

## 2019 Annual Reserve Report

<b>Date</b>	June 10, 2020
<b>To</b>	Finance and Administration Committee
<b>From</b>	Financial Strategy & Sustainability
<b>Service Area</b>	Financial Services
<b>Item No.</b>	FA20-12

### RECOMMENDATION

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The Finance and Administration Committee recommends that City Council:

1. Instruct the City Solicitor to amend Schedule A of *The Regina Administration Bylaw, No. 2003-69* to amend the minimum and maximum amounts for the Regina Police Service General Reserve and Regina Police Service Radio Equipment Reserve to the following:
  - a. The Regina Police Service Radio Equipment Reserve minimum limit be set at \$65,000 and the maximum limit be set at \$300,000.
  - b. The Regina Police Service General Reserve minimum limit be set at \$300,000 and the maximum limit remains unchanged at \$4 million.
2. Approve a transfer of \$368,000 from the Winter Road Maintenance Reserve to the General Fund Reserve.
3. Approve the recommendations at its June 24, 2020 Meeting.

### ISSUE

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Reserves are governed through stipulations in Schedule A of the *Regina Administration Bylaw, No. 2003-69* (the “Bylaw”) 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.

## **IMPACTS**

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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 General Fund Reserve (GFR) or Asset Revitalization Reserve (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.

Reserves provide the City with 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 with financial flexibility to capitalize on opportunities, respond to emergencies and address budget shortfalls that could otherwise result in property tax increases.

The ARR is used to manage growth and revitalization of existing capital assets and infrastructure of the City while the 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. 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.

## **OTHER OPTIONS**

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### **Regina Police Service Reserve Limits**

This report recommends changes to the minimum and maximum target balances of the Regina Police Service General Reserve and the Regina Police Service Radio Equipment Reserve. City Council can choose to maintain the current limits for these reserves. This option would not impact the reserve balances or other recommendations included in this report.

### **Transfer from Winter Road Maintenance Reserve**

City Council can choose to not transfer the funding in excess of the target maximum from the Winter Road Maintenance Reserve. As noted in Appendix A, the Winter Road Maintenance Reserve is projected to be above the maximum target for the next five years.

Transferring the excess funds to the General Fund Reserve meets the recommendations within the Reserve Policy and increases the availability of flexible funding within the General Fund Reserve.

## **COMMUNICATIONS**

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None related to this report.

## **DISCUSSION**

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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.

### **Regina Police Service Reserves**

In May 2018, City Council approved recommendations to amend reserve target maximum and minimums as a result of a comprehensive reserve review. Recommendations related to the minimum and maximum limits for the Regina Police Service (RPS) General Reserve and the RPS Radio Equipment Reserve were not approved by Council at that time. Administration was directed to provide the options related to the RPS reserves and get feedback from the Board of Police Commissioners. In May 2019, the Board of Police Commissioners approved the following changes to RPS reserves:

- The maximum limit of the RPS Radio Equipment Reserve decrease to \$300,000 from \$6 million while the minimum limit decrease to \$65,000 from \$100,000.
- The maximum limit of the RPS General Reserve remain unchanged at \$4 million and the minimum limit decrease to \$300,000 from \$400,000.

### **2019 Reserve Balance**

In 2019, the City's reserve balance decreased by 8 per cent from approximately \$188 million at the beginning of 2019 to \$173 million at the end of 2019. This decrease represents a net withdrawal of \$15 million from reserves primarily to fund capital projects. Self-sustaining reserves account for a significant portion of reserves (62 per cent).

Operating reserves account for 23 per cent of the reserve balance while capital reserves represent 15 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.

### **2019 Reserve Balance in Comparison to Reserve Limits**

At the end of 2019, six of the City's 19 reserves were outside their range while 13 were within range. Of the six reserves outside of their range, four were in excess of their maximum limit by \$3.7 million. This is mainly attributable to the General Utility Reserve. Two reserves were \$20.9 million below their minimum limit; mainly attributable to the Land Development Reserve.

The four reserves above their maximum limit are:

- General Utility Reserve – \$4.3 million in excess of its maximum limit of \$90 million.
- Fleet Replacement Reserve – \$607,000 in excess of its maximum limit of \$14.3 million.
- Winter Road Maintenance Reserve – \$368,000 in excess of its maximum limit of \$2 million.
- Community Investments Grants Reserve – \$33,000 in excess of its maximum limit of \$350,000.

The two reserves below their minimum limit are:

- Land Development Reserve – \$18.8 million below its minimum limit of \$2 million.
- Planning & Sustainability Reserve – \$2.1 million below its minimum limit of \$1.7 million.

The remaining 13 reserves were within their limit at the end of 2019.

### **Projected Reserve Balance**

Looking beyond 2019, the overall reserve balance is projected to decline to \$147 million at the end of 2020 and to \$146 million at the end of 2021. The General Fund Reserve (GFR) is expected to be slightly above its minimum limit at the end of 2021 due to Council approved commitments against the reserve. The GFR had a balance of \$27 million at the end of 2019, which was within its minimum limit of \$23 million, but is projected to decline to \$23.8 million in 2021, slightly above the minimum limit due to Council approved commitment to the Regina Humane Society. A depleted GFR creates financial risks as this reserve provides Council the greatest flexibility to respond quickly to emergencies or to capitalize on opportunities without borrowing.

Based on the analysis in this report, administration recommends that:

- No transfers be made from the General Utility Reserve due to ongoing projects and future capital plans.
- No transfers be made from the Fleet Replacement Reserve due to upcoming fleet purchases.
- \$386,000 be transferred from the Winter Road Maintenance Reserve to the General Fund Reserve.
- No transfers be made from the Community Investments Grants Reserve as the excess amount 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. S&P Global reaffirmed the AAA credit rating in May 2020.

Appendix A contains a detailed description of the purpose of each reserve, transactions that occurred during the year and the projected balance for the next five years. 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.

### **COVID-19**

The financial impacts of COVID-19 on the City are expected to be significant and potentially extend into 2022. Administration continues to analyze and monitor the situation, including possible impacts on the City's reserves.

### **DECISION HISTORY**

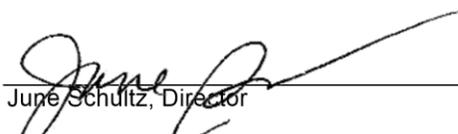
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On May 28, 2018 City Council approved reserve review recommendations (CR18-54). In June 2019, the Board of Police Commissioners approved recommended minimum and maximum targets for the Regina Police Service General and the Regina Police Service Radio Equipment Reserves.

The recommendations contained within this report require City Council approval.

Respectfully Submitted,

Respectfully Submitted,

  
June Schultz, Director

5/27/2020

  
Barry Lacey, Exec. Director, Financial Strategy & Sustainability

5/2/2020

Prepared by: Jonathan Barks, Risk Management Advisor

**ATTACHMENTS**

Appendix A 2019 Reserve Report