

THE CORPORATION OF THE
CITY OF WHITE ROCK
CORPORATE REPORT



DATE: April 15, 2024
TO: Mayor and Council
FROM: Candice Gartry, Director, Financial Services
SUBJECT: 2023 General Fund Operating Surplus Allocation

RECOMMENDATION(S)

THAT Council:

1. Receive the April 15, 2024, corporate report from Candice Gartry, Director, Financial Services, titled “2023 General Fund Operating Surplus Allocation”; and
 2. Confirm that Council agreed to ratify a settlement with CUPE Local 718 in March of 2024 that included increases to wages and benefits and that any increases above the amounts already provided for in the 2024 financial plan would be funded as follows: 2024 incremental costs to be funded from the 2023 General Fund Operating Surplus, and 2025 incremental costs to be funded via taxation.
 3. Endorse any funding cost increases above the amounts already provided for in the 2024 financial plan in accordance with Council’s Exempt Compensation Policy No. 403 as follows: 2024 financial year incremental costs from the 2023 General Fund Operating Surplus, and 50% of the incremental cost for 2025 from the 2023 General Fund Operating Surplus with the balance coming from taxation.
 4. Direct staff to distribute \$1.5M of the 2023 Unallocated General Fund Operating Surplus to the new ERP/Financial System project;
 5. Direct staff to distribute \$0.8M of the 2023 Unallocated General Fund Operating Surplus to the General Operating Fund Accumulated Surplus reserve; and
 6. Direct staff on the distribution of the remaining 2023 Unallocated General Fund Operating Surplus funds.
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EXECUTIVE SUMMARY

Section 167 of the *Community Charter (Charter)* requires that municipalities submit their audited financial statements for the preceding year by May 15. For the year ending December 31, 2023, the audited financial statements must be submitted to the province by May 15, 2024.

To complete the financial statements and remain in line with section 167 of the *Charter*, staff request Council’s direction in the distribution of the 2023 Unallocated General Fund Operating Surplus for the year ended December 31, 2023.

Council has previously provided directions to staff on the distribution of some of the 2023 General Fund Operating Surplus funds (Table 3). After deducting these items as well as the budgeted transfers to reserves, the 2023 General Fund Operating Surplus amount remaining to be allocated is \$5.5M.

Staff have provided recommendations and other distribution options for these funds within this corporate report and are requesting Council’s direction in the allocation of these funds.

PREVIOUS COUNCIL DIRECTION

Motion # & Meeting Date	Motion Details
2024-090 March 11, 2024	<p>THAT Council give final reading to the White Rock Financial Plan (2024-2028) Bylaw, 2024, No. 2496.</p> <p style="text-align: right;">CARRIED</p>
2024-063 February 26, 2024	<p>THAT Council approve and endorse the updates to the Exempt Compensation Policy No. 403 as circulated and attached to the corporate report.</p> <p style="text-align: right;">CARRIED</p>
January 15, 2024 2024-009	<p>THAT Council:</p> <ol style="list-style-type: none"> 1. Receive the January 15, 2024, corporate report from the Director, Financial Services, titled “Draft 2024 – 2028 Consolidated Financial Plan”; 2. Provide feedback to staff on the Draft 2024 – 2028 Consolidated Financial Plan; 3. Approve the recruitment for the Financial Services managerial position to start now, prior to final approval of the 2024 – 2028 Consolidated Financial Plan; and 4. Direct staff as to whether to fund the 2024 Warming Shelter costs from the unspent balance in the COVID-19 Restart Grant funding for 2024, thereby decreasing the proposed 2024 property tax increase. <p style="text-align: right;">CARRIED</p>
2023-444 November 27, 2023	<p>THAT Council direct staff to proceed with the operational budget as presented and amended this evening with a 5.72% tax increase.</p> <p style="text-align: right;">CARRIED</p>

INTRODUCTION/BACKGROUND

Section 167 of the *Community Charter* requires that municipalities submit their audited financial statements for the preceding year by May 15. For the year ending December 31, 2023, the audited financial statements must be submitted to the province by May 15, 2024.

To complete the financial statements and remain in line with section 167 of the *Charter*, staff request Council's direction in the distribution of the 2023 Unallocated General Fund Operating Surplus for the year ended December 31, 2023.

Financial Statement Audit Status

The 2023 annual financial statement audit is currently underway and will be wrapping up at the end of April 2024. The external auditor's opinion, as well as the 2023 audited financial statements, will be presented to Council for approval prior to the May 15, 2024, *Charter* deadline.

