HALDIMAND COUNTY

Report CS-FI-14-2018 Audited Financial Statements for 2017

For Consideration by Council in Committee on August 28, 2018

OBJECTIVE:

To present the audited 2017 Consolidated Financial Statements (including the Trust Fund statements) and details of the Operating Surplus/(Deficit) position for Haldimand County for the year ended December 31, 2017.

RECOMMENDATIONS:

1. THAT Report CS-FI-14-2018 Audited Financial Statements for 2017 be received;
2. AND THAT the consolidated financial statements, including the Trust Fund Statements, for Haldimand County for 2017, as audited by Millard, Rouse and Rosebrugh LLP, be received and approved.

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Respectfully submitted: Karen General, CPA, CGA, General Manager of Corporate Services

Approved: Donald G. Boyle, Chief Administrative Officer

EXECUTIVE SUMMARY:

Highlights from the 2017 audited financial statements (presented under separate cover) are as follows:

- **Increased Investment Portfolio:** As outlined in the annual investment report to Council in June 2018, the carrying book value of the County's investment portfolio has grown to approximately $166.7 million as at December 31, 2017 – this represents an increase of $25.8 million over the previous year end. This increased portfolio, coupled with strong annual returns has led to increased liquidity, revenue and financial flexibility.
- **Substantial Investment in Infrastructure:** For the second consecutive year, the County has invested over $36 million in infrastructure (replacement and new). At the end of 2017, the historical cost of the County's infrastructure was estimated at approximately $855 million.
- **Increased Reserves/Reserve Funds:** The County has established numerous reserves/reserve funds to ensure sufficient funds are available for future expenditures/needs (including the Hydro Legacy Reserve Fund). Total reserves/reserve funds, at December 31, 2017, were $148.9 million – an increase of $8.9 million over the previous year.
- **Limited Increase in Net Long Term Debt:** Despite significant investment in infrastructure and increased reserves/reserve funds, the County's net long term debt increased moderately by $8.1 million in 2017 to a year end balance of $47.7 million.
- **Strong Credit Rating**: The above noted items were several of the factors noted during the County's annual credit rating review in 2018. The County's credit rating was affirmed at "AA/Stable" by the independent bond rating agency of Standards & Poor's Rating Services; primarily based on exceptional liquidity, strong budgetary performance and minimal debt burden.

The audited 2017 surplus/(deficits) for Haldimand County financial operations are presented in this report, together with reasons for the significant variances from the Council approved budgets.

The net surplus for the three main functional areas is transferred to/from the appropriate reserve in accordance with previously approved Council resolutions.

Audited 2017 Operating Net Surplus/(Deficit)		
Tax Supported Operations		**$2,275,462**
Water Operations		$754,337
Wastewater Operations		866,991
Rate Supported Operations		**$1,621,328**
Total Operating Surplus		**$3,896,790**

The presentation of the 2017 audited financial statements, albeit a part of transparent and accountable fiscal management, fulfills the Corporation's statutory obligations to present annual audited financial statements to Council and the public. These statements, as well as the attached Building Division and Parkland Dedication Reserve Fund Statement of Activities, will be posted on the County's website for public access by local taxpayers and ratepayers.

BACKGROUND:

The Municipal Act, 2001 (the Act) provides that the auditor appointed by the municipality shall annually audit the accounts and transactions of the municipality, express an opinion on the financial statements and report to Council. The external auditor's responsibility is to express an independent opinion on the financial statements, based on audit evidence, as to whether the statements present fairly, in all material respects, the financial information contained therein. Audit practices and procedures are based on the following principles: the users (or readers) of the statements are "reasonable users"; auditor's evaluation of risks of misstatement is based on internal controls/inherent risk of misstatement; professional judgment; and sufficient audit evidence to support their opinion.

Management is responsible for the preparation and fair presentation of the annual statements in accordance with Canadian Public Sector Accounting Board (PSAB) accounting standards. As a result, management is responsible to ensure there are adequate internal controls so that financial reporting is accurate and free of misstatements. The auditors will use management's established controls and processes to determine the level of audit evidence they must obtain to issue their opinion on the municipality's statements.

