

**Report to
Rapport au:**

**Finance and Economic Development Committee
Comité des finances et du développement économique
7 March 2017 / 7 mars 2017**

**and Council
et au Conseil
12 April 2017 / 12 avril 2017**

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**Submitted by
Soumis par:
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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2017-CSD-FIN-0004

**SUBJECT: DISPOSITION OF 2016 TAX AND RATE SUPPORTED OPERATING
SURPLUS / DEFICIT**

**OBJET: RÈGLEMENT DE L'EXCÉDENT / DU DÉFICIT DE 2016 DES
OPÉRATIONS FINANCÉES PAR LES RECETTES FISCALES ET LES
REDEVANCES**

REPORT RECOMMENDATIONS

**That the Finance and Economic Development Committee recommend Council
approve the disposal of the \$5.48 million combined City surplus as follows:**

1. That the \$6.496 million 2016 operating surplus for Drinking Water Services be transferred to the Water Reserve Fund.
2. That the \$7.204 million 2016 operating surplus for Wastewater and Drainage Services be transferred to the Wastewater Reserve Fund.
3. That the \$108 thousand 2016 operating surplus for Library Services be transferred to the Library Reserve Fund.
4. That \$1.881 million be transferred from the Transit Services Reserve Fund to fully fund the 2016 Transit Services program.
5. That \$6.444 million be transferred from the City Wide Reserve Fund to fully fund the 2016 Police Services program.
6. That \$726 thousand be carried forward from 2016 into 2017 for the revitalization of Byward and Parkdale Markets and the Revitalized Neighbourhoods initiatives.

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et du développement économique recommande au Conseil d'approuver le règlement de l'excédent budgétaire combiné de 5,48 millions de dollars comme suit :

1. Que l'excédent des opérations réalisé en 2016 au titre des services d'eau potable, au montant de 6,496 millions de dollars, soit transféré au fonds de réserve pour les services d'aqueduc.
2. Que l'excédent des opérations réalisé en 2016 au titre des services de traitement des eaux usées et de drainage, au montant de 7,204 millions de dollars, soit transféré au fonds de réserve des eaux usées.
3. Que l'excédent des opérations réalisé en 2016 au titre des services de bibliothèque, au montant de 108 000 \$, soit transféré au fonds de réserve pour les services de bibliothèque.
4. Qu'un montant de 1,881 million de dollars soit transféré du fonds de réserve pour le transport en commun au programme de transport en commun pour que ce dernier soit entièrement financé pour 2016.
5. Qu'un montant de 6,444 millions de dollars soit transféré du fonds de réserve de la Ville au programme de services de police pour que ce dernier soit entièrement financé pour 2016.

- 6. Qu'un montant de 726 000 \$ de l'exercice 2016 soit transféré à l'exercice 2017 pour la revitalisation des marchés By et Parkdale et les initiatives de revitalisation des quartiers.**

EXECUTIVE SUMMARY

As part of the finalization of 2016 operations, and in conjunction with the preparation of the financial statements it is necessary to obtain Council approval of the disposition of any surplus or funding of any deficit. This report provides an analysis of the final results of the 2016 operations for all tax and rate supported City programs.

The City ended the year with an overall surplus of \$5.483 million for all tax and rate supported City programs. The City Wide component of the tax supported programs ended 2016 with a balanced budget and Transit and Police both ended with a deficit mainly as a result of additional tax rebates and remissions which management has no control over. Therefore, the City's total tax supported programs including Transit, Police and Library ended the year with an \$8.217 million deficit, while the water and wastewater operations ended the year with a \$13.7 million surplus.

The City Wide component of the tax supported programs incurred additional expenditures related to tax rebates and remissions, deficits in winter maintenance due to above normal winter conditions in the first and second half of 2016, and additional costs related to administrative restructuring. The City Wide tax supported program includes a onetime transfer of \$1.992 million from the Tax Stabilization Reserve as per Council's authorization to the City Treasurer to use the Tax Stabilization reserve as part of the year end close procedures to address the additional costs related to administrative restructuring.

