

DRAFT

2017 Annual Operating Surplus for Tax Purposes and Recommended Allocations

**Strathcona County
Council Meeting
February 27, 2018**

Overview

Annual Operating Surplus for Tax Purposes

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- Draft County, Municipal and Utility Operations

Financial Reserves

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- Policy FIN-001-008: Allocation of Year-End Operating Surplus for Tax Purposes
- DRAFT 2017 Annual Operating Surplus for Tax Purposes Recommended Allocations

Annual Operating Surplus for Tax Purposes

Annual Operating Surplus for Tax Purposes

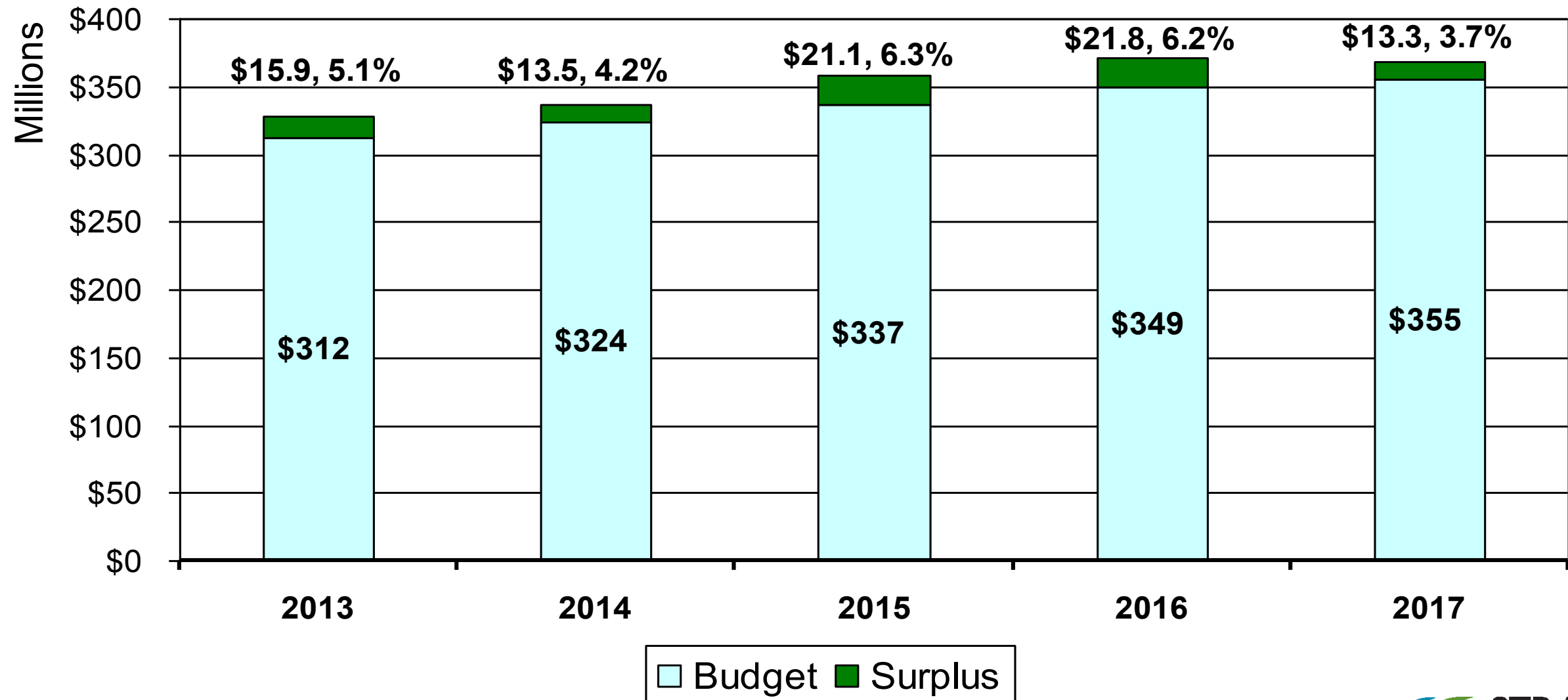
Introduction

- The fiscal year starts with a balanced operating budget.
- At the end of the year, an operating surplus is experienced if revenues are higher or expenses are lower than budgeted.
- A net surplus results from a combination of unique, generally non-recurring, circumstances that arise during the year.
- A year-end annual operating surplus is allocated in accordance with Policy FIN-001-008: Allocation of Year-End Operating Surplus for Tax Purposes.

