

Memo



Date: December 6, 2010
File: 0220-01
To: City Manager
From: Keith Grayston, Director, Financial Services
Subject: Municipal Reserves

Recommendation:

That Council receive the report on Municipal Reserves from the Director, Financial Services dated December 6, 2010.

AND THAT Council approve the reserve consolidations detailed in Appendix B attached to the Report of the Director, Financial Services dated December 6, 2010 and direct staff to forward any bylaw required for reading consideration;

AND FURTHER THAT Council support the repayment of the Internal Financing Energy Reserve at \$50,000 per year from taxation.

Purpose:

To provide Council with information on the current status of the City's reserves and provide for a number of reserve consolidations along with the repayment of an internal financing reserve.

Background:

The City of Kelowna has approximately 150 reserves and surplus accounts. The reserves serve many purposes including:

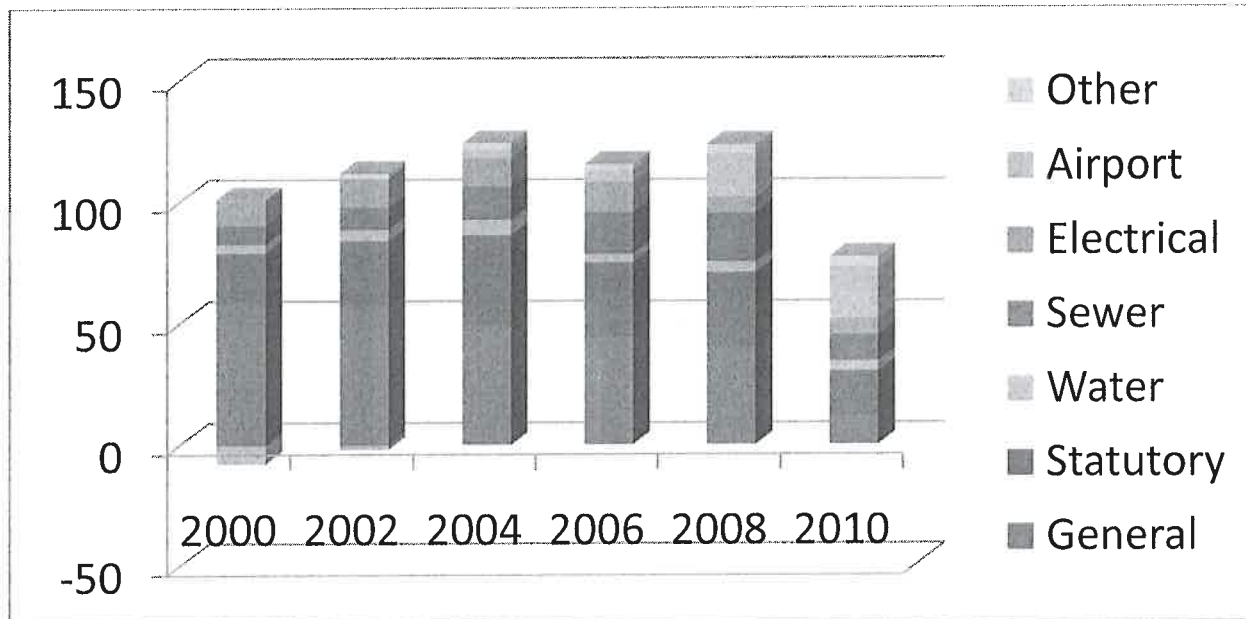
- The facilitation of good financial planning practice
- Flexibility to take advantage of opportunities
- Provide funding for unforeseen expenditures or cover reduced revenues
- Ability to reduce the debt requirement
- Provide community and senior government confidence

Reserve levels are planned to meet the capital requirements of the 10 Year Capital Plan and to provide for operating swings in expenditures or revenues. They help to smooth out the spending requirements so that there are not significant shifts in the taxation or utility rate charges each year. Contributions to the reserves are through the budget process, from increased revenues, annual surplus, Municipal Finance Authority refunds and developer contributions. Appropriations from the reserves are made to meet budgeted expenditures in both operating and capital programs.

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The City has reserves in all of the various funds (general and utilities) along with Statutory and Development Cost Charge reserves. Further information on the City's reserves will be in the presentation that accompanies this report.

The following chart shows the change in reserve balances over the last eleven years.



