

Report to Council



Date: August 31, 2012
File: 0220-01
To: City Manager
From: Keith Grayston, Director, Financial Services
Subject: Municipal Reserves and Debt Levels

Recommendation:

That Council receive the report on Municipal Reserves and Debt Levels from the Director, Financial Services dated August 31, 2012;

AND FURTHER THAT Council support staff developing formal reserve and debt policies for further consideration.

Purpose:

To provide Council with information on the current status of the City's reserves and debt levels and provide for future formal Council reserve and debt policies.

Background:

Reserves

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 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.

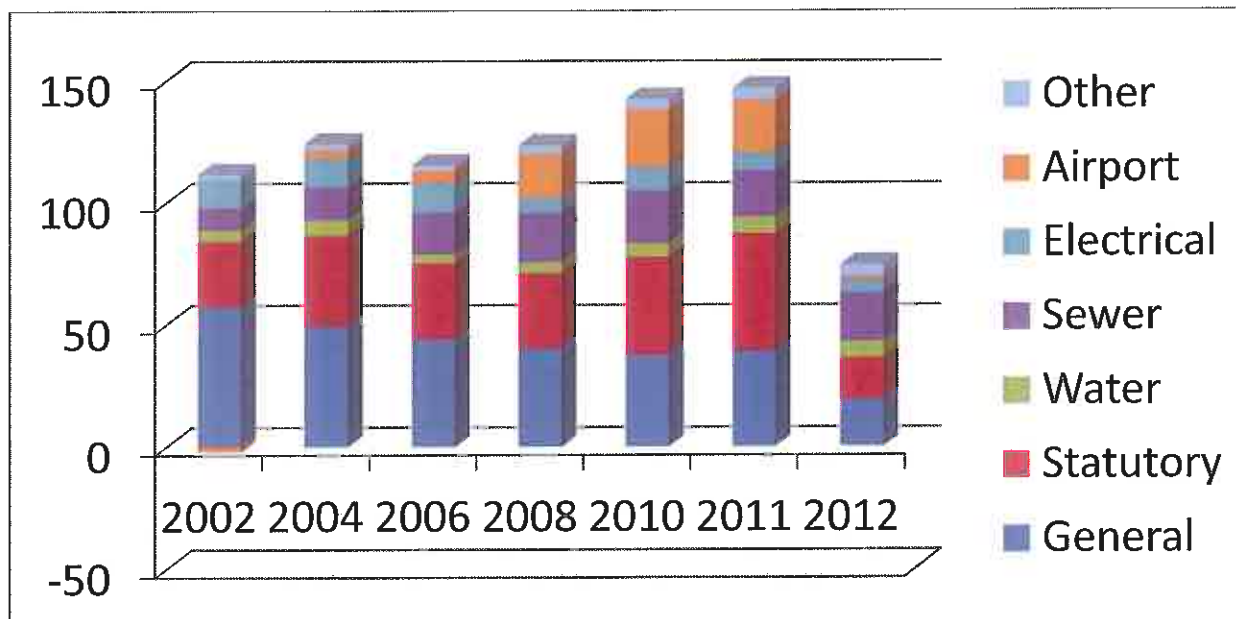
Contributions to the reserves are through the budget process, from increased revenues, annual surplus, Municipal Finance Authority refunds and developer contributions.

Appropriations from the reserves are made to meet budgeted expenditures in both operating and capital programs as approved by Council through the budget process.

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The City has reserves in all of the various funds (general and utilities) along with Statutory Reserves and deferred Development Cost Charges. 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 six reserve columns are based on the actual reserve balance at the end of the particular year. The 2012 balance is based on the commitments from the reserve assuming all budgeted funding will be spent by the end of 2012. With the carry-over programs that we have had in previous years we know that the actual 2012 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 2012 is anticipated to be \$19.3 million. Appendix A shows the General Reserve balance at December 31, 2011 and the uncommitted balance at December 31, 2012. 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 \$6.6 million will still be outstanding at the end of 2012.

Reserve Policy

A formal policy for reserves will be developed and reviewed with Council. The policy is intended to address several issues and is expected to contain the following sections:

- Objectives and Guidelines
- Creating or Closing a Reserve - reserve funds and accounts
- Reserve Administration
 - Purpose of the Reserve

- Reserve Levels
- Risk Factors
- Interest Paid
- Contributing to Reserves (replenishment & automatic entries)
- Appropriation from Reserves (authority to use reserves)
- Internal Borrowing
- Reporting and Review
- Responsibilities
- Development Cost Charges
- Glossary
- Reserve Summary

It is anticipated that the draft policy will be to Council later this fall.

Debt

Borrowing has occurred over the years to provide for specific growth related capital projects. These have been for both tax supported and self supported (utilities or where funded from revenues) business units. The City's current Debt Management Strategy is to use alternative funding for discretionary expenditures, capitalize on debt reduction opportunities and use short term borrowing and agreements for sale when practical. Also, the maximum debt servicing requirement should not exceed 5% of annual taxation demand.

There are different types of borrowing that municipalities have the ability to access. Long term borrowing is the most common and requires a loan authorization bylaw to proceed. In most cases this method will also require approval of the electors (referendum or alternative approval process). Liabilities under agreement, short term capital borrowing and revenue anticipation borrowing are other methods of obtaining funds or assets. The Provincial Government controls the amount of borrowing by municipalities through regulations limiting the annual cost of servicing levels. The maximum value of liability servicing cost for a given year is 25% of the municipality's controllable and sustainable revenues from the previous year.

