



**MERGED AGENDA  
SPECIAL COMMITTEE OF THE WHOLE MEETING**

Monday, March 11, 2019, 12:00 P.M. - 4:00 P.M.

Board Room, Service and Resource Centre,  
411 Dunsmuir Street, Nanaimo, BC

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Pages

**1. CALL TO ORDER:**

**2. INTRODUCTION OF LATE ITEMS:**

- a. Agenda Item 4(f) - 3:15 p.m. - 3:45 p.m. Topic 4: Social Procurement for the City of Nanaimo - Update Recommendation

**3. APPROVAL OF THE AGENDA:**

**4. REPORTS:**

- a. 12:00 p.m. - 12:30 p.m. Finance Overview

4 - 9

Presentation:

- 1. Laura Mercer, Acting Director, Financial Services.

- a. Role of the Finance Department
- b. Environment
- c. Timeline of Critical Milestones/Deadlines
- d. Financial Management Functions
- e. What we will discuss today
- f. Potential Future Presentations

- b. 12:30 p.m. - 1:45 p.m. Topic 1: City of Nanaimo Reserves Review Report

10 - 104

To be introduced by Laura Mercer, Acting Director, Financial Services.

Presentation:

- 1. Laura Mercer, Acting Director, Financial Services.

- c. 1:45 p.m. - 2:30 p.m. Topic 2: Draft Debt Management Policy 105 - 122

To be introduced by Laura Mercer, Acting Director, Financial Services.

*Purpose: To provide Council with an understanding of the use of debt by the City of Nanaimo and an introduction to the draft Debt Policy.*

Presentation:

1. Laura Mercer, Acting Director, Financial Services Director.

Recommendation: That the Draft Debt Policy report dated 2019-MAR-11 be received for information.

- d. 2:30 p.m. - 2:45 p.m. Scheduled Recess

- e. 2:45 p.m. - 3:15 p.m. Topic 3: Grants and Exemptions 123 - 132

To be introduced by Laura Mercer, Acting Director, Financial Services.

*Purpose: To provide Council with an understanding of the various grants and exemptions provided to organizations by the City of Nanaimo.*

Presentation:

1. Laura Mercer, Acting Director, Financial Services.

Recommendation: That the Grants and Exemptions report dated 2019-MAR-11 be received for information.

To be introduced by Laura Mercer, Acting Director, Financial Services.

*Purpose: To provide Council with information with respect to the development of a social procurement policy for the City of Nanaimo.*

*Recommendation: That the Committee of the Whole provide direction on what option they would like to take to develop a Social Procurement Policy.*

*1. Join the Coastal Communities Social Procurement Initiative (CCSPI), and utilize the outcomes of the initiative to inform the City of Nanaimo's procurement policy;*

**OR,**

*2. Hire a consulting firm to assist the City in conducting a comprehensive review of Social Procurement best practices and making recommendations to Council that result in a meaningful program that can be both implemented and measured;*

**OR,**

*3. That the Committee of the Whole direct Staff to take no action at this time other than to monitor the progress of the CCSPI and similar local government social procurement initiatives.*

g. 3:45 p.m. - 4:00 p.m. Wrap Up

5. **QUESTION PERIOD:**

6. **ADJOURNMENT:**



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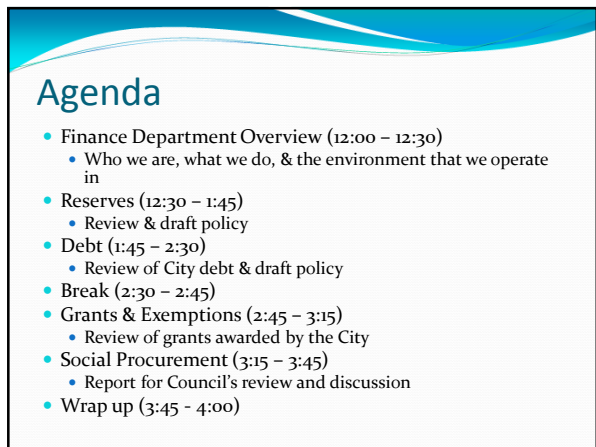
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## Role of the Financial Officer

### Statutory Role *(Community Charter section 149)*

- Receives money
- Ensures the keeping of all funds & securities
- Invests funds until required in authorized investments
- Spends money as authorized by Council
- Ensures that accurate & full accounts are kept
- Control & supervision over all financial affairs

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## Role of the Financial Officer

### Non-Statutory Role

- Provides financial support and advice to staff & Council
- Prepares financial plans
- Performs financial analysis
- Works with external auditor
- Attends Council & Committee meetings
- Provides information to the public and media on financial matters

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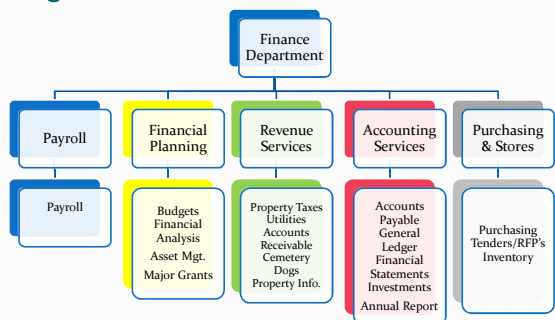
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## Organizational Chart - Finance




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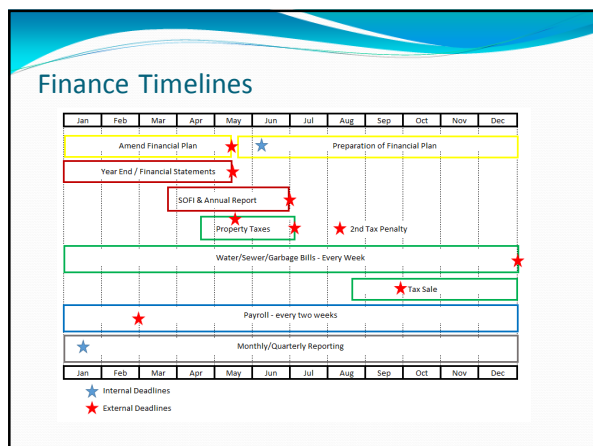
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### Regulatory Environment (External)

- Community Charter
- Local Government Act
- Assessment Act
- Financial Information Act
- Provincial Sales Tax Act
- Excise Tax Act
- PSAB
- GFOA Best Practices
- Trade Agreements:
  - Agreement on Internal Trade (AIT)
  - New West Partnership Trade Agreement (NWPTA)
  - Canadian Free Trade Agreement (CFTA)
  - Canadian European Union Comprehensive Economic and Trade Agreement (CETA)

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### Regulatory Environment (Internal)

- Council Policies vs. Departmental Policies
  - Significant policies with organization wide impact will normally be approved by Council, e.g., Procurement Policy
  - Policies with a more narrow impact will usually be approved by the Director of Finance and be included in the Finance Department Policy Manual, e.g., Petty Cash Policy

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## Regulatory Environment (Internal)

- Existing Council Policies & Bylaws:
  - Five Year Financial Plan Bylaw
  - Tax & User Rates Bylaws
  - Revenue Policy
  - Procurement Policy
  - Investment Policy
  - Asset Management Policy
- Finance Department Policies:
  - Budget Transfer Policy
  - Spending Authority Policy
  - Travel & Expense Policy

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## Regulatory Environment (Internal)

- Policies that are in the works:
  - Reserves Policy
  - Debt Policy
  - Long-Term Financial Planning Policy
  - Fiscal Accountability Policy
  - User Fees & Charges Policy

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## Environment

- Collaboration with all departments
  - Director is part of senior management team
  - Financial analysts provide support during budget process
  - Participate in cross functional teams such as Asset Management
- Interact with public, media, auditors, other government agencies
- Maintain networks with other municipalities to stay on top of best practices

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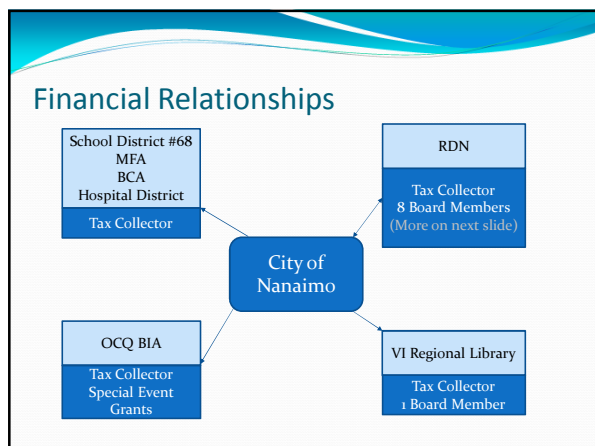
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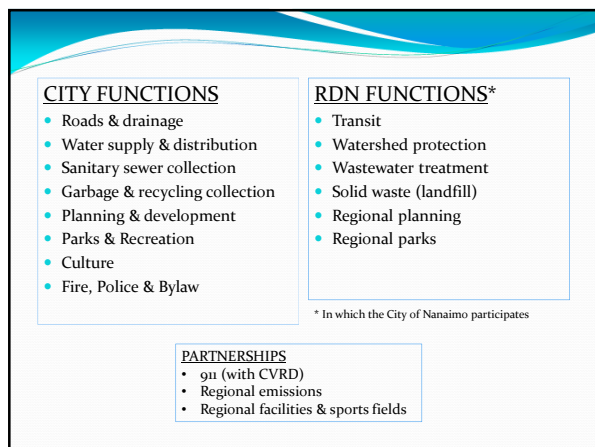
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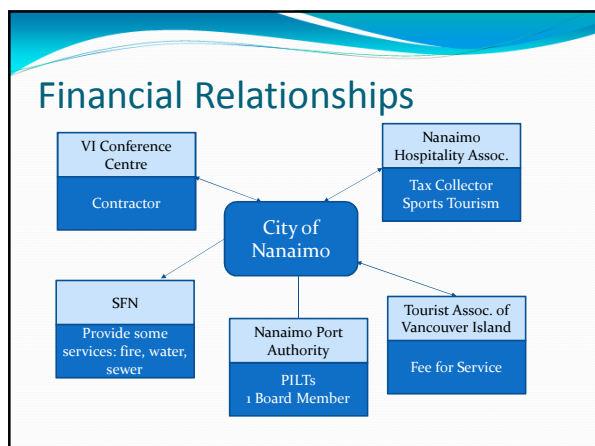
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### Financial Management Functions

Financial Planning	Financial Control	Reporting	Processing	Treasury	Procurement
5 Year Financial Plan	Policies, e.g., travel	Annual F/S	Billing	Banking	Purchasing Policy
20 Year Investment Plan	Auditors/ Audit Committee	Annual Report	Collections	Cash Management	Inventory Management
Reserve Policy		Quarterly Financials (Council)	Paying Bills	Investment Policy	
Debt Policy		Monthly Financials (Staff)	Payroll		
Revenue Policy/ Funding Strategy		SOFI			
User Fee Policy		Performance Measurement			

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# CITY OF NANAIMO RESERVES REVIEW REPORT

March 11, 2019

An overview of the City's current reserves and recommended changes.

## REPORT OUTLINE

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## Executive Summary

The City of Nanaimo owns and operates over \$3 billion in equipment and infrastructure to deliver a wide range of needed and desired services to the community. The City's 2019 operating budget is \$135 million and significant investment is made each year in infrastructure renewal, new infrastructure required due to growth and in strategic initiatives. Sustainable financial management and long-term planning strategies support affordable services.

The City has taken prudent steps in establishing reserves to mitigate specific risks, for equipment and infrastructure investment, and for strategic initiatives. The City currently has \$114 million in reserves and an additional \$47 million in Developer Cost Charges (DCC) reserves. Predictable annual contributions to reserves effectively minimize annual property tax and user fee increases and provide funding for:

- Risk Mitigation
- Equipment and Infrastructure Investment
- Strategic Initiatives and Investment

A comprehensive review of the City's reserves has been undertaken and focused on two key questions:

- Does the City have the right reserves?
- Do the reserves have the right balances?

This report will outline the review process, findings and recommendations to date. Recommendations in this report will further improve the resiliency, sustainability and transparency of the City's management of its reserves. The review was supported by the Government Finance Officers Association (GFOA) best practices and will help convert current practices into policy.

## **Executive Summary (continued)**

The review developed a framework to enhance understanding and evaluation of the City's reserves. The Reserves Framework groups reserves with common purposes into the following categories:

- Financial Stability Reserves
- Equipment Reserves
- Infrastructure Reserves
- Parking Reserves
- Property Reserves
- Strategic Reserves
- Other Reserves

The review identified minimum target balances where appropriate for specific reserves and includes a roadmap for transitioning the City's reserves to the new framework.

This report is presented for information and discussion purposes. Council's approval of a new Reserve Policy will be sought at future meetings.

## A INTRODUCTION

The purpose of this report is to outline the results of a review of the City's reserves and to introduce a Reserve Policy for Council's consideration.

Staff have conducted a comprehensive review of the City's reserves to determine if each reserve is still relevant, to determine needed new reserves, and to determine target minimum and maximum balances for specific reserves.

The City has implemented reserves to mitigate risk and to implement funding strategies for strategic initiatives and investment in infrastructure:

- In 1982, Council approved the implementation of Development Cost Charges (DCCs) where the City collects monies from developers to support funding of new/expanded infrastructure required due to growth in compliance with Provincial legislation. Periodic reviews are completed to update infrastructure investment needs and DCC charges. In 2018, Council approved the current DCC charges.
- In 2013, Council approved the implementation of three asset management reserves: General Asset Management Reserve, Sewer Asset Management Reserve and Water Asset Management Reserve. Annual contributions to these reserves are through annual increases to property taxes for five years ending 2017, annual increases to sewer user fees ending in 2022 and annual increases in water user fees ending in 2020.
- In 2017, Council approved extending the annual increases to property taxes for an additional five years ending 2022 for the General Asset Management Reserve.
- In 2017, Council approved the creation of a Strategic Infrastructure Reserve to provide a funding source for strategic initiatives and investment. Contributions to this reserve are from the transition of annual Casino and Fortis revenues from the General Operating Fund.
- Internal charges for fleet, solid waste collection bins, computer and copier equipment are included in annual department budgets and are contributed to specific reserves that provide for fleet and bin replacement, upgrades to the City's IT infrastructure and for copier equipment replacement.
- Allocation of prior year's operating surplus have been allocated to specific reserves to mitigate risks and for infrastructure investment.

Establishing and managing reserves is an important component of the City's financial management and long term planning strategies. Reserves provide funding to mitigate risks, for infrastructure investment and to implement strategic initiatives. Predictable annual contributions to reserves minimize increases to property taxes and user fees.

## Infrastructure Investment Deficit

Aging infrastructure and the demand for new infrastructure due to growth is a challenge for municipalities. The City's 20 Year Investment Plan (2017) projected a needed infrastructure investment of \$1.1 billion over the next twenty years to maintain current service levels. Funding for this investment is from a combination of annual property taxes and user fees, reserves, debt and grants. Current funding sources do not support the \$1.1 billion investment. In 2018, Council approved continuing the annual 1% property tax increases and approved increases to Development Cost Charges to address the funding gap. As well, the City is currently completing reviews that may recommend increases to various user fees. Future updates to the City's 20 Year Investment Plan will monitor progress on closing the funding gap and the City's progress towards sustainable funding for infrastructure investment.

More than two thirds of the City's infrastructure investment plans are funded from reserves including development cost charges. This has reduced the City's reliance on debt or large annual increases to property taxes and user fees for infrastructure investment. The City's prudent approach to managing reserves is evident in this review and recommended changes focus on improving accountability, transparency and resiliency.

This report will provide important information on the development of the City's Reserve Fund Policy and help answer two types of questions:

- Does the City have the right reserves?
- Do the reserves have the right balances?



## B FINANCIAL MANAGEMENT AND PLANNING, RESERVE FUNDS AND THEIR PURPOSES

### 1 OVERVIEW

Prudent and robust financial management supports: delivery of day-to-day services to the community, needed investment in infrastructure and implementation of strategic initiatives.

The City's integrated planning framework is comprised of three separate but complementary planning processes. These processes support alignment of resources and activities to achieve the strategic goals and priorities set by Council. These key processes include the Strategic Plan, the Asset Management Plan and the Financial Plan.



The City's Five Year Financial Plan and 20 Year Investment Plan outline the utilization of reserves to fund renewal of infrastructure, new/upgraded infrastructure required due to growth and implementation of strategic priorities.

Establishing and managing reserves, which can be compared to 'savings accounts', supports the City's long-term financial stability and sustainability. Each year, monies contributed to reserves provide funding for investment in infrastructure, for implementing strategic initiatives and to mitigate risks. Funding needs for Infrastructure investment can vary from year to year and larger projects require long-term financial strategies to reduce the impact on future property taxes and user fees for the community.

Staff have completed a comprehensive review of the City's reserves and have developed a Reserve Policy for Council's consideration.

## 2 FUND STRUCTURE

The City's resources and operations are segregated into specific funds for accounting and financial reporting purposes. These funds include general, sewer and water operating funds, general, sewer and water capital funds and statutory reserve funds.

The Sewer Operating Fund tracks operating budgets that deliver day-to-day sanitary sewer services and the Sewer Capital Fund tracks capital investment in infrastructure to support that service. The Sewer Operating Fund also includes operating reserves.

The Water Operating Fund tracks operating budgets that deliver day-to-day water supply, distribution and treatment services and the Water Capital Fund tracks capital investment in infrastructure to support that service. The Water Operating Fund also includes operating reserves.

The General Operating Fund tracks annual operating budgets that deliver all the other day-to-day services provided by the City such as police, fire, parks and recreation, transportation, drainage and solid waste collection as well as corporate services. The General Capital Fund tracks capital investment in infrastructure that supports those services. The General Operating Fund also includes operating reserves.

Statutory Reserve Funds are established for specific purposes under Section 188 of the *Community Charter*. The legislation requires that money in a reserve fund must be used for the purpose for which the fund was established. Each Reserve Fund is implemented through a City bylaw that outlines the purpose of the reserve, the sources of contributions, and what the funds can be used for.

## 3 ACCUMULATED SURPLUS

The City's annual financial statements include the Consolidated Statement of Financial Position report. This report discloses the City's financial position at the end of each fiscal year and includes Net Financial Assets, Non-Financial Assets and Accumulated Surplus.

Accumulated Surplus includes the following year-end balances:

- Operating Surplus (General, Sewer and Water);
- Operating Reserves; and
- Statutory Reserves Funds.

Operating Surplus (General, Sewer and Water) is the accumulated unallocated operating surplus from prior years. The Operating Surplus for the year ended December 31, 2018 was \$6.4 million for the General Operating Fund, \$6.9 million for the Sewer Operating Fund and \$5.8 million for the Water Operating Fund. Currently, the surplus in each operating fund provide working capital for operating expenditures before property taxes and/or user fees are collected. Maintaining appropriate working capital levels eliminates or reduces the need to borrow short-term externally and/or internally for operations.

Operating Reserves (General, Sewer and Water) are allocations of accumulated surplus which have been allocated to specific reserves in each operating fund. Total Operating Reserves for the year ended December 31, 2017 was \$65.3 million. This report will provide information on these reserves and recommended changes.

Statutory Reserve Funds are specific reserve funds required by Provincial legislation or established by Council. Total Statutory Reserve Funds for the year ended December 31, 2017 was \$34 million. This report will provide information on these reserve funds and recommended changes.

#### 4 RESERVES AND THEIR PURPOSES

The primary purposes of reserves are to provide funding for equipment and infrastructure investment, strategic initiatives and to mitigate risk. Reserves are an integral part of the City's financial and long term planning and support effective, efficient and sustainable delivery of services. Availability of funding supports optimum planning for the maintenance and replacement of city infrastructure.

Reserves are classified as Operating Reserves or Statutory Reserves and hold monies until needed. Reserves are like saving accounts or envelopes. Each reserve is set up for a specific purpose. Contributions and withdrawals are tracked and reported for each reserve.

Each Operating Reserve is included in the appropriate operating fund, General, Sewer or Water. While these reserves have specific purposes, they can also be used for any operating or capital purpose with Council's approval through the annual budget process.

Each Statutory Reserve is segregated into a Reserve Fund. These Statutory Reserves, also referred to as Reserve Funds, are required by Provincial legislation or established by Council and receive specific contributions that can only be used in compliance with the appropriate City bylaw and through the annual budget process. Each year interest revenue is allocated to each Statutory Reserve based on their balances.

This report and the accompanying Reserve Policy will use the term 'reserves' to refer to both Operating Reserves and Statutory Reserves.

## Current Reserves Summary

Appendix 1 provides an overview of the City's current reserves.

### 5 PRIMARY PURPOSE OF CITY RESERVES

The City's reserves can be classified into three primary purposes:

1. Risk Mitigation – Some of the City's reserves are used to mitigate risks of various types including risk of uncollected revenues or sudden unplanned expenditures to deliver services.
2. Equipment and Infrastructure Investment – Many of the City's reserves provide funding for renewal of equipment and infrastructure and for new/upgraded infrastructure required due to growth.
3. Strategic Initiatives and Investment – Some of the City's reserves provide funding for Council's priorities.

### 6 DEVELOPMENT COST CHARGES RESERVES

The City collects Development Cost Charges (DCCs) from developers to assist with the capital cost of infrastructure required due to growth. DCCs are imposed by bylaw pursuant to Section 933 of the *Local Government Act*. The City has implemented a Statutory Reserve for each type of DCC collected: Water Distribution, Roads, Drainage, Sewer, Parks and Water Supply. These bylaws include specific capital investment needed for development and funding from DCC reserves can only be used for these projects.

The City recently completed a review and update to its Development Cost Charges program. In 2018, Council adopted a new DCC bylaw to collect monies for roads, drainage, sanitary sewer, water and parkland development.

Specific projects for infrastructure required due to growth are not fully funded from DCC reserves. The City must assist with a minimum of 1% funding for DCC projects. As well, many DCC projects include a component that benefits existing residents. DCC projects require funding from both DCC and infrastructure reserves.

This report does not include a review of DCC reserves.

## C EVALUATION OF CITY RESERVES

### 1 OVERVIEW

The 2019 – 2023 Financial Plan indicates 67% funding for projects is from reserves. These projects include strategic initiatives, infrastructure renewal and new/upgrades to infrastructure to address capacity and regulatory changes.

