

May 28, 2018

To: His Worship the Mayor
And Members of City Council

Re: Executive Committee: Reserve Review Recommendations

RECOMMENDATION

**RECOMMENDATION OF THE EXECUTIVE COMMITTEE
- MAY 16, 2018**

1. That Council approve amendments to Schedule A of *The Regina Administration Bylaw*, Bylaw No. 2003-69 (the Bylaw) as follows:
 - a. Add the purpose and funding source for each reserve consistent with Appendix C of this report.
 - b. Change the name of the Operational Commitments Reserve to Elections and Property Reassessment Reserve.
 - c. Close the following reserves:
 - i. Pest Management Reserve, effective immediately.
 - ii. Facility Reserve, effective January 01, 2019 or upon completion of the old Mosaic stadium decommissioning.
 - d. Change the current reserve limits based on the recommended minimum and maximum reserve limits as outlined in Appendix D of this report.
 - e. Strengthen annual reserve reporting requirements by providing general guidelines in the Bylaw that allow for detailed and comprehensive reporting requirements to be contained in the Administration's Reserve Policy.
 - f. Make housekeeping amendments to correct and clarify language as follows:
 - i. remove the references to "external entities" and "external parties" with respect to deferred revenue;
 - ii. clarify what constitutes deferred revenue;
 - iii. clarify the wording for transfers from reserves;
 - iv. amend the references to "interest revenue" to refer to "investment income";
 - v. clarify that investment income can only be transferred to the asset revitalization reserve where it will not create a deficit in the operating fund; and
 - vi. amend the references to "amount" in a number of reserves to refer to the "balance" instead.
2. That the total reserve transfers of \$5.987 million as described below be approved:
 - a. Transfer \$4.69 million from the Winter Road Maintenance Reserve as follows:
 - i. \$2.8 million to the Social Development Reserve (SDR)
 - ii. \$1.89 million to the General Fund Reserve.
 - b. Transfer \$777,000 from the Asphalt Plant Reserve to the Asset Revitalization Reserve.
 - c. Transfer \$520,000 from the Pest Management Reserve to the General Fund Reserve.

3. That the transfer to the SDR extinguish the outstanding internal obligation of \$2.8 million owed to the SDR.
4. That the City Solicitor be instructed to prepare amendments to Schedule A of *The Regina Administration Bylaw*, Bylaw No. 2003-69 to address the changes identified in recommendation 1 of this report.
5. That this report serve as the Annual Reserve Balances Report in accordance with Schedule A (Section 8.1) of the Bylaw.
6. That Administration bring back a report in Q4 of 2018 to the Executive Committee outlining the benefits and implications of creating a reserve for the Residential Roads Renewal Program.

EXECUTIVE COMMITTEE – MAY 16, 2018

The Committee adopted a resolution to concur in the recommendation contained in the report after amending recommendation #6 as follows:

That Administration bring back a report in Q4 of 2018 to the Executive Committee outlining the benefits and implications of creating a reserve for the Residential Roads Renewal Program.

Recommendation #7 does not require City Council approval.

Mayor Michael Fougere, Councillors: Jerry Flegel (Chairperson), Lori Bresciani, Sharron Bryce, John Findura, Bob Hawkins, Jason Mancinelli, Mike O'Donnell, Andrew Stevens and Barbara Young were present during consideration of this report by the Executive Committee.

The Executive Committee, at its meeting held on May 16, 2018, considered the following report from the Administration:

RECOMMENDATION

1. That Council approve amendments to Schedule A of *The Regina Administration Bylaw*, Bylaw No. 2003-69 (the Bylaw) as follows:
 - a. Add the purpose and funding source for each reserve consistent with Appendix C of this report.
 - b. Change the name of the Operational Commitments Reserve to Elections and Property Reassessment Reserve.
 - c. Close the following reserves:
 - i. Pest Management Reserve, effective immediately.
 - ii. Facility Reserve, effective January 01, 2019 or upon completion of the old Mosaic stadium decommissioning.
 - d. Change the current reserve limits based on the recommended minimum and maximum reserve limits as outlined in Appendix D of this report.