The first five reserve columns are based on the actual reserve balance at the end of the particular year. The 2010 balance is based on the commitments from the reserve assuming all budgeted funding will be spent by the end of 2010. With the carry-over programs that we have had in previous years we know that the actual 2010 balance will be higher than what is shown. However, these funds are committed and cannot be used for other projects.

A concern is the reduction in the level of the 'General' reserves. These reserves provide the most flexibility for Council in providing for planned or unplanned expenditure requirements. The uncommitted balance at the end of 2010 is anticipated to be \$12.1 million. Appendix A shows the General Reserve balance at December 31, 2009 and the uncommitted balance at December 31, 2010. Part of the reason for the decline in the reserve totals is the internal financing program where the existing reserve balance has been used to finance a project and repayment terms are established. The largest internal financing is for the Capital News Centre facility where \$7.8 million is still outstanding.

There is also \$436,000 that is required to be repaid into the Internal Financing Energy Efficiency Reserve. This was budgeted in 2008 to begin an Energy/Carbon Management Plan for Civic Properties. This was in response to the endorsement of the BC Climate Action Charter and the additional GHG emissions that would be added from the opening of the H2O facility. The investment was to be repaid from energy savings however the savings have been returned by reducing the requests for specific utility budget increases each year. It is proposed that the

Internal Financing Energy Reserve be repaid from taxation at \$50,000 per year until the internal debt is repaid. This reserve will be closed after the debt is repaid.

Council had also requested staff to “Establish a reserve fund from energy savings for reinvestment in additional life-cycle cost reduction retrofits.” on Service Request #158438&9 in response to the Sustainability Working Group report of November 17, 2009. There is a second energy reserve for Energy Management Rebates. This reserve includes payments from utility companies provided as incentives for energy saving investments. This is also where the Climate Action Revenue Incentive Program (CARIP) grants from the province are deposited. The allocation of the revenue in this reserve is determined by Council through the budget process or through reports from staff during the year. The expectation is to use this reserve to support the initial implementation of the GHG reduction plan and that this reserve will become the reserve to support life-cycle cost reduction retrofits.

To reduce the number of similar type reserves there is a recommendation to consolidate a small number of reserves. Appendix B shows the reserves that are suggested to be combined. A bylaw will be required to move the DCC Drainage Reserve over to the Roads Sector I Reserve. This bylaw will be prepared early in 2011.

Internal Circulation:

Director, Infrastructure Planning

Financial/Budgetary Considerations:

An ongoing budget request will be needed to provide for the repayment of the Internal Financing Energy Reserve and entries will be required to move funding in various reserves.

Legal/Statutory Procedural Requirements:

A bylaw will be prepared to support the movement of funds between the two existing DCC reserves.

Considerations not applicable to this report:

Legal/Statutory Authority:

Existing Policy:

Personnel Implications:

External Agency/Public Comments:

Community & Media Relations Comments:

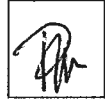
Alternate Recommendation:

Submitted by:



K. Grayston, Director, Financial Services

Approved for inclusion:



P. Macklem, General Manager Corporate Sustainability

CC: Director, Infrastructure Planning
Financial Planning Manager

Appendix A

<u>Description</u>	<u>12/31/2009</u>	<u>12/31/2010</u>
General Surplus	1,632,730	1,632,730
0 Surplus	1,632,730	1,632,730
Planning Initiatives - Corporate	1,652,086	933,807
R011 Energy Management Rebate	89,183	31,815
R023 Sister Cities	9,813	9,862
R042 DCC Administration Fees	1,083,670	673,766
R117 Social Development Grants	88,067	78,458
R123 PPP Opportunity Reserve	85,918	4,380
R124 Arts Development Reserve	138,062	129,378
R131 Strategic Plan Process Review	119,910	3,678
R134 Heritage Conservation	37,462	2,469
Major Facilities	3,915,269	761,852
R067 Major Facilities	2,435,310	31,701
R068 H2O Center	474,370	607,392
R069 Downtown Streetscape	384,997	75,258
R132 Civic Facilities	620,592	47,500
Misc. Recreation Facilities	(6,342,755)	(5,808,113)
R013 Apple Bowl Improvements	43,907	5,389
R022 Mission Softball Facility	68,478	161,745
R028 King Stadium	18,566	21,613
R030 Elks Stadium	20,971	16,132
R115 Curling Club Improvements	517,265	519,851
R116 Future Arenas	1,281,227	1,329,861
R178 Mission Rec. Park Loan	(8,266,287)	(7,835,822)
Park Purch/Dev't/Other Land	2,521,266	(1,069,304)
R020 Kelowna Sportsfields	127,873	126,490
R027 Gyro Park	42,628	42,841
R049 Future Park Land Acquisition	1,412,232	66,035
R061 Tree Levy Reserve	6,496	6,529
R079 Parks Purch & Develop	1,864,721	(775,802)
R177 Land Acquisition	(715,646)	(403,152)
R180 Promontory Green Int. Garden Loan	(243,922)	(159,128)
Upgrades/Maint. Existing Assets	1,948,859	1,342,754
R001 Building Repair	348,606	249,849
R016 City Hall Phone System	0	0
R019 RCMP Building	184,527	185,450
R035 Major Bridge Maintenance	254,273	207,825
R043 Finance/Major System Software	628,550	248,155
R052 City Rental Property	196,171	131,892
R065 Theatre Improvement Reserve	62,777	97,483
R112 One Percent Reserve for Art	499,425	474,083
R121 Survey Monument Replacement	197,348	198,335
R127 Internal Financing (Energy Savings re:	(422,817)	(450,318)

