

## City of Fort Saskatchewan

### 2016 Operating Budget Update

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#### Purpose:

The purpose of this report is to provide Council with information regarding the 2016 operating budget annual surplus.

#### Background:

##### *Operating Surplus*

The annual surplus from general operations compared to the 2016 budget is the result of higher revenue or lower expenditures than budgeted and arises from a combination of circumstances during the year.

The City uses surpluses to fund reserves as part of a sound financial system to provide for future funding requirements, stabilization of fluctuations in operating and capital activities, contingency funding, and reduces need for debt financing. Surpluses are also used to supplement one-time expenditures as determined by Council during the annual budget process. In 2016, the City spent approximately \$7.8 million on projects that were approved by Council to be funded by reserves. These funds exist from previous years' surplus dollars and transfers to reserves.

The City had a \$4,956,680 annual surplus from operations compared to budget for the year ended December 31, 2016. The operating surplus primarily resulted from \$1,047,000 savings in staffing vacancies, \$950,000 savings from warmer than expected weather conditions (resulting in lower snow removal, heating, and electrical costs), \$785,000 additional revenue from traffic fines due to changes in provincial legislation, and \$627,000 additional revenue from supplementary tax notices.

The 2017 approved budget included measures to reduce future operating surpluses such as increasing budgeted traffic fine revenue and decreasing budgeted courses, conferences, and travel expenses.

A summary of the most significant variances from budget in 2016 detailed in Figure 1 and Figure 2 below.

**Figure 1**

Revenue Variances	2016 Budget	2016 Actuals	Surplus Variance	% of Surplus
Traffic Fines (Provincial changes)	\$ 2,222,200	\$ 3,006,994	\$ 784,794	15.8%
Supplementary tax notices	\$ 60,200	\$ 687,476	\$ 627,276	12.7%
Refunds for new development light poles	\$ 113,200	\$ 433,385	\$ 320,185	6.5%
Investment income	\$ 665,000	\$ 912,665	\$ 247,665	5.0%

**Figure 2**

Expenditure Variances	2016 Budget	2016 Actuals	Surplus Variance	% of Surplus
Staffing vacancies	\$ 23,246,173	\$ 22,199,196	\$ 1,046,977	21.1%
Snow & ice removal	\$ 1,009,770	\$ 346,872	\$ 662,898	13.4%
Conferences, travel and training	\$ 910,520	\$ 551,116	\$ 359,404	7.3%
Natural gas and electricity costs	\$ 2,360,530	\$ 2,073,831	\$ 286,699	5.8%

**Effect of Surplus on Reserves**

The operating surpluses provide the City additional options to address the needs of the community. Pursuant to Council Resolution R89-15, the City allocates surplus funds from operations equally between the Self Financing Infrastructure Reserve, the Land Purchases Reserve, and the Financial Stabilization Reserve.

Figure 3 lists some of the projects in 2016 that were financed from these three reserves.

**Figure 3**

Projects	Reserve funds used
<b>Land Purchases Reserve</b>	
New fire hall land	\$2,672,742
<b>Self-Financing Infrastructure Reserve</b>	
New fire hall land	\$1,735,258
<b>Financial Stabilization Reserve</b>	
West Rivers Edge Dog Park	\$600,000
Transportation Master Plan update	\$275,000
Families First Building Retrofit	\$166,750
Review Safety Code Services	\$95,000
Tourism Hosting Grant	\$85,000
Storm Water Management Facility Operations Plan (drainage study)	\$75,000

Figure 4 shows the expected balances of the Self Financing Infrastructure Reserve, the Land Purchases Reserve, and the Financial Stabilization Reserve after allocation of the 2016 operating surplus.

**Figure 4**

Reserves	Unadjusted Dec. 31, 2016 Balance*	LESS Committed Funds	2016 Operating Surplus	Uncommitted Adjusted Dec. 31, 2016 Balance
Financial Stabilization	\$ 9,108,730	\$ (1,578,259)	\$ 1,652,226	\$ 9,182,697
Self-Financing Infrastructure	\$ 10,291,649	\$ (1,730,652)	\$ 1,652,227	\$ 10,213,224
Land Purchases	\$ 414,667	\$ -	\$ 1,652,227	\$ 2,066,894
<b>Totals</b>	<b>\$ 19,815,046</b>	<b>\$ (3,308,911)</b>	<b>\$ 4,956,680</b>	<b>\$ 21,462,815</b>

\* Includes \$1,244,000 transferred from equity in tangible capital assets to reserves related to the old hospital land that is currently held for resale.

Municipal best practice suggests that the City maintain an uncommitted reserve balance equal to three months of the City's operating expenditures, or \$18.3 million, for unexpected costs. As at December 31, 2016, the uncommitted balances of the Financial Stabilization Reserve and the Self Financing Infrastructure Reserve were \$7,116,000 and \$8,146,000 respectively before allocation of the 2016 unaudited surplus. Allocation of the 2016 unaudited surplus to these reserves brings the City in line with the best practice of having three months of the annual operating expenditures available for unexpected purchases.

The operating surplus also helps to replenish the Land Purchases Reserve, which was fully depleted in 2016 to finance the purchase of land for a new fire hall.

**Financial Implications:**

Pursuant to Council Resolution R89-15, the annual operating surplus of \$4,956,680 has been allocated equally between the Self Financing Infrastructure Reserve, the Land Purchases Reserve, and the Financial Stabilization Reserve.

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<b>Submitted to:</b>	City Council	<b>Date:</b> April 25, 2017