



The Corporation of the Town of Tecumseh

Financial Services

To: Mayor and Members of Council

From: Tom Kitsos, Director Financial Services & Chief Financial Officer

Date to Council: September 12, 2023

Report Number: FS-2023-07

Subject: 2022 Year-End Budget Variance

Recommendations

It is recommended:

That the 2022 Year-End Budget Variance Report, dated September 12, 2023, showing a tax supported surplus of \$1,224,508 and a rate-supported surplus of \$714,803 **be received;**

And that tax-supported surplus **transfers be made** as follows:

- a) \$150,000 operating fund surplus to Sick/Vacation Pay Reserve as per 2022 year-end estimated present value obligation;
- b) \$200,000 operating fund surplus to Post Employment Benefits Reserve Fund to be invested in ONE Equity Fund to contribute towards 2022 year-end estimated present value obligation deficit of approximately \$4M;
- c) \$400,000 operating fund surplus to Tax Rate Stabilization Reserve to bring this reserve to approximately \$3.8M (15% of general levy is \$4.1M);
- d) \$384,497 operating fund surplus to Infrastructure Reserve; and
- e) \$90,011 capital fund surplus be transferred as follows:

- a. \$60,000 to Tax Rate Stabilization Reserve to be carried forward to 2023 towards 2022 approved Small Equipment purchases not fulfilled at year-end, and
- b. \$30,011 to Infrastructure Reserve

And further that rate-supported surplus (Water and Wastewater services) **transfers be made** as follows:

- a) \$444,994 water operating fund surplus to the Water Rate Stabilization Reserve Fund; and
- b) \$269,809 wastewater operating fund surplus to the Wastewater Rate Stabilization Reserve Fund.

Executive Summary

Administration has reviewed the Town's 2022 year-end financial position. The year-end tax supported surplus is \$1,224,508 and rate supported surplus is \$714,803.

Key drivers of the surplus include:

- Tax Supported:
 - o Investment Income (\$1,081K Surplus) – Represents higher than average monthly bank balances and interest rates (\$980K). These additional funds are transferred to Reserves, thus resulting in a NIL impact to the Operating budget. The remainder represents unbudgeted gains on our ONE Investment portfolio (\$83K).
 - o Grant Revenue (\$496K Surplus) – Represents use of remaining balances of the 2021 COVID-19 Relief funding (\$145K) and incremental government grants to support major one-time events, use of summer students, and improvements to our digital strategy, records managements, and transit system.
 - o User Fees, Permits & Charges (\$240K Deficit) – Two major land developments anticipated to commence in 2022 will proceed in 2023, resulting in a decrease in building permit revenue (\$208K).
 - o Salaries and Benefits (\$304K Surplus) – Favourable variance due primarily to several lengthy staff vacancies offset by significant increase in health benefits, retirement payouts and overtime.

- Rate Supported:
 - o Salaries & Benefits (\$207K Surplus) – Favourability stemming from multiple vacancies.
 - o User fees, Permits & Charges (\$479K Surplus) – Primarily due to greater than anticipated non-residential water consumption, resulting in higher water & sanitary charges.

The Capital/Lifecycle analysis consists of reviewing the status of approved projects comparing approved funding to current activity. A complete listing of all capital projects planned for 2022 as identified within each department's five-year capital plans is detailed in **Attachments 3 and 4**.

In total, 130 projects are included in this variance report having a total budgeted cost of \$63M.

Background

Annual operating budgets for all Town departments are set at the beginning of the calendar year based on Council direction. Budget inputs consist of numerous professional estimates based on information available at the time (including the legislative environment, and macroeconomic trends such as currency fluctuations, commodity prices, unemployment figures, business investment, etc.).

Departments continuously monitor financial results and provide revised year-end forecasts. This helps us identify potential exposures and provides an opportunity to create or adjust our risk mitigation strategies to remain at, or as close to, the approved budget as possible.

All departments have reviewed December year-end results to identify and report on variances from budget. This analysis looks at both operating and capital budgets.

Impact of COVID-19

During the 2022 budget preparation process, COVID-19 related restrictions were being lifted and the local Health Unit's data was showing favourable trending. With this information in mind, the 2022 Budget was established with the assumption that there would be minimal financial impact due to COVID-19. As of December 2022, the Town experienced some COVID-19 related financial hardships, mainly stemming from facility closures in January 2022. Significant variances to the budget that are directly linked to COVID-19 are mentioned throughout **Attachment 2**. The Town has approximately \$145K of grant funding carried forward from 2021 that were used to offset these pressures.

Comments

Attachment 1 provides a summary of the 2022 year-end variances by department, listed in order from the department with the largest dollar deficit to the department with the largest dollar surplus. The Town ended 2022 with a year-end surplus of \$1,939,311 (tax-supported surplus of \$1,224,508 and a rate-supported surplus of \$714,803).

Tax Supported Variance - Operating Fund

The Town ended 2022 with an Operating surplus of \$1,224,508. The year-end variance, broken down by major account category, is presented in **Table 1** below.

