



AGENDA ITEM

2019 Operating Surplus and Reserve Allocation

April 23, 2020

BACKGROUND

County staff have completed the final year-end accounting entries and the 2019 audited financial statements are being finalized. Representatives from the County's audit firm (BDO LLP) will be attending the Council meeting to present the financial statements to Council.

A final step in the completion of the statements is the final reserve allocations to reserves for 2019 as directed by Council.

Lacombe County ended 2019 on a positive note having realized a net cash operating surplus of \$2,148,986, which represents 4.54% of the 2019 operating budget, excluding the Alberta Education and Lacombe Foundation requisitions.

For comparison, the County has experienced the following surplus:

2018 - \$2,751,237	(4.92% of total budget)
2017 - \$ 411,553	(0.76% of total budget)
2016 - \$1,447,110	(3.01% of total budget)
2015 - \$ 931,771	(1.96% of total budget)
2014 - \$ 662,092	(1.32% of total budget)
2013 - \$1,959,404	(4.70% of total budget)

Included in this surplus figure is an additional contribution to the County's allowance for uncollectible accounts. Generally Accepted Accounting Principles (GAAP) require that the County identify and report an estimate of the County's uncollectible accounts. Staff analyze the tax and general receivable accounts on a regular basis. Based on the ongoing difficulties in the collection of taxes (primarily in the oil and gas industry), Administration has contributed a further \$524,825 to the County's Allowance for Doubtful Taxes account. The balance of the allowance is now \$692,087. For 2019, Administration also examined the County's accounts receivable ledger. Based on the age of some receivables, a further addition of \$86,234 was added to the Allowance for Doubtful Accounts Receivable.

Also funded from surplus are transfers to reserve of \$1,169,897 to the operational reserve, which is made up of \$398,597 in MSI Reallocation and \$771,300 in 2019 projects carried over to 2020.



The source of the 2019 surplus comes from a number of variances. The following is summary of the major items. Other variances have an offset, as they were either funding or funded by transfers of reserves:

LACOMBE COUNTY		
Budget Discrepancy		
Summary of Variances		
DESCRIPTION	Variance	Total
Revenue		
Return on Investments-Increase	\$ 440,000	
Sales and User Charges Gen Govt-Increase	52,000	
Fine Revenue-Increase	18,000	
Fire Calls-Increase	11,000	
Sales to Other Gov't OP-Increase	56,000	
Sales and User Fees OP-Increase	311,000	
Sales to Other Gov't UT-Increase	13,000	
Sales and User Fees Planning-Decrease	(20,000)	
Development Permits - Decrease	(19,000)	
Total Revenue Increase/(Decrease)		\$ 862,000
Expenses		
Allowance for Uncollectibles-Increase	\$ 610,000	
Council & Board Costs-Decrease	(112,200)	
Salaries and Wages - All Dep't Decrease	(309,000)	
Common Services Contract Services-Decrease	(87,000)	
Fire Department Costs - Decrease	(202,000)	
Emergency Management Costs-Decrease	(18,000)	
Safety Services Costs-decrease	(20,000)	
Professional Development Fees All Dep't	(80,600)	
Fuel Various Dep't	(315,000)	
Cemetery Grants	(14,000)	
General Services & goods Planning-Decrease	(31,000)	
Equipment Parts AG-Decrease	(12,000)	
Chemicals-Decrease	(67,600)	
Total Expense Increase/(Decrease)		\$ (658,400)
Net Increase/(Decrease)		\$ 1,520,400
Other Variances		628,586
2019 Operating Surplus		\$ 2,148,986



A detailed variance analysis is included along with this report.

ANALYSIS

It has been County practice to have Council consider allocations of year-end surplus to one or more County reserves prior to the final approval of the financial statements.

