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# HALDIMAND COUNTY

## Report FIN-14-2022 Audited Financial Statements for 2021

For Consideration by Council in Committee on November 1, 2022

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### OBJECTIVE:

To present the audited 2021 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, 2021.

### RECOMMENDATIONS:

1. THAT Report FIN-14-2022 Audited Financial Statements for 2021 be received;
2. AND THAT the consolidated financial statements, including the Trust Fund Statements, for Haldimand County for 2021, as audited by Millard, Rouse and Rosebrugh LLP, be received and approved.

**Prepared by:** Heather Love, CPA, CGA, Supervisor, Budgets & Financial Planning

**Respectfully submitted:** Mark Merritt, CPA, CA, General Manager of Financial & Data Services

**Approved:** Craig Manley, MCIP, RPP, Chief Administrative Officer

### EXECUTIVE SUMMARY:

Highlights from the 2021 audited financial statements (presented under separate cover) are as follows:

- **Investment Portfolio:** As outlined in the annual investment report to Council in May 2022, the carrying book value of the County's investment portfolio was approximately \$231 million compared to a book value of \$195 million at December 31, 2020. The 2021 year end book value is comprised of approximately \$136 million in fixed income investments and \$95 million in growth/equity investments. Upon review by the Investment Committee and with the assistance/advice of the County's Investment manager, the County liquidated one investment in April of 2021, and reinvested both the \$10M principal and \$3M return into a new seven-year growth Principle Protected Bank Note. As reported in FIN-06-2022 Investment Status report – December 31, 2021, the realized return for 2021 was \$6.6 million or 3.20%. This portfolio, coupled with strong annual returns has led to increased liquidity, revenue and financial flexibility.
- **Substantial Investment in Infrastructure:** The County invested over \$33 million in infrastructure (replacement and new). This significant investment is outpacing the use of current assets, and is a result of needed facility replacements, some growth, and the acceleration and enhancement to the roads program. Prior years have ranged anywhere from \$27 million to \$46 million. At the end of 2021, the historical cost of the County's infrastructure was estimated at approximately \$983 million.
- **Reserves/Reserve Funds:** The County has established numerous reserves/reserve funds to ensure sufficient funds are available for future expenditures. Total Operating and Capital Reserves/Reserve Funds, at December 31, 2021, were \$108.8 million which represents an increase of approximately \$10.2 million over the previous year. This excludes both our Hydro

Legacy Fund of \$90.1 million, which increased \$3.5 million over 2020, as well as our Community Vibrancy Fund which has a negative balance of \$9.1 million to be recovered from future receipts.

- **Strong Credit Rating:** The above noted items were several of the factors noted during the County's annual credit rating review in 2021. 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 and flexible budgetary performance and minimal debt burden.

The audited 2021 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 four main functional areas is transferred to/from the appropriate reserve in accordance with previously approved Council resolutions.

#### 2021 Audited Operating Surplus/(Deficit)

<b>Investment Income (in excess of \$100,000)</b>		<b>\$780,624</b>
<b>Unspent Safe Restart (Covid) Funding - carried forward to 2021*</b>		<b>\$435,719</b>
<b>Tax Supported Operations</b>		<b>\$4,423,338</b>
<b>Rate Supported Operations</b>		
Water Operations	\$193,435	
Wastewater Operations	\$982,775	<b>\$1,176,210</b>
<b>Total Operating Surplus/(Deficit)</b>		<b><u>\$6,815,891</u></b>

*\*This value represents the net difference in the 2020 and 2021 ending balances in Safe Restart Funding. Full balance remaining as of December 31, 2021 is outlined in Table 4.*

The presentation of the 2021 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 typically 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 2021 Consolidated Financial Statements. The audited statements are provided as Attachment 3 to this report and will be presented by the auditor at the November 1<sup>st</sup> Council 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 2021 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, do not appear 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 2021 to meet PSAB reporting requirements.

