March 11, 2019

Today

Presentation and documents are presented to facilitate:

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

Above will allow staff to:

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

Reserves Review - Big Picture

Why do we have Reserves?

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

There are two types of Reserves:

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

Reserves Framework

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

Outcome if recommendations adopted

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

Introduction

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

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

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

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

Reserve Review

What did we do?

1. Reserve Review
   - Does the City have the right reserves?
   - Do the reserves have the right balances?
2. Draft Reserves Review report
   - Recommendations
3. Draft Reserve Policy
   - Used best practices
   - Purpose, responsibilities, principles and objectives

Development Cost Charges (DCCs)

- Collected from developers to assist with cost of new infrastructure required due to growth
  - Roads, Drainage, Parkland, Sewer and Water
- City recently completed a review and update to its DCCs, new DCC bylaw adopted in 2018
- Reserve Review report does not include a review of DCC reserves
What did we find?
2009 – 2018 Reserve Utilization
$ Million

<table>
<thead>
<tr>
<th>Reserve Type</th>
<th>Total Contributions</th>
<th>Total Withdrawals</th>
<th>% Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sewer Reserves</td>
<td>$23.0</td>
<td>$21.2</td>
<td>92%</td>
</tr>
<tr>
<td>Water Reserves</td>
<td>$59.5</td>
<td>$47.5</td>
<td>80%</td>
</tr>
<tr>
<td>General Operating</td>
<td>$86.0</td>
<td>$83.8</td>
<td>97%</td>
</tr>
<tr>
<td>General Statutory</td>
<td>$91.6</td>
<td>$71.6</td>
<td>78%</td>
</tr>
<tr>
<td>Total</td>
<td>$260.1</td>
<td>$224.1</td>
<td>86%</td>
</tr>
</tbody>
</table>

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

Reserves Review

Does the City have the right reserves?
Do the reserves have the right balances?
Reserves Review Process

3 Target Reserve Balance
   ▶ Determine reserves that should have minimum/maximum target balances
   ▶ Establish methodology for calculating minimum/maximum target balances

4 Recommendations
   ▶ New reserves
   ▶ Changes to specific current reserves
     ▶ Operating vs Statutory Reserves
     ▶ Elimination of specific current reserves
     ▶ Target balances
     ▶ Transfer/reallocation of specific reserve balances

5 Draft Reserve Policy

Two Types of Reserves

<table>
<thead>
<tr>
<th>Operating Reserves</th>
<th>Statutory Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Established for specific purposes</td>
<td>• Required by Provincial legislation and/or established by Council for specific purposes</td>
</tr>
<tr>
<td>• Funding can be re-allocated for other purposes at Council’s discretion</td>
<td>• Contributions and funding utilized is subject to City bylaws</td>
</tr>
<tr>
<td>• Interest income remains in the general operating fund</td>
<td>• Interest is allocated to each reserves based on balance</td>
</tr>
</tbody>
</table>

Operating or Statutory Reserve?

• Recommend criteria to determine if a reserve should be an Operating or Statutory Reserve
• Supports consistency and transparency
• Establish a Statutory Reserve when:
  ▶ Required by Provincial legislation
  ▶ Contractual requirements/reporting
  ▶ Specific annual contributions
  ▶ Specific long-term organizational purpose
Target Balances
- Review evaluated if a reserve should have a minimum or maximum target balance
- Do not unduly limit funding for projects and strategic opportunities
- Establish target balances for specific reserves
- Are able to fulfill their intended purpose
- Do not grow beyond their intended purpose

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

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

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

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

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

Recommended Target Balances

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

Outcome

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

Recommendations

Purpose

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

Recommendations:

- Establish Statutory Reserves
- Transfer balance from Operating Reserve to corresponding new Statutory Reserve
- Establish target minimum balances
Target Balances

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

Recommended Target Balances

<table>
<thead>
<tr>
<th>Reserve</th>
<th>Basis for Target</th>
<th>Recommended Minimum Target Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment Reserve</td>
<td>1% of replacement cost plus 10 year replacement plan</td>
<td>$270,000</td>
</tr>
<tr>
<td>Automated Cart Replacement Reserve</td>
<td>1% of replacement cost plus 10 year replacement plan</td>
<td>$42,000</td>
</tr>
<tr>
<td>IT Reserve</td>
<td>10 year average annual plus 10 year project plan</td>
<td>$575,000</td>
</tr>
<tr>
<td>Copier Reserve</td>
<td>10 year average annual plus 10 year replacement plan</td>
<td>$50,000</td>
</tr>
<tr>
<td>911 Reserve</td>
<td>10 year average annual plus 10 year project plan</td>
<td>$25,000</td>
</tr>
<tr>
<td>Total - Equipment</td>
<td></td>
<td>$962,000</td>
</tr>
</tbody>
</table>