As of December 31, 2010, Kelowna had the second highest level of "Total Debt" in the province. This includes both the debt issued and borrowing that is authorized but not yet issued. At \$199 million, Kelowna's total debt is significantly higher than most other municipalities. However, much of this debt is for areas that most other municipalities are not involved in; Natural Gas utility (\$49M) and the Airport (\$45M).

Future borrowing requirements include funding for the Protective Services building, for parkade facilities and potentially for DCC projects that may be advanced prior to the development revenue being available.

Debt Policy

Similar to the reserve policy a formal debt policy will be developed and reviewed with Council. The policy is intended to address several issues and is expected to contain the following sections:

- Objectives and Guidelines

- Types of Debt
- Use of Debt and Debt Limits
- Structure and Term
- Reporting
- Glossary
- Debt Summary

It is anticipated that the draft policy will be to Council later this fall.

Internal Circulation:

Director, Infrastructure Planning

Financial/Budgetary Considerations:

The reserve and debt policies may have implications on future budgets.

Legal/Statutory Authority:

Community Charter sections 174 through 190.

Considerations not applicable to this report:

Legal/Statutory Procedural Requirements:

Existing Policy:

Personnel Implications:

External Agency/Public Comments:

Community & Media Relations Comments:

Alternate Recommendation:

Submitted by:



K. Grayston, Director, Financial Services

Approved for inclusion:



D. Gilchrist, Acting General Manager Corporate Sustainability

CC: Director, Infrastructure Planning
Financial Planning Manager

Appendix A

CITY OF KELOWNA		
Analysis of General Reserves & Surplus		
<u>Description</u>	<u>12/31/2011</u>	<u>12/31/2012</u>
General Surplus	1,699,484	1,699,484
Planning Initiatives - Corporate	1,548,817	1,448,017
R011 Energy Management Rebate	286,483	401,387
R023 Sister Cities	2,395	2,419
R042 DCC Administration Fees	813,701	648,132
R117 Social Development Grants	68,829	69,517
R123 PPP Opportunity Reserve	49,967	5,259
R124 Arts Development Reserve	90,638	82,131
R131 Strategic Plan Process Review	234,100	236,441
R134 Heritage Conservation	2,704	2,731
Major Facilities	2,606,040	1,526,177
R067 Major Facilities	598,034	(27,192)
R068 H2O Center	1,213,592	982,671
R069 Downtown Streetscape	391,147	81,847
R132 Civic Facilities	403,267	488,849
Misc. Recreation Facilities	(5,046,633)	(4,221,027)
R013 Apple Bowl Improvements	10,872	16,232
R022 Mission Softball Facility	150,920	66,075
R028 King Stadium	24,567	3,542
R030 Elks Stadium	32,924	18,184
R115 Curling Club Improvements	525,531	530,787
R116 Future Arenas	1,637,790	1,698,627
R178 Mission Rec. Park Loan	(7,429,238)	(6,554,473)
Park Purch/Dev't/Other Land	823,883	163,410
R020 Kelowna Sportsfields	297,228	520,992
R061 Tree Levy Reserve	13,729	18,916
R079 Parks Purch & Develp	1,239,989	206,335
R177 Land Acquisition	(727,063)	(582,833)
Upgrades/Maint. Existing Assets	2,235,624	1,694,763
R001 Building Repair	520,308	208,078
R015 Veendam Garden Cenotaph Area Mtn	25,251	25,504
R016 Fire Dispatch Reserve (2012)	0	91,032
R019 RCMP Building	187,476	189,351
R035 Major Bridge Maintenance	275,226	237,578
R043 Finance/Major System Software	551,019	194,484
R052 City Rental Property	99,230	105,338
R065 Theatre Improvement Reserve	37,602	42,018
R112 One Percent Reserve for Art	701,562	708,679
R121 Survey Monument Replacement	187,376	177,898
R127 Internal Financing (Energy Savings re	(349,427)	(285,197)

	Operating Exp. Equalization	4,261,916	3,281,840
R004	Elections/Counter petition	(5)	(5)
R017	RCMP Contract	697,586	230,226
R021	Fringe benefit Loading	523,493	382,833
R032	Flood Control Averaging	361,129	364,740
R034	Snow Removal	315,251	453,317
R056	Debt Averaging Reserve	641,601	445,941
R060	Stores Inventory Fluctuations	215,313	213,748
R062	Rec. Unclaimed Funds	18,726	18,914
R083	Insurance Deductible	1,458,269	1,148,339
R111	Environmental Contingency Fund	5,236	(1,782)
R114	Community Celebrations	25,317	25,570
	Operating Rev. Equalization	529,680	409,212
R009	Permit Revenue Averaging	375,331	253,319
R133	Tax Appeals	154,351	155,895
	Transportation & Drainage Capital	5,103,987	3,443,890
R006	Transit Advertising	304,702	272,828
R024	Offsite & Oversize	210,425	212,530
R025	Arterial Roads Reserve	1,162,753	612,609
R029	Sidewalk Network	99,546	100,541
R041	Downstream Storm Drain	224,677	201,199
R048	Rural Roads	1,006,874	704,539
R058	Slope Stability Reserve	68,190	68,872
R076	Off-Road Bikeway	234,747	208,118
R077	Land Acquisition	871,309	352,085
R087	Overlay	158,098	159,679
R110	Town Center Roads	310,537	94,240
R128	Mitigation Banking Reserve	473,199	477,931
R135	Transportation Demand	(21,070)	(21,281)
	Debt Equalization Reserve	240,353	(51,477)
R014	Cemetery Operating	41,782	47,038
R055	Local Improvement Debentures	198,571	(98,514)
	Multi-Purpose Investment	5,235,605	5,405,121
R113	Multi-Purpose Investment	5,235,604	5,405,120
	Unspent Budget Reserve	19,822,327	4,511,683
	Total General Reserves & Surplus	39,061,083	19,311,092

