



Legislation Details (With Text)

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**Title:** Preliminary Year End Surplus & Reserve Transfer  
Presented by: Brenda Barclay, Manager, Financial Operations & Reporting

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**Attachments:** 1. C-FS-01-Financial Reserves

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2/16/2021	1	City Council	approved the Consent Agenda	

TAMRMS#: B06

**Preliminary Year End Surplus & Reserve Transfer**

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

**RECOMMENDED MOTIONS**

1. That the 2020 Municipal operating surplus, which is estimated to be \$10.3M be transferred as follows:
  - a. \$2.6 M to the Capital Reserve
  - b. And the remaining balance of ~ \$7.7 M to the Stabilization Reserve.
  
2. That an exception to Council Policy C-FS-01 - Reserves be given in order to exceed the 3.5% ceiling transfer for the Stabilization Reserve.

**PURPOSE OF REPORT**

The purpose of this report is to bring forward the City’s 2020 preliminary year end position and finalize the distribution of the operating surplus.

**ALIGNMENT TO PRIORITIES IN COUNCIL’S STRATEGIC PLAN**

N/A

**ALIGNMENT TO LEVELS OF SERVICE DELIVERY**

Corporate Reporting to Community

Corporate quarterly reports - Corporate reports are provided to Council on a quarterly basis to

meet Council's need for regular and formal communication from the City Manager

## **ALIGNMENT TO MANDATORY STATUTORY PROVISION**

Annual audited financial statements are required to be submitted to Municipal affairs by May 1 of each year.

## **BACKGROUND AND DISCUSSION**

Administration is currently in the process of finalizing the City's financial statements for 2020. The final audited 2020 financial statements will be forwarded to Council for review and approval on April 19, 2021 with a complete explanation of the 2020 financial results upon completion of the audit by the Council appointed auditor, KPMG.

Based on our preliminary review, yet subject to audit, Administration is reporting a municipal operating surplus of \$10.3 million which is a 6.0% variance from the approved 2020 budget of \$173 million.

The City of St. Albert has received ~\$7.6 million from the Province of Alberta through the Municipal Operating Support Transfer (MOST) grant program which is directed towards the additional costs and lost revenues associated with the municipal response to the COVID-19 pandemic. The internal savings generated through prudent financial and operational decisions in 2020 are now able to be directed towards reserves to enable gradual recovery in 2021 and beyond. The remainder of the surplus is generally in alignment with the quarter 3 forecast presented to Council in November 2020.

As part of the 2021 budget process, Council approved \$2 million of these generated savings to offset the 2021 tax rate. For the amount being recommended to be transferred to the Stabilization fund, this \$2 million will be immediately transferred to the 2021 operating budget leaving a reduced amount in the fund. As we are still being impacted by the pandemic in 2021, financial recovery is expected to be slow therefore we will likely require continued contributions from the Stabilization reserve to bridge the time to revenue recovery.

The City's utility operation had a variance of \$804 thousand less being transferred to reserves than the budgeted amount of \$9.4 million.

A detailed variance analysis of the City's municipal and utility operations is provided in the 4<sup>th</sup> Quarter Report is provided in today's agenda package.

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, 17.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 2020 surplus:

2020 Estimated Operating Surplus	\$10,288,000
Transfer to Capital Reserve	\$(2,600,000)
Transfer to Stabilization Reserve (estimated)	<u>\$(7,688,000)</u>
Balance Remaining	\$0

### Capital Reserve

Typically, on an annual basis, Council has put the operating surplus into either the Capital Reserve or the Stabilization Reserve.

The purpose of the Capital Reserve is to “Fund capital projects that have been identified as part of the annual capital budget process.”

Given the uncertainty of future capital grants and the diminishing balance in the capital reserve, it would be beneficial to transfer \$2.6 million to the Capital Reserve.

• December 31, 2020 balance in the Capital Reserve	\$206,492
• 2020 Operating Surplus	<u>\$2,600,000</u>
<b>New Balance in Capital Reserve</b>	<b>\$2,806,492</b>

### Stabilization Reserve

The purpose of the Stabilization 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 such as the ongoing pressures of COVID-19 operating restrictions. It is anticipated that pressure of COVID-19 on our operating revenues will be impacting the City for potentially several years so having an adequate fund to help bridge these impacts will be important.

By policy the Stabilization Reserve has a maximum ceiling of 3.5% of the City’s operating budget.

3.5% of 2021 Budget \$164,387,000	\$5,753,545
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Administration is recommending exceeding the ceiling of 3.5 % to allow for more funds to be placed in the Stabilization Reserve. This will enable this Reserve to have funds available for stabilizing budgetary impacts resulting from one time or unanticipated events including the gradual recovery from the impacts of the pandemic.

- December 31, 2020 uncommitted balance in the

Stabilization Reserve	\$527,842
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- Approximate remainder of 2020 Operating Surplus \$7,688,000

<b>New Balance in Stabilization Reserve</b>	<b>\$8,215,842</b>
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note 1: there is currently still \$2.4 million committed (ie. Not included in the above balance) from the reserve for COVID-19 response as approved through three Council motions during 2020

note 2: Council has already pre-approved (through the budget process) a withdrawal from the Stabilization reserve for \$2 million to offset the 2021 tax requirement.

## STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

N/A

## IMPLICATIONS OF RECOMMENDATION(S)

### Financial:

The establishment and funding of reserves are a financial strategy intended to provide for emergent financial needs, stabilize tax rates, to set aside funds for the replacement of existing equipment, facilities and future projects. While some reserves have dedicated ongoing funding mechanisms, others do not. Allocation of the surplus to the recommended reserve provides a one time increase for future use.

### Legal / Risk:

None at this time

Program or Service:

Surplus allocations impact the organizations ability to deliver on required services and provides additional funding for future capital projects and/or un-budgeted items that may occur throughout the year.

Organizational:

None at this time

**ALTERNATIVES AND IMPLICATIONS CONSIDERED**

If Council does not wish to support the recommendations, the following alternative could be considered:

- a) Alternative 1: Council Members may make an amending motion during the meeting for Council to consider alternate allocation of the surplus in accordance with Policy C-FS-05 however, in order to meet our audit timelines and Financial Statement submission deadlines with Municipal Affairs, any motions must be debated and final surplus transfers finalized at this meeting.

Report Date: February 16, 2021

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Chief Administrative Officer: Kevin Scoble