



## Legislation Text

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**TAMRMS#:** B06

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

Presented by: Brenda Barclay, Manager of Financial Operations

### **RECOMMENDATION(S)**

That the February 25, 2019 agenda 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 recommendations for distribution of the operating surplus.

Council members may also, by motion, make alternate recommendations as to the disposition of the 2018 surplus. Notices of Motion should be submitted by Council members no later than March 4, 2019. This will allow time for Administration to provide any required backgrounders for the March 18, 2019 Council meeting, at which time the individual motions will be debated, and the final year end transfers approved.

### **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 2018. The final audited 2018 financial statements will be forwarded to Council for review and approval on April 23, 2019 with a complete explanation of the 2018 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 1.05% variance from the approved budget of \$162 million.

The City's utility operation had a variance of \$375 thousand less being transferred to reserves than the budgeted amount of \$10.6 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, 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 2018 surplus:

|                        |             |
|------------------------|-------------|
| 2018 Operating Surplus | \$1,695,832 |
|------------------------|-------------|

|                                     |             |
|-------------------------------------|-------------|
| Top up Stabilization Reserve ~ 2.5% | \$(123,000) |
|-------------------------------------|-------------|

|                 |                      |
|-----------------|----------------------|
| Capital Reserve | <u>\$(1,572,832)</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.

The following chart outlines the ceiling of 3.5% and the amount administration is recommending to transfer from the 2018 surplus.

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

|   |                    |
|---|--------------------|
| 3.5% of 2018 Budget \$160,870,000 - Ceiling Amount        | \$5,630,450        |
| Uncommitted balance of Stabilization Reserve at Dec.31/18 | \$3,898,807        |
| <b>Amount Available to Top up Stabilization Reserve</b>   | <b>\$1,731,643</b> |
| Administration is recommending ~2.5%                      | \$123,000          |

## 2. Capital Reserve

The purpose of this reserve as stated in schedule C1 of Council Policy C-FS-01 Financial Reserves is as follows:

To provide funds for internal financing of general municipal capital projects, thereby improving the City's overall net financial position.

Administration is recommending transferring the remainder of the operating surplus, which is approximately \$1.6 million to this Capital Reserve to support future year capital requirements.

## **STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT**

N/A

## **IMPLICATIONS OF RECOMMENDATION(S)**

### Financial:

Distribution of the 2018 surplus as per administration's recommendation will bring the uncommitted balance in the Stabilization reserve up to \$4.0 million and provide an additional \$1.6 million to the Capital reserve which may be utilized towards capital projects.

### 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 \$43 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.

Report Date: February 25, 2019

Author(s): Brenda Barclay

Committee/Department: Finance & Assessment Department

Chief Administrative Officer: Kevin Scoble