

September 28, 2015

CITY OF NANAIMO

Long Term Financial Planning and Financial Reserves

A Case for Fiscal Resilience



Presentation Outline

- Context:
 - Definitions, Legislation
- Establishing Reserves and Reserve Balances
 - ‘Triple-A’ Risk-Based Financial Reserve Framework
 - Risk Factors
- Best Practices in Reserve Funds and Reserve Balances
- City of Nanaimo Reserve Funds Position
- Next Steps

Context

Definitions

- **Committed Reserve Fund**
 - “Funds designated for a specific purpose”
- **Non-Spendable Reserve Fund**
 - “Funds that are gifted to be invested with proceeds or interest earned designated for specific purpose”.
- **Reserve Balance**
 - “An amount, or set ceiling or floor amount of funds that are set aside in a reserve Fund”.
- **Reserve Fund**
 - “Funds set aside to meet expected and unexpected costs related to services, programs and capital investment”.
- **Restricted Reserve Fund**
 - “Funds that are set aside for a specific purpose subject to conditions set by law or external party or agreement”.
- **Unrestricted Reserve Fund**
 - “Funds set aside for future allocation by the highest governing body”.

Legislative Provisions

- Community Charter, Division 4, Reserve Funds, Section 188 and 189.
 - s. 188(1) – General Power to establish a reserve by bylaw
 - s. 188(2)(a)(b)(c)(d)(e) – address required reserves
 - s. 189 (1)(2)(3)(4)(5) – address administration of reserves
- Two Categories of Reserves
 - Discretionary Reserve
 - Required/Statutory Reserve

Objective for Establishing a Reserve Funds

- Financial Flexibility
 - to respond to emerging issues
 - to acquire/replace infrastructure
 - to provide working capital or cash flow management

Key Questions

1. How much should be maintained in a reserve fund?
2. How much is enough... what is the magic balance?
3. When is it too much or excessive?

Framework for Establishing Reserves and Reserve Balances

The “Trip-A” Approach to Accounting for Uncertainty

- **Accept.** We are subject to uncertainty and in some cases at levels that have not been experienced.
- **Assess.** We must assess the potential financial impact of the uncertainty.
- **Augment.** Use historical references as a baseline and augment the range of potential financial impact.

Risk Assessment Framework

1. Identify risk.
2. Assess risk.
3. Identify risk mitigation approaches.
4. Assess expected risk reduction.
5. Select and implement risk mitigation method.

