Reserve Review – Appendix A: Comparison to Other Cities

<u>City of Regina Reserves in Comparison to Other Cities</u>

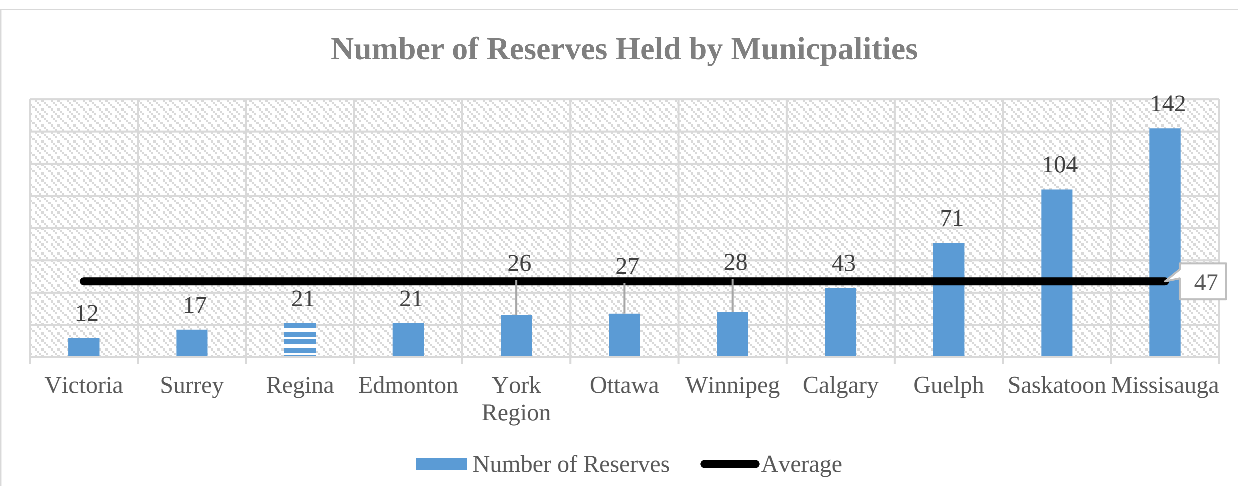
This Appendix provides a comparison of the City's reserves to other municipalities.

In general, the level of reserves maintained by a municipality depends on a number of factors, including services and levels of service provided by the municipality, internal financial policies, risk tolerance, the age and condition of infrastructure, as well as long-term financial plans and economic conditions. Industry recognized indicators used by credit rating agencies and recommended by the Government Finance Officers Association (GFOA)[1] of the United States and Canada and the Municipal Finance Officers Association (MFOA)[2] of Ontario were applied in assessing the City's reserve levels in comparison to ten Canadian municipalities.

The MFOA recommends that a municipality should maintain a minimum of 20 per cent of its annual expenditures in reserves. Although there is no recommended benchmark for the maximum reserve level to maintain due to variations such as asset replacement requirements and funding pressures faced by each city, the GFOA recommends that benchmarking information from other municipalities should be used to make comparisons for size of reserves. Based on industry recommended best practices, the City's 2017 reserve number and total reserve balances were benchmarked against ten municipalities using data from the 2016 annual report for each municipality as the 2017 annual financial reports of these cities were not available at the time of completing this report. The result of the comparison indicates that the City's reserve number and reserve balances are appropriate as they are within the average range for most of the indicators considered as described below.

Number of Reserves Held

Data from 11 municipalities shows that the average number of reserves held by a municipality is 47. Regina and Edmonton have the third lowest number of reserves (21) while Victoria has the lowest (12). Mississauga has the highest (142) followed by Saskatoon (104).



