



TOWN OF SIDNEY

REPORT TO COMMITTEE

TO: Audit & Finance Committee

FROM: Troy Restell, Manager of Finance

DATE: May 30, 2014 **FILE NO.** 1700-20

SUBJECT: 2013 VARIANCE REPORT

PURPOSE:

The purpose of this report is to provide information on the 2013 operating results.

BACKGROUND:

The Town adopted Council Policy FN-012 in 2003 to establish adequate levels of accumulated surplus from operations. A copy of the policy is attached as Schedule A. The policy sets out the purposes for establishment, the adequate levels as a percentage of annual revenues, proposed uses of the funds, and methods of replenishing shortfalls. The policy remains relevant and useful to this day; no changes are recommended at this time.

Attached as Schedule B are details of 2013 operating results, including material variances from budget in each operating fund, as well as by capital project.

DISCUSSION:

The tables below provide a summary of 2013 operating surpluses or deficits, accumulated surpluses, and adequacy of surpluses per policy FN-012 for each of the Town's operating funds.

a) General Operating Fund

Year 2013 deficit	(84,774)
Prior years' surplus balance	2,753,898
Balance at December 31, 2013	2,669,124
Required adequate levels of surplus as per Policy FN-012	(2,473,670)
Surplus available at December 31, 2013	195,454
2014 Capital funding appropriation	(85,000)
2014 budgeted appropriation of surplus	(200,000)
Remaining surplus available in 2014	(89,546)

b) Water Utility Fund

Year 2013 deficit	(67,047)
Prior years' surplus balance	662,742
Balance at December 31, 2013	595,695
Required adequate levels of surplus as per Policy FN-012	(279,874)
Surplus available at December 31, 2013	<u>315,821</u>
Net use of surplus in 2014	(23,145)
Remaining surplus available in 2014	<u>292,676</u>

c) Sewer Utility Fund

Year 2013 surplus	207,827
Prior years' surplus balance	68,229
Balance at December 31, 2013	276,056
Required adequate levels of surplus as per Policy FN-012	(343,481)
Deficit at December 31, 2013	(67,425)
Projected surplus in 2014	246,533
Remaining surplus available in 2014	<u>179,108</u>

d) Garbage Utility

Year 2013 deficit	(18,627)
Prior year's surplus balance	82,387
Balance at December 31, 2013	63,760
Required adequate levels of surplus as per Policy FN-012	(53,324)
Surplus available at December 31, 2013	<u>10,436</u>
Net use of Surplus in 2014	(0)
Remaining surplus available in 2014	<u>10,436</u>

It is important to note that the above surplus/deficit numbers are a measure of operating results against the budget, and the net result does not tie directly to the surplus indicated in the Town's financial statements. The latter is determined according to a different set of accounting rules. This report provides the status of the accumulated operating surplus for 2013.

FINANCIAL IMPLICATIONS:

The Town experienced an overall operating surplus of \$56,006 in 2013. The General Operating and Water Utility Funds experienced modest deficits, but this was offset by a sizeable surplus in the Sewer Utility. Notable factors contributing to 2013 operating results are identified in Schedule B.

The 2013 budget included a transfer of \$200,000 from the accumulated general operating surplus to fund general operating expenses. However, the desired result is to achieve year end operating results that are balanced without the need to transfer funds from the accumulated surplus. The General Operating Fund nevertheless realized an operating deficit of \$84,774 during 2013, thus reducing the accumulated general operating surplus by that amount and not by the budgeted

amount. The deficit was mostly attributable to an actuarial valuation of the Town's post-employment benefits which resulted in unbudgeted expenses of \$69,000.

2013 marked the 5th consecutive year that an automatic, across the board inflationary increase was not included in the budget. Removing this inflation factor from many of our budgets has meant that there is less leeway to realize savings; however, it has been a useful tool in keeping tax increases as low as possible, while retaining the expected level of service. Furthermore, the Town's investments have been budgeted much more conservatively over the last several years, and have not generated the type of surpluses that they once did.

Within the General Operating Fund, slower than anticipated development activity during 2013 resulted in lower than budgeted revenue from building permits and fees, and utility connections. General government achieved modest savings with less than budgeted professional and contracted service expenses; protective services realized RCMP contract savings due to member absences and temporary vacancies, while fire protection achieved savings from employee absences and position vacancies. Transportation realized greater than budgeted sick time expenses due to some long-term absences, but this was partially offset by lower than budgeted sick time expenses in Parks.

