

Reserves Review




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

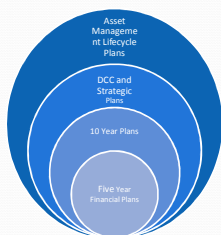
Reserves Review - Big Picture

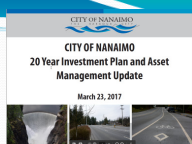
Outcome if recommendations adopted

- 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):

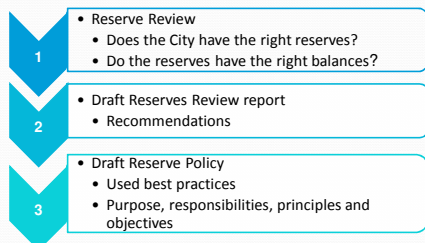
- Projected investment \$1.1 billion
- Projected available reserves funding
- Projected funding shortfall or 'gap' of \$258 million
- Strategies to close the 'gap' included:
 - Continuing annual 1% increases to asset management reserves
 - DCC review completed, new DCC bylaw adopted
 - Use fee reviews
 - 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?



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

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

Reserves Review

Does the City have the right reserves?

Do the reserves have the right balances?

Reserves Review Process

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

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

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

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

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

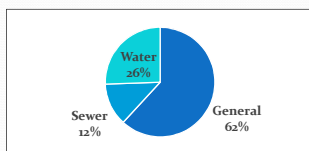


Target Balances

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

Funds

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



Financial Stability Reserves

Recommendations

Financial Stability Reserves

• Purpose:

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

Financial Stability Reserves

• Recommendations:

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

Target Balances

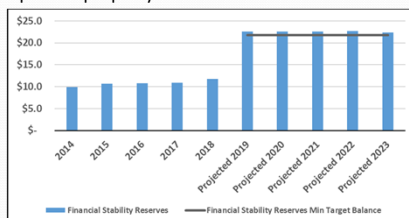
- The City's risk for unplanned expenditures or decreases in revenues are considered lower due to:
 - Robust planning processes for both operating and capital activities
 - A stable and steady demand for services
 - Ability to control revenues and expenditures
 - Establishment of equipment and infrastructure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

Recommended Target Balances

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

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

Equipment Reserves

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

Equipment Reserves

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

Target Balances

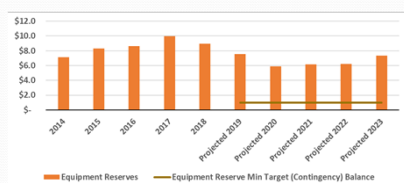
- Two components for establishing target balances
 - Contingency to mitigate risks related to unplanned equipment renewal (e.g. early failure) or where expenditures are higher than budget estimate
 - Planned investment/projects
 - 10 year replacement
 - Equipment, Automated Cart and Copier Reserves
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

Recommended Target Balances

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

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

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

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

Target Balances

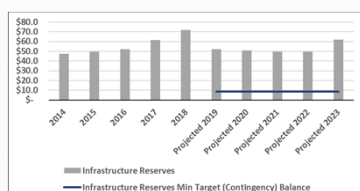
- Two components for establishing target balances
 - Contingency
 - Mitigate risks related to unplanned infrastructure renewal (e.g. early failure) or where expenditures are higher than budget estimate
 - Use % of current replacement cost
 - 20 Year Investment Plan
 - Planned investment/projects
 - City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

Recommended Target Balances

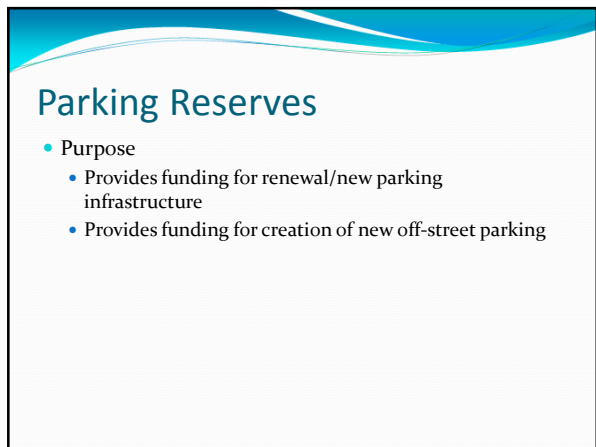
Reserve	Basis for Target	Recommended Minimum Target Balance
Facility Development Reserve	10 year average annual plus 10 year project plan	\$1.0 million
General Asset Management Reserve	.25% of replacement cost plus 10 year project plan	\$3.5 million
Sewer Asset Management Reserve	.25% of replacement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