- e. Strengthen annual reserve reporting requirements by providing general guidelines in the Bylaw that allow for detailed and comprehensive reporting requirements to be contained in the Administration's Reserve Policy.
 - f. Make housekeeping amendments to correct and clarify language as follows:
 - i. remove the references to "external entities" and "external parties" with respect to deferred revenue;
 - ii. clarify what constitutes deferred revenue;
 - iii. clarify the wording for transfers from reserves;
 - iv. amend the references to "interest revenue" to refer to "investment income";
 - v. clarify that investment income can only be transferred to the asset revitalization reserve where it will not create a deficit in the operating fund; and
 - vi. amend the references to "amount" in a number of reserves to refer to the "balance" instead.
2. That the total reserve transfers of \$5.987 million as described below be approved:
 - a. Transfer \$4.69 million from the Winter Road Maintenance Reserve as follows:
 - i. \$2.8 million to the Social Development Reserve (SDR)
 - ii. \$1.89 million to the General Fund Reserve.
 - b. Transfer \$777,000 from the Asphalt Plant Reserve to the Asset Revitalization Reserve.
 - c. Transfer \$520,000 from the Pest Management Reserve to the General Fund Reserve.
 3. That the transfer to the SDR extinguish the outstanding internal obligation of \$2.8 million owed to the SDR.
 4. That the City Solicitor be instructed to prepare amendments to Schedule A of *The Regina Administration Bylaw*, Bylaw No. 2003-69 to address the changes identified in recommendation 1 of this report.
 5. That this report serve as the Annual Reserve Balances Report in accordance with Schedule A (Section 8.1) of the Bylaw.
 6. That Administration bring back a report in 2019 outlining the benefits and implications of creating a reserve for the Residential Roads Renewal Program.
 7. That this report be forwarded to the May 28, 2018 meeting of City Council for approval.

CONCLUSION

This report contains the findings and recommendations of the detailed review of the reserves completed in 2017. The City had 21 reserves with a total balance of \$209.9 million as at December 31, 2017. The review shows that the number of reserves and the balance of reserves held by the City are reasonable relative to the current business needs of the City and in comparison to other jurisdictions and best practices. The review also found that the majority of the City's reserves are needed to support planned capital and operating requirements.

Projections show that reserve balances will decline by the end of 2018 due to planned and committed capital projects, including the purchase of the Saskatchewan Transportation Company (STC) building for the new Regina Police Service Headquarters. The majority of the funds in the Asset Revitalization Reserve and General Fund Reserve have been approved by Council (CR17-120) to fund the \$37 million STC building acquisition. These reserves, which provide Council with the greatest flexibility, are projected to be significantly below their minimum limit due to this capital acquisition.

Based on the outcomes of the reserve review, improvements are recommended to enhance the management of reserves to continue to meet planned expenditures as well as to mitigate unplanned funding requirements. The recommended changes that require Council approval are summarized below:

- To enhance transparency, the purpose and funding source of each reserve be clearly described. Administration is recommending that Council approve amendments to the Bylaw to include the purpose and funding source of the reserves as outlined in Appendix C.
- To ensure greater transparency, it is recommended that the name of the Operational Commitments Reserve be changed to Elections and Property Reassessment Reserve.
- The Pest Management Reserve and Facility Reserve are being recommended for closure as these reserves are no longer relevant to the business needs of the City.
- Based on the new methodology for setting reserve limits, Administration is recommending that Council approve the new minimum and maximum reserve limits, and amend the Bylaw to include the new limits as outlined in Appendix D.
- Changes are also recommended to strengthen the annual reserve reporting to Council to provide sufficient information to support more informed decisions.

Overall, the recommendations require amendments to the Bylaw, transfers of approximately \$6 million between reserves, as well as changes to the existing Reserve Policy. Council approval is required for the recommendations related to amendments to the Bylaw and reserve transfers. The Executive Director, Financial & Corporate Services has authority to approve the Reserve Policy based on Section 25 of the Bylaw. The Reserve Policy changes will be reflective of the Bylaw amendments. Therefore, the Reserve Policy will be updated and approved by the Administration after the recommended Bylaw amendments have been approved by Council to ensure consistency.