In an effort to move to a full accrual basis of accounting, PSAB adopted Handbook Section 3150, Tangible Capital Assets, and its associated reporting requirements. The implementation of this section, effective January 1, 2009, requires municipalities to report tangible capital assets in the statement of financial position. In addition, the amortization of tangible capital assets is to be accounted for as an expense in the statement of operations. Ultimately, these reporting requirements changed how municipalities report capital assets and the financial resources necessary, or lack thereof, to fund these requirements.

Even prior to these more recent amendments, there have always been reporting differences between the annual budgets, internal financial reporting and the audited financial statements. Although the intent of the latest PSAB amendments is to better align the municipality's annual reporting with full accrual accounting, most municipalities have maintained their previous internal reporting and budget formats. The rationale for some of these differences is that a municipality's budget is focused on long range financing principles and manageable impacts on rates and taxpayers over these periods. As a result, differences in financial reporting and funding of certain liabilities and costs are likely to persist into the future (e.g. amortization of existing assets may not provide a good basis for determining future funding requirements to replace the existing assets).

Similar to most Provincial municipalities, the County has adopted a process to convert the internal statements to PSAB compliant financial statements for auditing purposes (as detailed in Table 2 below). The County traditionally segregates its operational financial results into three main areas: tax supported operations, water operations and wastewater operations (these last two areas are independently financed – water costs from water users and wastewater costs from wastewater users). Capital operations are considered a work-in-progress until projects are complete and each project has specific, Council approved funding. It should also be noted that any capital variances are excluded from the analysis presented in this staff report (as they are reported on separately during the year). Reserve and reserve fund operations represent the net transfers to and from reserves or reserve funds during the year.

Typically, staff present the operational financial results to Council on three separate occasions during a fiscal year. These are segregated primarily between tax supported and rate supported operations (with sub-categories identified in each category). Reporting timeframes are as follows:

- In-year results: This report is presented to Council based on year to date financial results and reflects the annual projections for expenditures and revenues to year end (taking into account the year to date operations). This report is typically presented to Council in late summer or early fall.
- Draft Budget: In the respective draft operating budget (i.e. tax supported and rate supported water and wastewater), the projected previous year end financial results are reported. Included in the Treasurer's Report is an explanation of any significant anticipated variances and the impact, if any, on the draft operating budgets.
- As part of the audited financial statements: actual surpluses and deficits are identified and major drivers are summarized.

The focus of this staff report, independent of the auditor's report, is to:

- Summarize the required adjustments to meet PSAB reporting requirements, as they are reflected in the accompanying audited financial statements; and
- Summarize key components of the audited surplus or deficit for the year (for internal reporting purposes, operational surpluses or deficits are transferred to/from specifically identified reserves).

ANALYSIS:

The County's auditor, Millard, Rouse & Rosebrugh LLP, has recently completed their audit of the 2017 Consolidated Financial Statements. The audited statements are provided as Attachment 3 to this report and will be presented by the auditor at the August 28th Council in Committee meeting. These statements also include the annual results of the County administered Trust Funds (i.e. cemetery perpetual care funds, Grandview Lodge bequest funds and Grandview Lodge Comfort Trust fund).

As outlined above, under the PSAB principles, the move to full accrual accounting required dramatic changes to past methods of reporting certain transactions. Most notable is the requirement to report tangible capital assets on the Statement of Financial Position (i.e. balance sheet) and amortize these capital costs over their useful life. Prior to 2009, these costs were expensed on a cash basis in the year they were acquired or constructed, rather than depreciated over time.

