

Staff Report for Decision

DATE OF MEETING MARCH 17, 2021

AUTHORED BY DAN BAILEY, MANAGER, ACCOUNTING SERVICES

SUBJECT 2020 SURPLUS ALLOCATION

OVERVIEW

Purpose of Report

To provide the Finance and Audit Committee with information pertaining to the allocation of the 2020 operating surplus.

Recommendation

That the Finance and Audit Committee approve the allocation of the 2020 operating surplus as follows:

1.	General Fund	
	a. Special Initiatives Reserve	\$ 7,482,599
	b. Property Acquisition Reserve	<u>1,000,000</u>
		<u>\$ 8,482,599</u>
2.	Sewer Fund	
	a. Sewer Reserve	\$ 589,873
	b. Sewer Financial Stability Reserve	<u>28,751</u>
		<u>\$ 618,624</u>

BACKGROUND

The compilation of the 2020 draft financial statements is in progress and the audit by KPMG LLP started on 2021-MAR-08. In preparing the financial statements, staff need to allocate the surplus prior to finalization of the audit.

In order to help stabilize future funding sources and minimize the impact on tax rates, a Reserve Policy was established in 2019. This policy provides guidance with respect to the development, maintenance and use of City Reserve Funds. The policy also institutes minimum and maximum values, where appropriate, to ensure levels of reserves are on hand at any given time. As outlined in the Policy, the first use of surplus funds is to bring the reserves up to the identified minimum balance.

The primary objectives of the reserve policy is to support financial resiliency by:

- Providing funds for operating emergencies
- Ensuring sustainable funding for infrastructure
- Ensuring stable and predictable property tax levies

DISCUSSION

The COVID-19 pandemic has significantly affected the City. Below is a summary of the key impacts along with strategic actions taken by management to reduce the impact of COVID-19:

Key Impacts:

- Increased costs for personal protective equipment (PPE), additional safety measures and the Parks Ambassador Program.
- Significant reduction in parking revenues due to travel restrictions and facility closures.
- Provincial revenue sharing losses due to the closure of casinos.
- Revenue shortfall at the Vancouver Island Conference Centre.

Cost Saving:

- Repurposing Parks and Recreation staff to fill vacancies and seasonal positions.
- CAO authorized all vacant position postings on a priority needs basis
- Implementing immediate expense saving measures at the Vancouver Island Conference Centre.
- Cutting expenditures for staff travel and conferences, space rental and service contracts.

On 2020-NOV-02, a letter from the Ministry of Municipal Affairs and Housing was received stating that Nanaimo would be awarded \$6,693,000 under the joint federal/provincial funded COVID-19 Safe Restart Grant for Local Government program. The grant program provided up to \$425 million for local governments impacted by COVID-19. The funding was designed to support local governments experiencing increased operating costs and lower revenues as a result of the Pandemic.

The City used the grant funds for the following:

Item	Total
Revenue Shortfalls:	
Casino Revenues	\$ 1,985,248
PRC Revenues	
Aquatics	\$ 1,695,697
Arenas	577,219
Recreation	1,513,748
	3,786,664
Parking Revenues	284,527
Unplanned Pandemic Expenditures:	
Pandemic Internal Order	494,911
Water Safety Team	27,592
Park Ambassadors Program	114,058
	636,561
Total Grant Allocation	6,693,000
Allocations to Reserves:	
Facility Development Reserve	693,315
Parking Reserve	226,878
Special Initiatives Reserve	
Casino Funding	1,330,116
Total Reserve Allocations	2,250,309
Net Impact to Surplus	\$ 4,442,691

The combination of the cost saving measures and the COVID-19 Safe Restart Grant have contributed to a surplus for the year.

The City of Nanaimo accounts for its budgets within three funds: general fund, sewer fund and water fund.

The unaudited financial results for the year ended 2020-DEC-31 are as follows for each of the funds:

General Fund

The general fund surplus was \$8,482,599 at 2020-DEC-31. This represents 6% of the budget.

The surplus is largely due to the following variances:

Type	Amount	Explanation
Revenues:		
• COVID-19 Safe Restart Grant	\$4,443,000	\$4.4M of the \$6.7M grant received contributed to the 2020 operating surplus
• Interest Income	401,000	Higher interest income than forecasted due to increased cash flows
• Business Licenses	123,000	Higher than anticipated revenues
• VIERA Revenues	138,000	Higher than anticipated revenues
• Sun Life Recovery	250,000	Health and dental plan aggregate surplus
• Casino Revenues	(655,000)	Revenue loss due to Casino Closure
Conference, Tuition and Travel	559,000	Savings due to pandemic travel restrictions
Street Light Electricity Savings	158,000	LED conversion operational savings
Wages and Benefits:		Savings due to numerous vacancies in the year and unbudgeted wage recoveries
• Engineering	247,000	
• IT	178,000	
• Transportation	394,000	
• Economic Development	156,000	
• Subdivision	125,000	
• Fire Suppression Recoveries	173,000	
PRC Operational Savings:		Savings due to facility closures
• NAC	419,000	
• Beban Pool	670,000	
• Recreation Services Facility Rentals	312,000	
Unplanned Pandemic Costs:		
• Pandemic Internal Order	(495,000)	PPE and other related pandemic costs

Staff propose the 2020 general fund surplus be allocated to reserves as follows:

Special Initiatives Reserve

\$7,482,599

The special initiatives reserve was established through the creation of the new Reserve Policy. The purpose of this reserve is to fund emerging issues that require short-term funding and minimize the impact on future property tax increases through contributions from prior year operating surplus.

