

Town of Whitby

Staff Report

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Report Title: 2022 Year End Operating Budget Variances and Reserve Funds

Report to: Committee of the Whole

Date of meeting: June 12, 2023

Report Number: FS 18-23

Department(s) Responsible:

Financial Services Department

Submitted by:

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**Acknowledged by M. Gaskell, Chief
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1. Recommendation:

1. That report FS 18-23 regarding 2022 Year End Operating Variances and Reserve Funds be received.

2. Highlights:

- The Town's net operating budget surplus for 2022 was \$2.8 million, comprised of a \$0.5 million favourable variance in revenues and \$2.3 million favourable variances in expenditures.
- In accordance with Town Policy, the net operating surplus was transferred to the Asset Management Reserve (50%) and the Long-Term Finance Reserve (50%).

3. Background:

In accordance with the Town's Operating Budget Process Policy, the Treasurer will coordinate and report on budget performance on a periodic basis.

4. Discussion:

The Town of Whitby's 2022 Operating Budget consists of \$153.3 million of Revenues and \$153.3 million of Expenses. At the end of 2022, there was an operating budget surplus of \$2.8 million comprised of a \$0.5 million surplus in revenues and expenditure savings of \$2.3 million (based on actual vs. budget).

Table 1 below provides a summary of the 2022 operating variances (unaudited) by budget category. Variance explanations, at a corporate level, follow Table 1 and were prepared in consultation with staff from Departments across the Town. Further detail on departmental variances is available in Attachment 1 of this report.

TABLE 1:

Town of Whitby by Budget Category* (\$ in Millions)	2022 Budget	2022 Actual**	2022 Year-end Surplus / (Deficit)	Variance %
Revenue				
Taxation	(\$111.2)	(\$112.9)	\$1.7	2%
Grants	(\$0.2)	(\$0.3)	\$0.2	108%
Program Revenues, Fees, and Fines	(\$25.1)	(\$24.3)	(\$0.7)	(3%)
Miscellaneous Revenue & External Recoveries	(\$2.7)	(\$2.9)	\$0.1	5%
Other Revenues	(\$5.2)	(\$5.3)	\$0.1	(2%)
Transfers from Reserves & Internal Recoveries	(\$9.0)	(\$8.1)	(\$0.9)	10%
Total Revenues	(\$153.3)	(\$153.8)	\$0.5	0%
Expenditures				
Salaries, Wages & Benefits	\$83.7	\$80.9	\$2.8	3%
Building Related Costs & Utilities	\$6.8	\$6.1	\$0.7	10%

Vehicle & Equipment Maintenance & Fuel	\$2.7	\$3.0	(\$0.3)	(11%)
Purchased Services and Supplies	\$9.4	\$9.8	(\$0.4)	(5%)
Administrative Costs	\$5.9	\$5.7	\$0.2	4%
Grants	\$6.5	\$6.4	\$0.2	3%
Debt Charges	\$1.9	\$1.9	\$0.0	0%
Transfers to Reserves & Internal Transfers	\$36.4	\$37.1	(\$0.8)	(2%)
Total Expenditures	\$153.3	\$151.0	\$2.3	2%
Net Operating Budget	\$ -	(\$2.8)	\$2.8	

*Note: Numbers may not add due to rounding

**2022 Actuals have been adjusted to eliminate offsetting (surplus/deficit) variances related to reserve/reserve fund transfers approved by Town Policy. See "Other Transfers to Reserve/Reserve Funds" section of this report for more information.

Details of the Revenue and Expenditure variances, noted in Table 1, are as follows:

PART A: REVENUE VARIANCES

Taxation

The Taxation revenue surplus of \$1.7 million is mainly due to additional supplementary tax revenue from assessment growth (e.g., new properties added to the property tax roll during the year). Timing of the supplementary tax revenues is based on the Municipal Property Assessment Corporation (MPAC) determining an assessment value for new builds and property improvements.

Grants

The Grants revenue surplus of \$0.2 million is from higher Federal Government summer student grants across the Town with the greatest increases experienced in summer camps and parks.