Reconciliation of Budget and 2017 Operating "Surplus"

To date, Ontario municipalities have not been legislated to amend their annual budget formats to reflect the accrual accounting method for tangible capital assets. As a result, the format of the annual budget does not match the audited financial statement presentation, making it somewhat difficult for Council and the public to reconcile these critical financial reports. Municipalities have expressed significant concern to the Province of Ontario that, although supportive of the reasons for recording asset values in the financial statements, the legislated budgeting methodologies are currently incompatible with the PSAB approach (for example, municipalities must have balanced budgets), resulting in significant public confusion. In particular, the reporting of budget variances (surpluses/deficits) will cause confusion because of the timing of financial transactions based on cash accounting (traditional approach) versus accrual accounting (PSAB approach). In other words, municipalities traditionally do not budget for amortization of the acquisition, utilization or disposal of assets based on the useful life but, instead, based on actual timing of the cash transactions associated with each of those activities. For comparison purposes, the budgets included in the Financial Statements include a budget for amortization based on the actuals.

Under PSAB reporting requirements, reserve and reserve funds form an integral part of the County's accumulated surplus and, as such, are no longer reported as a separate schedule within the financial statements. Correspondingly, any contributions to or from these reserves and reserve funds must be removed. Principal debt repayments are removed as these payments reflect a reduction in a long term liability. All the above noted adjustments represent "financing" requirements which are integral to any municipality's long range funding plan.

The following table outlines the adjustments required and the resulting amended "budget" to be reflected in the audited financial statements for 2017.

TABLE 1

Description	**2017 Impact**
Surplus for year per approved Budgets (*)	$0
Add:	
Capital expenditures to be capitalized	$34,730,810
Budgeted transfers to accumulated surplus (i.e. reserves/reserve funds)	$27,463,060
Principal payments on debt	$4,257,680
Less:	
Debt proceeds	($271,000)
Budgeted transfers from accumulated surplus (i.e. reserves/reserve funds)	($34,929,565)
Amortization	($23,700,950)
Revised budgeted surplus as reported on audited Financial Statements	**$7,550,035**

(*) – includes both tax supported and rate supported operating and capital budgets.

As shown above, most of the PSAB related budget adjustments relate to capital transactions, including expenditures, reserve transactions and debt financing. The net effect of these adjustments results in a budgeted "surplus" due, primarily, to the construction of new capital assets. Since the majority of the County's financing of capital related transactions is from specific reserves and reserve funds, these amounts must be removed or added back, as applicable, for financial statement presentation purposes. This is due to the PSAB requirement to amortize capital assets on the statement of operations (i.e. income statement). For 2017, budgeted expenditures related to amortization has been added (equal to actual amortization) to eliminate large variances related to amortization for the year (which has been an issue in previous years when reviewing actual results compared to budgets).

As outlined during the review of the 2018 Tax Supported Operating Budget, certain annual expenditures are not required to be budgeted for, as follows: amortization expenses related to capital assets; post-employment benefit costs; and solid waste landfill closure and post-closure expenses. This factor, combined with the required presentation of capital assets in the financial statements (as noted in Table 1), makes it challenging to reconcile the reporting of operational results under the traditional format presented in the annual operating budget, as compared to the current PSAB format.

Table 3, presented later in this report, identifies an overall net operating surplus for the 2017 fiscal year of approximately $3.9 million. This reflects the financial results for tax and rate supported operations – which excludes capital, municipal drain and reserve/reserve fund operations. In comparison, the PSAB compliant reported surplus on the 2017 audited financial statements is approximately $23.3 million. The following table reconciles the reasons for the differences in how the surplus/deficit has been reported:

TABLE 2

Description	***Impact on 2017 Surplus Increase/(Decrease)***
Revenue Fund – surplus from 2017 tax supported and water/wastewater operations (details analyzed in Table 3)	$3,896,790
***Add Net Capital, Municipal Drains and Reserve Fund Operations*:**	
Capital Fund (work in progress to be funded)	11,419,866
Municipal Drains (timing of net recovery of costs)	(51,207)
Reserves/Reserve Funds (net transfers)	11,806,360
Sub-total per Internal Financial Statements	27,071,809
***Adjustments for PSAB Audited Financial Statements*:**	
Principal debt repayments	4,257,672
Debt Proceeds	(12,332,000)
Business Improvement Areas (net operations-2016 and 2017 results included)	50,065
Decrease/ (Increase) in landfill post-closure liability	95,505
Capital costs capitalized during the year	41,540,081
Capital costs included in work in progress (i.e. not complete as at December 31st)	(5,188,085)
Amortization of capital assets	(23,700,950)
Net costs associated with disposal of capital assets	(1,303,990)
Change in post employment and sick leave liabilities	(83,500)
Change in workers' compensation liabilities	(365,937)
Change in deferred revenues/obligatory reserves	(6,713,432)
2017 Surplus Reported on Audited Financial Statements	**$23,327,238**