In addition to the reserve review recommendations, this report addresses the requirements of the Annual Reserve Balances Report to Council in accordance with clause 8.1 of Schedule A of the Bylaw. This clause requires the Executive Director, Financial & Corporate Services to submit an annual reserve balances report to Council for approval. Administration is confident that these recommendations will enhance effective reserves stewardship and consistent management of reserves for the ongoing financial stability of the City.

BACKGROUND

Reserves account for a significant portion of the City's long-term financial strategy and capital plan, with 56 per cent of the City's 2018 capital budget to be funded from reserves. Over the past

decade, the City's reserve balance has increased from \$61 million in 2007 to \$209.9 million in 2017 due to growth and planning for increased infrastructure funding needs.

The City's reserves are governed by Schedule A of the Bylaw (Reserve Bylaw) and the Reserve Policy. The Reserve Bylaw was last updated in 2011 and the Reserve Policy was created by Administration in 2011 but has not been reviewed since that time. Since 2011, the City has developed new guiding documents, such as *Design Regina - the Official Community Plan* (OCP) and other internal documents. There was a need to review the appropriateness of the reserves held by the City in relation to the purpose of each reserve, long-term financial goals and business needs of the City, risks and best practices to ensure reserves are being used effectively as a tool for financial and asset management. For these reasons, a comprehensive reserve review was initiated to align the Reserve Bylaw, Reserve Policy and these guiding documents to help ensure the City's long-term financial sustainability.

The review process included best practice research, consultation with internal stakeholders and, jurisdictional review and benchmarking. Analysis of internal guiding documents and historical data for reserves was done to assess the appropriateness of the purpose and limits of reserves. The review did not include obligatory or non-discretionary reserves such as deferred revenues or the Group Benefits Reserves. This was due to the external restrictions or legal obligations, which require that these reserves be separated from the City's revenues and the funds used for specific projects based on agreed upon terms and conditions. Council is legally not allowed to use funds from these reserves outside of the stated purposes.

The review findings and recommendations are discussed below. Council's approval is required for the recommendations related to reserve transfers and Bylaw amendments.

DISCUSSION

Reserves are monies authorized by Council to be set aside for planned and unexpected future capital and operating expenditures. The creation, use and management of reserves based on a formalized reserve policy and bylaw is consistent with best practices and common jurisdictional practices among cities in Canada and the United States.

The City has 21 reserves with a total balance of \$209.9 million as at December 31, 2017. There are five capital reserves, eight operating reserves and eight self-sustaining (capital and operating) reserves.

- **Capital reserves** are used to fund planned capital expenditures. These reserves are tax-funded and had a total balance of \$33.3 million as at December 31, 2017.
- **Operating reserves** are used to smooth the impact of fluctuations in operating expenditures. These reserves are tax-funded and they had a balance of \$45.9 million at the end of 2017.
- **Self-sustaining reserves** are used for both capital planning and to smooth fluctuations in expenditures. These reserves are funded through external user fees (e.g. utility fees, landfill fees) and they account for the majority (\$130.8 million) of the City's reserve balance.

Objectives of the Review

The overall goal of the reserve review was to develop a modern Reserve Policy and Bylaw that can enable the City to deliver on its priority of “achieving long-term financial viability” as identified in the OCP. Specifically, the review focused on providing recommendations to improve and strengthen the City’s reserve management by:

- a. Ensuring that the number of reserves and the balance of reserves held by the City are appropriate.
- b. Ensuring that the purpose and funding source of the City’s reserves are clearly described and aligned to the OCP and other Council priorities.
- c. Developing criteria for creating or closing reserves, and for the ongoing assessment of reserves.
- d. Establishing a methodology for determining appropriate limits for reserves, including determining appropriate minimum and maximum thresholds for each reserve, relative to the purpose of the reserve, the City’s business needs, and best practices.
- e. Strengthening reserve governance to balance Council’s authority with administrative flexibility, while promoting transparency.
- f. Updating the Reserve Policy and the Bylaw based on findings and recommendations of the review.

Based on these objectives, the review findings and recommendations are described below.