2012 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

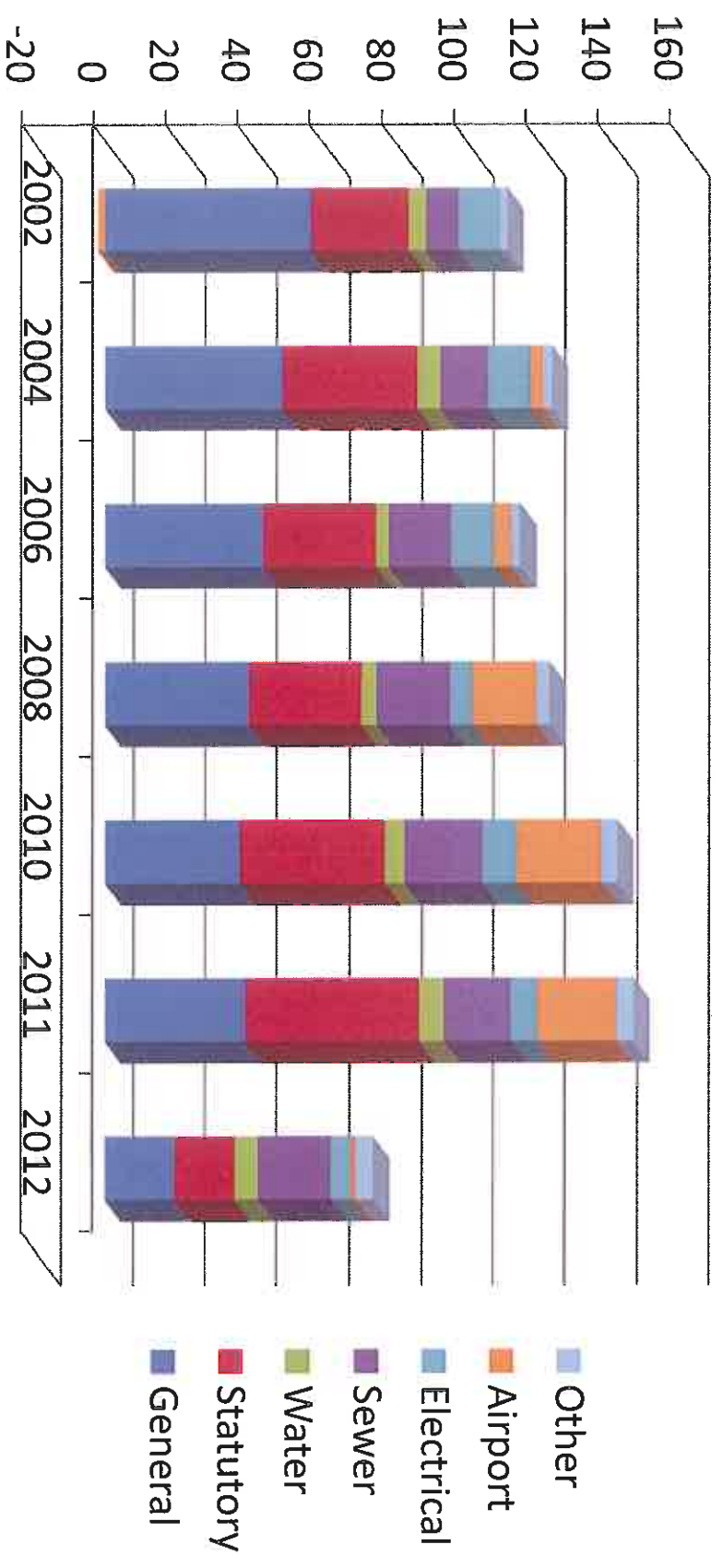
RESERVE ADMINISTRATION

- ▶ 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

RESERVE AND SURPLUS TYPES

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

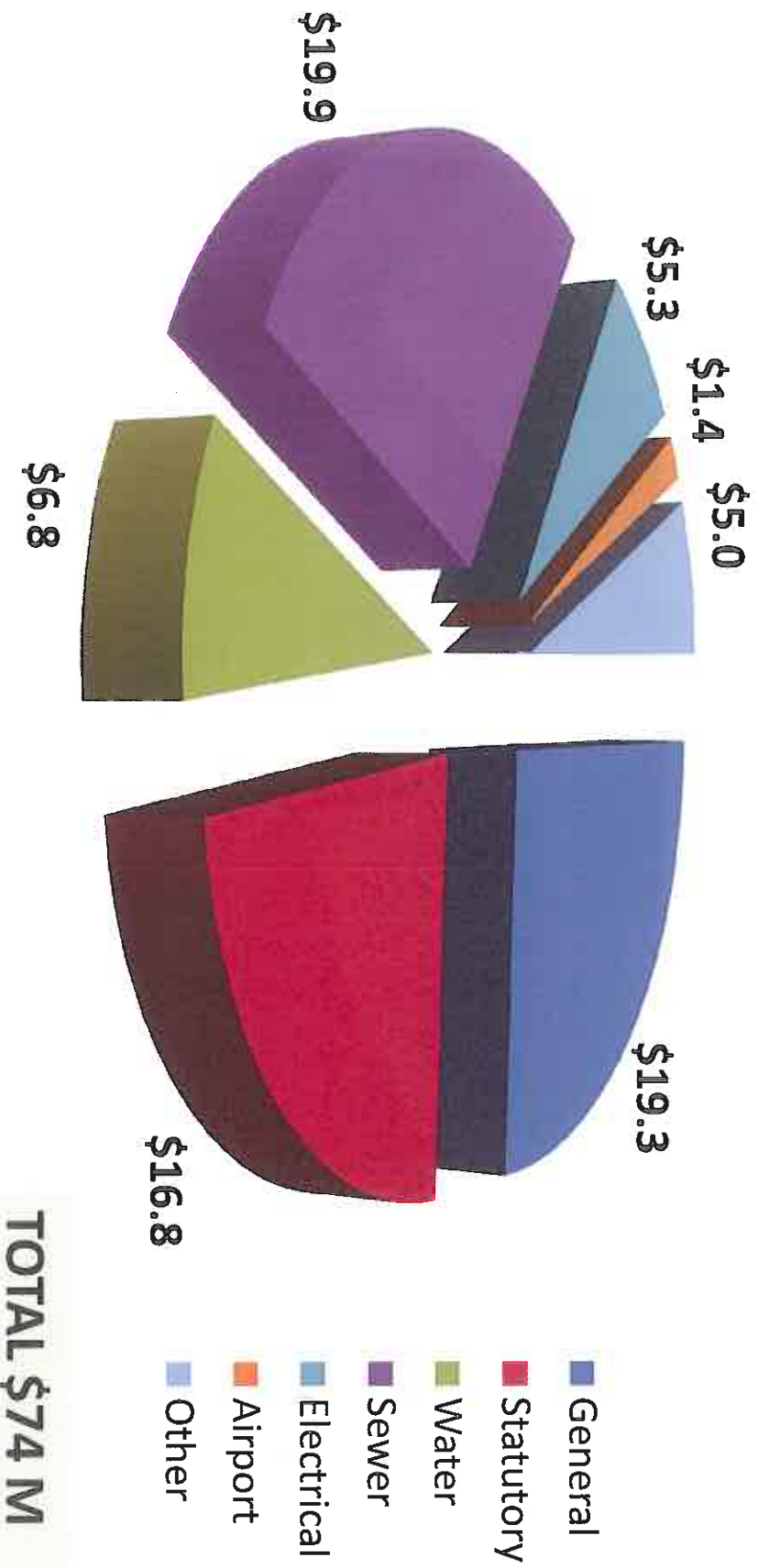
RESERVE BALANCES (MILLIONS \$'S)



\$110 \$124 \$115 \$124 \$142 \$147 \$75