**TABLE 1 - Adjustments required and the resulting amended "budget"**

Description	2021
Budget surplus for the year adopted by Council(*)	\$ -
<b>Add:</b>	
Budgeted transfers to accumulated surplus	30,420,460
Principal payments on debt	6,788,573
<b>Less:</b>	
Budgeted transfers from accumulated surplus	(7,042,680)
Budgeted transfers from capital fund	(1,070,450)
Amortization	(25,061,330)
<b>Budget surplus per Consolidated Statement of Operations</b>	<b>\$ 4,034,573</b>

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

As shown above, most of the PSAB related budget transfers to surplus related 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 2021, 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 2021 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 2021 fiscal year of \$6.8 million. This reflects the financial results for tax and rate supported operations – which excludes capital and reserve/reserve fund operations. In comparison, the PSAB compliant reported surplus on the 2021 audited financial statements is approximately \$31.1 million. The following table reconciles the reasons for the differences in how the surplus/deficit has been reported:

**TABLE 2 – Reconciling Differences in Surplus/Deficit Reporting**

Description	Impact on 2021 Surplus Increase/(Decrease)
Revenue Fund - tax supported and water/wastewater operations (details analyzed in Table 3)	6,815,891
<b><i>Add Net Capital and Reserve Fund Operations:</i></b>	
Capital Fund (work in progress to be funded)	5,637,970
Reserve/Reserve Funds (net transfers prior to surplus/deficit entries)	22,395,209
Sub-total per Internal Financial Statements	34,849,070
<b><i>Adjustments for PSAB Audited Financial Statements</i></b>	
Principal debt repayments	6,788,573
Debt Proceeds	(8,348,650)
Decrease (increase) in landfill post-closure liability	556,727
Capital Costs capitalized (i.e. not expensed) during the year	28,859,990
Capital Costs included in work-in-progress (i.e. not complete as of December 31st and not expensed)	5,946,014
Amortization of capital assets	(25,061,330)
Net costs associated with the disposal of capital assets	(711,763)
Change in post-employment and sick leave liabilities	(107,900)
Change in workers' compensation liabilities	974,400
Change in deferred revenues/obligatory reserves	(12,634,713)
<b>Surplus Reported on Audited Financial Statements</b>	<b>31,110,418</b>

## Net Capital and Reserve Fund Operation

The Net Capital Fund of \$.5.6 million is the sum of all the capital fund transactions (revenues net of expenses) for 2021. The Reserves and Reserve Funds balance of \$22.4 million is a sum of all the transfers to and from the reserve accounts.

## PSAB adjustments

As identified in the table above, most of the PSAB related budget adjustments are related to capital transaction costs, net of the amortization of capital assets. The net effect of these adjustments results in a budgeted “surplus” for financial statement presentation. Additional PSAB adjustments relate to the accrual of post-employment benefits and WSIB liability which are 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). It should be noted that for the 2019 year end, the County updated the actuarial reviews related to post-employment benefits and WSIB liability. This provides us with estimates for 2019 through to 2022.

Some of the more significant 2021 operating variances included in the audited Financial Statements for PSAB purposes (under separate cover), totalling \$31.1 million, are as follows:

- Operating Revenues: The total variance between actual revenues compared to budgeted revenues is approximately \$21.4 million favourable variance. The main contributing factors to the reported variance is related to:
  - Investment Income: as detailed in the Investment Status Report to Council in May 2022, the County’s investment portfolio rebounded in 2021 after a downturn in the portfolio as a result of the pandemic in 2020. As noted previously, upon review by the Investment Committee and with the assistance/advice of the County’s Investment manager, the County liquidated one investment in April of 2021, and reinvested both the \$10M principal and \$3M return into a new seven-year growth Principle Protected Bank Note. As per the Investment Policy, variances in investment earnings, greater than \$100,000, are to be transferred to or from the Investment Income Stabilization Reserve, so a transfer of approximately \$781,000 was made in 2021 to this reserve. The purpose of this reserve is to mitigate the impact of annual fluctuations in investment returns, particularly due to the timing of liquidating the growth/equity investments as this gain will be required in future years to assist in stabilizing fluctuating returns due to the timing differences as well as any volatility in the markets.
  - Developer Contributed Assets: during 2021 several subdivisions were developed to the point that the County assumed significant infrastructure totaling approximately \$9.8 million. 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.
  - 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 2021, revenues of \$4.7 million were recognized, related to 2021 growth related capital project expenditures, resulting in a favourable variance.