Utilization of reserves to accumulate monies and provide funding supports transparent and prudent long-term financial management strategies. The implementation and maintenance of reserves requires ongoing Council and management attention to ensure reserves are still relevant, utilized appropriately and clearly support the City's financial sustainability and strategic goals.

It is important to review the City's reserves to identify opportunities for creating new reserves, eliminating redundant reserves and updating the purpose of existing reserves to best support long-term financial management strategies. This review should ensure that each reserve contributes to stated financial management strategies and that the framework of reserves is efficient and effective.

### 2 USE OF OPERATING AND STATUTORY RESERVES

The City has two types of reserves: Operating Reserves and Statutory Reserves.

Operating Reserves are established for specific purposes. Funding from specific Operating Reserves can be re-allocated for other purposes at Council's discretion. Contributions to and use of funds is approved by Council during the annual budget process.

Statutory Reserves, required by Provincial legislation and/or are established by Council, are segregated into separate funds. Contributions to and use of monies from statutory reserves is subject to City bylaws and changes are only allowed through amendments to those bylaws. Statutory reserves require more administrative resources due to allocation of interest each year.

We recommend developing criteria to guide decisions when determining whether a reserve should be an Operating or a Statutory Reserve. This would support consistency and transparency for the management of City reserves.

We recommend that a Statutory Reserve be used for reserves that satisfy one or more of the following criteria:

- Reserve is required by Provincial legislation;
- Reserve facilitates contractual requirements or reporting;
- Reserve has specific annual contributions; and
- Reserve has specific long-term organizational purpose.

The Reserve Analysis below will include recommendations for changes to types of existing reserves.

### 3 EMPLOYEE POST-EMPLOYMENT BENEFITS

The City provides certain post-employment benefits to its employees. An actuarial valuation is used to estimate these benefits and they are recognized as a liability in the City's annual financial statements. This liability represents total estimated payments to current employees as they leave or retire from the organization.

The City does not currently budget for annual employee post-employment benefit costs. Each year, the City uses an allocation of the annual operating surplus to fund these costs. A review of the years 2013 to 2017 indicates that the average annual cost is \$622,000. The City's external auditors have reviewed this process and it is consistent with many other municipalities.

The Reserve Analysis below will include a recommendation for a change to the current process to improve transparency of this annual process and to mitigate any risks where operating surplus may not be adequate for the annual expenditure.

### 4 RESERVES REVIEW AND ANALYSIS

The review of the City's reserves included evaluation of each reserve including its purpose, contribution sources and utilization for funding. Reserves are grouped by common purposes and recommendations are provided.

Reserves can share common purposes and a framework is used to enhance understanding and evaluation of the City's reserves.

The Reserves Framework used includes the following categories:

- Financial Stability Reserves
- Equipment Reserves
- Infrastructure Reserves
- Parking Reserves
- Property Reserves
- Strategic Reserves
- Other Reserves

Total reserves have increased from \$84 million at the end of 2008 to \$115.5 million at the end of 2018. The 'purchasing power' of a \$1 in 2008 is not the same as in 2018, therefore, the impact of inflation needs to be considered when assessing the increase in total reserves.

Implementation of the Asset Management Reserves, the Strategic Infrastructure Reserve and the annual review and update of internal charges has been effective in increasing reserve balances and contributing to sustainable funding for equipment and infrastructure replacement and implementation of strategic priorities.

During the period 2009 to 2018, funding for projects from all reserves was 86% of total contributions to reserves for the same period.

#### **2009 – 2018 Reserve Utilization Summary**

<b>Reserve Type</b>	<b>Total Contributions</b>	<b>Total Withdrawals</b>	<b>% Utilization</b>
Sewer Reserves	\$23,027,360	\$21,227,102	92%
Water Reserves	\$59,483,967	\$47,466,149	80%
General Operating Reserves	\$86,051,611	\$83,769,477	97%
General Statutory Reserves	\$91,646,146	\$71,619,786	78%
Total	\$260,209,084	\$224,082,514	86%

Recommendations in this report include:

- Establishing new reserves;
- Maintaining existing reserves;
- Changes that require establishing a new Statutory Reserve and transferring balances from an Operating Reserve to the new Statutory Reserve; and,
- Elimination of an existing reserve.

These recommendations will:

- Ensure the City has a reasonable and prudent reserve framework;
- Establishes reserves that adequately address risk, support long-term infrastructure plans and implement strategic goals;
- Utilizes statutory and operating reserves consistently; and is
- Consistent with the City's proposed Reserve Policy.

#### 4.1 Financial Stability Reserves

The City has implemented reserves that mitigate specific risks or provide funding for future costs. The review of these reserves will outline recommendations for creating new reserves, eliminating reserves and changes to existing reserves.

The eight existing Financial Stability Reserves include:

- Uninsured Claims Reserve
- Uncollected Taxes Reserve
- RCMP Contract Reserve
- Police Traffic Fines Reserve
- Sanitation Leveling Reserve
- Snow and Ice Control (Roads) Reserve
- Snow and Ice Control (Parks and Recreation Facilities) Reserve
- Water Leveling Reserve

#### **Recommended New Financial Stability Reserves**

Implementation of these new reserves will support the City's financial stability and resiliency.

#### **General Financial Stability Reserve**

The General Financial Stability Operating Reserve should be implemented to mitigate risk arising from lower than expected revenues or sudden unplanned expenditure needed to maintain delivery of City services (excluding sewer and water services). In addition, going forward, this reserve would fund annual payments for employee post-employment benefits. While employee post-employment expenses can vary year to year, the average over the last five years was \$622,421. Contributions to this reserve will be from an allocation of general operating surplus and/or a budget allocation. A minimum target balance is recommended.



Recommendations:

- Establish the General Financial Stability Operating Reserve;
- Establish the target minimum reserve balance;
- Include annual budget in the City's Five Year Financial Plan for the estimated annual cost of employee post-employment benefits and that this cost be funded from the General Financial Stability Reserve;
- Transfer balance from the Uninsured Claims and the Uncollected Taxes reserves to the General Financial Stability Reserve;
- Transfer unallocated general operating surplus to the General Financial Stability Reserve to the minimum target balance; and,
- Each year, a priority for the allocation of the general operating surplus will be to maintain the minimum target balance for the General Financial Stability Reserve.

### **Sewer Financial Stability Reserve**

The Sewer Financial Stability Operating Reserve is analogous to the General Financial Stability Reserve. The purpose of this reserve is to mitigate risk arising from lower than expected revenues or sudden unplanned expenditure needed to maintain delivery of sewer services. Contributions to this reserve will be from an allocation of sewer operating surplus. A minimum target balance is recommended.

Currently, the City transfers the annual sewer operating surplus to the Sewer Operating Reserve. This reserve provides funding for projects to assess, renew or expand sewer infrastructure.

Recommendations:

- Establish the Sewer Financial Stability Operating Reserve;
- Establish a minimum target reserve balance; and,
- Transfer from the Sewer Operating Reserve to the Sewer Financial Stability Reserve up to the minimum target balance.

### **Water Financial Stability Reserve**

The Water Financial Stability Operating Reserve is analogous to the General Financial Stability Reserve. The purpose of this reserve is to mitigate risk from lower than expected revenues or sudden unplanned expenditure needed to maintain delivery of water services. Contributions to this reserve will be from an allocation of water operating surplus. A minimum target balance is recommended.

Currently, the City transfers the annual water operating surplus to the Water Operating Reserve. This reserves provide funding for projects to assess, renew or expand water infrastructure.

Annual revenues for water consumption can vary year to year depending on weather conditions during warmer months. As well, water conservation education and awareness is changing the community's demand for water. These factors increase risk to water revenue estimates.

Recommendations:

- Establish the Water Financial Stability Operating Reserve;
- Establish a minimum target reserve balance; and,
- Transfer from the Water Operating Reserve to the Water Financial Stability Reserve up to the minimum target balance.

### **Existing Financial Stability Reserves**

The City currently has nine operating reserves that mitigate specific risks. These reserves were implemented through allocations of prior year surplus or transfers from existing reserves and do not have annual contributions.

#### **RCMP Contract Reserve**

The RCMP Contract Operating Reserve, implemented in 2009, mitigates risks where actual expenditures are higher than the budget estimate for the RCMP contract.

In 2016, Council approved annual funding from this reserve for \$212,071 for additional RCMP members, which increased the service level with no impact on property taxes in 2016. Funding annual operating expenditures from reserves is not best practice and subsequent financial plans have reduced the funding from the reserve for the annual RCMP contract.

The 2018 reserve balance is \$2,944,185. The 2019 – 2023 Financial Plan includes funding from this reserve for RCMP members in 2019 for \$127,243, in 2020 for \$84,829 and in 2021 for \$42,415.

Recommendations:

- Maintain this Operating Reserve;
- Establish a minimum target reserve balance; and,
- Transfer any remaining balance to the General Financial Stability Reserve.

## **Sanitation Leveling Reserve**

The Sanitation Leveling Operating Reserve, implemented in 2018, mitigates risks due to unexpected cost increases during implementation of residential automated solid waste collection. User fees are calculated each year to recover costs for collection. This reserve can be used to mitigate risk from lower than expected revenues or sudden unplanned expenditures needed to maintain collection services.

The 2018 reserve balance is \$429,222.

Recommendations:

- Maintain this Operating Reserve; and,
- Contributions will be an allocation of any annual residential collection operating surplus.

## **Snow and Ice Control Reserves**

The City has implemented two Snow and Ice Control (SNIC) Reserves to mitigate risks from actual SNIC costs higher than budget estimate. One reserve is for Roads and the second reserve is for Parks and Recreation facilities.

The 2018 balance for the combined reserves was \$275,000. The 2019 – 2023 Financial Plan includes annual budget allocations to replenish these reserves.

Recommendations:

- Combine balances into one Snow and Ice Control Operating Reserve;
- Establish a minimum target balance; and,
- Contributions will be an allocation of operating surplus or budget allocation to minimum target balance.

## **Traffic Fines Reserve**

The Police Traffic Fines Operating Reserve was implemented to mitigate risks due to unexpected decreases in annual traffic fines revenues. The B.C. government transfers net revenues from traffic violations to municipalities that are directly responsible for paying for policing. Revenues can vary year to year. Currently, the City transfers any traffic fines revenues in excess of the budget to this reserve.

During the period 2009 to 2018, total contributions to this reserve was \$3.3 million and funding from this reserve for traffic fines revenue shortfalls was \$2.3 million and for police building projects was \$877,921. The 2018 reserve balance is \$908,383.

Recommendations:

- Eliminate this Operating Reserve; and
- Transfer the balance to the RCMP Contract Reserve.

### **Uninsured Claim Reserve**

The Uninsured Claims Operating Reserve was implemented to mitigate risks not covered by the City's liability insurance. The City is insured through the Municipal Insurance Authority of British Columbia (MIA).

Funding from this reserve was used in 2013 in the amount of \$139,629 and in 2017 in the amount of \$147,553. The 2018 balance is \$2,587,805.

Recommendation:

- Eliminate this Operating Reserve; and,
- Transfer the balance to the General Financial Stability Reserve.

### **Uncollected Taxes Reserve**

The Uncollected Taxes Operating Reserve was implemented to mitigate risks due to unexpected decreases in property tax revenues.

Funding from this reserve was used in 2009 in the amount of \$599,615, in 2013 in the amount of \$2,827, in 2014 in the amount of \$75,977, in 2015 in the amount of \$331,812 and in 2016 in the amount of \$359,503. The 2018 reserve balance is \$2,570,567.

Recommendations:

- Eliminate this Operating Reserve; and,
- Transfer the balance to the General Financial Stability Reserve.

### **Water Leveling Reserve**

The Water Leveling Operating Reserve was implemented to mitigate risks from actual water revenues lower than budget estimate. Contributions to this reserve are from water operating surplus.

Funding from this reserve was used in 2011 in the amount of \$750,000 and in 2015 in the amount of \$490,000. The 2018 balance is \$1,900,000.

Recommendations:

- Eliminate this Operating Reserve; and,
- Transfer the balance from this reserve to the Water Financial Stability Reserve.

## **Proposed Financial Stability Reserves Summary**

If above noted recommendations are implemented the City would have six Financial Stability Reserves:

- General Financial Stability Reserve
- Sewer Financial Stability Reserve
- Water Financial Stability Reserve
- RCMP Contract Reserve
- Snow and Ice Control Reserve
- Sanitation Leveling Reserve

### **4.2 Equipment Reserves**

The City currently has five equipment reserves that provide funding for equipment replacement. Annual contributions to these reserves are through internal charges to user departments and reflected in their budget allocations. Funding from these reserves for equipment replacement is included in the annual budget process.

#### **Automated Cart Replacement Reserve**

The Cart Replacement Operating Reserve, implemented in 2017, provides funding for replacement of residential carts used in solid waste collection. An internal charge to the Residential Solid Waste department will provide annual contributions to this reserve once borrowing for the initial cart purchase is completed.

This reserve does not have any contributions to date and the balance is \$0.

Recommendations:

- Establish a Cart Replacement Statutory Reserve;
- Transfer the balance from the Operating Reserve to the new Cart Replacement Statutory Reserve; and,
- Establish a minimum target minimum reserve balance.

#### **Copier Replacement Reserve**

The Copier Operating Reserve provides funding for copier replacement. Internal charges to user departments provide annual contributions to this reserve. The City maintains a rolling life-cycle replacement plan for City copier equipment.

During the period 2009 to 2018, total contributions to this reserve was \$703,610 and total funding from this reserve for copier replacement was \$396,560. The 2018 balance is \$432,444.

Recommendations:

- Establish a new Copier Replacement Statutory Reserve;
- Transfer the balance from the Copier Operating Reserve to the Copier Replacement Statutory Reserve; and,
- Establish a target minimum reserve balance.

### **Equipment Depreciation Reserve**

The Equipment Depreciation Statutory Reserve provides funding for replacement of the City's fleet including fire apparatus, solid waste collection trucks, heavy-duty construction equipment and vehicles. Internal charges to departments provide annual contributions to this reserve. The City maintains a rolling life-cycle replacement plan for all City equipment and vehicles.

During the period 2009 to 2018, total contributions to this reserve were \$15.5 million and total funding from this reserve for replacement of the City's fleet was \$13 million. The 2018 balance is \$6,943,362. This Statutory Reserve is used each year to fund replacement of the City's fleet.

Recommendations:

- Retain this Statutory Reserve; and,
- Establish a target minimum reserve balance.

### **Information Technology (IT) Reserve**

The IT Operating Reserve provides funding for IT corporate infrastructure replacement and improvements. Internal charges to departments provide annual contributions to this reserve. Business cases are required for proposed new/upgraded IT infrastructure and are reviewed during the annual budget process. The City maintains a rolling ten-year investment plan for the City's IT infrastructure.

During the period 2009 to 2018, total contributions to this reserve was \$5.3 million and total funding from this reserve for IT infrastructure was \$6.4 million. The 2018 balance is \$954,567.

Recommendations:

- Establish a new IT Statutory Reserve;
- Transfer the balance from the IT Operating Reserve to the IT Statutory Reserve; and,
- Establish a target minimum reserve balance.

## **911 Reserve**

911 services are provided through two functions: 911 Public Safety Answering Point (PSAP) and 911 FireComm. The Central Island 911 Partnership manages 911 services for the City of Nanaimo, the Regional District of Nanaimo and the Cowichan Valley Regional District. In November 2015, the partnership entered into an agreement with Emergency Communications of British Columbia Incorporated (EComm 911) to provide PSAP services. Funding for 911 services is a cost share between the City (46%), the Regional District of Nanaimo (10%) and the Cowichan Valley Regional District (44%).

The 911 Operating Reserve provides funding for replacement/new/upgraded 911 equipment. An internal charge to the 911 department provides annual contributions to this reserve. The City maintains a rolling ten-year plan for replacement/new furniture and equipment required for 911 services.

During the period 2009 to 2018, total contributions to this reserve was \$504,130 and total funding from this reserve for projects was \$188,524. The 2018 balance is \$624,700.

Recommendations:

- Establish a new 911 Statutory Reserve;
- Transfer the balance from the 911 Operating Reserve to the 911 Statutory Reserve; and,
- Establish a target minimum reserve balance.

## **4.3 Infrastructure Reserves**

The City currently has 13 infrastructure reserves. These reserves are the primary funding sources for infrastructure renewal. Funding from these reserves is included in the annual budget process.

### **Brechin Boat Ramp Reserve**

The Brechin Boat Ramp Operating Reserve provides funding for improvements to the Brechin boat ramp. Net parking revenues from this location provides annual contributions to this reserve. As part of its facility plan, the City maintains a rolling ten-year plan for major maintenance/upgrades to the Brechin Boat Ramp.

During the period 2009 to 2018, total contributions to this reserve was \$268,568 and total funding from this reserve for maintenance/improvements to the Brechin Boat Ramp was \$218,290. The 2018 balance is \$74,488.

Recommendations:

- Retain this Operating Reserve;
- Direct staff to provide additional information on the utilization of the Brechin Boat Ramp; and
- Consider eliminating this reserve and transferring revenues to the Parking Reserve and using general operating revenues, the General Asset Management Reserve or the Parking Reserve to fund renewal or improvements to the Brechin Boat Ramp.

### **Cemetery Care Reserve**

The Cemetery Care Statutory Reserve, established under the *Cemetery Care Act*, provides funding for ongoing care of the cemetery. Revenues from plot sales provide contributions to this reserve.

During the period 2009 to 2018, total contributions to this reserve was \$108,951 and total funding from this reserve for ongoing care of the cemetery was \$0. The 2018 balance is \$584,618.

Recommendation:

- Retain this Statutory Reserve.

### **Community Works Reserve**

The Community Works Statutory Reserve was established in 2005 in compliance with an agreement between Union of BC Municipalities (UBCM) and the City. Annual grant funding from federal gas tax revenues is provided to local municipalities through an agreement between UBCM and senior governments. UBCM then enters into agreements with each municipality which includes specific approved uses for the grant funding. The City's current agreement with UBCM expires in 2024.

During the period 2009 to 2018 total contributions to this reserve was \$30.1 million and total funding from this reserve was \$23.9 million. The 2018 balance is \$8,569,140.

Recommendation:

- Retain this Statutory Reserve.

### **Facility Development Reserve**

The Facility Development Statutory Reserve provides funding for renewal of the City's contributing recreation facilities and for the construction of new recreation facilities. Annual contributions are provided by an allocation of contributing recreation facility revenues.



During 2009 to 2018 total contributions to this reserve was \$11.6 million and total funding from this reserve was \$10.1 million. The 2018 balance is \$3,210,785.

Recommendations:

- Retain this Statutory Reserve; and,
- Establish a target minimum reserve balance.

### **General Asset Management Reserve**

The General Asset Management Statutory Reserve, established in 2013, provides funding for long-term infrastructure investment (excluding sewer and water infrastructure). Council approved specific annual increases to property taxes to provide contribution to this reserve.

During 2013 to 2018 total contributions to this reserve was \$20 million and total funding from this reserve was \$10.3 million. The 2018 balance is \$11,258,946.

Recommendations:

- Retain this Statutory Reserve;
- Establish a target minimum balance;
- Consider improving clarity of the current bylaw to recognize that the City does fund a portion (assist and benefit for existing residents) of DCC infrastructure projects; and,
- Consider changes to the current bylaw that would allow funding for infrastructure renewal projects classified as operating.

### **General Capital Reserve**

The General Capital Operating Reserve was created through an allocation of operating surplus. There is not a dedicated source of contributions to this reserve.

During 2009 to 2018 total contributions to this reserve was \$13.1 million and total funding from this reserve was \$9.2 million. The 2018 balance is \$4,506,667.

The Provisional 2019 – 2023 Financial Plan includes \$62,033 funding for two projects from this reserve in 2019.

Recommendation:

- Transfer \$3,999,856 to the General Financial Stability Reserve; and
- Retain this reserve until the remaining funding has been utilized.

## **NDSS Community Field Reserve**

The NDSS Community Field Maintenance Operating Reserve provides funding for capital improvements to the NDSS field. In 2017, the City entered into an agreement with School District #68 (SD #68) to manage utilization and maintenance of the field while SD #68 maintains ownership of the field. An annual contribution by the City and SD #68 and annual net field revenues provides contributions to this reserve.

The 2018 balance is \$30,300.

Recommendation:

- Establish a new NDSS Community Field Statutory Reserve; and,
- Transfer any balance in the NDSS Community Field Operating Reserve to the NDSS Community Field Statutory Reserve.

## **Pipers Park Reserve**

The Pipers Park Operating Reserve provides funding for improvements to Pipers Park. Annual net rental revenues from facilities in this park provides contributions to this reserve.

During the period 2009 to 2018 total contributions to this reserve was \$43,929 and total funding from this reserve was \$0. The 2018 balance is \$43,929.

Recommendation:

- Retain this Operating Reserve while the facility is rented.

## **Sewer Reserve**

The Sewer Operating Reserve provides funding for sewer infrastructure assessment programs and renewal. The sewer utility is a self-supporting enterprise and annual sewer user fees provides annual contributions to this reserve.

During 2009 to 2018 total contributions to this reserve was \$17.3 million and total funding from this reserve was \$18.3 million. The 2018 balance is \$10,566,903.

Recommendations:

- Retain this Operating Reserve; and,
- Establish a target minimum reserve balance which includes the Sewer Asset Management Reserve Fund in the calculation.

## **Sewer Asset Management Reserve**

The Sewer Asset Management Statutory Reserve, established in 2013, provides funding for long-term sewer infrastructure investment. Council approved specific annual increases to sewer user fees to provide contribution to this reserve.

During 2013 to 2018 total contributions to this reserve was \$5.8 million and total funding from this reserve was \$2.9 million. The 2018 balance is \$2,833,790.

Recommendations:

- Retain this Statutory Reserve;
- Establish a target minimum reserve balance which includes the Sewer Operating Reserve balance in the calculation;
- Consider improving clarity of the current bylaw to recognize that the City does fund a portion (assist and benefit for existing residents) of DCC infrastructure projects; and,
- Consider changes to the current bylaw that would allow funding for infrastructure renewal projects classified as operating.

## **Vancouver Island Conference Centre (VICC) Reserve**

The VICC Operating Reserve provides funding for facility improvements that maintain its market competitiveness. Contributions to this reserve are from any unspent annual budget allocation. An external contractor operates the VICC. The contractor provides a capital improvement plan to the City.

During the period 2009 to 2018 total contributions to this reserve was \$697,175 and total funding from this reserve was \$204,744. The 2018 balance is \$612,958.

Recommendation:

- Retain this Operating Reserve.

