



ASSET MANAGEMENT  
AND PUBLIC WORKS

MEMORANDUM

FAX NO: 496-5636

February 13, 2006

TO: Mayor Stephen Mandel  
Councillors

COPY TO: Al Maurer  
City Manager

David Wiun  
City Auditor

FROM: Bill Burn  
General Manager

SUBJECT: Land Enterprise

At the February 8, 2006, Executive Committee meeting, Administration agreed to provide a revised Land Enterprise Dividend Policy to the February 14<sup>th</sup> Council meeting. The revised policy would consider paying a dividend on 25% of the prior year actual dividend and would not consider paying a minimum dividend based on the current year Budgeted Net Income. Attachment 1 to this memorandum provides a revised policy as requested. A new Section 3.01 has been incorporated in place of Sections 3.01 and 3.02 of the policy currently attached to Report 2006PWL002 dated January 9, 2006 as Agenda Item E.1.g. on Council's agenda.

To approve the revised Policy, the Executive Committee's motion 2 should be substituted with the following:

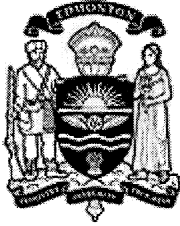
2. The revised Land Enterprise Dividend Policy C516 attached to Asset Management and Public Works' February 9, 2006 memorandum, be approved.

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In addition, the Committee suggested that the City Auditor review the proposed Dividend Policy in light of the previous land related issues and strategies that had been adopted to manage the level of short-term borrowing of the Land Enterprise. Attached is the City Auditor's response to this request.

WDB/dlr

Attachments



# CITY POLICY

**POLICY NUMBER:** C516

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**REFERENCE:**

**ADOPTED BY:**

City Council

**SUPERSEDES:**

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**PREPARED BY:** Asset Management and Public Works

**DATE:**

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**TITLE:** LAND ENTERPRISE DIVIDEND POLICY

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**Policy Statement:**

1. THE LAND ENTERPRISE WILL PAY AN ANNUAL DIVIDEND TO THE CITY OF EDMONTON BASED ON THE NET INCOME OF THE LAND DEVELOPMENT ACTIVITY OF THE LAND ENTERPRISE.

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**The purpose of this policy is to:**

**Establish guidelines for a dividend payment by the Land Enterprise that will allow it to fund the planned land activities on a self-sustaining basis and provide a return on the City's investment.**



# CITY PROCEDURE

POLICY NUMBER: C516

AUTHORITY: City Manager

EFFECTIVE DATE:

TITLE: LAND ENTERPRISE DIVIDEND POLICY

PAGE: 1 of 2

## 1. DEFINITIONS

- 1.01 **Actual Net Income** – is the actual profit or loss on operations in the land enterprise after providing for cost of land sold, debt charges, net selling expenses and valuation adjustments but before the payment of the dividend to the City. It would not include any revenues such as reserve sales that are transferred out of the land enterprise. This would be based on the City's Audited Financial Statements.
- 1.02 **Land Development Activity** – is the activity in the Land Enterprise that involves the acquisition, development and selling of City-owned land. The major components are residential and industrial development.
- 1.03 **Land Revolving Activity** – is the activity in the Land Enterprise that involves the acquisition of land for municipal purposes and for special City initiatives.
- 1.04 **Dividend Payment** – is the annual amount payable to the City by the Land Enterprise. It is based on the net income derived from land development activity.
- 1.05 **Enterprise** – refers to municipal enterprise operations such as the Land Enterprise whose activities do not require tax dollars to fund the operations. They are financially self-funded operations established to provide management and control of major activities.



# CITY PROCEDURE

POLICY NUMBER: C516

AUTHORITY: City Manager

EFFECTIVE DATE:

TITLE: LAND ENTERPRISE DIVIDEND POLICY

PAGE: 2 of 2

## 2. RESPONSIBILITIES

2.01 City Council to:

- a) Approve this Policy and amendments thereto.

2.02 Executive Committee to:

- a) Recommend to City Council approval of this Policy and amendments thereto.

2.03 City Manager to:

- a) Recommend to the Executive Committee of City Council, approval of this Policy and amendments thereto.

## 3. PROCEDURES

3.01 A dividend payment will be calculated at 25% of Actual Net Income of the Land Development Activity of the Land Enterprise and will not include net income derived from the land revolving activity. The dividend payment of the current year will be paid in the second quarter of the current year and will be based on the audited financial statements of the prior year.

3.02 The Land Enterprise Dividend Policy will be reviewed by Council once every three (3) years, or more often if material economic changes occur.

DATE: February 13, 2006

TO: Roger Rosychuk  
Branch Manager  
Finance  
Corporate Services

FROM: David Wiun  
City Auditor

SUBJECT: Land Enterprise Dividend – February 8<sup>th</sup> Executive Committee

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We have reviewed the draft Land Enterprise Dividend Policy attached to the February 8<sup>th</sup>, 2006 Executive Committee minutes as well as a revised draft Land Enterprise Dividend Policy provided by you to our office on February 10. We have comments on two issues related to this policy.

The first issue is the basis on which the dividends are paid. In the February 8<sup>th</sup>, 2006 Executive Committee minutes, the draft policy indicates that dividends are paid on the budgeted net income with adjustments for increases in actual net income. The dividend is increased proportionately if actual net income exceeds the budgeted net income but it is not decreased if actual net income is less than the budgeted net income. Your revised policy (February 10) deals with this issue by basing the dividend on the prior year's audited financial statements. This approach pays the dividend on actual net income and fairly reflects the ability of the Land Development Activities fund to pay the dividend.

The second issue is related to borrowing to pay the dividends from the Land Development Activities fund. Based on the cash flow projections for 2005 – 2010 the dividends paid for 2007 – 2009 would need to be financed. It is not until 2010 that the projections indicate that the Land Development Activities fund can pay dividends without financing.

We were unable to find any City policies or directives related to short term borrowing. The Debt Management Fiscal Policy covers capital projects, long-term debt, debt limits and issuances of debt but there is no mention of any guidelines for short term financing. It is within City Council's jurisdiction to finance the payment of the dividends to commence payments now or wait until there is a positive cash flow (in 2010 based on the projections) that will sustain the dividend payments without borrowing.

A handwritten signature in black ink, appearing to read "David Wiun".