Please note that the Annual Operating Surplus for Tax Purposes is not equivalent to the surplus for Public Sector Accounting Standards (PSAS)

DRAFT Annual Operating Surplus for Tax Purposes

County Operations 2013 - 2017



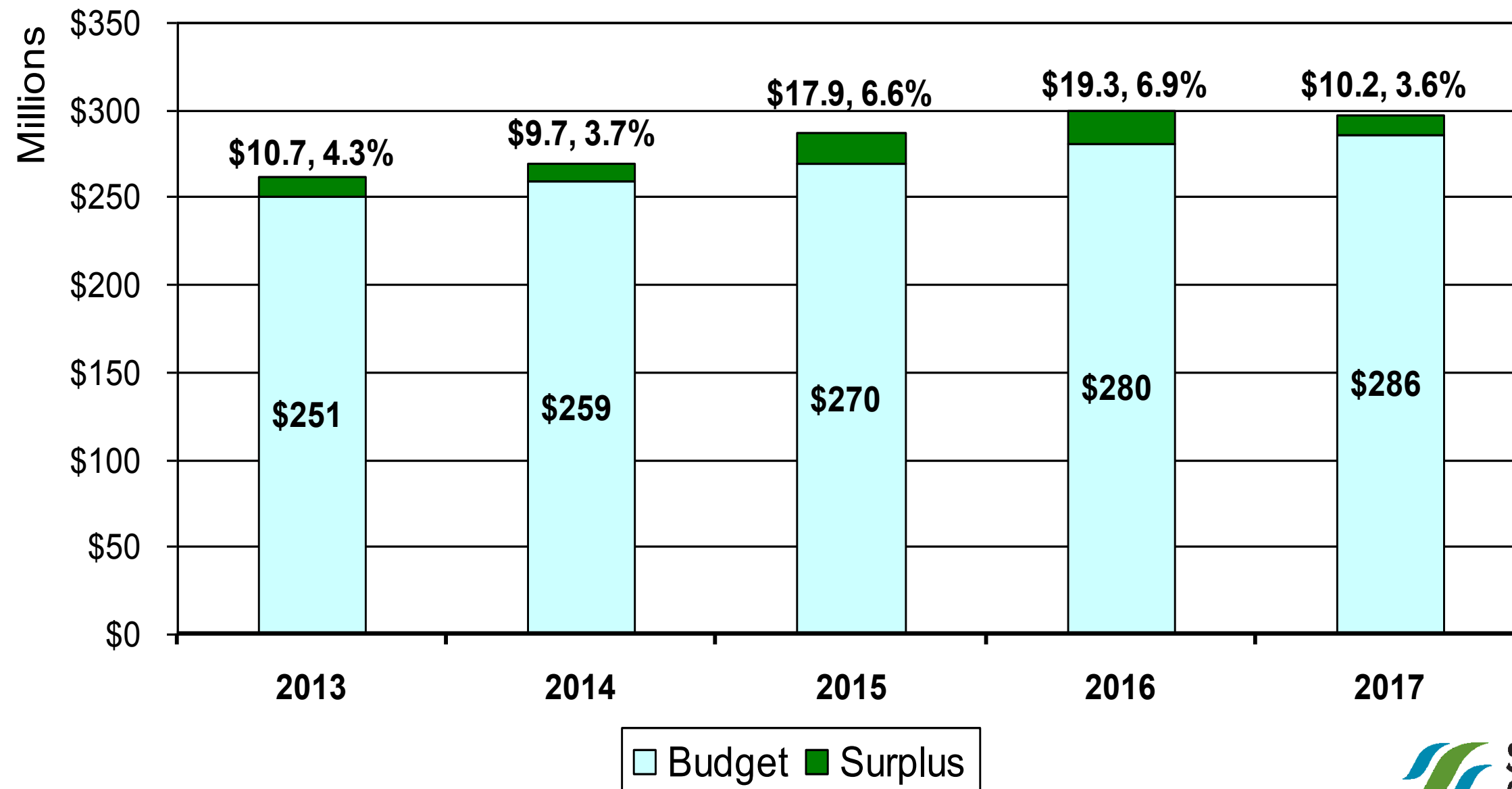
DRAFT Annual Operating Surplus for Tax Purposes

County Operations (\$13.3 Million) **for year ended December 31, 2017**

Operations	Annual Operating Surplus for Tax Purposes (in millions \$)
Municipal	10.2
Utility	2.8
Library	0.3
TOTAL	13.3

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Municipal Operations 2013 - 2017