Account Category	Net Favourable/ (Unfavourable) Variance
Revenue	
User fees, Permits & Charges	\$ (239,650)
Transfers from Reserves	(166,836)
Taxes	119,716
Other	25,355
Grants	495,598
Investment Income	1,081,540
Subtotal - Revenue	\$ 1,315,723
Expenses	
Transfers to Reserves	\$ (1,130,882)
Operating & Maintenance Supplies	(94,538)
Grants & Donations	99,315
Utilities & Insurance	126,375
Other	241,540
Professional Services	273,206
Salaries & Benefits	303,758
Subtotal - Expenses	\$ (181,226)
Small Equipment Variance	90,011
2023 Year-End Surplus	\$ 1,224,508

Table 1 - Operating Budget Variance by Category – Tax Rate Supported

Explanation of Key Variance

Revenue Variance

The largest surplus is within “Investment Income”. The Town experienced higher than average monthly bank balances and rates which resulted in favourable bank interest revenue of \$980,000. This category also included favourable variance of \$83,000 from unbudgeted gains on our portfolio with ONE Investment. These additional funds are transferred to Town Reserves, thus resulting in a NIL impact to the Operating budget.

The “Grants” category includes \$145K of COVID-19 Relief funding that was carried forward from 2021 to offset costs/lost opportunities in Arena (\$15K), Financial Services (\$25K), Legislative Services (\$100K) and other departments (\$5K). The remainder consists of additional revenue from the province for major one-time events, improvements to our digital strategy and records management, and from the Canadian government to cover summer students and the on-demand pilot program for our transit system.

Offsetting this surplus is a substantial deficit within the “User fees, Permits & Charges” category. This is mainly driven by a \$208,000 decrease in permit revenue (“Building” department) due to two major developments anticipated for 2022, now commencing in 2023.

The “Transfers from Reserves” deficit is mainly driven by increased grant revenue (\$90K for Tecumseh’s 100th Year Celebration), thus reducing amounts required of Town Reserves.

Expense Variance

Overall, the Town experienced a budget to actual deficit \$181K for expenditures. The deficit for “Transfers to Reserves” mainly represents an offset to the surpluses in the “Grants & Donations” and “Investment Income” categories.

Rate Supported Variances

The Town's 2022 year-end rate-support surplus was \$714,803. The year-end variance, broken down by major account category is presented in **Table 2** below.

Account Category		Net Favourable/ (Unfavourable) Variance
Revenue		
User fees, Permits & Charges	\$	478,969
Other		16,129
Subtotal - Revenue	\$	495,098
Expenses		
Operating & Maintenance Supplies	\$	(90,879)
Purchases for Resale		(48,002)
Other		27,959
Grants & Donations		59,304
Contracted Services		64,344
Salaries & Benefits		206,979
Subtotal - Expenses	\$	219,705
2022 Year-End Surplus	\$	714,803

Table 2 - Operating Budget Variance by Category – Rate Supported

Explanation of Key Variances

Expense Variance

The “Contract Services” surplus is due to lower than anticipated volumes of wastewater conveyed to City treatment plants. This is partially offset by higher than budgeted rates being charged by the City of Windsor for wastewater treatment.

The \$207K surplus in Salaries & Benefits mainly stems from multiple vacancies throughout the year.

Tax Support Variance - Capital/Lifecycle

The Capital/Lifecycle analysis consists of reviewing the status of approved projects comparing approved funding to actual results. A complete listing of all capital projects planned for 2022 as identified within department five-year capital plans is detailed in **Attachments 3 through 7**.

In total, 130 projects are included in the Year-End Capital Variance Report for a total budgeted cost of \$63 million. Projects in this report are either included in the 2022 Capital Works Plans and/or included in prior year Capital Works Plans and incurring 2022 costs.

Project surplus/deficits affect the amount of reserve funds required and results in increasing or decreasing the transfer from reserve.

Information on 2022 tender results is detailed in **Attachment 8**.

Consultations

All Departments

Financial Implications

Summary of the Year-end variance is as follows:

Tax supported services	Amount
Operating surplus	\$1,224,508

Rate supported services	Amount
Operating surplus - Water	\$444,994
Operating surplus - Wastewater	\$269,809

Total surplus	\$1,939,311
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Link to Strategic Priorities

Applicable	2023-2026 Strategic Priorities
<input checked="" type="checkbox"/>	Sustainable Growth: Achieve prosperity and a livable community through sustainable growth.
<input type="checkbox"/>	Community Health and Inclusion: Integrate community health and inclusion into our places and spaces and everything we do.
<input type="checkbox"/>	Service Experience: Enhance the experience of Team Tecumseh and our citizens through responsive and respectful service.

Communications

Not applicable

Website

Social Media

News Release

Local Newspaper

This report has been reviewed by Senior Administration as indicated below and recommended for submission by the Chief Administrative Officer.

Prepared by:

Vanessa DaDalt, CPA, CA, CTP
Deputy Treasurer & Manager Revenue Services

Reviewed by:

Tom Kitsos, CPA, CMA, BComm
Director Financial Services & Chief Financial Officer

Recommended by:

Margaret Misek-Evans, MCIP, RPP
Chief Administrative Officer

Attachment Number	Attachment Name
1	2022 Budget Variance – Summary All Units
2	2022 Budget Variance – Detail by Department
3	2022 Capital Variance – Public Works
4	2022 Capital Variance – Technology and Communications
5	2022 Capital Variance – Community Safety
6	2022 Capital Variance – Arena, Pool & Buildings
7	2022 Capital Variance – Parks
8	2022 Tender Results