

Chatham-Kent Surplus and Deficit Policy

Surplus and Deficit Policy

1.0 Policy Statement and Purpose

A policy governing the establishment of a priority framework for the allocation of any operating surpluses and funding for any operating deficits.

2.0 Scope

This policy applies to the annual operating budget for the Property Tax Supported Budget, unless otherwise stated.

3.0 Objectives

All surpluses and deficits be treated as one-time in nature.

3.1 The year-end operating **surplus** for the Property Tax Supported Budget, Water Rate Supported Budget, and Wastewater & Treatment Rate Supported Budget will only be allocated within the operations, reserves, and reserve funds of each respective Budget.

3.2 The year-end operating **deficit** for the Property Tax Supported Budget, Water Rate Supported Budget, and Wastewater & Treatment Rate Supported Budget will only be funded within the operations, reserves, and reserve funds of each respective Budget.

3.3 Property Tax Supported Budget – In a Year of Surplus

- a) The Treasurer, or designate, be authorized to contribute to prior year reserve provisions for the following items:
 - i. Mandated Provincial Bill 124 Reserve for Building Permits – Bill 124 mandates that building activities are accounted for separately from municipal activities. Surpluses are reserved with the expectation that, in the event of declining building permit revenue, a draw from the reserve may be required to meet budgetary requirements regarding these activities. This mechanism provides stability to the pricing of building permits;
 - ii. Insurance Risk Reserve – Any surplus or deficit in the Risk Management area and Insurance & General Administration area which includes recoveries, insurance budget, and premiums be transferred to/from the insurance risk reserve;
 - iii. Police Service Board Municipal Reserves – 50% of the final Police Services surplus be allocated to the Police Service Municipal Reserve. The Police Services Board has identified potential business plan investments that require one time funding in the coming years; and
 - iv. Specific Operational Surpluses – The operating surpluses or deficits in the following areas be transferred to/from reserves to address current and future operating pressures such as economic downturns,

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Provincial service requirements, building issues, rapid technology changes, etc.

1. Health Services
2. Senior Services
3. Housing Services
4. Employment Services
5. Children's Services
6. Waste Diversion
7. Transit
8. Recreation Community Programs
9. Inclusive Recreation
10. Property Disposition
11. Community Improvement Plan
12. Workers Compensation Municipal Portion
13. Together CK
14. Roadside Drainage
15. Winter Control
16. Closed Employee and Labour Relations
17. Claims Fluctuation
18. Public Works Dust Suppressant
19. Planning Applications
20. Investment Income Fluctuation

b) The remaining surplus reported in the Final Operations Variance Report after the surplus is contributed to the above reserve provisions to be allocated in accordance with the following amounts until such time the budget is balanced:

- i. Reserve for Roadside Drainage Assessments – The transfer of current year surplus dollars to the Reserve for Roadside Drainage to offset current year expenses without the need to increase the budget in the following year to pay for roadside drainage assessments;
- ii. Bloomfield Business Park Unfunded Capital – An allocation of up to \$500,000 of the annual surplus to reduce the unfunded capital associated with the Bloomfield Business Park. In 2005 at a cost of approximately \$15M, the Bloomfield Business Park was constructed. Council approved a funding plan consisting of land sale, incremental taxes and anticipated future growth of the park contributing to the initial costs. An unfunded capital account is one where all of the expenses were paid from the municipal cash balances but Council has not allocated funding;
- iii. Disaster Mitigation and Adaptation Grant – In 2019, Chatham-Kent was notified that its submission towards the Disaster Mitigation and Adaptation Grant had been approved. Because of the matching funds, the municipality needs to raise a total of \$24.9M over the next 10 years. These funds will be raised between a combination of budget increases and applying up to \$1M of annual surplus to the DMAF Reserve for the Disaster Mitigation and Adaptation Grant funding;

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- iv. Operating Budget Contingency Reserve - The Treasurer, or designate, be authorized to contribute an amount to the Operating Budget Contingency Reserve (OBCR) not to exceed the reserve target balance, subject to the contribution to the OBCR being confirmed by the Municipal Council; and
- v. Strategic Development Reserve – Any remaining surplus funds, after each of the above noted items have been completed, be placed in the Strategic Development Reserve for the future needs of Council.

3.4 Property Tax Supported Budget – In a Year of Deficit

- c) The Treasurer, or designate, be authorized to drawdown from the OBCR, the Winter Control Reserve or the Allowance for Doubtful Accounts, to balance year-end operations.

4.0 **Responsibilities**

The Treasurer has overall responsibility for the development and recommendations of any annual surplus or deficit allocation.

Notwithstanding; the Director, Budget & Performance Services and/or designate will carry out responsibilities as follows:

- Develop specific procedures and workflows to establish and maintain ongoing variance reporting for each municipal department. This will be accomplished by:
 - Working with the municipal departments on completing an May, October and a final variance;
 - Reviewing each department's variance report, ensuring accuracy and providing input on any area with significant under and/or overspending; and
 - Provide annual reporting to Council through a Report to Council highlighting any variances and making recommendations on any reallocation of funds, which may be required either throughout the year or in the final variance report.

5.0 **Glossary of Terms**

Deficit

In the operating budget, when there is an excess of expenditures over revenues.

Operating Budget

A budget that funds day to day operations. Some of the expenses could include personnel, utilities, and reserve and reserve fund contributions.

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Property Tax Supported Budget	A budget that includes property taxes as a primary source of revenue used to fund municipal programs and services.
Reserve	An appropriation from net revenue and/or cost savings at the discretion of Council, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund. Municipal Councils may set up reserves for any purpose for which they have the authority to spend money.
Reserve Fund	Funds that have been set aside either by a by-law of the municipality or by a requirement of senior government statute or agreement to meet a future event. Municipal Councils may set up reserve funds for any purpose for which they have the authority to spend money.
Treasurer	The individual appointed by the municipality as treasurer and/or deputy treasurer(s).
Surplus	In the operating budget, when there is an excess of revenues over expenditures.
Wastewater & Treatment Rate Supported Budget	A budget to fund services exclusively related to the collection and treatment of wastewater through rates charged to users of the system.
Water Rate Supported Budget	A budget to fund services exclusively related to the distribution of potable water through rates charged to users of the system.

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