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Town of Aurora

Audit Committee Report

No. FIN22-022

Subject: 2021 Year-end Operating and Capital Results – As of Dec 31, 2021

Prepared by: Tracy Evans, Financial Management Advisor

Department: Finance

Date: June 28, 2022

Recommendation

1. That Report No. FIN22-022 be received for information.

Executive Summary

This report presents to Council the year end financial performance of the Town's 2021 operating and capital budgets. COVID-19 had a material impact on operations. In addition, information is provided on the disposition of the Town's operating budget surplus in accordance with the 2021 Surplus Control By-law 6379-21.

- Tax levy funded operations ended the year with a surplus of \$2,962,200
- Water, wastewater and storm water operations closed the fiscal year with an operating surplus of \$334,400
- COVID-19 had a significant financial impact on the Town's operations
- The pandemic's public health measures have mostly impacted the final financial results for facilities and community programs
- The surplus control bylaw authorizes the CAO and Treasurer to allocate portions of a yearend operating surplus to specific reserve accounts
- The Town's actual 2021 capital spend of \$34.7M was \$57.2M lower than its original planned spend of \$91.9M

Any operational budget surpluses remaining at year end will require an offsetting adjustment from/to the tax rate stabilization reserve as defined in the Town's 2021 surplus / deficit management bylaw.

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 2021. This report includes the yearend results now that the external audit is substantially complete.

The magnitude of the impact of COVID-19 on the Town of Aurora continued to be unclear over the course of 2021 resulting in some forecast volatility over this period.

On April 8th, the province instituted a province wide stay at home order that ended on June 2nd which saw the prohibition of most indoor activities and many outdoor activities.

On May 20, 2021 the office of the premier issued a new 3 step roadmap to safely reopen the province. The first step opened on June 11th when it is expected that 60 percent of Ontario adults have received one dose of the COVID-19 vaccine. The province moved to step two on June 30th and has subsequently moved to step three of the roadmap to reopen on July 16th, based on 70-80 percent being vaccinated.

On October 25, 2021, Ontario lifted capacity limits in settings where proof of vaccinations is required in places such as restaurants, indoor areas of sports and recreational facilities including gyms.

The Town's auditors will present its 2021 draft financial statements to the Audit Committee on June 28th for review and 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

Tax levy funded operations ended the year with a surplus of \$2,962,200

The Town's tax levy funded operations finished the year with a surplus of \$2,962,200, representing an increase of \$798,700 from the surplus that was reported as of October 31, 2021. Most of this surplus is the result of COVID-19 driven savings on staffing, contracts, and utilities in Community Services and higher than anticipated development

driven engineering revenues in Planning and Development Services. The savings in Community Services are not expected to continue as the Town continues to recover from the pandemic. The revenues in Planning and Development Services are market driven fluctuate from year-to-year.

A detailed break-down of the Town's variance by division can be found in Attachment #1. This report has been simplified to show only the net budget amount, the ending position for each item, and the variance to budget. Overall, the tax-funded budget for 2021 includes \$73,577,200 in approved expenditures, funded by \$21,471,400 in revenues consisting of user fees, charges, and investment income, and a total tax levy of \$52,105,800.

Table 1 presents a departmental summary of the variances.

Table 1
2021 Tax-Funded Operating Yearend Results

\$000s	Budget	Final Actuals	Variance Surplus/(Deficit)
Council	580.8	567.8	13.0
CAO	1,426.1	1,416.2	9.9
Corporate Services	9,467.2	9,107.3	359.9
Finance	2,247.4	2,123.9	123.5
Fire	11,961.6	11,955.6	6.0
Operational Services	11,028.9	10,966.4	62.5
Community Services	11,014.6	9,364.4	1,650.2
Planning & Development Services	826.7	(225.2)	1,051.9
Corporate Revenue & Expenses	3,552.4	3,688.6	(136.2)
Tax Levy	52,105.8	51,927.4	(178.4)
Total Operating			2,962.2

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 2021 budget was an additional \$127,000

for the salary gapping on new positions to account for the July 1st start date. This amount was budgeted in Corporate Revenue & Expenditures. The Town recognized higher salary and benefit savings at year end, driven mostly by COVID-19 restrictions.

The following identifies the 2021 year-end variances by department:

CAO and Council

Council and the Office of the CAO budgets ended 2021 with a surplus of \$22,900 on a net operating budget of \$2,006,900. This surplus mostly relates to COVID-19 driven sponsorship grants, conference savings, as well as favourable savings in promotion and events materials.