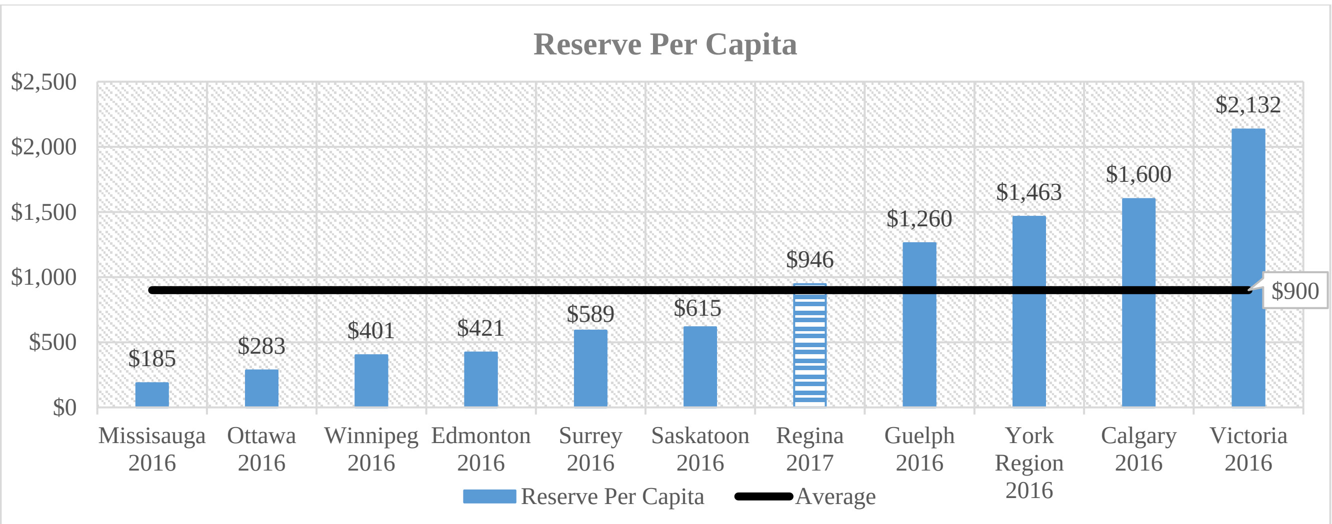
[1] The GFOA is a non-profit association of state and local government finance professionals and elected officials throughout the United States and Canada, with a mission to promote excellence and best practices in financial management, including reserve policies

[2]The MFOA is a Canadian based professional association of municipal finance officers who handle the financial affairs of municipalities and who are key advisors to councils on matters of finance policy. The association promotes best practices in municipal financial management.

It is necessary to mention that municipalities hold reserves for a number of reasons and making decisions simply on the number of reserves provide incomplete information.