The Water Utility realized a deficit of \$67,000 during 2013. Each year, water revenues and expenses are budgeted using trends from previous years, as well as any changes expected in the coming year. In 2013, the Town realized both lower than projected revenue from the sale of water, and higher costs from the purchase of bulk water. Nevertheless, the Water Operating surplus continues to be healthy, with an "excess surplus" of \$315,821 as noted above.

The Sewer Utility Fund is not as healthy, but a sizeable surplus of \$208,000 in 2013 has brought it closer to the policy threshold. A budgeted surplus of \$148,000 in 2013 was to rebuild the accumulated surplus balance to required levels after several years of deficits. Another surplus is projected for 2014; this will put the Sewer Utility Fund above policy level. The other \$60,000 of the 2013 surplus resulted from a lower than expected CRD funding requisition for the Town's share of the Saanich Peninsula Wastewater Treatment Plant expenses.

A pending review of the utility rate structure will provide vital information in future rate setting, and will take into account the existing levels of surplus in both the Water and Sewer funds.

The Garbage Utility remains in good shape, but attention will be given to the 2014 operating results. New rates were introduced on January 1, 2014 to coincide with the Town's new separated organics collection program; a review at year end will be conducted to ensure costs are being recovered.

Overall, the Town continues to achieve healthy operating results, with all operating funds meeting policy levels for required surplus, with the exception of the Sewer Utility. The Sewer Utility deficiency is being addressed with budgeted operating surpluses, which are projected to bring the accumulated surplus to policy levels by the end of 2014.

RECOMMENDATION:

That this report be received for information.

Respectfully submitted:

Troy Restell
Manager of Finance

Andrew Hicik
Director of Corporate Services

SCHEDULE A

TITLE:			
SURPLUS MONIES			
Origin:	Finance		
Adopted:	Council – October 27, 2003	#2003.38.807	Ref: FN-012
Amended:			Page: 1 of 1

1. To provide adequate working capital to reduce need for temporary borrowing throughout the year.
2. Revenue Stabilization. If revenue budgets are not met these are funds available to cover shortfall.
3. To provide adequate reserve for major disasters or contingencies.
4. Investment earnings on surplus funds are brought into revenue each year to offset revenue required from property taxes.

A) Adequate Levels of Surplus

1. General Operating Fund 25% - 50% of Municipal Property Taxes
2. Water Operating Fund 10% - 15% of Water Sales & Water Parcel Tax
3. Sewer Operating Fund 10% - 15% of Sewer User Charges & Sewer Parcel Tax
4. Garbage Utility 10% - 15% of Garbage User Fees

B) Surplus Funds in Excess of Adequate Levels

Surplus funds in excess of the adequate level can be used as follows:

1. Brought into general revenue to fund Contingencies.
2. Used as reserve for future expenditures to fund capital work or special projects.
3. Brought into revenue to stabilize property taxes.

C) Insufficient Level of Surplus Funds

Surplus funds can be increased to adequate levels by:

1. Retention of annual surpluses until adequate level of surplus funds achieved.
2. Transfers to surplus can be included in the Annual Budget.

D) Changes to Policy

Council retains the ability to alter the level of surplus or use of surplus funds if such an alteration is determined to be in the best interest of the Town.