Risk Mitigation Methods

1. Eliminate risk.
2. Retain risk.
3. Transfer risk.

Use of reserves is a risk retention strategy

Risk Factors

Primary Risk Factors

1. Revenue Volatility.
2. Infrastructure Maintenance/Replacement.
3. Extreme events and public safety.

Secondary Risk Factors

1. Leverage.
2. Expenditure Volatility.
3. Liquidity/Cash Flow.
4. Growth of the Community.

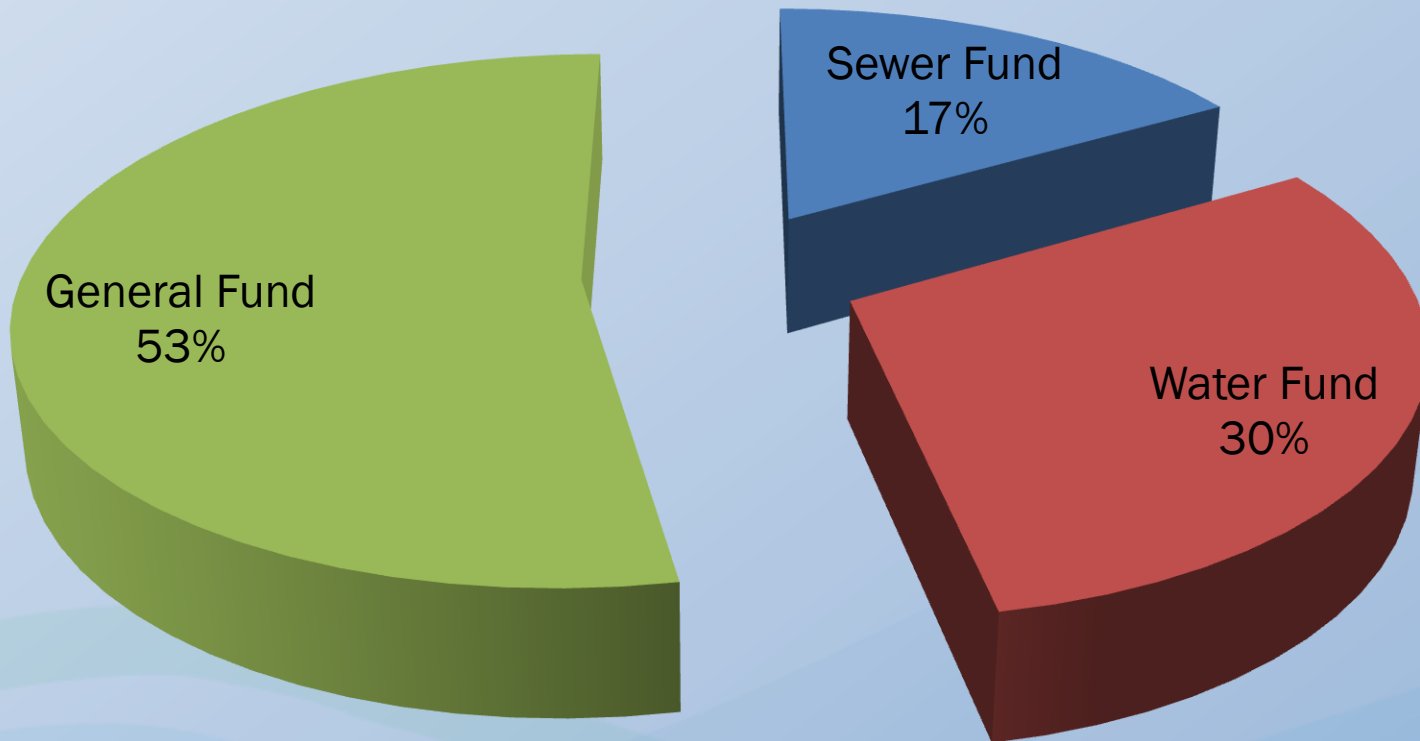
Best Practices in Establishing Reserves and Reserve Balances

Best Practices in Setting up Reserves

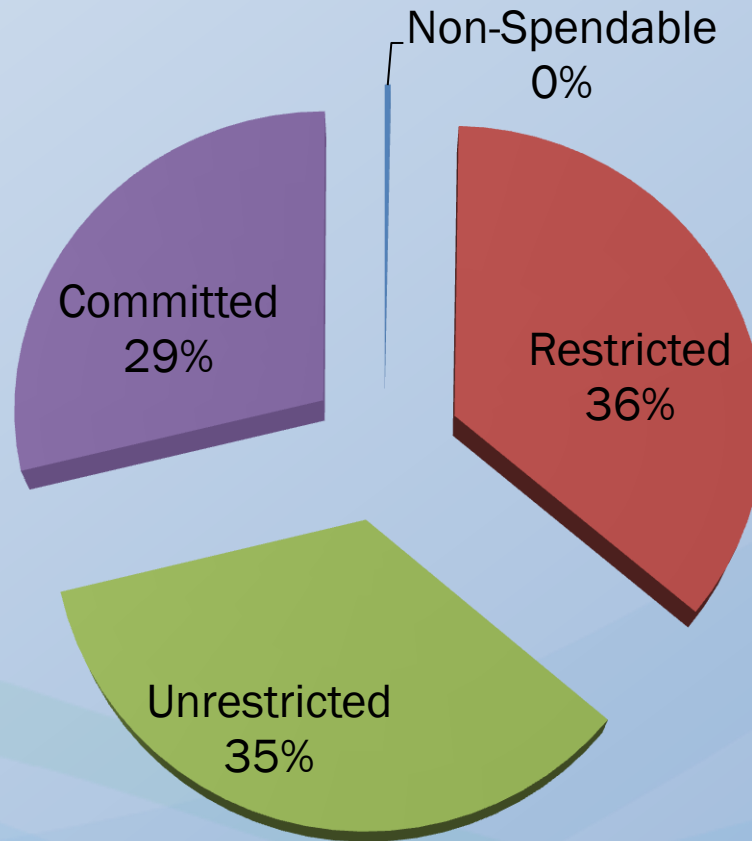
- Benchmark
 - Best Practices (e.g. GFOA Canada & US)
 - Credit Rating Agencies' Guidelines
- 2 Reserve Funds Groups (Discretionary Reserves)
 - Emerging Issues Reserve (Budgetary Uncertainty)
 - At least 16% of recurring revenue total
 - Capital Improvement Reserve
 - Based on Asset Management Policy
 - Tied to risk index and critical assets profile