## **Water Reserve**

The Water Operating Reserve provides funding for long-term water infrastructure investment. The water utility is a self-supporting enterprise and annual water user fees provides annual contributions to this reserve.

During 2009 to 2018 total contributions to this reserve was \$50.3 million and total funding from this reserve was \$43.6 million. The 2018 balance is \$20.7 million.

Recommendations:

- Retain this Operating Reserve; and,
- Establish a target minimum reserve balance which includes the Water Asset Management Statutory Reserve in the calculation.

## **Water Asset Management Reserve**

The Water Asset Management Statutory Reserve, established in 2013, provides funding for capital water infrastructure renewal. Council approved specific annual increases to water user fees to provide contribution to this reserve.

During 2013 to 2018 total contributions to this reserve was \$7.3 million and total funding from this reserve was \$2.7 million. The 2018 balance is \$4,646,913.

Recommendations:

- Retain this Statutory Reserve;
- Establish a target minimum reserve balance which includes the Water Operating Reserve balance in the calculation;
- Consider improving clarity of the current bylaw to recognize that the City does fund a portion (assist and benefit for existing residents) of DCC infrastructure projects; and,
- Consider changes to the current bylaw that would allow funding for infrastructure renewal projects classified as operating.

## **4.4 Parking Reserves**

The City has one operating Reserve and one Reserve Fund to provide funding for renewal or upgrades to parking infrastructure or amenities.

### **Parking Reserve**

The Parking Operating Reserve provided funding for renewal of parking infrastructure and new parking infrastructure. Annual net revenues from the Parking business unit provide contributions to this reserve. The City maintains a rolling ten-year plan for new/renewal of parking infrastructure.

During the period 2009 to 2018, total contributions to this reserve was \$4.3 million and total funding from this reserve for parking infrastructure was \$3.2 million. Funding for renewal of parking infrastructure was also provided by the General Asset Management Reserve. The 2018 balance is \$1,539,025.

Recommendations:

- Establish a new Parking Statutory Reserve; and,
- Transfer the balance from the Parking Operating Reserve to the new Parking Statutory Reserve.

## **Old City Parking Reserve**

The Old City Parking Statutory Reserve was established in 1993 to provide off-street parking spaces. Contributions to this reserve are from cash-in-lieu payments received from developers. The last contribution to this reserve was in 2010 and no funding has been used from this reserve in the past ten years.

The 2018 balance is \$90,891.

Recommendation:

- Retain this Statutory Reserve.

## **4.5 Property Reserves**

The City has two Statutory Reserves and one Operating Reserve for the purchase and sale of land. Both Statutory Reserves are required by the *Community Charter*.

The City undertakes a wide range of land acquisitions each year including rights of way for utilities, land for road widening and new parkland, as well as land for civic facilities and projects. In 2013, Council adopted the Property Management Strategy (PMS) that set out the framework for how the City acquires, disposes of, and manages land assets. Each year the PMS is updated to reflect Council priorities and will be further updated when the new Strategic Plan is adopted by Council in early 2019.

### **Parkland Dedication Reserve**

The Parkland Dedication Statutory Reserve provides funding for the purchase of parkland pursuant to Section 188 of the *Community Charter*. Cash-in-lieu payments received from developers are deposited to this Reserve Fund.

During the period 2009 to 2018, total contributions to this reserve was \$2.4 million and total funding from this reserve for purchase of parkland was \$1.9 million. The 2018 balance is \$1,149,945.

Recommendation:

- Retain this Statutory Reserve.

### **Property Sales Reserve**

The Property Sales Statutory Reserve receives monies from the sale of civic land and can only be used for capital projects pursuant to Section 188 of the *Community Charter*.

During the period 2009 to 2018, total contributions to this reserve was \$11 million and funding from this reserve was \$12.2 million. The 2018 balance is \$1,140,712.

Recommendation:

- Retain this Statutory Reserve; and,
- Council could consider a minimum target balance for this reserve.

### **Property Acquisition Reserve**

The Property Acquisition Operating Reserve was established to provide funding for property acquisitions. Property acquisitions include property needed to expand City infrastructure, to implement strategic initiatives and for parkland. Contributions to this reserve are either by allocation of budget or operating surplus.

During the period 2009 to 2018, total contributions to this reserve was \$5.6 million and total funding from this reserve for property acquisitions was \$8.1 million. The 2018 balance is \$1,563,383.

Recommendation:

- Establish a Property Acquisition Statutory Reserve; and,
- Transfer the balance from the Property Acquisition Operating Reserve to the Property Acquisition Statutory Reserve.

## **4.6 Strategic Initiatives and Infrastructure Reserves**

The City has five reserves to provide funding for strategic initiatives and investment identified by Council.

### **Housing Legacy Reserve**

The Housing Legacy Operating Reserve was implemented to provide funding to support affordable housing in the community including but not limited to property acquisition and capital investment. Annual budget allocations provide contributions to this reserve.

During the period 2009 to 2018, total contributions to this reserve was \$1.5 million and total funding for projects from this reserve was \$1.5 million. The 2018 balance is \$2,364,066.

Recommendation:

- Establish a Housing Legacy Statutory Reserve;
- Transfer the balance from the Housing Legacy Operating Reserve to the Housing Legacy Statutory Reserve; and,
- Consider a maximum balance for this reserve.

## **Regional Emission Reduction Reserve**

The Regional Emission Reduction Statutory Reserve, established in 2013, in partnership with the Regional District of Nanaimo (RDN), District of Ladysmith, Town of Parksville and Town of Qualicum Beach. The reserve will provide funding for investment in regional emission reduction initiatives. Annual budget allocations provides contributions to this reserve. To date no projects have been funded from this reserve.

During the period 2013 to 2018, total contributions to this reserve was \$0.5 million and total funding from this reserve was \$0. The 2018 balance is \$549,218.

Recommendation:

- Maintain this Statutory Reserve.

## **Special Initiatives Reserve**

In past years, at Council's direction, general operating reserves were set up for short-term initiatives. Contributions to these reserves were through an allocation of prior year operating surplus. This flexibility allows Council to respond to emerging issues that require short term funding and minimize impact on future property taxes increases. Examples include:

- allocation of prior year surplus to fund election expenses in the following year,
- allocation of prior year surplus to fund temporary staffing position in the following year.

Establishing a Special Initiatives Reserve will facilitate an allocation of prior year operating surplus for a specific initiative in a subsequent year.

Recommendation:

- Establish a Special Initiatives Operating Reserve.

At Council's direction, contributions to this reserve will be an allocation of year- end operating surplus for specific short-term initiatives.

## **Strategic Infrastructure Reserve**

The Strategic Infrastructure Operating Reserve, established in 2017, provides funding for strategic initiatives and capital infrastructure. Annual casino and Fortis revenues were transitioned, over a five-year period, from the general operating fund to this new reserve. These revenues can vary year to year. Annual contributions to this reserve are projected to be \$2.9 million.

During the period 2017 to 2018 total contributions to this reserve was \$3.6 million and total funding from this reserve was \$1.5 million. The 2018 balance is \$2,170,426.

Recommendation:

- Establish a Strategic Infrastructure Statutory Reserve;
- Transfer the balance from the Strategic Infrastructure Operating Reserve to the Strategic Infrastructure Statutory Reserve; and,
- Establish a target minimum reserve balance.

### **Strategic Partnerships Reserve**

The Strategic Partnership Operating Reserve, established in 2015, provides funding for consultation with Snuneymuxw First Nation regarding joint projects. An allocation of 2015 general operating surplus for \$250,000 was contributed to this reserve.

The 2018 balance is \$25,543.

Recommendation:

- Confirm if planned projects have been completed; and,
- Maintain this reserve.

### **Sustainability Reserve**

The Sustainability Operating Reserve provides funding for projects that reduce the City's energy consumption or lowers GHG emissions. Annual budget allocations provides contributions to this reserve.

During the period 2009 to 2018, total contributions to this reserve was \$1.5 million and total funding from this reserve for projects was \$2.0 million. The 2018 balance is \$426,655.

Simple payback analysis is required for proposed projects to ensure expected benefits exceed expenditures. The City has completed many projects to reduce energy consumption.

Recommendation:

- Retain this Operating Reserve.

## **4.7 Other Reserves**

The remaining reserves fulfill either a specific administrative function, comply with a bequest or are for short-term purposes.



## **Casino Reserve**

Each year, the City receives from the B.C. Government an allocation of annual net earnings from casino operations. These revenues can vary year to year. The 2019 budget for casino revenues is \$2.4 million. Up to 2016, casino revenues were used to fund day-to-day services, community grants and debt repayment in the general operating fund. In 2016, Council approved the transition of casino revenues from the general operating fund to a new Strategic Infrastructure Reserve starting in 2017. The transition will be over four years and completed in 2021. Each year, the City must report how it uses casino revenues to the B.C. Government.

The Casino Operating Reserve was established with an allocation of casino revenues in prior years. The primary purpose of the reserve was to mitigate risk where casino revenues received by the City are lower than the budget estimate.

During the period 2009 to 2018, total contributions to the Casino operating Reserve was \$2.2 million and total funding from this reserve was \$1.0 million. Funding from this reserve has been used when casino revenues have been lower than the budget estimate. The 2018 balance is \$1,448,844.

Recommendation:

- Maintain this Operating Reserve;
- Utilize the available funding for eligible expenditures; and,
- Eliminate this reserve once all the funding has been allocated.

## **Prior Year Carry-Forward Reserve**

The Prior Year Carry-Forward Operating Reserve was implemented in 2015 to enable efficient administration of budgets that needed to be carried forward from the current fiscal year to the following year.

The City's Financial Plan identifies specific budgets for projects to be completed each year. Where projects are not completed or delayed, budget may be carried forward to the following year. Under specific circumstances, operating budgets may also be carried forward from one fiscal year to the next. Prior to implementation of this reserve the City used many separate operating reserves to administer the carry forward of budgets from one fiscal year to the next.

The 2018 balance is \$3,380,118 which provided funding for projects in 2019 that were not completed or were delayed in 2018.

Recommendation:

- Retain this Operating Reserve.

### **Knowles Estate Reserve**

The Knowles Estate Statutory Reserve, established in 2007, due to a bequest. Only accumulated interest may be spent for parks and sport facility improvements in the south end of the City.

During the period 2009 to 2018, total contributions to this reserve was \$92,829 and total funding for projects from this reserve was \$75,929. The 2018 balance is \$429,499.

Recommendation:

- Retain this Statutory Reserve.

### **Firehall Improvements Reserve**

The Firehall Improvements Operating Reserve was implemented to provide funding for firehall improvement. There are no annual contributions to this reserve.

During the period 2009 to 2018, total contributions to this reserve was \$50,000 and total funding for projects from this reserve was \$0. The 2018 balance is \$396,414.

Recommendation:

- Retain this Operating Reserve until the current replacement project for Fire Station #1 is completed; and,
- If a balance remains after completion of the Fire Station #1 project, transfer the balance to the General Asset Management Reserve Fund.

### **Fire Training Centre Reserve**

The Fire Training Centre Operating Reserve was implemented to provide funding for renewal/improvement to the Fire Training Centre located on Labieux Road. Net facility rental revenues were contributed to this reserve and ended in 2015.

During the period 2009 to 2018, total contributions to this reserve was \$164,161 and total funding for projects from this reserve was \$48,325. The 2018 balance is \$178,675.

Recommendation:

- Utilize funding from this reserve for renewal/improvements to the Fire Training Centre; and,
- When funding has been fully allocated, eliminate this Operating Reserve.

## **Vancouver Island Fire Academy Reserve**

In 2007, the City's Nanaimo Fire Rescue (NFR) operating as Vancouver Island Emergency Fire Academy (VIERA) began delivering accredited fire training courses. These courses are offered to NFR firefighters and to external fire departments. An annual budget for operating expenses and revenues is included in the City's financial plan.

Net revenues from the VI Fire Academy were allocated to the VI Fire Academy Operating Reserve each year ending in 2017. Starting in 2018, this process was changed. The net revenues now remain in the NFR department budget and effectively 'reduces' the reliance on general revenues to fund training.

During the period 2009 to 2018, total contributions to this reserve was \$507,451 and total funding from this reserve was \$0. The 2017 balance was \$507,451.

### **Recommendation:**

- Utilize funding from this Operating Reserve; and,
- When funding has been fully allocated, eliminate this Operating Reserve.

## D TARGET BALANCES

### 1 OVERVIEW

As previously noted, the City maintains reserves to mitigate risks from unexpected decreases in revenues or increases in expenditures, to set aside money in advance for planned future obligations to employees, to set aside money for new/replacement of infrastructure that delivers City services and to implement strategic initiatives.

Establishing target minimum or maximum reserve balances, where appropriate, ensure that specific reserves are able to fulfill their purpose or do not grow beyond their intended purpose.

The review of the City's reserves included evaluating if a reserve should have a minimum or maximum balance and the appropriate methodology for determining the target balance. The review considered:

- Government Finance Officers Association (GFOA) best practices;
- The City's current annual contribution commitments to reserves; and,
- Known future funding needs for infrastructure renewal and strategic initiatives.

The GFOA, the professional association of government finance officials throughout Canada and the United States, has prepared statements of 'best practices' to assist local governments in developing financial management policies, practices and reporting.

### 2 TARGET RESERVE BALANCES NOT REQUIRED

Where reserves have been established to segregate specific revenues, target minimum balances are not always appropriate and would unduly limit funding for projects and strategic opportunities and initiatives.

Due care will need to be taken to ensure that projects funded from these reserves include adequate contingencies to allow for unexpected cost increases.

We recommend that the following reserves do not require target minimum balances:

- Sanitation Levelling Reserve
- Pipers Park Reserve
- VICC Reserve
- Cemetery Care Reserve Fund
- Community Works Reserve Fund
- NDSS Community Field Maintenance Reserve Fund
- Parking Reserve Funds
- Property Reserve Funds

- Housing Legacy Reserve
- Regional Emission Reserve Fund

These reserves can be fully utilized in the Five Year Financial plan and in the 10 Year Project Plan.

### 3 TARGET BALANCES FOR FINANCIAL STABILITY RESERVES

The Financial Stability Reserves mitigate risk from unexpected decreased revenues or increased expenditures. Each year, a robust planning process updates the City's Five Year Financial Plan and includes budgeted annual revenues and expenditures. The City also maintains ten and twenty year planning processes. Monthly and quarterly financial reports monitor financial results during the current year to identify emerging issues and provide the ability for management to take proactive actions.

Overall, the City's risks for unplanned expenditures or decreases in revenues are considered lower due to:

- Robust planning processes for both operating and capital activities;
- A stable and steady demand for services;
- Ability to control revenues and expenditures; and,
- Establishment of Equipment and Infrastructure Reserve Funds with annual contributions.

The GFOA recommends a target balance in 'working capital' between 45 and 90 days of expenditure budgets. 'Working capital' for local governments can be equated to unrestricted operating reserve balances in the General Operating Fund, the Sewer Operating Fund and the Water Operating Fund.

#### **General Financial Stability Reserve**

The General Financial Stability Reserve will mitigate risks related to the General Operating Fund excluding the RCMP contract, snow and ice control, residential solid waste collection, sewer and water services. Separate reserves, identified below, will mitigate risks for the services not included in the General Financial Stability Reserve. The General Operating Fund includes the day-to day operating expenditures and revenues that deliver all City services excluding sewer and water services.

We recommend that the target balance for the General Financial Stability Reserve equal 60 days of annual expenditures in the General Operating Fund excluding the RCMP contract, snow and ice control and solid waste collection expenditures plus an amount for estimated annual employee post-employment benefits. An analysis of the years 2013 to 2017 showed that the average cost for employee post-employment benefits was \$622,000.

Contributions to the reserve to maintain the target minimum balance can be from general operating surplus or budget allocation.

### **RCMP Contract Reserve**

The Police Financial Stability Reserve will mitigate risk related to the RCMP contract. The City does not budget for 100% of the annual RCMP contract due to vacancies and to minimize an operating surplus. The annual operating budget estimate for 2017 was 92% of the RCMP contract.

We recommend that the target balance for the RCMP Contract Reserve be equal to the 8%. Changes to the annual budget % are not expected.

Contributions to the reserve to maintain the target minimum balance can be from general operating surplus or budget allocation.

### **Sewer Financial Stability Reserve**

The Sewer Financial Stability Reserve will mitigate risks related to the Sewer Operating Fund. The Sewer Operating Fund includes the day-to-day operating expenditures and revenues that deliver sewer services.

We recommend that the target balance for the Sewer Financial Stability Reserve equal 45 days of annual expenditures in the Sewer Operating Fund. Annual sewer user fees are a flat amount, therefore, risks to revenue volatility is much lower than the General Operating Fund.

Contributions to the reserve to maintain the target minimum balance can be from sewer operating surplus or budget allocation.

### **Snow and Ice Control Reserve**

The Snow and Ice Control Reserve will mitigate risk due to a harsher winter weather and impact on the annual SNIC operating budget. The annual seasonal costs for SNIC control can vary significantly. During the period 2008 to 2017, the highest cost winter was \$1,449,888 in 2008 and the lowest cost winter was \$214,901 in 2015.

We recommend that the target balance equal the 2018 SNIC operating budget plus 50%. An analysis of seasonal SNIC expenditures for the period 2008 to 2017 showed the highest cost season was \$1.6 million (2008/2009 winter). The minimum reserve balance of \$1.2 million plus the annual operating budget would provide adequate funding for a severe winter.

Contributions to the reserve to maintain the target minimum balance can be from SNIC operating surplus, general operating surplus or budget allocation.

### **Water Financial Stability Reserve**

The Water Financial Stability Reserve will mitigate risks related to the Water Operating Fund. The Water Operating Fund includes the day-to-day operating expenditures and revenues that deliver water services.

We recommend that the target balance for the Water Financial Stability Reserve equal 60 days of annual expenditures in the Water Operating Fund. Annual water revenues can vary depending on summer weather conditions.

Contributions to the reserve to maintain the target balance can be from water operating surplus or budget allocation.

## **4 TARGET BALANCES FOR EQUIPMENT AND INFRASTRUCTURE RESERVES**

There are two components for establishing target balances for equipment and infrastructure reserves.

The first component provides a 'contingency' to mitigate risks related to unplanned infrastructure renewal usually due to early failure or where expenditures for a planned project are higher than planned. The City undertakes a rigorous long-term planning process and development of detailed cost estimates and inclusion of a reasonable contingency for each project. However, unknown conditions, including market conditions and other issues can unexpectedly increase project costs.

The second component relates to the City's planned investment. The City has well developed planning processes that include condition and capacity assessment programs, monitoring maintenance and operational issues and comprehensive data collection for infrastructure. Each year the Five Year Financial Plan and 10-year project plan are updated to include planned project expenditures and funding sources. In addition, the City's continued commitment to developing and implementing asset management best practices contributed to the development of a 20 Year Investment and Asset Management Plan (March 2017). The 20 Year Plan used current infrastructure replacement costs to determine future funding needs. Historical costs used for

amortization of costs in the City's accounting records do not reflect future costs the City will incur to replace, upgrade or construct new infrastructure.

Determining target balances for equipment and infrastructure reserves will consider both components. The GFOA does not offer recommendations for equipment and infrastructure reserve minimum balances and it would be difficult to compare to other municipalities where planning processes, maintenance programs and other conditions can vary significantly. We have looked to a reasonable approach that will provide a minimum balance that mitigates risks and will not negatively impact funding available for planned projects.

The recommended target minimum equipment and infrastructure reserve balances include:

- Contingency component
  - 1% of current infrastructure/equipment replacement cost; or,
  - Average of last 10 years project expenditures.
- Planned projects component – funding required for 10 year project plan.

#### **Automated Cart Replacement Reserve**

For the Cart Replacement Reserve the recommended target minimum reserve balance is based on 1% of current cart replacement cost.

The purchase cost of carts for the implementation of automated collection was \$4.2 million. Therefore, a target minimum reserve balance would be \$42,000 after funding allocated for the 10-year cart replacement plan. To provide a stable amount, this amount would not change until the next update of the Reserve Policy.

A review of the 2019 – 2028 cart replacement plan indicates that this reserve does not fall below this minimum balance.

#### **Copier Replacement Reserve**

For the Copier Replacement Reserve the recommended target minimum reserve balance is based on the average annual funding from this reserve for the past ten years.

Between 2008 and 2017, total funding from the Copier operating reserve was \$478,000, therefore, the average annual withdrawal was \$47,800. The minimum balance for this reserve would be \$48,000 after funding allocated for the 10-year copier replacement plan. To provide a stable amount, this amount would not change until the next update of the Reserve Policy.

A review of the 2019 – 2028 copier replacement plan indicates that this reserve does not fall below this minimum balance.



## **Equipment Depreciation Reserve**

For the Equipment Depreciation Reserve the recommended target minimum reserve balance is based on 1% of current equipment replacement cost.

The 20 Year Investment Plan indicated a current equipment replacement cost of \$27 million, therefore, a target minimum reserve balance would be \$270,000 after funding allocated for the 10-year equipment replacement plan. To provide a stable amount, this amount would not change until the next update of the Reserve Policy.

A review of the 2019 – 2028 equipment replacement plan indicates that this reserve does not fall below this minimum balance.

## **Facility Development Reserve**

For the Facility Development Reserve the recommended target minimum reserve balance is based on the average annual funding from this reserve for the past ten years.

Between 2008 and 2017, total funding from the Facility Development Reserve Fund was \$9.3 million, therefore, the average annual withdrawal was \$930,000. The minimum balance for this reserve would be \$930,000 after funding allocated for the 10-year Recreation Facility project plan. To provide a stable amount, this amount would not change until the next update of the Reserve Policy.

A review of the 2019 – 2028 project plan indicates that this reserve does not fall below this minimum balance.

## **General Asset Management Reserve**

For the General Asset Management Reserve the recommended target minimum reserve balance is based on .25% of current infrastructure replacement cost. The 20 Year Plan indicated a replacement cost of all infrastructure of \$1.4 billion, excluding sewer and water infrastructure. Therefore, a minimum reserve balance would be \$3.5 million after funding allocated for the 10-year infrastructure project plan.

A review of the 2019 – 2028 project plan indicates that the reserve falls below this target in 2022 only. The projected balance at the end of 2022 is \$3,441,568.

## **IT Reserve**

For the IT Reserve the recommended target minimum reserve balance is based on the average annual funding from this reserve for the past ten years.