SCHEDULE B

FUND	2013	2013	VARIANCE	ACTUAL	COMMENTS
	ACTUAL	BUDGET		% OF	
	\$	\$	\$		
GENERAL OPERATING					
REVENUE					
General Revenue					
Taxation, Interest & General					
Gov't Transfers	10,891,961	10,687,907	204,054	102%	\$250K BIA Levy not budgeted.
	10,891,961	10,687,907	204,054	102%	
General Government					
Council	5,575	0	5,575	0%	
Committees	0	0	0	0%	
Administration	10,397	8,614	1,783	121%	
Financial Management	34,960	39,283	-4,323	89%	
Driver Services	289,537	250,000	39,537	116%	Motor vehicle commissions \$34k better than projected.
Common Services	11,635	2,100	9,535	554%	MIA Dividend of \$9,508; not guaranteed annually and unknown when budget approved.
Computer Services	0	0	0	0%	
Other	9,800	5,000	4,800	196%	
	361,905	304,997	56,908	119%	
Protective Services					
Police Protection	320,467	329,399	-8,932	97%	
Court House	15,920	22,969	-7,049	69%	
Fire Protection	9,089	6,384	2,705	142%	
Emergency Measures	5,173	0	5,173	0%	Received unexpected emergency planning grant
Building Inspection & Bylaw	319,437	366,800	-47,363	87%	Permits & Fees lower due to slower development activity.
Enforcement	670,086	725,552	-55,466	92%	Parking ticket revenue less than projected; review forthcoming.
	24,695	20,000	4,695	123%	
Transportation					
Common Services	18,323	3,000	15,323	611%	Received contributions for Hwy 17 interchange study
Road Transportation	62,977	123,777	-60,800	51%	3rd party & recoverable works linked to slower development activity; offset by lower expenses.
Recoverable Work	4,498	4,500	-2	100%	
Bus Shelters	25,241	25,000	241	101%	
Parking Lots	263,793	266,031	-2,238	99%	
Dock & Port Facilities	1,207	4,759	-3,552	25%	
Hydrants	9,053	27,414	-18,361	33%	Fewer storm sewer connections due to slower development activity; offset by lower expenses.
Storm Drains	409,787	474,481	-64,694	86%	

Environmental Health							
Solid Waste & Environmental Programs	356,862	358,500	-1,638	100%			
	356,862	358,500	-1,638	100%			
Development Services							
Municipal Planning	24,033	20,600	3,433	117%			
	24,033	20,600	3,433	117%			
Recreation & Culture							
Parks	90,687	75,858	14,829	120%			Increased Tulista Boat Launch revenues.
Library	102,461	108,470	-6,009	94%			
Senior Citizens' Centre	37,316	35,819	1,497	104%			
Museum & SODC	0	0	0	0%			
	230,464	220,147	10,317	105%			
Other Revenue							
Other Revenue	26,660	1,000	25,660	2666%			Street Market Revenues \$11k, proceeds on disposal of equipment \$10k; neither budgeted.
	26,660	1,000	25,660	2666%			
Internal Transfers							
Transfers from Own Accounts & Funds	309,417	645,621	-336,204	48%			\$136k carryforward funding not used (Econ. Dev., Fire Study, etc).
	309,417	645,621	-336,204	48%			\$200k from Prior Year Surplus not transferred. Actual deficit of \$84,774 realized.
TOTAL REVENUES	13,281,175	13,438,805	-157,630	99%			
EXPENSES							
General Government							
Council	201,942	197,568	-4,374	102%			
Committees	2,632	3,000	368	88%			
Administration	533,738	551,105	17,367	97%			Professional & Consultants services less than budget.
Financial Management	646,228	643,137	-3,091	100%			
Driver Services	222,124	212,900	-9,224	104%			Additional staffing offset by revenues.
Common Services	117,025	130,600	13,575	90%			Postage, telephone, contractors & equipment rental expenses lower than budget.
Computer Services	541,884	568,082	26,198	95%			\$24k in projects carried forward for completion.
Other	-194,521	-198,595	-4,074	98%			
	2,071,052	2,107,797	36,745	98%			
Protective Services							
Police Protection	2,264,232	2,390,869	126,637	95%			RCMP contract savings of \$100k due to member absences; IT staff sharing.
Court House	47,009	47,508	499	99%			
Fire Protection	969,090	1,020,555	51,465	95%			Savings due to employee absences and position vacancy.
Emergency Measures	29,919	34,000	4,081	88%			
Building Inspection & Bylaw Enforcement	410,190	412,423	2,233	99%			
	3,720,439	3,905,355	184,916	95%			

