

Memo



Date: April 29, 2021
File: 0605-01
To: Audit Committee
From: Divisional Director, Financial Services
Subject: Audit Committee Review of 2020 Surplus and Reserves
Report Prepared by: Financial Planning Manager

The following information provides further details relative to the fiscal year 2020 level of surplus for each of the City's funds as well as both statutory and general reserves. Further details are in the next section titled "2020 Revenue - Expenditure Analysis".

2020 Operating Surplus

1. Summary of General Fund

- An unappropriated surplus of \$9.0M has been generated from current year's operations.
- The fund's accumulated surplus will be \$4.8M at the end of 2020, after distribution of the surplus to reserves. After the distribution, the balance will represent approximately 3% of the 2020 taxation demand.

Total surplus appropriated to reserve is \$8.5M as detailed in the City Manager's April 29, 2021 memorandum titled "2020 Surplus from Operations". The major contributing factors to the level of surplus from general fund operations, reported by division, were:

GENERAL REVENUES

General Revenues over budget by (\$171k)

- **Real Property Tax** revenue ended the year **175k over budget** due to mid-year changes in property assessment values which resulted in increased taxation.
- **General License** ended the year **\$31k over budget** as a result of a final payment relating to the commercial vehicle license program.
- **Franchise Revenue** ended the year **143k over budget** as the Fortis BC Gas franchise fee payment fluctuates annually.
- **Interest & Penalties** revenue ended the year **\$557k under budget** primarily due to increased interest revenue partially offset by no Fortis share sales during the year.
- **Provincial revenue** was **(\$374k) over budget** mainly due to higher than expected traffic fine sharing revenue.

CITY ADMINISTRATION DIVISION

City Manager, Council, and Mayor over budget \$6k

- **City Administration** ended the year **over budget \$6k** due to fringe benefit differences, Facility rentals and membership dues. These were partially offset with reduced purchase services and contingency expenses.

CITY CLERK

City Clerk, Legislative Office and Records & Information over budget \$29k

- **Legislative Services** ended the year **under budget (\$90k)** mainly due to staff vacancies and annual fluctuations in costs for advertising and contract services.
- **City Clerk and Records & Information** ended the year **over budget \$120k** due to legal expenses.

INFRASTRUCTURE DIVISION

Infrastructure, Infrastructure Delivery, Infrastructure Engineering, and Integrated Transportation under budget (\$3.5M)

- **Infrastructure** ended the year **under budget (\$20k)** due to reduced expenses as a result of COVID-19.
- **Infrastructure Delivery** ended the year **under budget (\$96k)** mainly due to more staff time charged to project work and third-party work orders.
- **Infrastructure Engineering** ended the year **under budget (\$170k)** mainly due to staff vacancies, time billed to capital projects. Expenses were under budget due to project delays due to the pandemic.
- **Integrated Transportation** ended the year **under budget (\$3.2M)** mainly due to the COVID-19 Safe Restarts Grant. In addition, BC Transit provided a lease payment holiday. This was partially offset by Salaries & Wages being over budget due to less capital projects.

PLANNING & DEVELOPMENT DIVISION

Planning & Development Services, Development Planning, Business License, Development Services, and Policy & Planning under budget (\$824k)

- **Planning & Development Services** ended the year **over budget \$15k** due to fringe benefit differences.
- **Development Planning** ended the year **under budget (\$241k)** due staff vacancies and higher than anticipated revenues for cannabis applications.
- **Business License** ended the year **over budget \$17k** mainly due to salary overages. This was partially offset by lower than anticipated short term rental host compliance fees due to COVID-19.
- **Development Services** ended the year **under budget (\$493k)** mainly due to staff vacancies and employees working on the planning and permitting major systems project. This was partially offset by decreased permit and inspections revenue due to the pandemic.
- **Policy & Planning** ended the year **under budget (\$122k)** due to staff vacancies.