Outcome

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

Recommendations

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

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

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

Recommended Target Balances

<table>
<thead>
<tr>
<th>Reserve</th>
<th>Basis for Target</th>
<th>Recommended Minimum Target Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility Development Reserve</td>
<td>10 year average annual plus 10 year project plan</td>
<td>$1.0 million</td>
</tr>
<tr>
<td>General Asset Management Reserve</td>
<td>.25% of replacement cost plus 10 year project plan</td>
<td>$3.5 million</td>
</tr>
<tr>
<td>Sewer Asset Management Reserve</td>
<td>.25% of replacement cost plus 10 year project plan</td>
<td>$1.5 million</td>
</tr>
<tr>
<td>Water Asset Management Reserve</td>
<td>.25% of replacement cost plus 10 year project plan</td>
<td>$2.4 million</td>
</tr>
<tr>
<td>Total - Infrastructure</td>
<td></td>
<td>$8.4 million</td>
</tr>
</tbody>
</table>

Outcome

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

Recommendations

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

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

<table>
<thead>
<tr>
<th>Reserve</th>
<th>Type</th>
<th>Target Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitzwilliam St Parking</td>
<td>Operating</td>
<td>Not needed</td>
</tr>
<tr>
<td>Parking</td>
<td>Statutory</td>
<td>Not needed</td>
</tr>
<tr>
<td>Old City Parking</td>
<td>Statutory</td>
<td>Not needed</td>
</tr>
</tbody>
</table>

Outcome

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

Property Reserves Recommendations
Property Reserves

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

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

Recommended Property Reserves

<table>
<thead>
<tr>
<th>Reserve</th>
<th>Type</th>
<th>Target Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parkland Dedication</td>
<td>Statutory</td>
<td>Not needed</td>
</tr>
<tr>
<td>Property Sales</td>
<td>Statutory</td>
<td>Not needed</td>
</tr>
<tr>
<td>Property Acquisition</td>
<td>Statutory</td>
<td>Not needed</td>
</tr>
</tbody>
</table>
Outcome
- All Statutory Reserves
- No impact on property taxes or user fees

Strategic Reserves
Purpose
- Provide funding for specific strategic initiatives
Strategic Reserves

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

Target Balances

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

Recommended Strategic Reserves

<table>
<thead>
<tr>
<th>Reserve</th>
<th>Type</th>
<th>Minimum Target Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability Reserve</td>
<td>Operating</td>
<td>Not needed</td>
</tr>
<tr>
<td>Strategic Infrastructure</td>
<td>Statutory</td>
<td>$432,000</td>
</tr>
<tr>
<td>Casino Reserve</td>
<td>Operating</td>
<td>Not needed</td>
</tr>
<tr>
<td>Housing Legacy Reserve</td>
<td>Statutory</td>
<td>Not needed</td>
</tr>
<tr>
<td>Regional Emission</td>
<td>Statutory</td>
<td>Not needed</td>
</tr>
<tr>
<td>Reduction Reserve</td>
<td>Statutory</td>
<td>Not needed</td>
</tr>
<tr>
<td>Special Initiatives</td>
<td>Operating</td>
<td>Not needed</td>
</tr>
</tbody>
</table>
Outcome

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

Other Reserves

Recommendations

- Ensure that any remaining balances are transferred to an appropriate reserve after purpose of reserve has been achieved
Outcome

- No impact on property taxes or user fees

Projected Reserve Balances
includes impact of recommendations

$ million

Looking Forward
Reserves Framework
2019 Balances

Draft Reserve Policy

Policy, Processes, Procedures

Policy – Guiding Principles and Objectives
Processes – Activities required to achieve policy objectives and comply with policy principles
Procedures – Specific tasks required to implement processes and achieve policy objectives
Purpose

The purpose of the Reserve Policy is to:

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

Principle Statements and Objectives

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

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

Next Steps
Next Steps

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