Between 2008 and 2017, total funding from the IT operating reserve was \$5.7 million, therefore, the average annual withdrawal was \$570,000. The minimum balance for this reserve would be \$570,000 after funding allocated for the 10-year IT project plan. To provide a stable amount, this amount would not change until the next update of the Reserve Policy.

A review of the 2019 – 2028 IT project plan indicates that this reserve does not fall below this minimum balance.

### **Sewer Asset Management Reserve**

For the Sewer Asset Management Reserve the recommended target minimum reserve balance is based on .25% of current sewer infrastructure replacement cost. The 20 Year Plan indicated a replacement cost of sewer infrastructure of \$597 million. Therefore, a minimum reserve balance would be \$1.5 million after funding allocated for the 10-year sewer infrastructure project plan.

As both the Sewer Operating Reserve and the Sewer Asset Management Reserve provide funding for sewer infrastructure investment, both reserve balances can be combined and compared to the above-noted target.

A review of the 2019 – 2028 project plan indicates that the total of both reserves does not fall below this target minimum balance.

### **Water Asset Management Reserve**

For the Water Asset Management Reserve the recommended target minimum reserve balance is based on .25% of current water infrastructure replacement cost. The 20 Year Plan indicated a replacement cost of water infrastructure of \$976 million. Therefore, a minimum reserve balance would be \$2.4 million after funding allocated for the 10-year water infrastructure project plan.

As both the Water Reserve and the Water Asset Management Reserve are used for water infrastructure investment, both reserve balances can be combined and compared to the above-noted target.

A review of the 2019 – 2028 project plan indicates that the total of both reserves does not fall below this minimum balance.

### **911 Equipment Reserve**

For the 911 Equipment Reserve the recommended target minimum reserve balance is based on the average annual funding from this reserve for the past ten years.

Between 2008 and 2017, total funding from the 911 operating reserve was \$220,743, therefore, the average annual withdrawal was \$22,000. The minimum balance for this reserve would be \$22,000 after funding allocated for the 10-year 911 project plan. To provide a stable amount, this amount would not change until the next update of the Reserve Policy.

A review of the 2019 – 2028 911 equipment plan indicates that this reserve does not fall below this minimum balance.

## 5 TARGET BALANCE FOR STRATEGIC RESERVE

### **Strategic Infrastructure Reserve**

Annual contributions to the Strategic Infrastructure Reserve are from annual revenues received from Fortis and from casino operations. These revenues can vary year to year. We recommend that the minimum target balance for this reserve equal 15% of annual Fortis and casino revenues. The 2018 budget for these revenues is \$480,000 for Fortis and \$2,400,000 for casino for a total of \$2,880,000. Therefore, a target minimum reserve balance for the Strategic Infrastructure Reserve would be \$432,000.

A review of the 2019 – 2028 project plan indicates that this reserve does not fall below the minimum balance.

## 6 REPLENISHMENT OF RESERVES

Where the City must use funding from a financial stability reserve and that reserve balance falls below the target minimum balance, a replenishment plan for that reserve will need to be developed. We recommend that the Reserve Policy state that a replenishment plan be adopted at the same time as the decision to reduce a reserve below its target minimum balance.

The GFOA recommends a suggested time-frame of one to three years for replenishment of reserves to minimum target balances. Extenuating circumstances may require a municipality to replenish reserves over a longer time-frame.

Strategies for replenishment can include:

- Allocation from operating surplus
- Budget allocations

Each year the City has experienced a general operating fund surplus. The amount can vary significantly year to year and is usually a result of higher than expected revenues or lower expenditures due to staff vacancies and other variances from budget. Many of the City's current reserves for risk mitigation were created from allocations of an operating surplus. This approach does not have an impact on property taxes.

Replenishment of reserves through a budget allocation will have an impact on subsequent year's property taxes unless budget reductions are made in other areas. For example, the 2018 – 2022 Financial Plan has a budget allocation to replenish SNIC reserves and this has had a minor impact on property tax increases.

Where the condition(s) that required the utilization of funding from one of the financial stability reserves is one-time, every effort should be made to replenish the reserve within the three-year time-frame. Examples could include a legal judgement against the City or a major wildfire.

Where the condition(s) that required the utilization of funding from one of the financial stability reserves is significant or permanent the next Five Year Financial Plan will need to address both the replenishment of the reserve and any needed change in the annual operating budget to avoid future budget shortfalls. An example could include where a senior government changes a revenue sharing agreement where annual revenues will decrease and the impact will start in the current year. This may create a need to use funding from the General Financial Stability Reserve for the current year if the annual operating surplus is not available or adequate to cover the revenue shortfall. The Five Year Financial Plan will need to include a budget allocation to replenish the General Financial Stability Reserve and a decrease to the annual revenue sharing budget. Council can approve extending the replenishment of the reserve past three years to spread the impact on property taxes over more years.

## 7 RECOMMENDED TARGET BALANCES SUMMARY

Appendix 3 provides a summary of reserves and recommended target minimum balances.

## 8 FINANCIAL IMPACTS

### **Target Balances**

Recommendations in this report include the reallocation of some reserve balances and unallocated surplus. These transfers are outlined in Appendix 4. Each reserve with a recommended minimum target balance will have the minimum target balance once all changes recommended in this report have been implemented.

## **Accumulated Surplus**

Accumulated surplus at the end of December 31, 2018 will be transferred to reserves as outlined in Appendix 4.

## **Investment Income**

Currently, the interest earned on Operating Reserves is allocated to the General Operating Fund and is a revenue source for day-to-day operations in that fund. The 2019 budget for investment income is \$1,900,000 and a portion is due to interest earned on monies in operating reserves.

The recommended changes in this report include the establishment of several new Statutory Reserves and the transfer of several Operating Reserve balances to the new Statutory Reserves. In compliance with the *Community Charter*, Section 189 interest earned on monies in a Statutory Reserve must be allocated to that reserve. The impact of this transfer of monies from Operating Reserves to Statutory Reserves will reduce the annual investment income in the General Operating Fund by an estimated \$41,000. Interest income will be allocated to the new Statutory Reserves based on their balances and will increase funding available from these reserves.

## E SUMMARY OF RECOMMENDATIONS

The following recommendations are intended to further improve the resiliency, sustainability and transparency of the City's management of its reserves.

1. Establish the following new Operating Reserves:
  - a. General Financial Stability Reserve
  - b. Sewer Financial Stability Reserve
  - c. Water Financial Stability Reserve
  - d. Special Initiatives Reserve.
2. Establish new Statutory Reserves and approve related bylaws:
  - a. Cart Replacement Reserve
  - b. Information Technology Reserve
  - c. Copier Replacement Reserve
  - d. 911 Equipment Reserve
  - e. NDSS Reserve
  - f. Parking Reserve
  - g. Property Acquisition Reserve.
3. Eliminate the following reserves:
  - a. Uninsured Claim Reserve
  - b. Uncollected Taxes Reserve
  - c. Traffic Fines Reserve
  - d. Water Leveling Reserve
  - e. General Capital Reserve.

## E SUMMARY OF RECOMMENDATIONS (Continued)

4. Transfer reserve monies as follows:
  - a. Uninsured Claims and Uncollected Taxes Operating Reserve balances to the General Financial Stability Operating Reserve;
  - b. Sewer Operating Reserve to the Sewer Financial Stability Operating Reserve to minimum target balance;
  - c. Water Operating Reserve to the Water Financial Stability Operating Reserve to minimum target balance;
  - d. Any remaining balance in RCMP Contract Operating Reserve to the General Financial Stability Operating Reserve;
  - e. Traffic Fines Operating Reserve to RCMP Contract Operating Reserve;
  - f. Combine SNIC Operating reserves balances to one SNIC operating reserve;
  - g. Water Leveling Operating Reserve balance to Water Financial Stability Operating Reserve;
  - h. IT Operating Reserve balance to IT Statutory Reserve;
  - i. Copier Operating Reserve balance to Copier Statutory Reserve;
  - j. 911 Operating Reserve balance to 911 Statutory Reserve;
  - k. NDSS Operating Reserve balance to NDSS Statutory Reserve;
  - l. General Capital Operating Reserve balance to General Financial Stability Operating Reserve;
  - m. Parking Operating Reserve balance to Parking Statutory Reserve;
  - n. Property Acquisition Operating Reserve to Property Acquisition Statutory Reserve;
  - o. Strategic Operating Reserve balance to Strategic Statutory Reserve;
  - p. Housing Legacy Operating Reserve to Housing Legacy Statutory Reserve.
5. Approve the methodology for determining target balances for each reserve as outlined in Appendix 3 of this report.
6. Approve the Reserves Policy.
7. Direct staff to report annually to Council on the status of all City reserves as outlined in the Reserve Policy.

## Appendix 1: Existing Reserve Summary

Reserves	Type	Primary Purpose	Balance at December 31, 2018	Recommendation
<b>Financial Stability Reserves</b>				
RCMP Contract	Operating Reserve	Risk mitigation for actual costs higher than budget estimate.	\$ 2,944,185	No Change, see Appendix 4 for transfer
Sanitation Leveling Reserve	Operating Reserve	Risk mitigation during implementation of automated solid waste collection and repayment of borrowing.	\$ 429,222	No Change
Snow and Ice Control (Parks and Recreation)	Operating Reserve	Risk mitigation for actual costs higher than budget estimate.	\$ 75,000	Combine - 1 SNIC Reserve
Snow and Ice Control (Roads)	Operating Reserve	Risk mitigation for actual costs higher than budget estimate.	\$ 200,000	Combine - 1 SNIC Reserve
Traffic Fines	Operating Reserve	Risk mitigation for actual traffic fine revenues below budget estimate.	\$ 908,383	Eliminate, see Appendix 4 for transfer
Uncollected Taxes	Operating Reserve	Risk mitigation for lower property tax collections due to assessment appeals/other.	\$ 2,759,115	Eliminate, see Appendix 4 for transfer
Uninsured Claims	Operating Reserve	Risk mitigation for uninsured property and liability claims.	\$ 2,587,805	Eliminate, see Appendix 4 for transfer
Water Levelling Reserve	Operating Reserve	Risk mitigation for actual revenues lower than budget estimate	\$ 1,900,000	Eliminate, see Appendix 4 for transfer
<b>Subtotal Financial Stability Reserves</b>			<b>\$ 11,803,710</b>	
<b>Equipment Reserves</b>				
Automated Cart Replacement	Operating Reserve	Planned projects	\$ -	Change to Statutory Reserve
Copier Replacement	Operating Reserve	Planned projects	\$ 432,444	Change to Statutory Reserve
Equipment Replacement	Statutory Reserve	Planned projects	\$ 6,943,362	No Change
Information Technology (IT)	Operating Reserve	Planned projects	\$ 954,567	Change to Statutory Reserve
911 Furniture/Equipment Replacement	Operating Reserve	Planned projects	\$ 624,700	Change to Statutory Reserve
<b>Subtotal Equipment Reserves</b>			<b>\$ 8,955,073</b>	
<b>Infrastructure Reserves</b>				
Brechin Boat Ramp	Operating Reserve	Planned projects	\$ 74,488	No Change
Cemetery Care Reserve	Statutory Reserve	Planned projects	\$ 584,618	No Change
Community Works Fund	Statutory Reserve	Planned projects that meet agreement criteria	\$ 8,569,140	No Change
Facility Development Reserve	Statutory Reserve	Planned projects for facility renewal/upgrade or for new community recreational facility.	\$ 3,210,785	No Change
General Asset Management	Statutory Reserve	Planned capital projects	\$ 11,258,946	No Change
General Capital	Operating Reserve	Infrastructure investment.	\$ 6,306,667	Eliminate, see Appendix 4 for transfer
NDSS Community Field Maintenance	Operating Reserve	Planned projects for NDSS Community Field replacement/improvements	\$ 30,300	Change to Statutory Reserve
Pipers Park	Operating Reserve	Planned projects for improvements to Pipers Park	\$ 43,929	No Change
Sewer	Operating Reserve	Planned projects	\$ 11,241,903	No Change
Sewer Asset Management	Statutory Reserve	Planned capital projects	\$ 2,833,790	No Change
Vancouver Island Conference Centre (VICC)	Operating Reserve	Planned projects for VICC renewal	\$ 612,958	No Change
Water	Operating Reserve	Planned projects	\$ 22,730,039	No Change
Water Asset Management	Statutory Reserve	Planned capital projects	\$ 4,646,913	No Change
<b>Subtotal Infrastructure Reserves</b>			<b>\$ 72,144,476</b>	



**Appendix 1: Existing Reserve Summary+A43:F66**

Reserves	Type	Primary Purpose	Balance at December 31, 2018	Recommendation
<b>Parking Reserves</b>				
Fitzwilliam St Parking	Operating Reserve		\$ 142,868	No Change
Old City Parking Reserve	Statutory Reserve	Dedicated funding source	\$ 90,891	No Change
Parking Reserve	Operating Reserve	Planned capital projects	\$ 1,539,025	Change to Statutory Reserve
<b>Subtotal Parking Reserves</b>			<b>\$ 1,772,784</b>	
<b>Property Acquisition Reserves</b>				
Property Acquisition	Operating Reserve	dedicated funding source	\$ 3,463,383	Change to Statutory Reserve
Parkland Dedication	Statutory Reserve	dedicated funding source	\$ 1,149,945	No Change
Property Sales	Statutory Reserve	dedicated funding source	\$ 1,140,712	No Change
<b>Subtotal Property Reserves</b>			<b>\$ 5,754,040</b>	
<b>Strategic Initiatives Reserves</b>				
Housing Legacy Reserve	Operating Reserve	dedicated funding source	\$ 2,364,066	Change to Statutory Reserve
Regional Emission Reduction Reserve	Operating Reserve	dedicated funding source	\$ 549,218	No Change
Strategic Infrastructure Reserve	Operating Reserve	dedicated funding source	\$ 2,115,162	Change to Statutory Reserve
Strategic Partnerships	Operating Reserve	dedicated funding source	\$ 25,543	No Change
Sustainability Reserve	Operating Reserve	dedicated funding source	\$ 426,655	No Change
<b>Subtotal Strategic Reserves</b>			<b>\$ 5,480,644</b>	
<b>Other Reserves</b>				
Allowance for Bad Debts	Operating Reserve		\$ 50,000	Eliminate after 2019
Casino Reserve	Operating Reserve		\$ 1,448,844	No Change
Colliery Dam Reserve	Operating Reserve		\$ 143,903	Eliminate after 2019
Fire Training Centre	Operating Reserve		\$ 178,675	Eliminate after 2019
Firehall Improvements	Operating Reserve		\$ 396,414	Eliminate after 2019
General	Operating Reserve	Transition of MSP changes	\$ 1,092,000	Eliminate after 2019
Knowles Estate	Statutory Reserve	dedicated funding source	\$ 429,499	No Change
Prior - Year Carry Forwards	Operating Reserve	Administrative	\$ 3,380,118	No Change
Uncollected Parking Revenue	Operating Reserve	Administrative	\$ 7,958	No Change
Vancouver Fire Academy	Operating Reserve		\$ 507,451	Eliminate after 2019
<b>Subtotal Other Reserves</b>			<b>\$ 7,634,862</b>	
<b>Total</b>			<b>\$ 113,545,589</b>	

## Appendix 2: Recommended Reserve Target Balances

Reserve	Primary Purpose of Reserve	Recommended Basis for Target Balance	Recommended Minimum Target Balance
<b>Financial Stability Reserves</b>			
General Financial Stability	Risk Mitigation	60 days (12.33%) of general operating expenses plus average annual employee post-employment benefits	\$ 16,493,023
RCMP Contract	Risk Mitigation	% of annual contract expense not budgeted	\$ 1,885,186
Sewer Financial Stability	Risk Mitigation	45 days (12.33%) of sewer operating expenses	\$ 483,877
Snow and Ice Control	Risk Mitigation		\$ 1,200,000
Water Financial Stability	Risk Mitigation	60 days (12.33%) of water operating expenses	\$ 1,696,461
<b>Equipment Reserves</b>			
911 Equipment Replacement	Planned Project Expenditures	\$25k (last 10 yr avg) plus 10 year project plan	\$ 25,000
Automated Cart Replacement	Planned Project Expenditures	minimum 1% of replacement cost plus funding for 10 year replacement plan	\$ 42,000
Copier Replacement	Planned Project Expenditures	\$50k (last 10 yr avg) plus 10 year replacement plan	\$ 50,000
Equipment Replacement	Planned Project Expenditures	minimum 1% of replacement cost plus funding for 10 year replacement plan	\$ 270,000
Information Technology	Planned Project Expenditures	\$575,000 (last 10 year avg) plus 10 year project plan	\$ 575,000
<b>Infrastructure Reserves</b>			
Facility Development	Planned Project Expenditures	\$1 million (last 10 yr avg) plus 10 year project plan	\$ 1,000,000
General Asset Management	Planned Project Expenditures	minimum 0.25% of replacement cost plus funding for 10 year capital program	\$ 3,487,500
Sewer	Planned Project Expenditures		
Sewer Asset Management	Planned Project Expenditures	minimum 0.25% of replacement cost plus funding for 10 year capital program	\$ 1,492,500
Water	Planned Project Expenditures		
Water Asset Management	Planned Project Expenditures	minimum 0.25% of replacement cost plus funding for 10 year capital program	\$ 2,440,000
<b>Strategic</b>			
Strategic Infrastructure	Planned Project Expenditures	15% of annual contributions	\$ 432,000
Sustainability	Planned Project Expenditures		
<b>Special</b>			
Knowles Estate	Planned Project Expenditures	Bequest requirement	\$ 385,952



### Appendix 3: Proposed Reserve Summary

Balances provided are after recommended transfers have been completed

Reserves	Primary Purpose	Reserve Type	Minimum Target Balance	Balances - Jan 1, 2019	Annual Contributions Source
<b>Financial Stability Reserves</b>					
General Financial Stability	Risk mitigation for unplanned expenses or decrease in revenues	Operating	\$ 16,493,023	\$ 16,668,023	Allocation of prior year surplus if available or budget allocation
RCMP Contract	Risk mitigation for unplanned expenses	Operating	\$ 1,885,186	\$ 2,139,673	Allocation of prior year surplus if available or budget allocation
Sanitation Leveling	Risk mitigation for unplanned expenses or decrease in revenues	Operating	No Minimum	\$ 429,222	Allocation of Sanitation Surplus or allocation from sanitation budget
Sewer Financial Stability	Risk mitigation for unplanned expenses or decrease in revenues	Operating	\$ 483,877	\$ 483,877	Allocation of net sewer revenues or sewer budget allocation
Snow and Ice Control	Risk mitigation for actual costs higher than annual budget estimate.	Operating	\$ 1,200,000	\$ 1,025,000	Allocation of prior year surplus if available or budget allocation
Water Financial Stability	Risk mitigation for unplanned expenses or decrease in revenues	Operating	\$ 1,696,461	\$ 1,696,461	Allocation of net water revenues or budget allocation
<b>Subtotal Financial Stability Reserves</b>			<b>\$ 21,758,547</b>	<b>\$ 22,442,256</b>	
<b>Equipment Reserves</b>					
911 Equipment	Planned 911 infrastructure replacement/upgrade program	Statutory	\$ 25,000	\$ 624,700	Annual Internal Charges
Automated Cart Replacement	Planned cart replacement program	Statutory	\$ 42,000	\$ -	Annual Internal Charges
Copier Replacement	Planned copier replacement program	Statutory	No Minimum	\$ 432,444	Annual Internal Charges
Equipment Depreciation	Planned equipment replacement	Statutory	No Minimum	\$ 6,943,362	Annual Internal Charges
Information Technology	Planned IT infrastructure projects, new/upgraded infrastructure supported by business case	Statutory	No Minimum	\$ 954,567	Annual Internal Charges
<b>Subtotal Equipment Reserves</b>				<b>\$ 8,955,073</b>	
<b>Infrastructure Reserves</b>					
Brechin Boat Ramp		Operating	No Minimum	\$ 74,488	Parking revenues
Cemetery Care	Planned projects	Statutory	No Minimum	\$ 584,618	Annual Internal Charges
Community Works Fund	Planned projects that meet agreement eligibility criteria	Statutory	No Minimum	\$ 8,569,140	UBCM grant
Facility Development	Planned projects for facility renewal/upgrade or for new community recreational facility.	Statutory	No Minimum	\$ 3,210,785	Annual internal allocation
General Capital		Operating	No Minimum	\$ 1,906,811	
General Asset Management	Planned capital projects	Statutory	No Minimum	\$ 11,258,946	Allocation of annual property taxes
NDSS Community Field Maintenance	Planned projects for NDSS Community Field replacement/improvements	Statutory	No Minimum	\$ 30,300	Net rental revenues if available
Pipers Park	Planned projects for improvements to Pipers Park	Operating	No Minimum	\$ 43,929	Net rental revenues if available
Sewer Asset Management	Planned capital projects	Statutory	No Minimum	\$ 2,833,790	Allocation of user fees
Sewer Operating	Planned projects	Operating	No Minimum	\$ 17,656,030	Net sewer operating revenues
Vancouver Island Conference Centre (VICC)	Planned projects for VICC renewal	Operating	No Minimum	\$ 612,958	Unspent annual budget allocation to contractor
Water Asset Management	Planned capital projects	Statutory	No Minimum	\$ 4,646,913	Allocation of user fees
Water Operating	Planned projects	Operating	No Minimum	\$ 28,766,615	Allocation of net water operating revenues
<b>Subtotal Infrastructure Reserves</b>				<b>\$ 80,195,323</b>	

