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| COMMUNICATION |
| FAA- <u>Nov 13/17</u> |
| ITEM - <u>1</u> |

DATE: November 10, 2017

TO: MAYOR AND MEMBERS OF COUNCIL

FROM: LAURA MIRABELLA-SIDDALL, CHIEF FINANCIAL OFFICER AND CITY TREASURER
LLOYD NORONHA, DIRECTOR OF FINANCIAL PLANNING AND DEVELOPMENT
FINANCE AND DEPUTY CITY TREASURER

RE: FINANCE, ADMINISTRATION AND AUDIT COMMITTEE – November 13, 2017
2016 Operating Budget Results

Purpose

This communication is to provide more information on the subject matter of a deputation from the November 6, 2017 Finance, Administration and Audit Committee meeting regarding the \$8.5 million expenditure variance presented in the Fiscal Health Report – Year Ending December 31, 2016 (the "FHR").

Background

At the November 6 meeting of the Finance, Administration and Audit Committee, a deputant inquired as to the the City's 2016 year- end financial result comparing to the 2016 budget.

Below is an excerpt from the Fiscal Health Report – Year Ending December 31, 2016.

Operating Results – Year ending December 31, 2016

| | Budget | Actual | Variance |
|----------------------------------|---------------|---------------|-----------------|
| Property Tax Based Budget | | | |
| Revenues | 265.2 | 272.3 | 7.1 |
| Expenditures | 265.2 | 273.7 | -8.5 |
| Net | 0.0 | -1.4 | -1.4 |
| Reserve Transfers | | | |
| Winterization Reserve | | 0.7 | 0.7 |
| Working Capital Reserve | | 0.7 | 0.7 |
| Year End | 0.0 | 0.0 | 0.0 |
| Position | | | |

The \$8.5 million variance in gross expenditure was primarily driven by transfer to reserves, which was in turn linked to \$7.1 million of increased revenues. In fiscal year 2016, the City saw a spike in building permits, other planning related applications and application for licenses, in part due to an upcoming increase in education development charges and for new Ontario Building Code energy efficiencies requirement. These additional revenues were transferred to their corresponding reserves such as the Building Standard Continuity Reserve. These reserve activities are accounted for both on the revenue and expenditure lines and therefore result in a neutral impact to the City's annual operating budget.

Bill 124 imposes specific restrictions on the use of building code revenues, the City utilizes the obligatory Building Standard Continuity Reserve to accumulate annual building code surplus which are used to provide service continuity when building code costs exceed revenues.

Overall the City's property tax based financial results ended 2016 in a deficit position of \$1.4 million primarily because of winter control activities that were caused by some extreme weather in the fourth quarter of

2016, representing 0.5% of the budgeted gross expenditure of \$265.2 million. This net budget variance is considered to be within a reasonable margin of error and is indicative of a budget that neither over taxes, nor under taxes residents and businesses unduly. The utilization of reserves to help smooth the impacts of cyclical effects such as building permit activity and winter maintenance is a fiscally prudent practice and widely used amongst Ontario municipalities.

Respectfully submitted,



Laura Mirabella-Siddall, CPA, CA
Chief Financial Officer and City Treasurer



Lloyd Noronha, CPA, CMA
Director, Financial Planning and
Development Finance and Deputy City Treasurer