Transit Operations ended with a \$561 thousand operating surplus, but this was offset by the additional tax rebates and remissions resulting in an overall \$1.881 million deficit for Transit. Police Service Board ended with a \$2.749 million operating deficit driven by overtime and retirement expenses, and finished with an overall deficit of \$6.444 million due to the additional tax rebates and remissions cost.

The water and waste water program ended the year in a surplus of \$13.7 million which is a result of lower expenditures and additional revenues related to the dry summer.

RÉSUMÉ

Dans le cadre des procédures de fin d'exercice pour les opérations de 2016 et en conjonction avec la préparation des états financiers, il est nécessaire d'obtenir

l'approbation du Conseil en ce qui concerne le règlement de l'excédent ou du déficit enregistré par la Ville. Le présent rapport fournit une analyse des résultats finaux du volet opérationnel pour l'exercice 2016 pour tous les programmes municipaux financés par les recettes fiscales et les redevances.

L'exercice s'est terminé avec un excédent global de 5,483 millions de dollars pour l'ensemble des programmes de la Ville financés par les recettes fiscales et les redevances. Plus précisément, aucun déficit ni excédent n'a été enregistré pour la composante à l'échelle de la Ville des programmes financés par les recettes fiscales. Toutefois, un déficit a été enregistré pour le transport en commun et pour les services de police, principalement en raison des remboursements et des remises de taxes additionnels, sur lesquels la direction n'a aucun pouvoir. Ainsi, les programmes financés par les recettes fiscales que sont le transport en commun, les services de police et les services de bibliothèque ont produit un déficit total de 8,217 millions de dollars, alors que les services d'eau et d'égout ont généré un surplus de 13,7 millions de dollars.

Des dépenses additionnelles ont été engagées au titre de la composante à l'échelle de la Ville des programmes financés par les recettes fiscales. Ces dépenses sont attribuables aux remises de taxes, aux déficits causés par les opérations d'entretien hivernal nécessaires en raison des conditions anormales lors des première et deuxième moitiés de 2016, et aux coûts additionnels engendrés par le remaniement organisationnel. La composante à l'échelle de la Ville comprend un transfert ponctuel de 1,992 million de dollars du fonds de réserve de stabilisation des taxes, pour lequel la trésorière municipale a obtenu l'autorisation du Conseil; ce montant sert, dans le cadre des procédures de fin d'exercice, à couvrir les coûts additionnels engendrés par le remaniement organisationnel.

Ensuite, les Opérations du transport en commun ont terminé l'exercice avec un excédent d'opérations de 561 000 \$, mais avec un déficit global de 1,881 million de dollars, compte tenu des allègements fiscaux et des remises de taxes additionnelles. Quant à la Commission de services policiers d'Ottawa, elle a enregistré un déficit d'opération de 2,749 millions de dollars découlant de la rémunération des heures supplémentaires et des départs à la retraite; avec les allègements fiscaux et les remises de taxes additionnelles, l'exercice s'est clos avec un déficit global de 6,444 millions de dollars.

Enfin, la Ville a accumulé au titre du programme d'eau et d'eaux usées un excédent de 13,7 millions de dollars en fin d'exercice, résultat des dépenses moins élevées et des recettes additionnelles que l'été sec de 2016 a permis d'enregistrer.

BACKGROUND

As part of the finalization of 2016 operations, and in conjunction with the preparation of the financial statements it is necessary to obtain Council approval of the disposition of any surplus or funding of any deficit. This report provides an analysis of the final results of the 2016 operations for all tax and rate supported City programs.

The property tax supported component of the City's corporate budget ended the year with a deficit of \$8.217 million after the disposition of any surpluses per existing by-laws or Council direction, while the rate supported services (water, sewer and storm water) ended the year with a \$13.7 million surplus. The overall 2016 year end surplus is \$5.483 million on the City's \$3.2 billion total budget.

A forecasted year-end position was provided as part of the tabled 2017 Draft budget on Nov 9, 2016. The surplus for tax supported programs was forecasted to be \$3.698 million, in comparison to the actual \$8.217 million deficit.