RESERVE BALANCES (MILLIONS \$'S)

2012



ANALYSIS OF RESERVES

(millions \$'s)

	<u>2011</u>	<u>2012</u>
Gen Res/Surp	\$39.1	\$19.3
Capital Mach & Equip	48.0	16.8
Water Utility Res/Surp	6.9	6.8
Sewer Utility Res/Surp	18.8	19.9
Electrical Res/Surp	7.5	5.3
Airport Res/Surp	21.6	1.4
Other Surplus	<u>4.9</u>	<u>5.0</u>
Totals	\$146.8	\$74.6

GENERAL RESERVES

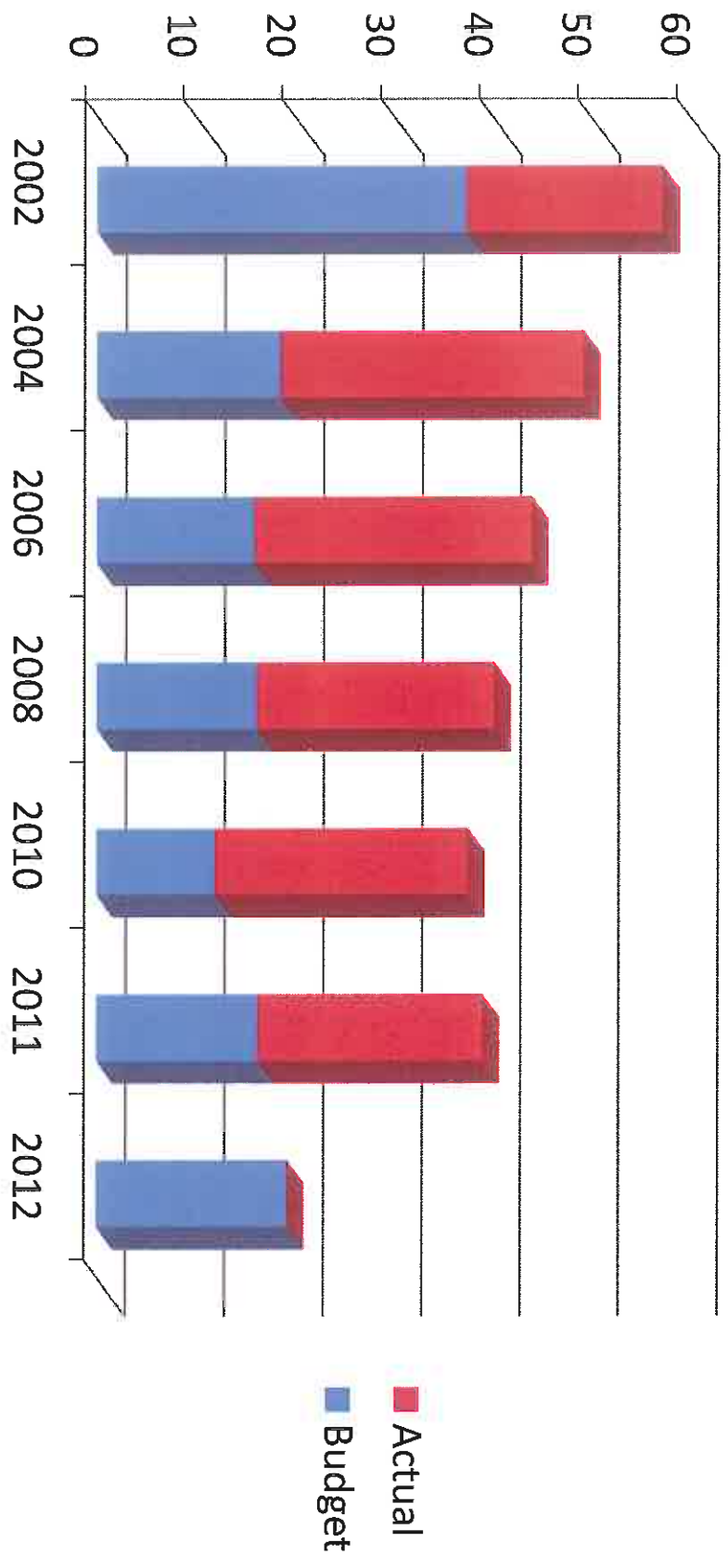
(millions \$'s)