Consistent with the adjustments for the approved budget as outlined in Table 1, the above differences between the revenue fund operating surplus and the audited financial statements relate primarily to capital transactions that are not expensed for PSAB reporting purposes or capital revenue sources not budgeted for on an annual basis. In addition adjustments for accrual of post employment benefits and

WSIB liability is not reflected in annual budgets (these costs are budgeted based on actual cost to be incurred in the year or estimated liability based on current costs). Some of the more significant 2017 operating variances are as follows:

- Operating Revenues: The total variance between actual revenues compared to budgeted revenues is approximately $18.4 million favourable variance. The main contributing factors to the reported variance is related to:
  - Developer Contributed Assets: during 2017 several subdivisions were developed to the point that the County assumed significant infrastructure totaling approximately <u>$9.7 million</u>. The value of these contributed assets, although built and paid for by the development, is recorded as revenue upon assumption by the County. As the timing and value of these assumed assets can vary significantly, year over year, these revenues are not typically budgeted by municipalities and as such are reported as a variance.
  - Transfer of Excess Assessment Appeals Allowance: Since the early 2000's, the County has made provisions/allowances to cover the potential cost of major assessment appeals initiated by property owners. As noted during Council's review of the 2018 Tax Supported Capital Budget, due to recent favourable assessment appeal decisions (primarily related to Ontario Power Generation and Stelco), there were excess funds accumulated over many years related to these particular appeals. As such, Council passed a resolution to move these excess funds, totaling $6.5 million to the Capital Replacement Roads Infrastructure Reserve to fund the acceleration of the Granular Road Conversion Program. This transfer resulted in unbudgeted revenue of $6.5 million in 2017 included under "Other Income".
  - Development Charges Recognized: Since development charges collected on an annual basis are used directly for specifically identified growth related capital projects, these revenues can only be recognized/reported as income in the years the related project is constructed. Due to the timing and magnitude of the projects, the development charge revenue recognized on an annual basis can fluctuate considerably. As these revenues are recorded in the County's books as reserve funds, there is no annual budget established. In 2017, revenues of $2.4 million were recognized, related to the matching 2017 growth related capital project expenditure, resulting in a favourable variance.
  - Federal Government Transfers: The majority of the Federal Government grants relate to infrastructure funding, the largest portion being the annual Federal Gas tax allocation. The County receives approximately $2.7 million annually, however for PSAB reporting purposes, only the funds used on specifically identified capital projects can be recognized in the same fiscal period. As a result, depending on the projects selected and the timing of the costs associated with these projects, the amounts recognized in any given year can fluctuate. As such, only $931,500 of the $2.7 million was recognized in 2017 resulting in an unfavourable variance of $1.7 million.
- Operating Expenditures: The total variance between actual expenditures compared to budget is approximately $2.7 million unfavourable. Although this a relatively minor variance on a total operating expenditure budget in excess of $116 million, one of the main contributing factors to the reported variance is due to non-capitalized capital expenditures which do not meet the thresholds/established parameters to be recorded on the balance sheet as tangible capital assets. A total of $4.9 million net costs were expensed in 2017 with no corresponding budget identified (the full capital budget was removed to meet PSAB reporting requirements). The major areas were Transportation and Recreation Services that had $3.6 million and $2.9 million expensed respectively (some departments had negative expenses applied since cumulative capitalized costs exceeded total annual costs).

It should also be noted that, since under PSAB's technical reporting guidelines there are no "reserves/reserve funds", the balance in these reserves/reserve funds forms part of the County's overall "accumulated surplus" as denoted in Note 12 of the audited financial statements.

