
Preliminary Year-End Financial Results – December 31, 2018

Recommendation

That the Standing Policy Committee on Finance recommend to City Council:

1. That a transfer of \$970,600, equivalent to the 2018 fuel deficit, be transferred from the Fuel Stabilization Reserve to the 2018 year-end results in order to balance the budget;
2. That a reduction of \$488,500 in the budgeted contribution to the Snow & Ice Management Reserve be approved;
3. That the Snow & Ice surplus of \$788,389 not be transferred to the Snow & Ice Management Reserve;
4. That a reduction of \$800,000 to the budgeted contribution to the Civic Buildings Comprehensive Maintenance Reserve be approved;
5. That a reduction of \$352,810 to the Golf Course Capital Reserve be approved; and
6. That a \$760,466 withdrawal from the Fiscal Stabilization Reserve be applied to the 2018 year-end results in order to balance the budget.

Topic and Purpose

The purpose of this report is to inform City Council of the preliminary year-end financial results for the 2018 fiscal year. This report is also requesting City Council approval of the above recommendations which will result in an overall year-end deficit of \$3.02 million subject to the confirmation by the external audit.

Report Highlights

1. Preliminary civic year-end results indicate a deficit of \$3.02 million.
2. The City of Saskatoon's Boards all reported preliminary surpluses for 2018.
3. The actual to budgeted fuel expenditures for mill-rate programs resulted in a deficit of \$970,600. The Administration is recommending that the deficit be funded through a transfer from the Fuel Stabilization Reserve.
4. The Administration is recommending that \$800,000 in 2018 CBCM contributions be deferred due to the amount of unspent reserve funds.
5. Civic golf courses experienced a \$352,810 operating deficit in 2018 largely due to weather conditions. A reduction in the transfer to the Golf Course Capital Reserve of \$350,810 will balance the golf courses' budget.
6. Due to the relative health of the Snow & Ice Management Stabilization Reserve and overall corporate deficit, the Administration is recommending that an amount equal to \$1.28 million not be transferred to this reserve. The \$1.28 million consists of the year-end operating surplus of \$788,389 and the originally budgeted transfer of \$488,500.

Strategic Goal

This report supports the Strategic Goal of Asset and Financial Sustainability by demonstrating how the City of Saskatoon (City) invests in what matters, and demonstrates openness, accountability and transparency in the allocation of resources.

Background

Prior to the external audit of the City's year-end financial statements, the Administration tables a report to inform City Council and the public on the preliminary year-end financial results.

The external audit of the financial statements is expected to be completed in May 2019, at which time the finalized audited financial statements will be presented to City Council for approval in May/June 2019. At that time, the year-end financial results will be confirmed or adjusted based on the external audit.

Report

Civic Year-End Results – Summary

Attachment 1 is a detailed overview of the 2018 Preliminary Year-End Financial Results. Attachment 2 provides a summary of the financial results by Business Line for the year ended December 31, 2018.

The preliminary results indicated a deficit of \$3.02 million prior to recommended adjustments to reserve transfers as outlined in the recommendations of this report. This is a 0.62% variance from the overall budget of \$490.63 million. The deficit was largely due to over expenditures as revenues only experienced a 0.01% or \$475,000 negative variance while expenditures were overspent by 0.52% or \$2.54 million. While Attachment 1 provides a detailed overview of some of the pressure points in 2019, a summary is as follows:

- Waste Handling Services had a \$1.4 million deficit with \$328,000 related to shortfalls in revenues and approximately \$1.0 million related to over expenditures, which is consistent with base budget challenges that have been previously presented.
- Parking ticket revenue experienced a \$1.37 million deficit largely related to the effectiveness of the new parking system and online application.
- Saskatoon Transit ended 2018 with an approximate \$1.2 million deficit, despite an improvement in transit ridership and revenue. Over expenditures of nearly \$500,000 were largely related to higher fuel and diesel prices than originally estimated.
- Facilities Management had a \$1.4 million deficit mostly related to expenditures for the first full year of operation of the Remai Modern, implementation of a new call-out program, snow removal, corporate security and graffiti management.
- Leisure Centre admission revenues experienced a \$503,000 deficit due to lower admissions than originally budgeted.