PARTNERSHIP & INVESTMENTS

Partnerships & Investments, Business & Entrepreneurial Development, Parks & Building Planning, Real Estate & Real Estate Services over budget \$111k

- **Partnerships & Investments** ended the year **over budget \$19k** due to fringe benefit differences.
- **Business & Entrepreneurial Development** ended the year **over budget \$35k** mainly due to advertising contracts being discontinued in 2020. This was partially offset by lower Salaries & Wages.
- **Parks & Buildings Planning** ended the year **over budget \$86k** due to staff time working on operating projects compared to capital projects.
- **Real Estate & Real Estate Services** ended the year **under budget (\$37k)** due to reduced professional and consulting expenses. This was partially offset by staff time working on operating projects compared to capital projects.

ACTIVE LIVING & CULTURE DIVISION

Active Living & Culture, Community & Neighborhood Services, Cultural Services, Recreation & Business Services and Sport & Event Services under budget (\$1.8M)

- **Active Living & Culture** ended the year **under budget (\$35k)** due to reduced activities (including facility and programs/services closure and gradual re-opening) as a result of public health orders relating to the pandemic.
- **Community & Neighborhood Services** ended the year **under budget (\$560k)** due to reduced activities (including facility and programs/services closure and gradual re-opening) as a result of public health orders relating to the pandemic.
- **Cultural Services** ended the year **under budget (\$60k)** due to reduced activities (including facility and programs/services closure and gradual re-opening) as a result of public health orders relating to the pandemic.
- **Administration & Business Services** ended the year **under budget (\$505k)** due to staff vacancies and reduced activities (including facility and programs/services closure and gradual re-opening) as a result of public health orders relating to the pandemic.
- **Sports & Event Services** ended the year **under budget (658k)** due to staff vacancies and reduced activities (including facility and programs/services closure and gradual re-opening) as a result of public health orders relating to the pandemic.

CIVIC OPERATIONS DIVISION

Civic Operations, Civic Operations Finance & Administration, Building Services, Fleet Services, Parks Services, Public Works, and Utility Services over budget \$608k

- **Civic Operations Finance & Administration** ended the year **under budget (\$117k)** mainly due to salary vacancies.
- **Building Services** ended the year **under budget (\$91k)** mainly due to reduced demand for recreation buildings as activities were reduced as a result of public health orders relating to COVID-19.

- **Fleet Services** ended the year **under budget (\$27k)** due to lower purchase services for Carshare usage.
- **Parks Services** ended the year **under budget (\$636k)** mainly due to less demand on parks in 2020 as a result of public health authority orders relating to COVID-19 as well as staff vacancies.
- **Public Works** ended the year **over budget \$1.4M** mainly due to long winter with higher than average snow which resulted in increased costs for removal and spring cleanup. In addition, a new Flaggers contract resulted in increased costs.
- **Utility Services** ended the year **over budget \$71k** due to salary and wages related to flood control response and remedial work in the spring freshet.

FINANCIAL SERVICES DIVISION

Financial Services, Corporate Finance, Financial Planning, Controller, Corporate Financial Support, and Purchasing under budget (\$532K)

- **Financial Services** ended the year **under budget (\$86k)** due to staff vacancies and reduced audit expenses and related project work delivered by consultants.
- **Corporate Finance** ended the year **under budget (\$48k)** due to staff vacancies.
- **Financial Planning** ended the year **under budget (\$31k)** due to staff vacancies.
- **Controller** ended the year **under budget (\$163k)** due to staff vacancies and projects being deferred due to the pandemic.
- **Corporate Financial Support** ended the year **under budget (\$170k)** due to staff vacancies.
- **Purchasing** ended the year **under budget (\$34k)** due to staff vacancies.

Debt & Other over budget \$2.1M

- **Debt & Other** ended the year **over budget \$2.1M** mainly due to the salary vacancy factor that was put in place to offset amounts under budget in other cost centers throughout the organization. In addition, there was a budgeted amount relating to the employer health tax that was not utilized.

