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Town of Aurora

General Committee Report

No. FIN20-015

Subject: 2019 Year End Budget Report – as at December 31, 2019

Prepared by: Tracy Evans, Financial Management Advisor

Department: Finance

Date: October 6, 2020

Recommendation

1. That Report No. FIN20-015 be received for information.

Executive Summary

This report presents the yearend financial performance of the Town's tax levy and user rate funded operations. In addition, information is provided on the disposition of the Town's tax funded operating surplus, as well as the management of its user rate funded operating deficit in accordance with the 2019 Surplus Control By-law 6235-20.

- The Town's tax levy funded operations- budget ended the year with a surplus of \$949,300
- Water, wastewater and storm water operations closed the fiscal year with an operating deficit of \$1,881,800
- The Town's Department's had many accomplishments over the course of 2019

Background

In an effort to keep Council informed as to the financial status of the Town's operating budgets, it was presented with interim forecast updates on a quarterly basis over the course of 2019. Now that the Town's external audit is substantially complete, this allows Finance staff to finalize its report of the 2019 fiscal results for the Town of Aurora.

Staff presented the Town's audited 2019 draft financial statements to the Audit Committee June 23rd for its approval. It should be noted that these audited financial statements are presented in a format consistent with the Public Sector Accounting

Standards (PSAS), whereas this report is presented in a format consistent with the “traditional balanced municipal budget” approach.

Analysis

On January 28, 2020, the Surplus Control By-law 6235-20 was passed. This by-law 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 is done in an effort to separate a previous year’s budget variance from that of the upcoming year’s budget. Any surplus allocations are to be made according to a specific formula set out in the by-law and are to be reported back to Council.

The Town’s tax levy funded operations budget ended the year with a surplus of \$949,300

Actual total expenditures for 2019 were \$70,567,600 which was 4.4 percent or \$2,974,100 above the established budget of \$67,593,500. Total 2019 revenues (including the \$47,280,964 tax levy) were \$71,516,900 which was 5.8 percent or \$3,923,400 higher than the \$67,593,500 budgeted for total revenue. These two variances result in the net \$949,300 surplus.

The 2019 approved operating budget provided for \$70,567,600 of expenses, offset by various revenue sources. Table 1 summarizes the Town’s significant variances that contributed to the yearend results prior to the allocation of the \$949,300 surplus being contributed to reserves as per the Surplus Control By-law.

One of the most significant contributors to the overall favourable variance recognized by the Town’s municipal operations arises from development as well as other higher than expected revenues. The most significant favourable expenditure variance contributing to the Town’s operating surplus was utility savings.

The Town did not achieve its budgeted salary and benefits savings of \$150,000 relating to vacant position gapping, rather it concluded the fiscal year in a deficit position. The Town did recognize some savings but they were more than offset by higher salary costs arising mostly from winter management operations.

Rising contract and operating material unit costs and demand for those contracted services and materials contributed to the 2019 operating budget short-falls experienced by winter, waste and fleet management services.

Table 1 Summary of 2019 Key Budget Variances

	Favourable / (Unfavourable)
Revenues:	
Penalties on unpaid property taxes	544,100
Engineering fees revenues	379,600
Community program revenues	120,500
Other development revenues	92,200
Parking enforcement revenues	88,000
Unplanned grant receipt	72,000
Ice and other rentals	(259,800)
Subtotal revenues	1,036,600
Expenditures:	
Utility savings (Facility, Parks, Streetlights)	247,200
Library Square operations	237,600
Tax write-off savings	113,300
Other various savings	79,400
Winter management operating materials/contract	(394,000)
Salaries & benefits	(193,400)
Fleet & equipment repairs	(97,300)
Recycling/solid waste contracts	(80,100)
Subtotal expenditures	(87,300)
Total	949,300

Many of the variance items noted in Table 1 are generally not directly controllable by the Town and are difficult to budget for. As a consequence, these items have an ability to become significant contributors to the budget variances experienced at yearend.