These negative variances were offset largely by an additional \$2.0 million in provincial revenue as a result of the reinstatement of the SaskEnergy grant-in-lieu, and a \$750,000 surplus in Traffic Violation revenue from higher than anticipated volumes.

Civic utilities had the following surpluses and deficits:

- Saskatoon Light & Power \$799,000 surplus
- Storm Water Management Utility \$286,400 surplus
- Waste Water Utility \$ 17,300 surplus
- Water Utility \$1.41 million deficit
- Waste Services Utility \$0

These surpluses and deficits have been transferred to, or funded by, the applicable stabilization reserve as stipulated in Council Policy No. C03-003, Reserve for Future Expenditures.

The City's Boards and the Saskatoon Police Service (SPS) all posted surpluses in 2018. SPS posted a surplus of \$158,800 which is incorporated within the civic year-end results. SaskTel Centre has a preliminary surplus of \$2.40 million, while TCU Place and Remai Modern reported a \$1.07 million and \$1,000 surplus respectively.

Fuel Stabilization Reserve

The Fuel Stabilization Reserve was established to accumulate funds for the purpose of offsetting any over expenditure in the City's tax-supported fuel budget attributable to variations in fuel pricing.

Fuel expenditures were \$970,600 over budget due to higher fuel prices than originally estimated. The Administration is recommending that a transfer from the Fuel Stabilization Reserve which has a current balance of \$1.325 million be made in order to offset this deficit. The remaining balance in the reserve would be \$354,400.

Civic Buildings Comprehensive Maintenance Reserve

The purpose of the CBCM Reserve is to finance the cost of repairs to those of the City's buildings and structures in respect of which monetary contributions are made to this Reserve. However, due to the over expenditure in Facilities Management, opportunities to offset this deficit are being recommended.

The CBCM Reserve receives approximately \$8.5 million in annual funding. The Administration is recommending that \$800,000 in 2018 CBCM Reserve contributions be used to offset the deficit due to amount of unspent reserve funds.

Golf Course Operating Result

Civic golf courses experienced a \$352,810 operating deficit largely due to weather conditions. The 2018 season opened 2½ weeks later than in the past, and September brought unseasonably cold and wet conditions which impacted anticipated volumes.

Civic golf courses are designed to be self-funded and not rely on the property tax for funding. While the golf courses have a stabilization reserve, it has been depleted in past years due to the renovations at Holiday Park and the impact on operating revenues. Therefore, in order to maintain civic golf courses as self-funded entities, the Administration is recommending that the capital contribution be adjusted by \$352,810 to offset the operating deficit. Including this adjustment, the Golf Course Capital Reserve had \$59,860 as at year end.

The civic golf courses' current operating structure and future capital plans are currently under review in order to mitigate the need for these types of adjustments in the future.

Snow & Ice Management Reserve

The operating results for this program indicate a \$788,389 surplus. In addition, the Snow & Ice Management Service Line budgets for \$488,500 in transfers to the Snow & Ice Management Reserve.

The Snow & Ice Management Reserve is used to stabilize this program in fiscal years where deficits occur. Due to the health of the reserve and overall corporate deficit, the Administration is recommending that the surplus of \$788,389 not be transferred to this reserve and that the budgeted contribution of \$488,500 not be transferred. The reserve would remain at its current balance of \$3.12 million.

Fiscal Stabilization Reserve

The Fiscal Stabilization Reserve was established to mitigate mill rate impacts from fluctuations in operating results from year to year and has a balance of \$5.02 million. In order to balance the operating results, a transfer of \$760,466 from this reserve is required, and is shown as follows:

Operating Deficit	\$3,019,566
Transfer from Fuel Stabilization Reserve	(\$ 970,600)
Reduction of CBCM Transfer	(\$ 800,000)
Reduction of Snow & Ice Transfer	(\$ 488,500)
Remaining Deficit	\$ 760,466

If approved, the Fiscal Stabilization Reserve would have a new balance of approximately \$4.26 million as at December 31, 2018.