### Appendix 3: Proposed Reserve Summary

Balances provided are after recommended transfers have been completed

Reserves	Primary Purpose	Reserve Type	Minimum Target Balance	Balances - Jan 1, 2019	Annual Contributions Source
<b>Parking Reserves</b>					
Fitzwilliam St Parking		Operating	No Minimum	\$ 142,868	
Old City Parking	Creation of new off-street parking spaces	Statutory	No Minimum	\$ 90,891	Cash in Lieu payments from developers
Parking Reserve	Planned capital projects	Statutory	No Minimum	\$ 1,539,025	Net parking revenues
<b>Subtotal Parking Reserves</b>				<b>\$ 1,772,784</b>	
<b>Property Reserves</b>					
Parkland Dedication	Purchase of parkland only	Statutory	No Minimum	\$ 1,149,946	Cash in Lieu payments from developers
Property Acquisition	Property purchases	Statutory	No Minimum	\$ 3,163,383	Allocation of unspent annual budget for property acquisition
Property Sales	Planned capital projects	Statutory	No Minimum	\$ 1,140,712	Sale of civic land
<b>Subtotal Property Reserves</b>				<b>\$ 5,454,041</b>	
<b>Strategic Reserves</b>					
Housing Legacy	Funding for development of strategies and partnerships with external agencies for low barrier housing	Statutory	No Minimum	\$ 2,364,066	Annual budget allocation
Regional Emission Reduction	Provide funding for investment in regional emission reduction initiatives that contribute to corporate carbon neutral operations	Statutory	No Minimum	\$ 549,218	Annual budget allocation
Special Initiatives	Provide funding for short-term initiatives	Operating	No Minimum	\$ -	Allocation of prior year operating surplus
Strategic Infrastructure	Planned strategic and capital projects	Statutory	No Minimum	\$ 2,115,162	Annual Casino and Fortis revenues
Strategic Partnerships	Funding for joint	Operating	No Minimum	\$ 25,543	Allocation of prior year operating surplus
Sustainability	Planned sustainability projects. Projects supported by payback analysis	Statutory	No Minimum	\$ 426,655	Annual budget allocation
<b>Subtotal Strategic Reserves</b>				<b>\$ 5,480,644</b>	
<b>Other Reserves</b>					
Allowance for Bad Debts		Operating	No Minimum	\$ 50,000	None
Casino	Eligible expenditures	Operating	No Minimum	\$ 1,448,844	None
Colliery Dam		Operating	No Minimum	\$ 143,903	None
Fire Training Centre		Operating	No Minimum	\$ 178,675	None
Firehall Improvements	Planned replacement of Fire Station 1	Operating	No Minimum	\$ 396,414	None - temporary reserve
General		Operating	No Minimum	\$ 1,792,000	None
Knowles Estate	Planned sports facility improvements in South Nanaimo	Statutory	No Minimum	\$ 429,499	Required due to bequest
Prior Year Carry Forward	To facilitate budget carry forwards process	Operating	No Minimum	\$ 3,380,118	Specific project or operating budget allocations
Uncollected Parking Revenue		Operating	No Minimum	\$ 7,958	None
VI Fire Academy		Operating	No Minimum	\$ 507,451	None
<b>Subtotal Other Reserves</b>				<b>\$ 8,334,862</b>	
<b>All Reserves</b>				<b>\$ 132,634,983</b>	

#### Appendix 4: Summary of Proposed Reserve Transfers

Transfers From	Balance at Dec 31 2018	Transfers To						Total Transfers \$
		General Financial Stability Reserve	RCMP Contract Reserve	SNIC (Combined) Reserve	Sewer Financial Stability Reserve	Water Financial Stability Reserve	Sewer Operating Reserve	Water Operating Reserve
<b>Minimum Target Balances</b>		<b>16,493,023</b>	<b>1,885,186</b>	<b>1,200,000</b>	<b>483,877</b>	<b>1,696,461</b>		
<b>Projected Reserve Balance - Dec 31 2019</b>								
RCMP Contract		-	2,816,942	450,000	-	-	11,241,903	22,730,039
General Capital	5,906,667	1,712,895	(1,712,895)					
Traffic Fines	908,383	3,999,856						3,999,856
Uncollected Taxes	2,759,115	2,759,115	908,383					908,383
Uninsured Claims	2,587,805	2,587,805						2,759,115
Water Leveling	1,900,000					1,696,461		2,587,805
<b>Total Allocations</b>		<b>11,059,671</b>	<b>(804,512)</b>	<b>-</b>	<b>-</b>	<b>1,696,461</b>	<b>-</b>	<b>203,539</b>
General Unallocated Surplus	6,358,352	5,608,352		750,000				6,358,352
Sewer Unallocated Surplus	6,898,004				483,877		6,414,127	6,898,004
Water Unallocated Surplus	5,833,037							5,833,037
<b>Total Transfers</b>		<b>5,608,352</b>	<b>-</b>	<b>750,000</b>	<b>483,877</b>	<b>-</b>	<b>6,414,127</b>	<b>5,833,037</b>
		<b>16,668,023</b>	<b>(804,512)</b>	<b>750,000</b>	<b>483,877</b>	<b>1,696,461</b>	<b>6,414,127</b>	<b>6,036,576</b>
<b>Projected Reserve Balance Restated - Dec 31 2019</b>		<b>16,668,023</b>	<b>2,012,430</b>	<b>1,200,000</b>	<b>483,877</b>	<b>1,696,461</b>	<b>17,656,030</b>	<b>28,766,615</b>
<b>Minimum Target Over/(Under)</b>		<b>175,000</b>	<b>127,244</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Council Policy

Policy Name: Reserves Policy  
 Department Name: Financial Services  
 Policy: Insert Policy Number  
 No.:

Effective Date: Insert Date Review Date: Insert Date (3 years or less)

## POLICY

The purpose of this Policy is to:

- I. Establish responsible governance for the development, maintenance and use of the City's Reserves;
- II. Establish governance roles and responsibilities that ensure appropriate establishment and management of Reserves;
- III. Define principles and objectives for Reserves management that are appropriate for the City's financial position, and are reasonable, logical and necessary for delivery of sustainable, affordable services; and
- IV. Ensure the City's Reserves management is compliant with the statutory and legal requirements of the *Local Government Act* and the *Community Charter*, and in accordance with Canadian public sector accounting standards.

## REASON FOR POLICY

The City of Nanaimo (the City) is committed to sustainable, prudent and transparent management of financial resources used to provide valued community services.

Reserves will be established and expended to:

- I. Provide for contingencies;
- II. Fund strategic initiatives and capital investment identified in strategic and master plans adopted by Council;
- III. Fund equipment and vehicle replacement;
- IV. Fund infrastructure renewal;
- V. Fund new/upgraded infrastructure required due to growth.

## AUTHORITY TO ACT

Delegated to Staff.

## PROCEDURE

### 1. Definitions

- I. Five Year Financial Plan: The City's annual budget required under the *Community Charter*
- II. Funds: The resources and operations of the City are segregated into General, Sanitary Sewer Utility, Waterworks Utility and Reserve Funds for accounting and budgeting purposes. The General and Utility Funds also have corresponding Capital Funds.

- III. Operating Reserves: Specific reserves in the City's operating funds (General, Sewer and Water) established for specified purposes.
- IV. Public Sector Accounting Board (PSAB): Canadian public sector accounting standards as prescribed by the Public Sector Accounting Board of Canada (PSAB) and the Chartered Professional Accountants of Canada.
- V. Reserves: All the City's Operating Reserves and Reserve Funds.
- VI. Reserve Funds: Specific reserve funds for specified purposes as required by and pursuant to specific legislation and City bylaws. Also referred to as Statutory Reserves.
- VII. Sustainability: The pillars of sustainability include ensuring that current socio-cultural, economic and environmental commitments are considered in investment decisions and do not compromise the ability of future generations to meet their own needs.

## **2. Acronyms and Abbreviations**

- I. CAO: Chief Administrative Officer
- II. The City: The City of Nanaimo

## **3. Responsibilities**

To implement the Reserve Policy the appropriate level of governance must be in place throughout the organization for decision-making.

3.1 Council is responsible for adoption, periodic review and updating the Reserves Policy.

3.2 The CAO is responsible for implementing the Reserves Policy.

3.3 The Director of Finance is responsible for:

3.3.1 Implementing internal processes and systems in compliance with this Policy;

3.3.2 Ensuring Reserves and Reserve Funds are established and maintained in compliance with this Policy;

3.3.3 Recommending target minimum and maximum reserve balances where appropriate;

3.3.4 Ensuring utilization of reserve funding is clearly disclosed in the City's Five Year Financial Plan and other long-term financial plans;

3.3.5 Recommending revisions or amendments to this Policy due to changes in applicable statutes, accounting standards or to support the City's long-term financial management.



#### **4. Scope and Applicability**

##### **4.1 Scope**

Reserves are either classified as Reserves in each of the City's operating funds or separate Reserve Funds. Reserve Funds are statutory reserves required by Provincial legislation or established by Council and receive specific contributions that can only be used in compliance with the appropriate City bylaw.

The City maintains reserves that provide funding to:

- I. mitigate risk;
- II. replace equipment;
- III. renew existing infrastructure;
- IV. construct new/upgraded infrastructure required due to growth;
- V. purchase land;
- VI. implement strategic initiatives and capital investment;
- VII. comply with special bequests; and
- VIII. facilitate specific functions or commitments.

##### **4.2 Unique Corporate Purpose**

Each Reserve must have a unique and specific corporate purpose.

##### **4.3 Corporate Context**

The management of the City's reserves is an integral part of the City's long-term planning, asset management, the City's Five Year Plan, the 10 Year Project Plan and the 20 Year Investment Plan.

##### **4.4 Implementation, Review and Reporting**

The implementation, review and reporting associated with this policy will be integrated within City business processes. Due to the importance of this policy, the management of the City's reserves will be reported to Council, and implementation of this policy reviewed periodically by Council.

#### **5. Benefits of Compliance**

Implementing this policy will improve the City's governance through enhanced accountability, performance, sustainability and resiliency.

#### **6. Principle Statements and Objectives**

Reserves shall be established, maintained and used in accordance with following principles and objectives.

##### **6.1 Affordability**

6.1.1 The City will consider impact on property taxes, utility and other user fees when implementing and managing reserves.

## **6.2 Long-Term Financial Sustainability and Resiliency**

6.2.1 The City will implement and manage reserves that support mitigation of risks arising from operating emergencies, unforeseen expenditures or decreases in revenues.

6.2.2 The City shall strive to implement and manage reserves to meet future financial obligations with respect to the City's strategic initiatives, investment in equipment and infrastructure, and fiscal needs.

6.2.3 The City will make informed decisions to implement and manage reserves that best support the long-term financial needs for City services and strategic priorities.

6.2.4 The City will develop and maintain financial plans that adequately identify the long-term funding needs and sources to sustain City services.

## **6.3 Transparency and Accountability**

6.3.1 All Reserves must be established, maintained and used for a specified purpose mandated by this policy, statute, or City Bylaw.

6.3.2 A Council Resolution or an Adopted Budget Bylaw is required for all appropriations from Operating Reserves and Reserve Funds.

6.3.3 The City will conduct an annual review of all reserves and report the results to Council.

6.3.4 The City's Five Year Financial Plan will provide a summary of projected reserve balance, contributions and with drawals.

## **6.4 Statutory and Legal Requirements**

6.4.1 Reserves will be established to meet Provincial and Federal government legislation, City Bylaws or required by contractual agreement.

## **6.5 Accounting Standards**

6.5.1 Administration of Reserves must meet the accounting standards applicable to local governments (PSAB).

## **7. Administration**

The following key administrative processes will support implementation of the Reserve Policy. Additional information is provided in the City's Reserves Processes document.

### **7.1 Interest and Calculation Method**

All Reserve Funds will earn interest each year. Interest will be calculated based on the audited fund balance at the end of the prior year. The interest rate used will be determined on an annual basis.

### **7.2 Minimum and Maximum Balances**

A minimum and maximum balance may be established for a Reserve. A minimum balance will ensure that each fund is not depleted to the degree that it is no longer able to service its intended purpose. A maximum balance ensures that it does not grow beyond its intended purpose.

### **7.3 Repayment Period for Target Minimum Balances**

A time period will be specified for the repayment or replenishment of a Reserve with a specified minimum balance.

### **7.4 Reporting**

The City will develop and maintain annual reporting processes that provide decision makers with all relevant reserves information.

## **8. Reserves Framework**

The Reserves Framework groups reserves by common purposes and guidelines in compliance with this Policy. Reserve Funds are utilized to comply with Provincial legislation or contractual requirements and where specific annual contributions support long-term organizational purposes.

A description of each reserve is outlined below within the Reserves Framework.

### **8.1 Financial Stability Reserves**

#### **Description**

Financial Stability Reserves are required to ensure the ongoing financial stability and fiscal health of City operations. Each reserve is funded from an allocation of operating year-end surplus from the appropriate fund. The Financial Stability Reserves include:

- General Financial Stability Reserve
- Sewer Financial Stability Reserve
- Water Financial Stability Reserve
- Police Financial Stability Reserve
- Sanitation Leveling Reserve
- Snow and Ice Control Financial Stability Reserve

## Guidelines for Using Funds

A Council resolution or an Adopted Budget Bylaw is required for all appropriations from the Financial Stability Reserve Funds.

All appropriations from the Financial Stability Reserves are to be considered in accordance with the following priorities:

1. Operating and Environmental Emergencies
  - a. These appropriations are the highest priority and are based on public safety and maintenance of current levels of service.
2. Revenue and Operating Expenditures Contingency
  - a. These appropriations are intended to stabilize the impacts of cyclical revenue downturns and cost increases that are largely temporary and not within the City's ability to adjust in the short-term.

## 8.2 Equipment Reserves

### Description

Equipment Reserves are established to provide funding for equipment replacement. Currently, the City has established equipment reserves for the following:

7.2.1 Equipment Depreciation Reserve Fund – This reserve is to fund the replacement of the City's fleet including fire apparatus, solid waste collection trucks, heavy-duty construction equipment and vehicles. Internal charges to user departments provide annual contributions to this reserve.

7.2.2 Cart Replacement Reserve Fund – This reserve is to fund the replacement of residential carts used in solid waste collection. Internal charges to the Residential Solid Waste department provide annual contributions to this reserve.

7.2.3 Information Technology (IT) Reserve Fund – This reserve is to fund IT corporate infrastructure replacement and improvements. Internal charges to user departments provide annual contributions to this reserve.

7.2.4 Copier Replacement Reserve Fund – This reserve is to fund copier replacement. Internal charges to user departments provide annual contributions to this reserve.

7.2.5 911 Reserve Fund – This reserve is to fund replacement of upgraded equipment for 911 operations. An internal charge to the 911 department provides annual contributions to this reserve.

## 8.3 Infrastructure Reserves

### Description

Infrastructure Reserves are established to provide funding for infrastructure replacement and for new/upgraded infrastructure required due to growth. Currently, the City has established infrastructure reserves for the following:

7.3.1 Cemetery Care Reserve Fund – This reserve is to fund ongoing care of the cemetery. Revenues from plot sales provide contributions to this reserve.

7.3.2 Community Works Reserve Fund – This reserve was established in 2005 in compliance with an agreement between the Union of BC Municipalities (UBCM) and the City. Annual grant funding from UBCM provides contributions to this reserve and funding from this reserve must meet the eligibility criteria in the agreement.

7.3.3 NDSS Community Field Reserve Fund – This reserve is to fund capital improvements to the field. Annual net revenues from the NDSS field operations are contributed to this reserve.

7.3.4 Pipers Park Reserve – This reserve provides funding for improvements to Pipers Park. Annual net revenues from the facilities in the park provides contributions to this reserve.

7.3.5 Vancouver Island Conference Centre (VICC) Reserve – This reserve provides funding for improvement to VICC. Contributions to this reserve are from a budget allocation.

7.3.6 Facility Development Reserve Fund – This reserve is to fund renewal of the City's recreation facilities and for construction of new recreation facilities. Annual contributions are provided by an allocation of recreation facility revenues.

7.3.7 General Asset Management Reserve Fund – This reserve is to fund upgrading or replacement of infrastructure relating to transportation, storm drainage, facilities, parks amenities and major technology. Annual contributions are provided from an allocation of property taxes.

7.3.8 Sewer Reserve – This reserve provides funding for sewer infrastructure assessment programs and renewal. Annual contributions are from sewer user fees in excess of annual operating expenditures, debt repayment and transfer to the Sewer Asset Management Reserve.

7.3.9 Sewer Asset Management Reserve Fund – This reserve is to fund upgrading or replacement of sewer infrastructure. Annual contributions are provided from an allocation of sewer user fees.

7.3.10 Water Reserve – This reserve provides funding for water infrastructure assessment programs and renewal. Annual contributions are from water user fees in excess of annual operating expenditures, debt repayment and transfer to the Water Asset Management Reserve.

7.3.11 Water Asset Management Reserve Fund – This reserve is to fund upgrading or replacement of water infrastructure. Annual contributions are provided from an allocation of water user fees.

## 8.4 Parking Reserves

### Description

Parking Reserves are established to provide funding for renewal of parking infrastructure and new parking infrastructure. Currently, the City has established parking reserves for the following:

8.1.1 Parking Reserve Fund – This reserve is to fund renewal of parking infrastructure or new parking infrastructure. Annual contributions are provided from net parking revenues.

- 8.1.2 Old City Parking Reserve Fund – This reserve is to fund the creation of new off-street parking spaces.

## 8.5 Property Reserves

### Description

Property Reserves are established to provide funding for property acquisitions. Currently, the City has established property acquisition reserves for the following:

8.5.1 Parkland Dedication Reserve Fund – This reserve provides funding for the purchase of parkland pursuant to the *Community Charter*, Section 188. Contributions are provided from cash-in-lieu payments from developers.

8.5.2 Property Sales Reserve Fund – This reserve provides funding for capital project pursuant to the *Community Charter*, Section 188. Contributions are provided from the sale of civic land.

8.5.3 Property Acquisition Reserve Fund – This reserve provides funding for property acquisitions. Property acquisitions include property needed to expand City infrastructure, to implement strategic initiatives and for parkland. Contributions to this reserve are either by allocation of budget or operating surplus.

## 8.6 Strategic Reserves

### Description

Strategic Reserves are established to provide funding for strategic initiatives identified by Council. Currently, the City has established strategic reserves for the following:

8.6.1 Sustainability Reserve – This reserve provides funding for project expenditures that reduces the City's energy consumption or lowers GHG emissions. Annual budget allocations provide contributions to this reserve.

8.6.2 Strategic Infrastructure Reserve Fund - This reserve provides funding for strategic initiatives and capital infrastructure. Annual contributions to this reserve are from casino and Fortis revenues.

8.6.3 Casino Reserve – This reserve is available to provide funding for eligible operating or capital expenditures. There are no further contributions to this reserve. This reserve will be eliminated when funding is fully allocated.

8.6.4 Housing Legacy Reserve Fund – This reserve provides funding to support affordable housing in the community including but not limited to property acquisition and capital investment. Annual budget allocations provide contributions to this reserve.

8.6.5 Regional Emission Reduction Reserve Fund – This reserve will provide funding for investment in regional emission reduction initiatives. Annual budget allocations provide contributions to this reserve.

8.6.6 Special Initiatives Reserves – This reserve will provide funding for short-term initiatives. Contributions to this reserve is from allocation of prior year general operating surplus.

## **8.7 Other Reserves**

8.7.1 Prior Year Carry-Forward Reserve – This reserve is required to allow for unspent budgets to be carried forward to the following year. Where projects are not completed or delayed, budget may be carried forward to the following year. Under specific circumstances, operating budgets may also be carried forward from one fiscal year to the next.

8.7.2 Knowles Estate Reserve Fund – This reserve is required due to a bequest. Only accumulated interest may be spent for parks and sport facility improvements in the south end of the City.

8.7.3 Firehall Improvements Reserve – This reserve is temporary and will be eliminated when the replacement of Fire Station #1 is completed.

## **9. Summary of City Reserves**

A summary of Reserves and Reserve Funds is provided in Schedule A.

**10. Review Date**

This Policy should be reviewed every 4 years.

**MANAGEMENT, REFERENCES AND APPROVAL:**

This policy shall be reviewed in 3 years from its effective date to determine its effectiveness and appropriateness. This policy may be assessed before that time as necessary to reflect organizational change.

Approving Authority:

Council

Approval Date:

Insert Approval Date

Revision Approval Dates:

Insert Date if applicable

Review Due:

Insert Date

Policy Manager:

Director of Finance

Department Contact:

Director of Finance

Legal References:

Insert if applicable

Cross References:

Insert if applicable



## Appendix A

The City has established a framework for Reserves. A Reserve Fund is established for each Statutory Reserve under the authority of the *Community Charter*. In addition to this policy, Statutory Reserves are supported by a bylaw that outlines the purpose and use of each fund.

A summary of reserves is provided below within a framework that supports the primary objectives of this Policy:

- I. Financial Stability Reserves
- II. Equipment Reserves
- III. Infrastructure Reserves
- IV. Parking Reserves
- V. Property Acquisition Reserves
- VI. Strategic Reserves
- VII. Special Reserves

## **1. Financial Stability Reserves**

### **Description**

Financial Stability Reserves are required to protect the City's financial stability and resiliency. The primary intent of these reserves is to mitigate risk by providing funding for unknown expenditures arising from operating emergencies or necessity.

### **Guidelines for Using Reserves**

An Adopted Budget Bylaw is required for all appropriations from the Financial Stability Reserves.

#### **1. General Financial Stability Reserve**

Contributions to this reserve are through an allocation of general fund annual surplus or budget allocation

This reserve can be provide a source of funds where:

- I. Expenditures exceed planned due to emergency or necessity
- II. Revenues are below planned due to emergency or necessity

#### **2. Sewer Financial Stability Reserve**

Contributions to this reserve are through an allocation of sewer net operating surplus or budget allocation.

This reserve can provide a source of funds where:

- I. Expenditures exceed planned due to emergency or necessity
- II. Revenues are below planned due to emergency or necessity

#### **3. Water Financial Stability Reserve**

Contributions to this reserve are through an allocation of water net operating surplus or budget allocation.

This reserve can provide a source of funds where:

- I. Expenditures exceed planned due to emergency or necessity
- II. Revenues are below planned due to emergency or necessity

#### **4. Police Financial Stability Reserve**

Contributions to this reserve are through an allocation of RCMP contract surplus, annual general surplus or budget allocation.

This reserve can provide a source of funds where the actual annual RCMP contract costs exceed the budget estimate.

#### **5. Sanitation Levelling Reserve**

Contributions to this reserve are through an allocation of annual Residential Solid-Waste Collection surplus.

This reserve can provide a source of funds where:

- I. Expenditures exceed planned due to emergency or necessity
- II. Revenues are below planned due to emergency or necessity

#### **6. Snow and Ice Control Reserve**

Contributions to this reserve are through an allocation of annual SNIC surplus, annual general surplus or budget allocation.

This reserve can provide a source of funds where the actual annual costs for snow and ice control exceed the budget estimate.

DRAFT

## **2. Equipment Reserves**

### **Description**

Equipment Reserves provide a funding source for equipment and fleet replacement.

### **Guidelines for Using Reserves**

An Adopted Budget Bylaw is required for all appropriations from the Equipment Reserves.

