

FOR: FINANCE AND AUDIT COMMITTEE

MEETING DATE: [March 18, 2026]

DEPARTMENT: Finance

SUBJECT: **2025 Surplus Allocation**

OVERVIEW

Purpose of Report

To provide the Finance and Audit Committee with information pertaining to the recommended allocation of the 2025 operating surplus.

Recommendation

That the Finance and Audit Committee recommend that Council:

1. Approve the allocation of the 2025 operating surplus as follows:

A. General Fund

a. Special Initiatives Reserve	5,475,135
b. RCMP Contract Reserve	4,015,860
d. Property Acquisition Reserve	1,700,000
e. Snow and Ice Control Reserve	<u>257,000</u>
	<u>\$ 11,447,995</u>

B. Sewer Fund

a. Sewer Reserve	<u>\$ 340,938</u>
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C. Water Fund

a. Water Reserve	<u>\$ 1,592,953</u>
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2. Amend the 2026 – 2030 Financial Plan for final to include the following:

- A. A \$149,900 grant to the Children’s Health Foundation of Vancouver Island in 2026 to support the Home Away from Home project, funded from the Special Initiatives Reserve.
- B. An ongoing annual allocation of \$250,000 for all five years of the Financial Plan to support DCC Waivers and Reductions provided for non-market (affordable) housing units, with the 2026 amount funded from the Special Initiatives Reserve.

BACKGROUND

The compilation of the 2025 draft financial statements is in progress and the audit by KPMG LLP commenced on 2026-MAR-02. In preparing the financial statements, the operational surplus needs to be allocated to reserves prior to the finalization of the year-end audit.

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 \$13,381,886 (unaudited) and breaks down as follows:

General Fund	11,447,995 surplus
Sewer Fund	340,938 surplus
Water Fund	1,592,953 surplus
Total	\$13,381,886 surplus

A summary of surplus results by department is documented at a more detailed level in **Attachment A**. This report lists the 2025 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 2025-DEC-31 and the recommended surplus allocation for each fund are as follows:

1. General Fund

The general fund surplus was \$11,447,995 at 2025-DEC-31. This represents 5.4% 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 lower than expected due to numerous member vacancies	\$ 4,016,000
Wages & Benefits	Savings due to numerous vacancies in addition to unplanned wage recoveries (net of the \$750,000 negative wage contingency)	\$ 3,960,000
Investment Income	Interest rate reductions slower than anticipated	\$ 600,000
Building Permit Revenue	Revenues higher than planned	\$ 330,000

Staff propose that the 2025 general fund surplus be allocated to reserves as follows:

Special Initiatives Reserve **\$ 5,475,135**

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 the following initiatives:

- \$1,035,000 for 2026 project contingency: At the 2025-OCT-15 Finance and Audit Committee meeting, Council directed staff to allocate \$1,035,000 from the 2025 general fund operating surplus to be used as a 2026 project contingency budget.
- \$149,900 to provide a 2026 grant to the Children’s Health Foundation of Vancouver Island: At the 2025-NOV-19 Finance and Audit Committee meeting, Council deferred a decision to allocate \$149,900 from the 2025 general fund surplus to provide a grant to support the Home Away from Home project.
- \$250,000 for Development Cost charges (DCC) Waivers and Reductions: The *Development Cost Charge Best Practices Guide (March 2025)* advises that local governments should account for the potential loss of revenue for funding infrastructure when DCC reductions are provided for eligible development. When a 50% DCC levy reduction is approved for non-market (affordable) housing units, the City is required to fund the value of the reduction through a corresponding expenditure. A surplus allocation of \$250,000 is estimated to support DCC reductions for approximately 75 units at current DCC rates.
- \$4,040,235 to support any additional Council priority projects or initiatives.

The balance at 2025-DEC-31 in the Special Initiatives Reserve, prior to the allocation, was \$6,516,031.

RCMP Contract Reserve **\$ 4,015,860**

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 2025-MAR-31 and retroactive payments will be required when the contract is settled. It is anticipated that additional funds will be needed when an agreement is reached. The \$4,015,860 RCMP operating surplus will be allocated to the RCMP Contract Reserve as previously directed by Council.

The balance at 2025-DEC-31 in the RCMP Contract Reserve, prior to the allocation, was \$6,945,250.

Property Acquisition Reserve **\$ 1,700,000**

The Property Acquisition Reserve has allowed Council in the past to make strategic land purchases including 1030 Old Victoria Road, 604 Madsen Road, and most recently 4246 Victoria Avenue. This reserve allocation will allow flexibility for any future land purchases that Council would like to make.