The major factors contributing to the change from the forecast is the additional tax rebates and remissions, the winter maintenance deficit as a result of above normal winter conditions in the second half of 2016 and additional costs related to administrative restructuring. A onetime transfer of \$1.992 million from the Tax Stabilization Reserve to address the additional costs related to administrative restructuring; surpluses in departmental accounts, primarily due to the staffing freeze; and, increases in non departmental revenue accounts offset by an increase in tax rebates and remissions resulted in a year-end balanced budget for City Wide tax supported programs. The additional tax rebates and remissions also impacted both Transit and Police Services resulting in an overall deficit of \$1.881 million and \$6.444 million respectively.

The projected surplus in the rate supported program area was estimated to be \$13.7 million, with actual results ending as forecasted with a surplus of \$13.7 million.

DISCUSSION

Year-end Results

As the City has a number of operations funded from sources that cannot be co-mingled, or which require separate reporting, the year end results are presented on a business area basis. These business areas include City Wide, Police, Library, Transit and Water/Sewer. For services such as Transit and Police that have their own tax rate, the

business area results include both the operating results and an allocation of the various taxation revenue and expenditure accounts.

The City Wide tax supported services ended the year on budget. Deficits driven by the MPAC tax remissions, winter maintenance accounts and administrative restructuring were offset by a transfer from the Tax Stabilization Reserve and surpluses achieved in other departmental and non departmental accounts resulting in an overall balanced budget in the City Wide tax supported services.

The Transit operational budget that falls under the Transit Commission finished 2016 with a \$561 thousand surplus. The various taxation related accounts are allocated to the business area and as a result of the additional tax rebates and remissions the overall Transit Commission business area ended with a \$1.881 million deficit.

The Police operational budget that falls under the Police Services Board mandate finished 2016 with a \$2.749 million deficit as result of additional overtime, retirement and self insurance expenditures. The various taxation related accounts are allocated to the business area, resulting in an overall \$6.444 million deficit.

Document 1 presents a summary of the year-end operating results by business area.

The following provides a brief overview of the major areas that contributed to the 2016 year-end results. Additional information is provided in Document 2.

A) City Wide:

Departmental Accounts

City Clerk & Solicitor Services \$894 thousand surplus:

Expenditure savings due to more competitive standing offer rates and recoveries for Translation Services as well as Courthouse and POA administrative savings related to parking fines.

Transportation Services \$393 thousand surplus:

Savings resulting from lower expenditures in Transportation Planning and additional development growth revenue in Traffic Services.

Emergency and Protective Services \$2.032 million deficit:

Security & Emergency Management expenditure savings due to delays with implementation in the Corporate Radio System were offset by increased compensation

in Fire Services due to the inability to achieve the vacancy allowance target, increased medical costs due to call volumes and a Provincial revenue shortfall in Paramedic Services in addition to reduced Parking Fines and Business Licences Fees in By-Law Services. The 2017 Approved Budget included adjustments to lower the vacancy allowance target in Fire and increase the medical supplies for Paramedics.

Community and Social Services \$4.466 million deficit:

Compensation savings as a result of the staffing freeze were offset by an increase in child care subsidy placements due the implementation of a new fee subsidy model that supports parental choice, lower parental revenues reflecting the priority placed on subsidized children and increased staff replacement costs in Long Term Care due to sick leave.

Public Works & Environmental Services \$9.880 million deficit:

Additional costs in winter maintenance operations associated with the winter storms and clean-up in the first quarter of 2016 along with above normal winter conditions in the second half of 2016 were partially offset by expenditure savings and revenue increases in Solid Waste. The Solid Waste Tax Supported Programs resulted in a surplus of \$2.811 million due to savings in processing costs and higher recycling revenues. The Solid Waste Rate Supported Program had a surplus of \$3.759 million primarily due to increased tipping fees and recoveries for increased soil tonnage. The Rate Supported surplus has been contributed to the Solid Waste Reserve Fund in accordance with Council policy.

Recreation, Cultural & Facility Services \$2.452 million surplus:

Surplus from expenditure savings primarily due to the hiring and spending freeze and a more efficient deployment of operational staffing. Departmental savings initiatives to reduce costs more than offset anticipated shortfalls in some of the budgeted revenues categories.

