

2019 Reserve Summary

Reserve funds are like a savings account—the City allocates money to Council-approved reserves in order to ensure funding is available for future requirements, to stabilize fluctuations in operating and capital activities, and to provide contingency funding. The City continues to maintain a balance between reserve funds, tax revenue, and debt financing. An important component of maintaining this balance is the effective management of reserves.

Council approved Financial Reserves Policy FIN-021-C on July 10, 2017 to provide consistent standards and guidelines for the management of existing reserves and the establishment of new reserves. The policy includes a detailed report for each reserve with an optimal balance formula calculated to ensure that the balances are not depleted and are available to serve their intended purposes.

The annual review of the policy is underway. After working with the policy for the last year, Administration has determined that updates are required to better align some sections of the policy with its overall purpose. Council was presented with the first draft of changes at a Committee of the Whole meeting in September 2018. Administration will present an amended draft policy for Council's consideration and adoption in early 2019.

The City has a multi-year plan to achieve optimal reserve contributions, which will assist bringing the funding to 100%.

What will the increased reserve contributions of \$7.0 million in 2019 support?

- Sump Pump Retrofit Program—future replacement
- Utilities—replacement of water/sewer infrastructure and solid waste/organic cart maintenance/replacement
- Facilities operating costs—to reduce the impact of operating cost when a new building opens
- Maintenance and replacement for equipment, vehicles, and buildings

What are the reserves being used for in 2019 (\$8.4 million)?

- Future capital planning on major recreation and emergency response projects
- West River's Edge reforestation
- Paving at the dog park and Dow Fields
- Planning study on Veterans Way Corridor
- Sump pump program
- Infrastructure lifecycle replacements or refurbishments

- Occupational Health & Safety initiatives
- Water infrastructure improvements, including the water meter reading enhancement program, bulk water station modernization, water reservoir lifecycle replacement, and neighbourhood rehabilitation
- Continuation of the water transmission line to the Light/Medium Industrial area

The City maintains a variety of reserves, each with their own funding purposes. The categories include:

Contingency Reserves

Contingency Reserves provide non-designated funds to stabilize the temporary impact of unforeseen, non-recurring, emergent, one-time expenditures or losses of revenue and to ensure service levels.

Projects Reserves

Projects Reserves are established to fund operating and capital projects or future operations.

Infrastructure Lifecycle, Maintenance, and Replacement Reserves

Infrastructure Lifecycle, Maintenance, and Replacement Reserves fund expenditures for the repair, lifecycle replacement, or upgrade of City infrastructure, equipment or vehicles.

Other Reserves

The Other Reserves category captures other reserves that have a 1:1 relationship with the reserve description.

Developer Levy Reserves

Developer Levy Reserves hold developer levies collected through developer agreements to fund new assets/infrastructure required due to the growth of the City without placing an undue burden on existing City resources.

Utilities Infrastructure Lifecycle, Maintenance, and Replacement Reserves

Utilities Infrastructure Lifecycle, Maintenance, and Replacement Reserves provide funds to assist in meeting future requirements for the expansion, replacement, refurbishment, and maintenance of utility assets or infrastructure as well as for operating and capital projects required to meet customer service delivery objectives.

The full explanation of reserves can be found in the Financial Reserves Policy FIN-021-C under section 26 of the budget binder/document.

