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## **Preliminary Year End & Surplus Recommendations**

Presented by: Brenda Barclay, Manager of Financial Operations & Reporting

### **RECOMMENDATION(S)**

That the February 21, 2017 report titled "Preliminary Year End & Surplus Recommendations" be received as information.

### **PURPOSE OF REPORT**

The purpose of this report is to bring forward the City's preliminary year end position and provide surplus recommendations. This report will also outline the process to complete the final year end adjustments and reserve transfers.

### **COUNCIL DIRECTION**

N/A

### **BACKGROUND AND DISCUSSION**

Administration is currently in the process of finalizing the City's financial statements for 2016. The final audited 2016 financial statements will be forwarded to Council for review and approval on April 18, 2017 with a complete explanation of the 2016 operations and variances upon completion of the audit by the Council appointed auditor, Deloitte.

Based on our preliminary review, yet subject to audit, Administration is reporting a municipal operating surplus of \$6.9 million which is a 4.71% variance from the approved budget of \$146 million. The City's utility operation will be transferring \$134 thousand less to reserves than the budgeted amount of \$12.8 million.

A detailed variance analysis of the City's municipal and utility operations will be provided to Council in the 4<sup>th</sup> Quarter Report which is scheduled to be presented to Council next week, on February 28, 2017.

Over the next several weeks, there will be some adjusting entries that may impact the final operating position. These adjustments will be finalized as accounting cut-off dates are realized and further direction regarding various issues is received from the Auditors.

### **Surplus Recommendations**

As per Council Policy C-FS-05, 8.c - Budget and Taxation Guiding Principles:

"One Time Revenues, Surpluses and Unpredictable Revenue"

One time revenues and surpluses and unpredictable revenue shall not be relied upon to fund ongoing expenditures, unless otherwise noted in the financial reserve policy/schedules. This could result in annual expenditure obligations that may not have adequate funds available for future years.

In the event of an operating surplus/deficit, funds will be applied to/from:

- i. Reserves, municipal and/or utility, for use in maintaining reserve levels set by Council policy; or
- ii. one-time expenditure; or
- iii. repayment of outstanding debt”

Administration provides the following recommendations in relation to the disposition of the 2016 surplus:

2016 Operating Surplus	\$ 6,867,882
Top up Stabilization Reserve	-2,233,504
Land Reserve	-2,000,000
Intermunicipal Initiatives	-1,000,000
AFRRCS Emergency Radio System	-971,785
Ministerial Inspection	-120,000
Capital Reserve	-542,593
<b>Balance Remaining</b>	<b>\$ -</b>

Provided below is a further description related to each of these recommendations:

1. Stabilization Reserve

Typically, on an annual basis, Council has decided to use a portion of the surplus to “top-up” the Stabilization Reserve. The purpose of this reserve as stated in schedule O1 of Council Policy C-FS-01 Financial Reserves is as follows:

“To provide funds to stabilize tax rates for nonrecurring, emergent, one-time expenditures or losses of revenue that will not be built into the base operating budget in future years.”

This fund has proved useful to Council when needing to deal with emergent unbudgeted items throughout the year. As per policy, this fund has a ceiling equaling 2% of budget.

The following chart outlines the ceiling of 2% and the amount required to top up the Stabilization Reserve to its maximum value.

2% of 2017 Budget \$148,847,000	\$ 2,976,940
Uncommitted balance of Stabilization Reserve as of Dec 31, 2016	743,436
<b>Amount available to Top off Stabilization Reserve</b>	<b>\$ 2,233,504</b>

## 2. Land Reserve

Based on the approved 10 year capital plan there is an identified need for land to be acquired to support new facilities in the future. Council Policy C-P&E-11 Corporate Land Management was presented to Council for review and comment on January 23, 2017. Transferring funding to the land reserve is one step towards meeting the future land needs of the city.

## 3. Intermunicipal Initiatives

Intermunicipal Initiatives funds will be directed towards continued technical studies and sub-regional planning work on the Joint Boundary Growth Study with Sturgeon County.

## 4. AFRRCS Emergency Radio System

Procured in 2009, the City's radio system is used by Fire Services, Municipal Enforcement, Transit, and to a lesser extent Public Works and Utilities. During 2016, the system has started to experience critical failures in Fire Services. Additionally, the manufacturer announced that support and the manufacture of spare parts would cease. A capital project brief was prepared to begin replacing the system during 2018, but given the current experience and rising support costs, this project needs to be accelerated. Replacement of the existing system in 2017 will address safety concerns as well as operational concerns raised by specific employee groups.

The new radio system will be integrated with the Alberta First Responders Radio Communication System (AFRRCS), which reached full operational status during July of 2016. AFRRCS enables full integration of all participating emergency services into one system with Province-wide access and full lifecycle and engineering support for the 20 year expected life of the system.

## 5. Ministerial Inspection

As per the communication of December 14, 2016 from Alberta Municipal Affairs, a limited scope municipal inspection has been ordered with an estimate cost to the City between \$60,000 and \$120,000.

## 6. Capital Reserve

Once final year end numbers are confirmed in later March 2017, it is recommended to transfer any remaining surplus to the Capital Reserve to support future year requirements.

## STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

N/A

## IMPLICATIONS OF RECOMMENDATION(S)

### Financial:

None at this time

### Legal / Risk:

None at this time

### Program or Service:

None at this time

### Organizational:

None at this time

## ALTERNATIVES AND IMPLICATIONS CONSIDERED

Consideration was given to the possibility of directing a portion of the surplus towards the repayment of outstanding debt, however the \$41.6 million of debentures held with the Alberta Capital Financing Authority do not allow early repayment without significant penalties. This alternative is not being recommended due to this and the likelihood that additional borrowing will be required in the near future.

If Council does not wish to support the recommendation, the following process for Council changes is proposed:

Council members may, by motion, make alternate recommendations as to the disposition of the 2016 surplus. Notices of Motion should be submitted by Council members no later than March 1, 2017. This will allow time for Administration to provide any required backgrounders for the March 20, 2017 Council meeting, at which time the individual motions will be debated and the final year end transfers approved.

## STRATEGIC CONNECTIONS

N/A

Report Date (Council Meeting Date): February 21, 2017  
Author(s): Brenda Barclay, Manager of Financial Operations & Reporting  
Committee/Department: Corporate Services  
General Manager: Maya Pungur-Buick, GM of Corporate Services  
City Manager: Kevin Scoble