Planning, Infrastructure & Economic Development \$2.056 million surplus:

Expenditure savings due to delays in implementation of two Council Priorities, Revitalization of Byward & Parkdale Markets and Revitalized Neighbourhoods. These accounts are being carried forward into 2017 for completion. In addition, increased Engineering Fee revenues resulting from a large number of complex agreements registered.

Non Departmental Accounts

Hydro Ottawa Dividends \$2.400 million surplus:

Based on the city's dividend policy, Hydro Ottawa is required to remit to the City the greater of \$14 million or 40% of net income. The surplus is reflective of the higher Ottawa Hydro earnings.

Penalty & Interest and Investment Income \$6.354 million surplus:

Investment revenue is higher than budgeted due to increasing investment fund balances and higher rates of return.

Financial Charges \$4.343 million surplus:

Additional growth in assessment related to 2016, previously outlined in the 2016 Tax Ratios and Other Tax Policies report.

Tax Rebates and Remissions \$26.372 million deficit:

Vacancy tax rebates were higher than projected mainly due to the increasing office space vacancy in the City's urban core. Tax remissions were higher than projected as a result of a number of appeals in the multi-residential tax class dating back a number of years, as well as office and retail class appeals.

Supplementary Assessment / Payment in Lieu of Taxes (PILT) \$8.563 million surplus:

Supplementary assessment revenues were higher than projected resulting from additional residential and commercial properties being added to the property assessment base in late 2016.

B) Transit Services \$1.881 million deficit:

OC Transpo operations under the Transit Commission mandate ended the year in a \$561 thousand surplus. Lower compensation costs and diesel fuel savings offset the Fare revenue shortfall. Higher than budgeted property tax rebates and remissions in the non departmental accounts resulted in an overall deficit in the Transit business area.

C) Police Services \$6.444 million deficit:

The Police operational budget that falls under the Police Services Board mandate finished 2016 with a \$2.749 million deficit as result of additional overtime, retirement

Additional Year End Adjustments

In May of 2016 Council approved (ACS2016-PAI-DCM-0001) the timeline including funding to be spent in 2017, for the transition of the Municipal Service Corporation, related to the revitalization of Byward and Parkdale Markets. A total budget of \$500K with \$24K expenditures is included in the 2016 Operating results. The request is to carry forward the remaining unspent balance of \$476K.

In addition, the onetime funding related to Revitalized Neighbourhoods initiative of \$250K is being requested to carry forward into 2017.

The Departments responsible for these initiatives have requested that the Finance and Economic Development Committee and Council allow these funds to be re-provided in 2017 to ensure that the initiatives are implemented.

If approved, the 2017 departmental expenditure budgets will be increased by \$726,000 and will be funded by a corresponding amount from the City Wide Reserve Fund.

Continuity of Reserves and Reserve Funds

Document 3 presents a continuity schedule of the City's reserves and reserve funds. The schedule reflects the impact on reserve balances of the recommendations as presented in this report for the disposition of surpluses and funding of deficits.

Budget Adjustments

During the year, adjustments to budgets are made to better reflect the alignment of budget authority with spending needs. These transfers are made either through the delegated authority given to the City Treasurer or through Council-approved reports. Document 4 shows the changes in budgets processed since the June 30 2016 Quarterly Status Report. Council policy requires the reporting of these transactions for information purposes.

RURAL IMPLICATIONS

There are no rural implications associated with this report.

CONSULTATION

Not applicable.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk impediments to implementing the recommendations in this report.

FINANCIAL IMPLICATIONS

The financial implications are outlined in the report.

ACCESSIBILITY IMPACTS

There are no accessibility implications with this report.

TERM OF COUNCIL PRIORITIES

The recommendations in this report support the 2015-18 Term of Council priorities (FS1 “Demonstrate sound financial management”).

SUPPORTING DOCUMENTATION

Document 1 – 2016 Operating Results Summary

Document 2 – Variance Analysis – 2016 Operating Results

Document 3 – 2016 Continuity of Reserves and Reserve Funds

Document 4 – Budget Adjustments and Transfers Impacting Overall Expenditures / Revenues

DISPOSITION

Staff will implement the report recommendations as outlined in the report.