

Draft 2019 Annual Operating Surplus for Tax Purposes, Recommended Allocations and Reserve Transactions**Report Purpose**

To present the draft 2019 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 \$530,627 for the 2019 municipal operating surplus, as set out in Enclosure 1, including a transfer of \$111,774 to R15 Broadmoor Public Golf Course Reserve and \$418,853 to the R4 Municipal Projects Reserve, be approved.
2. THAT the recommended allocations of \$1,511,401 for the 2019 utility operating surplus, as set out in Enclosure 1, including a transfer of \$2,941,137 to the RU4 Utilities Infrastructure Lifecycle, Maintenance and Replacement Reserve and \$1,429,736 from the RU1 Utilities Rate Stabilization and Contingency Reserve, be approved.
3. THAT the reserve activity in the 2019 Reserve Continuity Report (unaudited), as set out in Enclosure 2, 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

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 \$2,172,838 (Enclosure 1). A surplus allocation of \$1,511,401 is attributed to Utilities and a surplus allocation of \$130,810 is attributed to the Library, which are self-sustaining operations; therefore, \$530,627 of municipal surplus remains unallocated. It is recommended that the unallocated municipal surplus of \$530,627 be allocated to the R15 Broadmoor Golf Course reserve for \$111,774 and to the R4 Municipal Projects Reserve for \$418,853.

A complete analysis of operating results will be provided in the 2019 annual management report, which is planned to be provided in April of 2020. The audit of the 2019 financial statements is underway, and should additional financial adjustments be required, the draft consolidated Strathcona County operating surplus for tax purposes could be impacted. The consolidated Strathcona County operating surplus will be draft until the 2019 audited financial statements are approved by Council.

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, 2019 and the corresponding variances are included with the Reserve Continuity Report (Enclosure 2). 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 3. Based on the multi-year projection of reserve balances (Enclosure 4) and the 2019 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 reassessment is currently underway to align with the 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 2019 Reserve Continuity Report (Enclosure 2) require ratification as per FIN-001-024: Financial Reserves policy. This reserve activity includes the recommended allocations of the 2019 annual operating surplus for tax purposes (Enclosure 1).

Council and Committee History

- December 5, 2019 Council approved the 2020 Budget and the 2021-2023 budgets in principle.
- March 5, 2019 Council approved the recommended allocation of \$55,499 for the 2018 municipal operating surplus including a transfer to the R2 Stabilization and Contingency Reserve; the recommended allocations of \$917,798 for the 2018 utility operating surplus, 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; the recommended redesignations of \$2,165,897; and the reserve activity in the 2018 Reserve Continuity Report.
- December 6, 2018 Council approved the 2019 operating and capital budgets.

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 2019 Annual Operating Surplus for Tax Purposes (Draft, Unaudited) Including Recommended Allocations
- 2 2019 Reserve Continuity (Unaudited)
- 3 Historical Graph of Optimal Balances Compared to Designated Balances
- 4 2019 Reserve Projections
- 5 Draft 2019 Annual Operating Surplus for Tax Purposes, Recommended Allocations and Reserve Transactions presentation