Corporate Services

Corporate Services ended 2021 with a surplus of \$359,900 on a total net operating budget of \$9,467,200. This surplus is mostly attributable to savings from outside legal services for personnel administration and from salaries & benefits. Other contributors to this variance are recognized insurance and postage cost savings, as well as larger than anticipated administration fee revenues. These savings are partially offset by COVID-19 driven advancement of software license and maintenance costs.

Finance

Finance ended 2021 with a surplus of \$123,500 on a net operating budget of \$2,247,400. This surplus mostly results from salary savings arising from temporary vacancies as well as higher than budgeted revenue from fees and services.

Fire Services

As of December 31, 2021, overall Central York Fire Services (CYFS) concluded the year with an operating surplus of \$134,200 on a total approved operating budget of \$28,864,300. This surplus was mostly attributable to savings in salary and benefits resulting from delays in staff hiring. Aurora's share of CYFS' total approved budget is \$11,955,600. As per normal practice, the CYFS surplus will be offset by an equal contribution to the shared CYFS asset replacement fund (ARF) reserve, thus leaving the Town's portion of the Fire Services requirements as budgeted. Aurora's total noted Fire Services budget of \$11,961,600 includes an additional \$6,000 for parking lot winter management services at each Aurora Fire Hall location that is provided directly through the Town, which was not billed for 2021 resulting in the surplus.

Operational Services

Operational Services, excluding water, wastewater & storm water services, ended 2021 with a surplus of \$62,500 on a net operating budget of \$11,028,900. Key contributors to this surplus are COVID-19 driven salary savings relating to Crossing Guard services, savings in waste collection as a result of the 3-bag limit and other overall contract savings. These favourable variances are partially offset by higher than anticipated salary costs in winter maintenance offset partially by salary savings in Roads Network Operations. These savings are further offset by reduced ball diamond/soccer field permit revenues as a result of COVID-19 restrictions and additional security costs. Fleet Management also experienced increased fuel costs and vehicle repairs.

As per the Town's winter control reserve policy, if the overall Town operating budget is unable to accommodate the full reported winter management deficit, any required funding shortfall can be drawn from this reserve. As the Town's overall positive position was sufficient to offset the experienced shortfall, a draw from the winter control reserve is not necessary for 2021.

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 \$40,600. This is mainly due to the reduced hiring of seasonal staff within Park Operations due to COVID-19, as well as crossing guard salary savings.

Community Services

Community Services ended 2021 with a \$1,650,200 surplus on a net operating budget of \$11,014,600. The key contributors to this surplus relate to COVID driven salary and contract savings, as well as savings in facility operation utility/heating costs. An increase in lease revenue that was not budgeted for also contributes to this positive variance. These surpluses are offset by reduced community program, sponsorship/advertising, ice rental and special events revenues due to COVID-19.

Aurora Town Square savings were recognized relating to the implementation of the Town's financial strategy to phase in its projected incremental operating costs prior to it becoming fully operational in 2022. These surplus funds were contributed to the Town's tax rate stabilization reserve as per the 2021 surplus control bylaw. These funds will remain available to be drawn upon as required in future years in the management of Aurora Town Square one-time implementation and ongoing operating costs.

Planning & Development Services

Planning & Development Services ended 2021 with a surplus of \$1,051,900. This surplus is mostly attributable to higher than anticipated development driven engineering revenues and vacant position savings being partially attributable to COVID-19.

Not included in this variance is a Building Services' surplus of \$1,035,400 resulting from larger than anticipated development driven revenues and salary savings. 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 2021 with a deficit of \$136,200 on a net operating budget of \$3,552,400. 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.

Furthermore, tax adjustments are a significant contributor to the final recognized deficit as MPAC strives to settle the Town's outstanding commercial property assessment appeals.

The Aurora Town Square debt carrying costs over the next two years are expected to be under budget. In 2021, the only debt related costs were interest costs arising from the use of the construction line of credit. As a result, most of the allocated amount for the Aurora Town Square debt carrying costs will not be needed in 2021; these unspent funds have been contributed to the Facilities Repair & Replacement reserve as planned.

Aurora Public Library Contribution

The Aurora Public Library experienced a surplus of \$271,400 from a total approved net operating budget of \$3,896,100, mostly attributable to salary savings due to COVID-19. 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 of Aurora tax levy funded operations ended the year with a surplus of \$2,962,200 with no noticeable adverse impacts to service levels. Under the guidelines as presented in the Surplus/Deficit Management By-law, as the tax rate stabilization reserve balance has reached its maximum ceiling of 10 percent of the tax levy, the CAO and Treasurer have approved a contribution of this equivalent amount across the Town's tax funded reserves.

