary driver of this variance is that \$485K in forecasted capital spending relating to roads, traffic, sidewalks, water, and storm sewer projects which will be carried forward into 2023 as a result of construction delays. A further \$553K in project costs were not incurred as these projects were completed under budget.

Advisory Committee Review

Not applicable.

Legal Considerations

None.

Financial Implications

The Town's final tax levy or user rate funded operating budget surplus or deficit will be allocated by the CAO and Treasurer to / from various reserves as per the Surplus/Deficit Management bylaw.

In an effort to minimize the impact to the Town's reserves resulting from COVID-19, Safe Restart grant funding is used to offset any eligible COVID short-falls. A total of \$1,112,600 in Safe Recovery grant funding was allocated in support of the Town's 2022 operating budgets.

All final 2022 capital project expenditures have now been fully funded with their approved funding sources. Also, the next budget process will consider any unspent 2022 planned expenditures as part of its update to identified future year requirements for approved projects as part of the 10-year capital plan.

There are no other immediate financial implications arising from this report. Council fulfills its role, in part, by receiving and reviewing this financial status report on the operations of the municipality relative to the approved budget.

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 will be posted to the Town's website.

Climate Change Considerations

The information contained within this report does not impact greenhouse gas emissions or impact climate change adaption.

Link to Strategic Plan

Outlining and understanding the Town's present financial status at strategic intervals throughout the year 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. Not applicable.

Conclusions

Tax levy funded operations has concluded the fiscal year with a surplus of \$1,976,100 arising primarily from larger than anticipated development driven revenues such as engineering fees for lot grading, subdivisions and site plans, as well as salary and contract savings. These surpluses have been partially offset by COVID-19 driven operating losses.

User rate funded budget operations finished the fiscal year with a favourable budget variance of \$426,400.

The Town has spent \$6.7M less than what was forecasted for all active capital projects in 2022. Since the forecast was used to develop the 2023 capital budget, these capital cash outflows will be deferred and spent in 2023 and beyond resulting in no change to the capital budget authority.

Attachments

Attachment #1 – Tax Levy Funded Net Operating Forecast Update

Attachment #2 – Water Rate Funded Net Operating Forecast Update

Attachment #3 – Capital Project Forecast Update

Previous Reports

FIN22-023 – 2022 Interim Forecast Update – as of April 30, 2022

FIN22-036 – 2022 Interim Forecast Update – as of October 31, 2022

Pre-submission Review

Agenda Management Team review on June 1, 2023

Approvals

Approved by Rachel Wainwright-van Kessel, CPA, CMA, Director, Finance

Approved by Doug Nadorozny, Chief Administrative Officer