Staff acknowledge that the above reporting of the annual "surplus" is confusing. **It must be emphasized that the PSAB reported net 2017 surplus of $23.3 million is a book value adjustment, not a "cash" surplus**. Although the Province initiated a review in 2014 to evaluate the current disparities between internal reporting/budgeting and current PSAB annual reporting requirements, the overwhelming response from municipal representatives was to leave the current reporting requirements as is. It was also acknowledged that simpler methods of reconciling the differences and reporting to the public need to be developed to foster a better understanding of the municipality's financial position and key financial components. This will be an evolving process with best practices and feedback from users of the financial statements leading the way.

Analysis of 2017 Net Operating Surplus/(Deficit)

The table below provides a breakdown of the audited 2017 operating surplus (the "cash" surplus) by major function. In accordance with previous resolutions of Council, the net surplus/(deficit) from the operational areas denoted below are contributed to or transferred from various Reserves/Reserve Funds.

TABLE 3

Audited 2017 Operating Surplus/(Deficit)		
(a)	Tax Supported Operations - General	$1,172,362
	Public Health (included as part of transfer to Contingency Reserve)	$181,009
	Social Assistance/Child Care	$478,138
	Social Housing	$413,123
	Library	$84,968
	Investment Income (net of stabilization transfer)	($54,138)
	Sub-Total – Tax Supported Operations	**$2,275,462**
(b)	Water Operations	$754,337
	Wastewater Operations	$866,991
	Sub-Total – Rate Supported Operations	**$1,621,328**
	Total Operating Surplus/(Deficit)	**$3,896,790**

The total 2017 operating expenditures (combined tax supported and rate supported) were budgeted at approximately $124.2 million. The above noted net operating surplus of $3,896,790 represents a 3.1% positive variance in relation to Council's approved budgeted expenditures. Details of the significant variances in the individual functions are provided below.

(a) Tax Supported Operations

Overall, the Tax Supported Operations reflect a 2017 surplus of approximately $2,275,500. This net surplus represents a 2.2% favourable variance on approximately $103.3 million of budgeted 2017 tax supported operating expenditures. The surplus is the net result of several favourable and unfavourable financial impacts on operations during the year. Significant items contributing to the overall surplus from Tax Supported Operations are detailed below.

TABLE 4

2017 Operating Variance Analysis for Tax Supported Operations	
Revenue	**Surplus/ (Deficit)**
Provincial Transitional Mitigation Grant (offset lost property taxation from two long term care facilities' change in tax status to exempt)	$183,327
Transfer to Taxes Fee & Ownership Changes – first year of implementation	75,889
Engineering/Inspection Fees - Mainly due to Avalon development	78,724
Planning Fees - Mainly due to Avalon development	137,812
Fire Subrogation recoveries	(64,383)
Penalty and Interest on property taxes - Mainly Stelco (one-time due to credit protection – subsequently paid in 2017)	259,510
POA Fines Revenue - Lower overall amount of fines collected in 2017	(161,920)
Investment Income - $54,000 funded from Stabilization Reserve, as per Policy	(154,138)
Supplementary Taxes - Mainly one-time industrial solar farm (approx. $700,000)	1,018,558
Payments in Lieu of Taxes – Mainly due to reduced assessments	(43,662)
Subtotal Revenues	**$1,329,717**
Expenditures	
Salaries & Wages - Including Meeting, Travel, and Professional Development - mainly due to gapping, i.e. unfilled vacancies - County wide	$781,851
General Operating Supplies - corporate wide (individually under $25,000)	35,809
Roads Maintenance - Aggregate	(50,289)
Fuel – lower consumption than anticipated	31,932
Allowance for Uncollectible Accounts Receivable	(142,475)
Property tax adjustments (tax appeals and vacancy rebates)	(132,250)
Corporate Legal Costs	66,856
POA Legal Costs	63,842
Consulting Services County-wide (under $25K individually)	51,735
Winter Control Supplies and Contracted Services	(260,141)
Processing Fees – mainly ActiveNet ($20K) re: online programming registrations	(25,648)
Contracted Services – Streetlight Maintenance (due to partial year of conversion)	(95,560)
Hydro – deficit in streetlights ($222k) due to partial year of conversion; savings in Grandview Lodge ($62k) mainly due to insulation; deficit in arenas ($73k)	(211,969)
Public Health (2016 and 2017 reconciliation)	181,009
Social Assistance/Child Care (2016 and 2017 reconciliation)	478,138
Social Housing (2016 and 2017 reconciliation)	413,123
Library operations	84,968
Solid Waste Deficit - Mainly due to higher than anticipated leachate volumes	(39,148)
Miscellaneous net items (individually under $25,000)	(286,038)
Subtotal Expenditures	**$945,745**
Net Tax Supported Operations	**$2,275,462**

