

September 10, 2019

To: Members
Finance and Administration Committee

Re: 2018 Annual Reserve Report

RECOMMENDATION

1. That Council approve a transfer of the excess amount of \$1.1 million from the Winter Road Maintenance Reserve to the Asset Revitalization Reserve.
2. That this report be forwarded to the September 30, 2019 meeting of City Council for approval.

CONCLUSION

In 2018, the City's overall reserve balance decreased to \$187.7 million compared to approximately \$210 million in 2017, representing net investments of \$22.2 million funded from reserves primarily on capital projects.

Seven of the City's 19 reserves were outside of their minimum and maximum limit while 12 were within their limit. Administration is recommending that an excess amount of \$1.1 million from the Winter Road Maintenance Reserve be transferred to the Asset Revitalization Reserve to help reduce the negative balance being projected for this reserve resulting from Council approved commitments against the Asset Revitalization Reserve. Looking forward, reserves are being projected to decrease by \$23.7 million to \$162 million at the end of 2019 due to Council approved projects in the 2019 budget.

Overall, the City reserve balance is considered reasonable compared to other municipalities and best practices. Administration continues to monitor and manage reserves in accordance with the Reserve Policy and Schedule A of the *Regina Administration Bylaw 2003-69* (Reserve Bylaw) to ensure reserves continue to support Council priorities and the needs of the City.

BACKGROUND

Reserves are monies authorized by Council to be set aside for future capital and operating needs. They are a key component of the City's long-term financial strategy, supporting the City's priority of achieving long-term financial viability as established in *Design Regina - the Official Community Plan* (OCP). There are 19 reserves maintained by the City for four main purposes:

- To support the sustainability of assets by providing for the renewal, major maintenance and replacement of existing capital assets;

- To smooth the financial impact of unplanned cost increases or revenue reductions, or to stabilize fluctuations on property taxation and/or other fees;
- To respond to or capitalize on opportunities that could impact services such as government matching grants, private sector partnerships or other alternative service delivery methods; and
- To fund new capital assets identified in the long-term corporate strategy to address community growth.

Reserves are governed through stipulations in Schedule A of the *Regina Administration Bylaw, Bylaw 2003-69* and the Reserve Policy. These documents require the Executive Director, Financial Strategy & Sustainability to submit an Annual Reserve Report to Council, on or before September 30 of each year, that provides a description of the purposes of each reserve, the balances of each reserve for the previous year in comparison to the reserve limits, as well as recommended transfers to or from the reserves that will ensure reserves are within their minimum and maximum ranges.

The purpose of this report is to address these requirements.

DISCUSSION

2018 Reserve Balance

In 2018, the City's reserves decreased by 10.6 per cent from approximately \$210 million at the beginning of 2018 to \$187.7 million at the end of 2018. This decrease represents a net withdrawal of \$22.2 million from reserves primarily to fund capital projects. Self-sustaining reserves account for a significant portion of reserves (72 per cent), operating reserves account for 20 per cent of the reserve balance while capital reserves represent 8 per cent of the balance.

Both the operating and capital reserves are funded through tax revenues while self-sustaining reserves are funded from external user fees and charges. The balance of the self-sustaining reserves is consistent with historical levels and is driven by the need to match revenues to planned capital projects to ensure asset renewal and service sustainability. Allocating revenues to reserves allows for the renewal cost of an asset to be spread across users over the life of the asset. This approach is consistent with the City's reserve principles and the benefits model identified in the OCP.

2018 Reserve Balance in Comparison to Reserve Limits

At the end of 2018, seven of the City's 19 reserves were outside their range while 12 were within range. Of the seven reserves outside of their range, four were in excess of their maximum limit by \$14 million mainly attributable to the General Utility Reserve and the Winter Road Maintenance Reserve, while three reserves were \$11.5 million below their minimum limit mainly attributable to the Land Development Reserve.

The four reserves above their maximum limit include:

- *Winter Road Maintenance Reserve* – \$1.1 million in excess of its maximum limit of \$2 million
- *General Utility Reserve* – \$12.8 million in excess of its maximum limit of \$90 million

- *Asphalt Plant Reserve* – \$45,000 in excess of its maximum limit of \$1.3 million
- *Community Investments Grants Reserve* – \$19,000 in excess of its maximum limit of \$350,000.

The three reserve below their minimum limit include:

- *Golf Course Reserve* – \$150,000 below its minimum limit of \$250,000
- *Planning & Sustainability Reserve* – \$168,000 below its minimum limit of \$1.7 million
- *Land Development Reserve* – \$11.2 million below its minimum limit of \$2 million

The remaining 12 reserves were within their limit.

