

Memo



Date: April 30, 2024
Rim No. 0220-20
To: Audit Committee
From: City Manager
Subject: 2023 Surplus from Operations

Report Prepared by: Divisional Director Financial Services

Recommendation:

That the 2023 General Fund Surplus of \$10,967,854 generated from operating and capital programs be distributed as per the City Manager's memo of April 30, 2024.

Purpose:

To provide the Audit Committee with a summary of the 2023 surplus allocation and recommendation for the allocation of the unallocated portion of the 2023 General Fund surplus for contribution to reserve and accumulated surplus.

Background:

When the City's annual realized revenues are greater than annual expenses, the result is an annual surplus. The accumulation of annual surpluses from prior years is called the accumulated surplus and is equal to the total of the City's assets less liabilities. The City of Kelowna's accumulated surplus is made up of four sections, unrestricted reserves referred to as General Reserves, restricted reserves referred to as Statutory Reserves, equity in tangible capital assets, and fund surplus which is the remainder of the balance.

As reported in the 2023 Consolidated Financial Statements, the 2023 year-end annual surplus is \$137.0M. This surplus by fund is as follows:

General fund	\$96.5
Airport fund	\$25.0
Wastewater fund	\$7.1
Water fund	\$3.3
Statutory reserve funds	\$5.1

Statutory reserve funds

The statutory reserve funds include the Parking, Land, Capital Works, Machinery and Equipment, Septic Removal Specified Area, and Public Amenity and Streetscape reserves. The \$5.1 million surplus that was generated in these reserve funds is the investment interest revenue earned on the balance in these reserves. This surplus revenue was contributed to the respective reserves and is included in the 2023 closing balance.

Water fund

The water fund provides for the capital construction, operation, and maintenance of the City's water utility. Revenues within this fund, or prior years' surplus, must be sufficient to cover all operating and capital costs of the utility on an annual basis. The 2023 annual surplus is \$3.3M. After capital transfers, contributions to reserves, and the entry for approved carryovers, a remaining \$3.0M is available to be contributed to the accumulated surplus to support future spending in the fund.

Waste Water fund

The waste water fund provides for the capital construction, operation, and maintenance of wastewater treatment including sewer mains, lift stations and treatment facilities. Revenues generated in this fund, or previous years' surplus, must be sufficient to offset all operating and capital costs of this utility on an annual basis. The 2023 annual surplus is \$7.1. After capital transfers, contributions to reserves, and the entry for approved carryovers, a remaining \$3.9M is available to be contributed to the accumulated surplus to be used to support future spending in the fund.

Airport fund

Kelowna International Airport operates within this fund, and is responsible for capital construction and ongoing administration, operation, and maintenance. This fund is required to be self-sufficient so that revenues generated must offset all operating and capital expenditures. The 2023 annual surplus is \$25M. This \$25M surplus has been contributed to the unrestricted Airport Airside, Groundside and Terminal reserves to be used to fund future capital projects identified as part of the Airport long-term capital plan.

General fund

The general fund is the largest fund and covers all municipal operations aside from the water, waste water and airport funds. This fund is not allowed to operate at a deficit. The difference between budgeted annual expenditures and other revenues generated by the fund forms the annual property tax levy. The 2023 annual surplus is \$96.5M. When we add back capital transfers, and entries related to capital, of \$80M, we have a surplus of \$176.5M. During 2023, \$165.5M of this surplus was contributed to general reserves for items such as interest revenue, transfers for the setup of the endowment fund, and grant funds received and contributed to reserve for future use. The remaining surplus that is available for allocation is \$11.0M.

Surplus allocation

The 2023 year-end general fund unallocated surplus is \$10,967,854. The major sources of this surplus are development related revenues in excess of budget of \$8.9M and unfinished projects requiring to be carried over into 2024 of \$5.2M partially offset by deficits in other areas.

The following allocation of the 2023 surplus is recommended in order to minimize risk where unanticipated circumstances may arise during the year; maintain acceptable reserve levels; and support Council priorities.

Unspent Budget Reserves	\$ 5,243,200	To fund projects that were not completed in 2023 as approved by Council through the 2024 Financial Plan – Carryover Budget - Volume 2.
Partnerships & Events	\$ 3,800,000	To help fund capital improvements to support the City's bid to host the 2026 Memorial Cup and other major events.
DCC Road Bundle Assist	\$ 1,700,000	To fund the assist factor for the DCC Roads bundle being tendered in attempt to deliver a large amount deferred road infrastructure.

The remaining balance of \$224,654 will flow to accumulated surplus. The accumulated surplus balance provides for a surplus level of approximately \$5.25M which is approximately 3% of the 2023 taxation requirement. This resulting accumulated surplus balance meets acceptable risk level best practices that are in place to help mitigate extraordinary events should they occur.

The Divisional Director of Financial Services will be pleased to discuss any of the information provided in this memorandum during the Audit Committee Meeting on April 30, 2024. If the Audit Committee agrees with this recommendation, it will then be forwarded to Council for their approval.

Submitted by:



Doug Gilchrist
City Manager

cc: Controller,
Corporate Finance Manager,
Financial Planning Manager