
HALDIMAND COUNTY

Report FIN-13-2024 Audited Financial Statements for 2023

For Consideration by Council in Committee on August 27, 2024



OBJECTIVE:

To present the audited 2023 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, 2023.

RECOMMENDATIONS:

1. THAT Report FIN-13-2024 Audited Financial Statements for 2023 be received;
2. AND THAT the consolidated financial statements, including the Trust Fund Statements, for Haldimand County for 2023, as audited by Millard, Rouse and Rosebrugh LLP, be approved.

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Reviewed by and Respectfully submitted: Mark Merritt, CPA, CA, General Manager, Financial & Data Services

Approved: Cathy Case, Chief Administrative Officer

EXECUTIVE SUMMARY:

Highlights from the 2023 audited financial statements (presented under separate cover) are as follows:

- **Investment Portfolio:** As outlined in the annual investment report to Council in May 2024, the total book value of the County's investments portfolio, as of December 31, 2023, was \$259.2 million, which is comprised of \$153.5 million in fixed income investments and \$105.7 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 January of 2023, and reinvested the \$10 million principal into a new seven-year growth Principal Protected Bank Notes. As reported in FIN-05-2024 Investment Status report – December 31, 2023, the realized return for 2023 was \$6.7 million or 2.55%. This portfolio, coupled with strong annual returns has led to increased liquidity, revenue and financial flexibility.
- **Substantial Investment in Infrastructure:** The County invested over \$59 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 2023, the historical cost of the County's infrastructure was estimated at approximately \$1.09 billion.
- **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, 2023, were \$119.1 million which represents an increase of approximately \$0.3 million over the previous year. This excludes both our Hydro Legacy Fund of \$97.4 million, which increased \$3.7 million over 2022, as well as our Community Vibrancy Fund which has a negative balance of \$6.5 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 2023. 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 2023 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.

2023 Audited Operating Surplus/(Deficit)

2023 Audited Operating Surplus/(Deficit)		
Investment Income (in excess of \$100,000)		(\$905,143)
Tax Supported Operations		\$5,865,042
Rate Supported Operations		
Water Operations	(\$314,010)	
Wastewater Operations	<u>(\$299,208)</u>	<u>(\$613,218)</u>
Total Operating Surplus/(Deficit)		<u>\$4,346,681</u>

The presentation of the 2023 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.

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 municipalities in Ontario, 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.

At this point in time, staff present the operational financial results to Council on two 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:

- 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 year-end financial statements: actual surpluses and deficits are identified and major drivers are summarized.

It is staff's intent to have more regular in-year reporting as we implement more features of the County's financial software systems.

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 2023 Consolidated Financial Statements. The audited statements are provided as Attachment 3 to this report and will be presented by the auditor at the August 27th 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 2023 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 2023 to meet PSAB reporting requirements.

TABLE 1 - Adjustments required and the resulting amended “budget”

Description	2023
Budget surplus for the year adopted by Council(*)	-
Add:	
Budgeted transfers to accumulated surplus	\$38,508,430
Principal payments on debt	\$8,104,088
Less:	
Budgeted transfers from accumulated surplus	(\$10,251,790)
Budgeted transfers from capital fund	(\$700,800)
Amortization	(\$26,600,072)
Budget surplus per Consolidated Statement of Operations	<u>\$9,059,856</u>

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

As shown above, most of the PSAB related budget transfers to surplus are 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 2023, 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 2023 Tax Supported Operating Budget, certain annual expenditures are not required to be budgeted, 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 2023 fiscal year of \$4.3 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 2023 audited financial statements is approximately \$37.6 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

