



SUBJECT: 2019 retained savings

TO: Corporate Services, Strategy, Risk & Accountability Cttee.

FROM: Finance Department

Report Number: F-12-20

Wards Affected: All

File Numbers: 435-5

Date to Committee: March 12, 2020

Date to Council: March 30, 2020

Recommendation:

Direct the Chief Financial Officer to allocate the 2019 retained savings based on the strategy outlined in finance department report F-12-20.

Purpose:

Address other area of responsibility.

Background and Discussion:

The 2019 Operating Budget Performance Report (F-39-19) as at June 30, 2019 recommended:

“Direct the Director of Finance to report back on the city’s retained savings strategy upon confirmation of the 2019 year-end actual.”

This report provides Committee with a preliminary, unaudited 2019 retained savings (also known as the surplus) of \$1,570,844 and recommends a disposition of these savings to reserve funds.

A separate report on the 2019 Operating Budget Performance, including detailed explanations of the year end variances greater than \$100,000 is forthcoming in April 2020.

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 over time.

Financial Matters:

(\$ millions)	2019 Budget	2019 Actual (Unaudited)	Variance Fav./(Unfav.)
City Services	\$112.7	\$112.7	\$0.0
Local Boards & Committees	\$14.7	\$14.7	\$0.0
Corporate Expenditures	\$51.2	\$52.5	\$(1.3)
Corporate Revenues *	\$178.6	\$181.5	\$2.9
Total			\$1.6

*Includes a tax levy of \$166.0 million

Note: figures may not add up due to rounding

The primary drivers of the 2019 retained savings will be discussed in greater detail in the 2019 Year-end Operating Budget Performance report.

As is usual practice, minor accounts payable and year-end accruals have been made in 2019. Similarly, routine year-end transfers were made prior to the calculation of the year-end retained savings for net zero activities.

Business Transfers	2019 Budget	2019 Transfer Amount	Reserve Fund Balance (Dec. 31, 2019)
Transfer to Parking District Reserve Fund	\$ 1,421,931	\$1,350,958	\$9,819,598
Transfer to Paletta Mansion Reserve Fund	\$139,684	\$150,182	\$599,451
Transfer to Tyandaga Reserve Fund	\$78,000	\$1,969	\$68,385
Transfer to/(from) LaSalle Park Pavilion Reserve Fund	\$11,844	(\$18,529)	\$397,005
Transfer to Discovery Landing Reserve Fund	\$238,200	\$239,298	\$347,253
Transfer to/(from) Arenas Reserve Fund (surcharge revenue amount in excess of arena debt charges)	\$27,421	(\$137,493)	\$322,945

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, 2019, the following year-end transfers were made prior to the calculation of the year-end retained savings.

Transfers	2019 Budget Revenues	2019 Actual Revenues (Unaudited)	2019 Provision to / (from) Reserve Fund	Reserve Fund Balance (Dec. 31, 2019)
Engineering Fee Stabilization	\$150,000	\$9,170	(\$140,830)	\$539,939
Building Permit Stabilization	\$4,364,999	\$4,459,996	\$641,563	\$3,322,564
Planning Fee Stabilization	\$2,363,400	\$1,619,467	(\$743,933)	\$2,850,706

Engineering Fee Stabilization Reserve Fund

The decrease in Subdivision Administration Fees has resulted in a draw of \$140,830 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 reserve fund will be used over the next five years to phase out our reliance on this funding source in the budget.

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 2019 are \$4,459,996. 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 \$641,563. The 2020 budget for building permit revenues has been increased to \$4.52M.

Planning Fee Stabilization

Planning fee revenues experienced a negative variance of \$743,933 due to a decrease in site plan applications fees, committee of adjustment, official plan amendments and rezoning fees. This resulted in a draw from the reserve fund of \$743,933. The 2020 budget for planning revenues has been increased to \$2.45 million.

Financial Summary

During 2019, departments and service leads 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 2019 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 have a favourable variance of \$565,382. 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 recruitment was complete. This variance is partially offset by an unfavourable variance in Overtime costs.

Earnings on Investments

Investment income exceeded budget by \$1,736,683. This positive variance is attributed to \$2,728,321 of realized capital gains, of which \$991,638 was used to meet the budget of \$5.3 million. The city has relied heavily on capital gains to meet budget from 2013-2019 given the low interest rate environment.

Supplementary Taxes

The City collected higher than anticipated supplementary taxes for current and previous years leading to a \$993,285 favourable variance. This is mainly attributable to completed and assessed condo developments.

Commodities

Commodity costs have a favourable variance of \$394,630 mainly due to savings in diesel.

Contracted Services

Total Contracted Services have an unfavourable variance of \$960,206. A number of Road and Park Maintenance contracts expired in 2019 and renewal costs were higher than expected. Additionally, contracted service usage in Arenas and Sport Facilities were higher than budgeted.

Fee Revenues

Lower than expected Parking Fine Revenue, Registration Fees and Ice Rental Surcharge fees, resulted in an unfavourable variance of \$428,943.

Winter Maintenance

Winter Maintenance operations had an unfavourable variance of \$226,248 mainly due to overtime costs related to winter events, training costs for unionized staff and lower than expected recoveries from the Region.

Equipment Parts and Supplies

Higher than anticipated maintenance requirements, mainly attributable to Fleet and Emergency Response vehicles, resulted in an unfavourable variance of \$272,099.

Building Repair

An unfavourable variance of \$200,898 is mainly due to unexpected repair costs in our Leisure facilities.

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.

2019 Recommended Retained Savings Dispositions

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

- **\$394,630 Provision to Commodity Stabilization Reserve Fund**

Volatility in the pricing of commodities could have large impacts on future year costs. It is recommended that \$394,630 of the 2019 retained savings be allocated to this reserve fund to address future uncertainty. The 2019 balance in the Commodity Stabilization Reserve Fund is \$200,667.

- **\$1,176,214 Provision to Tax Rate Stabilization Reserve Fund**

It is recommended that \$1,176,214 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. This transfer amount will replenish the \$1,163,817 of one-time funding approved to be drawn from the reserve fund in the 2020 budget. The uncommitted balance in this reserve fund is \$3,392,170.

Conclusion:

This report provides Committee and Council with the City's preliminary unaudited 2019 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 2014-2019

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Council. Final approval is by the City Manager.