



# 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%                  |
| <b>Total</b>               | <b>\$260,209,084</b>       | <b>\$224,082,514</b>     | <b>86%</b>           |

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<br>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<br>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>          |                        | -                                   | 2,816,942             | 450,000                 | -                                 | -                                 | 11,241,903              | 22,730,039              |                    |
| RCMP Contract   |                        | 1,712,895                           | (1,712,895)           |                         |                                   |                                   |                         |                         |                    |
| General Capital   | 5,906,667              | 3,999,856                           |                       |                         |                                   |                                   |                         |                         | 3,999,856          |
| Traffic Fines   | 908,383                |                                     | 908,383               |                         |                                   |                                   |                         |                         | 908,383            |
| Uncollected Taxes                                       | 2,759,115              | 2,759,115                           |                       |                         |                                   |                                   |                         |                         | 2,759,115          |
| Uninsured Claims  | 2,587,805              | 2,587,805                           |                       |                         |                                   |                                   |                         |                         | 2,587,805          |
| Water Leveling  | 1,900,000              |                                     |                       |                         | 1,696,461                         |                                   |                         | 203,539                 | 1,900,000          |
| <b>Total Allocations</b>                                |                        | <b>11,059,671</b>                   | <b>(804,512)</b>      | -                       | -                                 | <b>1,696,461</b>                  | -                       | <b>203,539</b>          | <b>12,155,159</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               | 5,833,037          |
| <b>Total Transfers</b>                                  |                        | <b>5,608,352</b>                    | <b>(804,512)</b>      | <b>750,000</b>          | <b>483,877</b>                    | <b>1,696,461</b>                  | <b>6,414,127</b>        | <b>5,833,037</b>        | <b>19,089,393</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>                | <b>31,244,552</b>  |