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

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Date	Ver.	Action By	Action	Result
2/26/2018	1	City Council	approved	Pass

**TAMRMS#: B06**

**Preliminary Year End Recommendation for Surplus**

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

**RECOMMENDATION(S)**

That the February 26, 2018 agenda report titled "Preliminary Year End Recommendation for Surplus" 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 recommendations for distribution of the operating surplus. 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 2017. The final audited 2017 financial statements will be forwarded to Council for review and approval on April 16, 2018 with a complete explanation of the 2017 operations and variances 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 \$4.1 million which is a 2.60% variance from the approved budget of \$157 million. The City's utility operation saw a reduction in water and wastewater revenues due to wet weather during the year. This created a variance of \$1.6 million less being transferred to reserves than the budgeted amount of \$11.8 million.

A detailed variance analysis of the City’s municipal and utility operations is provided in the 4<sup>th</sup> Quarter Report 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, 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 2017 surplus:

2017 Operating Surplus	\$4,081,453
Top up Stabilization Reserve	\$(1,100,000)
Capital Reserve	<u>\$(2,981,453)</u>
Balance Remaining	\$0

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 the approved change to the policy made by Council on February 20, 2018, this fund has a ceiling equaling 3.5% of the annual municipal operating budget.

The following chart outlines the ceiling of 3.5% and the amount administration is recommending to transfer from the 2017 surplus.

Due to the pressures within the capital budget, administration is recommending the top up the Stabilization Reserve to only ~2.5%.

3.5% of 2018 Budget \$154,113,000 - Ceiling Amount	\$5,393,955
Uncommitted balance of Stabilization Reserve at Dec.31/17	\$2,801,136
<b>Amount Available to Top up Stabilization Reserve</b>	<b>\$2,592,819</b>
Administration is recommending ~2.5%	\$1,100,000

## 2. Capital Reserve

Once final year end numbers are confirmed in later March 2018, 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:

Distribution of the 2017 surplus as per administration's recommendation will bring the uncommitted balance in the Stabilization reserve up to \$3.9 million and provide an additional \$3.0 million to the Capital reserve which may be utilized towards capital investments.

Should Council choose to not top up the Stabilization fund there will be limited dollars available to address any emergent and/or unbudgeted issues in 2018 and ongoing.

### 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 \$37.5 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 2017 surplus. Notices of Motion should be submitted by Council members no later than March 1, 2018. This will allow time for Administration to provide any required backgrounders for the March 19, 2018 Council Meeting, at which time the individual motions will be debated and the final year end transfers approved.

## **STRATEGIC CONNECTIONS**

N/A

Report Date: February 26, 2018

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Committee/Department: Financial Services

General Manager: Michelle Bonnici, GM of Corporate Services

City Manager: Kevin Scoble