

DATE OF MEETING FEBRUARY 21, 2024

AUTHORED BY [DAN BAILEY, MANAGER, ACCOUNTING SERVICES]

SUBJECT 2023 SURPLUS ALLOCATION

OVERVIEW

Purpose of Report

To provide the Finance and Audit Committee with information pertaining to the allocation of the 2023 operating surplus.

Recommendation

That the Finance and Audit Committee recommend that Council:

1. Approve the allocation of the 2023 operating surplus as follows:

1. General Fund

a. RCMP Contract Reserve	1,700,000
b. General Financial Stability Reserve	1,200,000
c. Special Initiatives Reserve	2,870,000
d. Property Acquisition Reserve	500,000
e. General Capital Reserve	<u>2,443,706</u>
	<u>\$ 8,713,706</u>

2. Sewer Fund

a. Sewer Reserve	419,078
b. Sewer Financial Stability Reserve	<u>100,000</u>
	<u>\$ 519,078</u>

3. Water Fund

a. Water Reserve	345,639
b. Water Financial Stability Reserve	<u>48,945</u>
	<u>\$ 394,584</u>

2. Amend the 2024-2028 Financial Plan for final to increase the 2024 budget for the South End Community Centre Land project by \$1,500,000.

BACKGROUND

The compilation of the 2023 draft financial statements is in progress and the audit by KPMG LLP is scheduled to begin on 2024-MAR-04. In preparing the financial statements, staff need to allocate the operational surplus to reserves prior to the finalization of the financial statements for the year-end 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 City of Nanaimo accounts for its budget within three operating funds: general, sewer and water. The total combined net operating surplus for the year is \$9,627,368 (unaudited). A summary of surplus results by department is documented at a more detailed level in **Attachment A**. This report lists the 2023 total surplus (deficit) by function within each City department, and includes analysis for any variances that exceed \$100,000.

The unaudited financial results for each operating fund at 2023-DEC-31 and the recommended surplus allocation for each fund are as follows:

1. General Fund

The general fund surplus was \$8,713,706 at 2023-DEC-31. This represents 4.6% of the total general operating expenditures budget as per financial statement presentation. This surplus is largely due to the following:

Source	Reason	Amount
RCMP Contract	Costs were lower than expected due to member vacancies	\$ 1,648,000
Investment Income	Multiple unprecedented interest rate increases	\$ 1,374,000
Wages & Benefits	Savings due to numerous position vacancies throughout the City	\$ 4,900,000

Staff propose that the 2023 general operating fund surplus be allocated to reserves as follows:

RCMP Contract Reserve **\$ 1,700,000**

The RCMP Contract Reserve is used to fund RCMP contract costs that exceed the budget estimate. Funding from the reserve is also being used to help offset some of the costs of addressing the space needs challenges at the detachment. The RCMP labour contract expired on 2023-MAR-31 and retro active payments will be required when the contract is settled. Based on the most recent settlement, it is anticipated additional funds will be needed when an agreement is reached. Setting aside the RCMP Contract surplus amounts each year will provide a funding source if additional funds are required. The balance in this reserve was \$4,533,433 at 2023-DEC-31.

General Financial Stability Reserve **\$1,200,000**

The General Financial Stability Reserve requires a top-up of \$1,178,938 to ensure the projected 2024 closing balance meets the new 2024 minimum balance threshold of \$17,000,000. The balance in this reserve was \$16,522,062 at 2023-DEC-31.

Special Initiatives Reserve **\$2,870,000**

The Special Initiatives Reserve is used to fund specific City initiatives in the following year. At the October 18th Finance and Audit Committee meeting, Council directed staff to allocate \$870,000 from the 2023 general fund operating surplus to be used as a 2024 project contingency budget.

In addition, staff are recommending that \$500,000 of operating surplus be allocated to the Special Initiatives Reserve to help provide support services to the unhoused population in 2024. Lastly, staff recommend that \$1,500,000 of surplus be used to increase the 2024 budget for South End Community Centre Land project. The balance in the Special Initiatives Reserve was \$4,293,464 at 2023-DEC-31.

Property Acquisition Reserve **\$ 500,000**

The Property Acquisition Reserve has allowed Council in the past to make strategic land purchases including the Commercial Street properties and the 1861 East Wellington Road property. This reserve allocation will allow flexibility for any future land purchase that Council wishes to make. The balance in this reserve was \$4,930,761 at 2023-DEC-31.

