**Agenda - Council - December 17, 2003**

**Report - Standing Committee on Fiscal Issues - December 4, 2003**

**Item No. 2 2003 Deficit Avoidance Plan - Commitment Reserve**
**File FE-1**

STANDING COMMITTEE RECOMMENDATION:

On December 10, 2003, the Executive Policy Committee concurred in the recommendation of the Standing Committee on Fiscal Issues and submits the following to Council:

1. That for the year ended December 31, 2003, unspent commitments not retained in the Commitment Reserve be transferred to the General Revenue Fund.

2. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing.

**Agenda - Council - December 17, 2003**

**Report - Standing Committee on Fiscal Issues - December 4, 2003**

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On December 10, 2003, the Executive Policy Committee concurred in the recommendation of the Standing Committee on Fiscal Issues and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On December 4, 2003, the Standing Committee on Fiscal Issues concurred in the administrative recommendation and submitted the matter to Executive Policy Committee and Council.

# ADMINISTRATIVE REPORT

**RE:** Deficit Avoidance Plan

**FOR SUBMISSION TO:** Standing Committee on Fiscal Issues

**ORIGINAL REPORT SIGNED BY:** Chief Financial Officer

**REPORT DATE:** December 4, 2003

**RECOMMENDATION:**

That for the year ended December 31, 2003, unspent commitments not retained in the Commitment Reserve, be transferred to the General Revenue Fund.

**REPORT SUMMARY:**

**Key Issues:**

When Council approved the establishment of the Commitment Reserve, they also approved that unspent commitments not retained in the Reserve be transferred to the Mill Rate Stabilization Reserve. This report is requesting that for 2003, Council approve that the unspent commitments not retained in the Commitment Reserve be transferred to the General Revenue Fund.

**Implications of the Recommendation(s):**

**General implications:**
X **None**
? **For the organization overall &/or for other departments**
? **For the community and/or organizations external to the City**
? **Involves a multi-year contract**
**Comment(s):**

**Policy implications:**
X **No**
? **Yes** **Comment(s):**

**Environmental implications:**
X **No**
? **Yes** **Comment(s):**

**Human Resources implications:**

X **No**
? **Yes** **Comment(s):**

**Financial implications:**
X **Within approved current and/or capital budget**
? **Current and/or capital budget adjustment required**
**Comment(s):**

**REASON FOR THE REPORT:**

On October 7, 2003, the Standing Committee on Fiscal Issues instructed the Chief Administration Officer and the Chief Financial Officer to develop a deficit avoidance plan, including meeting with the appropriate Administration to identify any discretionary expenditures as well as review the Commitment Reserve Fund and report back prior to December 31, 2003.

**HISTORY:**

On December 17, 1997, Council approved Clause 1 of the report of the Standing Committee on Fiscal Issues, which requires that the Standing Committee on Fiscal Issues approve a periodic Financial Status and Forecast report. The Financial Status and Forecast report based on the seven month period ended July 31, 2003 was presented at the October 7, 2003 meeting of the Standing Committee on Fiscal Issues. The report identified a $7.3 million forecasted deficit to December 31, 2003. Based on this report the Standing Committee on Fiscal Issues instructed the Chief Administration Officer and the Chief Financial Officer to develop a deficit avoidance plan, including meeting with the appropriate Administration to identify any discretionary expenditures as well as review the Commitment Reserve Fund and report back prior to December 31, 2003.

The Chief Administrative Officer directed Department Heads to review their discretionary expenditures for savings and include these savings in their department's September 30, 2003 forecast report. As a result, $6.5 million of deficit avoidance initiatives were realized. However, even with these savings a $1.9 million deficit was forecasted to December 31, 2003 and further deficit avoidance initiatives are required. One of these initiatives is to limit the amount of transfers to the Commitment Reserve and a second initiative is to transfer unspent commitments not retained in the Commitment Reserve to the General Revenue Fund.

**DISCUSSION:**

Each year Council approves the current operating budget thereby giving departments the authority to incur expenses. However, according to generally accepted accounting principles, expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the creation of a legal obligation to pay. As a result, actual expenses may not be realized in the same fiscal year as the adopted budget. Therefore, Council approved the establishment of the Commitment Reserve Fund to allow departments to carry forward committed budget dollars to the succeeding fiscal year thereby eliminating the need to re-budget. Historically these transfers to the Reserve were mainly from the General Revenue Fund.

By limiting the amounts transferred to the Commitment Reserve this could avoid a deficit being recorded in the General Revenue Fund. Therefore at a recent Senior Management meeting, the Chief Financial Officer discussed guidelines with respect to the Commitment

Reserve. For departments whose expenditure budgets exceed $25.0 million, transfers to the Commitment Reserve will be limited to amounts over $100 thousand. For smaller departments whose expenditure budgets are less than $25.0 million, the transfer to the Reserve will be limited to $25 thousand.

Council also approved that contributions to the Reserve must be spent in the year following the transfer. However, commitments can be retained in the Reserve beyond the following year only if approved by the Chief Financial Officer; otherwise the unspent amounts must be transferred to the Mill Rate Stabilization Reserve. To further avoid a deficit in the General Revenue Fund, Council could approve, for 2003, that unspent commitments not retained in the Commitment Reserve be transferred to the General Revenue Fund.

At the time of preparing this report, the amount of saving which could be generating by the above two initiatives was not known since departments are still incurring expenditures. The amount will be determined by mid-January 2004.

## Financial Impact Statement

**Date:** December 4, 2003

**Project Name:**
Deficit Avoidance Plan

**First Year of Program** **2003**

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| **Capital** | | | | | |
| Capital Expenditures Required | $ - | $ - | $ - | $ - | $ - |
| Less: Existing Budgeted Costs | - | - | - | - | - |
| Additional Capital Budget Required | $ - | $ - | $ - | $ - | $ - |
| **Funding Sources:** | | | | | |
| Debt - Internal | $ - | $ - | $ - | $ - | $ - |
| Debt - External | - | - | - | - | - |
| Grants (Enter Description Here) | - | - | - | - | - |
| Reserves, Equity, Surplus | - | - | - | - | - |
| Other - Enter Description Here | - | - | - | - | - |
| Total Funding | $ - | $ - | $ - | $ - | $ - |
| Total Additional Capital Budget Required | $ - | $ - | $ - | $ - | $ - |
| Total Additional Debt Required | $ - | $ - | $ - | $ - | $ - |
| **Current Expenditures/Revenues** | | | | | |
| Direct Costs | $ - | $ - | $ - | $ - | $ - |
| Less: Incremental Revenue/Recovery | - | - | - | - | - |
| Net Cost/(Benefit) | $ - | $ - | $ - | $ - | $ - |
| Less: Existing Budget Amounts | - | - | - | - | - |
| Net Budget Adjustment Required | $ - | $ - | $ - | $ - | $ - |

**Additional Comments: At the time of issuing this report the financial impact on the General Revenue Fund is unknown. The impact will be determined by mid-January 2004 after departments have completed charging transactions and the CFO has approved funds transfered and retained in the Reserve.**

P. Bodnar
Senior Financial Accountant

**IN PREPARING THIS REPORT THERE WAS CONSULTATION WITH, AND CONCURRENCY BY:**

Legal Services, Corporate Services Department

**THIS REPORT SUBMITTED BY:**

Prepared by: Pat Bodnar
**File No.** Change Commitment Reserve.doc