- Federal Gas Tax Revenue: In 2021 it was announced that the annual Federal Gas Tax transferred to municipalities would be doubled for the 2021 allocation only. As a result, the County received \$5.8 million in Federal Gas Tax funding in 2021. The County is required to allocate funds to specific projects. As a result of the timing of the Federal Gas Tax funded projects in 2021, approximately \$791,000 of this funding was utilized in 2021. It should be noted that though only \$791,000 was utilized in 2021, all funds received are budgeted to be utilized during the annual capital budgeting process, and under the terms of the Federal Gas Tax Agreement.
- Operating Expenditures: The total variance between actual expenditures compared to budget is approximately \$5.7 million favourable. The major drivers in expenditures for 2021 include the variances noted in Table 5 plus the net PSAB adjustments for tangible capital assets (i.e. non-capitalized expenditures) and adjustments for annual amortization.

Staff acknowledge that the above reporting of the annual “surplus” is confusing. **It must be emphasized that the PSAB reported net 2021 surplus of \$31.1 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 2021 Net Operating Surplus/(Deficit)

The table below provides a breakdown of the audited 2021 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 - 2021 Audited Operating Surplus/(Deficit)**

(a)	<b><u>Investment Income (in excess of \$100,000)</u></b>	<b>\$780,624</b>
(b)	<b>Additional <u>Safe Restart (Covid) Funding</u> – carried forward to 2023*</b>	<b>\$435,719</b>
	Tax Supported Operations	\$3,502,380
	Public Health	\$242,459
	Social Assistance/Child Care	\$384,973
	Social Housing	\$84,388
	Library	\$209,137
(c)	<b>Sub-Total – Tax Supported Operations <u>(Table 4)</u></b>	<b>\$4,423,338</b>
(d)	Water Operations <u>(Table 5)</u>	\$193,435
(e)	Wastewater Operations <u>(Table 6)</u>	\$982,775
	<b>Sub-Total – Rate Supported Operations</b>	<b>\$1,176,210</b>
	<b>Total Operating Surplus/(Deficit)</b>	<b>\$6,815,891</b>

\*This value represents the net difference in the 2020 and 2021 ending balances in Safe Restart Funding. Full balance remaining as of December 31, 2021 is outlined in Table 4.

The total 2021 operating expenditures (combined tax supported and rate supported) were budgeted at approximately \$144.6 million. The above noted net operating surplus, excluding the annual net investment gains of \$781,000 represents a 4.7% positive variance in relation to Council's approved budgeted expenditures. As these operations/funds have significantly different revenue sources and expenditure drivers, details of the significant variances in the individual areas/functions are provided below.

#### **A. Investment Income (in excess of \$100,000)**

As noted above and detailed in the May, 2022 annual Investment Report FIN-06-2022, as per the Investment Policy, variances in investment earnings or losses (budgeted tax supported investment earnings is \$1.6 million), greater than \$100,000, are to be transferred to or from the Investment Income Stabilization Reserve. As a result of favourable realized investment earnings totaling \$6.6 million in 2021, a transfer to the reserve of approximately \$781,000 was made in 2021. The purpose of this reserve is to mitigate the impact of annual fluctuations in investment returns, particularly due to the timing of liquidating the growth/equity investments as this gain will be required in future years to assist in stabilizing fluctuating returns due to the timing differences. The stabilization reserve is also used to offset any volatility in the investment markets. The audited balance in reserve at the end of 2021 was approximately \$2.6 million.

#### **B. Safe Restart (Covid) Funding**

In 2021, the County received approximately \$1.1 million in additional Safe Restarting funding related to expenditures or lost revenues as the result of the Covid-19 Pandemic. Approximately \$700,000 of funding was utilized in 2021, resulting in a balance at the end of 2021 of approximately \$1.5 million.

