



## Background and Context

- In 2019, a Reserve Policy was established to stabilize future funding sources and minimize the impact on tax rates
  - institutes minimum and maximum balances, where appropriate, to ensure sufficient reserves are on hand at any given time
  - per Policy, the first use of surplus funds is to top reserves up to the required minimum balance
- The primary objectives of the Reserve Policy is financial resiliency by:
  - providing funds for operating emergencies
  - ensuring sustainable funding for facilities/infrastructure
  - ensuring stable and predictable property tax levies

## 2019 Surplus by FUND

|              |                    |                 |
|--------------|--------------------|-----------------|
| Sewer Fund   | \$ 581,616         | (11% of budget) |
| Water Fund   | \$1,069,989        | (8% of budget)  |
| General Fund | <u>\$5,927,947</u> | (4% of budget)  |
| TOTAL        | <u>\$7,579,552</u> |                 |

## Key Drivers – Sewer Fund

- User fees were higher than anticipated by \$ 279,000
- Unspent contingencies of \$71,000 and \$128,000 from debt costs made up the majority of the remaining variance
  - debt variance is due to a timing difference
- The combination has enabled \$581,616 to be transferred to the sewer reserves for future projects

## Key Drivers – Water Fund

- User fees and connection fees relating to water use were higher than anticipated by \$638,000.
- Unspent water contingencies of \$115,000 and \$205,000 from position vacancies made up the majority of the remaining variance.
- The combination has enabled \$1,069,989 to be transferred to the water reserves for future projects

## Key Drivers – General Fund

| Type   | Amount      | Explanation  |
|--|-------------|--|
| Wages and Benefits                                       | \$2,066,000 | Vacant positions throughout the City                                   |
| Revenues:  |             |  |
| • Interest Income  | 1,116,100   | Higher interest income due to rising interest rates                    |
| • Building Permits                                       | 560,400     | Higher than anticipated revenues                                       |
| • PRC Fees & Admissions                                  | 209,500     | Higher than anticipated revenues                                       |
| • Grants In Lieu   | 181,700     | Higher than anticipated revenues                                       |
| • Penalties & Interest on Taxes                          | 114,300     | Higher than anticipated revenues                                       |
| Contracted Services                                      | 507,300     | Expenditures were less than anticipated                                |
| Hardware, Software and Associated Licenses & Maintenance | 286,700     | Expenditures were less than anticipated                                |
| Janitorial Supplies                                      | 154,100     | Expenditures were less than anticipated                                |
| Insurance  | 132,600     | Expenditures were less than anticipated                                |
| Vancouver Island Conference Centre                       | (164,000)   | Deficit due to 2017 & 2018 incentive fees paid in 2019                 |
| RCMP Contract  | (232,000)   | Contract settlement liability for the year was higher than anticipated |

## Pressures and Opportunities

### Special Initiatives Reserve     \$2,013,000

- *Purpose of this reserve is to fund emerging issues that require short term funding and minimize impact on future property tax increases through contributions from prior year operating surplus. Funding for the following projects are being recommended:*

1. VICC Audio Visual Upgrades     \$ 1,163,000
2. SARC Building Upgrades     \$ 750,000
  - built in 2012, the third floor was intended accommodate future growth
3. Sponsorship Project     \$ 100,000
  - Council endorsed the Finance and Audit Committee recommendation to complete a feasibility study, develop a sponsorship strategic plan and policy.

## Pressures and Opportunities

### General Financial Stability Reserve     \$ 759,874

- *Purpose of this reserve is to mitigate risk arising from lower than expected revenues or sudden unplanned expenditures needed to maintain delivery of City services.*
- Contributions to this reserve are from allocations of general operating surplus and/or a budget allocation.
- The minimum target balance for this reserve is calculated at 60 days of the prior year's budgeted general operating expenditures and the target is currently \$16,408,806.
- To meet this balance, \$759,874 will need to be allocated from surplus.
  - Most of this change is due to funding the Post Employment Benefits liability that is budgeted for in 2020.