Program Revenues, Fees, and Fines

The Program Revenues, Fees, and Fines revenue deficit of (\$0.7) million is primarily a result of a (\$1.8) million pressure from facility closures and cancellation of programming in the first quarter of 2022 due to the COVID-19 pandemic, as well as renovations of the Civic Recreation Complex (CRC) pool necessitating its closure for the entire year. Additional late payment fees collected for property taxes of \$0.7 million and a higher volume of Municipal Consent approval fees of \$0.6 million partially offset these revenue shortfalls. Further, facility closures also resulted in lower facility expenditures (such as

utilities) which are reflected in other sections of the Town's budget/this report. There were other net revenue pressures of (\$0.2) million from various accounts.

Miscellaneous Revenue & External Recoveries

The Miscellaneous Revenues & External Recoveries surplus of \$0.1 million is derived from a \$0.4 million increase in external recoveries for winter maintenance services provided on provincial and regional roads. This is offset by (\$0.2) million in reduced WSIB recoveries for Fire and Emergency Services and a planned (\$0.2) million draw from a natural gas cost stabilization account that was not required. Remaining net revenue surplus of \$0.1 million from various accounts.

Other Revenues

The Other Revenues surplus of \$0.1 million is due to increased investment income of \$0.7 million from higher prime interest rates in 2022. In an effort to combat inflationary pressures, the Bank of Canada increased overnight lending rates eight (8) times since January 2022. The rate increases impacts debt servicing costs but also results in higher interest revenues for Town bank balances. The higher interest revenue was mostly offset by (\$0.6) million in budget revenues from the Whitby Football Club that were not collected due to a suspension of the Club's debt repayments during the pandemic. The Town is in discussions with the Whitby Football Club to resume repayments in 2023.

Transfers from Reserves & Internal Recoveries

The Transfers from Reserves & Internal Recoveries deficit of (\$0.9) million is mainly due to lower than budgeted recoveries of staffing costs from capital projects of (\$0.7) million as a direct result of vacancies/staffing shortages. Further a budgeted draw from the from the Tax Rate Stabilization Reserve for an anticipated Elexicon dividend shortfall was not required, resulting in a (\$0.1) million pressure. The remaining net revenue deficit of (\$0.1 million) is from various accounts.

PART B: EXPENDITURE VARIANCES***Salaries, Wages & Benefits***

Salaries, Wages & Benefits generated the largest variance with a \$2.8 million favourable variance. Staff vacancies (e.g., due to turnover, retirement, etc.) combined with staff recruitment challenges (i.e., competitive wage rates and shortage of qualified staff for some departments) were the main contributors to a surplus of \$3.5 million. While staff vacancies results in an overall surplus for the Town, the staff shortages results in work/projects not being completed/not being completed in a timely manner and adds workload and stress for remaining staff. A compensation review, e.g., benchmarking the Town's compensation to other municipal comparators, will be started in the Fall to help address the Town's staffing attraction and retention challenges.

Also contributing to the surplus was a WSIB credit of \$0.6 million provided to the Town as a financial relief to combat the effects of COVID-19. Partially offsetting this surplus is (\$1.3) million of additional overtime expense within Fire and Emergency Services to

cover an increased number of absences due to the pandemic, as well as scheduled time off and staff on leave.

Building Related Costs & Utilities

The Building Related Costs & Utilities surplus of \$0.7 million can be attributed to \$0.3 million in streetlight savings from a combination of lower hydro rates than budgeted and reduced consumption related to the use of higher efficiency lighting. Further the Community Services department experienced additional savings of \$0.4 million due mainly to reduced consumption as a result of the previously mentioned facility closures and reduced programming.

Vehicle & Equipment Maintenance & Fuel

The Vehicle & Equipment Maintenance & Fuel deficit of (\$0.3) million was primarily due to higher fuel market prices during 2022.

Purchased Services and Supplies

The Purchased Services and Supplies pressure of (\$0.4) million was mainly attributed to the May 21st Derecho storm for contracted work plus the purchase/rental of small equipment and supplies within Operations of (\$0.5) million. Additional expenditures across the Town accounted for an additional pressure of (\$0.2) million. Partially offsetting these unanticipated pressures is savings of \$0.3 million in Community Services because of facility closures and reduced programming caused by the pandemic.

Administrative Costs

The Administrative Costs surplus of \$0.2 million is related to the staffing vacancies experienced throughout the Town resulting in lower conference, training, mileage, and other staff-related expenses.