Water, wastewater and storm water operations closed the fiscal year with an operating surplus of \$334,400

The Town's user rate funded operations ended 2021 with a surplus \$334,400, representing an increase of \$135,400 from the surplus that was reported as of October 31, 2021.

The final reported operating budget surplus is driven by a favorable variance in storm water services. The key contributors to this variance were larger than anticipated storm water revenues and contract savings. The higher revenues stem from a larger number of new customers being added than was anticipated. Delays in planned repair work contributed to the contract savings; this delayed work is to be completed in 2022.

The storm water services surplus is partially offset by an operating shortfall in water and wastewater due to COVID-19 driven increased wholesale water and sewer discharge fees arising from greater water demands because of residents working from home, partially offset by salary and contract savings.

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 fee funded operations. More detail can be found in attachment #2.

Table 2
2021 User Rate Yearend Results

\$000s	Forecast Surplus/(Deficit)
Water Services	72.3
Wastewater Services	(148.0)
Storm Water Services	410.1
Total User Rate Surplus (Deficit)	334.4

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 undertaken by the CAO and Treasurer to balance each of these service line budgets as per the Town's 2021 surplus / deficit management bylaw.

COVID-19 had a significant financial impact on the Town's operations

The pandemic had a significant impact on the Town's final financial results. Table 3 offers a summary of the Town's experienced COVID-19 financial impacts.

Table 3
COVID-19 Revenue Losses & Mitigation Savings

\$000s	
Tax Levy Funded Operations:	
Lost senior, aquatics, camp & fitness membership revenues	1,045.4
Lost ice rental revenues	151.9
Lost sponsorship & advertising revenues	214.3
Lost baseball diamond/soccer field rental revenues	14.8
Lost special event revenues	59.9
Safe Recovery Grant revenue	(1,004.1)
Revenue Losses	482.2

\$000s	
Community program part-time and contract savings	\$1,014.7
Town facility closure net operating savings	1,262.1
Salary savings resulting from delayed recruitment of new staff	250.0
Business Support salary and other cost savings	314.9
Special event contract savings	37.4
Crossing guard services salary & contract savings	116.3
Expenditure Savings	2,995.4
Net Tax Funded Savings	2,513.2
User Rate Funded Operations:	
Increased water/wastewater revenues	1,042.2
Revenue Increase	1,042.2
Increased water volume costs offset by operational savings	1,117.9
Expenditure Losses	1,117.9
Net User Rate Funded Losses	(75.7)

The overall identified COVID-19 net savings for tax levy funded operations has increased by \$1,220.4 and user rate funded operations decreased by \$220.9 from what was reported as of October 31, 2021. The increased net savings for tax levy funded operations is mostly driven by stronger than anticipated recreation revenues resulting from a faster relaxation of provincial pandemic public health measures than previously assumed, as well as the application of Safe Restart grant funding to eligible COVID-19 short-falls. The final user rate funded operations net COVID variance change from a net savings of \$145.2 to a final net loss of \$75.7 mostly relates to larger sewer discharge fees and wholesale water costs arising from an increased water demand as residents continued to work from home.

The pandemic's public health measures have mostly impacted the final financial results for facilities and community programs

As can be seen from Table 3, COVID-19 had the most profound impact on the Town's facility and community program functions. The financial performance of these two functions hinged on the timing of the province's relaxation or tightening of its pandemic health measures. The Town was able to find more than sufficient mitigating savings to offset its significant COVID-19 driven deficits.

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

On October 26, 2021, the Surplus / Deficit Management By-law 6379-21 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 is done to separate a previous year's budget variance from that of the upcoming year's budget.

The year end surpluses and wastewater services deficit were then adjusted by transfers from/to reserves in accordance with the 2021 surplus / deficit management by-law as follows:

Table 4
2021 Surplus Disposition

Reserve Transfer	Amount
Transfer TO Growth & New reserve fund	573,213
Transfer TO IT R&R reserve fund	300,000
Transfer TO Studies & Other reserve fund	65,174
Transfer TO Fleet reserve fund	1,781,019
Transfer TO ATS Operating Contingency	242,881
Transfer TO Water reserve fund	72,325
Transfer FROM Wastewater reserve fund	(148,029)
Transfer TO Storm Water reserve fund	410,135
	\$3,296,717

The Town's actual 2021 capital spend of \$34.7M was \$57.2M lower than its original planned spend of \$91.9M.

The original planned spend of \$91.9M represents the planned 2021 capital project cash outlay that was presented to Council as part of the Town's 2021 approved capital budget. As many projects span multiple years, any planned amounts that are not spent in 2021 can be rolled forward to the following future years through the capital budget process, if needed.