Transportation										
Common Services	974,716	914,008	-60,708	107%	Sick leave expenses greater than budget due to long term absence of staff					
Road Transportation	896,671	866,160	-30,511	104%	Street light electricity costs greater than budget; overlap of PW Managers & retirement expenses.					
Recoverable Work	62,977	123,777	60,800	51%	3rd party and recoverable works linked to slower development projects, offset by lower revenues.					
Bus Shelters	18,138	13,459	-4,679	135%						
Parking Lots	12,207	5,659	-6,548	216%	Additional maintenance required for Third & Bevan lot.					
Dock & Port Facilities	118,754	134,363	15,609	88%						
Hydrants	39,609	46,449	6,840	85%						
Storm Drains	201,780	216,872	15,093	93%	Fewer storm sewer connections due to lower development activity; offset by lower revenues.					
	2,324,852	2,320,747	-4,105	100%						
Environmental Health										
Solid Waste & Environmental Programs	514,052	495,462	-18,590	104%	Street garbage pickup costs greater than budget.					
	514,052	495,462	-18,590	104%						
Development Services										
Municipal Planning	342,830	365,867	23,037	94%	Staff vacancy savings.					
	342,830	365,867	23,037	94%						
Recreation & Culture										
Parks	1,208,475	1,256,886	48,410	96%	Sick leave expense less than budget due to fewer absences.					
Library	74,400	87,941	13,541	85%	Janitorial, contracts, wages and supplies less than budget.					
Senior Citizens' Centre	126,892	117,700	-9,192	108%						
Museum & SODC	112,682	109,961	-2,721	102%						
	1,522,450	1,572,488	50,038	97%						
Fiscal Services										
Transfers to Reserves & Other Accounts	1,716,320	1,667,617	-48,703	103%						
Debt Payments	413,772	395,340	-18,432	105%						
Community Support	628,907	419,632	-209,275	150%	\$250K BIA Levy not budgeted.					
Contingencies & Other	111,274	188,500	77,226	59%	Unspent Contingency, interest on deposits lower than budget					
	2,870,273	2,671,089	-199,184	107%						
TOTAL EXPENSES	13,365,949	13,438,805	72,856	99%						
SURPLUS (DEFICIT)	-84,774	0	-84,774							

	2013 ACTUAL \$	2013 BUDGET \$	VARIANCE \$	ACTUAL % OF BUDGET	COMMENTS
WATER OPERATING					
REVENUE					
Fees, Charges & Taxes	1,889,209	1,948,578	-59,369	-3%	Sale of Water less than budgeted. New connections less than budget due to slower development activity.
TOTAL REVENUE	1,889,209	1,948,578	-59,369	-3%	
EXPENSES					
Administration	1,415,165	1,367,590	-47,575	-3%	Purchase of water greater than budget.
Training	9,881	11,571	1,690	17%	
Operations	223,024	237,304	14,280	6%	Maintenance and repairs less than budget.
Connections	24,161	44,413	20,252	84%	Connections work less than budget due to slower development activity; offset by lower revenue.
Collections for Other Governments					
Transfer to CRD	6,619	0	-6,619	-100%	
Fiscal Services					
Transfers to Reserves & Other Accounts	277,406	287,700	10,294	4%	Capital project expenditures lower than budget, less funding required.
TOTAL EXPENSES	1,956,256	1,948,578	-7,678	0%	
SURPLUS (DEFICIT)	-67,047	0	-67,047		

	2013 ACTUAL \$	2013 BUDGET \$	VARIANCE \$	ACTUAL % OF BUDGET	COMMENTS
SEWER OPERATING					
REVENUES					
Fees, Charges & Taxes	2,306,643	2,323,026	-16,383	-1%	User charges slightly below budgeted expectations.
TOTAL REVENUES	2,306,643	2,323,026	-16,383	-1%	
EXPENSES					
Administration	166,291	161,281	-5,010	-3%	
Training	10,153	11,657	1,504	15%	
Operations	292,078	294,041	1,963	1%	
Connections	10,220	12,123	1,903	19%	
Summergeate Lift Station	1,979	3,061	1,082	55%	
Collections for Other Governments					
Transfer to CRD	1,445,394	1,507,363	61,969	-4%	CRD requisition for treatment plant less than budget; recognized in surplus below.
Fiscal Services					
Transfers to Reserves & Other Accounts	172,701	333,500	160,799	93%	Transfer of \$148,000 budgeted to surplus; excess recognized in surplus below.
TOTAL EXPENSES	2,098,816	2,323,026	224,210	11%	
SURPLUS (DEFICIT)	207,827	0	207,827		

**2013 ACTUAL 2013 BUDGET ACTUAL
\$ \$ % OF
VARIANCE \$**

COMMENTS

CAPITAL PROJECTS

Please note: this listing does not include projects for which there were no expenditures in 2013.