Number and Size of Reserves Held by the City

The review findings show that the number of reserves and amount of money in reserves held by a municipality depend on a number of factors, including services and levels of service provided by the municipality, age and condition of infrastructure, and long-term plans. Using recommended best practices, the number and balance of reserves maintained by the City for 2017 were benchmarked against ten municipalities. As outlined in Appendix A, the result shows that the number of reserves and the total balance of reserves held by the City are reasonable relative to the current business needs of the City and in comparison to other jurisdictions and best practices. However, there is a need to ensure better alignment between the purpose and balance of individual reserves. This is addressed by the review.

Purpose and Funding Source of Reserves

The general purpose of reserves was updated, and new principles of reserves were developed to ensure better alignment of reserves to the OCP and other internal guiding documents such as the Strategic Plan and master plans (more information can be found in Appendix B). Council approval is not required for the general purposes and principles of reserves as this will be documented in the new Reserve Policy and used by Administration to inform its recommendations to Council.

To enhance transparency and consistent interpretation of the uses and funding of each reserve, the purpose and funding source for each of the City’s reserves are clearly described in Appendix C of this report. Administration is recommending that the Bylaw be amended to include a description of the purpose and funding source for each reserve. A change to the name of the Operational Commitments Reserve is especially notable as described below.

- **Operational Commitments Reserve** - This reserve is intended to provide funding to smooth budget effects resulting from cyclical business needs such as municipal elections and property reassessments, which occur once every four years. This reserve is not intended to fund property reassessment appeal losses as the City's appeal losses are netted against the general operating revenue. However, the review findings indicate that more specific naming will provide greater awareness regarding the intent of this reserve and give clarity, as well as greater transparency with respect to its purpose. Therefore, Administration is recommending that the Bylaw be amended to change the name of the Operational Commitments Reserve to *Elections and Property Reassessment Reserve*.

Criteria for Creating or Closing Reserves

As part of the review, criteria for creating or closing reserves were developed. The criteria provide a framework for Administration to provide rational advice to Council to support business decisions related to creating or closing reserves. Some of the factors considered by the criteria are as follows:

1. **Alignment to City Priorities** - How well does a reserve support the achievement of the City's priority and business needs?
2. **Funding Strategy** - Is a reserve the most appropriate funding strategy for the identified business need?
3. **Funding Source** - Is the reserve funded primarily from external user fees/charges/rates or through property tax revenues?
4. **Impact on the General Fund or Mill Rate** - What financial impact does the reserve have on the general fund revenue or the mill rate?
5. **OCP Principles** - How well does the reserve support principles in the OCP such as the benefits model or cost recovery?
6. **Transparency** - Will the creation of a reserve help to ensure greater transparency in the use of resources?

The 21 reserves currently held by the City were assessed against the new criteria. The result shows that while the majority of the reserves continue to be relevant to the business needs of the City, the Facility Reserve and Pest Management Reserve should be eliminated as described below.

- **Facility Reserve** - This reserve was established to fund capital upgrades for the old Mosaic stadium, which is currently being decommissioned. When the old Mosaic stadium is fully decommissioned, the Facility Reserve will no longer be required as the Regina Revitalization Initiative (RRI) Stadium Reserve is in place to manage the new Mosaic stadium.
- **Pest Management Reserve** - Established in 2011, the Pest Management Reserve was intended to provide funding to further the control of nuisance pests and to allow for a continued proactive approach to pest control. The review shows that the operating budget of the pest control program is sufficient to cover costs as there have been no expenditures from the reserve since it was established. Past history also shows that the magnitude and the financial impact of pest outbreaks is low, in the range of \$125,000 in a worst case year. This risk can be reasonably managed through the General Fund Reserve (GFR).

With the establishment of these criteria, Administration can provide consistent, clear advice to Council on the establishment of new reserves. A brief discussion was held about creating a

reserve for the Residential Roads Renewal Program, which has dedicated funding of one per cent mill rate as approved by Council. Administration will analyze options to enhance the transparency of this program and provide recommendations as part of the 2018 Reserve Review Report in 2019.