HUMAN RESOURCES & COMMUNITY SAFETY DIVISION

Human Resources, Corporate HR Services, Community HR Services, HR Programs & Systems, Compensation & Benefits, and Risk Management under budget (\$850k)

- **Human Resources** ended the year **under budget (\$27k)** mainly due to reduced legal expenses as these fluctuate from year to year.
- **Community HR Services** ended the year **under budget by (\$58k)** mainly due to a hiring freeze due to COVID-19.
- **HR Programs & Systems** ended the year **under budget by (\$130k)** mainly due to unspent training budget as well as expenses relating to management systems which was not finalized in 2020.
- **Risk Management** ended the year **under budget by (\$632k)** mainly due to unbudgeted recoveries from third-parties and insurance claims which fluctuate year to year.

Community Safety, Bylaw Services, Police Services, Police Client Services, Police Quality Assurance, Crime Prevention, and Police Information Management under budget (\$3.6M)

- **Community Safety** ended the year **over budget \$39k** due to expenses related to the overnight shelter.
- **Police Services** ended the year **under budget (\$3M)** mainly due to Regular Member position vacancies and the budget including a 2.5% increase for ongoing contract negotiations. This was partially offset by decreased Casino and external customer revenue due to the pandemic restrictions.
- **Police Client Services** ended the year **under budget (\$221k)** due to staff vacancies.
- **Police Quality Assurance** ended the year **under budget (\$27k)** due to staff vacancies.
- **Police Facility Operations** ended the year **under budget (\$30k)** mainly due to staff vacancies.
- **Crime Prevention** ended the year **under budget (\$60k)** due to timing of staff hiring and volunteer programs put on hold or reduced due to the pandemic.
- **Police Information Management** ended the year **under budget (\$264k)** due to staff vacancies.

Fire Department, Fire Operations, Fire Communications & Emergency Management, EOC Operations & Hydrants, and Fire Admin, Training & Fire Prevention under budget (\$377k)

- **Fire Operations** ended the year **under budget (\$436k)** due to salary & wage shift reductions and reduced medical calls during April to mid-September.
- **Fire Admin, Training & Fire Prevention** ended the year **over budget \$61k** due to the Lake Country Fire contract being overbudget. This was partially offset by reduced training and staff on Worksafe leave.

CORPORATE STRATEGIC SERVICES DIVISION

Corporate Strategic Services, Information Services, Corporate Communications, Community Communications, Community Engagement, and Corporate Strategy & Performance, under budget (\$72k)

- **Corporate Strategic Services** ended the year **under budget (\$1k)** due to multiple accounts with small variances
- **Information Services** ended the year **over budget \$3k** due to multiple accounts with small variances
- **Corporate Communications** ended the year **over budget \$10k** due to multiple accounts with small variances
- **Community Communications** ended the year **over budget \$38k** due to a new position being filled earlier than budgeted for.
- **Community Engagement** ended the year **under budget (\$134k)** due to staff vacancies and wages being attributed to projects.

2. Summary of Utility Funds

AIRPORT FUND

The 2020 Airport deficit before appropriations to reserve was \$1.4M. The accumulated surplus is \$2.4M. During 2020, the Airport earned revenues of \$20.5M, which was \$25.9M less than anticipated at the beginning of 2020. The COVID-19 pandemic had a significant, negative impact on the travel industry and resulted in a 64% decrease in passenger numbers at the Airport compared to 2019. This resulted in substantial decreases in revenues, as reflected in the following reductions when compared to budget:

- Airport improvement fees \$16.5M
- Parking revenue \$4.8M
- Landing fees \$2.3M
- Terminal fees \$2.1M
- Car rental concession revenues \$0.9M

During 2020, the Airport had operating expenditures of \$14.2M excluding amortization, which was \$4.4M less than budget. Expenditures came in under budget due to the implementation of substantial measures to help reduce costs and mitigate the significant, negative impact of COVID-19. The largest reductions compared to budget were:

- Salaries and wages \$ 1.2M
- Professional & consulting services \$1.0M
- Facility maintenance \$0.8M
- Fuel costs \$0.3M

WASTEWATER UTILITY FUND

The Wastewater Utility surplus from 2020 operations was \$7.1M which was \$3.2M more than the budgeted surplus of \$3.9M. The annual surplus was primarily due to the following items:

- Lower salaries and wages of \$810k due to staff leave & vacancies,
- Interest revenue of \$700k higher than what was budgeted,
- Lower contract and purchase services of \$375k,
- Capital projects came in under budget for Guy Street (Bay Avenue lift station) replacement project was cancelled \$1,375k and due to the Tolko Site being redeveloped at unknown future date

The accumulated surplus for the Wastewater Utility is \$59.0M. A portion of the accumulated surplus will be required to carry the utility through a period of higher capital infrastructure replacement over the next several years, including new mains, lift stations and facility renewal. The accumulated surplus acts as an equalization fund to ensure utility rate increases are kept at acceptable levels and as backing for debt repayment under the DCC Wastewater program.