	<u>2011</u>	<u>2012</u>
Gen Surplus	\$1.7	\$1.7
Planning Initiatives	1.5	1.4
Major Facilities	2.6	1.5
Recreation Facilities	(5.0)	(4.2)
Park Purch/Devt	0.8	0.2
Upgrades/Maint Assets	2.2	1.7

GENERAL RESERVES

	<u>2011</u>	<u>2012</u>
(millions \$'s)		
Operating Rev/Exp	\$4.8	\$3.7
Transportation/Drainage	5.1	3.4
Debt Equalization	0.2	(0.1)
Multi-Purpose Invest	5.2	5.4
<i>Unspent Budget</i>	<u>19.8</u>	<u>4.5</u>
Total	\$39.1	\$19.3

GENERAL RESERVES (MILLIONS \$'S)



STATUTORY RESERVES

(millions \$'s)

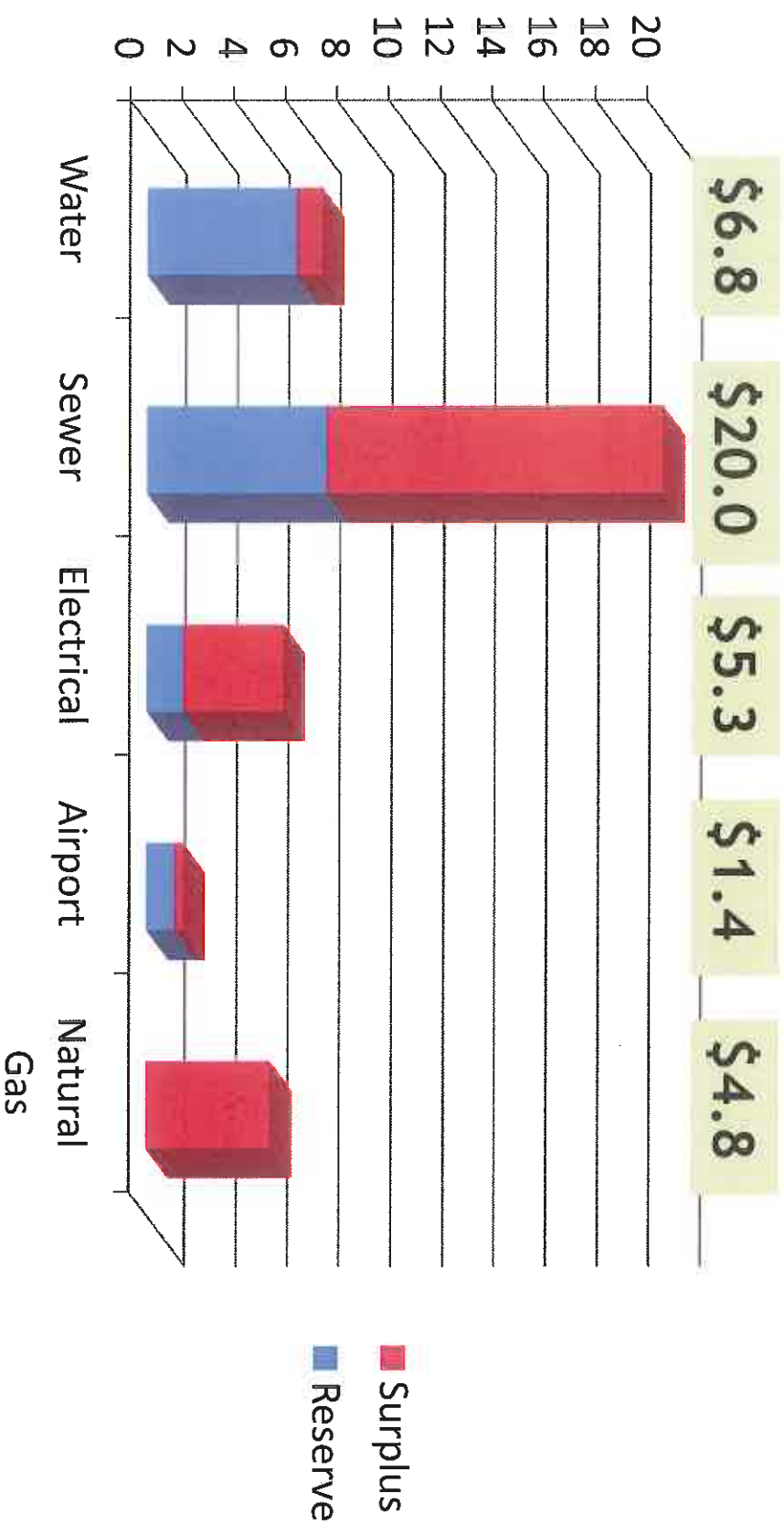
	<u>2011</u>	<u>2012</u>
Equipment Replacement	\$10.8	\$10.5
MFA Debt Refunds	0.1	0.6
Landfill	14.5	(8.9)
Sewer Connection Areas	4.2	4.4
Other	<u>7.5</u>	<u>5.6</u>
Sub-Total	\$37.1	\$12.2
Parking	1.4	1.0
Land Sales	<u>9.5</u>	<u>3.6</u>
Total	\$48.0	\$16.8

