



AGENDA ITEM

2020 Operating Surplus and Reserve Allocation

April 22, 2021

BACKGROUND

County staff have completed the final year-end accounting entries, and the 2020 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 2020 as directed by Council.

Lacombe County ended 2020 on a positive note, having realized a net cash operating surplus of \$2,285,274, which represents 4.12% of the 2020 operating budget, excluding the Alberta Education, DI Property and Lacombe Foundation requisitions.

For comparison, the County has experienced the following surplus:

2019 - \$2,148,986	(4.54% of total budget)
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)

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 and economic challenges due to COVID-19, in collecting taxes (primarily in the oil and gas industry), Administration has contributed a further \$881,660 to the County's Allowance for Doubtful Taxes account. The balance of the allowance is now \$1,521,251.

Also funded from surplus are transfers of \$1,075,388 to the operational reserve, which is made up of \$485,388 in annual MSI Reallocation and \$590,000 in 2020 projects carried over to 2021. Finally, as there was a surplus for 2020, the County did not have to draw from the Tax Stabilization Reserve as was identified in the budget.



The source of the 2020 surplus comes from many variances. The following is a summary of the significant 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 - Increase/(Decrease)		
Return on Investments	\$ 63,000	
Property Tax Penalties	179,000	
Fine Revenue	18,000	
Provincial Grant MOST	874,000	
Sales to Other Gov't OP	277,000	
Sales and User Fees OP	147,000	
Sales to Other Gov't UT	37,000	
Rental Income All Dep't	28,000	
Sales and User Fees Planning	(12,000)	
Development Permits	(8,000)	
Total Revenue Increase/(Decrease)		\$ 1,603,000
Expenses - Increase/(Decrease)		
Allowance for Uncollectibles	\$ 882,000	
Council & Board Costs	(233,000)	
Salaries and Wages - All Dep't	(283,000)	
Common Services Contract Services	(162,000)	
Safety Services Costs	(18,000)	
Travel and Subsistence All Dep't	(138,000)	
Professional Development Fees All Dep't	(122,000)	
Fuel Various Dep't	(433,000)	
Cemetery Grants - Rural and Urban	(25,000)	
Equipment Parts AG-Decrease	(43,000)	
Chemicals-Decrease	(19,000)	
Total Expense Increase/(Decrease)		\$ (594,000)
Net Increase/(Decrease)		\$ 2,197,000
Other Variances		88,274
2020 Operating Surplus		\$ 2,285,274

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. Transfer \$2,285,000 to the Bridge Reserve. The Bridge Reserve has been identified as being underfunded for several years with no plan to increase annual contributions. The current balance in the Bridge Reserve at is \$5,023,284 (\$1,382,876 at Dec 31st and an increase adjustment of \$3,640,408 in 2021). It is forecasted this reserve will not meet future construction requirements.
2. Leave the funding in unrestricted surplus. No changes to the financial statements would be required.
3. Transfer funds as directed by Council.

Administration supports Options 1. This option will assist in meeting the deficiency in the funding for future planned and unplanned bridge replacements.



BUDGET IMPLICATIONS

Transferring the 2020 operating budget surplus to the reserves will not affect the County's 2021 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 2020 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 2020 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 2020.

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 2020 operating budget surplus be allocated as follows:

<i>Bridge Reserve</i>	<i>\$2,285,000</i>
<i>Remain in Unrestricted Surplus</i>	<i>\$ <u> 274</u></i>
<i>Total</i>	<i>\$2,285,274</i>

(Note: the 2020 remaining surplus of \$274 will remain in the County's Unrestricted Surplus which will be decreased to \$427,878 (compared to the draft balance of \$2,712,878) as of December 31, 2020 if recommendation is approved).

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