



AGENDA ITEM

2021 Operating Surplus and Reserve Allocation

April 28, 2022

BACKGROUND

County staff have completed the final year-end accounting entries, and the 2021 audited financial statements are being finalized. Representatives from the County's audit firm (BDO LLP) will attend the April 28th Council meeting to present the financial statements.

A final step in completing the statements is the 2021 surplus allocations to reserves, as directed by Council.

Lacombe County ended 2021 on a positive note, having realized a net cash operating surplus of \$1,539,954, representing 2.73% of the 2021 operating budget, excluding the Alberta Education, Designated Industrial Property and Lacombe Foundation requisitions.

For comparison, the County has experienced the following surpluses:

2020 - \$2,285,274	(4.12% of total budget)
2019 - \$2,148,986	(4.54% of total budget)
2018 - \$2,751,237	(4.92% of total budget)
2017 - \$ 411,553	(0.76% of total budget)
2016 - \$1,447,110	(3.01% of total budget)

Included in this surplus figure is an additional contribution to the County's allowance for uncollectible accounts. Generally Accepted Accounting Principles (GAAP) require that the County identify and report an estimate of the County's uncollectible accounts. Staff analyze the tax and general receivable accounts on a regular basis. Based on this review, Administration has contributed a further \$72,452 to the County's Allowance for Doubtful Taxes account. The balance of the allowance is now \$1,593,704.

Also funded from surplus are transfers to the operational reserve of \$676,823, which is \$336,927 in MSI Reallocation and \$339,896 in 2021 projects carried over to 2022.



The source of the 2021 surplus comes from many variances. The following is a summary of the significant items. Other variances have an offset, as they were either funding or funded by transfers of reserves. Smaller variances are grouped in the other variances item at the bottom:

**LACOMBE COUNTY
Budget Discrepancy
Summary of Variances**

DESCRIPTION	Variance	Total
Revenue - Increase/(Decrease)		
Return on Investments	\$ (109,000)	
Property Tax Penalties	196,000	
Fine Revenue	(13,000)	
Licenses & Permits	(58,000)	
Sales and User Fees	37,000	
Rental Income All Dep't	14,000	
Total Revenue Increase/(Decrease)		\$ 67,000
Expenses - Increase/(Decrease)		
Allowance for Uncollectibles	\$ 72,000	
Council & Board Costs	(91,000)	
Salaries and Wages - All Dep't	(832,000)	
Contract Services – All Dep't	(95,000)	
Goods & Supplies – All Dep't	(106,000)	
Travel and Subsistence All Dep't	(112,000)	
Professional Development Fees All Dep't	(111,000)	
Payments to Organizations	(85,000)	
Total Expense Increase/(Decrease)		\$ (1,360,000)
		\$ 1,427,000
Net Increase/(Decrease)		
Other Variances		112,954
2021 Operating Surplus		\$ 1,539,954

A detailed variance analysis is included along with this report.



ANALYSIS

It has been County practice to have Council consider allocations of year-end surplus to one or more County reserves prior to the final approval of the financial statements.

County Policy AD(30) outlines which reserves accounts are eligible for allocation from surplus:

Capital Reserves

1. Trails and Parks Reserve
2. Municipal Facilities Reserve
3. Bridge Reserve
4. Lake Access Reserve
5. Main Road Reserve
6. New Pavement Reserve
7. Subdivision Pavement Reserve
8. Recreation Capital Assistance Reserve
9. Water Wastewater Reserve
10. Airport Capital Reserve

Operating Reserves

1. Operating Reserve
2. Emergency Management Reserve
3. Gravel Reserve
4. Cemetery Development Reserve
5. Tax Rate Stabilization Reserve

ALTERNATIVES

1. Transfer \$500,000 to the Trails and Parks Reserve. The five-year capital plan identified upcoming recreation projects, including a playground expansion project at Sandy Point estimated at \$120,000 that would impact the Trails and Parks Reserve. The current balance in the Trails and Parks Reserve is \$483,573 (\$478,573 on Dec 31st and a net increase adjustment of \$4,000 in 2022).

Transfer \$1,000,000 to the Tax Rate Stabilization Reserve to address the potential loss of taxes through an assessment appeal. The current balance in the Tax Rate Stabilization Reserve is \$3,928,110 (\$4,147,000 on Dec 31st and a decrease adjustment of \$218,890 in 2022).

2. Leave the funding in unrestricted surplus. No changes to the financial statements would be required.



3. Transfer funds as directed by Council.

Administration recommends Alternative 1. This alternative will assist in supporting future recreation projects for Lacombe County residents and visitors. In previous years, surpluses have been transferred to the Bridge and Road reserves bringing their balance up to an adequate level. The current trail reserve is being funded only for the replacement of existing, and no funding has been allocated for future trails. This proposed transfer would aid in funding these future projects.

We have not reached the maximum balance of \$6,342,000 in the Tax Rate Stabilization Reserve, representing 20% of annual municipal tax revenue.

BUDGET IMPLICATIONS

Transferring the 2021 operating budget surplus to the reserves will not affect the County's 2022 operating or capital budgets.

LEGISLATIVE RESPONSIBILITIES

1. Council Policy AD(30), Financial Reserves, identifies which reserve accounts are eligible for surplus allocations.
2. In accordance with Section 248 of the Municipal Government Act (MGA) Council previously approved the 2021 operating and capital budgets. Section 241(1)(a) of the MGA requires that the operating budget include an estimate of the revenues to be transferred to reserves. As the 2021 surplus was not anticipated or budgeted for a resolution of Council to transfer it to reserves is required.
3. Section 180(1) of the MGA states that Council may act only by resolution or bylaw.

RECOMMENDATION

That Council approve the following resolution (Alternative 1):

That the 2021 operating budget surplus be allocated as follows:

<i>Trails and Parks Reserve</i>	<i>\$ 500,000</i>
<i>Tax Rate Stabilization Reserve</i>	<i>\$1,000,000</i>

LACOMBE
COUNTY

<i>Remain in Unrestricted Surplus</i>	\$ <u>39,954</u>
<i>Total</i>	\$1,539,954

(Note: the 2021 remaining surplus of \$39,954 will remain in the County's Unrestricted Surplus, which will be decreased to \$467,832 (compared to the draft balance of \$1,967,832) as of December 31, 2021, if the recommendation is approved).

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REVIEWED BY: Michael Minchin, Director of Corporate Services



REVIEWED BY: Tim Timmons, County Manager