Operating Exp. Equalization	4,289,468	3,506,843
R004 Elections/Counter petition	3,420	3,438
R017 RCMP Contract	1,124,460	224,748
R021 Fringe benefit Loading	770,395	629,074
R032 Flood Control Averaging	331,300	332,956
R034 Snow Removal	418,464	399,299
R056 Debt Averaging Reserve	503,439	536,031
R060 Stores Inventory Fluctuations	179,514	176,711
R062 Rec. Unclaimed Funds	17,360	10,412
R083 Insurance Deductible	1,540,068	1,496,513
R111 Environmental Contingency Fund	18,934	11,993
R114 Community Celebrations	16,879	(30,895)
R179 Water Management Program Loan	(634,763)	(283,435)
Operating Rev. Equalization	1,287,809	566,136
R009 Permit Revenue Averaging	1,135,771	413,337
R133 Tax Appeals	17,487	17,574
R136 Franchise Fee Equalization	134,551	135,224
Transportation & Drainage Capital	6,948,965	3,244,461
R006 Transit Advertising	344,413	302,545
R024 Offsite & Oversize	211,023	212,078
R025 Arterial Roads Reserve	1,717,677	666,814
R029 Sidewalk Network	116,567	(2,687)
R041 Downstream Storm Drain	529,717	200,746
R048 Rural Roads	1,435,048	977,913
R058 Slope Stability Reserve	67,118	67,454
R075 Bike Paths(Rotary)	0	0
R076 Off-Road Bikeway	731,009	35,573
R077 Land Acquisition	1,204,566	341,545
R087 Overlay	155,611	156,389
R110 Town Center Roads	309,176	84,466
R128 Mitigation Banking Reserve	149,247	223,941
R135 Transportation Demand	(22,207)	(22,318)
Debt Equalization Reserve	265,756	174,293
R012 Local Improvements Prepaid	24,138	(48,101)
R014 Cemetery Operating	(3,656)	(24,106)
R055 Local Improvement Debentures	245,274	246,500
Multi-Purpose Investment	4,923,007	5,064,202
R113 Multi-Purpose Investment	4,923,006	5,064,201
Unspent Budget Reserve	14,935,677	1,697,752
Total General Reserves & Surplus	37,978,136	12,047,411

Appendix B

Consolidation of Reserves

DCC Drainage A - City Wide ~\$3,305,000 TRANSFER to DCC Roads I - Inner City (DCC drainage was incorporated into the roads program)

Gyro Park \$42,841, and Future Park Land Acquisition \$66,035 TRANSFER to Parks Purchase and Development Reserve (\$775,802)

Franchise Fee Equalization Reserve \$135,224 TRANSFER to Tax Appeals Reserve \$17,574

Local Improvements Prepaid (\$48,101) TRANSFER to Local Improvements Debenture Reserve \$246,500


Bike Paths (Rotary) \$0 TRANSFER to Off Road Bikeways \$35,573

2010 RESERVE POSITION



PURPOSE OF RESERVES & SURPLUS


- ▶ Facilitates good financial planning practice
- ▶ Flexibility - take advantage of opportunities
- ▶ Provide funding availability for unforeseen expenditures
- ▶ Debt avoidance to extent possible
- ▶ Government and community confidence