City of Nanaimo Reserves and Reserve Balance Position

City of Nanaimo Financial Reserves Position (July 31, 2015)

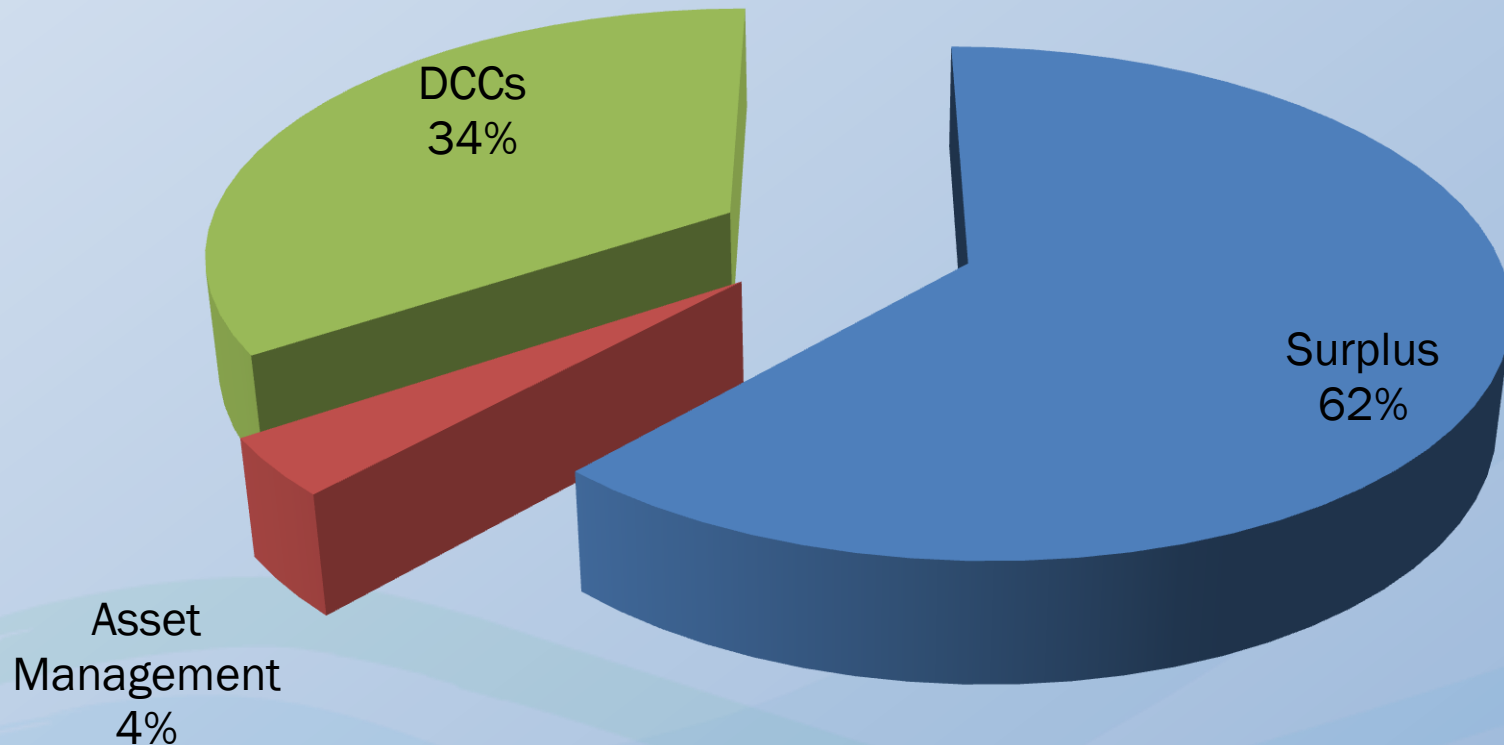


City of Nanaimo Financial Reserves Position By Category (July 31, 2015)