Consolidated Surplus

Year-end audit work is still ongoing, and thus the consolidated surplus amount(s) have yet to be finalized. However, staff are not expecting any significant adjustments.

The consolidated surplus is the sum of revenues from all funds minus the expenditures from all funds. At this time the projected, unaudited, consolidated surplus for all funds for the 2023 financial year (before any budgeted transfers to capital and reserves funds) is \$23.6M broken down as follows:

Table 1 – 2023 Consolidated Surplus

Fund Name	2023 Surplus (Deficit)
General Operating Fund	\$17.0M
Water Utility Operating Fund	\$2.8M
Sanitary Sewer Utility Operating Fund	\$1.6M
Drainage Utility Operating Fund	\$2.2M
Solid Waste Utility Operating Fund	(\$23K)
TOTAL CONSOLIDATED SURPLUS	\$23.6M

Budgeted Transfers to Reserves

As part of a municipality's budget process, transfers to asset reserves are budgeted for to help proactively manage infrastructure needs and for:

1. Asset (infrastructure and capital) maintenance and replacement: Assets such as roads, buildings and equipment have a limited lifespan and require maintenance and eventual replacement.
2. Long-term financial planning: Budgeting for capital asset reserves enables municipalities to engage in long-term financial planning by regularly setting aside funds to anticipate future infrastructure needs.
3. Mitigation of financial risk: Creating and contributing to reserves for capital assets helps municipalities mitigate financial risk and reduce the reliance on debt financing for infrastructure projects.
4. Maintaining creditworthiness: Sound financial management, including budgeting for capital asset reserves, is important for maintaining a municipality's creditworthiness.

After the budgeted transfers to reserve funds for 2023, such as asset improvement reserve funds, the Unallocated General Fund Operating Surplus is \$8.4M. At a high level, the \$8.4M consolidated surplus includes the following:

Table 2 – High-Level 2023 Surplus Information

Expenditure Type	2023 Surplus
Increased Investment Income	\$4.9M
Wages & Benefits Savings	\$2M
RCMP Contract Savings	\$0.4M
Un-utilized Operating Contingency	\$0.3M
Increased Recreation & Culture Revenue	\$0.2M
Increased Penalties & Interest on taxes	\$0.2M
Increased Parking Revenue	\$0.1M
Other miscellaneous expenditure savings	\$0.3M
TOTAL	\$8.4M

The significant increase in investment income is largely due to the increase in interest rates seen throughout 2023. Additional details on variance items will be included in the CFO Letter of Transmittal which will accompany the 2023 Audited Financial Statements and will be presented at Council’s next meeting, scheduled for April 29, 2024.

Previous Council Decisions

In prior meetings, Council provided directions to staff on the distribution of a portion of the 2023 Unallocated General Fund Operating Surplus. After deducting these items, the 2023 Adjusted Unallocated Operating Surplus amount for 2023 decreases to \$5.5M, from \$8.4M as follows:

Table 3 – Council Decisions To-Date on 2023 Surplus Allocation

Item	Amount
2023 Unallocated General Fund Operating Surplus (per Table 2)	\$8.4M
Less: Labour adjustments (CUPE, Exempt*, Planning Services consulting/casuals)	(\$1.9M)
Less: One-time 2024 budget items	(\$0.9M)
Less: Carryforward of unspent 2023 budget items to the 2024 financial year	(\$0.1M)
2023 Adjusted Unallocated Operating Surplus	\$5.5M

* In accordance with Council’s Exempt Compensation Policy No. 403 (included as Appendix A)

Staff Recommended Allocations/Distributions

1. Council policy No. 307 – Accumulated Surplus Fund (included as Appendix B) - states that “The City will maintain a General Operating Fund accumulated surplus at 10% to 15% of (the) general operating financial plan expenditures...”. To maintain a balance of 15% of the 2024 general operating expenditures in this fund, staff recommend a transfer of \$0.8M from the Adjusted Unallocated Operating Surplus to the General Operating Fund Accumulated Surplus reserve fund.

2. The RFP responses for the new ERP/Financial System have been received and staff continue to evaluate the proponents. Staff expect to bring the awarding of the contract to Council for approval by the end of June 2024. However, it has been determined that the current amount available for the project in the approved 2024 Financial Plan will not be sufficient to fund the project.