Projected Reserve Balance

Looking beyond 2018, reserves are being projected to decrease by \$23.7 million to \$162 million at the end of 2019 and is expected to decrease further to approximately \$101 million by 2023 due to planned projects approved by Council in the 2019-2023 capital budget. The General Fund Reserve (GFR) and the Asset Revitalization Reserve (ARR) are among reserves expected to decline below their minimum limit at the end of 2019 due to Council approved commitments against these reserves. The GFR had a balance of \$23.5 million at the end of 2018, which was within its minimum limit of \$23 million, and is projected to decline below its minimum limit to \$15.4 million at the end of 2019 due to Council approved commitments and expenditures, including \$2.4 million commitment related to the Regina Humane Society and \$3.8 million for the Parks & Facilities Yard Development. The ARR has commitments against it related to the new Regina Police Service Headquarters, which will put this reserve in a negative balance of \$5.9 million at the end of 2019. A depleted GFR and a negative ARR creates financial risks as these two reserves provide Council the greatest flexibility to respond quickly to emergencies or to capitalize on opportunities without borrowing.

Given the ARR is projected to be in a negative position at the end of 2019, it is reasonable to transfer the excess amount in the Winter Road Maintenance Reserve to the ARR. Based on this, it is recommended that:

- The excess amount of \$1.1 million in the Winter Road Maintenance Reserve be transferred to the Asset Revitalization Reserve. This will reduce the projected negative balance of the ARR to \$4.9 million at the end of 2019.
- No transfers be made from the General Utility Reserve due to ongoing projects and future capital plans
- No transfers be made from the Asphalt Plant Reserve and the Community Investments Grants Reserve as the excess amount in these reserves is minimal.

City of Regina Reserves in Comparison to Other Municipalities

Based on industry measures and best practices, the City's reserve balance was compared to other municipalities. The result of the comparison shows that the City is maintaining an appropriate level of reserves as the City's reserve balance is within the average range for most of the indicators considered, including reserves per capita, reserve to expenses ratio and debt to reserve ratio. It is important to highlight that the City earned a top tier AAA credit rating from S&P Global in 2019 based on its practice of strong financial management, including responsible

reserves stewardship. This is the second consecutive credit rating increase for the City after having received a rating of AA+ with a positive outlook in 2018.

Appendix A contains a detailed description of the purpose of each reserve, reserve transactions that occurred during the year and the projected balance for each of the reserves. It also contains detailed rationale for transferring excess funds in reserves and as well as the rationale for not replenishing or reducing reserves that are outside of their limit.

RECOMMENDATION IMPLICATIONS

Financial Implications

Reserves provide the City a capital planning mechanism by matching revenues and expenses over the long-term to ensure the sustainability of services and assets. They also provide Council financial flexibility to capitalize on opportunities and respond to budget shortfall that could otherwise result in property tax increases.

Administration is recommending that the excess amount of \$1.1 million from the Winter Road Maintenance Reserve be transferred to the Asset Revitalization Reserve (ARR). This transfer will reduce the ARR's projected negative balance to \$4.8 million. No transfer is recommended from the General Utility Reserve due to funding of ongoing utility projects approved by Council in the 2019-2023 capital plan. A transfer is also not recommended from the Asphalt Plant Reserve and the Community Investments Grants Reserve as the excess amount in these reserves is minimal.

The ARR is used to manage growth and revitalization of existing capital assets and infrastructure of the City while the General Fund Reserve (GFR) provides flexibility to smooth fluctuations in operating expenditures and to also support one-time capital requirements. A depleted GFR and ARR impacts Council's flexibility to respond to emergencies or capitalize on future opportunities without borrowing. The recommended transfer to the ARR will help move this reserve out of a negative position. Administration continues to manage reserves in accordance with the Reserve Policy and the Bylaw to ensure reserves continue to support Council priorities and the needs of the City. The recommendation also supports the City's financial priority of achieving long-term financial viability.

Environmental Implications

None related to this report.

Policy and/or Strategic Implications

Reserves are used as a mechanism to plan for future needs. This is consistent with the City's strategic priority of "Making Choices Today to Secure Tomorrow – Advancing the Official Community Plan (OCP)". This strategic priority ensures that the City anticipates and prepares for growth while being responsive to the needs of the community as established in the OCP.

Strategically setting aside funds through reserves such as the GFR or ARR to meet future growth and revitalization needs aligns with the City's targeted outcome of balancing community need and affordability across all services. In addition, a well-balanced approach to the planning and use of reserves is considered good financial management and contributes to the City's strong credit rating.

Other Implications

None related to this report.

Accessibility Implications

None related to this report.

COMMUNICATIONS

None related to this report.

DELEGATED AUTHORITY

The recommendations contained in this report require City Council approval.

Respectfully submitted,



June Schultz
Director, Financial Services

Respectfully submitted,



Barry Lacey, Executive Director
Financial Strategy & Sustainability

Report prepared by:
Abiye Dickson, Financial Business Partner
Irene Hrynkiw, Manager, Financial Analysis & Support