

# Memo



**Date:** April 30, 2024  
**File:** 0605-01  
**To:** Audit Committee  
**From:** Divisional Director, Financial Services  
**Subject:** Audit Committee Review of 2023 Surplus and Reserves  
Report Prepared by: Financial Planning Manager

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## 2023 Surplus

The 2023 fiscal year ended with a surplus of \$23.6M, made up of the General, Airport (after contributions to reserve), Water Utility and Wastewater Utility Fund surpluses. This surplus is calculated based on the 2023 amended budget. As part of regular operations, the Financial Services Division prepares an annual report detailing expenditures that have varied from approved budget. This report, recommending approval of amendment no. 1 to the Five-Year Financial Plan 2023-2027 Bylaw along with details reflecting the necessity for the amendment, was forwarded to Council at the April 15, 2024 regular meeting.

The General Fund makes up approximately half of this surplus at \$11.0M. This surplus is being recommended to be allocated to reserve and accumulated surplus as part of the City Manager's April 30, 2024 memorandum titled "2023 Surplus from Operations". After the distribution of this surplus, the general fund's accumulated surplus will be \$5.25M which represents 3% of the 2023 taxation demand.

Major contributing factors that led to this level of surplus include:

- Capital project carryovers for projects not completed at year end,
- Record high levels of staff vacancies throughout the organization,
- And higher than expected permit revenues as construction activity continued to be high with permit values exceeding \$1B.

These surpluses were offset by financial challenges such as:

- High inflation, price escalations, and supply chain challenges causing additional costs throughout the organization for items such as fuel, professional and consulting services, and maintenance costs,
- And unexpected legal expenses.

The Airport ended the year with a \$25.0M surplus as the Airport returned to 2019 pre-pandemic passenger levels in 2023. The \$25.0M surplus was mainly driven by \$22.9M in Airport Improvement Fee revenues, which can only be used to fund Airport capital infrastructure, equipment, or corresponding debt.

The Wastewater Utility ended the year with a \$7.2M surplus, \$3.0M of which was attributed to capital and was fully carried over to 2024. This surplus is primarily due to additional revenues from new residential units. The surplus will be contributed to the accumulated surplus to act as an equalization fund to ensure utility rate increases are kept at acceptable levels.

The Water Utility's annual surplus is \$4.7M, \$1.4M of which was attributed to capital and was fully carried over to 2024. The utility experienced higher than expected revenues from increased community water consumption and increased investment interest amid historical increases in interest rates.

Further details on these surpluses can be found in the following section "Appendix A" titled "2023 Revenue - Expenditure Analysis".

## **2023 Reserves**

The City maintains reserves to achieve policy objectives such as:

- To acquire, replace and renew major capital assets
- To ensure stable, predictable tax and utility levies
- To minimize the financial impact of unusual and unexpected events
- To achieve long-term financial stability
- To fund asset retirement obligations

The City continues to maintain a healthy reserve balance. Available reserves increased by \$33.8M between 2022 and 2023. The largest increase was in the General reserves \$18.7M, mainly due to the contribution of Growing Communities Grant being contributed to reserve. The increase in statutory reserves was \$13.4M including \$4.1M from Landfill operations and \$3.2M from Parking Services.

Development Cost Charges (DCC) are reported separately from other reserves as they are revenues received for specific purposes and cannot be used for any other expenditures. The DCC balance increased by \$65.5M between 2022 and 2023.