For your reference, a copy of the June 29, 2023, corporate report titled “New Financial ERP System Background” has been included as Appendix C. This document provides details on the current financial system, why a new ERP/Financial System is needed, and the anticipated benefits of a new system.

The amount approved for the project in the 2024 Financial Plan is \$2M. Upon further consultation with those in the industry about the timing and consulting required to move to a new system, as well as pricing information received through the RFP process, a realistic budget for the project is between \$3.2M and \$3.7M over a 3-year period. The high-level cost breakdown is as follows:

Table 4 – New ERP/Financial System 3-Year Budget

Expenditure Type	3-Year Cost
Pre-Implementation Design	\$0.3M
ERP licensing & implementation	\$2M
Staff backfills	\$0.5M - \$0.8M
Contingency @ 15%	\$0.4M - \$0.6M
TOTAL	\$3.2M - \$3.7M

Note: More details and background on the cost components of the project will be provided to Council when the contract award is presented to Council for approval.

As the current budget shortfall for the new ERP/Financial System is between \$1.2M - \$1.7M, staff recommend that \$1.5M of the Adjusted Unallocated Operating Surplus be designated for this project.

Should Council decide to distribute \$0.8M to the General Operating Fund Accumulated Surplus reserve and \$1.5M to the new ERP/Financial system from the Adjusted Unallocated Operating Surplus, the balance remaining to be distributed would be reduced to \$3.2M.

Additional Allocation/Distribution Options

Typically, staff recommend distributing the unallocated operating surplus balance to the city’s Infrastructure reserve as it is a significant, and often the primary, source of funding for asset improvement projects. The Infrastructure reserve provides funding for a number of large capital items including roads, buildings, street lighting, etc. Directing a portion of the Remaining 2023 Adjusted Unallocated Operating Surplus (the “Remaining 2023 Surplus”) to the Infrastructure reserve can help fund additional infrastructure projects that otherwise could not be paid for in the 5-year asset improvement financial plan, serve as a buffer in case of unforeseen circumstances for infrastructure projects, and help to avoid future borrowing.

The Parking division had a surplus of \$211K in 2023 due to increased revenues and wage savings. An option for Council's consideration would be to allocate this surplus to the Parking Reserve fund. The fund has a balance of \$404K at the end of 2023. Funds in the Parking Reserve are used for asset improvements such as new/updated parking meters, updated software for the parking meters, tablets for parking enforcement, and various other capital items related to the Parking division. The fund had a balance of \$404K at the end of 2023 but after the planned asset improvements in 2024 (Marine Drive parking lot rehabilitation and updated parking enforcement technology between Oxford and the Museum) the estimated ending balance at December 31, 2024, for the Parking Reserve fund is only \$40K.

Two of the Council's strategic priorities include building a new Community Hub and restoration of the Pier. As such, staff suggest allocating some, or all, of the Remaining 2023 Surplus (\$3.2M), to one or both of these initiatives.

Council may also choose to use some of the Remaining 2023 Surplus to reduce the 2024 average property tax increase. While this option is not recommended by staff because doing so only defers the property tax increase to the following year, distributing \$292K of the Remaining 2023 Surplus would reduce the 2024 average property tax increase by 1%, to 3.82%. Allocating \$583K of the Remaining 2023 Surplus would reduce the 2024 average property tax increase to 2.82%.

It is important to note that while the 2024 average property tax increase would be reduced by 1% - 2% if Council decides to allocate \$292K - \$583K of the Remaining 2023 Surplus, doing so would then push those increases into 2025. In other words, allocating \$292K - \$583K of the Remaining 2023 Surplus to reduce the 2024 average property tax rate by 1% - 2%, would result in an additional increase to the 2025 average property tax increase by 1% - 2%.

Based on the 2024 - 2028 Financial Plan approved by Council last month, the average property tax increase for 2025 is estimated to be a minimum of 6.49%. The 6.49% is calculated as the projected increase for 2025 of 5.41% as was reported in the January 15, 2024, corporate report titled "Draft 2024 - 2028 Consolidated Financial Plan" plus the deferral of the 2024 Warming Shelter costs to 2025 (Council motion 2024-009). Deferring an additional 1% - 2% would further increase the estimated 2025 average property tax increase to between 7.49% - 8.49% in order to cover the 2025 municipal operating costs. While a decrease in 2024 property taxes would likely be welcomed by the public, it is highly unlikely that the resulting higher average property tax increase of 7.49% - 8.49% for 2025 would be acceptable.