CURRENT RESERVE LEVELS

- ▶ Meet planning requirements - 5/10/20 years
- ▶ Major expenditure needs are cyclical or situational
- ▶ Reserve commitments


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RESERVE ADMINISTRATION

- ▶ Nearly 1 FTE to administer
- ▶ Interest payments - investment or bank rates
- ▶ Contributions from budget, revenues, annual surplus, MFA refunds, developers
- ▶ Appropriations to meet budgeted expenditures

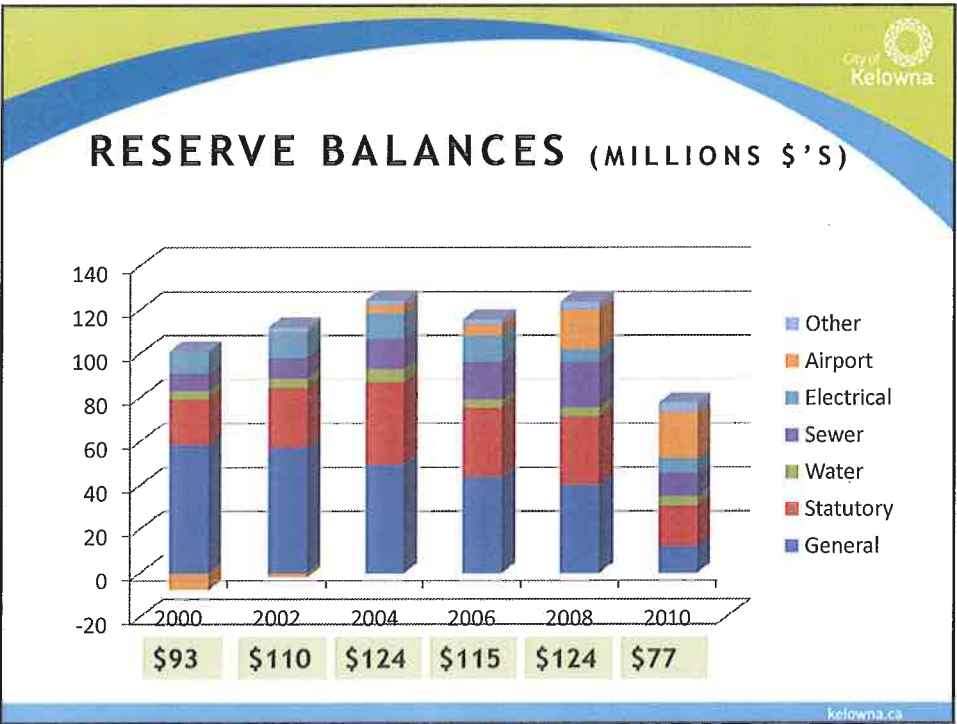
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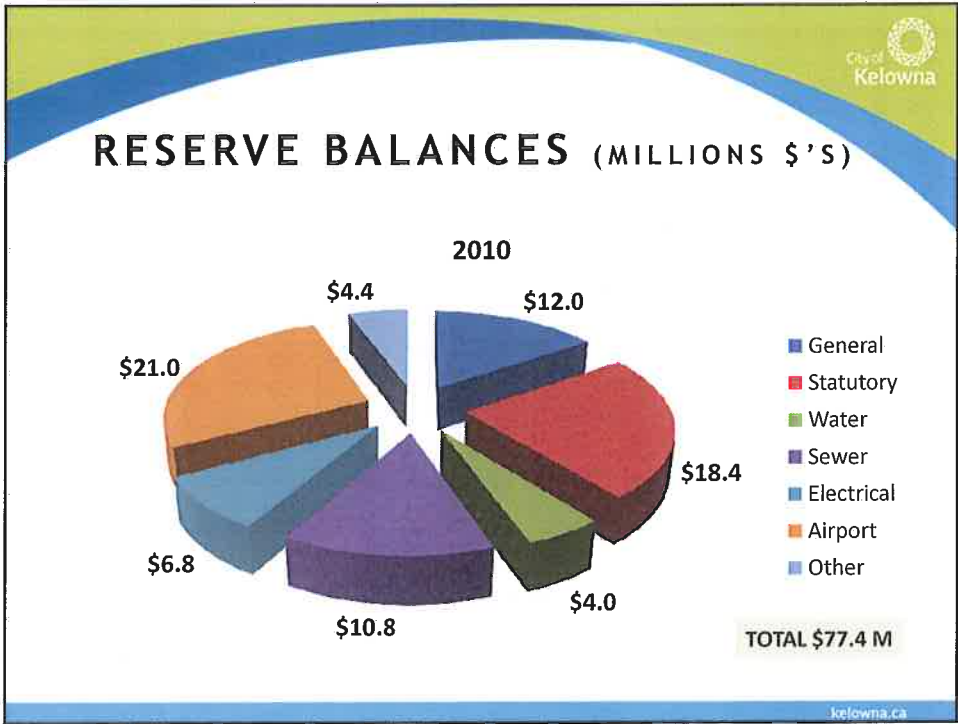