**TABLE 4 – Safe Restart (Covid) Funding**

	<b>2020</b>	<b>2021</b>
Opening Balance	-	1,077,225
Fund Received	2,532,800	1,142,248
<b>Total Funds Received</b>	<b>2,532,800</b>	<b>2,219,473</b>
<b>Funds Spent</b>		
Covid - Arena Lost Revenue	359,280	416,671
Covid - Pool Programs	-	32,988
Covid - P&I Lost Revenue	461,587	-
Covid - POA Lost Revenue	178,990	34,406
Covid - Admin	283,687	118,094
Covid - FAPO Students	13,030	13,210
Covid - Community Hall Payments	48,788	67,065
Covid - EOC Meeting Costs	39,594	4,194
Covid - Licenses (Marriage, Lottery, etc)	-	19,900
Covid - Tax Arrears Letters	70,619	-
<b>Funds Spent</b>	<b>1,455,575</b>	<b>706,528</b>
<b>Ending Balance</b>	<b>1,077,225</b>	<b>1,512,945</b>

The Safe Restart 2021 ending balance noted in Table 4 above is indicative of the unspent Safe Restart Funds as of December 31<sup>st</sup>, 2021. These funds were provided to municipalities to assist in the offsetting of non-public health related costs. The County has not yet received notification as to the future use of these funds and the unused balance of \$1.5 million is included as part of the County's overall

Contingency Reserve. The Safe Restart funding amount noted in Table 3 is reflective of the net change in the ending balances from 2020 to 2021.

### **C. Net Tax Supported Operations**

Overall, the Tax Supported Operations reflect a 2021 surplus of approximately \$4.4 million. This net surplus represents a 3.6% favourable variance on approximately \$122.4 million of budgeted 2021 tax supported operating expenditures. The annual tax supported operational surplus has traditionally been approximately 3.1% and has been positive over the past five years (albeit, given Provincial COVID funding, the surpluses have been higher in 2020 and 2021).

Based on previous Council approval, 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 \$3,502,380 was transferred to the Contingency Reserve, which has a balance of approximately \$19.5 Million at the end of 2021 (including the 2021 surplus and the net accumulated COVID surplus noted above). Although there are no set guidelines for an optimal balance, a typical rule of thumb is a minimum of 10% of tax supported operating costs. This would require, at a minimum, a balance of \$12.2 million. This reserve will be available for future years as a source of financing for unexpected events/liabilities and to offset any one-time costs. Any excess funds can be reallocated by a future Council for another one-time municipal purpose if so warranted.

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 5 - 2021 Tax Supported Operating Surplus/(Deficit)**

<b>2021 Tax Supported Operating Surplus/(Deficit)</b>	<b>Surplus/ (Deficit)</b>
<b>Revenues</b>	
Investment Surplus	100,000
Taxation - Penalties & Interest	407,719
Taxation - One-time Transition Mitigation Grant	183,327
Taxation - Supplementary Billings	267,355
Tax Sale - no tax sale in 2021, resumed in 2022	(55,360)
Finance Fees	36,399
Solid Waste Revenues (Blue Box Commodity Revenues \$308K, Tipping Fees \$200K, County share of Contracted Services Surplus - Leachate Treatment & Haulage - \$137K (net))	644,306
Roads - Aggregate Resources Grant higher than anticipated	101,794
Planning Fees - due to increase in development	250,785
Engineering & Inspection Fees - due to increase in development	164,615
Museum one-time COVID grant	75,856
<b>Subtotal Revenues</b>	<b>2,176,796</b>
<b>Expenditures</b>	
Salaries & Benefits - Corporate wide (including professional development, travel, etc.)	1,529,620
Corporate Legal Fees	(78,613)
Taxation Adjustments	97,400
IT Maintenance Contracts	(42,960)
Policing - Contract (\$74K deficit); Fees (\$49,700 deficit); Grant (\$36,620 surplus)	(65,709)
Protest Costs (seeking potential recovery)	(324,851)
Various one-time Emergency Response activity in 2021, partially offset by contingency reserve	(242,479)
Roads - Materials	90,959
Street Lighting	(32,146)
Fleet - Materials	75,822
Fleet - Contracted Services	150,606
Winter Control - Sand and Salt	(341,338)
Winter Control - Contracted Services	45,208
Child Crossing contract savings - reductions due to COVID school closures	110,939
Arena Hydro – partially due to COVID closures	172,149
Miscellaneous Hydro accounts	83,154
Miscellaneous Items under \$25,000	(97,824)
<b>Subtotal Expenditures</b>	<b>1,325,584</b>
<b>Total 2021 Tax Supported Operating Surplus/(Deficit)</b>	<b>3,502,380</b>
Public Health	242,459
Social Assistance/Child Care	384,973
Social Housing	84,388
Library Operations	209,137
<b>Total Net Tax Supported Operations Surplus</b>	<b>4,423,338</b>