FINANCIAL IMPLICATIONS

The 2023 General Fund Adjusted Unallocated Operating Surplus amount, after the budgeted planned transfers to reserves and the allocations for budget carryforwards and one-time operating expenditures, is \$5.5M (Table 3). Staff have outlined recommended allocations/distributions of \$2.3M. This amount includes \$1.5M for the new ERP/Finance System and \$0.8M to the General Funds Operating Fund Accumulated Surplus reserve.

Should Council decide not to distribute \$0.8M of the General Fund Adjusted Unallocated Operating Surplus to the General Operating Fund Accumulated Surplus reserve, the City would fall under its desired reserve amount of 15% of the 2024 operating budget per Council Policy No. 307. This could negatively impact the City in the event of a major unplanned expenditure or

weather event that necessitates more funding than currently provided for in the General Operating Fund Accumulated Surplus reserve.

Should Council decide not to distribute \$1.5M of the 2023 General Fund Adjusted Unallocated Operating Surplus to the new ERP/Financial System project, the City would not have sufficient budget to proceed with the project.

Should Council decide to proceed with both of the aforementioned allocations, the General Fund Adjusted Unallocated Operating Surplus amount remaining to be distributed would decrease to \$3.2M.

Staff have provided Council with additional distribution options for their consideration within this corporate report. Depending on the decisions agreed to by Council, those funds approved for an allocation from the remaining \$3.2M General Fund Adjusted Unallocated Operating Surplus would increase by the allocation amount.

LEGAL IMPLICATIONS

Section 167 of the *Community Charter* requires that municipalities submit their audited financial statements for the preceding year by May 15. For the year ending December 31, 2023, the audited financial statements must be submitted to the province by May 15, 2024.

To complete the financial statements and remain in-line with section 167 of the *Charter*, staff request Council's direction in the distribution of the 2023 Unallocated General Fund Operating Surplus for the year-ended December 31, 2023.

ALIGNMENT WITH STRATEGIC PRIORITIES

The recommendations outlined in this corporate report align with the following Council Priorities:

Community:

- Objective 3 – Expand walking, cycling and transit opportunities.
- Objective 4 – Develop new Community Hub.

Infrastructure:

- Objective 1 – Ensure future infrastructure resiliency by making decisions through a long-term lens.
- Objective 4 – Conduct key infrastructure master plans.

Organization & Governance

- Objective 3 – Realize service delivery efficiencies via digital transformation and align existing processes with best practices.

While not directly related to one specific strategic priority, the recommendations are also in keeping with Council's desire for improved staff retention and hiring attraction, and with strategic priorities to reduce application wait times, continuous process improvement, and efficient service delivery.

OPTIONS / RISKS / ALTERNATIVES

Alternative options available for Council's consideration include:

1. Council may decide to distribute some or all of General Fund Unallocated Operating Surplus to other funds/reserves, including the Community Hub project, the Pier Restoration project, Affordable Housing, or another project/fund.

CONCLUSION

Staff recommend that Council:

1. Receive the April 15, 2024, corporate report from Candice Gartry, Director, Financial Services, titled “2023 General Fund Operating Surplus Allocation”; and
2. Confirm that Council agreed to ratify a settlement with CUPE Local 718 in March of 2024 that included increases to wages and benefits and that any increases above the amounts already provided for in the 2024 financial plan would be funded as follows: 2024 incremental costs to be funded from the 2023 General Fund Operating Surplus, and 2025 incremental costs to be funded via taxation.
7. Endorse any funding cost increases above the amounts already provided for in the 2024 financial plan in accordance with Council’s Exempt Compensation Policy No. 403 as follows: 2024 financial year incremental costs from the 2023 General Fund Operating Surplus, and 50% of the incremental cost for 2025 from the 2023 General Fund Operating Surplus with the balance coming from taxation.
3. Direct staff to distribute \$1.5M of the 2023 Unallocated General Fund Operating Surplus to the new ERP/Financial System project;
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5. Direct staff on the distribution of the remaining 2023 Unallocated General Fund Operating Surplus funds.

Respectfully submitted,



Candice Gartry, CPA, CGA
Director, Financial Services

Comments from the Chief Administrative Officer

I concur with the recommendation(s) of this corporate report.



Anne Berry
Acting Chief Administrative Officer

Appendix A – Council Policy No 403 Exempt Compensation
Appendix B – Council Policy No 307 Accumulated Surplus Fund
Appendix C – New Financial ERP System Background – June 2023