

Memo



Date: April 28, 2022
File: 0605-01
To: Audit Committee
From: Divisional Director, Financial Services
Subject: Audit Committee Review of 2021 Surplus and Reserves
Report Prepared by: Financial Planning Manager

The following information provides further details relative to the fiscal year 2021 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 "2021 Revenue - Expenditure Analysis".

2021 Operating Surplus

1. Summary of General Fund

- An unappropriated surplus of \$8.8M has been generated from current year's operations.
- The fund's accumulated surplus will be \$4.9M at the end of 2021, after distribution of the surplus to reserves. After the distribution, the balance will represent approximately 3% of the 2021 taxation demand.

Total surplus appropriated to reserve is \$8.7M as detailed in the City Manager's April 28, 2022 memorandum titled "2021 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 (\$2.1M)

- **Real Property Tax** revenue ended the year **\$149k over budget** due to mid-year changes in property assessment values which resulted in increased taxation.
- **Interest & Penalties** revenue ended the year **\$1.7M over budget** due to higher than budgeted interest revenue and Interest and penalties on late property tax payments.
- **Provincial revenue** was **\$142k over budget** mainly due to higher-than-expected traffic fine sharing revenue. This was partially offset by a reduction in Provincial PILT (Payment in lieu of taxes) revenue due to the reassessment of the Kelowna courthouse.

CITY ADMINISTRATION DIVISION

City Manager, Council, and Mayor under budget (\$155k)

- **City Manager** ended the year **under budget (\$95k)** due to staff vacancies with a corresponding reduction of employee related expenses. Contingency expense was under budget as these costs vary annually. Training and travel were under budget due to the ongoing impacts of COVID-19.
- **Council** ended the year **under budget (\$46k)** due to contingency expenses as these costs vary annually. Travel expenses were under budget due to the ongoing impacts of COVID-19.
- **Mayor** ended the year **under budget (\$14k)** due to multiple accounts with small variances.

CITY CLERK

City Clerk, Legislative Office and Records & Information over budget \$167k

- **City Clerk** ended the year **over budget \$237k** due to legal expense relating to various matters.
- **Legislative Services** ended the year **under budget (\$63k)** mainly due to staff vacancies and Contract services as these costs vary annually.
- **Records & Information** ended the year **under budget (\$6k)** due to multiple accounts with small variances.

INFRASTRUCTURE DIVISION

Infrastructure, Infrastructure Delivery, Infrastructure Engineering, and Integrated Transportation under budget (\$784k)

- **Infrastructure** ended the year **under budget (\$20k)** due to reduced expenses as a result of the ongoing impacts of COVID-19.
- **Infrastructure Delivery** ended the year **under budget (\$245k)** due to staff vacancies.
- **Infrastructure Engineering**
 - **Utility Planning** ended the year **under budget (\$28k)** due to professional and consulting services being under budget these costs vary annually. This was partially offset with salaries and wages being over budget due to staff charging less time to capital projects.
 - **Infrastructure Administration** ended the year **under budget (\$42k)** primarily due to salaries and wages being under budget due to staff time billed to capital projects. Materials and supplies were under budget due to less / minimal requirements and a planned software update that did not occur during the year.
- **Integrated Transportation**
 - **Integrated transportation** ended the year **under budget (\$145k)** due to staff vacancies.
 - **Kelowna Regional Transit** ended the year **over budget \$490k** due to Custom transit revenue under budget and costs over budget due to ongoing impacts of COVID-19.
 - **Strategic Transportation Planning** ended the year **over budget \$22k** due to salaries and wages relating to the Transit Master Plan.

- **Transit and Programs** ended the year **under budget (\$6k)** due to multiple accounts with small variances
- **Transportation Engineering** ended the year **over budget \$2k** due to multiple accounts with small variances

PLANNING & DEVELOPMENT DIVISION

Planning & Development Services, Development Planning, Business License, Development Services, and Policy & Planning under budget (\$5.5M)

- **Development Planning**
 - **Development Planning** ended the year **under budget (\$253k)** due to an unexpected increase in service revenue.
 - **Suburban and Rural Planning** ended the year **over budget \$107k** due to additional part time and casual wages needed to support increased development activity.
 - **Urban Planning Management** ended the year **under budget (\$130k)** due to staff vacancies.
- **Business License** ended the year **under budget (\$503k)** due to fee collection and processing improvements. Purchase services were under budget due to the short-term rental monitoring program not starting until mid-year.
- **Development Services**
 - **Development Services** ended the year **under budget (\$4.1M)** due to increased permits and inspections revenue from increased in development. The City issued building permits of over \$1B in construction value in 2021 compared to approximately \$500M in 2020.
 - **Building & permitting** ended the year **under budget (\$580k)** due to staff vacancies. Internal equipment charges were under budget as these are driven by staff levels. Copier use was under budget as more processes were done electronically. Postage and freight under budget due to outsourcing.
- **Policy & Planning** ended the year **under budget (\$39k)** due to staff vacancies.
- **Long Range Policy Planning** ended the year **over budget \$11k** due to multiple accounts with small variances