The special initiatives reserve fund can be used as a contingency for any 2021 revenue shortfalls, or any unanticipated pandemic related costs. The 2021 – 2025 Financial Plan includes Special Initiatives Reserve funding for the following items:

2021-2023 Property Tax Reductions	\$1,755,437
2021 Pandemic Response	500,000
2021 Staffing Reinstatements	217,748
2021-2022 Project Engineer Position	310,000
2021 Project Reinstatements	883,120
2021 Community Clean Team	248,300
2021 Fourth & Albert Street Complete Street Project	1,000,000
2021-2024 Asset Management System	660,900
2021 Community Connect Grant	147,000
2021-2022 Community Restoration Grant	40,000
2021 Parking Loss Funding	84,000

Total Planned Special Initiatives Reserve Funding	\$5,846,505
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At the upcoming 2021-APR-14 Finance and Audit Committee meeting staff will be bringing the Final 2021-2025 Financial Plan for discussion. There may be funding requirements from the Special Initiatives Reserve at that time for additional decision items.

Property Acquisition Reserve \$1,000,000

The property acquisition reserve has allowed Council in the past to make strategic land purchases including the Linley Valley property, the Port Drive waterfront site, and the School District land purchases. This reserve allocation will allow flexibility for any future land purchase that Council wishes to make.

Sewer Fund

The sewer fund recorded a surplus of \$618,624 at 2020-DEC-31. This represents 12% of the budget.

User fees relating to sewer use were higher than anticipated by \$502,000. This surplus, when combined with the 2020 unspent sewer contingency of \$60,000 make up the majority of the sewer fund variance.

Staff propose that \$28,751 of the 2020 sewer fund surplus be allocated to the Sewer Financial Stability Reserve to bring the reserve up to its \$500,000 minimum balance as defined in the Reserve Policy. Staff propose that the balance of \$589,873 be transferred to the sewer reserve for future projects.

Water Fund

The water fund recorded a deficit of \$393,567 at 2020-DEC-31. This represents 3% of the budget.

User fees and connection fees relating to water use were lower than anticipated by \$537,000. This is largely due to weather conditions. This deficit, when combined with the 2020 unspent water contingency of \$100,000 make up the majority of the water fund variance.

The 2020 deficit is funded from the water reserve account.

Summary

If a municipality has a small surplus it means that tax rates were appropriately set to meet current year operations. However, it does not provide any excess monies to be transferred to reserves for the funding of future projects or cover any unexpected operating costs that may occur.

If low surplus values are sustained year after year, tax rates can potentially become more volatile as a larger percentage of funding for unexpected events and/or projects will need to come from current year taxes rather than reserves.

By transferring excess surplus funds to reserves in 2020 it means that the need for future year tax increases are mitigated as these monies can be used to cover any unexpected operating costs, drops in revenue sources or fund future projects.

OPTIONS

1. That the Finance and Audit Committee approve the allocation of the 2020 operating surplus as follows:

1.	General Fund	
	a. Special Initiatives Reserve	\$ 7,482,599
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- The advantages of this option: Transferring excess surplus funds to reserves this year means that the need for future year tax increases are mitigated as these monies can be used to cover any unexpected operating costs, drops in revenue sources or fund future projects.
- Financial Implications: \$9,101,223 is reserved to fund general and sewer projects and operations in the future.

2. That Council direct specific surplus funds to other priorities.

SUMMARY POINTS

- The general fund recorded an operating surplus of \$8,482,599 or 6% of approved budget in 2020. Staff propose that \$1,000,000 of this surplus be allocated to the Property Acquisition Reserve, and the remaining \$7,482,599 be allocated to the Special Initiatives Reserve.
- The Sewer Fund recorded an operating surplus of \$618,624 or 12% of approved budget in 2020. Staff propose that \$28,751 of this surplus be allocated to the Sewer Financial Stability Reserve, and the remaining \$589,873 be allocated to the Sewer Reserve.
- The Water Fund recorded an operating deficit of \$393,567 or 3% of approved budget in 2020. This deficit is funded from the Water Reserve.

ATTACHMENTS

Attachment A: Summary of 2020 Surplus |

Submitted by:

Dan Bailey
Manager, Accounting Services |

Concurrence by:

Laura Mercer
Director, Finance

Shelley Legin
General Manager, Corporate Services |