

Draft 2018 Annual Operating Surplus for Tax Purposes, Recommended Allocations and Reserve Transactions**Report Purpose**

To present the draft 2018 annual operating surplus for tax purposes and to seek approval of the recommended surplus allocations and reserve activity.

Recommendations

1. THAT the recommended allocation of \$55,499 for the 2018 municipal operating surplus, as set out in Enclosure 1 including a transfer to the R2 Stabilization and Contingency Reserve, be approved.
2. THAT the recommended allocations of \$917,798 for the 2018 utility operating surplus, as set out in Enclosure 1, including a transfer of \$616,168 to the RU4 Utilities Infrastructure Lifecycle, Maintenance and Replacement Reserve and \$301,630 to the RU1 Utilities Rate Stabilization and Contingency Reserve, be approved.
3. THAT the recommended redesignations of \$2,165,897, as set out in Enclosure 2, be approved.
4. THAT the reserve activity in the 2018 Reserve Continuity Report (unaudited), as set out in Enclosure 3, be ratified.

Our Prioritized Strategic Goals

Governance Requirement

Goal 1 - Build strong communities to support the diverse needs of residents

Goal 2 - Manage, invest and plan for sustainable municipal infrastructure

Goal 6 - Provide facilities and services that are available and accessible to residents

Report

This report assumes the proposed changes to the FIN-001-024: Financial Reserves policy, also included on the March 5, 2019 Council agenda, will be approved by Council. However, should the proposed amendments not be approved, some adjustments to the above recommendations may need to be made in order to ensure alignment with the policy.

Policy FIN-001-008: Allocation of Year-End Operating Surplus for Tax Purposes contains principles and guidelines for the allocation of year-end operating surplus for tax purposes to contribute to the economic sustainability of Strathcona County.

The draft consolidated Strathcona County operating surplus for tax purposes totals \$1,020,149 (Enclosure 1). A surplus allocation of \$917,798 is attributed to Utilities and a surplus allocation of \$46,852 is attributed to the Library, which are self-sustaining operations; therefore, \$55,499 of municipal surplus remains unallocated. It is recommended that the unallocated municipal surplus of \$55,499 be allocated to the R2 Stabilization and Contingency Reserve.

The consolidated Strathcona County operating surplus will be draft until the 2018 audited financial statements are approved by Council on April 30, 2019. A complete analysis of operating results will be provided in the 2018 annual management report. The County experienced a significant event in the parkade on November 6, 2018. The expenditures associated with this event have been funded from reserve; therefore, this event has had no impact on the 2018 year-end results.

Council approval is required to transfer funds between reserves. The details of three recommendations are included in Enclosure 2 to redesignate funds between reserves to better align the purpose of the funds with the purpose of the reserves.

As per policy FIN-001-024: Financial Reserves, optimal balances are to be calculated through the year-end process. The optimal reserve balances as at December 31, 2018 and the corresponding variances are included with the Reserve Continuity Report (Enclosure 3). These calculations represent a point in time and should be considered in relation to the historical trends and projected balances.

A historical graph of the optimal balances compared to the designated balances has been provided in Enclosure 4. Based on the multi-year projection of reserve balances (Enclosure 5) and the 2018 year-end results, no further reallocations or adjustments to the reserve balances are recommended at this time. The special purpose General Land reserve balance continues to be in excess of the optimal balance formula and will be reassessed and confirmed upon completion of the Municipal Land Strategy. The Utilities Infrastructure Lifecycle, Maintenance and Replacement reserve balance continues to be significantly below the optimal balance and options will be brought forward for Council consideration at a future meeting.

All reserve transactions (unaudited) consolidated into the 2018 Reserve Continuity Report (Enclosure 3) require ratification as per FIN-001-024: Financial Reserves policy. This reserve activity includes the recommended allocations of the 2018 annual operating surplus for tax purposes (Enclosure 1) and the redesignations (Enclosure 2).

Council and Committee History

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| December 6, 2018 | Council approved the 2019 Budget and the 2020-2022 budgets in principle. |
| March 6, 2018 | Council approved that the reserve activity in the 2017 Reserve Continuity report (unaudited), as set out in Enclosure 1, be ratified. |
| February 27, 2018 | Council approved the recommended allocations of \$7,651,950 for the 2017 municipal operating surplus, as set out in Enclosure 3, including a transfer of \$6,322,317 to the R4 Municipal Projects Reserve and \$1,329,633 to the R2 Contingency Reserve. |
| December 4, 2017 | Council approved 2018 Consolidated Operating Budget (including a 2.18 percent municipal tax revenue decrease), as set out in Enclosure 1, Section 4 on the November 20, 2017, Council Budget Meeting Agenda, and as amended by Council resolution. |

Council approved 2018 Consolidated Capital Budget as set out in Enclosure 1, Section 11 on the November 20, 2017, Council Budget Meeting Agenda.

Other Impacts

Policy: FIN-001-008: Allocation of Year-End Operating Surplus for Tax Purposes; FIN-001-024: Financial Reserves

Legislative/Legal: Part 8, Financial Administration, in the *Municipal Government Act*, RSA 200, cM-26 sets out the financial requirements for municipalities.

Interdepartmental: All departments

Master Plan/Framework: n/a

Enclosures

- 1 Unallocated 2018 Annual Operating Surplus for Tax Purposes (Draft, Unaudited)
Including Recommended Allocations
- 2 2018 Year-End Redesignations of Reserve Accounts
- 3 2018 Reserve Continuity (Unaudited)
- 4 Historical Graph of Optimal Balances Compared to Designated Balances
- 5 2018 Reserve Projections
- 6 Draft 2018 Annual Operating Surplus for Tax Purposes, Recommended Allocations
and Reserve Transactions Presentation