



SUBJECT: 2016 Retained Savings

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-11-17

Wards Affected: All

File Numbers: 435-5

Date to Committee: February 27, 2017

Date to Council: March 27, 2017

Recommendation:

Direct the Director of Finance to allocate the 2016 retained savings based on the strategy outlined in finance department report F-11-17.

Purpose:

Address other area of responsibility

Background and Discussion:

The 2016 Operating Budget Performance Report (F-36-16) as at June 30, 2016 recommended:

“Direct the Director of Finance to report back on the city’s retained savings strategy upon confirmation of the 2016 year-end actual.”

This report provides Committee with a preliminary, unaudited 2016 retained savings of \$2,592,699 and recommends a disposition of these savings to certain reserves, reserve funds and balance sheet accounts.

A separate report on the 2016 Operating Budget Performance, including detailed explanations of the year end variances greater than \$100,000 will be presented to Committee on April 3, 2017.

Strategy/process

The allocation of the retained savings is based on a strategy that improves the financial health of the City via a one-time transfer to reserves and reserve funds. Priority for the retained savings is given to known upcoming one-time costs in future years and include the replenishing of balances in reserves and reserve funds that have been depleted from one-time events.

Financial Matters:

The preliminary unaudited 2016 retained savings based on actual year-end results and year end adjustments made to date is \$2,592,699.

| (\$ millions) | 2016 Budget | 2016 Actual (Unaudited) | Variance Fav./(Unfav.) |
|---------------------------|-------------|-------------------------|------------------------|
| City Services | \$98.0 | \$95.6 | \$2.3 |
| Local Boards & Committees | \$13.9 | \$13.9 | \$0.0 |
| Corporate Expenditures | \$46.2 | \$48.5 | \$(2.3) |
| Corporate Revenues * | \$158.0 | \$160.6 | \$2.5 |
| Total | | | \$2.6 |

* includes City tax levy of \$141.3 million and Hospital tax levy of \$4.8 million

** figures may not add due to rounding

The primary drivers of the 2016 retained savings will be discussed in greater detail in the 2016 Year-end Operating Budget Performance report.

Prior to the calculation of the 2016 retained savings, staff make year end accruals and any year end transfers for net zero activities. The following are the calculated year end transfers for net zero activities.

| Business Transfers | 2016 Budget | 2016 Transfer Amount | Reserve Fund Balance (Dec. 31, 2016) |
|--|-------------|----------------------|--------------------------------------|
| Transfer to Parking District Reserve Fund | \$928,792 | \$1,267,617 | \$7,620,023 |
| Transfer to Paletta Mansion Reserve Fund | \$110,453 | \$139,121 | \$401,183 |
| Transfer to Tyandaga Reserve Fund | \$134,913 | \$143,104 | \$334,130 |
| Transfer from LaSalle Park Pavilion Reserve Fund | \$187,934 | \$(73,093) | \$559,598 |

| | | | |
|---|-----------|----------|-----------|
| Transfer to Discovery Landing Reserve Fund | \$104,601 | \$89,733 | \$457,601 |
| Transfer to Arenas Reserve Fund of surcharge revenue amount in excess of debt charges | \$29,607 | \$7,904 | \$328,747 |

Development Application Reserve Funds

In 2005, the Engineering Fee Stabilization Reserve Fund, the Building Permit Stabilization Reserve Fund and the Planning Fee Stabilization Reserve Fund were created (refer to BP-10-05) to ease budget pressures should development revenues slow down due to economic and/or market conditions.

The table below shows the year-end transfers included in the calculation of the 2016 preliminary year-end retained savings.

| Transfers | 2016 Budget Revenues | 2016 Actual Revenues (Unaudited) | 2016 Provision to / (from) Reserve Fund | Reserve Fund Balance (Dec. 31, 2016) |
|-------------------------------|----------------------|----------------------------------|---|--------------------------------------|
| Engineering Fee Stabilization | \$100,000 | \$9,428 | \$(90,572) | \$200,793 |
| Building Permit Stabilization | \$3,972,262 | \$3,800,351 | \$118,144 | \$3,190,672 |
| Planning Fee Stabilization | \$1,695,000 | \$1,580,193 | \$(114,807) | \$1,750,510 |

Engineering Fee Stabilization Reserve Fund

The decrease in Subdivision Administration Fees has resulted in a draw of \$90,572 from the reserve fund. Residential development in Burlington has changed from Greenfield subdivision applications to infill and intensification sites requiring OPA, zoning, site plan and condominium approvals. The 2017 Budget for Subdivision Administration revenues is reflective of this change and has been decreased by \$25,000 to \$75,000 and will be gradually reduced to zero over time using the remaining \$200,793 in the Reserve Fund.

