
MEETING TYPE: Regular Council Meeting
MEETING DATE: April 16, 2024
AUTHOR: Trevor James, CFO, Director of Finance & Administration
DEPARTMENT: Finance & Administration
ITEM TITLE: 2023 Surplus Allocation
DESCRIPTION: Allocation of Surplus & COVID-19 Safe Restart Grant Expenses

PURPOSE

To allocate the 2023 surplus in line with the Reserve Fund Policy for the financial wellbeing of the District and ensure appropriate use of the COVID-19 Safe Restart Grant funds.

RECOMMENDATION

THAT the 2023 general fund surplus of \$569,512 be allocated to the general fund surplus reserve;
AND THAT the 2023 water fund surplus of \$149,331 be transferred to the water capital reserve;
AND THAT the 2023 sewer fund surplus of \$136,774 be transferred to the sewer capital reserve;
AND FURTHER THAT the following eligible COVID-19 Safe Restart Grant costs incurred of \$564,498 be approved:

- a. Computer and technology costs to improve connectivity and virtual communications \$189,530
- b. General government services \$271,375
- c. Protective services \$103,593

EXECUTIVE SUMMARY

The District follows Reserve Fund Policy 195, 2022 (Attachment A). The policy outlines the purpose of each reserve as well as targeted minimums and maximums.

Upon conclusion of the 2023 year end work, an unallocated surplus of \$569,512 has been recognized in the general fund, \$149,331 in the water fund and \$136,774 in the sewer fund.

In November 2020, the Province provided the District with \$2,947,000 in COVID-19 Safe Restart Grant funding. The use of those funds is restricted to specific eligible costs. \$2,083,666 in eligible costs were incurred 2020 - 2022 (\$424,752 in 2020, \$840,938 in 2021, and \$817,976 in 2022). Staff reviewed 2023 and determined that \$564,498 in eligible costs were incurred. The remaining balance of \$298,836 is fully committed relating to carried forward capital projects all included in the 2024 budget.

DISCUSSION/ANALYSIS

With adequate reserves, not only can the District weather difficult financial times but Council can also fulfill its vision and mandates for the community and spread out the impact of significant capital projects.

Staff have completed the 2023 year end work and are currently finalizing the 2023 financial statements. The financial statements will be presented to Council at the May 7, 2024 Council Meeting. As part of the financial statements for the 2023 year end, a statement of the use of the COVID-19 Safe Restart Grant is required to be reported. New to 2023 is the \$6,778,000 Growing Communities Fund grant received from the Province in March 2023, this will also be reported on a similar statement. None of these funds were spent in 2023 therefore the statement for 2023 will be the amount received plus the interest earned during the year. The format for both statements was provided by our external auditors and was approved by the Province as appropriate.

The District follows Council's Reserve Fund Policy 195, 2022. As part of that reserve policy, a number of reserves and surpluses are listed including their purposes as well as minimums and maximums. Funding for those reserves and surpluses come from a number of sources including an allocation from year end surplus and budget allocations.

With the completion of the year end work, staff has calculated the year end surplus in each of the general, water and sewer funds. The balances are calculated after all budgeted transfers to and from reserves that were part of the approved 2023 financial plan and any transfers as outlined by the reserve policy (net revenue over expenses for garbage & recycling closes out to solid waste reserve for example). Prior to completion of the financial statements, decisions must be made on allocations of those surpluses.

General Fund - \$569,512 Surplus

Surplus represents approximately a 2% positive variance on the total operating budget. Penalties & interest on late taxes were \$74,445 higher than budget. Majority of surplus was caused from higher interest rates and rates of return on investments in addition to holding larger balances (partially caused by \$6,778,000 Growing Communities Fund grant). The Bank of Canada Overnight rate went from 0.25% at the beginning of 2022 to 4.25% at the end of 2022, further climbing to 5% by mid 2023 and staying there for the rest of 2023. This not only resulted in higher offered GIC and other investment rates, but resulted in over 5% interest on even the District's bank accounts. While a significant amount of this higher investment income gets reallocated out to the individual reserves for which the funds relate to as per the reserve policy, it also resulted in a significant positive variance on the general fund. It is recommended that this surplus be closed out to the general fund, as in 2023 Council approved funding a used fire apparatus of \$575,000 from the general fund which was ordered in 2023 and will come out of this reserve in 2024.

