



## Legislation Details (With Text)

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Presented by: Brenda Barclay, Manager, Financial Operations

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2/18/2020	1	City Council	approved	

**TAMRMS#: B06**

### **Preliminary Year End Surplus and Reserve Transfer**

Presented by: Brenda Barclay, Manager, Financial Operations

## **RECOMMENDATION(S)**

That the entire 2019 Municipal operating surplus, which is estimated to be \$1.7M be transferred to the Stabilization Reserve.

## **PURPOSE OF REPORT**

The purpose of this report is to bring forward the City's 2019 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 COUNCIL DIRECTION OR 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 2019. The final audited 2019 financial statements will be forwarded to Council for review and approval on April 20, 2020 with a complete explanation of the 2019 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 \$1.7 million which is a .99% variance from the approved budget of \$168 million.

The City's utility operation had a variance of \$101 thousand less being transferred to reserves than the budgeted amount of \$10 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 2019 surplus:

2019 Estimated Operating Surplus	1.7M
Transfer to Stabilization Reserve	\$(1.7M)

Balance Remaining	\$0
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Provided below is a further description related to this recommendation:

#### Stabilization Reserve

Typically, on an annual basis, Council has decided to put the surplus into the Stabilization Reserve or a Capital 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.

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

3.5% of 2019 Budget \$207,131,000 - Ceiling Amount	\$7.2M
<ul style="list-style-type: none"><li>• Current balance in the Stabilization Reserve</li><li>• 2019 Operating Surplus</li></ul>	<div>\$2.4M</div> <div><u>\$1.7M</u></div>
New Balance in Stabilization Reserve	\$4.1M

Given that the current uncommitted balance in the Stabilization reserve of \$2.4M is only 33% of the desired/maximum ceiling, Administration recommends that the entire 2019 surplus is transferred to this reserve.

## 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.

## **STRATEGIC CONNECTIONS**

N/A

Report Date: February 18, 2020

Author(s): Brenda Barclay

Committee/Department: Finance & Assessment

Deputy Chief Administrative Officer: Kerry Hilts

Chief Administrative Officer: Kevin Scoble