PARTNERSHIP & INVESTMENTS

Partnerships & Investments, Business & Entrepreneurial Development, Parks & Building Planning, Real Estate & Real Estate Services under budget (\$277k)

- **Partnerships & Investments** ended the year **over budget \$6k** due to multiple accounts with small variances.
- **Business & Entrepreneurial Development** ended the year **under budget (\$171k)** due to staff vacancies.
- **Parks & Buildings Planning** ended the year **under budget (\$98k)** due to the timing of project expenses and staff vacancies.
- **Real Estate & Real Estate Services** ended the year **under budget (\$51k)** due to staff vacancies.

- **Real Estate Services** ended the year **over budget \$5k** due to multiple accounts with small variances.
- **Strategic Land Development** ended the year **over budget \$33k** due to Professional fees relating to various development projects.

ACTIVE LIVING & CULTURE DIVISION

Active Living & Culture, Community & Neighborhood Services, Cultural Services, Recreation & Business Services and Sport & Event Services under budget (\$1.3M)

- **Active Living & Culture** ended the year **under budget (\$330k)** due to reduced activities from the ongoing impacts of COVID-19.
- **Community & Neighborhood Services** ended the year **under budget (\$349k)** due to reduced activities from the ongoing impacts of COVID-19.
- **Cultural Services** ended the year **under budget (\$12k)** due to multiple accounts with small variances.
- **Administration & Business Services** ended the year **under budget (\$91k)** due to staff vacancies and staff being redeployed to other departments. In addition, other activities were reduced from the ongoing impacts of COVID-19.
- **Sports & Event Services** ended the year **under budget (\$497k)** due to staff vacancies and staff being redeployed to other departments. In addition, other activities were reduced from the ongoing impacts of COVID-19.

CIVIC OPERATIONS DIVISION

Civic Operations, Civic Operations Finance & Administration, Building Services, Fleet Services, Parks Services, Public Works, and Utility Services over budget \$257k

- **Civic Operations**
 - **Civic Operations** ended the year **under budget (\$41k)** due to staff vacancies.
 - **Infrastructure Operations** ended the year **under budget (\$95k)** due to staff vacancies.
- **Civic Operations Finance & Administration** ended the year **under budget (\$53k)** due to staff vacancies and management charging to their time to capital projects.
- **Building Services** ended the year **under budget (\$223k)** mainly due to electrical and gas savings as operating capacity was reduced due to the ongoing impacts of COVID-19. In addition, the installation of energy efficient boilers and hot water tanks resulted in reduced expenses.
- **Fleet Services** ended the year **under budget (\$25k)** due to the reduction of use of the carshare program.
- **Parks Services** ended the year **over budget \$95k** due to multiple accounts with small variances.
- **Public Works** ended the year **over budget \$594k**. Snow & Ice control was over budget due to significant snowfall. Paved Oil Surface & Base Operations was over budget due to equipment rentals. This was partially offset by reduced salaries and wages. Surface & Fixture Construction Repair was over budget due to the extreme heat during the summer. Gravel Surface Operations was over budget due to increased service requests. Sweeping and Litter was over budget due to internal

equipment charges as well as salaries and wages. This was partially offset by Permit revenue being over budget due to the significant increase in development in the year.

- **Utility Services** ended the year **over budget \$5k** due to multiple accounts with small variances.

FINANCIAL SERVICES DIVISION

Financial Services, Corporate Finance, Financial Planning, Controller, Corporate Financial Support, and Purchasing under budget (\$611K)

- **Financial Services** ended the year **under budget (\$63k)** due to professional and consulting expense as these costs vary annually. Training and education was under budget due to the ongoing impacts of Covid-19.
- **Corporate Finance** ended the year **under budget (\$39k)** due to staff vacancies.
- **Financial Planning** ended the year **under budget (\$45k)** due to staff vacancies.
- **Controller** ended the year **under budget (\$311k)** due to staff vacancies, higher admin fee revenue from increased tax certificate user fees, and lower professional and consulting expense.
- **Corporate Financial Support** ended the year **under budget (\$170k)** due to staff vacancies.
- **Purchasing** ended the year **over budget \$17k** due to multiple accounts with small variances.

Debt & Other \$1.6M

- **Debt & Other** ended the year **over budget \$1.6M** mainly due to the salary vacancy factor that is in place to offset the timing of new staff hires throughout the organization. In addition, interest paid on prepaid taxes was under budget due to low interest rates. Contingency expense was under budget as the costs vary annually.