Minimum and Maximum Reserve Limits

Another important objective of the review was to determine the appropriateness of the minimum and maximum limits for reserves. While the establishment of limits is not a legislated requirement, the City introduced reserve limits in 2011 to support the management of reserves and to identify when reserves were moving in the wrong direction. Since the creation of the reserves and their current limits, asset plans have been adjusted to meet the City's future plans. Updating the reserves limits to better align with long-term plans is a further evolution of how the City manages and uses reserves as a tool for long-term financial viability.

A risk-based methodology for determining reserve limits was developed. The methodology considered several factors, including the purpose of the City's reserves, business needs, services and levels of service, capital plans, past history, jurisdictional comparisons and best practices. Using the new methodology for setting reserve limits, new minimum and maximum limits were determined for each of the reserves as outlined in Appendix D. Administration is recommending that Council approve the new reserve limits and amend the Bylaw to update the reserve limits.

There is an increase to the limit of five reserves, a decrease to the limit of four reserves, and minor or no changes to the limit of 11 reserves. The changes to the reserve limits result in an increase to the overall minimum limit of the City's reserves from \$66 million to \$83 million and an increase to the maximum reserve limit from \$206 million to \$274 million. The increase is due to a major increase to the Solid Waste Reserve limit to ensure capital funding is available for the landfill closure and post-closure liability, which is estimated to cost \$57 million over 40 years.

Best practices recommend that a municipality should maintain a reserve balance of at least 20 per cent of its expenditures. The City's 2017 reserve balance is 36 per cent of its total expenditures compared to 40 per cent for the average municipality. This comparison shows that the City's reserve balances are reasonable relative to its current business needs and in comparison to other cities and best practices.

It is important to note that the "limit" established for a reserve is not an absolute limit but simply a measure of what is considered appropriate to meet the business needs of the reserve. There may be additional factors that could allow for a reserve to remain outside of its limits. Therefore, the minimum and maximum limits established for reserves should be seen as a flag that should trigger discussions about the appropriateness of a reserve balance rather than an express requirement that money should be transferred to or from a reserve.

Reserve Reporting and Transparency

The review determined that the current reserve reporting requirements in the Bylaw limit the amount of information provided to Council. To help enhance transparency and comprehensive reserve reporting, there is an opportunity to strengthen the sufficiency of information provided to Council to also include the purpose and funding source of all reserves, annual addition and

reduction to all reserves, as well as projection of all reserve balances. Based on this, Administration is recommending that changes be made to simplify the current provision in the Bylaw related to reserve reporting. It is recommended that the new provision specifies high level reporting requirements as follows:

- (a) On or before September 30th of each year, the Executive Director, Financial & Corporate Services shall submit an Annual Reserve Report to City Council for approval.
- (b) The report shall contain the balances of each reserve as of the end of the previous year, recommendations that will ensure appropriate balances are maintained in each reserve, as well as any other relevant information relating to reserves that the Executive Director, Financial & Corporate Services considers necessary for Council information or to help Council make an informed decision.

The Administration's Reserve Policy will describe additional information to provide to Council in the annual report, including a description of all reserves and their balances, transactions in all reserves throughout the year, as well as projections for all reserves balances and recommendations to ensure appropriate balances are maintained in the reserves.

This provision will allow Administration to use good judgement to add detailed reporting requirements in the Reserve Policy as well as update the policy periodically while being consistent with the Bylaw. This will ensure comprehensive reporting on reserves and sufficient information for Council to make informed decisions on an ongoing basis.

Reserve Transfers

As noted previously, minimum and maximum limits of reserves are generally a flag for discussions about the appropriateness of a reserve balance rather than an express requirement that money should be transferred to or from a reserve. The new reserve principles (Appendix B) still maintain that reserves should not be used to accumulate more funds than are appropriate to meet planned or estimated capital plans, future obligations or unexpected requirements. Based on the requirements of Schedule A of the Bylaw, which specify that the Executive Director, Financial & Corporate Services submit an annual reserve report to Council that ensures appropriate reserve balances are maintained, the following recommendations are made.

a. Reserves in Excess of their Limits

The following recommendations are made with respect to reserves in excess of their limits, based on the new recommended reserves limits in Appendix D.