#### **I. Cart Replacement Reserve Fund**

Contributions to this reserve is through annual internal charge to the Residential Solid Waste Collection operating budget.

This reserve provides funding for replacement of residential automated solid waste collection carts.

#### **II. Equipment Replacement Reserve Fund**

Contributions to this reserve is through annual internal charges to user departments that are included in the department's annual operating budgets.

This reserve provides funding for replacement of the City's fleet including vehicles, trucks, heavy equipment, fire apparatus and Zambonis.

#### **III. Information Technology Reserve Fund**

Contributions to this reserve is through annual internal charges to user departments that are included in the department's annual operating budgets.

This reserve provides funding for replacement of the City's technology assets including data lines, server hardware and enterprise software.

#### **IV. Copier Replacement Reserve Fund**

Contributions to this reserve is through annual internal charges to user departments that are included in the department's annual operating budgets.

This reserve provides funding for replacement of the City's copiers.

#### **V. 911 Equipment Reserve Fund**

Contributions to this reserve is through annual internal charges that are included in the 911 operating budget.

This reserve provides funding for replacement of the City's 911 call answering equipment and furniture.

### **3. Infrastructure Reserves**

#### **Description**

Infrastructure Reserves provide a funding source for renewal of current infrastructure and new/upgraded infrastructure required due to growth, new regulatory requirements or service level changes. Contributions to these reserves are through annual budget allocations.

#### **Guidelines for Using Reserves**

An Adopted Budget Bylaw is required for all appropriations from the Infrastructure Reserves.

##### **I. Cemetery Care Reserve Fund**

Contributions to the reserve are through annual plot and head stone installation revenues. The City operates the cemetery and maintains a cemetery perpetual care fund in accordance with the Cremation, Interment and Funeral Services Act.

This reserve provides funding for cemetery maintenance.

##### **II. Community Works Fund**

Contributions to the reserve are through annual funding received from the Gas Tax Agreement (GTA) administered by the Union of British Columbia Municipalities (UBCM).

This reserve provides funding for specific types of infrastructure projects as allowed under the terms of the GTA.

##### **III. NDSS Community Field Maintenance Fund**

Contributions to the reserve are through budget allocation, contribution from School District 68 and net annual operating revenues from user fees for the field.

This reserve provides funding for major capital improvements or field replacement for NDSS Community Field.

##### **IV. Piper's Park Reserve**

Contributions to the reserve are through allocation of net annual operating revenues from rental of building located at Piper's Park.

This reserve provides funding for improvements to Pipers Park.

##### **V. Facility Development Reserve Fund**

Contributions to the reserve are through a 20% allocation of contributing recreation facility and program revenues.

This reserve provides funding for renewal of contributing recreation facilities and can provide funding for new recreation facilities.

**VI. Vancouver Island Convention Centre Reserve**

Contributions to the reserve are through unspent annual budget allocation.

This reserve provides funding for renewal of the Port of Nanaimo Centre facility.

**VII. Sewer Operating Reserve**

Contributions to the reserve are through annual net operating allocations from the Sewer Operating Fund.

The Sewer Operating Reserve provides funding for renewal or new/upgraded infrastructure required to maintain levels of service.

**VIII. Water Operating Reserve**

Contributions to the reserve are through annual net operating allocations from the Water Operating Fund.

The Water Operating Reserve provides funding for renewal or new/upgraded infrastructure required to maintain levels of service.

**IX. General Asset Management Reserve Fund**

Contributions to the reserve are through budget allocations from annual property tax revenues.

This reserve provides funding for City infrastructure renewal excluding sewer and water infrastructure.

**X. Sewer Asset Management Reserve Fund**

Contributions to the reserve are through budget allocations from annual sewer user fees.

This reserve provides funding for renewal of the City's sewer infrastructure.

**XI. Water Asset Management Reserve Fund**

Contributions to the reserve are through budget allocations from annual water user fees.

This reserve provides funding for renewal of the City's water infrastructure.

#### **4. Parking Reserves**

##### **Description**

Parking reserves provide a funding source for renewal and new/upgraded parking infrastructure including parkades and meters.

##### **Guidelines for Using Reserves**

An Adopted Budget Bylaw is required for all appropriations from the Infrastructure Reserves.

##### **Parking Reserve Fund**

Contributions to this reserve are through annual net operating allocations from parking operations.

This reserve provides funding for renewal of current parking infrastructure and new parking infrastructure.

##### **Old City Parking Reserve Fund**

Contributions to this reserve are from cash-in-lieu payments from developers.

This reserve provides funding for the creation of new off-street parking spaces.

## **5 Property Acquisition Reserves**

### **Description**

Property Acquisition Reserves provide funding sources to purchase land needed for new infrastructure projects and for new parkland. Contributions to these reserves are through sale of City owned property and through annual budget allocations subject to Council approval.

### **Guidelines for Using Reserves**

An Adopted Budget Bylaw is required for all appropriations from the Infrastructure Reserves.

### **Parkland Dedication Reserve Fund**

Contributions for this reserve are received from development in lieu of parkland and from the sale of City parkland. This reserve is required by the *Community Charter*.

This reserve provides funding for purchase of City parkland.

### **Property Sales Reserve Fund**

Contributions for this reserve are received from the sale of City land and improvements. This reserve is required by the *Community Charter*.

This reserve provides funding for purchase of City land and improvements.

### **Property Acquisition Reserve Fund**

Contributions to this reserve are through unspent annual budget allocation.

This reserve provides funding for the purchase of new land.



## **6 Strategic Reserves**

### **Description**

Strategic Reserves provide funding sources to advance and implement priorities identified in strategic and master plans adopted by Council.

### **Guidelines for Using Reserves**

An Adopted Budget Bylaw is required for all appropriations from the Infrastructure Reserves.

### **Sustainability Reserve Fund**

Contributions to the reserve are through annual budget allocation.

This reserve provide funding for investigation and implementation of new equipment or infrastructure improvements that reduce the City's energy consumptions or will lead to lower GHG emissions and meet payback criteria.

### **Housing Legacy Reserve Fund**

Contributions to this reserve are through annual budget allocation.

This reserve provides funding to support affordable housing in the community including but not limited to property acquisition and capital investment.

### **Regional Emission Reduction Reserve Fund**

This reserve was established in partnership with the Regional District of Nanaimo, District of Lantzville, Town of Parksville and Town of Qualicum Beach.

The City contributes \$25 per tonne of carbon emissions to the reserve each year through a budget allocation.

The reserve provides funding for investment in regional emission reduction initiatives that contribute to corporate carbon neutral operations.

### **Strategic Infrastructure Reserve Fund**

Contributions to this reserve are through annual budget allocation.

This reserve provides funding to implement Council's strategic initiatives and capital investment.

### **Special Initiatives Reserve**

Contributions to this reserve are through an allocation of prior year general operating surplus.

This reserve provides funding to implement specific initiatives in the subsequent year.

## **7 Other Reserves**

### **Description**

Reserves can be established as a result of a bequest or for a one-time expenditure. The City currently has the following special reserves.

### **Guidelines for Using Funds**

An Adopted Budget Bylaw is required for all appropriations from the Infrastructure Reserves.

### **Prior Year Carry Forward Reserve**

Contributions to this reserve are budget allocations for specific projects or operating initiatives that were delayed or not completed in the current year.

This reserve provides funding for delayed or incomplete projects or operating initiatives to be completed in a subsequent year.

### **Knowles Estate Reserve Fund**

This reserve was established as a bequest, with the accumulated interest to be used for park and youth sports facility improvements in the south end of Nanaimo.

# Reserves Review

March 11, 2019

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## Today

Presentation and documents are presented to facilitate:

- Providing information on approach to date
  - Draft Reserve Review
    - Recommendations
  - Draft Policy
- Council discussion and direction

Above will allow staff to:

- Complete the Reserve Review
- Finalize the Reserve Policy and related bylaws for Council's review and approval.

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## Reserves Review - Big Picture

Why do we have Reserves?

- Reduce volatility in property tax and user fee increases
- Mitigate risk
- Fund equipment and infrastructure investment
- Fund strategic initiatives

There are two types of Reserves:

- Operating Reserves are usually created through allocations of surplus
- Statutory Reserves are created through a bylaw
- Unallocated surplus that has not been allocated to an Operating Reserve

Reserves Framework

- Groups reserves by common purposes
- Adds structure to current practices
- Consistency, transparency and communication
- Conforms to GFOA best practices

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## Reserves Review - Big Picture

Outcome if recommendations adopted

- Comprehensive Reserve Framework
  - Meets corporate needs
  - Sustainable financial management
- Recommended minimum target balances achieved
- Funding for 2019 – 2023 Financial Plan projects achieved
- No impact to property taxes or user fees
- Council's approval of a Reserve Policy

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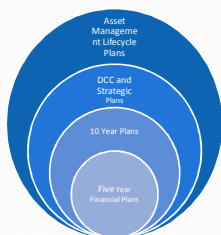
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## Introduction

- City owns and operates over \$3 billion in assets to deliver services
- Council decision making:
  - Five Year Financial Plan
  - Master Plans – e.g. planNanaimo, Transportation Master Plan
  - 20 Year Investment Plan
- Sustainable financial management includes:
  - Robust long-term planning processes
  - Prudent long-term funding strategies which include establishing and managing reserves




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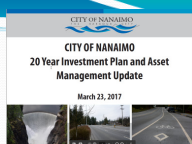
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The City's 20 Year Investment Plan and Asset Management Update (2017):

- Projected investment \$1.1 billion
- Projected available reserves funding
- Projected funding shortfall or 'gap' of \$258 million
- Strategies to close the 'gap' included:
  - Continuing annual 1% increases to asset management reserves
  - DCC review completed, new DCC bylaw adopted
  - Use fee reviews
  - Update 20 Year Plan in five years to monitor progress in closing the 'gap'

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## What are reserves?

- Reserves are like 'savings accounts'
  - Minimize increases to property taxes and user fees
- Reserves are a critical component of prudent long term financial management
  - Five Year Financial Plan, 10 Year Project Plans, 20 Year Investment and Asset Management Plan
- Each reserve has a purpose related to:
  - Risk mitigation
  - Infrastructure/Equipment renewal and investment
  - Strategic initiatives and investment

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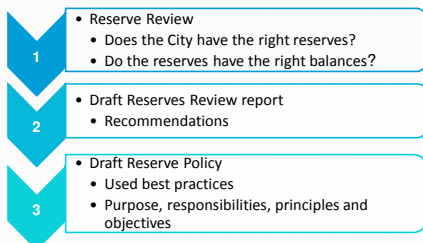
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## Reserve Review

### What did we do?




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## Development Cost Charges (DCCs)

- Collected from developers to assist with cost of new infrastructure required due to growth
  - Roads, Drainage, Parkland, Sewer and Water
- City recently completed a review and update to its DCCs, new DCC bylaw adopted in 2018
- Reserve Review report does not include a review of DCC reserves

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## What did we find?

2009 – 2018 Reserve Utilization  
\$ Million

Reserve Type	Total Contributions	Total Withdrawals	% Utilization
Sewer Reserves	\$23.0	\$21.2	92%
Water Reserves	\$59.5	\$47.5	80%
General Operating Reserves	\$86.0	\$83.8	97%
General Statutory Reserves	\$91.6	\$71.6	78%
Total	\$260.1	\$224.1	86%

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## Reserves Review

Does the City have the right reserves?

Do the reserves have the right balances?

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## Reserves Review Process

- 1 Comprehensive review of all reserves
  - Analysis of type, purpose and utilization of each reserve
- 2 Used a Reserves Framework
  - Help clarify, communicate and evaluate effectiveness of the City's reserves

Framework
Financial Stability Reserves
Equipment Reserves
Infrastructure Reserves
Parking Reserves
Property Reserves
Strategic Reserves
Other Reserves

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## Reserves Review Process

- 3 Target Reserve Balance
  - Determine reserves that should have minimum/ maximum target balances
  - Establish methodology for calculating minimum/ maximum target balances
- 4 Recommendations
  - New reserves
  - Changes to specific current reserves
    - Operating vs Statutory Reserves
  - Elimination of specific current reserves
  - Target balances
  - Transfer/reallocation of specific reserve balances
- 5 Draft Reserve Policy

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## Two Types of Reserves

Operating Reserves	Statutory Reserves
<ul style="list-style-type: none"> <li>• Established for specific purposes</li> <li>• Funding can be re-allocated for other purposes at Council's discretion</li> <li>• Interest income remains in the general operating fund</li> </ul>	<ul style="list-style-type: none"> <li>• Required by Provincial legislation and/or established by Council for specific purposes</li> <li>• Contributions and funding utilized is subject to City bylaws</li> <li>• Interest is allocated to each reserves based on balance</li> </ul>

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## Operating or Statutory Reserve?

- Recommend criteria to determine if a reserve should be an Operating or Statutory Reserve
  - Supports consistency and transparency
- Establish a Statutory Reserve when:
  - Required by Provincial legislation
  - Contractual requirements/reporting
  - Specific annual contributions
  - Specific long-term organizational purpose

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## Target Balances

- Review evaluated if a reserve should have a minimum or maximum target balance
  - Do not unduly limit funding for projects and strategic opportunities
  - Establish target balances for specific reserves
    - Are able to fulfill their intended purpose
    - Do not grow beyond their intended purpose




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## Target Balances

- Recommendations for target balances for specific reserves considered:
  - GFOA best practices
  - The City's current annual contributions to reserves
  - Known future funding needs for infrastructure renewal and strategic initiatives

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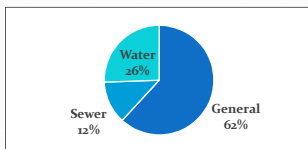
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## Funds

- City operations are segregated into specific funds for accounting and financial reporting purposes
- City Reserves by fund (2018 balances)




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## Financial Stability Reserves

### Recommendations

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## Financial Stability Reserves

### • Purpose:

- Mitigate risks from unexpected expenditures or lower revenues related to annual operations
- Provides working capital, avoids short-term borrowing

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## Financial Stability Reserves

### • Recommendations:

- Establish Financial Stability Reserve for each fund – General, Sewer and Water
- Type - Operating Reserves
- Establish target minimum balances
- Transfer balances from existing reserves and unallocated surplus
- Eliminate no longer needed reserves and transfer balances to new reserves

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## Target Balances

- The City's risk for unplanned expenditures or decreases in revenues are considered lower due to:
  - Robust planning processes for both operating and capital activities
  - A stable and steady demand for services
  - Ability to control revenues and expenditures
  - Establishment of equipment and infrastructure reserves with annual contributions
- GFOA recommends using # of days/% of annual operating expenditure budget

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## Recommended Target Balances

Reserve	Basis for Target	Recommended Minimum Target Balance
General Financial Stability Reserve	60 days of general operating expenses plus adjustments	\$16.5 million
Sewer Financial Stability Reserve	45 days of sewer operating expenses	\$0.5 million
Water Financial Stability Reserve	60 days of water operating expenses	\$1.7 million
RCMP Contract Reserve	% of annual contract expense not budgeted	\$1.9 million
Snow and Ice Control Reserve	10 year average expense plus 50%	\$1.2 million
Total		\$21.8 million

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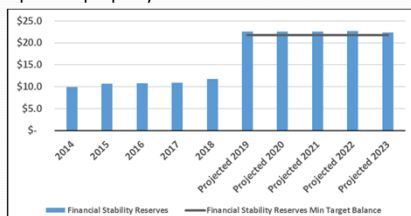
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## Outcome

- Unallocated surplus transferred to Financial Stability Reserves
- Minimum targets comply with GFOA best practices
- Defined processes to withdraw and replenish these reserves
- No impact on property taxes or user fees




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# Equipment Reserves

## Recommendations

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- ### Equipment Reserves
- Purpose
    - Provides funding for:
      - Equipment Replacement
        - Fire apparatus, solid waste collection trucks, heavy-duty construction equipment and vehicles
      - IT Corporate Infrastructure
      - Copier Replacement
      - 911 Furniture and Equipment
      - Cart Replacement

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- ### Equipment Reserves
- Recommendations:
    - Establish Statutory Reserves
    - Transfer balance from Operating Reserve to corresponding new Statutory Reserve
    - Establish target minimum balances

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## Target Balances

- Two components for establishing target balances
  - Contingency to mitigate risks related to unplanned equipment renewal (e.g. early failure) or where expenditures are higher than budget estimate
  - Planned investment/projects
    - 10 year replacement
      - Equipment, Automated Cart and Copier Reserves
    - 10 year project plan
      - IT Reserve and 911 Reserves

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## Recommended Target Balances

Reserve	Basis for Target	Recommended Minimum Target Balance
Equipment Reserve	1% of replacement cost plus 10 year replacement plan	\$270,000
Automated Cart Replacement Reserve	1% of replacement cost plus 10 year replacement plan	\$42,000
IT Reserve	10 year average annual plus 10 year project plan	\$575,000
Copier Reserve	10 year average annual plus 10 year replacement plan	\$50,000
911 Reserve	10 year average annual plus 10 year project plan	\$25,000
Total - Equipment		\$962,000

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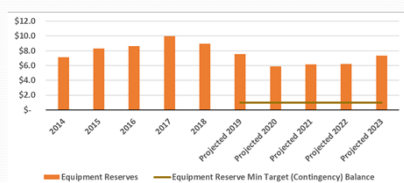
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## Outcome

- All Statutory Reserves
- Minimum targets established
- Reserves adequate to fund 10 year project plan and maintain minimum balance
- No impact on property taxes or user fees




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# Infrastructure Reserves

## Recommendations

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### Infrastructure Reserves

- Provides funding for:
  - Infrastructure renewal/upgrades
  - New infrastructure required due to growth
    - City must provide a minimum 1% assist for DCC projects

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### Infrastructure Reserves

- Recommendations:
  - NDSS Community Field Reserve
    - Establish Statutory Reserve for NDSS Community Field
    - Transfer balance from Operating Reserve to new Statutory Reserve
  - Establish minimum target balances
    - Facility Development, General Asset Management, Sewer/Sewer Asset Management, Water/Water Asset Management
  - General Capital Reserve
    - Transfer \$4million to the General Financial Stability Reserve
    - Eliminate once all remaining funds have been used

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## Target Balances

- Two components for establishing target balances
  - Contingency
    - Mitigate risks related to unplanned infrastructure renewal (e.g. early failure) or where expenditures are higher than budget estimate
    - Use % of current replacement cost
      - 20 Year Investment Plan
  - Planned investment/projects
    - City has well developed planning processes
      - 10 year plan

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## Recommended Target Balances

Reserve	Basis for Target	Recommended Minimum Target Balance
Facility Development Reserve	10 year average annual plus 10 year project plan	\$1.0 million
General Asset Management Reserve	.25% of replacement cost plus 10 year project plan	\$3.5 million
Sewer Asset Management Reserve	.25% of replacement cost plus 10 year project plan	\$1.5 million
Water Asset Management Reserve	.25% of replacement cost plus 10 year project plan	\$2.4 million
Total - Infrastructure		\$8.4 million

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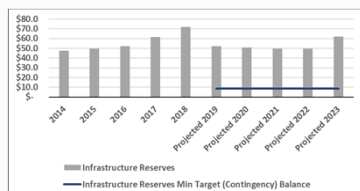
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## Outcome

- Mix of Operating and Statutory Reserves
- Minimum targets established
- Reserves adequate to fund 10 year project plan and maintain minimum balance
- No impact on property taxes or user fees




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## Parking Reserves

### Recommendations

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## Parking Reserves

- Purpose
  - Provides funding for renewal/new parking infrastructure
  - Provides funding for creation of new off-street parking

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## Parking Reserves

- Recommendation:
  - Establish a Parking Statutory Reserve
    - Transfer balance from Parking Operating Reserve to new Parking Statutory Reserve

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## Recommended Parking Reserves

Reserve	Type	Target Balance
Fitzwilliam St Parking	Operating	Not needed
Parking	Statutory	Not needed
Old City Parking	Statutory	Not needed

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## Outcome

- Mix of Operating and Statutory Reserves
- No impact on property taxes or user fees




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## Property Reserves

## Recommendations

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## Property Reserves

Purpose

- Provides funding purchase of parkland
- Provides funding for property acquisitions to expand City infrastructure, to implement strategic initiatives
- Provides funding for capital projects

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## Property Reserves

- Recommendation:
  - Establish a Property Acquisition Statutory Reserve
    - Transfer balance from Property Acquisition Operating Reserve to new Property Acquisition Statutory Reserve

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## Recommended Property Reserves

Reserve	Type	Target Balance
Parkland Dedication	Statutory	Not needed
Property Sales	Statutory	Not needed
Property Acquisition	Statutory	Not needed

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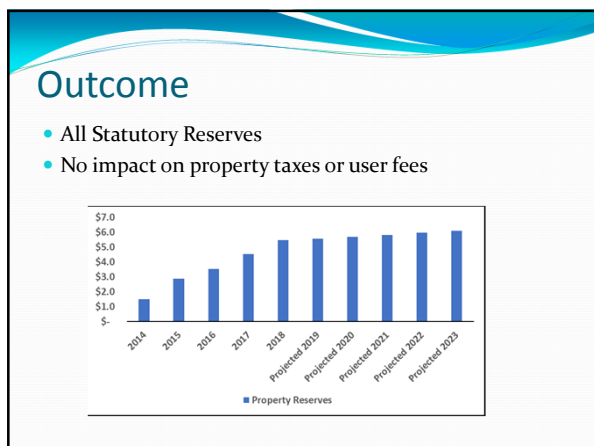
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## Strategic Reserves Recommendations

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### Strategic Reserves

Purpose

- Provide funding for specific strategic initiatives

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## Strategic Reserves

- Recommendations:
  - Establish a Strategic Infrastructure Statutory Reserve
    - Transfer balance from Strategic Infrastructure Operating Reserve to new Strategic Infrastructure Statutory Reserve
    - Establish minimum target balance
  - Establish a Housing Legacy Statutory Reserve
    - Transfer balance from Housing Legacy Operating Reserve to new Housing Legacy Statutory Reserve
  - Establish a Special Initiatives Operating Reserve

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## Target Balances

- Establish a minimum target balance for the Strategic Infrastructure Reserve
  - Annual Fortis and casino revenues can vary
  - Recommend minimum balance equal 15% of estimated annual contributions

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## Recommended Strategic Reserves