Options to the Recommendation

- Fuel Stabilization Reserve:
City Council can choose not to transfer the \$970,600 from the Fuel Stabilization Reserve in order to cover off the civic fuel deficit. This would increase the requirement to be funded from the Fiscal Stabilization Reserve to \$1.74 million. This option was not recommended as the Fuel Stabilization Reserve was created specifically for this use and higher than anticipated fuel costs.

- **CBCM Reserve:**
City Council can choose to allocate the recommended \$800,000 to the CBCM Reserve. This would maintain the reserve balance at \$541,000 and unspent capital funds at \$16.5 million, while requiring the fiscal stabilization contribution to increase to \$1.56 million. The Administration does not recommend this option as the CBCM Reserve currently has a healthy balance and a significant amount of unspent funding, while operating was a significant contributing factor to the corporate deficit.
- **Snow & Ice Management Reserve:**
Option 1: City Council can choose to transfer the Snow & Ice Surplus of \$788,389 to the Snow & Ice Management Stabilization Reserve. This would increase the Fiscal Stabilization Reserve funding requirement to approximately \$1.55 million. The Administration does not recommend this option as the Snow & Ice Management Stabilization Reserve is currently healthy at \$3.12 million and this transfer would place further pressure on the Fiscal Stabilization Reserve.

Option 2: City Council can choose to transfer the originally budgeted \$488,500 to the Snow & Ice Management Stabilization Reserve. This would increase the Snow & Ice Stabilization Reserve balance to \$3.61 million, while requiring an additional \$488,500 to be funded from the Fiscal Stabilization Reserve. The Administration does not recommend this option as the Snow & Ice Management Stabilization Reserve is currently at \$3.12 million and this transfer would place further pressure on the Fiscal Stabilization Reserve.
- **Golf Course Capital Reserve:**
City Council can choose not to reduce the Golf Course Capital Reserve contribution by \$350,810. This would create a deficit within the golf course program which would require funding from the mill rate fund to balance the golf course budget. The overall requirement from the Fiscal Stabilization Reserve would increase to \$1.11 million. The Administration does not recommend this option as the golf course program is designed to be self-funded with no contributions from the mill rate fund.

Communication Plan

A news release will be issued regarding the preliminary 2018 fiscal year-end financial results. The year-end financial results will also be communicated to the public with a news release and annual report to be issued subsequent to the year-end audit.

Policy Implications

As per Council Policy No. C03-003, the Director of Finance shall have authority to effect a year-end transfer of unexpended snow removal funds to the Snow & Ice Management Stabilization Reserve. Not transferring the \$788,389 is recommended.

As per Council Policy No. C03-003, the funding source for the Snow & Ice Stabilization Reserve is an annual provision made in the City's Operating Budget. As the

Administration is recommending not transferring the originally approved amount of \$488,500, City Council approval is required.

Bylaw No. 6774, The Capital Reserve Bylaw, requires that the Golf Course Capital Reserve be funded by an annual provision as authorized in the City's Operating Budget. As the Administration recommends not transferring \$350,810 of this amount, City Council approval is required.

Bylaw No. 6774, The Capital Reserve Bylaw, requires that the CBCM Reserve be funded by an annual provision as authorized in the City's Operating Budget. As the Administration recommends not transferring \$800,000 of this amount, City Council approval is required.

Financial Implications

The financial implications are identified under the Options to the Recommendation section.

Other Considerations/Implications

There are no environmental, privacy, or CPTED considerations or implications, and neither public and/or stakeholder involvement is required.

Due Date for Follow-up and/or Project Completion

The external audit is currently underway and will be completed in May, after which time the Standing Policy Committee on Finance will review the preliminary financial statements and forward the approved Consolidated Financial Statements and other financial-related reports to City Council in May/June 2019.

Public Notice

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachments

1. Summary of Preliminary Year-End Financial Results
2. Preliminary Financial Results by Business Line - Year Ended December 31, 2018

Report Approval

Written by: Clae Hack, Director of Finance
Approved by: Kerry Tarasoff, Chief Financial Officer

2018PrelimYEResults.docx