- **General Utility Reserve** - This is a self-sustaining reserve used to fund water and sewer utility capital projects and to smooth the effect of fluctuations in operating budget for the water and sewer utility. At the end of 2017, this reserve had a balance of \$94.1 million, which is \$4.1 million in excess of its updated maximum limit. In general, the expectation is to not transfer excess funds from self-sustaining reserves as these reserves are funded from external user fees, and any amount in excess of the limits should be taken into consideration when setting future fees. In addition, the funds in this reserve are planned to fund established future capital expenditures. For example, \$52.5 million is budgeted to be spent from this reserve on utility capital projects in 2018 as approved by Council, while total utility capital expenditures of \$279 million are planned to be funded from the reserve over the next five years (2018-2022). Based on this, it is recommended that no transfers be made from this reserve.

- **Winter Road Maintenance Reserve** - This is an operating reserve used to manage annual fluctuations in the winter road maintenance program expenditures that may arise due to unpredictable winter events. The reserve had a balance of \$8.69 million at the end of 2017. This balance includes \$2 million approved by Council (CR17-138) from this reserve to the Social Development Reserve (SDR) for the 2018 funding commitments for the Housing Incentives Policy (HIP) program. This transfer was done in early 2018, leaving the current balance of the Winter Road Maintenance Reserve at \$6.69 million. It was determined by the review that a maximum limit of \$2 million is reasonable to smooth fluctuations in the program expenditures. Analysis of the past five-year activities shows an average yearly expenditure of \$7.6 million for this program compared to the 2018 budget of \$8.4 million, resulting in an average yearly surplus of \$800,000. The biggest expenditure in the winter road maintenance program in the last ten years was \$9.6 million, with actual program expenditures having exceeded the 2018 budget level twice in the past ten years. While this over expenditure is \$1.2 million in excess of the 2018 budget level, the new limit of \$2 million is sufficient to cover such one-time over expenditures, which are only expected in extreme winter seasons. In the past two years, total surplus of \$5.2 million from the winter road maintenance program was transferred to the reserve due to below average winter conditions. This further illustrates that the limit of \$2 million is appropriate. For these reasons, Administration is recommending that the excess amount \$4.69 million be transferred as follows:
 - i. \$2.80 million to the Social Development Reserve. This will extinguish an outstanding obligation of \$2.8 million owed to the SDR, resulting from the \$7.3 million borrowed from the SDR in 2012 for the acquisition of the Southeast lands as approved by Council on August 20, 2012 (CR12-126). The transfer will also provide funding for the 2019 commitments for the HIP. However, to continue to meet funding requirements of the HIP beyond 2019, the City needs to establish a long-term funding strategy to meet commitments beyond 2019.
 - ii. \$1.89 million to the General Fund Reserve (GFR). This will help replenish the GFR, which is currently projected to be significantly lower than its minimum limit.
- **Asphalt Plant Reserve** - This is a capital reserve used to fund capital requirements and maintenance costs of the asphalt plant. The reserve had a balance of \$2.07 million at the end of 2017, which is \$777,000 in excess of its updated limit. It is recommended that this excess amount be transferred to the Asset Revitalization Reserve (ARR) to help replenish the ARR, which is projected to be close to its minimum limit at the end of 2018.

Based on the recommended closure of the Pest Management Reserve and the Facility Reserve, the following recommendations are made:

- **Pest Management Reserve** - Transfer the balance of \$520,000 from this reserve to the General Fund Reserve.
- **Facility Reserve** - This reserve had a balance of \$260,000 as at December 31, 2017. This amount was included in the 2018 budget to support the demolition and decommissioning of the old Mosaic stadium, and the reserve is expected to have a zero balance when the decommissioning project is completed. Therefore, there will be no available money to be transferred from this reserve when it is closed.

b. Reserves below their Limits

The following recommendations are made with respect to reserves that are below their minimum limits.