<u>Description</u>	<u>Impact on 2023 Surplus Increase/(Decrease)</u>
Revenue Fund - tax supported and water/wastewater operations (details analyzed in Table 3)	\$4,346,681
<i>Add Net Capital and Reserve Fund Operations:</i>	
Capital Fund (work in progress to be funded)	(\$7,490,961)
Reserve/Reserve Funds (net transfers prior to surplus/deficit entries)	\$5,877,995
Sub-total per Internal Financial Statements	\$2,733,715
<i>Adjustments for PSAB Audited Financial Statements</i>	
Principal debt repayments	\$8,104,088
Debt Proceeds	-
BIA (net operations)	-
Decrease (increase) in ARO	\$1,205,204
Capital Costs capitalized (i.e. not expensed) during the year	\$59,392,268
Capital Costs included in work-in-progress (i.e. not complete as of December 31st and not expensed)	(\$76,797)
Amortization of capital assets	(\$26,600,072)
Net costs associated with the disposal of capital assets	(\$3,715,130)
Change in post-employment and sick leave liabilities	(\$281,800)
Change in workers' compensation liabilities	\$820,500
Change in deferred revenues/obligatory reserves	(\$4,011,294)
Surplus Reported on Audited Financial Statements	<u>\$37,570,682</u>

Net Capital and Reserve Fund Operation:

The Net Capital Fund of (\$7,490,961) is the sum of all the capital fund transactions (revenues net of expenses) for 2023. The Reserves and Reserve Funds balance of \$5.9 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 2023 year end, the County updated the actuarial reviews related to post-employment benefits and WSIB liability. This provides us with estimates for 2023 through to 2025.

Some of the more significant 2023 operating variances included in the audited Financial Statements for PSAB purposes (under separate cover), totalling \$37.6 million, are as follows:

- Operating Revenues: The total variance between actual revenues compared to budgeted revenues is approximately \$27.1 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 2024, upon review by the Investment Committee and with the assistance/advice of the County’s Investment manager, the County liquidated one investment in January of 2023, and reinvested the \$10 million principal into a new seven-year growth Principle Protected Bank Note. As reported in FIN-05-2023 Investment Status report – December 31, 2023, the realized return for 2023 was \$6.7 million or 2.55%. 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 \$905,143 was made in 2023 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 2023 there were a couple of developer related assets (i.e. subdivisions) that were developed to the point that the County assumed significant infrastructure totaling approximately \$9.2 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 2023, revenues of 8.2 million were recognized, related to 2023 growth related capital project expenditures, resulting in a favourable variance.
 - Canada Community-Building Fund Revenue (CCBF) - formerly Federal Gas Tax Revenue: The County received \$3.0 million in funding in 2023. The County is required to allocate funds to specific projects. As a result of the timing of the CCBF funded projects in 2023,

approximately \$1.0 million of this funding was utilized in 2023. It should be noted that though only \$1.0 million was utilized in 2023, all funds received are budgeted to be utilized during the annual capital budgeting process, and under the terms of the CCBF Agreement.

- Operating Expenditures: The total variance between actual expenditures compared to budget is approximately \$1.4 million favourable. The major drivers in expenditures for 2023 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 2023 surplus of \$37.6 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 2023 Net Operating Surplus/(Deficit)

The table below provides a breakdown of the audited 2023 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 - 2023 Audited Operating Surplus/(Deficit)

2023		
(a)	Investment Income (in excess of \$100,000)	(\$905,143)
	Tax Supported Operations	\$4,901,594
	Public Health	\$426,399
	Social Assistance/Child Care	\$312,567
	Social Housing	\$54,325
	Library	\$170,157
(b)	Sub-Total – Tax Supported Operations (detailed in Table 4)	\$5,865,042
(c)	Water Operations (detailed in Table 5)	(\$314,010)
(d)	Wastewater Operations (detailed in Table 6)	(\$299,208)
	Sub-Total – Rate Supported Operations	(\$613,218)
	Total Operating Surplus/(Deficit)	\$4,346,681

The total 2023 operating expenditures (combined tax supported and rate supported) were budgeted at approximately \$164.9 million. The above noted net operating surplus, excluding the annual net investment loss of \$905,143 represents a 3.2% 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, 2023 annual Investment Report FIN-05-2024, 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 an unfavourable realized investment earnings totaling \$6.7 million in 2023, a transfer from the reserve of \$905,143 was made in 2023. 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 2023 was approximately \$8.6 million.