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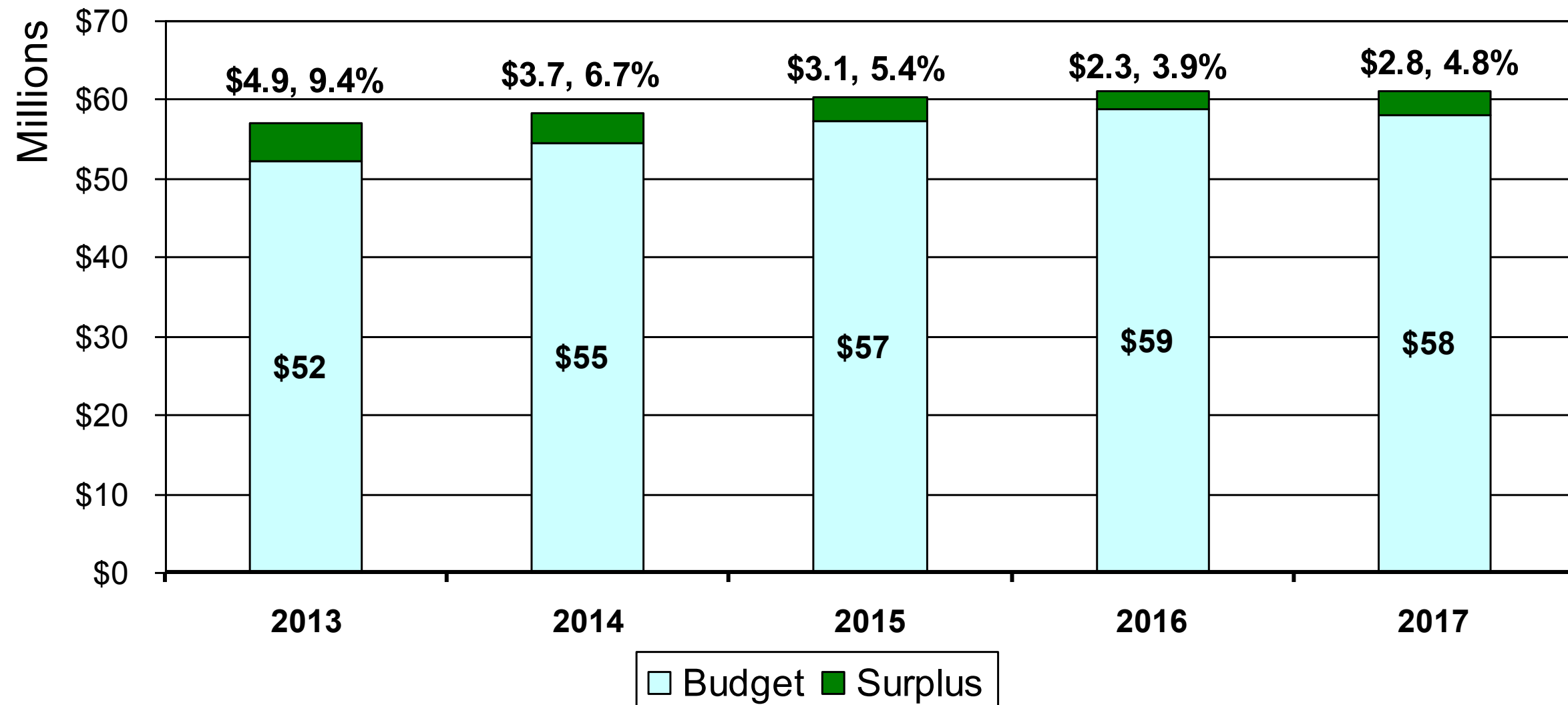
Municipal Operations (\$10.2 Million)

Contributing Factors - Favourable (In Order of Significance):

- Savings in winter road maintenance
- Savings in general road maintenance
- Favourable contract circumstances
- Higher investment income than anticipated
- Greater tax revenue than anticipated

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Utility Operations 2013 - 2017



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Utility Operations (\$2.8 Million)

Contributing Factors - Favourable (In Order of Significance):

- Savings from lower repair and maintenance costs (wastewater services)
- Unbudgeted third party reimbursement of wastewater repair and other recoveries
- Net savings in water purchases
- Lower solid waste contract costs than anticipated
- Savings in professional services

Financial Reserves

Financial Reserves Overview

What are Financial Reserves?

Financial reserves are created when funds are set aside (designated) for a future purpose.

Reserves can be used for:

- One-time purchases or projects;
- Emergent requirements;
- Future infrastructure needs; and
- Stabilization of fluctuations in operating and capital activities.

Household Example:

- Similar to a savings account
- May want to purchase something specific (i.e. vehicle), or save for maintenance such as a furnace replacement, or have savings to address emergent issues

Financial Reserves Overview

What is their purpose?