## Pressures and Opportunities

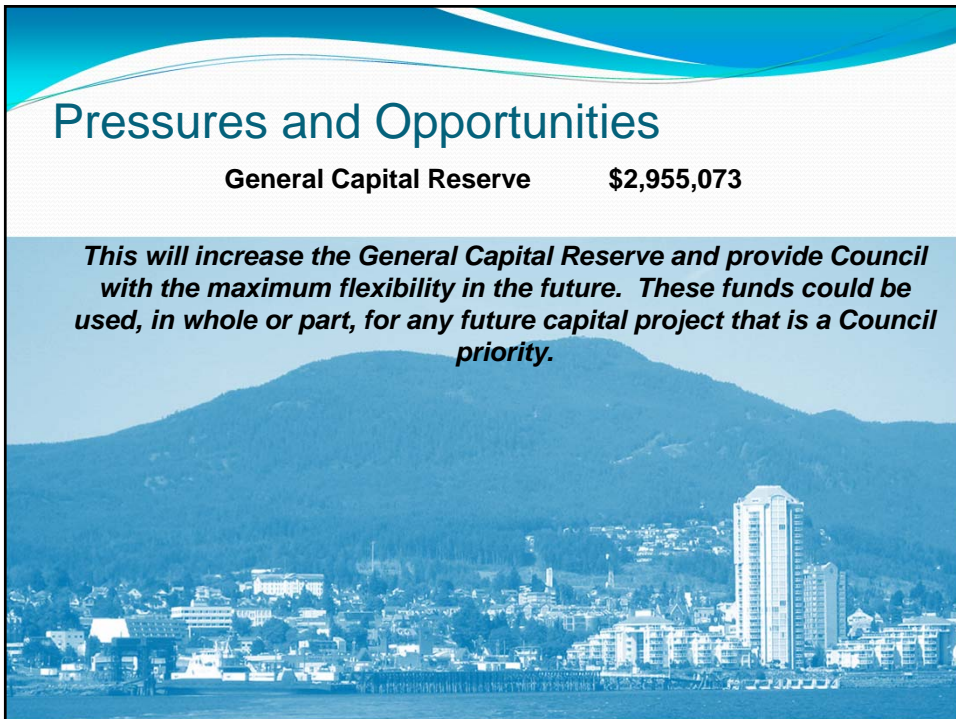
**Strategic Partnership Reserve      \$ 200,000**

- *The Strategic Partnership Reserve was established in 2015 and provides funding for consultation with Snuneymuxw First Nation regarding joint projects.*

## Pressures and Opportunities

**General Capital Reserve      \$2,955,073**

***This will increase the General Capital Reserve and provide Council with the maximum flexibility in the future. These funds could be used, in whole or part, for any future capital project that is a Council priority.***



## Considerations for Discussion

- The compilation of the 2019 draft financial statements is in progress and the audit by KPMG LLP started on March 9.
- To prepare final financial statements, staff need to allocate the surplus prior to finalization of the audit March 23.

## OPTION 1

### Allocate 2019 Surplus as follows:

|    |  |                     |
|----|--|---------------------|
| 1. | <b>General Fund</b>                    |                     |
|    | a. Special Initiatives Reserve         | \$ 2,013,000        |
|    | b. General Capital Reserve             | 2,955,073           |
|    | c. General Financial Stability Reserve | 759,874             |
|    | d. Strategic Partnership Reserve       | 200,000             |
|    |  | =====               |
|    |  | \$ 5,927,947        |
|    |  | =====               |
| 2. | <b>Sewer Fund</b>                      |                     |
|    | a. Sewer Reserve                       | \$ 581,616          |
|    |  | =====               |
| 3. | <b>Water Fund</b>                      |                     |
|    | a. Water Distribution Reserve          | \$ 1,069,989        |
|    |  | =====               |
|    | <b>Total Surplus Allocation</b>        | <b>\$ 7,579,552</b> |
|    |  | =====               |

## OPTION 2

**Council direct specific surplus funds to different and/or specific priorities.**

## Next Steps

- To provide the Finance and Audit Committee information regarding the allocation of the 2019 operating surplus
- Finance and Audit to recommend allocation to Council for approval March 23, 2020



Questions?