RESERVE LOANS

- ▶ General Reserves
 - ▶ Mission Rec Park - \$6.6 M
 - ▶ Land Acquisition - \$0.6 M
 - ▶ Energy Savings - \$0.3 M
 - ▶ Loaders (Composting) -
- ▶ Statutory Reserves
 - ▶ Property Acquisitions - \$3.4 M
 - ▶ Landfill Property - \$8.9 M

\$7.5 M

2012 UTILITY RESERVES (MILLIONS \$'S)



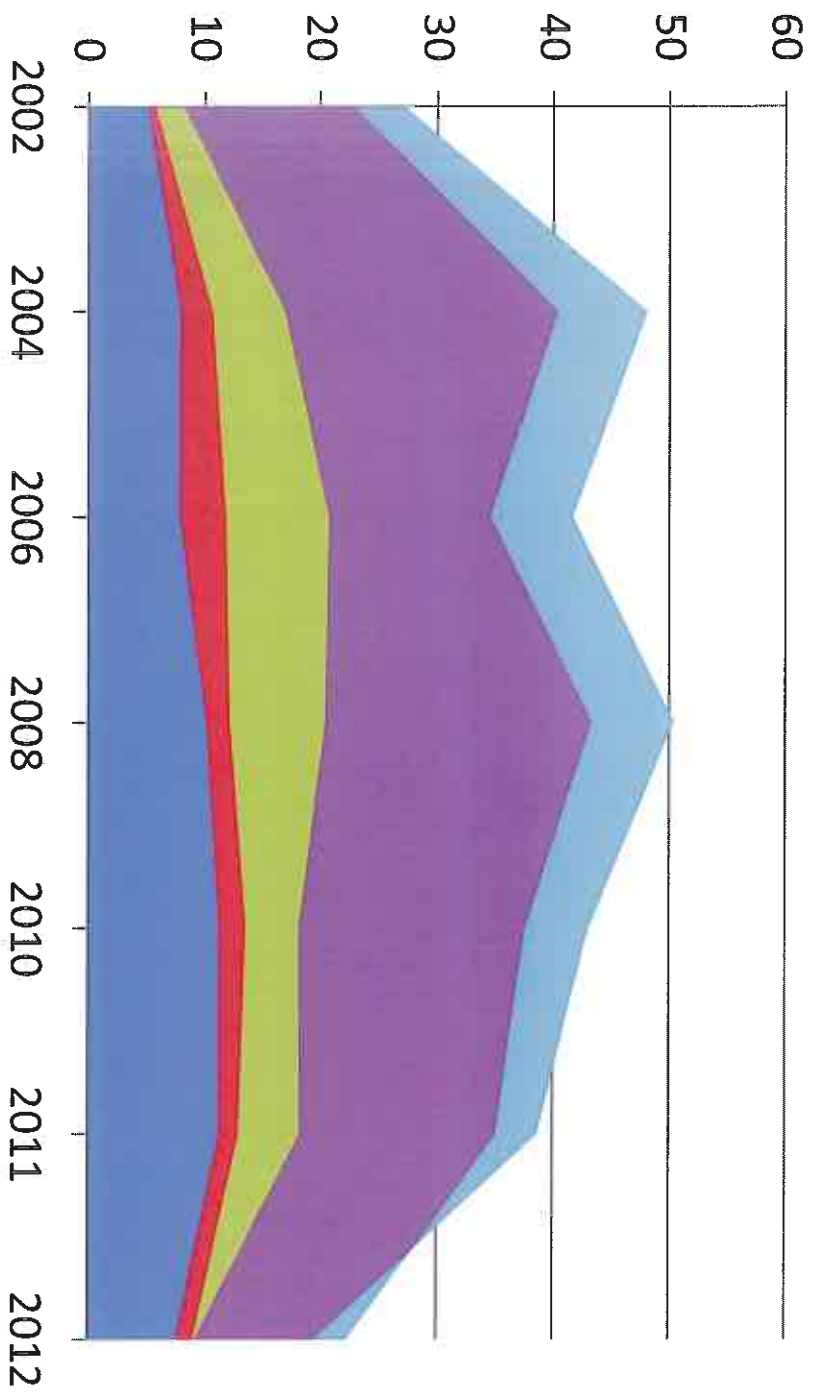
RESERVE REQUIREMENTS

- ▶ 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

RESERVE POLICY

- ▶ Objectives and Guidelines
- ▶ Creating or Closing a Reserve
- ▶ Reserve Administration
 - ▶ Purpose, levels, risk, interest, to & from reserves, internal borrowing, review
- ▶ Development Cost Charges
- ▶ Glossary
- ▶ Summary Listing