Water Fund - \$149,331 Surplus

\$149,331 represents approximately a 4% variance on an over \$3.7 million operating budget. There were minor positive variances on residential revenues, approximately \$20,000 over budget. There was approximately \$180,000 in positive variances when it came to commercial water consumption revenue (including City of Kelowna bulk water) partially offset with approximately \$61,000 in negative materials & supplies variances. Recommendation has this surplus being allocated to the water capital reserve as the water fund is already over the recommended value per the reserve policy.

Sewer Fund - \$136,774 Surplus

There was a \$49,000 positive variance compared to budget when it came to operating fees at our septage facility due to our new septage facility agreement more appropriately recovering costs. When the District takes out a loan from the Municipal Finance Authority (via the Regional District as is required by legislation), loan proceeds are equivalent to 99% of the gross request and the 1% is withheld by the MFA as a security against loan default. Upon loan maturity this is refunded with interest, the District received \$26,544 in such returned securities in the year. Also, if the MFA earns more than the estimated actuarial associated with a loan, the borrower will be paid any excess after paying out the loan in full, the District received \$27,351 in a surplus payment in the year. The remainder of the surplus can be explained by wages & benefits coming in slightly under budget due to timing of vacancies. Recommendation has this surplus being allocated to the sewer capital reserve do to that reserve being below the recommended value per the reserve policy and the number of large capital sewer projects on the horizon.

2023 Reserve Balances

The table relating to reserves and minimum and maximum recommended balances per the reserve policy (Attachment B) has been updated to reflect anticipated 2023 amounts. The policy lays out that while not all reserves are meeting the minimum balances, the policy serves as a guide in moving the District towards the goals or targets it wishes to attain (Section 5.6, Attachment A).

Important points to note in the table:

1. The general fund surplus is below the minimum level which is why the Recommendation included has this year's surplus being allocated to this fund. The surplus is critical to ensuring financial stability of the District

and is relied upon in the event of emergencies. This surplus is what protects the District from cash flow issues or if a deficit is created due to revenues not being collected.

