SUBJECT: 2017 Retained Savings

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-09-18
Wards Affected: All
File Numbers: 435-5
Date to Committee: February 26, 2018
Date to Council: March 19, 2018

Recommendation:

Direct the Director of Finance to allocate the 2017 retained savings based on the strategy outlined in finance department report F-09-18.

Purpose:

Address other area of responsibility.

Background and Discussion:

The 2017 Operating Budget Performance Report (F-36-17) as at June 30, 2017 recommended:

“Direct the Director of Finance to report back on the city’s retained savings strategy upon confirmation of the 2017 year-end actual.”

This report provides Committee with a preliminary, unaudited 2017 retained savings of $2,889,106 and recommends a disposition of these savings to certain reserves, reserve funds and balance sheet accounts.

A separate report on the 2017 Operating Budget Performance (F-08-18), including detailed explanations of the year end variances greater than $100,000 is included on this same agenda.
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 reserve and reserve funds. Priority for the retained savings is given to known upcoming one-time costs in future years and includes the replenishing of balances in reserves and reserve funds that have been depleted from one-time events.

Financial Matters:

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>2017 Budget</th>
<th>2017 Actual (Unaudited)</th>
<th>Variance Fav./(Unfav.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Services</td>
<td>$102.1</td>
<td>$99.5</td>
<td>$2.6</td>
</tr>
<tr>
<td>Local Boards &amp; Committees</td>
<td>$14.2</td>
<td>$14.4</td>
<td>$(0.2)</td>
</tr>
<tr>
<td>Corporate Expenditures</td>
<td>$48.9</td>
<td>$49.5</td>
<td>$(0.6)</td>
</tr>
<tr>
<td>Corporate Revenues *</td>
<td>$165.2</td>
<td>$166.3</td>
<td>$1.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$2.9</strong></td>
</tr>
</tbody>
</table>

*Includes a tax levy of $148.2 million and a Hospital tax levy of $4.8 million.

Note: figures may not add up due to rounding

The primary drivers of the 2017 retained savings will be discussed in greater detail in the 2017 Year-end Operating Budget Performance report.

As is usual practice, minor accounts payable and year-end accruals have been made in 2017. Similarly, routine year-end transfers were made prior to the calculation of the year-end retained savings for net zero activities.

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<thead>
<tr>
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<tbody>
<tr>
<td>Transfer to Parking District Reserve Fund</td>
<td>$ 909,226</td>
<td>$1,515,345</td>
<td>$7,773,128</td>
</tr>
<tr>
<td>Transfer to Paletta Mansion Reserve Fund</td>
<td>$121,808</td>
<td>$123,458</td>
<td>$457,670</td>
</tr>
<tr>
<td>Transfer to Tyandaga Reserve Fund</td>
<td>$97,355</td>
<td>$15,484</td>
<td>$203,028</td>
</tr>
<tr>
<td>Transfer to/ from) LaSalle Park Pavilion Reserve Fund</td>
<td>$186,403</td>
<td>$(198,823)</td>
<td>$428,983</td>
</tr>
</tbody>
</table>
Transfer to Discovery Landing Reserve Fund  
$140,144  $181,889  $364,795

Transfer to Arenas Reserve Fund of surcharge revenue amount in excess of debt charges  
$29,607  $40,543  $407,655

Note the 2017 transfer from the LaSalle Park Pavilion reserve fund is a result of the mid-year transition of the banquet and conference services provider.

**Development Application Reserve Fund**

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.

As of December 31, 2017, the following year-end transfers were made prior to the calculation of the year-end retained savings.

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Engineering Fee Stabilization</td>
<td>$75,000</td>
<td>$673,692</td>
<td>$598,692</td>
<td>$812,578</td>
</tr>
<tr>
<td>Building Permit Stabilization</td>
<td>$4,047,764</td>
<td>$4,232,117</td>
<td>$346,088</td>
<td>$3,624,815</td>
</tr>
<tr>
<td>Planning Fee Stabilization</td>
<td>$1,730,000</td>
<td>$3,193,066</td>
<td>$1,463,066</td>
<td>$3,278,551</td>
</tr>
</tbody>
</table>

**Engineering Fee Stabilization Reserve Fund**

The increase in Subdivision Administration Fees has resulted in a provision to the reserve fund of $598,692. One large subdivision administration fee was received in February; however, long term reliance on this revenue source is unsustainable as Burlington shifts from Greenfield Subdivision development to infill and intensification sites. The 2018 budget for subdivision administration fees has been increased to $200,000.