The following identifies the 2019 yearend variances by department:

CAO and Council

The Council and CAO budgets ended 2019 with a \$40,500 (2.1 percent) favourable variance on a net operating budget of \$1,908,200. This variance was the result of some savings experienced from conferences, contracts and consulting.

Corporate Services

Corporate Services ended the fiscal year with a \$73,100 (1.0 percent) favorable variance on a net operating budget of \$7,472,900. This variance is mostly attributable to larger than anticipated parking violation revenues and part time salary savings.

Finance

Finance ended the year with a \$125,400 (6.8 percent) favourable variance on a net operating budget of \$1,837,500 mostly as a result of salary savings related to staff vacancies.

Fire Services

Central York Fire Services (CYFS) experienced a surplus of \$1,100,226 from a total approved operating budget of \$27,207,116, mostly attributable to gapping for retirements, leave of absences, new hires, and other vacancies. Aurora's share of this budget and resultant surplus was \$10,729,932 and \$452,193, respectively. This noted CYFS surplus was offset by a contribution to the shared CYFS Reserve, leaving the Town's portion as budgeted.

Operational Services

Operational Services, excluding water, wastewater & storm water services, ended 2019 with a \$557,400 (5.6 percent) unfavourable variance on a net operating budget of \$9,996,100. This deficit had multiple service line contributors which included winter, fleet, as well as waste management. These service line deficits were partially offset by surpluses arising in road network and parks operations resulting from contract, operating materials and salary savings.

Winter management services was the most significant contributor to the overall deficit experienced by the department. As per the Town's winter control reserve policy, had the overall Town operating budget been unable to accommodate the full reported \$607,500 winter management deficit, any required funding short-fall could have been drawn from this reserve. As the Town's overall operating budget had sufficient funds available to offset this short-fall, a draw from the winter control reserve was not necessary in 2019. In consideration of these offsetting funds, Operational Services' overall reported variance would become a surplus of \$50,100.

Operational Services' salaries and wages are split between the tax levy and rate (water, wastewater & storm water services) funded programs. In any given year, the extent of

operational service staff support of tax levy or rate funded programs is difficult to predict; consequently, some variability is not unusual. Overall the department's salaries and benefits for tax supported programs finished the year over their established budgets by \$189,300. Within this variance, a salary shortfall of \$23,400 was recognized relating to a lower than budgeted amount of staff's time being spent on rate funded programs, partially offset by park operations salary savings.

Fleet and winter management services' reported deficits were most attributable to greater than anticipated operating material / supply costs. The waste management services deficit was attributable to higher than anticipated demand. In particular, the higher snow management costs are the result of a greater than planned number of snow events. Increased 3rd party fleet repair costs were the key contributor to the funding short-falls experienced in fleet management services.

Community Services

Community Services closed the year with a favourable variance of \$357,100 (3.8 percent) on a net operating budget of \$9,429,700. Some of the key contributors to this variance were stronger membership fee revenues from fitness, aquatics and seniors; as well as community program delivery contract and salary savings. This variable variance is partially offset by less than anticipated ice rental revenues.

Other key contributors to the Community Services' favourable variance was facility electricity cost and Library Square operations savings. The Town's electricity cost savings reflect the Town beginning to recognize energy savings resulting from its continued conversion of all its facilities to LED lighting. The Library Square operations savings are expected as the Town strategically continues to phase the full estimated operating costs for the Square upon becoming fully operational onto the tax levy. These temporary unspent balances will be contributed to the Town's rate stabilization reserve for future support of the Library Square's operations upon it becoming fully operational, if required.

Planning & Development Services

The Planning & Development Services department ended the year with a surplus of \$452,300. The key contributing factor to this favourable variance was healthier than expected development driven revenues such as engineering fees for lot grading, subdivisions and site plans. These surplus revenues were partially offset by lower than

anticipated revenues relating to condominium development. It should be noted that the majority of these revenues arise at the 'front end' of a development; consequently, as the Town has almost reached its build out capacity, these revenues can be expected to begin to decline in future years.