2. Water surplus is exceeding the maximum recommended balance. The addition of interest annually to this reserve has pushed the balance over the maximum recommended. There are significant water related projects planned for the upcoming years and as such there will be planned expenditures to ensure this reserve stays within the recommended range.
3. Sewer surplus is not meeting the minimum recommended balance. This was partially addressed through revisions to the "Sanitary Sewer Regulation and Rate Bylaw 117, 2022" with revised billing and charges as well as an excessive wastewater discharge fee. Also, updates to the District's septage agreement with the Regional District of Central Okanagan has helped in this area. Despite this not meeting the minimum recommended balance the recommendation for this year's sewer surplus is to be allocated to the sewer capital reserve due to the significant amount of upcoming sewer capital projects.
4. While there is no maximum on the Climate Action Reserve, the balance has grown significantly due to consistent net revenue earned by the Lake Country Hydroelectric Generating Station and revenue from the Local Government Climate Action Program Funding grant. This reserve balance should be considered at upcoming Council strategic planning sessions. Considerations should be given to the timeline of any major repairs, maintenance or upgrades to the Hydroelectric Generating Station when committing these funds.
5. In addition to the budgeted transfer to the Fire Facilities and Equipment Reserve and a transfer of \$42,148 as a result of gains on the sale of capital assets, staff has put forward an additional \$190,695 transfer to this reserve as a result of excess revenue over expenses in the fire department in 2023. This is due excess revenue received from fire crews being redeployed to fires outside the District above and beyond the additional costs to the District for the related wages, materials and supplies in these redeployments as well as the fires that occurred in late Summer 2023 in Lake Country. While the existing reserve policy has a "*Fire Operations Reserve Fund*" with a funding source of "*unbudgeted revenue received as a result of fire crews being redeployed to fires outside of the District*" and "*Savings from the fire operational budget*" this reserve has not been used to date and it is recommended that this transfer occur to the Fire Facilities and Equipment Reserve to assist with the recently approved 25-Year Fire Department Asset Management Plan. The purpose of the so far unused "*Fire Operations Reserve Fund*" is "*to offset the cost of wildfire events not covered under other emergency funding. Major wildfire expenditures can happen in any year without any forewarning and it is often not possible to fund these events via taxation or other reserves*". When this reserve was established the funding model for covering wildfire events was different than present day, with much less financial support for events within municipal boundaries. Later in 2024, when staff brings forward a reserve policy update to reflect the desire for a new Slope Stability Reserve (as directed during 2024 budget deliberations), updates to this Fire Operations Reserve Fund will come to adjust the purpose to reflect more of the risks of the present day (continue to address risks surrounding wildfires, perhaps expand to include other emergencies, and expand to include operational risks surrounding the department such as phasing in or out operating costs based on some of the volatility that comes from grant funded programs).
6. Solid waste reserve fund is still exceeding the maximum recommended balance. This allows flexibility in maintaining current rates even with increasing costs.
7. Transit reserve is now exceeding the maximum recommended balance. This reserve was established to reflect that BC Transit no longer maintains a reserve on the District's behalf to handle variances from budget. Having this reserve above the maximum recommended balance in the short term is useful in that ridership still has not quite achieved pre-pandemic levels as well as transit costs are increasing significantly and this reserve balance can be used to smooth in future increases.
8. Other reserves not currently meeting the minimum balances include the insurance and legal fund reserve. These are not as critical for financial stability as the general fund surplus and therefore are recommended to be funded once the general surplus is meeting its minimum balance.

COVID-19 Safe Restart Grant

In November 2020, the District received a \$2,947,000 grant from the Province to assist with the cost of the COVID-19 pandemic for local governments.

A prescribed list of eligible costs was provided with the grant and reporting was required in conjunction with the 2020 – 2023 financial statements.

Staff reviewed all expenditures and foregone revenue as a result of the pandemic and determined the following eligible costs were incurred:

COVID-19 Safe Restart Grant received November 2020	\$ 2,947,000
2020 eligible costs incurred	424,752
2021 eligible costs incurred	840,938
2022 eligible costs incurred	817,976
Balance, December 31, 2022	\$ 863,334
2023 eligible costs incurred:	
Computer and technology costs to improve connectivity and virtual communications	189,530
General government services	271,375
Protective services	103,593
Total 2023 eligible costs incurred	<u>564,498</u>
Balance, December 31, 2023	\$ 298,836

The 2023 eligible costs related to some carried forward projects (Enterprise Resource Planning system and Accounting software) as well as the below from the 2023 budget process:

2023-01-020 It was moved and seconded.

THAT The 2023-2027 Financial Plan Bylaw 1197, 2023 be amended as follows:

- a. The following \$721,203 (4.22%) of operating supplementals be funded using additional taxation revenue:
 - i. 2 Seasonal Parks Staff
 - ii. 1.5 Bylaw Officers
 - iii. Parks, Recreation, and Culture Master Plan Increase
 - iv. Inflationary Increase to Mobility Improvement Program Funding
 - v. Paid On Call Firefighter Training Tuition & Fees Increase
 - vi. Paid On Call Firefighter Training Wages Increase
 - vii. Art Gallery Additional Funding
 - viii. Museum Additional Funding

AND THAT \$137,250 of the remaining COVID-19 Restart Grant Funding be used to fund the following operating supplementals:

- i. Community Engagement Grant
- ii. Community Greening Project – Lake Countree
- iii. Invasive Plant Species Management
- iv. Road Crack Sealing
- v. Halloween Fireworks Increase
- vi. Fire Prevention Program Increase
- vii. Live! In Lake Country Increase

AND THAT the \$282,750 of remaining COVID-19 Restart Grant Funding be used to fund \$141,375 of Transportation projects in place of the Capital Reserve Fund and \$141,375 of Protection Services projects in place of the Fire Facilities and Equipment Reserve.