Note: Above table excludes items that net to $0 levy impact (e.g. additional revenues offset by transfers to reserves or additional costs).

The majority of the net surplus for the year is made up of only a handful of items, albeit representing significant dollars. Explanations for the major areas (not already detailed above) from Table 4 are as follows:

<u>Salaries/Benefits and related costs (net surplus of $781,851)</u> – Net surplus is reflective of gapping of approximately $832,000 (including overtime) on a total annual salary and benefit budget of approximately $36.9 million. As the budget is prepared based on a full staff complement on an annualized basis, any staff vacancies will result in “gapping savings” that typically more than offset unanticipated compensation adjustments or recruitment costs to fill these positions. As well, meeting expenses, travel, and professional development accounts experienced surpluses mainly driven by the same position gapping. The gapping savings throughout the Corporation in 2017 were sufficient to offset the unbudgeted costs associated with post employment benefits for retirees.

<u>Winter Control costs, including supplies, services and snow removal (net deficit of $260,000):</u> The frequency, timing and severity of the weather events can significantly impact the operational budget (primarily in the areas of sand/salt purchases or contracted snow plowing services). In 2017, although salt/sand purchases were under budget by $64,000, contracted snow plowing and snow removal was over budget by $324,000. As experienced with the varying winter conditions of past years, winter control costs can fluctuate significantly from year to year. Continued refinement of winter control budgeting will be required to assess the appropriate annual funding necessary to meet the legislated and Council approved winter control service levels. Staff also continue to look at methods to reduce the County’s winter control costs, such as the salt management program and alternative control materials, to offset a portion of the historical annual deficits associated with the purchase of these supplies.

<u>Shared Services with Norfolk County (net surplus of $1,072,270)</u>: Norfolk County is the Consolidated Municipal Service Manager (CMSM) for legislated social services, as well as the Board of Health and provider of legislated public health services for both Norfolk and Haldimand Counties. Norfolk County bills Haldimand County on a monthly basis for the estimated costs of services attributed to Haldimand County (based on the principles of a previous arbitration award). Once the actual costs for the year are determined, a reconciliation is completed and any surplus/deficits are determined. Based on a reconciliation of actual results for the years 2016 and 2017 (the years 2001 to 2015 had been previously reconciled), a total surplus of $1,072,270 was recognized as follows: Public Health $181,009, Social Services/Child Care $478,138 and Social Housing $413,123. Staff have been working closely with Norfolk staff over the past year to expedite the reconciliation processs, as well as clean up several outstanding amounts due to/from the two municipalities. Significant progress has been made in this regard with few outstanding items remaining.

<u>Building Division Operations (net surplus of $1,250,538) offset by transfer to Building Permit Stabilization Reserve Fund</u>: Building Division net operating results are required, by legislation that has been in place since 2005, to be transferred to the County’s Building Permit Stabilization Reserve Fund. Due primarily to the building permits associated with recent development, a net surplus of $1.2 million was transferred to this reserve fund in 2017. This reserve fund has a balance of approximately $5.3 million as at December 31, 2017. As a result, the net impact on the 2017 tax supported operations is $0 in keeping with the legislative requirements (the budget is also approved at a net $0). Included in Attachment #1 are the historical operations of the Building Division affecting the balance of this reserve fund. This statement is required to be produced annually and will be released in conjunction with the annual audited financial statements.

