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Town of Aurora

## Committee of the Whole Report

No. FIN24-013

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**Subject:** 2024 Year End Surplus – By-law to allocate any 2024 Operating Fund surplus and any 2024 Water, Wastewater, and Stormwater Operating Fund surplus or deficit Report and By-law

**Prepared by:** Sandeep Dhillon, Senior Advisor, Financial Management

**Department:** Finance

**Date:** April 2, 2024

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### Recommendation

1. That Report No. FIN24-013 be received; and
2. That the By-law to allocate any 2024 Operating Fund surplus and any 2024 Water, Wastewater, and Stormwater Operating Fund surplus or deficit, as detailed in this report, be brought forward to a future Council meeting for approval.

### Executive Summary

This report proposes that the By-law to allocate any Operating Fund surplus and any Water, Wastewater, and Stormwater Operating Fund surplus or deficit for the 2024 fiscal year end which identifies how the year end variances will be managed by making allocations to, or from, reserve funds for the Town of Aurora and the Aurora Public Library.

- Allocations to and from reserve funds are used to manage the impact of surpluses or deficits at year end
- A tax-funded surplus or deficit allocation to reserves follows specific steps and criteria to determine which reserves are impacted
- A surplus or deficit for building services, water, wastewater and stormwater operating budgets are managed through their own reserves
- Aurora Public Library surpluses are managed by the Surplus/Deficit Management By-law
- A reserve was created to hold development revenues in support of specific future growth infrastructure

## Background

On an annual basis Council approves a bylaw to manage the surplus or deficit in the tax and user rate funded operating budgets. This bylaw has directed the surpluses to specific reserves or managed the deficits through reserve draws. This action avoids the requirement under subsection 290(4) of the Municipal Act, 2001, S.O. 2001, c. 25, as amended to carryover the surpluses or deficits to the following year's budget.

## Analysis

### **Allocations to and from reserve funds are used to manage the impact of surpluses or deficits at year end**

The By-law to allocate any 2024 Operating Fund surplus and any 2024 Water, Wastewater, and Stormwater Operating Fund surplus or deficit identifies the reserves to be used to offset an overall surplus or deficit for tax and user rate funded operations. This avoids the need to carryover these variances to future years' operating budgets. The bylaw uses a formula approach to allocate the surplus and identifies the reserves to be used to fund any deficits. The results are reported back to Council as part of the year end budget variance report.

### **A tax-funded surplus or deficit allocation to reserves follows specific steps and criteria to determine which reserves are impacted**

The Surplus/Deficit Management By-law outlines the steps to allocate a tax-funded operating surplus and manage a deficit using reserves. It is recommended at year end a tax-funded surplus be managed as follows in order:

1. The excess 2023 supplementary tax revenue growth be allocated to the Growth and New reserve.
2. Any net operating budget surplus in Winter Control operations be allocated to the Winter Control reserve. This contribution is not to exceed the Town's total tax-funded surplus.
3. Any net operating budget surplus in insurance account be allocated to the insurance reserve. This contribution is not to exceed the Town's total tax-funded surplus.
4. If the funds in Tax Rate Stabilization reserve is at or above the required 10 percent of annual levy target balance, then any remaining 2024 net operating surplus be allocated to tax-funded asset management reserves based on the future asset management plan requirements. Otherwise, 50 percent of the annual

surplus will be used to replenish the Tax Rate Stabilization reserve balance to its target level and the remaining 50 percent to be allocated to the tax-funded asset management reserves.

Alternatively, should a net operating deficit occur in 2024, it would be funded from the tax rate stabilization reserve.

The tax rate stabilization reserve helps protect the 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. A standard practice is to keep the tax rate stabilization reserve at a target balance of about 10 percent of annual tax revenue.

**A surplus or deficit for building services, water, wastewater and stormwater operating budgets are managed through their own reserves**

The operating budgets for building services, water, wastewater and stormwater are fully funded through the user rates and do not impact the tax levy. Any year end variance within these operations will be managed through a contribution or draw to/from their appropriate reserve funds.

**Aurora Public Library surpluses are managed by the Surplus/Deficit Management By-law**

Any 2024 surplus recognized by the library will be directed to Facilities Asset Management reserve to support asset management of the Town-owned facilities used by the Aurora Public Library. Should the Library experience a year end operating deficit, it will continue to manage the variance through a draw from its general capital reserve.

**A reserve was created to hold development revenues in support of specific future growth infrastructure**

As a best practice, the Town may ask developers to contribute funding in support of a future growth infrastructure service enhancement such as the signalization of a surrounding intersection or the construction of a pathway or sidewalk. Historically, proceeds of this nature have been held within a general holding account along with other miscellaneous revenues. In early 2024 a new reserve was created by the Treasurer to allow for the more effective management of the Town's growing balance of these dedicated revenues.

## **Advisory Committee Review**

Not applicable

## **Legal Considerations**

Paragraph 3 of subsection 11(2) of the Municipal Act, 2001 allows the municipality to pass bylaws respecting the financial management of the municipality and its local boards.

## **Financial Implications**

This report outlines how the year end surplus or deficit in the tax and rate funded operations will be managed. The Municipal Act requires that any surplus or deficit be carried forward into the following year's budget, unless controlled through reserves as proposed in this report. The bylaw will balance the budget and eliminate any surplus or deficit, avoiding the need for any budget carry forwards.

## **Communications Considerations**

The Town will inform the public of the information contained in this report by making it available on 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 a strategic approach to managing yearend 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 By-law to allocate any 2024 Operating Fund surplus and any 2024 Water, Wastewater, and Stormwater Operating Fund

surplus or deficit Surplus/Deficit Control By-law and instead address any year end results by way of budget amendment following budget approval.

## **Conclusions**

Staff are recommending that a bylaw be adopted which will authorize the Director of Finance to apply the year end variance funding adjustments as outlined in the bylaw and this report. This will balance the tax levy and rate funded operating budgets. As part of the yearend procedures, staff will report back to the General Committee as to the actual yearend results and the final surplus allocations made for 2024.

## **Attachments**

Attachment #1 – By-law to allocate any 2024 Operating Fund surplus and any 2024 Water, Wastewater, and Stormwater Operating Fund surplus or deficit

## **Previous Reports**

None. A new bylaw is required each year. This equivalent report for 2023 was FIN23-041 which went to General Committee on November 21, 2023.

## **Pre-submission Review**

Agenda Management Team review on March 14, 2024

## **Approvals**

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

Approved by Doug Nadorozny, Chief Administrative Officer