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Reserves Summary

	December 31, 2018	December 31, 2019			Optimal Balance Variance	
	Forecast Uncommitted Closing Balance	Contributions	Commitments	Forecast Uncommitted Closing Balance		
Contingency Reserves						
Financial Stabilization Reserve	9,451,169	-	37,000	9,414,169	13,122,091	(3,707,922)
Snow Removal Reserve	577,081	-	-	577,081	346,826	230,255
	10,028,250	-	37,000	9,991,250	13,468,917	(3,477,667)
Projects Reserves						
Future Facility Operating Reserve	3,437,500	1,308,500	375,000	4,371,000	-	4,371,000
Land Purchases Reserve	1,960,728	-	-	1,960,728	-	1,960,728
Parks Reserve Unrestricted	461,417	218,400	75,000	604,817	200,000	404,817
Perpetual Care Reserve	396,402	39,835	20,900	415,337	66,900	348,437
Capital Projects Reserve	7,010,490	798,439	1,240,000	6,568,929	9,697,000	(3,128,071)
	13,266,537	2,365,174	1,710,900	13,920,811	9,963,900	3,956,911
Infrastructure Lifecycle, Maintenance, and Replacement Reserves						
Harbour Pool Lifecycle Reserve	59,300	52,600	-	111,900	73,000	38,900
Culture Services Equipment & Exhibits Reserve	199,075	112,200	229,000	82,275	93,380	(11,105)
Dow Centennial Centre Equipment Lifecycle Reserve	309,940	145,875	-	455,815	29,000	426,815
Facility Lifecycle Maintenance Reserve	358,460	15,000	-	373,460	756,489	(383,029)
Fire Equipment Reserve	1,968,165	358,600	-	2,326,765	209,000	2,117,765
Information Technology Equipment Reserve	169,464	499,480	354,500	314,444	349,500	(35,056)
Mobile Equipment & Vehicle Fleet Reserve	609,989	723,260	709,500	623,749	724,300	(100,552)
Protective Services Equipment Reserve	341,283	130,506	-	471,789	62,700	409,089
	4,015,677	2,037,521	1,293,000	4,760,198	2,297,369	2,462,829
Utilities Infrastructure Lifecycle, Maintenance, and Replacement Reserves						
Utilities Infrastructure Reserve	4,128,314	2,520,825	4,049,000	2,600,139	6,122,812	(3,522,673)
Other Reserves						
Art in Public Places Reserve	68,695	40,000	28,000	80,695	28,000	52,695
	31,507,472	6,963,520	7,117,900	31,353,092	31,880,998	(527,906)
Fire Waterline Reserve	882,920	-	110,000	772,920		
Parks Reserve Restricted	282,946	-	-	282,946		
D.A.R.E. Reserve	28,819	-	-	28,819		
Economic Development Reserve	816,554	21,000	55,800	781,754		
Family & Community Support Services Reserve	130,430	-	-	130,430		
Health, Safety, & Wellness Reserve	995,104	-	235,852	759,252		
Transportation Assistance Reserve	63,115	-	-	63,115		
	3,199,887	21,000	401,652	2,819,235		
Fort Centre Offsite Reserve	249,509	-	-	249,509		
Medium Industrial Offsite Reserve	1,238,961	-	890,000	348,961		
Southfort Offsite Reserve	669,586	-	-	669,586		
Westpark Estates Offsite Reserve	351,185	-	-	351,185		
	2,509,240	-	890,000	1,619,240		
Total	37,216,600	6,984,520	8,409,552	35,791,568		
Proposed New Reporting Categories						
Internally Restricted Reserves	33,053,157	6,944,685	7,388,652	32,609,190		
Externally Restricted Reserves	1,654,202	39,835	130,900	1,563,137		
Developer Levy Reserves	2,509,240	-	890,000	1,619,240		
Total	37,216,600	6,984,520	8,409,552	35,791,568		

Notes:

- For comparison purposes, the Reserve Summary schedule includes the proposed new high level reporting categories that were presented to Council at the September 2018 Committee of the Whole meeting.

2. Although the City is showing as 98% funded, the annual review of the policy has revealed that changes to some optimal balance calculations need to be made to better reflect the purpose or plan of the reserve funds. This will have the most significant impact on the Infrastructure Lifecycle, Maintenance, and Replacement Reserves. The proposed new calculations were presented to Council at the September 2018 Committee of the Whole meeting.

3. Certain reserves currently do not have an optimal balance calculation. This could be due to:
 - a. Development of a calculation will be part of the policy review completed in early 2019.
 - b. The reserve is restricted, as the allowable use of funds was established by an authority other than the City or by an agreement with an outside third party.
 - c. There is no applicable calculation and disbursements will be decided based on funds available in the reserve at the time.

2019 OPERATIONS

BUDGET REQUEST

Infrastructure Lifecycle Reserves Contribution Increases

Request #12-0161

Division: Corporate Services **Budget Year:** 2019
Department: Financial Services (Fiscal Services) **Category:** Maintain
Responsibility: Chief Financial Officer
Corporate Strategic Plan: Excellence in Government

<i>Budget Impact (Expenditure/Revenue)</i>	<i>Funding Source</i>	<i>One Time or Ongoing</i>
\$265,575	Operations	Ongoing

Overview

The City continues to maintain a balance between reserve funds, tax revenue and debt financing. An important component of maintaining this balance is effective management of reserves. Reserves are an important long-term financial planning tool for municipalities and are used to set aside funds for a future purpose.

Financial Reserves Policy FIN-021-C provides consistent standards and guidelines for the management of reserves. The policy directs the establishment of reserves and reserve funding on an ongoing basis to ensure future funding requirements are available, stabilize fluctuations in operating and capital activities, provide contingency funding, and to reduce the need for debt financing.

To support growth and maintain the equipment and infrastructure inventory, the operating budget includes an annual transfer to the Infrastructure Lifecycle, Maintenance, and Replacement Reserves. The current budgeting practice for infrastructure and equipment replacements is to replace the assets after a period known as the lifecycle of the asset.

As part of the creation of the Financial Reserves Policy, a review of reserve balances and contributions was conducted. The conclusion was that additional ongoing contributions are necessary to ensure sustainability of the reserves. To minimize the impact to budgets, a multi-year plan was developed to increase contributions to those lifecycle reserves identified below levels outlined in the policy. Through the 2018 budget process, Council approved the first year of the plan and this request outlines year 2 for 2019.