HUMAN RESOURCES & COMMUNITY SAFETY DIVISION

Human Resources, Corporate HR Services, Community HR Services, HR Programs & Systems, Compensation & Benefits, and Risk Management under budget (\$199k)

- **Human Resources** ended the year **under budget (\$31k)** due to legal expenses as these costs vary annually. Training expense, materials and supplies were under budget due to the ongoing impacts of COVID-19. These were partially offset by salaries and wages being over budget.
- **Corporate HR Services** ended the year **under budget (\$19k)** due to multiple accounts with small variances.
- **Community HR Services** ended the year **over budget \$1k** due to multiple accounts with small variances.
- **Compensation & Benefits** ended the year **under budget (\$4k)** due to multiple accounts with small variances.
- **Risk Management** ended the year **under budget by (\$147k)** mainly due to unbudgeted recoveries from third parties and insurance claims which vary annually there were also staff vacancies.

Community Safety, Bylaw Services, Police Services, Police Client Services, Police Quality Assurance, Crime Prevention, and Police Information Management under budget (\$693k)

- **Community Safety** ended the year **under budget (\$183k)** due to expenses being covered by the Strengthening Communities Grant as well as professional and consulting services being under budget as these costs vary annually.
- **Bylaw Services** ended the year **over budget \$82k** due to less revenue as fewer parking fines and illegal suite inspections were performed. Salaries and wages were under budget due to staff vacancies.
- **Police Services** ended the year **over budget \$108k** mainly due to the salary vacancy factor which is in place to offset the timing of new RCMP members. This was partially offset by gaming revenue being over budget due to casinos reopening and generating more revenue than budgeted. Service revenue was under budget as there were fewer prisoners and special events during the year due to the ongoing impacts of COVID-19. Salaries and wages were under budget due to staff vacancies. Contract services were under budget due to Federal invoices coming in under budget.
- **Police Client Services** ended the year **under budget (\$171k)** due to less prisoners and staff vacancies.
- **Police Quality Assurance** ended the year **under budget (\$163k)** due to staff vacancies. Repair parts were under budget due to a new vehicle being purchased which resulted in less repairs.
- **Police Facility Operations** ended the year **under budget (\$138k)** due to staff vacancies. In addition, Internal equipment charges and repair expenses were over budget due to the increase in RCMP members which resulted in additional desk installations. There were also one-time expenses including privacy slats for the fencing that surrounds the secure parking lot and the painting of the parking lot.
- **Crime Prevention** ended the year **under budget (\$143k)** due to staff vacancies. In addition, Volunteer programs were under budget as the programs were transferred to the RCMP.
- **Police Information Management** ended the year **under budget (\$85k)** due to staff vacancies.
- **Police Services Watch Support** ended the year **under budget (\$85k)** due to staff vacancies.

Fire Department, Fire Operations, Fire Communications & Emergency Management, EOC Operations & Hydrants, and Fire Admin, Training & Fire Prevention over budget \$150k

- **Fire Operations** ended the year **over budget \$20k** due to multiple accounts with small variances.
- **EOC Operations & Hydrants** ended the year **over budget \$99k** due to ineligible recoverable costs such as fringe benefits on City staff wages and internal equipment for staff seconded to the EOC. There were also other unrecoverable emergency expenses such those related to the crane incident.
- **Fire Admin, Training & Fire Prevention** ended the year **over budget \$32k** due to Salaries and wages as the budget was moved out of the cost center part way through the year but actual expenses remained.

CORPORATE STRATEGIC SERVICES DIVISION

Corporate Strategic Services, Information Services, Corporate Communications, Community Communications, Community Engagement, and Corporate Strategy & Performance, under budget (\$56k)

- **Corporate Strategic Services** ended the year **under budget (\$18k)** due to multiple accounts with small variances
- **Information Services** ended the year **over budget \$76k** due Salaries and wages as more time was charged to operating items as capital projects were delayed. Purchase services was over budget due to inflation and USD conversion. Communication lines and internet charges were under budget due to delayed projects. Materials and supplies were under budget due to a mapping project not being conducted in the year. Copier use was under budget due to staff working remote.
- **Corporate Communications** ended the year **over budget \$11k** due to multiple accounts with small variances
- **Community Communications** ended the year **under budget (\$25k)** due to multiple accounts with small variances
- **Community Engagement** ended the year **under budget (\$71k)** due to staff vacancies and unused salaries related to the public engagement for the Southeast Kelowna irrigation project that was completed during the year.
- **Corporate Strategy & Performance** ended the year **under budget (\$30k)** due to Professional and consulting being under budget due to project delays.