Reserve	Type	Minimum Target Balance
Sustainability Reserve	Operating	Not needed
Strategic Infrastructure Reserve	Statutory	\$432,000
Casino Reserve	Operating	Not needed
Housing Legacy Reserve	Statutory	Not needed
Regional Emission Reduction Reserve	Statutory	Not needed
Special Initiatives Reserve	Operating	Not needed

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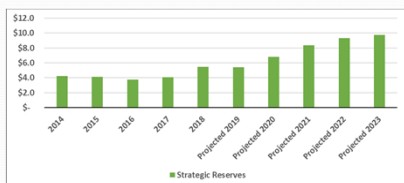
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## Outcome

- Minimum target balance for Strategic Infrastructure Reserve
- No impact on property taxes or user fees




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## Other Reserves

## Recommendations

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## Other Reserves

- Purpose
  - Annual carry forwards
  - MSP transition
  - Bequest
  - Post-employment benefits
- Recommendations
  - Ensure that any remaining balances are transferred to an appropriate reserve after purpose of reserve has been achieved

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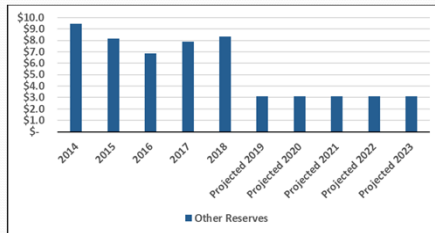
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## Outcome

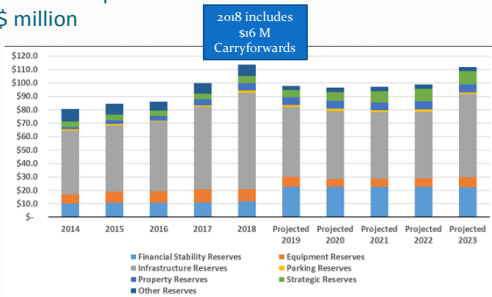
- No impact on property taxes or user fees

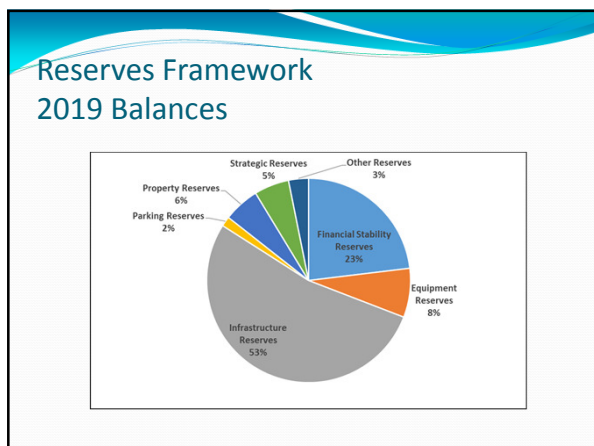


## Looking Forward

## Projected Reserve Balances

includes impact of recommendations  
\$ million






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## Draft Reserve Policy

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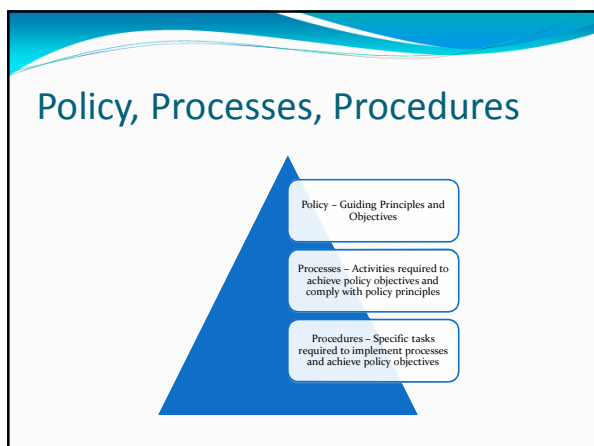
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## Purpose

The purpose of the Reserve Policy is to:

- Establish responsible governance for the City's reserves
- Establish roles and responsibilities
- Define principles and objectives for Reserves management
- Ensure the City's Reserves management is compliant with statutory and legal requirements and in accordance with Canadian public sector accounting standards

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## Principle Statements and Objectives

Reserves shall be established, maintained and used in accordance with the following principles:

- Affordability
- Long-Term Financial Sustainability and Resiliency
- Transparency and Accountability
- Statutory and Legal Requirements
- Accounting Standards

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## Next Steps

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### Next Steps

- Review by external auditors
- Finalize Reserve Policy
- Draft Statutory Reserve bylaws
- Council adoption of policy and bylaws
- Implementation Plan
  - Fully implemented for the 2020 – 2024 Financial Plan process
  - The City’s 2019 Financial Statements will reflect changes at December 31, 2019

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DATE OF MEETING | March 11, 2019 |

AUTHORED BY | LAURA MERCER, ACTING DIRECTOR, FINANCIAL SERVICES |

SUBJECT | **DRAFT DEBT MANAGEMENT POLICY** |

## **OVERVIEW**

### **Purpose of Report**

To provide Council with an understanding of the use of debt by the City of Nanaimo and an introduction to the draft Debt Policy.

### **Recommendation**

That the Draft Debt Policy report dated 2019-MAR-11 be received for information.

## **DISCUSSION**

Debt is one option available to Council for funding capital improvements. This report and the accompanying presentation is intended to help Council understand how debt fits into the City of Nanaimo's long term financial plans and the legislative and practical framework around borrowing.

Municipalities may utilize debt in compliance with the *Community Charter*. Borrowing may be short-term (five years or less) or long-term (usually 20 years) and is subject to a debt servicing limit where total borrowing cannot exceed 25% of controllable annual revenues. Debt can only be incurred for capital investment.

The Municipal Finance Authority of BC provides long-term, short-term and equipment financing to local governments in BC. The long-term borrowing process is facilitated through the Regional District of Nanaimo and must have Council's approval through adoption of a Loan Authorization Bylaw, approval from the Inspector of Municipalities and electoral approval. The City of Nanaimo has used long term borrowing to fund some new facilities, such as the Port of Nanaimo Centre, the Nanaimo Aquatic Centre, Fire Station #4 and the Water Treatment Plant.

The short-term borrowing process must have Council's approval through a resolution or bylaw. The City has used short term debt to implement automated solid- waste collection.

Municipalities may also use internal borrowing in compliance with the *Community Charter*. Borrowing from one Statutory Reserve to another Statutory Reserve is allowed as long as the lending reserve is able to fulfill its purpose. The 2019 – 2023 Financial Plan includes this borrowing.

The presentation provides some information on the amount the City's current debt and the proposed borrowing in the 2019 – 2023 Financial Plan.

The draft Debt Management Policy is attached to this report. The policy sets out basic objectives and principles of borrowing and provides some guidance for Staff in making future recommendations to Council.

A presentation for information will follow the introduction of the report. Staff are not seeking direction at this time. ]

### **SUMMARY POINTS**

- [The City of Nanaimo may borrow money in compliance with the *Community Charter*.
- Long-term borrowing (more than 5 years) requires elector approval.
- The City has existing debt and more is included in the 2019 – 2023 Financial Plan.
- A draft Debt Policy is included with this report.]

### **ATTACHMENTS**

Appendix A: Draft Debt Management Policy ]

**Submitted by:** ]

Laura Mercer  
Acting Director, Financial Services]

[]

# Council Policy

Policy Name: Debt Management Policy  
 Department Name: Financial Services  
 Policy: Insert Policy Number  
 No.:

Effective Date: Insert Date Review Date: Insert Date (3 years or less)

## POLICY

The purposes of this Policy are to:

- I. Establish responsible governance for Debt Management;
- II. Establish governance roles and responsibilities for Debt Management;
- III. Define principles and objectives for Debt Management that are appropriate for the City's financial position, and are reasonable, logical and necessary for delivery of sustainable, affordable services; and
- IV. Ensure the City's Debt Management is compliant with the statutory and legal requirements of the *Local Government Act* and the *Community Charter* and in accordance with Canadian public sector accounting standards.

## REASON FOR POLICY

The City of Nanaimo (the City) is committed to sustainable, prudent and transparent financial management, including utilization of debt, to provide valued community services.

The primary objectives for the City's use of Debt are to:

- I. Provide funding for large capital expenditures with long-term benefits;
- II. Maintain service levels by providing a funding option for needed equipment and infrastructure replacement investment;
- III. Provide funding for capital expenditures required for service delivery innovation or change;
- IV. Minimize impact of capital investment on property tax and user fee increases; and
- V. Minimize need to reduce the City's reserves below prudent levels.

## AUTHORITY TO ACT

Delegated to Staff.

## PROCEDURE

### 1. Definitions

- I. Alternative Approval Process (AAP): One of the two forms of electoral approval to support a loan authorization bylaw. Pursuant to the *Community Charter*, Section 86 and after a specified public notice period, alternative approval is obtained if no more than 10% of

eligible electors have signed elector response forms indicating that Council may not proceed with the loan authorization bylaw.

- II.    Business Cases: Prepared to help decision makers evaluate proposals for new investment, changes in service delivery or new services. Typically includes description of business issue, options, benefits, challenges and financial impacts of each option and recommendation.
- III.   Capital Expenditures: Expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board section 3150. May also be referred to as Capital Projects or Projects.
- IV.   Community Charter: Refers to legislation that delegates specific authorities and responsibilities to municipal governments by the Province of British Columbia.
- V.    Debt Servicing: Annual required debt repayments including interest and principal.
- VI.   Debt Term: Period of time during which debt payments are made. At the end of the Debt Term, the debt must be paid in full.
- VII.   Electoral Approval: Electoral assent to support a bylaw is obtained by either a referendum or with alternative approval process. External borrowing requires elector approval under most circumstances as defined in *Community Charter*, Section 180.
- VIII.   External Debt: Borrowing usually provided by the Municipal Finance Authority of BC (MFA) pursuant to security issuing bylaws under authority of the *Community Charter* to finance certain capital expenditures. The MFA provides long and short term financing to communities and public institutions in BC.
- IX.   General Fund Debt: Debt issued for capital expenditures related to operations funded from General Fund Revenues.
- X.    Five Year Financial Plan: The City's annual budget required under the *Community Charter*, Section 165.
  - I.    Funds: The resources and operations of the City are segregated into General, Sanitary Sewer Utility, Waterworks Utility and Reserve Funds for accounting and budgeting purposes. The General and Utility Funds also have corresponding Capital Funds.
  - II.   General Fund Operations: Non-utility operations that include Public Safety, Parks and Recreation, Transportation, Drainage, Community Development and Corporate Administration services.
  - III.   General Fund Revenues: Revenues generated to pay for General Fund Operations. These revenues include property taxes, non-utility user fees, permits and investment income.
  - IV.   Infrastructure: Includes a wide range of assets that are used to deliver City services. These assets include transportation amenities, drainage, sanitary sewer, water, recreation amenities and buildings.

- V. Internal Borrowing: The City may borrow between Reserve Funds under specific conditions in compliance with the *Community Charter*, Section 189.
- VI. Liability Servicing Limit: The City is subject to 'Liability Servicing Limits' as outlined in the *Community Charter*, Section 174. The maximum value of liability servicing cost for a given year is 25% of a municipality's controllable and sustainable revenues for the previous year.
- VII. Long-Term Debt: Debt with repayment terms greater than five years. Long-term debt is usually undertaken for twenty years.
- VIII. Municipal Finance Authority (MFA): The Municipal Finance Authority of British Columbia provides long-term, short-term and equipment financing to communities and public institutions in BC.
- IX. Short-Term Debt: Debt with repayment terms of five years or less.
- X. Sustainability: The pillars of sustainability include ensuring that current socio-cultural, economic and environmental commitments are considered in investment decisions and do not compromise the ability of future generations to meet their own needs.
- XI. Utility Debt: Debt issued for capital expenditures related to operations funded from Utilities Revenues.
- XII. Utilities: Self-funded operations providing a service to its customers at rates regulated by Council. The City's current self-funded operations are the Water Utility Fund, the Sanitary Sewer Utility Fund and Solid Waste Collection services.
- XIII. Utilities Revenues: Revenues generated to pay for water, sewer and solid waste collection services.

## **2. Acronyms and Abbreviations**

- I. CAO: Chief Administrative Officer
- II. The City: City of Nanaimo

## **3. Responsibilities**

To implement the Debt Management Policy the appropriate level of governance must be in place throughout the organization for decision-making.

### **3.1 Council is responsible for:**

- 3.1.1 Adoption, periodic review and updating the Debt Management Policy; and
- 3.1.2 Approval of new debt and internal borrowing.

### **3.2 The CAO is responsible for implementing the Debt Management Policy.**

### **3.3 The Director of Finance is responsible for:**

- 3.3.1 Implementing internal processes and systems in compliance with this Policy;

3.3.2 Ensuring the use of debt complies with this Policy;

3.3.3 Ensuring utilization of debt is clearly disclosed in the City's Five Year Financial Plan and other long-term financial plans; and

3.3.4 Recommending revisions or amendments to this Policy due to changes in applicable statutes, accounting standards or to support the City's long-term financial management.

#### **4. Scope and Applicability**

##### **4.1 Scope**

The City delivers services to the community through a wide range of City-owned assets as well as some assets managed through co-management agreements. In addition to these existing assets, the City may receive or construct new assets. Provision of new assets and renewal of existing assets requires significant long term planning and investment for capital projects. The City utilizes annual revenues, reserves, grants, private contributions and Debt to fund these capital projects.

##### **4.2 Corporate Context**

This Policy applies to Debt utilized by the City to fund capital infrastructure and equipment investment. To support Debt planning, management and reporting, Debt is categorized into two groups as follows:

- General Fund Debt
- Utility Debt

##### **4.3 Implementation, Review and Reporting**

The implementation, review and reporting associated with this policy will be integrated within City business processes.

#### **5. Benefits of Compliance**

Implementing this Policy will improve the City's governance through:

- Improvements to decision making and financial performance;
- Improvements to financial preparation for future commitments; and
- Improvements to transparency and accountability.

#### **6. Principle Statements and Objectives**

The City will strive to ensure the following principles and objectives are applied to all Debt Management strategies, processes and reporting.

##### **6.1 Affordability**

6.1.1 The City will consider impact on property taxes, utility and other user fees when considering new debt.

## **6.2 Debt Management and Decision Making**

6.2.1 The City recognize that the utilization of debt may be needed to provide funding for needed capital investment.

6.2.2 The City will utilize Business Cases where appropriate to provide necessary information regarding capital investment and new debt for decision makers.

6.2.3 The City will utilize the financing options offered by the Municipal Finance Authority for debt.

6.2.4 The City may consider and utilize financing options through other appropriate institutions where it is demonstrated to be beneficial.

6.2.5 The City may consider internal borrowing between statutory reserves, in compliance with the *Community Charter*, Section 189, where it is prudent and does not impair the capacity of the lending reserve to fulfill its purpose.

6.2.6 The City will utilize Debt with a term that is less than the expected life of the underlying asset.

6.2.7 The City will not issue Debt to finance annual operating expenditures.

6.2.8 The City will ensure that new General Fund Debt Service costs will be funded by long-term sustainable General Fund revenues or reserves.

6.2.9 The City will ensure that new Utility Debt Service costs will be funded by related long-term sustainable utility revenues or reserves.

6.2.10 The City will review and consider cost saving opportunities through prepayment or refinancing of existing debt.

## **6.3 Transparency and Accountability**

6.3.1 The City recognizes that Debt must be managed, monitored and reported upon.

6.3.2 The City's utilization of Debt will be reported to Council through regular performance reporting including against the City's current Liability Servicing Limit.

6.3.3 The City will ensure utilization of new debt, the projected annual repayment costs for current and new debt, and the impact on the City's Liability Servicing Limit is clearly disclosed in the annual Five Year Financial Plan.

## **6.4 Debt Approval**

6.4.1 The City will ensure new debt is approved by Council and receives appropriate electoral approval as outlined in the *Community Charter*, Sections 178 and 180 and as outlined in this Policy.

6.4.1.1 The annual Five Year Financial Plan bylaw includes utilization of internal debt.

6.4.1.2 The annual Five Year Financial Plan bylaw includes utilization of external debt.

6.4.1.3 All issuance of external short-term debt requires a Council bylaw or resolution.

6.4.1.4 All issuance of external long-term debt requires a loan authorization bylaw.

6.4.1.5 All issuance of external long-term debt requires electoral assent.

6.4.2 New external debt under a loan authorization bylaw must be undertaken by the Regional District of Nanaimo in compliance with the *Community Charter*, Section 182.

## **6.5 Statutory and Legal Requirements**

6.4.1 The City will ensure that the maximum amount borrowed from external sources is compliant with the *Community Charter*, Section 174.

6.4.2 The City will only use debt in compliance with the *Community Charter*, Sections 178, 179 and 181.

6.4.3 The City will ensure that electoral approval is obtained in compliance with the *Community Charter*, Section 180.

6.4.4 The City may consider temporary borrowing under loan authorization bylaw in compliance with the *Community Charter*, Section 181.

## **6.5 Accounting Standards**

6.5.1 The City will ensure that administration and reporting of Debt is in accordance with Canadian public sector accounting standards.



## **7. Administration**

The following key administrative processes will support implementation of the Debt Management Policy. Additional information is provided in the City's Debt Management Processes document.

### **7.1 Business Cases**

The City will utilize business cases where appropriate for a proposed investment that requires new external debt financing. The business case will: provide a robust analysis of the investment, be prepared according to best practices and include relevant financial and non-financial information. Key components of a business case include a comprehensive explanation of the business need, reasonable options, the benefits, challenges and expected outcomes or measures for each option, a recommendation and the decision criteria used.

### **7.2 Internal Borrowing**

Internal borrowing from Statutory Reserve Funds is allowed pursuant to the *Community Charter*, Section 189.

- The City will ensure that internal borrowing does not impair the purpose of the lending reserve.
- The City will ensure that repayment of internal borrowing includes interest that would have been earned on the amount had it remained in the lending reserve.

The City will clearly disclose a prudent repayment plan for internal borrowing as part of the Five Year Financial Plan bylaw approved by Council.

### **7.5 Reporting**

The City will develop and maintain annual reporting processes that provide decision makers with all relevant debt information.

## 8. Review Date

This Policy should be reviewed every 4 years.

### **MANAGEMENT, REFERENCES AND APPROVAL:**

This policy shall be reviewed in 3 years from its effective date to determine its effectiveness and appropriateness. This policy may be assessed before that time as necessary to reflect organizational change.

Approving Authority:

Council

Approval Date:

Insert Approval Date

Revision Approval Dates:

Insert Date if applicable

Review Due:

Insert Date

Policy Manager:

Director of Finance

Department Contact:

Director of Finance

Legal References:

Insert if applicable

Cross References:

Insert if applicable

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Insert Name, Mayor

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Insert Name, Corporate Officer

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Insert Date

# Draft Debt Policy

March 11, 2019

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## Today

- Municipal Debt
  - External and Internal Debt
  - Municipal Finance Authority (MFA)
- Overview of the City's Debt
  - Why does the City borrow money?
  - Current Debt
  - Planned New Debt
- Draft Debt Policy
  - Used best practices
  - Purpose, responsibilities, principles and objectives

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## External Debt

- Municipalities may utilize debt in compliance with the *Community Charter*
  - Short-term (5 years or less)
  - Long-term (usually 20 years)
  - Electoral approval required for long-term borrowing
    - Referendum
    - Alternative Approval Process
  - Debt Servicing Limit
  - Used for capital investment

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## Internal Debt

- Municipalities may utilize internal borrowing under specific conditions in compliance with the *Community Charter*, Section 189
  - May borrow from one Statutory Reserve to another Statutory Reserve
  - Allows the municipality to meet short-term funding needs as long as lending reserve can fulfill its purpose
  - Must be repaid with interest

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## Municipal Finance Authority of BC

- Provides long-term, short-term and equipment financing to local governments in BC
- Long-term borrowing process:
  - Facilitated through the RDN
  - City follows specific steps which include Council's approval and adoption of a Loan Authorization Bylaw, approval from the Inspector of Municipalities and Electoral Approval
- Short-term and equipment borrowing process:
  - Council resolution and/or bylaw

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## Overview of the City's Debt

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### Why does the City borrow money?

Reserves or other funding sources not adequate for total cost of capital investment

- External long-term Debt has primarily been used for new facilities
  - Port of Nanaimo Centre
  - Nanaimo Aquatic Centre
  - Fire Station #4
  - Water Treatment Plant

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### Why does the City borrow money?

Debt has also been used to implement service delivery changes.

The City has utilized external short-term Debt to implement automated solid-waste collection:

- Purchase of carts
- Purchase of automated collection trucks

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### Why does the City borrow money?

Under specific circumstances, where statutory reserves are not adequate for needed capital investment the City utilizes internal borrowing.

