



Corporation of the Municipality of Temagami

Memo No.  
2016-M-083

Memorandum to Council

Staff

<b>Subject:</b>	Annual Surplus/Deficit Transfer to Reserve or Apply to Following Year Budget?
<b>Agenda Date:</b>	December 16, 2016
<b>Attachments:</b>	2015 Financial Statements, Note 7

**RECOMMENDATION**

**BE IT RESOLVED THAT** Council for The Corporation of the Municipality of Temagami hereby agrees that any surplus from 2016 will be transferred by the auditor to the working capital reserve account with reallocations to specific reserves to be approved by Council; **AND FURTHER THAT** reserves be used as a source of revenue to balance the 2017 capital budget. The amounts and specific reserves to be determined during the budget process.

**BACKGROUND**

Council has expressed the interest in adopting a new practice (or returning to a past practice) with regard to the use of the year-ending surplus or deficit. Therefore, this memo has been drafted to outline the impacts.

In recent years, 2012-present, the municipal surplus has been included in the next year's budget as a line item (*please refer to figure 1 below*). In 2016, the budgeted allocation of \$416,554 represented approximately 6% of total budgeted revenue. Additionally, the recent practice has also included annual contributions to reserves (*please refer to figure 2 below*).

Figure 1

Revenue Summary	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget
Capital					
Transfer from Previous Years Surplus	435,200	621,261	291,039	284,467	416,554

Figure 2

Expense Summary	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget
Transfers to Reserves	235,000	230,000	157,977	257,504	277,500

**ANALYSIS**

Firstly, in comparing contributions to reserves and the previous year's surplus line of the budget (*figures 1 & 2*), it is clear that the municipality has used the previous year's surplus mostly toward annual capital expenses.

In 2016 the difference was \$139,054 (\$416,554-277,500), meaning approximately 33% of the prior year's surplus was allocated directly toward capital with the remaining 67% allocated amongst various reserves. Essentially continuing with past practice would mean that the 2016 surplus would go directly to capital. This new approach requested by Council would mean that the surplus is transferred TO reserves (when final figures are known) and the amount required to meet capital needs will be withdrawn FROM the reserves in order to balance the budget or explore other revenue options.

**Revenue Options** Transitioning from the current practice toward the practice of transferring any surplus to reserves, can potentially be financially challenging depending on the revenue source used to supplement the surplus line in the budget. If Council directs for the 2016 surplus to be transferred directly TO reserves, and not used as a budgetary revenue, the change would imply that in order to balance the budget (replace the 5% of capital revenue), one of the following must occur:

- a) Transfer the capital budget deficit FROM reserves or
- b) Decrease capital or operating expenses or
- c) Increase tax levy or
- d) Increase revenue from alternative sources
- e) Combination of the above

The above-listed Option A is the most likely strategy for the 2017 budget. According to the 2015 Audited Financial Statements, Note 7, Temagami maintains “non-specific” reserves such as a *discretionary working capital reserve* of \$91,630, a *discretionary operating reserve* of \$457,166 and an *operating budget contingency reserve* of \$45,717 and a *tax rate stabilization reserve* of \$167,031. Please find a copy of Note 7 attached to this memo.

Generally and aside from planning for major capital infrastructure investments, municipal reserves are expected to fluctuate upwards and downwards, rightfully to reflect the impacts of the unforeseen and uncontrollable events and thus to reduce the level of risk to the tax payer. In 2016, only one reserve was drawn upon, while nine reserves were increased.

The 2017 budget will be finalized prior to receiving the final 2016 audited figures, therefore the decision of amounts to withdraw from reserves and contribute to reserves will have to be made independently of knowing the year-end actual surplus.

**Reserves and Reserve Fund Policy (By-law 15-1233)** The reserves policy could be expanded upon to provide more specific direction on the use of each reserve. In its current state, the policy is clear on the targeted levels for each reserve but not clear on the circumstances in which those reserves can be applied to offset budgetary requirements.

**ALTERNATIVES**

**Status Quo** Use the previous year’s surplus in the following year budget and plan contributions to reserves in accordance with the existing policy.

**Adopt a Mixed Approach, such as that in City of Vaughn** The current policy for operating surplus allocation specifies that, after the first [*specified dollar amount*] of the annual operating surplus has been applied to the following budget year to reduce pressure on the tax rate, the balance of any surplus will be allocated on a 50/50 basis to the Tax Rate Stabilization Reserve and the Working Capital Reserve.

**Prepared by:**

**Reviewed by:**

**Candice Bedard, Treasurer**

Name, Position

Name, Position

# THE CORPORATION OF THE MUNICIPALITY OF TEMAGAMI

## Notes to Consolidated Financial Statements

Year ended December 31, 2015

### 7. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserves and reserve funds as follows:

	2015	2014
Surplus (deficit):		
Invested in tangible capital assets	\$ 12,937,754	\$ 13,093,106
General municipal	601,638	334,467
Amounts to be recovered:		
Unfinanced municipal debt - operating	-	(85,500)
Unfinanced municipal debt - grinder pumps	(226,672)	(271,553)
<b>Total surplus</b>	<b>13,312,720</b>	<b>13,070,520</b>
Reserves set aside by Council for:		
Discretionary Capital Reserves		
- Working capital	91,630	91,630
- Arena	10,074	54,925
- Public Works Complex	202,000	152,000
- Official Plan Review	54,230	44,230
- Survey	21,291	21,291
- Lot Creation and Development	50,000	50,000
- Future Improvements Lake Temagami Access Road	110,000	85,000
- Future Improvement Town Roads	110,000	85,000
- Marten River Fire	50,000	30,000
- Temagami Fire	80,000	20,000
- Landfill closure costs	112,500	105,000
- OMB Hearing	30,000	30,000
- Welcome Centre - Generator Primary EOC	25,000	25,000
- Loan Reserve	62,981	12,977
- Cemetery Columbarium / Memory Wall	4,313	3,499
	<b>1,014,019</b>	<b>810,552</b>
Other Reserves		
- Discretionary Operating	457,166	457,166
- Tax Rate Stabilization	167,031	167,031
- Operating Budget Contingency	45,717	45,717
- Water and Wastewater Stabilization	51,901	51,901
- Dedicated Water and Wastewater Capital	206,911	206,911
	<b>928,726</b>	<b>928,726</b>
<b>Total Reserves</b>	<b>1,942,745</b>	<b>1,739,278</b>
<b>Accumulated surplus</b>	<b>\$ 15,255,465</b>	<b>\$ 14,809,798</b>