



SUBJECT: 2018 retained savings

TO: Committee of the Whole - Budget

FROM: Finance Department

Report Number: F-16-19

Wards Affected: All

File Numbers: 435-5

Date to Committee: February 21, 2019

Date to Council: March 25, 2019

Recommendation:

Direct the Director of Finance to allocate the 2018 retained savings based on the strategy outlined in finance department report F-16-19.

Purpose:

An Engaging City

- Good Governance

Background and Discussion:

The 2018 Operating Budget Performance Report (F-33-18) as at June 30, 2018 recommended:

“Direct the Director of Finance to report back on the city’s retained savings strategy upon confirmation of the 2018 year-end actual.”

This report provides Committee with a preliminary, unaudited 2018 retained savings (also known as the surplus) of \$1,887,510 and recommends a disposition of these savings to reserve funds.

A separate report on the 2018 Operating Budget Performance, including detailed explanations of the year end variances greater than \$100,000 is forthcoming in April 2019.

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:

(\$ millions)	2018 Budget	2018 Actual (Unaudited)	Variance Fav./(Unfav.)
City Services	\$107.4	\$106.8	\$0.6
Local Boards & Committees	\$14.5	\$14.1	\$0.4
Corporate Expenditures	\$50.7	\$51.2	\$(0.5)
Corporate Revenues *	\$172.6	\$174.0	\$1.4
Total			\$1.9

*Includes a tax levy of \$160.1 million

Note: figures may not add up due to rounding

The primary drivers of the 2018 retained savings will be discussed in greater detail in the 2018 Year-end Operating Budget Performance report.

As is usual practice, minor accounts payable and year-end accruals have been made in 2018. Similarly, routine year-end transfers were made prior to the calculation of the year-end retained savings for net zero activities.

Business Transfers	2018 Budget	2018 Transfer Amount	Reserve Fund Balance (Dec. 31, 2018)
Transfer to Parking District Reserve Fund	\$ 1,259,103	\$1,894,090	\$9,259,235
Transfer to Paletta Mansion Reserve Fund	\$143,000	\$148,925	\$586,619
Transfer to Tyandaga Reserve Fund	\$99,755	\$18,597	\$128,826
Transfer to/ (from) LaSalle Park Pavilion Reserve Fund	(\$63)	\$(15,176)	\$414,847

Transfer to Discovery Landing Reserve Fund	\$193,115	\$245,271	\$397,192
Transfer to Arenas Reserve Fund (surcharge revenue amount in excess of arena debt charges)	\$27,421	(\$33,389)	\$433,885

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.

As of December 31, 2018, the following year-end transfers were made prior to the calculation of the year-end retained savings.

Transfers	2018 Budget Revenues	2018 Actual Revenues (Unaudited)	2018 Provision to / (from) Reserve Fund	Reserve Fund Balance (Dec. 31, 2018)
Engineering Fee Stabilization	\$200,000	\$32,811	(\$167,189)	\$664,949
Building Permit Stabilization	\$4,237,863	\$3,151,767	(\$935,885)	\$2,773,637
Planning Fee Stabilization	\$1,820,000	\$2,189,530	\$335,330	\$3,706,352

Engineering Fee Stabilization Reserve Fund

The decrease in Subdivision Administration Fees has resulted in a draw of \$167,189 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 2019 Budget for Subdivision Administration revenues is reflective of this change and has been decreased by \$50,000 to \$150,000 to gradually reduce our reliance on this revenue source using the reserve fund.

Building Permit Stabilization Reserve Fund

Building permit services are based on a "Fee for Service" model that is not supported by municipal taxes and is in full compliance with legislation. The intent behind establishing a Building Permit Stabilization Reserve fund is to provide municipalities with a sustainable tool for providing and maintaining building permit and inspection services

throughout a fluctuating construction industry and overall economy. The Building Permit revenues for 2018 are \$3,151,767. These revenues are offset by expenditures (both direct and indirect as per the Bill 124 model), resulting in a draw from the reserve fund of \$935,885. The 2019 budget for building permit revenues has been increased by \$127,136 to \$4,364,999.

Planning Fee Stabilization

Planning fee revenues experienced a positive variance of \$369,530 due to increase in site plan applications fees, subdivision fees, official plan amendments and rezoning fees. This resulted in a provision to the reserve fund of \$335,330. The 2019 budget for planning revenues has been increased to \$2.3 million.

Financial Summary

During 2018, 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 2018 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 \$904,858. 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 \$648,809. This positive variance is attributed to \$1,805,832 of realized capital gains, of which \$1,157,023 was used to meet the budget of \$5.3 million. The city has relied heavily on capital gains to meet budget from 2013-2018.

Winter Maintenance

As a result of moderate winter conditions in 2018, Winter maintenance had a favourable variance of \$691,448. The favourable price of salt had a minor role in the positive variance, however the main driver was the large reduction of salt consumption (4,500 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.

2018 Recommended Retained Savings Dispositions

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

- **\$200,000 Provision to Randle Reef Reserve Fund**

The city committed to provide \$2.3 million over 10 years to the Randle Reef Remediation project. There are 4 payments remaining. By providing \$200,000 to the reserve fund, the annual budget provision can be lowered to \$130,000, reducing the 2019 budget.

- **\$1,687,510 Provision to Tax Rate Stabilization Reserve Fund**

It is recommended that \$1,687,510 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 proposed 2019 budget uses \$1,675,000 of one-time requests from this reserve fund. The provision would fund these requests. The uncommitted balance in this reserve fund is \$4,174,615

Conclusion:

This report provides Committee and Council with the City's preliminary unaudited 2018 retained saving figure and recommends the disposition of these savings to reserves, reserve funds and balance sheet accounts.

Respectfully submitted,

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Appendices:

A. Retained Savings 2014-2018

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.