Grants

Grant programs ended 2022 with a \$0.2 million expense surplus caused mainly by lower participation in the Access Program in the first half of the year, closure of the Civic Recreation Centre (CRC) pool for renovations and fewer applications for grants related to taxable charities, the Heritage Tax Rebate, and the Accessibility Improvement Grant.

Debt Charges

There was no material variance to report for Debt Charges in 2022. While Council has approved capital projects in the budget to be debt-financed, the Town's practice is to issue debentures, through the Region of Durham, following the completion of the project (when final costs are known). Once the debt is issued, debt servicing costs (interest and principal) are incorporated into future operating budgets.

Transfers to Reserves & Internal Transfers

The Transfers to Reserves & Internal Transfers pressure of (\$0.8) million was primarily due to a (\$0.7) million transfer to the Zero Carbon Revolving Fund that was approved by Council as part of the Town's 2023 Budget (Report FS 06-23 Recommended 2023 Operating and Capital Budget report, Decision Item #49 "Zero Carbon One-Time

Funding Request”). There was also a contribution of (\$0.1 million) to the Winter Control Reserve.

Other Transfers to Reserve/Reserve Funds

The following are transfers to reserve and reserve funds related to approved Town policies. The transfers are dependent upon actual revenues/expenditures related to the department/division or program. Rather than showing a surplus in Table 1 fully offset by a pressure in a different section of Table 1 (i.e., the Transfer to Reserve section), the surplus and offsetting pressure/transfer have been excluded from Table 1 and explanation of the variance and transfer to reserve shown below. The intent of combining this information is to better communicate operating results for programs and resulting reserve transfers:

Building Permit Reserve Fund

In 2022, Building Services experienced an overall transfer to the Building Permit Reserve Fund (BPRF) of \$4.4 million. The budgeted transfer to the BPRF in 2022 was \$0.7 million. This \$3.7 million increased transfer to the reserve is mainly attributed to a revenue surplus of \$3.0 million primarily from higher building permit volumes. In addition, there was net salary and benefit surplus of \$0.5 million because of staff vacancies/staffing shortages. Building Services also experienced other net savings of \$0.2 million in reduced administrative type expenses and purchased services.

The Building Permit Reserve Fund was established from the 2005 implementation of the Building Code Statute Law Amendment Act (Bill 124). The purpose of the reserve is to allow the municipality to stabilize slow years in terms of building activity and permit revenue. The Building Services division operates as a full cost recovery and any surplus or deficit in the division is accounted for by a transfer to or from, respectively, the BPRF. Accordingly, the Building division is fully funded from fees and does not have an impact on property taxes.

Parking Reserve Fund

The Transportation Parking division transferred \$0.1 million to the Parking Reserve Fund. The budgeted transfer to the Parking Reserve Fund in 2022 was \$0.4 million. The reduced contribution to the reserve of \$0.3 million is due to forgone revenues as a result of the Town continuing to waive parking fees (until April 2022) during the COVID-19 pandemic.

Parking Enforcement transferred (\$0.2) million from the Parking Reserve fund. The budgeted transfer to the Parking Reserve was \$0.1 million for 2022. The increase transfer from the reserve is related to lower parking revenues in 2022.

The purpose of the reserve is to provide a funding source for future public parking related infrastructure and parking enforcement in the Town of Whitby.

Marina Reserve Fund

The overall contribution to the Marina Reserve Fund is \$0.2 million which is a decrease of (\$0.1) million compared to budget. The Marina/Harbour Facilities Division

experienced a net shortfall in dock and hall rental revenues due to residual pandemic impacts. The purpose of this program reserve is primarily to fund capital requirements of the Port Whitby Marina and annual long term debt repayments for Marina or harbour related infrastructure projects.

Arena Reserve

The overall contribution to the Arena Reserve is \$0.4 million or a decrease of (\$0.1) million compared to budget due to reduced ice surcharge revenues during the year from pandemic-related facility closures in early 2022. The purpose of this program reserve is to fund arena related infrastructure asset management projects.

Planning Development Fee Reserve

Due to a higher volume of subdivision/zoning applications for Brooklin, other zoning and site plan applications throughout the Town, there was an operating surplus and a 2022 transfer to the Planning Development Fee Reserve of \$1.5 million. The purpose of this program reserve is to provide a funding source during fiscal years, where annual development fee revenue for the Development Control, Design and Technical Services Section, falls below budget or when annual expenditures are in excess of budget.