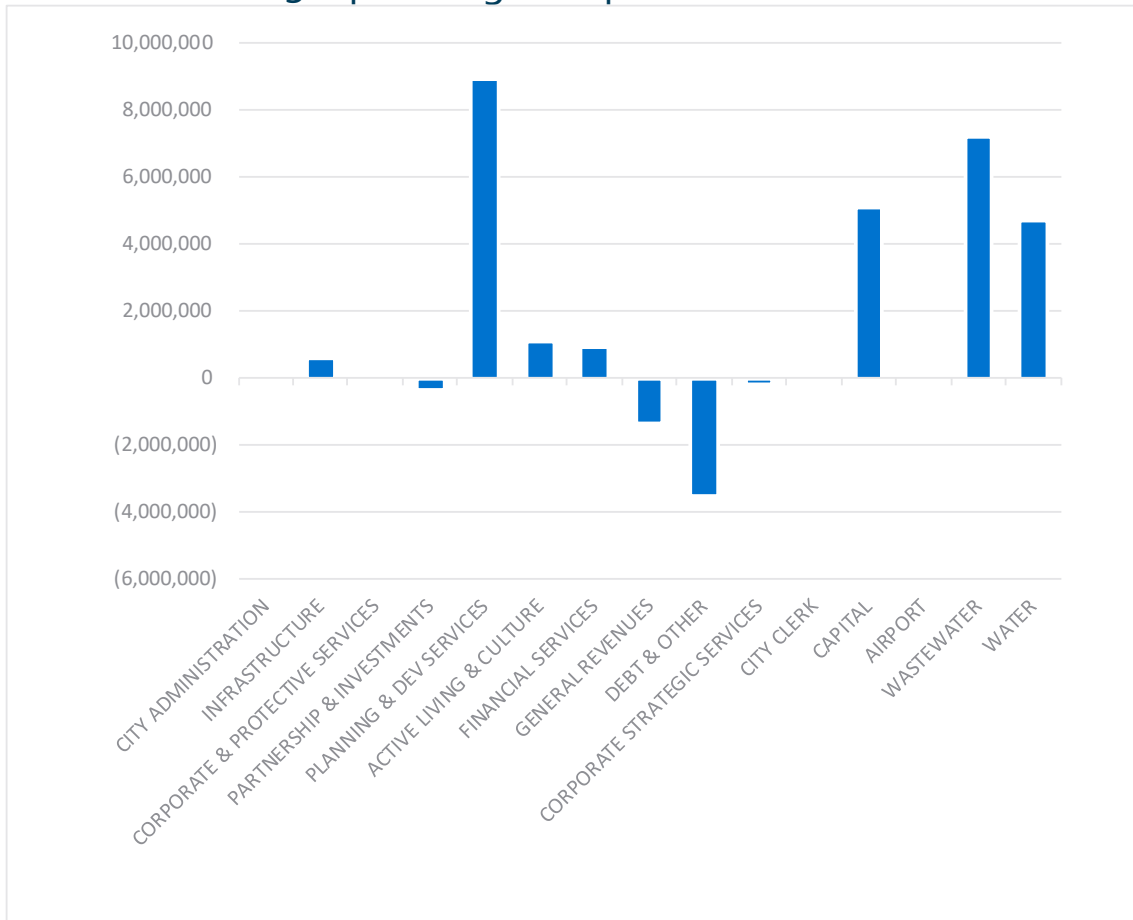
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J. Sass, CPA, CA

cc: City Manager  
Grant Thornton – Tyler Neels

# APPENDIX A - 2023 Revenue - Expenditure Analysis

## 2023 Operating & Capital Results



\*Airport amounts are net of contributions to reserve

	Actuals	Budget	Variance	
City Administration	2,531,710	2,531,549	(161)	100.0%
Infrastructure	39,628,963	40,210,061	581,098	98.6%
Corporate & Protective Services	84,676,172	84,598,213	(77,959)	100.1%
Partnerships & Investments	10,331,930	9,999,765	(332,165)	103.3%
Planning & Development Services	(9,167,242)	(225,074)	8,942,168	4073.0%
Active Living & Culture	10,513,145	11,611,336	1,098,191	90.5%
Financial Services	6,219,575	7,127,198	907,623	87.3%
General Revenue	(191,059,250)	(192,426,998)	(1,367,748)	99.3%
Debt & Other	12,331,664	8,791,972	(3,539,692)	140.3%
Corporate Strategic Services	10,584,860	10,373,252	(211,608)	102.0%
City Clerk	1,785,775	1,639,199	(146,576)	108.9%
Capital Projects (General)	10,654,844	15,769,527	5,114,683	67.6%
<b>Total General Fund (Deficit)/Surplus</b>	<b>(10,967,854)</b>	<b>-</b>	<b>10,967,854</b>	
Airport	3	-	(3)	0.0%
Wastewater Utility	(7,222,881)	-	7,222,881	0.0%
Water Utility	(4,696,930)	-	4,696,930	0.0%
<b>Total Operating &amp; Capital - (Deficit)/Surplus</b>	<b>(22,887,662)</b>	<b>-</b>	<b>22,887,662</b>	

## 1. Summary of General Fund

### City Administration

The City Administration Division ended the year at nearly 100.0% of budget with a small deficit of \$161.