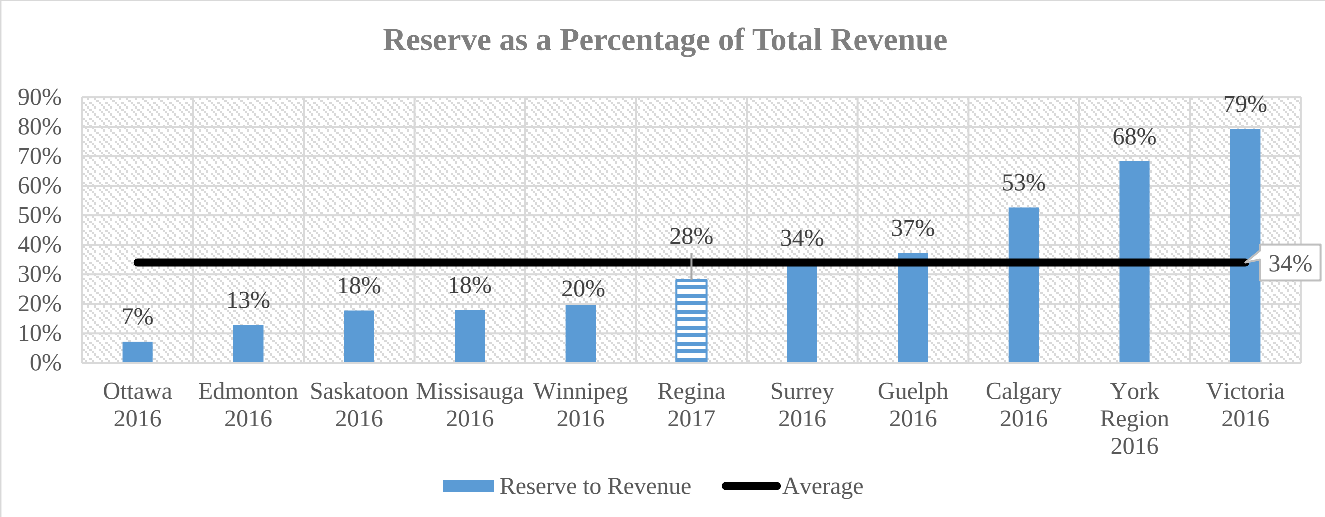
Reserve Per Capita

This ratio measures total reserve balances in relation to the population. This is a useful ratio as it illustrates the property taxes, rates and charges paid per person living a municipality that is set aside for planned future capital expenditures or operating emergencies. A higher ratio implies that the average resident of a city is setting aside more funding for future needs. While there is no generally accepted benchmark for this ratio, a comparison with other cities provides a good indicator whether a municipality has too much in reserves. The graph below shows that the City of Regina has the fifth largest reserve per capita ($946), which is reasonable compared to other cities as it is just over the average reserve per capita of $900. The City of Saskatoon has the sixth largest reserve per capita of $615, while the City of Victoria has the largest per capita reserves of $2,132.



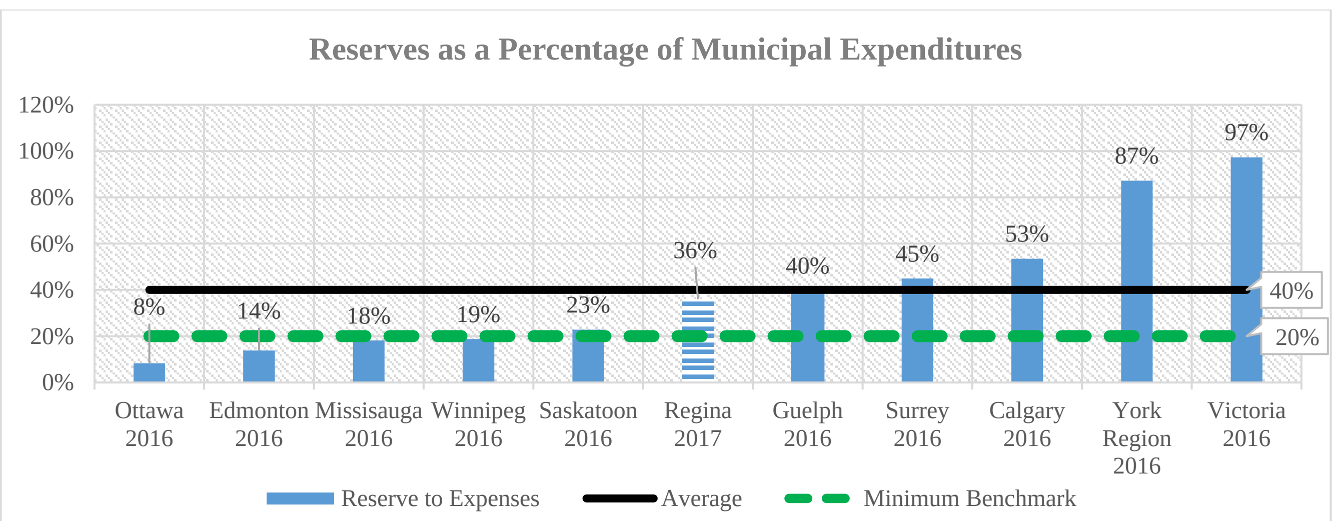
Percentage of Reserves to Revenue

This indicator shows the total funds held in reserves compared to annual revenues, and it is a strong indicator of a city's financial stability. It shows the relative health of a municipality and its willingness to set aside money to meet both planned and unexpected requirements. Generally, municipalities that have higher levels of reserves are considered to be financially healthier and more able to fund planned expenditures or to quickly respond to emergencies or opportunities. The City of Regina has the sixth largest reserves as a percentage of revenues with a ratio of 28 per cent, which is below the average ratio of 34 per cent. This indicates that about 28 per cent of the City's budgeted revenues can be funded one-time from reserves. However, best practices advised against the use of reserves as a funding source for ongoing, recurring expenditures as this will create a structural deficit with a reduction in reserve funding to meet the same expenditure in the next year. Reserves should be utilized in accordance with reserve policies and the conditions under which they were established. The City continues to manage its reserves based on business needs and best practices.