Overall, the 2017 tax supported net operating surplus of $2,275,462 is not significant in relation to total budgeted expenditures (approximately $104 million) or acceptable municipal financial standards. As any annual surplus/(deficit) is transferred to or from the applicable reserves, annual variances will impact the associated balances of these reserves but have no direct impact on the following year’s tax levy. With respect to the general tax supported operations, a net surplus of $1,172,362 will be transferred the Contingency Reserve, which has a balance of $11.7 Million at the end of 2017, after inclusion of the above noted surplus. This reserve will be available for future years as a source of financing for unexpected events/liabilities. Any excess funds can be reallocated by a future Council for another one-time municipal purpose if so warranted.

(c) Water and Wastewater Operations

The combined 2017 Water and Wastewater Operations net surplus is approximately $1,621,000 on total budgeted operating expenditures of $20.9 million. This represents a positive variance of 7.7%. However, as the water systems are self funded specifically from the direct users of that system, as are the wastewater systems (which in some cases are not the same users), the variance must be further segregated between water and wastewater operations.

The 2017 water operations reflected a $754,337 surplus on budgeted expenditures of approximately $12.3 million (6.1%), and wastewater operations had a surplus of $866,991 on budgeted expenditures of approximately $8.6 million (10.1%). A further breakdown of the significant variances is provided as follows (Table 5 for Water and Table 6 for Wastewater.)

TABLE 5

2017 Operating Variance Analysis for Rate Supported Operations - Water	
Revenues:	**Surplus/ (Deficit)**
Residential User Rates Revenue - Basic and Consumption	$193,759
Commercial/Industrial User Rates - Basic and Consumption (deficit in regular commercial revenues offset by surplus in large industrial users)	154,696
New Credit Water - Mainly surplus in depot	65,053
Bulk Water Sales (deficit in Hagersville and Dunnville)	(121,190)
Water Meter Installations and Connection Permits (increased development)	104,358
Industrial Pumping Station (offset by expenditures below)	(60,958)
Microstrainer Reserve Fund (offset by expenditures below)	(321,281)
Miscellaneous Fees & Recoveries (individually under $25,000)	16,535
Sub-total Revenues	**$30,972**
Expenditures:	
Salaries & Wages (shift in distributed wages based on additional hours allocated to water operations as well as gapping - total surplus of $150,000)	$156,165
Hamilton Water Supply - Wholesale Water Purchases	44,587
Hydro (County share)	77,672
Maintenance and Repair Services - less main break excavations and service leaks	84,672
Veolia Water Contract (Haldimand share)	(25,790)
Industrial Pumping Station (offset by recoveries above)	60,958
Microstrainer Reserve Fund (offset by revenue above)	321,281
Miscellaneous Net Items (Individually under $25,000)	31,206
Sub-total Expenditures	**$723,365**
Total Water Operations	**$754,337**

Water operational revenues are significantly impacted by consumption patterns. Extreme wet or dry conditions can dramatically impact consumption, particularly for residential users. Although there has been a downward trend in average residential consumption in recent years, as a result of water conservation measurers, an increase in the number of users has offset this reduction and the County is starting to experience increases in annual consumption. Staff will continue to monitor this trend and incorporate it into future budget analysis as required. Commercial and Industrial revenues resulted in a favourable variance of approximately $154,700 (7.1%) - this was due to a surplus in large industrial consumption of approximately $251,000, which was partially offset by a deficit in commercial basic charges and consumption of approximately $96,300. The New Credit water depot had increased use while Hagersville and Dunnville water depots had more than offsetting decreased use. Continued monitoring of consumption patterns will assist in predicting future demand and budget implications. Net water surpluses are transferred to the Water Rate Stabilization Reserve which has a balance of approximately $5.0 million as at December 31, 2017.