**Building Permit Stabilization Reserve Fund**

The Building Permit revenues for 2017 were $4,232,117. The revenues are offset by expenditures (both direct and indirect as per the Bill 124 model), with the resulting provision to the reserve fund of $346,088. The 2018 budget for building permit revenues has been increased to $4,237,863.
Planning Fee Stabilization
Planning fee revenues experienced a positive variance of $1,463,066 due to increase in site plan applications fees, subdivision fees, official plan amendments and rezoning fees. A significant portion of this favourable variance was realized in December when a number of Planning applications were brought forward in advance of pending changes to legislation regarding OMB reform. This resulted in a provision to the reserve fund of $1.46 million. The 2018 budget for planning revenues has been increased to $1.8 million.

Financial Summary
During 2017, departments and service owners closely monitored expenses and found ways to reduce operating costs. The results of these efforts, as well as external factors beyond the City’s control, makes up the 2017 retained savings, which is primarily a result of the items highlighted below and are outlined in greater detail in Appendix A.

Human Resources
Total City human resources costs (excluding Winter Control) have a favourable variance of $1,386,569. The city experienced a number of vacancies throughout the year. The favourable variance was primarily attributed to the period of time from when the position became vacant to being filled after the competition was complete.

Earnings on Investments
Investment income exceeded budget by $1,062,950. This positive variance is attributed to $2,253,608 of realized capital gains, of which $1,190,658 was used to meet the budget of $5.3 million. The city has relied heavily on capital gains to meet budget from 2013-2017.

Winter Maintenance
As a result of mild winter conditions at the beginning of 2017, Winter maintenance had a favourable variance of $936,421. The favourable price of salt had a minor role in the positive variance, however the main driver was the large reduction of salt consumption (4,000 tonnes) and improved salt management practices.
Total Financial Impact
Consistent with past practice and recognizing the one-time nature of the retained savings, this report recommends the transfer to provide flexibility for addressing future one-time expenditures.

2017 Recommended Retained Savings Dispositions
Note: Where reserve fund balances are provided, they reflect the balance prior to recommended disposition.

- **$1,000,000 Provision to Allowance to Prior Year Tax Write Offs**
  In 2017 there were a significant number of prior year appeals and write offs processed which drew down the City's balance sheet account to zero. The allowance for prior year's tax write offs requires a balance to cover tax write offs for the next year. To do so, staff propose $1 million of the 2017 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. The report 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 million. The balance in the reserve fund is $236,562.

- **$450,000 Severe Weather Reserve Fund**
  As mentioned above, the winter maintenance budget had a favourable variance of $936,421. This report recommends transferring $450,000 to the Severe Weather reserve fund in order to assist with future weather events that are unpredictable in nature. The uncommitted balance in the Severe Weather Reserve Fund is currently at $3,360,543 which is below the targeted balance equivalent to one year's budget for Winter Control.

- **$939,106 Provision to Tax Rate Stabilization Reserve Fund**
  It is recommended that $939,106 be set aside to finance one-time expenditures. Over the last few years numerous spending commitments have been placed on the Tax Rate Stabilization Reserve Fund (those that are budgeted as well as those that have been approved in-year). The provision will assist in increasing the balance in this reserve fund while continuing to allow unique one-time needs to be addressed without affecting the tax rate and without being built into future budget years. The uncommitted balance in this reserve fund is $3,203,674.
Conclusion:
This report provides Committee and Council with the City’s preliminary unaudited 2017 retained saving figure and recommends the disposition of these savings to reserves, reserve funds and balance sheet accounts.

Respectfully submitted,

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905-335-7600, ext 7586

Appendices:
A – Retained Savings 2013-2017

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.