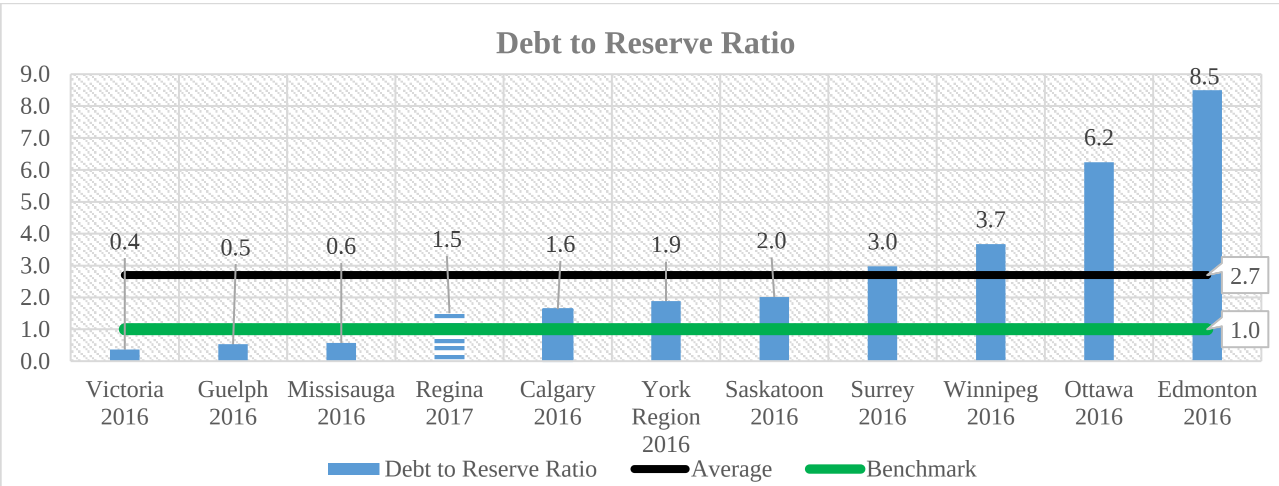
Percentage of Reserves to Expenses

Similar to the ratio of reserve to revenues, the percentage of reserve to annual expenses is used to measure the ability of a municipality to offset unexpected revenue loses or increases in expenses. A minimum ratio of 20 per cent is recommended by best practice. There is no best practice benchmark for the maximum level of reserve that a city can maintain as this depends on a number of factors, such as planned future expenses, level of risks and the condition of assets. It is important to note that the recommended minimum of 20 per cent is to address unexpected expenditures, which may not include planned capital expenditures. A good approach recommended by best practices to measure whether a city's reserve is excessively high or low is to benchmark reserve levels against other municipalities. The comparison of reserves to expenses shows the City of Regina ratio is at 36 per cent compared to 40 per cent for the average municipality. Although the City's ratio is higher than the recommended minimum benchmark of 20 per cent, it is considered reasonable as it includes funding for planned capital requirements and obligations, as well as funding to smooth unexpected fluctuations in revenue or expenses.