General Capital Reserve **\$ 2,443,706**

The General Capital Reserve is used to fund general (non-sewer and water) projects. This reserve is being used to fund numerous projects including the police operations building expansion design phase. This \$2,443,706 reserve allocation will allow for future funding of general fund projects. The balance in this reserve was \$5,997,378 at 2023-DEC-31.

2. Sewer Fund

The sewer fund surplus was \$519,078 at 2023-DEC-31. This represents 9.0% of the total sewer operating expenditures budget as per financial statement presentation. The majority of the surplus results from higher than anticipated user fee revenues as well as wage and benefit savings due to position vacancies. Staff propose that the 2023 sewer operating fund surplus be allocated to reserves as follows:

Sewer Financial Stability Reserve **\$100,000**

The Sewer Financial Stability Reserve requires a top-up of \$100,000 to increase the balance to the new 2024 minimum balance threshold of \$600,000. The balance in this reserve was \$500,000 at 2023-DEC-31.

Sewer Reserve

\$419,078

Staff propose that the remaining \$419,078 sewer fund operating surplus be allocated to the Sewer Reserve to be used to fund future sewer projects. The balance in this reserve was \$13,475,771 at 2023-DEC-31.

3. Water Fund

The water fund surplus was \$394,584 at 2023-DEC-31. This represents 2.6% of the total water operating expenditures budget as per financial statement presentation. The majority of the surplus results from higher than anticipated user fee revenues. Staff propose that the 2023 water operating fund surplus be allocated to reserves as follows:

Water Financial Stability Reserve

\$48,945

The Water Financial Stability Reserve requires a top-up of \$48,945 to increase the balance to the new 2024 minimum balance threshold of \$1,750,000. The balance in this reserve was \$1,701,055 at 2023-DEC-31.

Water Reserve

\$345,639

Staff propose that the remaining \$345,639 water fund operating surplus be allocated to the Water Reserve to be used to fund future water projects. The balance in this reserve was \$20,665,040 at 2023-DEC-31.

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 2023 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 recommend that Council:

1. Approve the allocation of the 2023 operating surplus as follows:

1. **General Fund**

a. RCMP Contract Reserve	1,700,000
b. General Financial Stability Reserve	1,200,000
c. Special Initiatives Reserve	2,870,000

d. Property Acquisition Reserve	500,000
e. General Capital Reserve	<u>2,443,706</u>
	<u>\$ 8,713,706</u>
2. Sewer Fund	
a. Sewer Reserve	419,078
b. Sewer Financial Stability Reserve	<u>100,000</u>
	<u>\$ 519,078</u>
3. Water Fund	
a. Water Reserve	345,639
b. Water Financial Stability Reserve	<u>48,945</u>
	<u>\$ 394,584</u>

2. Amend the 2024-2028 Financial Plan for final to increase the 2024 budget for the South End Community Centre Land project by \$1,500,000.

- 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:
 - \$9,627,368 is reserved to fund general, sewer and water projects and operations in the future. The 2024-2028 Financial Plan will be amended for final to increase the 2024 budget for the South End Community Centre Land project by \$1,500,000.

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

SUMMARY POINTS

- The general fund recorded an operating surplus of \$8,713,706, or 4.6% of the total general operating expenditures budget as per financial statement presentation. Staff propose that the 2023 surplus be allocated to reserves as follows:

a. RCMP Contract Reserve	1,700,000
b. General Financial Stability Reserve	1,200,000
c. Special Initiatives Reserve	2,870,000
d. Property Acquisition Reserve	500,000
e. General Capital Reserve	<u>2,443,706</u>
	<u>\$ 8,713,706</u>
- The Sewer Fund recorded an operating surplus of \$519,078 or 9.0% of the total sewer operating expenditures budget as per financial statement presentation. Staff propose that \$100,000 of this surplus be allocated to the Sewer Financial Stability Reserve and \$419,078 be allocated to the Sewer Reserve.
- The Water Fund recorded an operating surplus of \$394,584 or 2.6% of the total water operating expenditures budget as per financial statement presentation. Staff propose that \$48,945 of this surplus be allocated to the Water Financial Stability Reserve and \$345,639 be allocated to the Water Reserve.

- The 2024-2028 Financial Plan will be amended for final to increase the 2024 budget for the South End Community Centre Land project by \$1,500,000.

ATTACHMENTS:

Attachment A: Summary of 2023 Surplus

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