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RESERVE AND SURPLUS TYPES

- ▶ General Reserves - all funds
- ▶ Unallocated Surplus - all funds
- ▶ Statutory Reserves - separate funds
- ▶ DCC Reserves - deferred Dev't Charges

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ANALYSIS OF RESERVES

(millions \$'s)	2009	2010
Gen Res/Surp	\$38.0	\$12.1
Capital Mach & Equip	32.2	18.4
Water Utility Res/Surp	4.8	4.0
Sewer Utility Res/Surp	22.1	10.8
Electrical Res/Surp	8.1	6.8
Airport Res/Surp	21.1	21.0
Other Surplus	4.1	4.2
Totals	\$130.4	\$77.4

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GENERAL RESERVES

(millions \$'s)	<u>2009</u>	<u>2010</u>
Gen Surplus	\$1.6	\$1.6
Planning Initiatives	1.7	0.9
<i>Major Facilities</i>	3.9	0.8
Recreation Facilities	(6.3)	(5.8)
<i>Park Purch/Devt</i>	2.5	(1.1)
Upgrades/Maint Assets	1.9	1.3

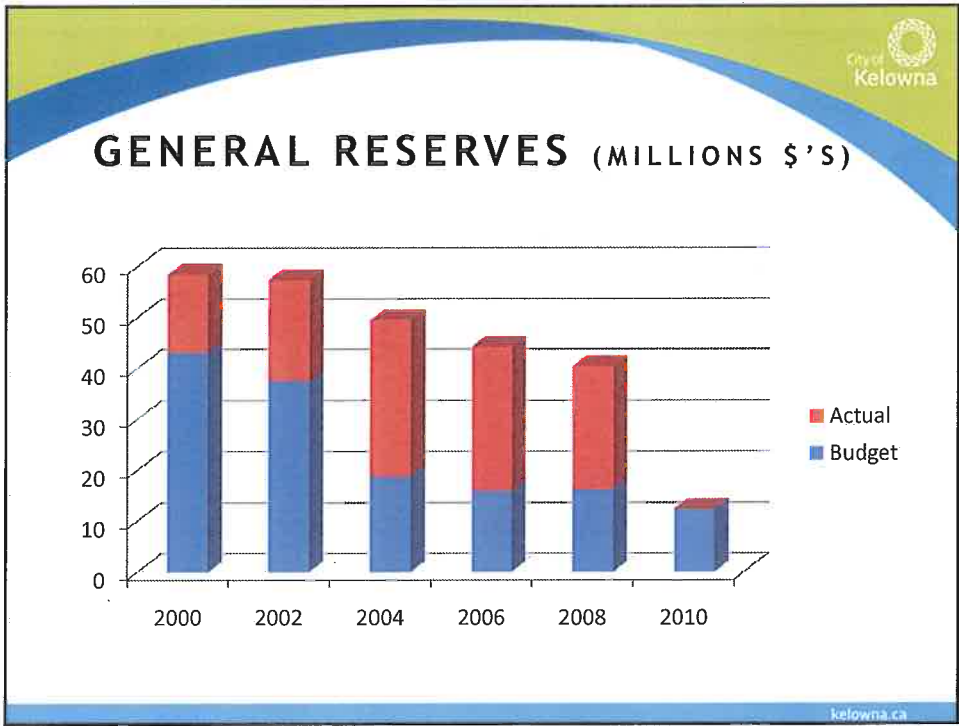
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GENERAL RESERVES

(millions \$'s)	<u>2009</u>	<u>2010</u>
Operating Rev/Exp	5.6	4.1
<i>Transportation/Drainage</i>	\$6.9	\$3.2
Debt Equalization	0.3	0.2
Multi-Purpose Invest	4.9	5.1
<i>Unspent Budget</i>	<u>14.9</u>	<u>1.7</u>
Total	\$38.0	\$12.1