B. Net Tax Supported Operations

Overall, the Tax Supported Operations reflect a 2023 surplus of approximately \$5.9 million. This net surplus represents a 4.2% favourable variance on approximately \$138.2 million of budgeted 2023 tax supported operating expenditures. The annual tax supported operational surplus has traditionally been approximately 3.0% and has been positive over the past five years (albeit, given Provincial COVID funding, the surpluses have been higher in recent years).

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 \$4,901,594 was transferred to the Contingency Reserve, which has a balance of approximately \$24.5 million at the end of 2023. 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 \$13.8 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 which can assist in preventing spikes to the annual budgets for isolated expenditures. 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. As outlined in Table 5 below, there are a number of variances within the Roads Operations Division. Milder weather conditions throughout the winter months resulted in a substantial winter control budget surplus. As gravel roads are being converted, a reduction in aggregate can be expected as well. Fines related to Provincial Offences are in a substantial surplus, which is almost entirely attributed to one large fine that occurred within 2023, and is atypical in nature.

TABLE 4 - 2023 Tax Supported Operating Surplus/(Deficit)

2023 Tax Supported Operating Surplus/(Deficit)	Surplus/(Deficit)
Revenues	
Taxation- One-time Transition Mitigation Grant	\$183,327
Supplementary Billings	\$1,030,870
Tax Adjustments (net)	\$145,720
Taxes Penalty and Interest	\$252,793
Investment Deficit	(\$100,000)
HST Audit Revenues, Net of Consulting Fees	\$123,530
Finance -Transfer to Taxes Fee	\$75,327
EMS Cross Border Billing	(\$97,852)
Cemeteries Administration-HISA Interest	\$40,053
Policing Service - Court Security Grant	\$96,572
Provincial Offences Act-Fines	\$777,282
Engineering/Inspection Fees	\$107,637
Roads Aggregate Resource Grant	(\$26,227)
Solid Waste Tipping Fees	\$44,213
Planning & Development Division-Planning Fees	(\$123,100)
Arena Ice Time (HCCC and Cayuga)	\$126,403
Subtotal, Revenues	\$2,656,547
Expenditures	
Salaries & Benefits (Including Professional Development, Travel, etc.)	\$988,009
Unallocated Revenues & Expenses - Write Off of A/R	(\$51,757)
GVL - Raw Food	(\$27,826)
Clerks Bi-Election	(\$75,531)
Finance-Postage	(\$37,434)
IT Maintenance Contracts	\$61,273
Legal Support Services-Legal Fees	(\$191,169)
Provincial Offences Act-Legal Fees	(\$42,948)
Provincial Offences Act-Transfers to Province	(\$62,672)
Tree Conservation-Consulting Fees & Service	(\$103,237)
Roads - Mainly Contracted Services and Aggregate	\$588,946
Roads - Winter Control	\$1,589,727
Solid Waste Collection Contract	(\$147,214)
Solid Waste Disposal - Leachate costs, offset partially by Norfolk recoveries	(\$143,419)
Facilities - Mainly Contracted Services and Maintenance and Repair	(\$155,831)
Misc. Under \$25K	\$56,131
Subtotal, Expenditures	\$2,245,047
Total 2023 Tax Supported Operating Budget Surplus/(Deficit)	\$4,901,594
Public Health	\$426,399
Social Assistance/Child Care	\$312,567
Social Housing	\$54,325
Library Operations	\$170,157
Total 2023 Net Tax Supported Operating Surplus	\$5,865,042

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

C. Water and Wastewater Operations

The combined 2023 Water and Wastewater Operations net deficit is approximately \$613,218 on total budgeted operating expenditures of \$26.7 million. This represents a negative variance of 1.9%. 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 2023 water operations budget included one-time use of the water stabilization reserve (\$20,000) to offset anticipated increases in the Hamilton water contract, all of which was utilized. Water operations experienced an additional deficit of \$314,010 on budgeted expenditures of approximately \$15.2 million (2.1%). Wastewater operations experienced a deficit of \$299,208 on budgeted expenditures of approximately \$11.5 million (2.6%). A further breakdown of the significant variances is provided as follows (Table 5 for Water and Table 6 for Wastewater.)