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

## D. Water and Wastewater Operations

The combined 2021 Water and Wastewater Operations net surplus is approximately \$1.18 million on total budgeted operating expenditures of \$22.2 million. This represents a positive variance of 5.3%. 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 2021 water operations reflected a \$193,435 surplus on budgeted expenditures of approximately \$12.8 million (1.5%), and wastewater operations had a surplus of \$982,775 on budgeted expenditures of approximately \$9.4 million (10.4%). A further breakdown of the significant variances is provided as follows (Table 6 for Water and Table 7 for Wastewater.)

**TABLE 6 - 2021 Rate Supported Operating Surplus/(Deficit) - WATER**

<b>2021 Rate Supported Operating Surplus/(Deficit) - WATER</b>	
<b>Revenues</b>	<b>Surplus/ (Deficit)</b>
Bulk Water Sales	191,902
Engineering & Inspection Fees	63,367
Water meter installations	25,802
Residential Consumption	201,539
Large Industrial Consumption	165,508
Regular Commercial Consumption	(47,975)
<b>Subtotal Revenues</b>	<b>600,142</b>
<b>Expenditures</b>	
Salaries & Wages Gapping (includes professional development, travel, meeting expenses)	157,245
Hydro	68,756
Hamilton Water Contract	(602,405)
Maintenance & Repair Services & Supplies	38,403
Miscellaneous Items Under \$25K	(68,706)
<b>Subtotal Expenditures</b>	<b>(406,707)</b>
<b>Net Water Surplus</b>	<b>193,435</b>

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 measures, 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. In 2021 the meter that was used to gather consumption data for billing our water from the City of Hamilton was found to be faulty. As a result, this meter was replaced and it was determined that the consumption usage is substantially higher than previously reported. This has resulted in a substantial deficit in this area for 2021. Staff incorporated the new expected consumption in the 2022 budget, along with some mitigation measures (i.e. use of the Rate Stabilization Reserve) in order to offset this large increase to the water users. Net water operating surpluses are transferred to the Water Rate Stabilization Reserve, which has a balance of approximately \$3.1 million at December 31, 2021.

## E. Wastewater

**TABLE 7 - 2021 Rate Supported Operating Surplus/(Deficit) - WASTEWATER**

<b>2021 Rate Supported Operating Surplus/(Deficit) - WASTEWATER</b>	
<b>Revenues</b>	<b>Surplus/ (Deficit)</b>
Solid Waste Disposal- due private solid waste disposal agreement (one-time)	309,576
Septic/Holding Tank Surplus	23,794
Engineering & Inspection Fees	25,387
Water Meter Installations	23,048
Residential Base Charges	25,202
Regular Commercial Base Charges	(152,865)
Residential Consumption	279,631
Large Industrial Consumption	154,028
Regular Commercial Consumption	(40,667)
<b>Subtotal Revenues</b>	<b>647,134</b>
<b>Expenditures</b>	
Salaries & Benefits (including professional development, travel and meeting expenses)	109,100
Veolia Operating Contract	65,632
Hydro	142,709
Taxes & Local Improvements – Supplementary Taxes at various County properties	(94,506)
Miscellaneous Items Under \$25K	112,706
<b>Subtotal Expenditures</b>	<b>335,641</b>
<b>Net Wastewater Surplus</b>	<b>982,775</b>

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, though for 2021 there were surpluses in residential consumption for both water and wastewater customers, and deficits in regular commercial consumption. The net wastewater surplus is transferred to the Wastewater Rate Stabilization Reserve, which has a balance of approximately \$2.9 million as at December 31, 2021.

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 2021 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 2021 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 2010-2021
2. Parkland Dedication Reserve Fund Statement of Activities 2021
3. Auditors Report from Millard, Rouse & Rosebrugh, dated November 1, 2022, accompanied by a copy of Haldimand County's 2021 Audited Financial Statements