TABLE 6

2017 Operating Variance Analysis for Rate Supported Operations - Wastewater	
	Surplus/ (Deficit)
Revenue	
Residential User Rates Revenue - Basic and Consumption	$268,464
Commercial/Industrial User Rates - Basic and Consumption	(80,543)
Septic/Holding Charges	39,605
Bulk Processing Leachate - Higher treatment levels at both sites	425,210
Recoveries from Norfolk (Sludge Storage)	(31,051)
Overstrength discharge recoveries - due to higher volumes (offset)	78,227
Water Meter Installations and Connection Permits (Wastewater Portion) (due to increased development)	96,751
Miscellaneous net items (individually under $25,000)	36,142
Subtotal Revenues	**$832,804**
Expenditures	
Property taxes (mainlyTownsend Lagoon)	$35,271
Transfer to Wastewater Rate Stabilization Reserve due to increased overstrength charges (offset)	(78,227)
Insurance Charges - Savings in contract renewal	36,390
Miscellaneous net items (individually under $25,000)	40,753
Subtotal Expenditures	**$34,187**
Total Wastewater Operating Surplus	**$866,991**

The wastewater surplus is mainly due to increased residential consumption. Although the majority of water users also have wastewater services, a number of these customers (approximately 200 users including several large industrial users) only have water services. As a result, annual fluctuations in water consumption may not have the same corresponding impact on wastewater revenues. Increased residential wastewater basic and consumption charges resulted in a favourable variance of approximately $268,500 (6.0%) due to increased number of users and an overall increase in consumption. Commercial and industrial basic and consumption charges are under budget by approximately $80,500 (4.4%). The bulk processing revenues were over budget in leachate by approximately $425,000 due to increased volumes. The net wastewater surplus is transferred to the Wastewater Rate Stabilization Reserve, which has a balance of approximately $2.1 million as at December 31, 2017.

As detailed above, the operating surplus/(deficits) in water and wastewater operations are transferred to or funded from the applicable rate stabilization reserve. A multi-year plan has been established to ensure these reserves have sufficient funds to cover annual fluctuations in operations. The impact of the current year's surplus or deficit will be re-evaluated with future operating budget reviews.

Summary of Operational Variances:

To summarize the above analysis, although there are significant variations in certain revenue sources or expenditures in many operational areas, staff worked diligently during the 2017 calendar year to offset most of the negative fluctuations through changes to approved expenditure plans. The end result is limited net surpluses and deficits in most controllable operational areas. Some of these fluctuations can be expected as a historical recurrence (for example, salary gapping) or unpredictable (for example, winter control), so variances should be anticipated as a normal result of such diverse operations. Finding significant expenditure savings to mitigate repeated revenue shortfalls or expenditure overruns is not a realistic solution on an ongoing basis without a negative impact on service delivery. Steps have and will continue to be taken to deal with the revenue shortfalls and re-occurring expenditure overruns that the County is experiencing in certain areas of its operations. On the other hand, areas of continued surplus also need to be re-examined to ensure the annual operating budget is not too conservative from a tax levy and user rates perspective. This will be an ongoing focus of future budget reviews, both from a preparation and monitoring perspective, in order to ensure the sustainability of the County's operations and service delivery.

FINANCIAL/LEGAL IMPLICATIONS:

The transfer of the audited 2017 operating surpluses (or funding of deficits) to or from various reserves or reserve funds provides a means of ensuring the prior year's variance is not carried forward to the future year's budget. The reserves and reserve funds also provide a source of financing for unexpected or future expenditures and are particularly appropriate to fund one-time costs. During the preparation of the annual operating budgets, the balances in the respective reserves and reserve funds are evaluated and plans are recommended to replenish these funds where necessary.

STAKEHOLDER IMPACTS:

Division Managers review their budgets regularly during the year and attempt to mitigate variances within their relevant operations to the best of their ability.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

ATTACHMENTS:

1. Building Division Statement of Activities 2005-2017
2. Parkland Dedication Reserve Fund Statement of Activities 2017
3. Auditors Report from Millard, Rouse & Rosebrugh, dated August 15, 2018, accompanied by a copy of Haldimand County’s 2017 Audited Financial Statements