Engineering Development Fee Reserve

Due to a higher volume of development applications, there is a surplus in site plan engineering fees and a 2022 transfer to the Engineering Development Fee Reserve of \$0.2 million. The purpose of this program reserve is to provide a funding source during fiscal years, where annual development fee revenue for the Development Engineering Section, falls below budget or when annual expenditures are in excess of budget.

Road Infrastructure Repair Reserve

The overall contribution to the Road Infrastructure Repair Reserve increased \$0.9 million above budget to \$1.2 million due to a surplus in Road Occupancy Permit repair works fees. The purpose of this program reserve is to fund capital projects relating to repair of infrastructure damage and other damage along roads.

2022 Year End Surplus and Disposition

In accordance with the Town's Disposition of Operating Surplus Policy (s.3.1.3 of Policy F 010), the net operating surplus, \$2.8 million as shown in Table 1 of this report, was transferred 50% or \$1.4 million to the Asset Management Reserve Fund and 50% or \$1.4 million to the Long Term Finance Reserve. The Asset Management Reserve Fund is used to fund the repair, maintenance, and rehabilitation of the Town's existing and aging infrastructure. The Long Term Finance Reserve (also known as the one-time reserve) is used to fund capital projects, special projects and pilot projects that are not related to asset management or growth. In recent years, the Long Term Finance Reserve has been used to fund a loan to the Abilities Centre, the natural ice surface pilot, non-statutory development charge exemptions, and sustainability studies.

A complete listing of the Town's reserve/reserve fund balances as at December 31st for the years 2020-2022 has been included in Attachment 2 of this report. More context

and discussion about the following reserve/reserve funds are included in other reports on the June 12, 2023 Committee agenda:

- Building Permit Reserve Fund – Report “FS 17-23 – Building Permit Fees Annual Report”
- Development Charges and Cash-in-Lieu of Parkland Dedication Reserves – Report “FS 19-23 – Annual Treasurer’s Statement – Development Charges and Parks Reserve Fund”

Derecho Storm - May 21, 2022

The Whitby area was hit by a large storm, known as a derecho, on Saturday, May 21, 2022. Hundreds of trees were broken and uprooted causing blocked roads and sidewalks, downed hydro wires, damage to cars, houses, fences, and structures in Whitby related to the storm.

As reported to Council in 2022, the Town reached out to the Ministry of Municipal Affairs and Housing (MMAH) to determine whether Town residents and businesses would be eligible for Provincial Disaster Recovery Assistance for Ontarians (DRAO) program funding and whether the Town would be eligible for Municipal Disaster Relief Assistance (MDRA). Following a site visit, facilitated by Town staff, MMAH did not activate the DRAO program for the Whitby area. Further, the MDRA program for municipalities requires municipalities to spend at least 3% of the municipality’s own tax levy on incremental costs related to the disaster. For the Town of Whitby, the threshold for MDRA activation would be \$3.3 million. In total, the Town spent \$0.8 million related to the derecho storm (which is below the 3% threshold for MDRA program activation).

5. Financial Considerations:

The financial considerations are outlined in other sections of this report.

6. Communication and Public Engagement:

Through the development of Whitby’s Community Strategic Plan, a focus on the value for money, financial sustainability as well as transparent reporting were identified as priorities. Under the Government Pillar, timely and transparent reporting was identified as the highest priority with long term financial planning being identified as the third highest priority. This report supports these priorities identified in the Community Strategic Plan. Furthermore, within the operating expenses, funds to support accessibility and sustainability are allocated, including the investment of \$0.7 million to the zero carbon revolving fund to support the implementation of zero carbon projects.

7. Input from Departments/Sources:

Information in this report was provided by the various departments.

8. Strategic Priorities:

Through the development of Whitby's Community Strategic Plan, a focus on value for money, financial sustainability as well as transparent reporting were identified as priorities. Under the Government Pillar, timely and transparent reporting was identified as the highest priority with long term financial planning being identified as the third highest priority. This report supports these priorities identified in the Community Strategic Plan. Furthermore, within the operating expenses, funds to support accessibility and sustainability are allocated, including the investment of \$0.7 million to the Zero Carbon Revolving fund to support the implementation of zero carbon projects.

9. Attachments:

Attachment 1 – 2022 Year End Operating Variances by Department

Attachment 2 – Reserve and Reserve Fund Year End Balances 2020-2022