County Policy AD(30) outlines which reserves accounts are eligible for allocation from surplus:

Capital Reserves

1. Bridge Reserve
2. Lake Access Reserve
3. Municipal Facilities Reserve
4. New Pavement Reserve
5. Recreation Capital Assistance Reserve
6. Community Aggregate Levy

Operating Reserves

1. Operating Reserve
2. Emergency Reserve
3. Gravel Reserve
4. Tax Rate Stabilization Reserve

ALTERNATIVES

1. The COVID-19 Pandemic has created a high degree of uncertainty for 2020 and beyond. This uncertainty could impact the County's revenue collection. As such one option is to allocate \$2.1 million of the surplus to the County's Tax Rate Stabilization Reserve. The 2020 budget already included funding from the County's tax rate stabilization (\$222,290 leaving a balance of \$1,824,710) Depending on the tax rate discussions of Council, additional funding from the reserve may be necessary.

This allocation would assist in this situation. If Council supports this alternative, the total value of the reserve at the end of 2020 would be \$3.924 million. The current cap on this reserve, as per Policy AD(30) Financial Reserves, is set at 10% of municipal tax revenue or \$3.1 million.

2. If Council is satisfied that the current tax stabilization reserve balance is adequate the surplus could be allocated to the County's capital accounts. Two reserves that need additional funding are the Trail and Parks Reserve and the Water and Wastewater Reserve.



The Trail and Parks reserve is new and is intended to fund replacement of the current trail system. Administration proposes adding \$500,000 to this reserve.

The Water and Wastewater Reserve has been reduced significantly because of funding of the West Side Servicing Project. As a result, the 2020-year end balance is projected to be \$624,599. Administration proposes to transfer the remaining \$1.6 million to this reserve.

3. A Combination of 1 and 2. Council could decide to allocate the surplus to the Tax Stabilization up to the current policy maximum or an additional \$1.275 million with the balance being allocated to the Trails and Parks Reserve (\$325,000) and the Water and Wastewater Reserve (\$500,000).
4. Leave the funding in unrestricted surplus. No changes to the financial statements would be required.
5. Transfer funds as directed by Council.

Administration supports Options 1. This option provides the most flexibility for Council. Should this funding not be required in 2020 or 2021 then the reserve could be reallocated to other capital reserves.

BUDGET IMPLICATIONS

Transferring the 2019 operating budget surplus to the reserves will not affect the County's 2020 operating or capital budgets.

LEGISLATIVE RESPONSIBILITIES

1. Council Policy AD(30), Financial Reserves, identifies which reserve accounts are eligible for surplus allocations.
2. In accordance with Section 248 of the Municipal Government Act (MGA) Council previously approved the 2019 operating and capital budgets. Section 241(1)(a) of the MGA requires that the operating budget include an estimate of the revenues to be transferred to reserves. As the 2019 surplus was not anticipated or budgeted for a resolution of Council to transfer it to reserves is required.
3. Section 180(1) of the MGA states that Council may act only by resolution or bylaw.



PUBLIC PARTICIPATION

Lacombe County sees the value in engaging and informing the public/stakeholders through a variety of mediums as outlined in the Policy AD(40): Public Participation Policy. The appropriate level of engagement for each public participation opportunity is selected on a project-to-project basis.

For this item, the following engagement will take place: Administration will inform the Public of Council's decision through Council Highlights. Council's decision will also be reflected in the audited financial statements for the County for 2019.

STRATEGIC PLAN

The following elements of the County's Strategic Plan are relevant to this issue:

Our Vision: "An attractive, balanced and progressive community".

Our Mission: "Building a safe and vibrant community through leadership, innovation and the development of healthy relationships".

Key Principles: 1) "Integrity: Honesty and Trustworthy", and 2) "Accountability and Transparent for our decisions and for our actions".

Key Success Measures – Financial/Viability: "Levels of our reserves – financial and physical" and "Success at working within budgets"

Key Success Measures – Sustainability: "Current services are maintainable and provide benefits for the future, while minimizing negative impacts on the community"



RECOMMENDATION

That Council approve the following resolution (Alternative 1):

That the 2019 operating budget surplus be allocated as follows:

<i>Tax Rate Stabilization Reserve</i>	<i>\$2,100,000</i>
<i>Remain in Unrestricted Surplus</i>	<i>\$ <u>48,986</u></i>
<i>Total</i>	<i>\$2,148,986</i>

(Note: the 2019 remaining surplus of \$48,986 will remain in the County's Unrestricted Surplus which will be decreased to \$427,604 (compared to the draft balance of \$2,527,604) as of December 31, 2019 if recommendation is approved).

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