### Infrastructure

The General Fund portion of the Infrastructure Division ended the year at 98.6% of budget and a surplus of \$581k. This surplus is a result of increased ridership revenue in the Regional Transit program and reduced contract costs, driven by factors such as lower fuel expenses and restricted routes in early 2023, as well as staff vacancies experienced by the Division. This surplus was partially balanced by cost overruns in areas like parks and beach maintenance, litter management, street sweeping, and paved oil surface maintenance, mainly due to cost inflations. Budget of \$47k was approved for carryover into 2024, reducing this surplus to \$534k.

### Corporate & Protective Services

The Corporate and Protective Services Division ended the year at 100.1% of budget and a deficit of \$78k. The deficit can be attributed to higher than budgeted RCMP contract and Bylaw costs as well as increased insurance premiums. These were partially offset by higher than expected casino gaming revenues and lower prisoner costs as well as staff vacancies throughout the division. Budget of \$66k was approved for carryover into 2024, increasing this variance to \$144k or 100.2% of budget.

### Partnerships & Investments

The Partnerships and Investments Division, which includes Building Services, ended the year at 103.3% of budget and a deficit of \$332k. This was mostly due to inflationary pressures and price escalations of contracted services, materials, and supplies for maintaining civic buildings. This was offset by higher than expected concession revenues and lower than anticipated professional and consulting service expenses. Budget of \$66k was approved for carryover into 2024, increasing this deficit to \$398k, 104% of budget.

### Planning & Development Services

The Planning and Development Division ended the year at 4073.0% of budget and a surplus of \$8.9M. 2023 was unprecedented for construction activity with permit values exceeding \$1.756B, resulting in larger than expected permit revenue. In addition, business license revenue was larger than expected as the growth and development of the city resulted in an increase in businesses license applications for the year. Budget of \$41k was approved for carryover into 2024, reducing this surplus to 4055% of budget.

### Active Living & Culture

The Active Living and Culture Division ended the year at 90.5% of budget and a surplus of \$1.1M. This surplus is attributed to Sports & Event Services seeing higher than expected revenues due to a continued strong post-COVID recovery. Additionally, lower than anticipated grant expenses, reflecting reduced community demand, contributed to the surplus. Staff vacancies within the Active Living and Culture Division further bolstered the surplus. Budget of \$97k was approved for carryover into 2024, reducing this surplus to \$1.0M, 91% of budget.

### Financial Services

The Financial Services Division ended the year at 87.3% of budget and a surplus of \$907k. The surplus is mainly due to staff vacancies experienced by various branches within the division.

### General Revenues

General Revenues ended the year at 99.3% of budget and a deficit of \$1.36M. This surplus is attributed to the decision not to sell any Fortis shares during the year due to surpluses being realized throughout the City.

### Debt & Other

Debt and Other ended the year at 140.3% of budget and a deficit of \$3.5M. The deficit is mainly due to the salary vacancy factor that is in place to offset vacancy surpluses throughout the organization and help prevent the overtaxing of property owners.

### Corporate Strategic Services

The Corporate Strategic Services Division ended the year at 102.0% of budget and a deficit of \$211k. The deficit is mainly due to higher than anticipated professional and consulting services, driven by inflationary pressures. Additionally, the necessity to hire temporary staff to fill positions vacated by employees assigned to other projects. Budget of \$15k was approved for carryover into 2024, increasing this deficit to \$227k.

### City Clerk

The City Clerks Division ended the year at 108.9% of budget and a deficit of \$146k. This deficit is mainly due to unexpected legal expenses during the year.

### Capital Projects (General Fund)

Capital Projects ended the year using 67.6% of taxation budget and a surplus of \$5.1M. Of this amount, \$4.9M was approved to be carried over into 2024 leaving a \$203k surplus in the program.

## **2. Summary of Airport/Utility Funds**

### Airport Fund

The Airport's 2023 surplus before contributions to reserve was \$25.0M. During 2023, passenger numbers increased 18% when compared to 2022 and returned to 2019 pre-pandemic levels. Airport revenues totaled \$55.6M for the year, an increase of \$4.4M compared to 2022, and which was mainly due to increased passenger growth, offset by decreased grant funding. Airport operating expenditures, excluding amortization, were \$0.7M less than budget at \$21.8M. Expenditures came in under budget due to the continued, concerted effort to move strategic initiatives forward in the most cost-effective manner.

The accumulated general surplus for the Airport is \$2.4M, and acts as a fund for emergencies, such as fires and floods.

