



CORPORATE SERVICES *Staff Report*

REPORT NO: COR 2023-03

TO: Ad Hoc Budget Advisory Committee

SUBMITTED BY: Patrick Kelly, CPA, CMA, Director of Corporate Services / Treasurer

PREPARED BY: Ashton Romany, CPA, Manager of Finance / Deputy Treasurer

REVIEWED BY: Sharon Chambers, CAO

DATE: January 30, 2023

SUBJECT: 2022 Operating Summary

RECOMMENDATION:

THAT Report COR 2023-03, prepared by the Manager of Finance / Deputy Treasurer, regarding the 2022 Operating Budget vs. Actual, for the year ended December 31, 2022 (un-audited), be received for information purposes.

SUMMARY:

This report provides an overview of the Township's 2022 Operating Performance. These unaudited results are provided for information purposes ahead of the presentation of the 2023 Municipal Budget.

BACKGROUND:

As part of the annual budget process, the previous fiscal year operating summary is provided. The attached report includes the un-audited general levy summary, which calculates the year-end transfer to/from reserves factoring in the annual tax levy, operating expenditures, grants, and any investment income. Following this summary statement is a department-level statement of operations with commentary. The final statement included is a review of user-pay operations and their respective transfers to/from reserves.

REPORT:**General Levy Impact**

General operating revenues were above budget at \$2.8M or 108.9% of budget. Overall revenues inclusive of tax levy, grant funding and investment income were approximately \$15.1M or 103.4% of budget. 2022 revenues were above expectations primarily due to higher than anticipated activity levels in Community Services and investment income returns.

Operations costs over the course of the year resulted in expenditures of \$13.2M or 104.4% of budget. Factoring in allocations to current year capital and infrastructure reserves funds results in overall expenditures of \$15.2M or 104.1% of budget. The primary drivers for increased expenditures were fuel, utility costs and legal fees. For reference, overall fuel and utilities costs for the Township exceeded budget expectations by approximately \$201,544 or 124.6%, while legal fees exceeded budget expectations by \$198,330 or 383% of budget. Each of these expenditure categories are anticipated to continue at higher than historical levels within the 2023 operating budget.

Coupling together the aforementioned general levy operating revenues and expenses, the bottom line result is a projected deficit of \$136,542 deficit. For the past several years, the Township experienced modest operating surpluses, which were transferred to infrastructure reserve funds to assist in funding future capital costs. For the past two fiscal years, staff were able to avoid deficits due to Provincial COVID-19 Funding supports (further discussed below). As all Provincial COVID-19 funding supports have now been exhausted, the Township must fund the current year deficit from the Working Funds reserve, in order to avoid impacting the dedicated infrastructure levy to transfer reserves.

Although not complete, the current debt management and reserve fund strategy project being undertaken by staff and consultants intends to recommend that the existing Working Funds Reserve migrate into a tax stabilization reserve fund. Stabilization funds are in place across many municipalities to fund unanticipated operational impacts similar to what was experienced in fiscal 2022. In years of surplus, funds would be transferred into the fund to support future years. Further details on the exact parameters, limits, etc. are intended to be finalized as part of the Debt Management / Reserve Fund Strategy in Q2 2023, and presented for Council approval.

Provincial COVID-19 Funding Supports

In an effort to alleviate some of the unprecedented fiscal pressures on municipalities caused by COVID-19, the Province of Ontario established the Safe Restart Funding Agreement with Wilmot receiving total funding of \$686,400. A portion of this funding was used in 2020, leaving approximately \$409,000 to assist with continued budget pressures for fiscal 2021.

Subsequent to the 2021 Budget, Wilmot received additional Provincial funding in the amount of \$391,615, under the 2021 Provincial COVID-19 Recovery Funding program.

To balance municipal operations, meet the levy funding requirements within the Capital Program, and maintain reserve fund transfers as prescribed under the Dedication Infrastructure Levy, a total of \$467,200 of COVID-19 Provincial funding was budgeted for 2022. This funding was intended to offset the impact of COVID-19 on rental revenues, special events, and investment income, as well as additional costs for PPE.

As outlined in the summary below, all funds from Safe Restart and COVID-19 Recovery programs have now been utilized. It is anticipated that 2023 user-fee based revenue, particularly in the area of community services, will help to offset the majority of this forgone funding.