Carried.

The remainder of the grant is fully allocated and related to carried forward projects.

APPLICABLE LEGISLATION, BYLAWS AND POLICY

Reserve Fund Policy 195, 2022 – Attachment A

IMPACT ON INFRASTRUCTURE, SERVICES AND STAFF CAPACITY

As capital and operating projects are funded from reserves, managing reserves to ensure master plans can be completed is important, having reserves in the event of negative economic events is crucial for cash flow to delivery services to the community.

FINANCIAL IMPLICATIONS

None Budget Previously Approved Other (see below)

Following reserve policy helps ensure necessary funding is in place for appropriate staffing and cash flow to provide services even in the event of economic downturns.

CONSULTATION (Internal referrals, External Agencies, Committees, Stakeholders)

Not applicable.

COMMUNICATIONS

Not applicable.

ALIGNMENT WITH COUNCIL STRATEGIC PRIORITIES

- Create and Support Opportunities for a Healthy, Active and Inclusive Community
- Create Infrastructure That Meets Community Needs
- Encourage Growth of the Downtown Core
- Ensure Sustainable Water Service Delivery for the Community
- Explore Opportunities to Engage With Regional Local Governments for the Betterment of the Community
- Honour Reconciliation by Strengthening Relationships and Inclusiveness With Our Indigenous Partners
- Identify and support improvements to the Development Process
- Implement the Agricultural Plan
- Preserve, Protect and Enhance Our Natural Environment
- Secure long term wastewater service delivery for our community
- Support Opportunities to Diversify Lake Country's Tax Base

ALIGNMENT WITH MASTER PLANS

- | | |
|---|---|
| <input checked="" type="checkbox"/> Agricultural Plan | <input checked="" type="checkbox"/> Official Community Plan |
| <input checked="" type="checkbox"/> Climate Action Charter | <input checked="" type="checkbox"/> Parks & Recreation Master Plan 2019 |
| <input checked="" type="checkbox"/> Housing Needs Report | <input checked="" type="checkbox"/> Sanitary Sewer System Map |
| <input checked="" type="checkbox"/> Liquid Waste Management Plan Stage 1/2 Report | <input checked="" type="checkbox"/> Transit Future Plan-Central Okanagan Region-DRAFT |
| <input checked="" type="checkbox"/> McCoubrey Plateau Area Structure Plan | <input checked="" type="checkbox"/> Transportation for Tomorrow |
| <input checked="" type="checkbox"/> Mobility Master Plan | <input checked="" type="checkbox"/> Water Master Plan |

OPTIONS

- A. THAT the 2023 general fund surplus of \$569,512 be allocated to the general fund surplus reserve;
AND THAT the 2023 water fund surplus of \$149,331 be transferred to the water capital reserve;
AND THAT the 2023 sewer fund surplus of \$136,774 be transferred to the sewer capital reserve;

AND FURTHER THAT the following eligible COVID-19 Safe Restart Grant costs incurred of \$564,498 be approved:

- a. Computer and technology costs to improve connectivity and virtual communications \$189,530
 - b. General government services \$271,375
 - c. Protective services \$103,593
- B. THAT Council determine the allocation of surplus and approve as amended.

Respectfully Submitted,

Trevor James, CFO, Director of Finance & Administration

Report Approval Details

Document Title:	2023 Surplus Allocation.docx
Attachments:	- Attachment A - Reserve Fund Policy 195, 2022.pdf - Attachment B - Recommended Min and Max Balances.pdf
Final Approval Date:	Apr 10, 2024

This report and all of its attachments were approved and signed as outlined below:

Reyna Seabrook, Director of Corporate Services - Apr 9, 2024 - 9:47 AM

Paul Gipps, Chief Administrative Officer - Apr 10, 2024 - 9:09 AM