DEFERRED DCC'S (MILLIONS \$'S)

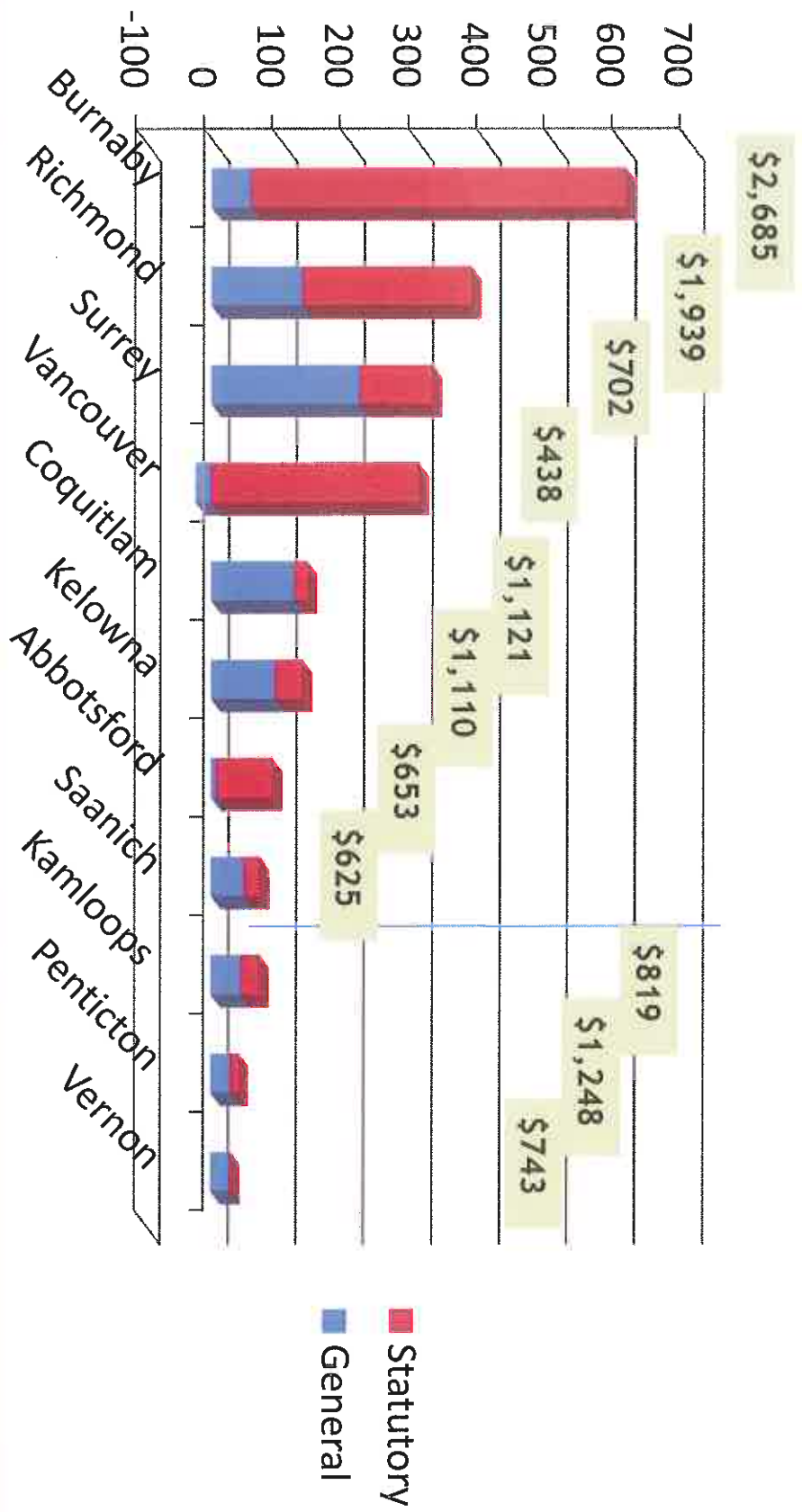


- Parks
- Roads
- Sewer Trmt
- Sewer Trks
- Water

COMPARISON TO OTHER BC CITIES

\$ per capita

2010 Information - \$ millions



2012 DEBT POSITION



CURRENT DEBT STRATEGY

- ▶ Manage debt effectively by proposing alternative funding for discretionary expenditures, capitalizing on debt reduction opportunities and identifying appropriate debt financed capital expenditures.
- ▶ Limit annual debt repayment to a maximum of 5% of taxation demand.