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









Recommended Parking Reserves

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

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

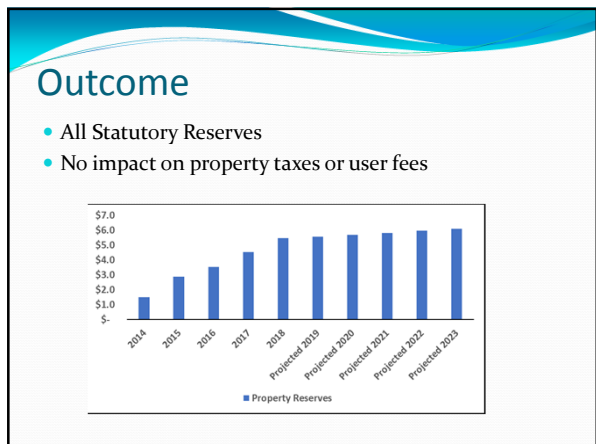
Property Reserves

Recommendation:

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

Recommended Property Reserves

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



Strategic Reserves Recommendations

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

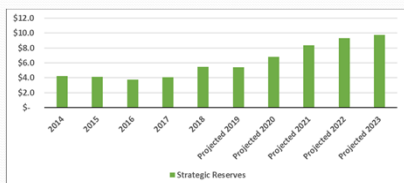
- Establish a minimum target balance for the Strategic Infrastructure Reserve
 - Annual Fortis and casino revenues can vary
 - Recommend minimum balance equal 15% of estimated annual contributions

Recommended Strategic Reserves

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

Outcome

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



Other Reserves

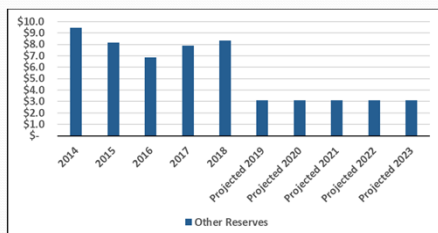
Recommendations

Other Reserves

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

Outcome

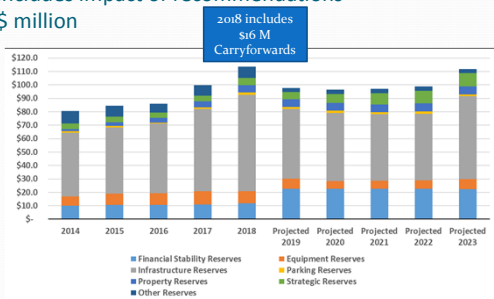
- No impact on property taxes or user fees

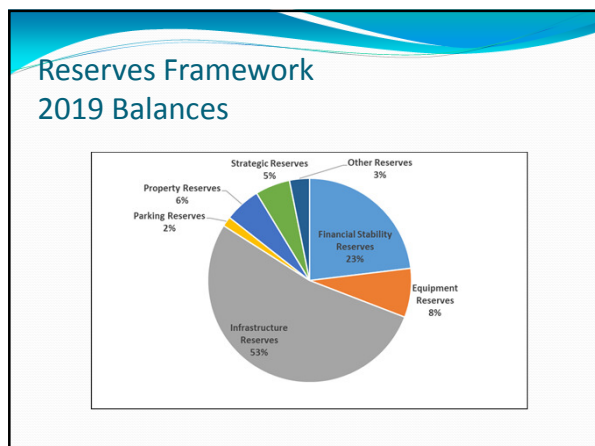


Looking Forward

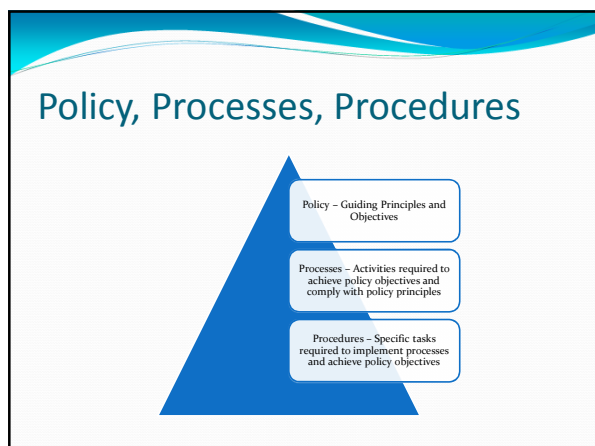
Projected Reserve Balances

includes impact of recommendations
\$ million





Draft Reserve Policy



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