### Wastewater Utility Fund

The Wastewater Utility 2023 surplus was \$7.2M, of which \$3.0M was attributed to capital projects. Carryovers approved by Council total \$3.2M for the capital program, which will put the Wastewater capital program into a deficit of \$178k for 2023, and \$39k for the operating program. Total carryovers will reduce the fund surplus to \$3.9M. The Wastewater Utility received greater than expected revenue primarily due to the higher than planned number of residential units added as well as greater than expected revenues from investment interest due to historic increases in interest rates. This was offset by increased costs of chemicals used for wastewater treatment and high cost of repair parts due to inflationary and supply chain challenges.

The accumulated surplus balance, before any 2023 surplus contributions, for the Wastewater Utility is \$49.2M. During 2023, \$3.9M was transferred from the Wastewater Utility Accumulated Surplus to the Septic

Removal Specified Area reserve to be used to fund the design and construction of sanitary sewer connection area projects as identified in Sewer Connection Area Prioritization Bylaw No. 12343.

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 2023 surplus was \$4.7M, of which \$1.4M was attributed to capital projects Carryovers approved by Council total \$1.5M for the capital program, which will put the Water capital program into a deficit of \$123k for 2023, and \$228k for the operating program. Total carryovers will reduce the fund surplus to \$2.9M. The Water Utility experienced higher than expected revenues from increased community wide water consumption and elevated investment interest resulting from historical increases in interest rates. This surplus was augmented by lower than anticipated salary and wages expenses, attributed to utility staff undertaking projects beyond the Water Utility Fund. Additionally, an expense surplus was realized through the decommissioning of the Long Meadow Reservoir Dam and lower than expected professional services costs.

The accumulated surplus balance, before any 2023 surplus contributions, for the Water Utility is \$12.3M. 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. Summary of Reserve Funds**

The City of Kelowna’s 2023 year-end reserve position on a comparative basis to 2022 is as follows in 000’s of dollars:

	<u>2023</u>	<u>2022</u>
General Reserves for Future Expenditures	\$148,131	\$138,991
Endowment Reserve	120,095	110,543
Statutory Reserves for Future Expenditures	146,439	133,049
Utility Reserves for Future Expenditures	93,420	91,677
Total Reserves	<u>\$508,085</u>	<u>\$474,260</u>
Less Multi-Purpose Commitment	<u>7,649</u>	<u>7,283</u>
Available Reserves	<u>\$500,436</u>	<u>\$466,977</u>

In 2023 the Legacy Reserves were amalgamated into the City’s Endowment reserve. The increase of 9.6M from the previous year’s legacy reserve to this year’s endowment reserve is due to reinvestment of Fortis share dividends, interest revenue and the amalgamation of other general reserves.

**4. Reserves for Future Expenditures - Increase of \$33.5M**

General Fund

The General Fund has a reserve for future expenditure balance of \$148.1M of which \$14.0M represents unspent budget funds which are earmarked to be used to fund projects that are anticipated to be completed over the next few years. The total reserve for future expenditure balance increased \$18.7M from 2022 primarily due to receiving the Growing Community’s grant.

### Airport Reserves

The Airport reserves for future expenditure balance is \$52.0M, which is made up of the following reserve balances: \$25.4M Airport Improvement Fee, \$(6.2M) Airport Terminal, \$33.9M Airport Groundside, \$(1.3M) Airport Airside, and \$0.2M Airport Fringe Benefit. There was an increase in Airport reserves of \$6.4M due to revenues exceeding operating expenditures and the acquisition of tangible capital assets. 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 \$15.9M of which \$11.8M represents unspent budget funds which are earmarked for future use. The total reserve for future expenditure balance decreased \$2.8M from 2022 primarily due to previously received grants from the Okanagan Basin Water Board being transferred into the Septic Removal Specified Area Reserve Fund.

### Water Utility

The Water Utility has a reserve for future expenditure balance of \$25.5M. This is a decrease of \$1.9M from 2022 and is primarily due to projects related to the Cedar Creek pump station.

### Statutory Reserves

The Statutory reserves have a future expenditure balance of \$146.4M. This is an increase of \$13.4M which is primarily attributed to the Okanagan Basin Water Board grant transfer and Parking and Landfill profits being contributed to reserve for future capital requirements.

## **5. Deferred Development Cost Charges**

The Development Cost Charge balance has increased by \$65.5M. Development Cost Charge collected totaled \$103.1M while expenditures were \$37.5M. The consolidated closing deferred DCC balance was \$213.7M.