BALANCED DEBT DECISIONS

- ▶ Major Capital Requirements
- ▶ Inflation vs Interest Levels
- ▶ Pay-as-you-go and Reserve Levels
- ▶ Public Understands Implications
- ▶ Economic Stimulation and Social Benefits
- ▶ Term Determination
- ▶ Formal Policy Adoption

DEBT LEGISLATION

- ▶ Borrowing limit based on 25% of revenues
- ▶ Loan authorization bylaw requires elector approval
- ▶ MFA financing through Regional District
 - ▶ Short term capital borrowing (<5 years)
 - ▶ Liability Under agreement
 - ▶ Revenue anticipation borrowing
- ▶ Internal financing

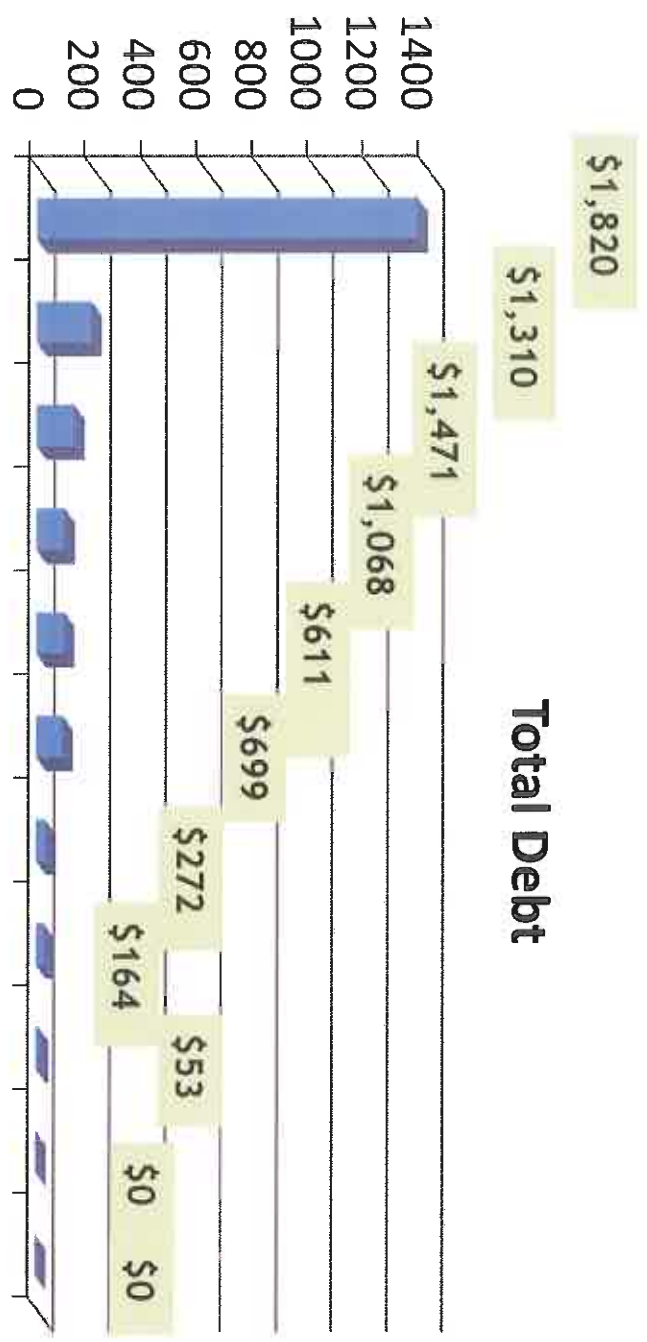
DEBT REPAYMENT

- ▶ Maximum 5% of taxation demand
- ▶ Utility revenue levels
- ▶ Repayment from other sources
 - ▶ Airport
 - ▶ Natural Gas
 - ▶ DCC Revenues
 - ▶ Parking
- ▶ Local area service

COMPARISON TO OTHER BC CITIES

\$ per capita

2010 Information - \$ millions



Total Debt

DEBT SERVICING

Municipalities	BC Stats Population Estimates	Debt Servicing Costs	Debt Servicing per capita	% Capacity Available
Vancouver	642,843	225,429,820	351	27%
Kelowna	121,306	35,681,846	294	40%
Prince George	75,568	18,451,790	244	40%
Kamloops	87,110	19,195,810	220	45%
Victoria	83,362	11,365,446	136	75%
Maple Ridge	76,418	8,566,075	112	63%
Abbotsford	138,179	8,971,000	65	81%
Delta	100,000	5,771,258	58	87%
Nanaimo	85,512	3,971,122	46	87%
Richmond	196,858	7,474,826	38	92%
North Vancouver	88,370	3,270,378	37	91%
Langley	104,697	3,410,605	33	91%
Saanich	114,140	3,424,954	30	90%
Coquitlam	126,594	2,604,929	21	95%
Chilliwack	77,975	624,012	8	97%
Surrey	462,345	3,500,000	8	97%
Burnaby	227,389	0	0	100%

CURRENT DEBT

- ▶ Maximum 5% of taxation demand
- ▶ Utility revenue levels
- ▶ Repayment from other sources
 - ▶ Airport
 - ▶ Natural Gas
 - ▶ DCC Revenues
 - ▶ Parking
- ▶ Local area service

DEBT POLICY

- ▶ Objectives and Guidelines
- ▶ Types of Debt
- ▶ Debt Limits
- ▶ Structure & Term
- ▶ Reporting
- ▶ Glossary
- ▶ Debt Summary

QUESTIONS OR COMMENTS