2013 ACTUAL \$	2013 BUDGET \$	VARIANCE \$	ACTUAL % OF BUDGET	COMMENTS
28,356	20,000	-8,356	142%	Standby Generator Town Hall Scope of replacing the Town's standby generator changed from used to new given the small cost differential and future cost savings.
4,872	5,000	128	97%	Efficiency Upgrades
95,607	110,000	14,393	87%	Computer Replacement Plan Remainder of project carried forward for completion.
11,326	10,000	-1,326	113%	Computer Equipment Fund
5,466	10,000	4,534	55%	Tempest Credit Card Pmnts
13,205	15,000	1,795	88%	Tempest MyCity
7,533	7,500	-33	100%	RCMP Furnishing
5,176	0	-5,176		Fire Equipment Cost to purchase and install 3 Automated External Defibrillators (AEDs). Donations of \$3,000 were received to bring the net cost to the Town to \$2,176.
50,867	55,000	4,133	92%	Fire Vehicle Replacement
3,692	4,500	808	82%	Engineering Equipment
7,079	10,000	2,921	71%	Public Works Equipment
2,420	5,000	2,580	48%	Green Technology Apps
173,429	116,500	-56,929	149%	Works Yard Reconstruction As the final part of the Public Works Reconstruction project, the Parks building is now complete. This work was over budget primarily due to relocating and upgrading the server room, which was not included in the original cost estimates of the project. This updated server room was deemed necessary for redundancy purposes as part of the Town's emergency planning. As well, there were paving expenses that were not part of the original scope of the project.
25,722	40,000	14,278	64%	Beacon Ave. Revitalization
29,965	30,000	35	100%	Transportation Vehicles
14,705	22,500	7,795	65%	Portable Solar Speed Reader
27,845	25,000	-2,845	111%	Beacon Ave Flashing X Walk
13,241	15,000	1,759	88%	Ardwell Ave Flashing X Walk
4,378	8,350	3,972	52%	Beacon Hydro Box Revitaliz'n
5,168	20,000	14,832	26%	U/G Wiring
14,749	50,000	35,251	29%	Ferry Terminal Site Improve.
99,373	55,000	-44,373	181%	Ferry Terminal HPU Relocation Remainder of project carried forward for completion. The relocation of the Hydraulic Power Unit (HPU) at the ferry terminal is complete. This project was over budget due to inaccurate consultant estimates. There is no tax impact resulting from this project as it is funded from reserves. As well, cost savings are expected to be found with future capital remedial work at the Ferry Terminal.

Ocean & Fifth Roundabout	807,669	991,000	183,331	82%	The Roundabout is now complete and under-budget.
Decorative Street Lighting	4,465	30,000	25,535	15%	
Lochside Seawall Repairs	3,149	5,000	1,851	63%	
Third & Bevan Parking Lot	9,524	6,700	-2,824	142%	The Third Street Parking lot is now complete. It is over-budget due to greater than expected landscaping costs.
EV Charging Stations	33,974	32,000	-1,974	106%	
Parks Equipment	3,831	10,000	6,170	38%	
Beacon Sign Replacement	11,544	10,000	-1,544	115%	
Tulista Park Bollard Lighting	21,614	9,500	-12,114	228%	The installation of bollard lighting in Tulista Park is now complete. The project exceeded budget due to more than anticipated trenching and utility conflicts.
Parks Vehicles	90,357	99,000	8,643	91%	
Melissa Park Path	9,531	12,000	2,469	79%	
Sign Lettering Machine	12,805	15,000	2,195	85%	
McDonald Park Rd Paving	103,953	79,620	-24,333	131%	The paving of McDonald Park is now complete, but over budget due to the discovery of substandard base materials under the surface layer that was replaced. This project will not result in a tax impact as it is funded from reserves.
Bevan Ave Paving (5 th -3 rd)	121,127	123,600	2,473	98%	
Bowerbank Paving (Ard-Rest)	93,288	88,770	-4,518	105%	
Fifth St Paving (Henry-Malvw)	204,577	198,630	-5,947	103%	
Resthaven Dr. Sidewalk	54,511	26,250	-28,261	208%	The replacement of concrete sidewalks with brick pavers on Resthaven (Beacon to James White) is complete. It is over budget due to delays accommodating access to businesses during business hours and replacing curbing that was not identified in the original scope of the project. This project will not result in a tax impact as it is funded from reserves.
Water Equipment	4,706	10,000	5,294	47%	
Backflow Preventers	14,955	17,800	2,845	84%	
Sewer Equipment	7,201	10,000	2,799	72%	
SCADA Upgrade	63,336	70,000	6,664	90%	
Sewer Vehicle/Equip Repl.	27,474	25,000	-2,474	110%	
	2,347,763	2,504,220	156,457	94%	