Not included in this variance is a Building Services' surplus of \$243,100, as it is a self-funded function as per provincial legislation. Consequently, if it is unable to recognize sufficient revenues to offset its expenses in a given fiscal year, it will draw from its dedicated reserve in order to balance its operating budget. If it recognizes excess revenues, these revenues are utilized to replenish its reserve. This year's surplus results from position vacancies arising over the course of 2019.

Corporate Revenues & Expenses

Corporate Revenues and Expenses concluded the year with a \$435,700 (10.0 percent) favourable variance on a net operating budget of \$4,378,100. The primary driver of this variance was larger than anticipated penalties on unpaid property taxes attributed to the continued application of the Town's new collection policy that requires all outstanding water amounts owing of a certain age to be transferred to tax accounts.

Other key contributors to this favourable variance was the unbudgeted BIA special area tax levy that was approved after the budget had already been established, larger than anticipated payments in lieu of taxes and the receipt of an unplanned grant. The noted favourable variance from BIA special area tax levy revenues is fully offset by an equally unfavourable variance under the Planning & Development Services department relating to the payment of these collected revenues to the Downtown Business Improvement Association.

Aurora Public Library Contribution

The Aurora Public Library experienced a surplus of \$91,500 from a total approved net operating budget of \$3,843,100, mostly attributable to salary savings. This net operating budget is equivalent to the Town's 2019 contribution to the Aurora Library Board. This surplus was contributed to the Library Board's general capital reserve, leaving the Town's planned contribution as budgeted.

Total Tax Levy

The Town collected a total of \$47,281,000 in tax levy revenue, excluding supplementary tax revenues, which was \$22,600 higher than what was budgeted. In an effort to achieve an approved operating budget for the upcoming year prior to the year

commencing, the Town must estimate its tax assessment base growth for the upcoming year prior to the final figure being known, consequently some minor variation between the budgeted and final levy can be expected.

Operating Summary

Overall, the Town of Aurora tax levy funded operations ended the year with a surplus of \$949,300 with no noticeable adverse impacts to service levels. Under the guidelines as presented in the Surplus/Deficit Control By-law, as the rate stabilization reserve balance has reached its maximum ceiling of ten percent of the tax levy, the CAO and Treasurer have approved a contribution of this equivalent amount across the Town's repair & replacement reserves.

The final net tax levy funded operations results can be found in Attachment 1.

Water, wastewater and storm water operations closed the fiscal year with an operating deficit of \$1,881,800

Staff strive to better match revenues with expenses and to eliminate historic reliance upon contributions from reserves in order to balance these programs and to ensure the sufficient replenishment of the underground infrastructure rehabilitation and replacement reserves. In addition, the Town has adopted a strategy whereby the annual contribution to underground infrastructure reserves continues to be responsibly increased each fiscal year in an effort to ensure that these reserves are able to sustain these assets into the medium to longer term. Staff have made progress but more effort is required.

Water and wastewater services concluded the fiscal year with an unfavorable operating budget variance of \$1,455,400 largely attributable to lower than anticipated retail water volumes producing lower retail revenues than planned partially offset by wholesale water purchase and sewage discharge fees savings. Another key contributor to this variance was the Town's write-off of some of its uncollectable water receivables owing, partially offset by maintenance and emergency contract savings.

Storm water services ended the year with a deficit of \$426,400 driven predominately by lower than anticipated revenue, as well as larger than expected catch basin cleaning expenses. Staff will strive to eliminate future revenue short-falls through the right-sizing of future storm water revenue targets.

Storm water costs are expected to continue to be under considerable pressure for the next three to five years as the Town strives to further align its reserve balance with its associated infrastructure's renewal requirements which are significant.

Overall user rate funded operations experienced a deficit of \$1,881,800 which was brought to a balanced budget at year end through a draw from each respective user rate reserve as per the Town's 2019 surplus control bylaw.

The Final Net User Rate Funded Operations Results can be found in Attachment 2.