The balance at 2025-DEC-31 in the Property Acquisition Reserve, prior to the allocation, was \$932,900.

Snow and Ice Control Reserve**\$ 257,000**

The Snow and Ice Control Reserve is used as a funding source when the actual annual costs for snow and ice control exceed the budgeted amount. This financial stability reserve requires a top up as it is below the minimum balance that is required for the 2026 – 2030 Financial Plan. The minimum balance requirement is reviewed every three years and is based on a 10-year historical spend.

The balance at 2025-DEC-31 in the Snow and Ice Control Reserve, prior to the allocation, was \$1,330,000.

2. Sewer Fund

The sewer fund surplus was \$340,938 at 2025-DEC-31. This represents 6.2% 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 2025 sewer fund surplus be allocated to the Sewer Reserve to be used to fund future sewer projects.

The balance at 2025-DEC-31 in the Sewer Reserve, prior to the allocation, was \$15,628,658.

3. Water Fund

The water fund surplus was \$1,592,953 at 2025-DEC-31. This represents 9.3% of the total water operating expenditures budget as per financial statement presentation. This surplus is largely due to higher than planned user fee revenue combined with wage and benefit savings. Staff propose that the 2025 water fund surplus be allocated to the Water Reserve to be used to fund future water projects.

The balance at 2025-DEC-31 in the Water Reserve, prior to the reduction, was \$12,674,872.

COMMUNICATION AND COMMUNITY ENGAGEMENT

This initiative does not require a statutory notification or include community engagement activities. |

ALIGNMENT WITH CITY PLAN

The report is aligned with the following City goals:

- A Green Nanaimo: Resilient and Regenerative Ecosystems
- A Connected Nanaimo: Equitable Access and Mobility
- A Healthy Nanaimo: Community Wellbeing and Livability
- An Empowered Nanaimo: Reconciliation, Representation and Inclusion
- A Prosperous Nanaimo: Thriving and Resilient Economy |

ALIGNMENT WITH COUNCIL'S STRATEGIC PRIORITIES

The report is aligned with the following Council Strategic Framework priorities:

- Implementing City Plan Action Plans and Key City Management Plans
- Social, Health and Public Safety Challenges
- Maintaining and Growing Current Services
- Capital Projects
- Communicating with the Community
- Governance and Corporate Excellence

OPTIONS

1. That the Finance and Audit Committee recommend that Council:

1. Approve the allocation of the 2025 operating surplus as follows:

A. General Fund

a. Special Initiatives Reserve	5,475,135
b. RCMP Contract Reserve	4,015,860
d. Property Acquisition Reserve	1,700,000
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B. Sewer Fund

a. Sewer Reserve	<u>\$ 340,938</u>
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C. Water Fund

a. Water Reserve	<u>\$ 1,592,953</u>
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2. Amend the 2026 – 2030 Financial Plan for final to include the following:

- A. A \$149,900 grant to the Children’s Health Foundation of Vancouver Island in 2026 to support the Home Away from Home project, funded from the Special Initiatives Reserve.
- B. An ongoing annual allocation of \$250,000 for all five years of the Financial Plan to support DCC Waivers and Reductions provided for non-market (affordable) housing units, with the 2026 amount funded from the Special Initiatives Reserve.
- The advantages of this option: Transferring excess surplus funds to reserves this year means that the need for future tax increases are mitigated as these monies are available to cover any unexpected operating or capital costs.
- Financial Implications: \$13,381,886 is reserved to fund future general, sewer and water operations and projects in the future. The 2026 – 2030 Financial Plan will be amended for final to include \$250,000 annually for DCC Waivers and Reductions and a \$149,900 grant for the Children’s Health Foundation of Vancouver Island in 2026.

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

KEY MESSAGES

- The General Fund recorded a 2025 operating surplus of \$11,447,995. Staff propose that the surplus be allocated as follows:

a. Special Initiatives Reserve	5,475,135
b. RCMP Contract Reserve	4,015,860
d. Property Acquisition Reserve	1,700,000
e. Snow and Ice Control Reserve	<u>257,000</u>
	<u>\$ 11,447,995</u>

- The Sewer Fund recorded a 2025 operating surplus of \$340,938. Staff propose that the surplus be allocated to the Sewer Reserve.
- The Water Fund recorded a 2025 operating surplus of \$1,592,953. Staff propose that the surplus be allocated to the Water Reserve.
- The 2026 – 2030 Financial Plan will be amended for final.

ATTACHMENTS

ATTACHMENT A: Summary of 2025 Surplus

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