TABLE 5 - 2023 Rate Supported Operating Surplus/(Deficit) – WATER

<u>2023 Rate Supported Operating Surplus/(Deficit) - WATER</u>	<u>Surplus/ (Deficit)</u>
Revenues	
Bulk Water Sales	(\$125,127)
Recoveries - Scrap Metal, Sweeper Charges, etc.	\$34,411
Base Charge - Residential	(\$69,690)
Base Charge - Regular Commercial	(\$29,248)
Consumption - Residential	(\$42,263)
Consumption - Large Industrial	\$258,008
Consumption - Regular Commercial	(\$190,562)
<u>Subtotal, Revenues</u>	<u>(\$164,471)</u>
Expenditures	
Salaries & Benefits (including PD, travel, etc.)	\$69,728
Hydro	(\$26,837)
Property Tax - Nanticoke Supplementary Billings	(\$53,472)
Chemicals	(\$47,061)
Maintenance & Repair Supplies	(\$35,212)
Hamilton Water Contract	(\$77,046)
Industrial Pumping Station (net)	\$49,743
Insurance Charges	(\$35,660)
Write Off of A/R	(\$29,590)
Miscellaneous under \$25K	\$35,868
<u>Subtotal, Expenditures</u>	<u>(\$149,539)</u>
<u>Net Water Surplus/(Deficit)</u>	<u>(\$314,010)</u>

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 resulted in a substantial deficit in this area for 2021. Staff incorporated the new expected consumption in the 2022 and 2023 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. As discussed above, only \$20,000 was required from the Rate Stabilization Reserve in 2023 which was significantly less than originally estimated in 2022. The balance in the Rate Stabilization Reserve at the end of 2023 is approximately \$1.9 million.

D. Wastewater

TABLE 6 - 2023 Rate Supported Operating Surplus/(Deficit) - WASTEWATER

<u>2023 Rate Supported Operating Surplus/(Deficit) - WASTEWATER</u>	<u>Surplus/ (Deficit)</u>
Revenues	
Bulk Processing - Holding Tank	\$148,831
Bulk Processing - Leachate	\$170,630
Base Charge - Residential	(\$115,814)
Base Charge Regular Commercial	(\$145,202)
Consumption - Residential	(\$47,334)
Consumption Large Industrial	(\$29,926)
<u>Subtotal, Revenues</u>	<u>(\$18,816)</u>
Expenditures	
Salaries & Benefits (Including Professional Development, Travel, etc.)	\$49,004
Veolia Contract	(\$381,280)
Hydro	(\$25,134)
Miscellaneous under \$10k	\$77,018
<u>Subtotal, Expenditures</u>	<u>(\$280,392)</u>
<u>Net Wastewater Surplus/(Deficit)</u>	<u>(\$299,208)</u>

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 2023 there were deficits in residential and regular commercial consumption for both water and wastewater customers. The net wastewater surplus is transferred to the Wastewater Rate Stabilization Reserve, which has a balance of approximately \$3.5 million as at December 31, 2023.

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 2023 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 2023 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

REFERENCES:

1. [FIN-05-2024 Investment Status Report – December 31, 2023](#)

ATTACHMENTS:

1. Building Division Statement of Activities 2014-2023
2. Parkland Dedication Reserve Fund Statement of Activities 2023
3. Auditors Report from Millard, Rouse & Rosebrugh, dated August 27, 2024 accompanied by a copy of Haldimand County's 2023 Audited Financial Statements