



2020 Annual Reserve Report

Date	August 4, 2021
To	Executive Committee
From	Financial Strategy & Sustainability
Service Area	Financial Services
Item No.	EX21-54

RECOMMENDATION

That Executive Committee recommends that City Council:

Instruct the City Solicitor to amend the *Regina Administration Bylaw, 2003-69* as outlined below:

- a. Create a new capital reserve called the mâdawêyatitân Reserve, the purpose of which is to support the long-term preservation of the mâdawêyatitân Centre.
- b. The reserve will be funded by transferring \$98,000 per year from the operating budget of the Centre to this reserve.
- c. The account balance of the mâdawêyatitân Reserve shall include the balance of the reserve at the start of the year adjusted by:
 - i. Transfers to the reserve of amounts determined by Council, by resolution, bylaw or through the annual operating budget;
 - ii. Transfers from the reserve to fund maintenance of the mâdawêyatitân Centre as approved by Council, by resolution, bylaw or in the annual operating budget.

ISSUE

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

Reserves are used as a mechanism to plan for future needs. This is consistent with the City's Strategic Plan "Making Choices Today to Secure Tomorrow – Advancing the Official Community Plan (OCP)". This Strategic Plan 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

Transfer from Fleet Replacement Reserve

City Council could instruct Administration to make a transfer from the Fleet Replacement Reserve as two of the component reserves, General Civic and Transit Fleet, are in excess of their maximums. As the Fleet Replacement Reserve is a capital reserve, any transfer from the reserve would be directed to the Asset Revitalization Reserve.

COMMUNICATIONS

None related to this report.

DISCUSSION

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 21 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.

2020 Reserve Balance

In 2020, the City's reserve balance increased by 16 per cent from approximately \$172.7 million at the beginning of 2020 to \$199.4 million at the end of 2020. This increase represents a net increase of \$26.8 million from reserves primarily due to grants from senior levels of government to help offset the impacts of COVID-19. Self-sustaining reserves account for a significant portion of reserves (54 per cent). Operating reserves account for 27 per cent of the reserve balance while capital reserves represent 19 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.

2020 Reserve Balance in Comparison to Reserve Limits

At the end of 2020, five of the City's 21 reserves were outside their range while 16 were within range. Of the five reserves outside of their range, three were in excess of their maximum limit by

\$13.5 million. This is mainly attributable to the General Utility Reserve and Fleet Replacement Reserve. Two reserves were \$22.4 million below their minimum limit; mainly attributable to the Land Development Reserve.

The three reserves above their maximum limit are:

- General Utility Reserve – \$6.7 million in excess of its maximum limit of \$90 million. No transfers are being recommended to be made from the reserve as the funds are currently dedicated for planned capital projects over the next five years.
- Fleet Replacement Reserve – \$6.7 million in excess of its maximum limit of \$14.3 million. No transfers are being recommended to be made from this reserve due to the expectation that moving the City fleet to alternative fuels may increase the cost to this reserve.
- Winter Road Maintenance Reserve – \$169,000 in excess of its maximum limit of \$2 million. No transfers are being recommended to be made from the reserve as the reserve is projected to be within its guidelines by the end of 2021.

The two reserves below their minimum limit are:

- Land Development Reserve – \$18.4 million below its minimum limit of \$2 million. While the reserve has a negative balance, as described in the attached report there is approximately \$29 million available in land development project accounts meaning on a net basis funds available for land development are in a positive position. Based on this, no action is recommended at this time.
- Planning & Sustainability Reserve – \$4 million below its minimum limit of \$1.7 million. As this is a self-sustaining reserve, management is reviewing the fee structure related to the reserve and will continue to monitor the reserve balance. No additional action is recommended at this time.

The remaining 16 reserves were within their limit at the end of 2020.

Projected Reserve Balance

Looking beyond 2020, the overall reserve balance is projected to decline to \$183 million at the end of 2021 and to \$166 million at the end of 2022. The General Fund Reserve (GFR) is expected to be slightly below its minimum limit at the end of 2021 due to Council approved commitments against the reserve. The GFR had a balance of \$29.4 million at the end of 2020, which was within its minimum limit of \$23 million, but is projected to decline to \$21.5 million in 2021, slightly below 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 Fleet Replacement reserve due to the increased costs that may be incurred as the City transitions to an alternative fuel fleet.

- No transfers be made from the General Utility Reserve due to ongoing projects and future capital plans.
- No transfers be made from the Winter Road Maintenance Reserve due to planned expenditures in 2021.

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 2020 based on its practice of strong financial management, including responsible reserves stewardship. S&P Global reaffirmed the AAA credit rating in May 2021.

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 were managed prudently in 2020 and the City received additional support from senior levels of government. The COVID-19 Recovery Reserve has \$15.9 million to offset the impact of the pandemic extending into 2021 and beyond. Administration continues to analyze and monitor the situation, including possible impacts on the City's reserves.

mâdawêyatitân Reserve

In 2014, Council authorized the creation of a reserve for the North Central Shared Facility, now the mâdawêyatitân Centre (CR14-105). The reserve was authorized and established as such in the City's financial reporting systems, however, the necessary amendments to the Bylaw were not completed. This report recommends the Bylaw be updated to formally create the mâdawêyatitân Reserve. The reserve is a capital reserve with the purpose of support the long-term preservation of the mâdawêyatitân Centre. The funding source of the reserve is the operating budget for the mâdawêyatitân Centre, with 1.5 per cent of the City's capital cost to build the center, or \$98,000 per year allocated to the reserve.

DECISION HISTORY

The recommendations contained within this report require City Council approval.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "June Schultz", written over a horizontal line.

June Schultz, Director, Financial Services

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Barry C. Lacey", written over a horizontal line.

Barry Lacey, Executive Director, Financial Strategy & Sustainability

Prepared by: Jonathan Barks, Financial Business Partner

ATTACHMENTS

Appendix A - 2020 Annual Reserve Report