The Town's 2021 actual capital spending for the year ending is \$57.2M (62%) lower than what was originally planned for all approved capital projects. There may be many different reasons for why a given capital project's original planned 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 planned vs. actual capital spend in 2021 can be found under Table 5.

Table 5
Planned vs. Actual 2021 Capital Spending

\$000s	Planned Spend for 2021	Actual Spend for 2021	Variance
Growth & New	61,113.5	26,930.3	34,183.2
Rehab & Replacement	28,968.7	7,104.7	21,864.0
Studies & Other	1,838.2	682.0	1,156.2
Total	91,920.4	34,717.0	57,203.4

Attachment 3 presents the variance between each individual active capital project's actual spend for compared to its planned spend for 2021 and provides a brief explanation for each identified material variance. The 2021 actual capital spend does not include any projects that were proposed for closure prior to April 30th, 2021; the list of the projects identified for closure over the course of 2021 was included under chapter 20 of the 2022 budget binder that was provided to Council on October 26, 2021.

The following summary presents the Town's key recognized 2021 capital variances by department for its active capital projects.

CAO

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

Fire Services

Fire Services had lower than expected spending for Fire HQ, Hall and Training Construction of \$3.6M, which is a shared project between the Town of Aurora and Newmarket. This project is now expected to be completed in 2022 and the Town of Aurora is expected to issue roughly \$3.6M in payments to the Town of Newmarket by the end of 2022.

Operational Services

Overall, Operational Services had actual capital spending of \$5.6M in 2021, which is \$9.6M lower than the planned annual spend. Significant contributors to this variance include the David Tomlinson Nature Reserve (Phase 1-5) for approximately 2.4M, Non-Programmed Park in 2C for approximately 1.5M, and Hallmark Lands baseball diamonds for approximately \$1.2M. In addition, planned capital spending of \$1.5M was deferred to 2022 and 2023 due to construction and delivery delays in various operational services capital projects. This includes \$708K for a cold storage building to be located at the Joint Operations Center, \$600K for Board Walk Resurfacing at McKenzie Marsh, and \$210K for Trails Signage Strategy Study & Implementation.

Community Services

Community Services had actual capital spending of \$15.2M in 2021, which is \$22.8M lower than the planned annual spend. This variance is heavily driven by the actual 2021 spending for the Aurora Town Square project being \$18.5M less than forecasted. This outstanding planned amount will be spent in 2022 and 2023, with the project expected to be substantially completed in 2023. The other major projects whose 2021 planned spending has been deferred to 2022 and beyond include the new Aquatic Center, the replacement of roof sections and skylight sealant at Town Hall and the implementation of recommendations identified in the Security Risk Assessment audit.

Planning & Development Services

Planning and Development Services had actual capital spending of \$5.7M in 2021, which is \$16.3M lower than the planned annual spend. The primary driver of this variance is that \$10.4M in planned capital spending relating to roads, traffic and storm sewer projects which will be carried forward into 2022 as a result of construction delays. A further \$4.1M in project costs were not incurred as these projects were completed under budget.

Finance

Finance had actual capital spending of \$286K in 2021, which is \$2.3M lower than the planned annual spend. The key contributor to this variance is the Advanced Metering Infrastructure project, whose contract was still under negotiation at the end of 2021. The planned spend for this project is anticipated to now take place over 2022 and 2023.

Corporate Services

Overall, Corporate Services had actual capital spending of \$687K in 2021, which is \$1.9M lower than the planned annual spend. The key contributors to this variance include an overestimation of 2021 requirements for computer & related infrastructure renewal and a delay in the implementation of the Technology Strategic Plan, Accessibility plan, Business process automation and Data integration projects into future years.

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, it has used its available Safe Restart grant funding accordingly to offset any of its experienced eligible COVID short-falls. A total of \$1,004,100 in Safe Recovery grant funding was allocated in support of the Town's 2021 operating budgets.

All final 2021 capital project expenditures have now been fully funded with their approved funding sources. Also, the next budget process will consider any unspent 2021 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 \$2,962,200 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 \$334,400.

The Town has spent \$57.2M less than what was planned for all active capital projects in 2021. These capital cash outflows will be deferred and spent in 2022 and beyond.

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

FIN21-021 – Use of Safe Restart Grant Funding

FIN21-033 – 2021 Interim Forecast Update – as of April 30, 2021

FIN21-042 – 2021 Interim Forecast Update – as of August 31, 2021

FIN21-051 – 2021 Interim Forecast Update – as of October 31, 2021

Pre-submission Review

Agenda Management Team review on June 2, 2022

Approvals

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

Approved by Doug Nadorozny, Chief Administrative Officer