Reserves are a prudent business practice that will enhance:

- Strathcona County's financial strength and flexibility;
- Cash flow management; and
- Ability to achieve the Council Vision and Strategic Plan priorities.

Maintain and improve Strathcona County's working capital requirements

- Working capital requirement is the amount of money that a company needs to keep on hand in order to finance the gap between disbursements (payments to employees or suppliers) and receipts (payments from customers) and still be able to pay its debt obligations and other business related expenses.
- It is working capital that allows the County to minimize some risk. For example, it is identified in the debt management policy that debt will be issued after the costs are incurred.

Financial Reserves Overview

Policy and Terminology

The purpose of **FIN-001-024: Financial Reserves policy** is to maintain consistent standards and guidelines for the management of reserves and execution of reserve transactions, and ensure that all reserve transactions are approved by Council and carried out in accordance with Council's approval.

Designated = Funding designated to reserves for a specific purpose, which has not yet been approved by Council to be applied towards specific expenditures.

Committed = Funding approved (as per FIN-001-024: Financial Reserves policy) to be applied towards specific expenditures.

Note – the term reserves is also used in the planning discipline for land purposes (i.e. Municipal Reserves and Environmental Reserves).

Financial Reserves Overview

Reserve Structure

Separate reserves are maintained to support municipal operations and utilities operations.

- Separate library reserves are maintained by the library administration with their own policies and are approved by the Library Board.

Every reserve must have a reserve description approved within the FIN-001-024: Financial Reserves policy.

- Schedule B shows a listing of all the reserve descriptions in the reserve policy.
- Currently there are 20 reserve descriptions; each with a unique identifier, specifications on use and other considerations.

Financial Reserves Overview

Reporting Structure

For reporting purposes reserves are rolled up into **four** categories:

- **Stabilization and Contingency Reserves**

- Maintain funds to aid in stabilizing and smoothing the temporary impact of unforeseen events, or planned fluctuations in activity.

- **Projects Reserves**

- Support non-cyclical reserve needs of departments including operating and capital projects.

- **Infrastructure Lifecycle, Maintenance and Replacement Reserves**

- Support infrastructure lifecycle, maintenance and replacement of Strathcona County tangible capital assets.

- **Special Purpose Reserves**

- Have a one to one relationship with a specific activity that has a policy in place or has factors of external influence.

Financial Reserves

Optimal Balance Formulas

- Schedule A in the FIN-001-024: Financial Reserves policy provides a listing of optimal balance formulas for each reserve.
- During the year end process, the formulas are to be applied and variances will be assessed between optimal balances and current designated balances.
- Strategies to maintain the optimal balances will be addressed through the business planning and budget cycles.
- Optimal balances are calculated at a point in time; therefore, it is important to analyze and assess variances rather than making immediate adjustments.

Financial Reserves

Optimal Balance Formula Development

The optimal balances were implemented January 2016.

Considerations when creating the formulas were as follows:

- For Stabilization and Contingency Reserves
 - Consider best practices and risks
- Projects Reserves
 - Consider historical trends and projected requirements
 - Consider intergenerational equity
- Infrastructure Lifecycle, Maintenance and Replacement Reserves
 - Consider 5 years of projected requirements
 - Consider intergenerational equity
- Special Purpose Reserves
 - Consider specific requirements

Recommended Allocations

Allocation of Year-End Operating Surplus for Tax Purposes (Policy FIN-001-008)

- The policy recommends that surplus be allocated to:
 - Designated financial reserves to be expended in future years,
 - Fund one-time (non-recurring) expenditures of the following year's operating or capital budgets, and/or
 - The Stabilization Reserve to smooth future increases.
- Annual operating surplus of self-sustaining operations will only be allocated within those operations and respective reserves.
- Library annual operating surplus will be allocated pursuant to the Strathcona County Library Board approvals.

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Recommended Allocations

	Amount (\$ million)
County - Annual Operating Surplus for Tax Purposes	\$ 13.3
Self-Sustaining Operation Allocation – Library	(0.3)
*Self-Sustaining Operation Allocation – Utilities	(2.8)
Municipal – Annual Operating Surplus for Tax Purposes	10.2
Previously Approved Allocations of the 2017 Surplus	(2.5)
Unallocated Municipal Surplus for Tax Purposes	\$ 7.7
*Centre in the Park Underground Parkade – Debt Replacement	(4.6)
*Emergent and General Project Allocations	(1.8)
*Contingency Reserve Allocation	(1.3)
Remaining Annual Operating Surplus to be Allocated	-

* Recommended for Council Approval