- The 2019 – 2023 Financial Plan includes:
  - Borrowing from the Drainage DCC Reserve to the Sewer DCC Reserve
  - Repayment of borrowing with appropriate interest

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### Current Borrowing - \$ million

Asset	Amount Borrowed	Outstanding at Dec 31 2018	Year Borrowing Repaid
Fire Station #1	\$3.2	\$3.2	2038
Fire Station #4	\$3.8	\$2.1	2027
NAC	\$8.6	\$1.3	2020
Sanitation	\$5.7	\$5.2	2022
VICC	\$30.0	\$15.6	2027
Water Treatment Plant	\$22.5	\$18.8	2034
<b>Total</b>	<b>\$69.6</b>	<b>\$46.2</b>	

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### Provisional 2019 – 2023 Financial Plan New Borrowing - \$ million

excludes proposed borrowing for Port Theatre

	2019	2020	2021	2022	2023	Total
<b>External Borrowing (MFA)</b>						
Fire Station #1	\$ 6.0	\$ 7.2	\$ 0.2			\$13.4
Waterfront Walkway	\$ 5.2	\$ 3.4	\$ 8.3	\$ 8.5	\$ 3.7	\$29.1
Sanitation (5 Year Term)	\$ 0.4			\$ 0.5		\$ 0.9
<b>Total External Borrowing</b>	<b>\$11.6</b>	<b>\$10.6</b>	<b>\$8.5</b>	<b>\$9.0</b>	<b>\$3.7</b>	<b>\$43.4</b>
<b>Internal Borrowing</b>						
Sewer DCC Projects	5.3	\$ 1.7	\$ 0.9	\$ 2.0	\$ 2.8	\$ 12.7
<b>Total Borrowing</b>	<b>\$16.9</b>	<b>\$12.3</b>	<b>\$ 9.4</b>	<b>\$11.0</b>	<b>\$ 6.5</b>	<b>\$56.1</b>

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### Debt Servicing Limit

- The Liability Servicing Limit is defined as 25% of municipality's controllable and sustainable revenues for the year
- City of Nanaimo limit at September 10<sup>th</sup> is \$40.1 million for annual principle and interest payments
- At September 10<sup>th</sup> the City was at 14.3% of current limit

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## Municipal Comparison % of Debt Servicing Limit Utilized

	Debt Servicing Cost % of limit				
	2013	2014	2015	2016	2017
Kamloops	30.5%	28.4%	29.5%	28.4%	29.0%
Kelowna	38.1%	34.7%	27.2%	34.9%	34.6%
Ladysmith	17.1%	16.7%	16.5%	20.1%	44.8%
Nanaimo	9.9%	12.7%	13.1%	14.8%	11.1%
Parksville	9.7%	9.6%	9.4%	8.7%	8.1%
Prince George	43.5%	38.6%	37.3%	43.5%	32.2%
Saanich	8.0%	8.7%	7.4%	6.6%	7.6%
Victoria	11.1%	10.9%	11.2%	9.4%	9.3%

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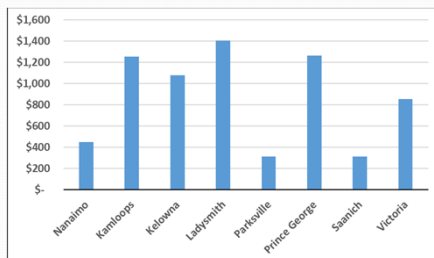
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## Municipal Comparison Debt per Capita




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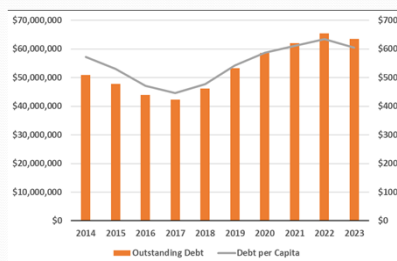
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## City of Nanaimo Debt Outstanding and Debt per Capita




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## Draft Debt Policy

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### Purpose

The purpose of the Debt Policy is to:

- Establish responsible governance for the City's Debt Management
- Establish roles and responsibilities
- Define principles and objectives for Debt Management
- Ensure the City's Debt Management is compliant with statutory and legal requirements and in accordance with Canadian public sector accounting standards

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### Principle Statements and Objectives

The City's Debt Management will follow these principles:

- Affordability
- Debt Management and Decision Making
- Transparency and Accountability
- Debt Approval
- Statutory and Legal Requirements
- Accounting Standards

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## Debt Policy - Administration

- Key Administrative Processes:
  - Business Cases
    - Proposed investment requires external debt financing
    - Utilize best practices
      - Robust analysis, recommendation and decision criteria
  - Internal Borrowing
    - Prudent repayment plan
  - Reporting

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## Debt Limit Discussion

- Draft Debt Policy debt limit would comply with Community Charter – limit is 25% of controllable annual revenues
- Council may wish to consider a lower debt limit and direct staff to provide additional information on options and impacts

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## Next Steps

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### Next Steps

- Staff to review and provide information on a recommended debt servicing limit
- Review by external auditors
- Finalize Debt Policy
- Council adoption of Debt Policy

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DATE OF MEETING March 11, 2019

AUTHORED BY LAURA MERCER, ACTING DIRECTOR, FINANCIAL SERVICES

SUBJECT **GRANTS AND EXEMPTIONS**

## **OVERVIEW**

### **Purpose of Report**

To provide Council with an understanding of the various grants and exemptions provided to organizations by the City of Nanaimo.

### **Recommendation**

That the Grants and Exemptions report dated 2019-MAR-11 be received for information.

## **DISCUSSION**

There are a number of organizations that receive either a cash payment or a reduction or exemption from a City fee or charge. These will normally take one of the following forms:

- Cash payment
- Exemption from property taxes (all or partial)
- Exemption or reduction of a City fee (e.g., facility rental)
- Nominal lease of City property

The category with the largest financial impact is cash grants. These can be further broken down into several sub-categories:

1. **Operating grants** – appear as annual line items in the Financial Plan. Generally provide a service to the community and many occupy City owned buildings, e.g., Port Theatre, Nanaimo Museum.
2. **Social grants** – mostly application based grants administered by Social Planning. Some are “flow through” where funding is provided by a senior government and directed through the City, e.g., grant to John Howard Society “Restorative Practice in Schools” (2017).
3. **Culture & Heritage grants** – mostly application based grants administered by Culture & Heritage. Includes downtown events and funding for organizations like the Vancouver Island Symphony.
4. **Recreation & Sports** – a small amount of funding for sports tourism administered by the Nanaimo Hospitality Association, plus grants for the Volunteers in Parks program.
5. **Other grants** – there is a small budget for grants that don’t fit anywhere else, including security check grants.

The City of Nanaimo gives Permissive Tax Exemptions (PTE), which grant non-profit organizations exemption from property taxes; and Revitalization Tax Exemptions (RTE), which can be used to provide property tax incentives for specified types of construction or locations.

Nanaimo's RTE bylaws target hotels and, more recently, downtown commercial and multi-family residential construction.

A presentation for information will follow the introduction of the report. Staff are not seeking direction at this time.

### **SUMMARY POINTS**

- There are a number of organizations that receive either a cash payment or a reduction or exemption from a City fee or charge.
- Cash grants have the largest financial impact to the City.
- The City of Nanaimo gives Permissive Tax Exemptions which grant non-profit organizations exemption from property taxes.
- Revitalization Tax Exemptions (RTE), are given and can be used to provide property tax incentives for specified types of construction or locations.
- The City of Nanaimo's Revitalization Tax Exemption bylaws target hotels and downtown commercial and multi-family residential construction.

### **ATTACHMENTS**

Grants and Exemptions PowerPoint Presentation

**Submitted by:**

Laura Mercer  
Acting Director, Financial Services

# Grants & Exemptions

2019-MAR-11

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## What are Grants?

- ▶ Payments to organizations (mostly nonprofit) or exemption from a fee or tax
- ▶ Usually results (directly or indirectly) in a service to the public
  - Some of these may be considered “fees for service” instead of grants
- ▶ In addition, there are a number of nonprofit organizations that occupy City property at nominal lease values
- ▶ A very small \$ amount is direct to the public (e.g. toilet rebates)

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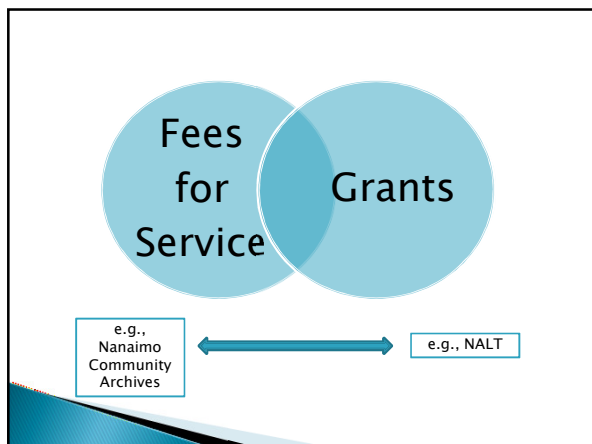
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## 2017 Grants & Exemptions

Grant type	Amount
Cash or discount	2,500,752
Value of PTE (City portion)	1,270,657
Value of RTE (City portion)	35,877
Total	3,807,286

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## 2017 Cash Grants

Grant type	Amount
Operating	1,452,696
Social	216,321
Arts, Culture & Heritage	603,119
Recreation & Sports	30,100
Tourism	125,000
Other	73,516
Total	2,500,752

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## How do grants get approved?

- Operating grants appear as line items in the budget and receive approval with the budget
- In the past, most of the remainder were reviewed by a committee of Council and recommendations were made to Council
- Currently, requests are reviewed by staff and recommendations made via Finance & Audit
- PTE & RTE require bylaws

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## Operating Grants

- The largest \$ value of cash grants
- Most fall into the “fee for service” category
- Have a specific line within the City budget
- No annual application process
- Have been added over the years, with approval, sometimes at direction, of Council
- Some are fixed, some get inflationary increases
- Many have written agreements

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## 2019 Operating Grants

Grant type	Budget Amount
Harbour City Alliance Theatre	11,350
McGirr Sports Society	122,400
NALT	30,000
Nanaimo Art Gallery	164,467
Nanaimo Community Archives	56,574
Nanaimo Museum	384,030
Nanaimo Region John Howard Soc.	50,000

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## 2019 Operating Grants

Grant type	Budget Amount
Nanaimo Police Based Victim Svcs.	53,229
Pacific Sport	15,000
Port Theatre Society (capital & ops)	620,021
Protection Island Lion's Club	15,000
VIEX	12,000
Total Operating Grants	1,534,071

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## Social Grants

- ▶ Social Response Grants: (\$60k)
  - Funded from Casino revenue
  - Calls for proposals for specific areas of interest
  - 2017 was Intercultural Mental Health Equity Project (\$60k)
  - Staff make recommendation to Council
- ▶ Community Vitality Grants (\$25k):
  - Call for proposals combined with Social Response Grants
  - Staff make recommendations to Council
- ▶ Housing Legacy Fund:
  - Current balance is about \$2.4 million
  - Used to provide municipal support to affordable housing initiatives (e.g. fund DCCs on Nanaimo Aboriginal Centre)
  - Approved by Council

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## Social Grants

- ▶ Flow through grants:
  - UBCM – application based – direct grant fund to local service providers
  - Min. of Mental Health & Addictions
  - HRSDC – \$160k over three years for age friendly activities
- ▶ Miscellaneous
  - Water & sewer user rate subsidies (not cash) for limited income home owners (\$10k)

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## Culture & Heritage Grants

- ▶ Culture & Heritage administers a number of grant programs
- ▶ Prospective recipients are advised each year of grant availability and process
- ▶ Staff review applications and make recommendation to Finance & Audit Committee

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## Culture & Heritage Grants

- ▶ Cultural & Heritage projects (\$44.4k)
  - Used to leverage senior govt. funding
- ▶ Cultural Operating Grants (\$295.6k)
  - Budget based on \$3.00 per capita
  - Used to leverage senior govt. funding
- ▶ Downtown Event Revitalization Fund(\$150k)
  - Fund festivals and events in the downtown
  - Most funding goes directly to event (e.g., Nanaimo Blues Festival)
  - Some funding direct to associations (OCQ, Victoria Crescent, Chamber of Commerce)

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## Cultural Grants – Heritage

- ▶ Heritage Façade Grants (\$39.6k)
  - Provide funding for rehab of exteriors of heritage buildings in the downtown core
- ▶ Residential Heritage grants (\$11k)
  - Provide funding for rehab of exteriors of heritage homes listed on the heritage register
- ▶ Requests are processed by staff and recommendations made to Finance & Audit Committee

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## Culture & Heritage – other

- ▶ Council may approve grants in response to specific requests
- ▶ In 2017, Council approved grants for:
  - Aboriginal Day
  - Tribal Journeys
  - Canada Day 150 Celebration

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## Recreation & Sports

- ▶ Sport Tournament Grants (\$20k)
  - Managed through the Nanaimo Hospitality Assoc.
- ▶ PIP Parks program (\$6.5k)
  - Staff review & recommend to Finance & Audit
  - City may pay supplier invoices instead of cash grant
- ▶ Travel Grants (\$7.5k)
  - Not limited to Recreation & Sport
  - Staff recommend to Finance & Audit based on fixed criteria
- ▶ Community Program Development Grants (\$15k)
  - Staff review & recommend to Finance & Audit

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## Tourism

- ▶ In 2017, a grant of \$125k was made to Tourism Vancouver Island for Tourism Marketing funding
- ▶ Now these funds are included in the annual fee paid to Tourism Vancouver Island for their services

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## Other Grants

- ▶ The City has a budget for grants that don't fit anywhere else (\$7k)
  - E.g., rental subsidy for volunteer banquet
- ▶ PTE Cash Grants (\$5k)
  - Used only in unusual circumstances
  - Reimbursement for current year for new PTE
- ▶ Security Check Grants (\$2k)
- ▶ Toilet rebates
  - The City provides rebates to homeowners who upgrade to low flow toilets

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## Direct Appeals to Council

- ▶ Most grants are related to a program and will meet specific criteria
- ▶ Occasionally, there will be appeals for one-time funding that don't fit into other categories.
  - 2017 includes Miss Nanaimo Ambassador, VIU (MBA Games)
- ▶ These may be funded from Council Contingency

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## Direct Appeals to Council

- ▶ In 2019, Council has given funding to:
  - SPCA – \$12,500
  - Nanaimo Pride Society – \$7,500

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## Permissive Tax Exemptions

	# orgs	# properties	2017 amount*
Church properties	38	42	\$211,346
Seniors' housing	2	7	63,509
Community care	3	6	221,344
Non-profit orgs	37	56	335,904
Parks/Open space	1	16	156,690
City owned	26	29	166,572
ICF	1	51	127,802
Other	1	1	23,367
Total	108	195	\$1,306,534

\* City portion only

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## PTEs – Revenue policy

- ▶ “The City of Nanaimo believes that Permissive Tax Exemptions are an appropriate way to recognize the value of the services provided to the community by non-profit organizations.”
- ▶ Permissive Tax Exemption requests are reviewed by staff based on policies and guidelines approved by Council. Staff make recommendations to Finance & Audit
- ▶ Staff review annually to make sure that legal requirements are still met

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## Revitalization Tax Exemptions

- ▶ “The City of Nanaimo believes that Revitalization Tax Exemptions are an appropriate tool to assist the City in realizing its strategic objectives.”
- ▶ The City can exempt municipal taxes for up to ten years for projects undertaken by landowners, where the project meets defined objectives of a City strategy.
- ▶ Recipients of exemptions must enter into a Revitalization Tax Exemption Agreement with the City.
- ▶ Every Revitalization Tax Exemption must be approved by Council.

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## Revitalization Tax Exemptions

- ▶ There are currently three programs for RTEs:
  - Hotels
  - Downtown revitalization for commercial and multi-family residential buildings
  - Heritage buildings
- ▶ These bylaws/programs support new construction and renovations that meet certain criteria

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DATE OF MEETING | March 11, 2019 |

AUTHORED BY | JANE RUSHTON, MANAGER, PURCHASING AND STORES |

**SUBJECT                      SOCIAL PROCUREMENT FOR THE CITY OF NANAIMO**

## **OVERVIEW**

### **Purpose of Report**

To provide Council with information with respect to the development of a social procurement policy for the City of Nanaimo. |

### **Recommendation**

That the Committee of the Whole recommend that Council provide direction on what option they would like to take to develop a Social Procurement Policy.

1. Join the Coastal Communities Social Procurement Initiative (CCSPI), and utilize the outcomes of the initiative to inform the City of Nanaimo's procurement policy;

**OR,**

2. Hire a consulting firm to assist the City in conducting a comprehensive review of Social Procurement best practices and making recommendations to Council that result in a meaningful program that can be both implemented and measured;

**OR,**

3. That Council direct Staff to take no action at this time other than to monitor the progress of the CCSPI and similar local government social procurement initiatives.

## **BACKGROUND**

*"Every purchase has an economic, environmental and social impact, whether intended or not. Social procurement is about capturing those impacts and seeking to make intentional positive contributions to both the local economy and the overall vibrancy of the community."*<sup>1</sup>

Social procurement is a relatively new concept. Basically, it can be thought of as using purchasing power in the attempt to achieve social goals. An example of social procurement would be catering services. The criteria for evaluating proposals could include social contributions such as inclusive hiring practises and/or whether they donate food to the local food bank.

Historically, the City of Nanaimo's approach to procurement has been to seek "best value" for the taxpayers. The approved Council procurement policy includes the overall policy statement that "The City of Nanaimo is committed to fair, open and transparent acquisition of goods or services that result in value-for-money for residents and other stakeholders."

There are some provisions in the Procurement Policy that allow for the creation of procedures and/or guidelines that support:

- Sustainable purchasing;
- Environmental stewardship;
- Local businesses (within the provision of applicable trade agreements).

Currently, the City does not have a specific social procurement policy, guideline or directive.

### **Coastal Communities Social Procurement Initiative**

An invitation has been extended for the City of Nanaimo to join the Coastal Communities Social Procurement Initiative (CCSPI). This has started a conversation about whether the City of Nanaimo should include social procurement in our policy and how best to go about that.

The CCSPI is a two-year initiative to assist local governments in the AVICC region to implement social procurement assessments, policies, strategies and measurements. It is a collaborative group of local government officials and a consulting firm, Scale Collaborative. Member organizations will have access to:

- Training for procurement staff and education for elected officials;
- Education and training for suppliers and contractors; and,
- Templates, sample RFPs, and best practices.

The cost to join the CCSPI is based on population and would be about \$8,000 annually for the City of Nanaimo. Nine other AVICC members have currently signed on to the CCSPI. As a member, Nanaimo would be able to send a representative to the quarterly board meetings.

There are a number of factors to consider before adding social procurement to the City's Procurement Policy including:

- Senior government attitudes and direction;
- Existing regulations and trade agreements;
- Cost and benefit to the taxpayer.

### **Federal Government**

Mandate letter dated October 4, 2017 from Prime Minister Trudeau to the Minister of Public Service and Procurement Canada (PSPC) and the passing of Bill C-344, highlights the inclusion of social procurement considerations as a priority. Although at the Federal level, in the future the City may see grant funding applications tied to social initiatives at the local level.

Existing Trade Agreements indicate purchasing entities such as municipalities cannot restrict competition to only local suppliers, and impose financial thresholds for competitive bid. This restriction may have implications for social procurement processes.

## Provincial Government

In January 2019, the Province released its Social and Environmental Impact Procurement Guidelines for use by their ministries as well as the broader public sector. The guidelines are mindful of the trade agreements and were developed in consultation with Legal Counsel. Social Impact Procurement (SIP) Guidelines targets and guides purchasers to consider social impact in points-based solicitations for services with a total value under \$75,000.

## Options

There are three approaches available to the City to implement a Social Procurement program:

1. Join the Coastal Communities Social Procurement Initiative (CCSPI), and utilize the outcomes of the initiative to inform the City of Nanaimo's procurement policy; or,
2. Hire a consulting firm to assist the City in conducting a comprehensive review of Social Procurement best practices and making recommendations to Council that result in a meaningful program that can be both implemented and measured; or,
3. Take no action at this time and monitor the progress of the CCSPI and similar initiatives.

## Discussion

It is critical to the City of Nanaimo to have a Procurement Policy that meets the needs of Council, staff, suppliers and the community; and conforms to all relevant legislation, procurement law and trade agreements. This can be a challenging balancing act.

Staff are interested to see the results of the Coastal Communities Social Procurement Initiative. Alternately, or in addition, the City may wish to conduct our own research in order to assure ourselves of an alignment with the City's Procurement Policy and current trade legislation. In order to ensure the City embarks on a meaningful and measureable social procurement program, the City could hire a consultant to research what other Canadian public institutions have done/are doing and what would be considered best practice. The review would take about three months and cost approximately \$15,000. The decision to hire a consultant could be made once staff have had an opportunity to work with the CCSPI.

A third option is for the City to monitor the progress of the CCSPI and other social procurement initiatives, leaving open the option to add social procurement to the Procurement Policy in the future. This would allow time for best practices to evolve in the local government arena. The risk to waiting is that it may put the City at a disadvantage in the future when applying for senior government grants.

## OPTIONS

1. That Council direct Staff to join the Coastal Communities Social Procurement Initiative (CCSPI), and utilize the outcomes of the initiative to inform the City of Nanaimo's procurement policy.
  - **Budget Implication:** \$8,000 annually (2019 and 2020) would need to be added to the 2019-2023 Financial Plan as no monies have been budgeted for this. This would be funded from general taxation.

- **Legal Implication:** If recommendations of the CCSPI are not in conformance with the various trade agreements that the City must adhere to, there could be legal consequences for the City.
  - **Policy Implication:** If recommendations of the CCSPI are not in conformance with various trade agreements that the City must adhere to, we would be in violation of our current Procurement Policy.
  - **Strategic Priorities Implication:** Social Equity is an identified community value in the 2016-2019 Strategic Plan. Creating a sustainable community that reduces the effects of poverty overall, increases citizen safety and nurtures health and inclusivity.
  - **Political Implication:** Current CCSPI municipalities are looking to Nanaimo to join the group.
2. That Council direct Staff to hire a consultant to assist the City in conducting a comprehensive review of Social Procurement best practices and making recommendations to Council that result in a meaningful program that can be both implemented and measured.
- **Budget Implication:** \$15,000 would need to be added to the 2019-2023 Financial Plan as no monies have been budgeted for this. This would be funded from general taxation.
  - **Legal Implication:** The various trade agreements that the City must adhere to will be taken into consideration otherwise we could be in violation of our current Procurement Policy.
  - **Policy Implication:** The various trade agreements that the City must adhere to need to be taken into consideration otherwise we would be in violation of our current Procurement Policy.
  - **Strategic Priorities Implication:** Social Equity is an identified community value in the 2016-2019 Strategic Plan. Creating a sustainable community that reduces the effects of poverty overall, increases citizen safety and nurtures health and inclusivity.
  - **Political Implication:** Current CCSPI municipalities are looking to Nanaimo to join the group and there may be unintended political consequences of not joining the CCSPI.
3. That Council direct Staff to take no action at this time other than to monitor the progress of the CCSPI and similar local government social procurement initiatives.
- **Budget Implication:** There is no immediate financial implication. The lack of a social procurement policy may put the City at a disadvantage when applying for senior government grants in the future.
  - **Legal Implication:** There is no legal implication.
  - **Policy Implication:** The City may fall behind other communities in best practises.
  - **Strategic Priorities Implication:** Social Equity is an identified community value in the 2016-2019 Strategic Plan. Creating a sustainable community that reduces the effects of poverty overall, increases citizen safety and nurtures health and inclusivity.
  - **Political Implication:** Current CCSPI municipalities are looking to Nanaimo to join the group and there may be unintended political consequences of not joining the CCSPI.
4. That Council give staff alternative direction. |



### **SUMMARY POINTS**

- Currently the City does not have a specific social procurement policy, guideline or directive.
- The Federal and Provincial Government have given indication that they are/will be including social impacts in their procurement processes.
- The City of Nanaimo has been invited to join the Coastal Communities Social Procurement Initiative.
- The City could hire a consultant to augment the work of the CCSPI or to perform an independent review of social procurement best practices.

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