Summary of Provincial COVID-19 Funding Supports

| Funding Sources | | |
|--------------------------------------|-----------|--------------------|
| Safe Restart Funding – Phase I | \$482,400 | |
| Safe Restart Funding – Phase II | 204,000 | |
| Provincial COVID-19 Recovery Funding | 391,615 | |
| Total Funding Allocation | | \$1,078,615 |
| Funding Utilization | | |
| 2020 Operating Program | \$277,156 | |
| 2021 Operating Program | 334,259 | |
| 2022 Operating Budget | 467,200 | |
| 2023 Operating Budget (Proposed) | Nil | |
| Total Funding Utilization | | \$1,078,615 |

Winter Maintenance Reserve Fund

Winter maintenance activity levels were above budget expectations for 2022. As such, \$97,382 was transferred from the dedicated Winter Maintenance Reserve Fund in accordance with the Township's Reserve Fund By-Law. Funds from this dedicated reserve fund are utilized to offset expenditures in years with higher activity levels. In years where there are lower than expected activity levels, those savings are transferred into this fund. The updated balance within the Winter Maintenance Reserve fund entering 2023 is \$58,392.

Water and Sanitary Transfer to Reserve Funds

The net transfer to Water and Sanitary Reserve Funds is projected to be approximately \$1.2M or 109.8% of budget. The sanitary system continues to experience noticeable levels of inflow and infiltration (I&I); however, these flows were slightly lower than anticipated this year. Staff continue to investigate potential causes of infiltration across the sanitary network through a combination of staffing and consulting resources.

This 2022 reserve transfer will be distributed amongst the three utility reserve funds, based upon the actual results of 2022, and assist in funding future infrastructure replacement costs.

Cemetery Transfer to Reserve Funds

The net transfer to Cemetery Reserve Funds were above budgetary estimates due to higher-than-average user fee collections and investment income. Transfers to the cemetery reserve fund assist in reducing the existing deficit.

Building Transfer from Reserve Funds

Building was relatively steady during the COVID-19 pandemic, as noted in quarterly building statistical analysis. Having said that, overall operating activities from this user-pay division will require a draw from building reserve funds to balance current year operations. As per Bill 124 legislation, the building division must be self-sustainable through the development industry. Therefore, significant future growth will need to be achieved to eliminate the deficit within this obligatory reserve fund.

Consistent with quarterly reporting, operating revenue and expense lines are broken down within the attached statement, with comments on those items that have large variances from budget estimates. As noted through the year, most operating budget lines will exceed budget projections due to economic factors in a high inflation environment. Factors beyond inflation have been noted within the commentary to the attached statements.

Future Reporting

It is anticipated when the 2023 Operating Budget will be presented in a different format to align better with the organizational structure review outcomes. Staff will work to ensure that the 2022 Budget and Actuals presented in this report are revised to be comparable under new structure for 2023.

ALIGNMENT WITH THE TOWNSHIP OF WILMOT STRATEGIC PLAN:

This report is aligned with the Strategic Plan goal of Responsible Governance, through the strategies of fiscal responsibility and infrastructure investments.

ACTIONS TOWARDS UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:

This report is aligned with several of the UN Sustainable Development Goals:

- Goal 3 – Good Health and Well-Being
- Goal 6 – Clean Water and Sanitation
- Goal 7 – Affordable and Clean Energy
- Goal 8 – Decent Work and Economic Growth
- Goal 9 – Industry, Innovation and Infrastructure
- Goal 11 – Sustainable Cities and Communities
- Goal 16 – Peace, Justice and Strong Institutions

FINANCIAL CONSIDERATIONS:

The results contained within this report are preliminary and may vary with subsequent year-end adjustments. When results are finalized, the 2022 year-end transfers to/from reserve funds will occur and audited financial statements will be compiled.

It is worth reinforcing the importance of reserve fund growth, especially in light of the continued reduction in senior government funding towards Township operations (i.e. OMPF). Infrastructure reserve funds ensure the sustainability of the Township's Capital program in the absence of external funding. Continued growth in transfers from the Township's dedicated infrastructure levy, and positive operating results in user pay divisions will assist in the Township as we continue to grow and maintain owned infrastructure.

ATTACHMENTS:

APPENDIX A – 2022 Statement of Operations as of December 31, 2022 (un-audited)