Percentage of Debt to Reserves

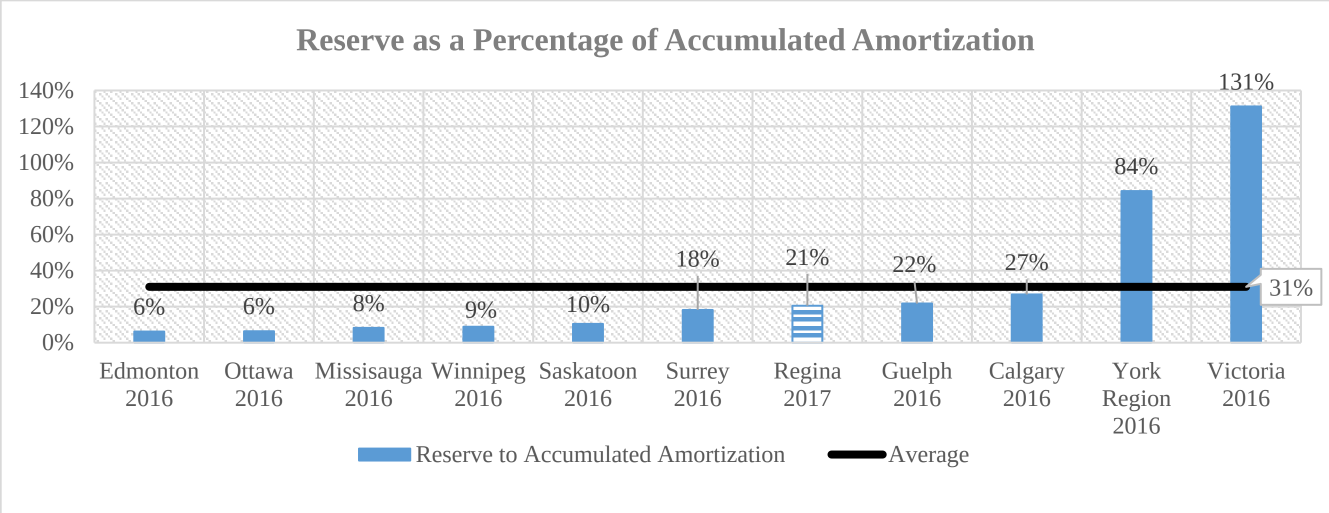
This ratio is used to measure financial prudence by comparing debt level to reserve balances. Credit rating agencies such as Standard and Poor's recommend that municipalities should maintain a debt to reserve benchmark ratio of 1:1. This means that for every dollar of debt there should be a dollar of reserves. This ratio ensures that the total debt burden of a municipality does not exceed the total of all reserves and reserve funds. All else being equal, a lower ratio is preferred. A lower ratio means that a municipality has lower debt and/or higher reserve, while a higher ratio could mean high debt and low reserve level. The comparison shows the City of Regina has one of the more favourable ratios of 1.5 compared to the average of 2.7 for the rest of the cities. The City's ratio means that for every $1.50 of debt there is $1.00 of reserves available to cover the debt. The City's ratio is the closest to the benchmark, which indicates prudent use of debt and good financial management.



Percentage of Reserves to Accumulated Amortization

Reserves were also compared to capital assets, using accumulated amortization. Accumulated amortization is the portion of a city's tangible capital assets[3] (TCA) that has been consumed and therefore needs to be renewed or replaced. The value of accumulated amortization can be used as an approximation of asset condition and future asset replacement requirements. The City's reserve levels as a percentage of accumulated amortization is 21 per cent compared to 31 per cent for the average municipality. This means that 21 per cent of the City's assets that have been consumed could be replaced through its reserves compared to Saskatoon, which has a 10 per cent ability to replace its utilized assets through reserves.

[3] Tangible capital assets are assets or infrastructure that are used to deliver services. These assets have a life span longer than one year. Examples include roads, buildings, fleet equipment etc.



Limitations of Reserve Balances Comparisons

While jurisdictional comparisons provide useful context with respect to the appropriateness of reserve balances held by cities, it is important to note that comparatives are not necessarily indicative of what the City of Regina should have in its reserves. The following factors are worth considering in comparing reserve balances:

1. *Condition of Assets* - Some cities may have newer assets or better maintenance programs than others, and therefore would require lower reserve balances to replace assets. For example, the City has delayed its capital improvements and maintenance and will therefore require more reserves in the future to catch up with capital improvements and replacements. Recently, the City has provided increased funding to maintain, repair and acquire new capital assets. The City also has dedicated funding to address specific assets through the Residential Roads Renewal Program. Continued effort in the development of asset management plans for all of the City’s assets will provide a clear picture of the current and future needs.
2. *Pay-As-You-Go* - Cities may have a funding strategy, whereby revenues from current operating budget (pay-as-you-go), instead of reserves, are used to pay for expenditures. Cities that use pay-as-you-go as their funding strategy for asset renewal will typically maintain a lower reserve balance in comparison to their assets.
3. *Capital Carry Forward* - Some cities may keep reserve-type funds, such as approved but unspent capital funds, in a project account instead of a reserve. All else being equal, cities that carry over unspent capital funds in a project account rather than a reserve will report a lower reserve balance compared to cities that report approved but unspent capital funds as part of their reserve balance.

In summary, the analysis demonstrates how the City has been using reserves to meet planned expenditures and to support strong financial management. Reserves, along with the established master plans, have allowed the City to meet current and future needs that limit the need for borrowing and supports a positive credit rating.