

DATE OF MEETING MARCH 19, 2025

AUTHORED BY DAN BAILEY, MANAGER, ACCOUNTING SERVICES

SUBJECT 2024 SURPLUS ALLOCATION

## **OVERVIEW**

### **Purpose of Report**

To provide the Finance and Audit Committee with information pertaining to the recommended allocation of the 2024 operating surplus.

### **Recommendation**

That the Finance and Audit Committee recommend that Council approve the allocation of the 2024 operating surplus as follows:

#### **1. General Fund**

a. RCMP Contract Reserve	1,411,438
b. General Financial Stability Reserve	1,094,545
c. Special Initiatives Reserve	<u>5,290,000</u>
	<u>\$ 7,795,983</u>

#### **2. Sewer Fund**

a. Sewer Reserve	<u>\$ 342,240</u>
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## **BACKGROUND**

The compilation of the 2024 draft financial statements is in progress and the audit by KPMG LLP commenced on 2025-MAR-03. In preparing the financial statements, the operational surplus needs to be allocated to reserves prior to the finalization of the year-end audit.

In order to help stabilize future funding sources and minimize the impact on property tax rates, a Reserve Policy was adopted in 2019. The policy provides guidance with respect to the development, maintenance and use of reserves including the requirement of minimum and maximum reserve balances where appropriate.

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

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

As outlined in the policy, the first use of operating surplus funds is to ensure all reserves with an identified minimum balance are projected to be at or above that balance in the approved financial plan.

## **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 \$6,942,883 (unaudited) and breaks down as follows:

General Fund	7,795,983 surplus
Sewer Fund	342,240 surplus
Water Fund	(1,195,340) deficit
<b>Total</b>	<b>\$6,942,883 surplus</b>

A summary of surplus results by department is documented at a more detailed level in **Attachment A**. This report lists the 2024 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 2024-DEC-31 and the recommended surplus allocation for each fund are as follows:

### **1. General Fund**

The general fund surplus was \$7,795,983 at 2024-DEC-31. This represents 3.7% of the total general operating expenditures budget as per financial statement presentation. This surplus is largely due to the following:

Source	Reason	Amount
<b>RCMP Contract</b>	Costs lower than expected due to member vacancies	\$ 1,411,000
<b>Investment Income</b>	Interest rate reductions slower than anticipated	\$ 599,000
<b>Wages &amp; Benefits</b>	Savings due to vacancies and wage recoveries	\$ 4,752,000
<b>Recreation Revenue</b>	Increased facility usage and program participation	\$ 1,229,000

Staff propose that the 2024 general operating fund surplus be allocated to reserves as follows:

#### **RCMP Contract Reserve**

**\$ 1,411,438**

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 \$1,411,000 RCMP operating surplus will be allocated to the RCMP Contract Reserve as previously directed by Council.

The balance at 2024-DEC-31 in the RCMP Contract Reserve, prior to the allocation, was \$5,704,931.

### **General Financial Stability Reserve**

**\$ 1,094,545**

The General Financial Stability Reserve is used to mitigate risk by providing funding for unknown expenditures arising from operational emergencies or necessities. The Government Finance Officer's Association (GFOA) recommends that the target range for the reserve is between 45 and 90 days of annual operating expenditures. The projected 2025 closing balance of the reserve is currently at exactly 45 days of annual operating expenditures. A top-up of \$1,094,545 is recommended to bring the projected 2025 closing reserve balance to 48 days of operating expenditures.

The balance at 2024-DEC-31 in the General Financial Stability Reserve, prior to the allocation, was \$17,722,062.

### **Special Initiatives Reserve**

**\$ 5,290,000**

The Special Initiatives Reserve is used to fund short-term initiatives funded by an allocation of prior year general operating surplus. Staff are recommending that funds be allocated to the reserve to support three initiatives:

- \$890,000 for 2025 project contingency: At the 2024-OCT-16 Finance and Audit Committee meeting, Council directed staff to allocate \$890,000 from the 2024 general fund operating surplus to be used as a 2025 project contingency budget.
- \$400,000 to provide support services to the unhoused population: \$100,000 of the \$500,000 Council allocated to this initiative in 2023 is still available. Staff are recommending that \$400,000 of the 2024 operating surplus be allocated to this initiative to bring this amount back to \$500,000.
- \$4,000,000 to support a Council priority project or initiative.

The balance at 2024-DEC-31 in the Special Initiatives Reserve, prior to the allocation, was \$4,585,385.

## **2. Sewer Fund**

The sewer fund surplus was \$342,240 at 2024-DEC-31. This represents 6.1% 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. Staff propose that the 2024 sewer operating fund surplus be allocated to the Sewer Reserve to be used to fund future sewer projects.

The balance at 2024-DEC-31 in the Sewer Reserve, prior to the allocation, was \$14,631,522.

### **3. Water Fund**

The water fund recorded a deficit of \$1,195,340 at 2024-DEC-31. This represents 7.7% of the total water operating expenditures budget as per financial statement presentation. This deficit is largely due to lower than anticipated user fees. Expenditures were also higher than planned due to more service connection renewals and meter replacements than anticipated.

To mitigate the water fund deficit, the annual transfer from water operations to the Water reserve will be reduced by \$1,195,340. The 2024 financial plan includes a \$8,360,370 contribution from water operations to the water operating reserve to fund future water projects. The actual transfer from water operations will be \$7,165,030 to account for the operational deficit.

The balance at 2024-DEC-31 in the Water Reserve, prior to the reduction, was \$12,473,617.

### **SUMMARY**

The surplus for the general fund represents 3.7% of the total general operating expenditures budget as per financial statement presentation. As the municipality is not permitted to run a deficit it is reasonable that the City has an operating surplus. A small surplus means that tax rates were appropriately set to meet current year operations.

Transferring the operating surplus in the general and sewer funds to reserves allows these monies to be used to cover any unexpected operating costs or drops in revenue, or to fund future projects. This reduces the potential for more volatile changes in property tax rates or user fees for unexpected events and/or projects.

### **OPTIONS**

1. That the Finance and Audit Committee recommend that Council approve the allocation of the 2024 operating surplus as follows:

1. **General Fund**

a. RCMP Contract Reserve	1,411,438
b. General Financial Stability Reserve	1,094,545
c. Special Initiatives Reserve	5,290,000
	<u>\$ 7,795,983</u>

2. **Sewer Fund**

a. Sewer Reserve	<u>\$ 342,240</u>
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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 to fund future projects.
- Financial Implications:
  - \$8,138,223 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 \$7,795,983, or 3.7% of the total general operating expenditures budget as per financial statement presentation. Staff propose that the 2024 surplus be allocated to reserves as follows:

a. RCMP Contract Reserve	1,411,438
b. General Financial Stability Reserve	1,094,545
c. Special Initiatives Reserve	<u>5,290,000</u>
	<u>\$ 7,795,983</u>
- The sewer fund recorded an operating surplus of \$342,240 or 6.1% of the total sewer operating expenditures budget as per financial statement presentation. Staff propose that this surplus be allocated to the Sewer Reserve.
- The water fund recorded an operating deficit of \$1,195,340 or 7.7% of the total water operating expenditures budget as per financial statement presentation. This deficit is funded from the Water Reserve.

### **ATTACHMENTS:**

Attachment A: Summary of 2024 Surplus

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