Building Permit Stabilization Reserve Fund

The Building Permit revenues for 2016 are \$3,800,351. These revenues are offset by expenditures (both direct and indirect as per the Bill 124 model), resulting in a provision to the reserve fund of \$118,144. The 2017 budget for building permit revenues has been increased by \$75,502 to \$4,047,764.

Planning Fee Stabilization Reserve Fund

Planning Fee revenues have an unfavourable variance of \$114,806 mainly due to decreases in official plan and rezoning revenues, and a draw of that amount has been made from the Planning Fee Stabilization Reserve Fund. The 2017 Budget for planning revenues has been increased by \$35,000 to \$1,730,000.

Financial Summary

During 2016, expenses were closely monitored to find ways to reduce operating costs. The results of these efforts, as well as external factors beyond the City's control, makes up the 2016 retained savings, which is primarily a result of the items described below and are outlined in Appendix A.

Human Resources

The City's human resources costs (excluding winter control) have a favourable variance of \$1,677,350. The City experienced a number of vacancies throughout the year, and the favourable variance is primarily attributed to the period of time when the position became vacant to being filled after the competition was complete.

Earnings on Investments

Investment income exceeded budget by \$1,241,182. This positive variance is attributed to \$2,804,844 of realized capital gains, of which \$1,563,662 was used to meet the budget of \$5,300,000. The city has relied on capital gains to meet budget from 2012 to 2016 in this low interest rate environment.

Supplementary Taxes and Tax Write Offs

Supplementary taxes are favourable by \$1,157,278. Tax write offs this year were significant which have depleted the allowance for doubtful accounts which will require a provision of approximately \$1.0 million which is outlined later in the report. The unfavourable variance in the operating budget is a further \$1,663,205.

Commodities

Commodities exceeded budget by \$173,693, due primarily to unfavourable variances in electricity and water costs of \$602,580 and \$218,915 respectively. These unfavourable variances were partially offset by favourable variances in diesel fuel, gasoline and natural gas. This variance represented 2.1% of the 2016 budget. The 2017 budget was increased by just 2.95% over 2016 budget to cover both the 2016 shortfall and 2017 rate increases.

The remaining difference in the retained savings is comprised of other favourable and unfavourable variance across the City's services. The 2016 Operating Budget Performance Report will provide greater details on these variances.

Total Financial Impact

Consistent with past practice and recognizing the one-time nature of the retained savings, this report recommends a transfer to provide flexibility for addressing future one-time expenditures.

2016 Recommended Retained Savings Disposition

Note: Where reserve fund balances are provided, they reflect the balance prior to recommended disposition.

- **\$1,000,000 Provision to Allowance for Prior Year Tax Write Offs**

In 2016 there were significant write offs that resulted in a large write off in prior year taxes, and drew down the City's balance sheet account to zero. The allowance for tax write offs account requires a balance to cover tax write offs for the next year. To do so, staff propose \$1,000,000 of the 2016 retained savings be provided to fund next year's obligations.

- **\$500,000 Provision to Strategic Plan Reserve Fund**

The City of Burlington approved its 25 year Strategic Plan in 2016. The Financial Plan for the Strategic Plan (Report F-21-16) established a long-term approach to funding strategic objectives including the establishment of a Strategic Plan Reserve Fund. This report also recommended that a minimum of \$500,000 be provided to this reserve fund in years when the city's retained savings was in excess of \$1,000,000.

- **\$350,000 Provision to Insurance Reserve**

In order to maintain a sufficient balance to cover both premium and deductible expenses, it is recommended that \$350,000 be allocated to the insurance reserve. The 2016 year end balance of the Insurance Reserve is \$1,491,037.

- **\$250,000 Provision to Forestry Reserve Fund**

One of the goals of the City of Burlington's Strategic Plan is to improve the urban tree canopy. To achieve this goal it is recommended that \$250,000 be provided to the forestry reserve fund to assist in the City's Emerald Ash Borer (EAB) program.

- **\$150,000 Provision to Commodities Reserve Fund**

As indicated previously, the 2016 budget had an unfavourable variance of \$173,693. With recent volatility in the pricing of commodities this could have large impacts on future year costs. It is recommended that \$150,000 of the 2016 retained savings be allocated to this reserve fund. The 2016 balance in the Commodities Reserve Fund is \$35,486.

- **\$342,699 Provision to Tax Rate Stabilization Reserve Fund**

It is recommended that \$342,303 be set aside to finance future one-time expenditures. This allows unique one-time needs to be addressed without affecting the tax rate and without being built into future budget years. The 2016 year end balance of the Tax Rate Stabilization Reserve Fund is \$4,677,596.

Conclusion:

This report provides Committee and Council with the City's preliminary unaudited 2016 retained savings figure and recommends the disposition of these savings to reserves, reserve funds and balance sheet accounts.

Respectfully submitted,

Chris Schneider

Financial Analyst – Budgets & Policies

905-335-7600, ext. 7852

Appendices:

- a. Appendix A – Retained Savings 2012 - 2016

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.