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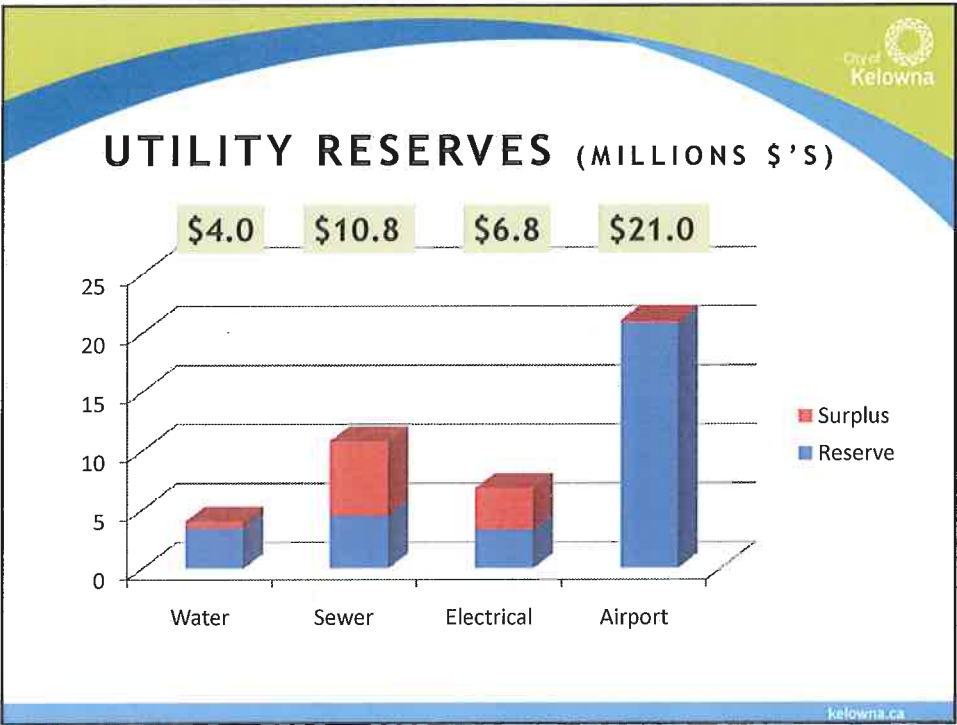
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- RESERVE LOANS**
- ▶ General Reserves
 - ▶ Mission Rec Park - \$7.8 M
 - ▶ Land Acquisition - \$0.4 M
 - ▶ Promontory Green - \$0.2 M
 - ▶ Energy Savings - \$0.5 M
 - ▶ Water Mgmt (meters) - \$0.3 M
 - ▶ Statutory Reserves
 - ▶ Property Acquisitions - \$6.4 M
- \$9.1 M**
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STATUTORY RESERVES

(millions \$'s)	<u>2009</u>	<u>2010</u>
Equipment Replacement	\$8.5	\$6.1
<i>MFA Debt Refunds</i>	3.5	(1.4)
<i>Landfill</i>	4.1	11.3
Sewer Connection Areas	3.7	3.6
<i>Other</i>	<u>3.5</u>	<u>0.2</u>
Sub-Total	\$23.3	\$19.8
Parking	0.6	0.5
<i>Land Sales</i>	<u>8.3</u>	<u>(1.9)</u>
Total	\$32.2	\$18.4

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RESERVE REQUIREMENTS

- ▶ Internal Financing Repayment
- ▶ Operating Reserve Balance - Best Practice
- ▶ Capital Requirements - General
 - ▶ Recreation Facilities - \$6.6 M
 - ▶ Civic Facilities - \$2.0 M
 - ▶ Roads - \$3.0 M
- ▶ Capital Requirements - Statutory
 - ▶ \$69 million - relies on replenishment

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RESERVE CHANGES

- ▶ New Reserves
 - ▶ H2O Centre Reserve
 - ▶ City Park Cenotaph & Veendam Garden
- ▶ Consolidations
 - ▶ DCC Drainage into DCC Roads I
 - ▶ Gyro Park & Future Park Land to Parks Purchase & Dev't
 - ▶ Franchise Fee to Tax Appeals
 - ▶ Local Improvements Prepaid & Debentures
 - ▶ Bike Paths & Off-Road Bikeway

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