WATER UTILITY FUND

The Water Utility surplus from 2020 operations was \$1.9M which was \$646k higher than the budgeted surplus of \$1.3M. The annual surplus was primarily due to the following items:

- Lower salaries and wages of \$649k due to vacancies and re-deployment of staff,
- Lower allocations of \$499k,
- Capital projects were completed \$109k under budget due to the cancellation of the Bellevue Creek Water Main Crossing.

The favorable items above were partially offset by a \$611k decrease in commercial water sales due to lower demand attributed to COVID-19 impacts on businesses.

The accumulated surplus for the Water Utility is \$9.3M. A portion of the accumulated surplus will be required to support capital renewal primarily for new water meters over the next five years. In addition to using a portion of the accumulated surplus for capital renewal, rate increases of 6% or more will be required in order to ensure the Utility does not move into a deficit position.

3. Reserve Funds – General and Statutory

The City of Kelowna’s 2020 year-end general and statutory reserve position on a comparative basis to 2019 is as follows in 000’s of dollars:

	<u>2020</u>	<u>2019</u>
General Reserves for Future Expenditures	\$107,426	\$105,589
Legacy Reserves	101,983	97,949
Statutory Reserves for Future Expenditures	93,828	88,356
Utility Reserves for Future Expenditures	<u>60,112</u>	<u>63,340</u>
Total Reserves	\$363,349	\$355,234
Less Multi-Purpose Commitment	<u>6,867</u>	<u>6,699</u>
Available Reserves	<u>\$356,482</u>	<u>\$348,535</u>

The increase in General and Statutory Reserves is primarily due to deferral of capital projects from 2020 into 2021, which results in project funding being carried forward in a Reserve.

The Legacy Reserves increased by \$4.0M primarily due to reinvestment of Fortis share dividends.

4. Utility Reserves for Future Expenditures - Decrease of \$3.2M

Airport Reserves

Due to COVID-19, there was a significant negative impact on the Airport’s business which resulted in significant decreases in revenue. Operating and capital expenditures were reduced to help mitigate the negative financial impact. The net result to the overall Airport reserves was a decrease of \$2.0M, to bring total reserves down to \$28.4M. The Airport reserve balances are committed for future operating expenditures and capital projects identified as a part of the airport long-term capital plan.

Water Utility

The Water Utility has a reserve for future expenditure balance of \$20.8M. This is a decrease of \$1.5M which can be attributed to an overall decrease of \$2.6M spent on capital Water Quality Enhancement projects with an increase to the SEKID water levy of \$800k and an increase in unspent budget funds (carryover projects) of \$800K. The unspent funds are anticipated to be complete in 2021.

Wastewater Utility

The Wastewater Utility has a reserve for future expenditure balance of \$10.9M of which \$7.6M represents unspent budget funds which are 2020 projects to be completed in 2021. The total reserve for future expenditure balance increased \$270K from 2019 due to carryover projects, which are anticipated to be completed in 2021.

5. Deferred Development Cost Charges

The Development Cost Charge balance has increased by \$4.7M. Development Cost Charge revenues totaled \$19.0M while expenditures were \$14.4M. The consolidated closing deferred DCC balance was \$83.7M.

6. Budget Amendments

As part of regular operations the Financial Services Division prepares an annual report detailing expenditures that have exceeded approved budget. This report recommending approval of an amendment along with details reflecting the necessity for the amendments was forwarded to Council at the April 19, 2021 regular meeting.

G. Davidson, CPA, CMA

cc: City Manager
Grant Thornton – Tyler Neels