The Town's Department's had many accomplishments over the course of 2019

2019 was another very busy year for the Town of Aurora. In addition to the continued delivery of high quality services to the Town's citizens in as cost effective manner as possible, the Town's department's achieved many other accomplishments over the course of 2019. Attachment #3 summarizes some of the key accomplishments for each department in 2019.

Advisory Committee Review

Not applicable.

Legal Considerations

None.

Financial Implications

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.

The audited PSAB basis financial statements for 2019, as currently drafted, reflect an operating surplus of \$9,378,000. This amount reconciles to the internal report cumulative total general operating and water & wastewater program budget deficit of \$932,500 as shown in Table 2.

Table 2 Public Sector Accounting Board 2019 Surplus Reconciliation

Description	Amount
Tax levy supported budget surplus	949,300
Rate supported budget deficit	(1,881,800)
Traditional Balanced Consolidated Budget Surplus	(\$932,500)
Add Back: Debt principal repaid included	1,040,500
Add: Transfers to/from reserves	10,753,000
Add: Capital assets assumed through development	1,920,700
Add: Gain on disposal of capital assets and land	5,273,000
Add: Net capitalization of assets adjustment	4,957,000
Add: Investment income allocated directly to reserves	2,890,400
Add: Net Deferred Revenue Adjust – DC, CIL, FGT	2,260,300
Deduct: Additional operating revenue	(3,367,500)
Deduct: Amortization of capital assets	(15,089,000)
Net all other PSAB adjustments	(327,900)
PSAB 2019 “Annual Surplus”: Audited (Draft)	\$9,378,000

Communications Considerations

The Town of Aurora will use ‘Inform’ as the level of engagement for this report. 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 the public, this report will be made available on the Town’s website in the Budget and Financial Information pages.

Link to Strategic Plan

The 2019 Final Budget Report provides an update on the surplus/deficit of the corporation and outlines the strategy for managing the identified surplus/deficit. Outlining and understanding the Town's financial results 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

Not applicable, this report is for information only.

Conclusions

The general operating results show a year end surplus of \$949,300 arising primarily from larger than anticipated development driven revenues such as engineering fees for lot grading, subdivisions and site plans and penalties on unpaid property taxes. These surpluses have been partially offset by larger than planned operating material and contract costs and a salary short-fall. The net water, wastewater and storm water program results reflect an overall deficit of \$1,881,800 caused by lower than anticipated water demand and the write-off of uncollectable water receivable balances.

The above noted year end surpluses were then adjusted by transfers from/to reserves in accordance with the 2019 surplus control by-law as follows:

Table 32019 Surplus Disposition

Reserve Transfer	Amount
Transfer TO Roads R&R reserve fund	\$385,400
Transfer TO Facilities R&R reserve fund	306,900
Transfer TO Parks R&R reserve fund	72,700
Transfer TO Equipment R&R reserve fund	65,200
Transfer TO IT R&R reserve fund	66,700
Transfer TO Discretionary R&R reserve fund	52,400
Transfer FROM Water reserve fund	(672,100)
Transfer FROM Wastewater reserve fund	(783,300)
Transfer FROM Storm Water reserve fund	(426,400)
	(\$932,500)

Attachments

Attachment #1 – Final Net Tax Levy Funded Operations Results

Attachment #2 – Final Net User Rate Funded Operations Results

Attachment #3 – 2019 Departmental Accomplishments

Previous Reports

None.

Pre-submission Review

Agenda Management Team review on May 28, 2020

Approvals

Approved by Rachel Wainwright-van Kessel, Director, Finance

Approved by Doug Nadorozny, Chief Administrative Officer

Report Approval Details

Document Title:	FIN20-015 2019 Year-end Report.docx
Attachments:	- 2020-06-23-FIN20-015 Attachment 1 to 3 2019 Year End Budget Report - As of December 31, 2019.pdf
Final Approval Date:	Sep 24, 2020

This report and all of its attachments were approved and signed as outlined below:

Rachel Wainwright-van Kessel

Doug Nadorozny