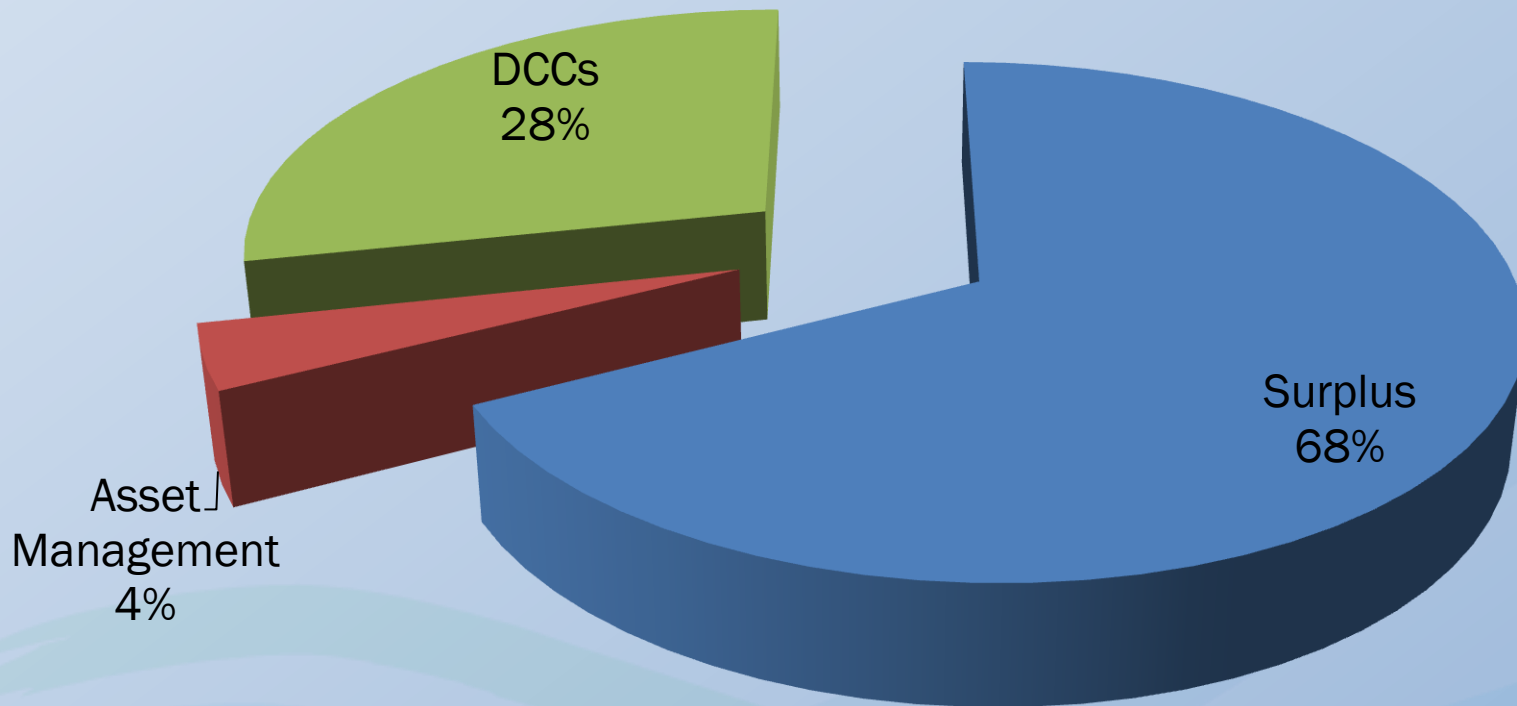


Sewer Fund Financial Reserves

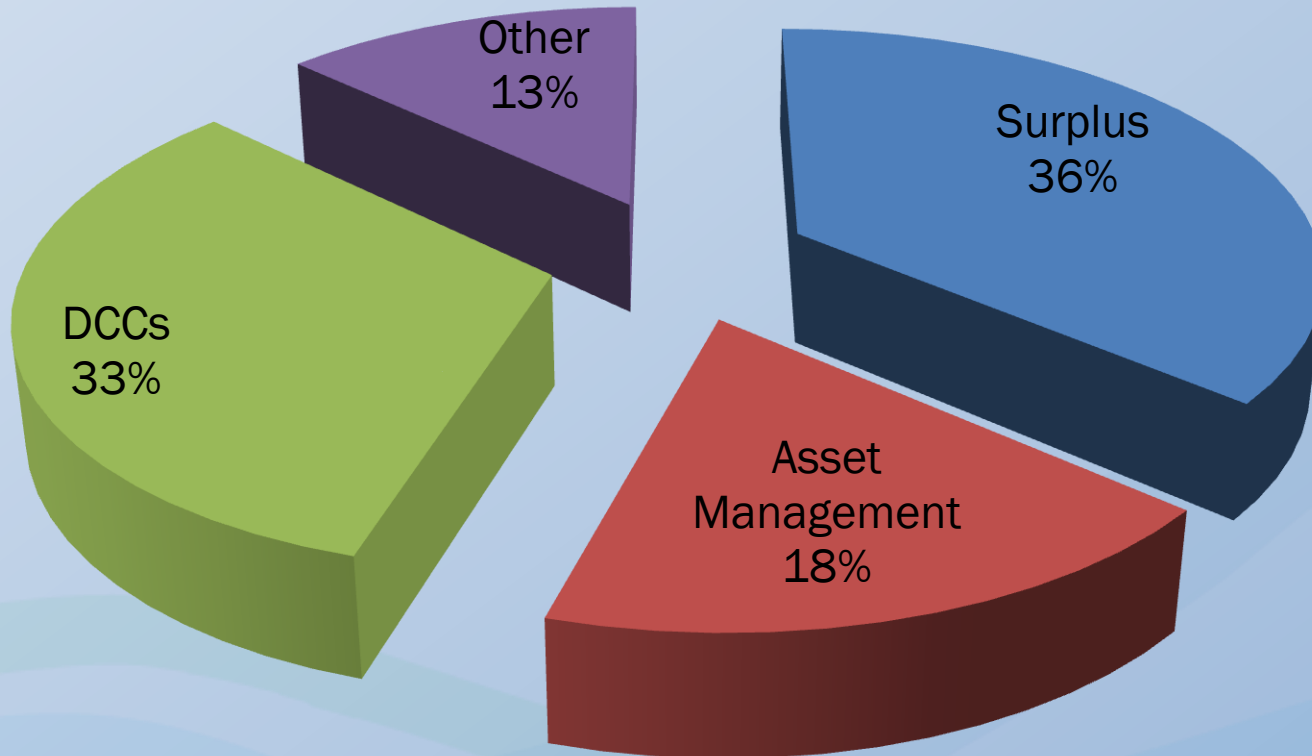
July 31, 2015



Water Fund Financial Reserves (July 31, 2015)



General Fund Financial Reserves (July 31, 2015)



Next Steps.....

- Draft a reserve policy.
- Conduct a fiscal risk assessment.
- Establish a fiscal risk mitigation strategy.
- Establish reserves and reserve balances.
- Establish reserve funding strategy.

September 28, 2015

CITY OF NANAIMO

Long Term Financial Planning and Financial Reserves

A Case for Fiscal Resilience