2. Summary of Utility Funds

AIRPORT FUND

The Airport's 2021 annual surplus before appropriations to reserve was \$7.5M. The accumulated general surplus is \$2.4M. During 2021, the Airport earned revenues of \$29.5M, which was \$8.7M more than was budgeted for 2021. The COVID-19 pandemic had a substantial, negative impact on YLW's business beginning in March 2020 and continuing until today. 2021 passenger numbers increased 13% when compared to 2020, decreased 59% when compared to 2019, and increased 62% when compared to what was budgeted for 2021. This \$8.7M increase between budget and actual was mainly due to the following variance from budget:

- Airport improvement fees \$3.6M
- Parking revenue \$1.4M
- Landing fees \$1.2M
- Terminal fees \$0.8M
- Car rental concession revenues \$0.5M
- Rental Revenue \$0.3M

During 2021, the Airport had operating expenditures of \$14.5M excluding amortization, which was \$1.5M less than budget. Expenditures came in under budget due to the continued, concerted effort to move strategic initiatives forward while keeping costs low to help mitigate the significant, negative impact of COVID-19. The largest reductions compared to budget were:

- Facility maintenance \$0.4M
- Salaries and wages \$0.3M
- Advertising and Media \$0.2M
- Fuel costs \$0.2M
- Professional & consulting services \$0.1M
- Security \$0.1M

WASTEWATER UTILITY FUND

The Wastewater Utility surplus from 2021 operations was \$3.5M which was \$1.7M more than the budgeted surplus of \$1.8M. The annual surplus was primarily due to the following items:

- Lower salaries and wages of (\$280k) due to staff leave & vacancies,
- Lower contract and purchase services of (\$195k),
- Remaining (\$833k) due to carryover of 2021 projects funded through the Wastewater reserve.

The accumulated surplus for the Wastewater Utility is \$68.0M. 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 2021 operations was \$2.6M which was \$2.6M higher than the budgeted deficit of \$87k. The annual surplus was primarily due to the following items:

- Higher Revenues of Water Sales of \$1.8M due to Heat Dome effect in the summer driving up consumption as well as new metered consumption revenues effect January 1st, plus Water Quality Enhancement increased \$478k from former Southeast Kelowna customers,
- Salaries and wages savings of \$247k due to vacancies and re-deployment of staff,
- Lower allocations of \$1.0M including \$590k from reduced internal expenditures at the conclusion of the multi-year Kelowna Integrated Water Project,

The favorable items above were partially offset by a \$1.4M increase to funding allocations including an additional \$478k to the Water Quality Enhancement Reserve and \$1.0M for the Southeast Kelowna Water Project Fee.

The accumulated surplus for the Water Utility is \$10.0M. 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 2021 year-end general and statutory reserve position on a comparative basis to 2020 is as follows in 000’s of dollars:

	<u>2021</u>	<u>2020</u>
General Reserves for Future Expenditures	\$123,633	\$118,036
Legacy Reserves	105,324	101,983
Statutory Reserves for Future Expenditures	114,522	97,129
Utility Reserves for Future Expenditures	<u>73,821</u>	<u>60,112</u>
Total Reserves	\$417,300	\$377,260
Less Multi-Purpose Commitment	<u>7,014</u>	<u>6,867</u>
Available Reserves	<u>\$410,286</u>	<u>\$370,393</u>

The increase in General and Statutory Reserves is primarily due to deferral of capital projects from 2021 into 2022, which results in project funding being carried forward in a Reserve.

The Legacy Reserves increased by \$3.3M primarily due to reinvestment of Fortis share dividends.

4. Utility Reserves for Future Expenditures - Increase of \$11.8M

Airport Reserves

The Airport reserves for future expenditure balance is \$34.4M, which is made up by the following reserve balances: \$12.9M Airport Improvement Fee, \$1.8M Airport Terminal, \$18.7M Airport Groundside, \$929k Airport Airside, and \$167k Airport Fringe Benefit. There was an overall fund increase of \$6M due to increased revenues compared to 2020. The reserve fund balances are committed for future capital projects identified as part of the airport long-term capital plan.

Wastewater Utility

The Wastewater Utility has a reserve for future expenditure balance of \$16.5M of which \$13M represents unspent budget funds which are earmarked for future use. The total reserve for future expenditure balance increased \$5.6M from 2021 due to carryover projects. These projects are anticipated to be completed in future years as some are completed over several years.

Water Utility

The Water Utility has a reserve for future expenditure balance of \$22.9M. This is an increase of \$2.1M which can be attributed to an overall decrease in unspent budget funds of \$1.8M, an increase to the SEKID water levy of \$1M and an increase to the Water Quality Enhancement of \$2.8M.

5. Deferred Development Cost Charges

The Development Cost Charge balance has increased by \$40.8M. Development Cost Charge revenues totaled \$50.8M while expenditures were \$11.7M. The consolidated closing deferred DCC balance was \$124.6M.

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 11, 2022 regular meeting.

G. Davidson, CPA, CMA

cc: City Manager
Grant Thornton – Tyler Neels