Harbour Pool Lifecycle Reserve

(Current Contribution - \$37,300 → Proposed Increase - \$15,300)

This reserve was established to set aside funds for lifecycle replacements essential to maintaining operational service levels at Harbour Pool. Harbour Pool will be 37 years old in 2019 and many items are approaching the end of their life expectancy. This reserve transfer will make it possible to replace numerous items in a timely fashion and minimize the impact to service levels. Reserve funds are committed to specific lifecycle replacement items. The current replacement value of these items is approximately \$875,000. With an average lifecycle of 5-20 years, the contribution to the reserve should be \$98,500; 2017 contributions were \$22,000 therefore an increase of \$76,500 is required. The increase of \$15,300 per year will be spread over 2018-2022.

Culture Services Equipment & Exhibits Reserve

(Current Contribution - \$9,000 → Proposed Increase - \$16,000)

This reserve was established to set aside funds for lifecycle replacements of equipment at the Shell Theatre and cultural exhibits throughout the City. With contributions already established for equipment replacement at Shell Theatre and the North West Mounted Police Fort palisade walls, a dedicated contribution for replacement is required for the Fort Heritage Precinct exhibits. The current approximate replacement value of the exhibits is \$250,000. With a 10-year lifecycle, the contribution to the reserve should be \$25,000. 2017 contributions were \$9,000 and therefore an increase of \$16,000 is being requested in 2019. This will help ensure that the City has sustainable funding for future equipment and exhibit replacements. This will also reduce future one-time tax based impacts. Without increasing the reserve, the other option is to maintain current practices, using tax funded sources for replacement of the infrastructure. In the past, projects not included in the reserve were brought forward on an individual basis and funding was determined by what was available at the time.

Dow Centennial Centre Equipment Lifecycle Reserve

(Current Contribution - \$124,500 → Proposed Increase - \$21,375)

The Dow Centennial Centre will be 15 years old in 2019 and many items are approaching the end of their life expectancy. This reserve transfer will ensure the replacement of numerous items, excluding major building envelope items, in a timely fashion without impacting service levels. These various items would include lockers; larger custodial equipment, such as floor machines, vacuums and polishers; specialty flooring, such as artificial turf; scoreboards; sound systems; larger fitness equipment; etc. The current replacement value of these items is approximately \$2.1 million. With an average lifecycle of 10-20 years, the contribution to the reserve should be \$210,000. 2017 contributions were \$104,500, and therefore an increase of \$105,500 is required. An increase of \$20,000 was established in 2018 and the remaining amount of \$21,375 per year will be spread over 2019-2022.

Fire Equipment Reserve

(Current Contribution - \$334,800 → Proposed Increase - \$16,300)

The current replacement value of fire equipment inventory is approximately \$7.0 million. With an average lifecycle of 10-20 years, the contribution to the reserve should be \$400,000. 2017 contributions were \$315,000, and therefore an increase of \$85,000 is required. An increase of \$19,800 was established in 2018 and the remaining amount of \$16,300 per year will be spread over 2019-2022.

Mobile Equipment & Vehicle Fleet Reserve

(Current Contribution - \$624,700 → Proposed Increase - \$55,600)

The current replacement value of equipment and vehicle fleet inventory is approximately \$8.7 million. With an average 11-year lifecycle for vehicles and 10-year lifecycle for equipment, the contribution to the reserve should be \$860,000. Current contributions are \$624,700.

To minimize the impact to budgets, the increase will be spread over approximately the next 10 years. This will surpass the current recommended contribution amount but will address the rising costs and contribution shortfall from previous years. Once the shortfall has been resolved, the contributions may be reduced and re-evaluated each budget cycle in following years.

Playground Structure Lifecycle Reserve

(Current Contribution - \$16,000 → Proposed Increase - \$16,000)

In the past, all playground structure replacements were funded by tax dollars. Establishing dedicated contributions to this reserve will ensure that the next round of playground structure replacements, beginning in 2029, will have a stable funding source and eliminate future additional tax burdens related to the program. The current value of playground structure inventory is approximately \$2.0 million. With a 25-year lifecycle an annual contribution of \$80,000 is required, which will be spread over 5 years from 2018-2022.

Utility Infrastructure Reserve

(Current Water Contribution - \$1,053,650 → Proposed Water Increase - \$60,000)

(Current Sewer Contribution - \$879,475 → Proposed Sewer Increase - \$65,000)

Based on comparator information and a calculation completed by the consulting firm Hemson, the City should be contributing at least 3% of the value of Utility assets to reserves.

Recommended reserve contributions are \$1.7 million each for both water and sewer. Current contributions are \$1.1 million for water and \$0.9 million for sewer. With manageable increases over the next 10 years, the City will be able to maintain its Utility assets.

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