- **Golf Course Reserve** - This is a self-sustaining reserve that provides funding for the capital requirements and maintenance costs of the golf courses and to smooth operating requirements. The reserve had a balance of \$2,000 at the end of 2017. While this balance is significantly lower than the minimum limit of \$250,000 for this reserve, a replenishment is not recommended at this time as the golf courses are expected to be self-sustaining. On December 16, 2016, Council approved (CR16-143) a fee schedule for the golf course program. The fee increases are expected to cover increased operating expenditures and provide an annual transfer to the reserve in order to meet future infrastructure requirements and bring the reserve within its limits.
- **Land Development Reserve** - This reserve is used to fund land acquisition and development, and to manage fluctuations in the operating budget for the Land and Real Estate Management operations. As at December 31, 2017, this reserve had a negative balance of \$17.1 million due to capital investments of \$16 million in Southeast land development project. This project requires upfront investments in infrastructure with revenue from land sales occurring in the future. This reserve is projected to return to a positive balance of \$7.9 million in 2021 based on estimated revenue of \$7.5 million per year from land sales. Therefore, no action is required at this time.

c. Reserves within their Limits

The remaining reserves are within their limits. Therefore, no action is required.

Bylaw Housekeeping Matters

A number of housekeeping changes to the Bylaw are required as a result of the review recommendations, such as clarifying what constitutes deferred revenue and amending references to “interest revenue” to refer to “investment income” in Schedule A of the Bylaw. These changes are necessary to provide corrections and clarifications that are consistent with the reserve review recommendations and the current application of the Bylaw.

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 the City financial flexibility to respond to opportunities, budget shortfalls or to smooth fluctuations in expenditures or revenues that could otherwise result in property tax increases.

The recommended reserve limits will help ensure that the City continues to maintain appropriate reserve limits that support its long-term business needs.

The recommendations also include a transfer of approximately \$6 million between reserves, including \$2.8 million to the SDR, \$770,000 to the ARR and \$2.4 million to the GFR. The transfer to the SDR will extinguish an outstanding obligation of \$2.8 million owed to the SDR,

which resulted from the \$7.3 million approved from the SDR by Council in 2012 for the purchase of the Southeast lands. The GFR and ARR provide Council with the greatest flexibility to smooth one-time operating and capital requirements. Respectively, the GFR and ARR had a balance of \$27.5 million and approximately \$20 million at the end of 2017. However, the GFR is projected to decline to approximately \$9 million at the end of 2018, which is lower than its minimum limit of \$22 million. This decrease is due to the approval of \$18.4 million from the GFR (CR17-120) to fund the \$37 million purchase of the former Saskatchewan Transportation Company (STC) Bus Depot and Head Office, as part of a long-term affordable solution to address the Regina Police Service (RPS) facility requirements. The ARR is also projected to be near its minimum limit at the end of 2018 due to \$23.6 million budgeted funding for various capital projects as approved by Council in the 2018 capital budget, including \$11.4 million for the purchase of the STC building for the RPS facility requirements and \$8.6 million for the street infrastructure renewal project.

The recommended transfers to the GFR and ARR are considered small but necessary steps in replenishing these reserves in order to improve Council's flexibility to respond to emergencies or capitalize on future opportunities without borrowing.

The closure of the Facility Reserve and Pest Management Reserve allows the City to maintain and manage only reserves that are relevant to its business needs. As the pest control program continues to be a priority to the City because of the related health and safety impacts, the GFR would be used to manage potential variance in the budget of the pest control program or to pay for potential over expenditures in the pest control program. Therefore, there is no anticipated impact to the pest control program as a result of the closure of the Pest Management Reserve.

Environmental Implications

None related to this report.

Policy and/or Strategic Implications

Reserves set aside funding for future planned expenditures, to smooth expenditures or to allocate costs of maintaining and replacing an asset to the users who benefit from the asset over the long-term. The reserve review recommendations are expected to strengthen the Reserve Policy and Bylaw to better enable the City in delivering the community priority 'achieving long-term financial viability' as described in the OCP, including financial principles such as the benefits model and cost recovery. This community priority directs the City to spend money wisely to manage its services both now and in the future and reserves are a mechanism to achieve that balance. The connection between the 2018-2021 Corporate Strategic Plan, titled 'Making Choices Today to Secure Tomorrow - Advancing the OCP' and the reserve review is also clear as the plan includes the strategic objective to 'improve service financial sustainability'.

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,

EXECUTIVE COMMITTEE

A handwritten signature in black ink, appearing to be 'J. Nicol', written in a cursive style.

Jim Nicol, Secretary