

**Chief Financial Officer's Report to
Priorities and Finance Committee
2019 December 03**

**ISC: UNRESTRICTED
PFC2019-1385**

2019 Triennial Reserve Review Report

EXECUTIVE SUMMARY

This report summarizes the results of the Triennial Reserve Review and the process performed by a Triennial Reserve Review Administrative Committee.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommends that Council:

1. Approve the changes to reserves as outlined in Attachment 1 and Attachment 2; and
2. Approve the list of reserves to be reviewed in 2020 as outlined in Attachment 3.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, 2019 DECEMBER 03:

That Council adopt the Administration Recommendations contained in Report PFC2019-1385.

PREVIOUS COUNCIL DIRECTION / POLICY

The City Auditor's Office completed an audit of The City's Financial Reserves in 2009. The FCS2010-01 (AC2009-74) report dated 2010 January 18 detailed the recommendations of the audit and Administration's response and work plan to address the recommendations. One of Administration's responses was to create a Triennial Reserve Review process in which every reserve will be reviewed at least once every three years. The list of 16 reserves reviewed in 2019 was approved by Council (C2018-1125 Attachment 3) on 2018 November 19. In addition, Council approved five other reserves for follow-up in 2019 that were a part of this review.

BACKGROUND

The City's Reserves

Reserves are part of good management that allows for funds to be either spent judiciously over time or to ensure service levels are maintained and not immediately impacted by downturns in the economy, adverse weather events, and other factors outside of The City's control. Reserves provide The City with the financial flexibility to react in a timely manner to the financial impacts of budget shortfalls and significant unexpected issues. A properly balanced approach to the planning and use of reserves is considered good financial management and is a key component of The City of Calgary's strong credit rating. For the majority of reserves, expenditures from and contributions to reserve funds are included in the Budget approved by Council.

The City's reserves consist of the following:

Reserve Type	# of Reserves	Reserve Balance as of 2018 Dec 31
Operating	16	\$764 million
Capital	17	\$984 million
Sustainment	12	\$686 million
Total per Reserve Report	45	\$2,434 million

**Chief Financial Officer's Report to
Priorities and Finance Committee
2019 December 03**

**ISC: UNRESTRICTED
PFC2019-1385**

2019 Triennial Reserve Review Report

There are 16 operating reserves totaling \$764 million, of which \$656 million is held in the Fiscal Stability Reserve (\$145 million committed at the end of 2018) as an operating contingency fund and to provide for one-time funding. The majority of the 17 capital reserves totaling \$984 million are either fully committed or have substantial commitments against them to finance existing approved projects. A total of \$686 million is held in 12 separate sustainment reserves, which are reserves that can contribute to both operating and capital budgets.

Reserve Governance

In 2010, Council approved Policy CFO013, Financial Reserves. The primary objective of the policy is to authorize or clarify processes required for:

- The creation of new reserves, including the purpose, funding, conditions, restrictions and appropriate minimum/maximum funding ranges;
- Administration of reserves, including annual contributions and withdrawals, investment income bearing status, the treatment of one-time or unanticipated revenue sources and courses of action if a reserve is over or under funded;
- Periodic reviews of all reserves; and
- Amendment or closure of a reserve.

Administration also developed and approved Administrative Policy FA-050, Financial Reserves, in support of the Council Policy. The Policy and associated procedures provide additional guidance, procedures and responsibilities in the administration and reporting of reserves.

Triennial Reserve Review

Council Policy CFO013 outlines a triennial review process requiring that every active reserve be reviewed at least once every three years.

The purpose of the Triennial Review process is to ensure that:

- i. Reserve activity meets all authorizing documents requirements;
- ii. Reserve activity is in accordance with City reserve policies and procedures;
- iii. The reserve's purpose, conditions and/or restrictions are still relevant; and
- iv. The reserve is still required in its current form.

The review for each active reserve will cover a period including the current year and the previous full year of operations for that reserve and shall be completed by a Triennial Reserve Review Administrative Committee (the Committee) comprised of:

- The Chief Financial Officer;
- Finance Manager, Corporate Budget Office;
- Finance Manager, Corporate Financial Reporting;
- A General Manager; and
- A Business Unit Director.

By the end of the year, the Committee prepares a report for the Priorities and Finance Committee. The report includes a summary of all findings, any applicable recommendations based upon the findings, follow-up of the previous year's review recommendations if required,

Chief Financial Officer's Report to
Priorities and Finance Committee
2019 December 03

ISC: UNRESTRICTED
PFC2019-1385

2019 Triennial Reserve Review Report

and a list of reserves to be reviewed the following year. The report's recommendations and next year's review work plan are subject to Council approval.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

In 2018, Council approved the 2019 review, consisting of 16 reserves. These represented a balance of \$632 million as of 2018 December 31, or approximately 26 percent of The City's total reserves balance.

Five reserves, totaling \$41 million as of 2018 December 31, were followed-up on per Council's 2018 direction.

One additional reserve, totaling approximately \$10 million as of 2018 December 31, was included in this report upon the request of the Fleet Services business unit.

A review team completed a detailed review of reserve activity. In addition to collecting all relevant reserve documents, sampled transactions from 2017 and 2018 were reviewed to evaluate compliance with reserve terms.

The Committee met several times throughout the year to consider the initial review results, evaluate recommendations made by the review team, determine whether the reserves are still relevant today, and whether they continue to align with current Council objectives.

1.0 Review results

1.1 Reserve activity meets all authorizing document requirements

All reserves reviewed are being administered as intended, with the following exceptions.

A one-time contribution of \$285,000 was made to the Artificial Turf Field Lifecycle Reserve as part of a contractual requirement for environmental contingency purposes. A recommendation has been made to approve this as an authorized use of this reserve.

The special reporting requirements of the Revolving Fund Reserve for General Land Purchases have not been met. The implementation of the Corporate Land Management Framework (CLMF), including new governance structures and additional reporting, has provided increased governance and oversight. As such, the special reporting requirements may no longer be necessary; Real Estate & Development Services has requested that this reporting be removed.

Refer to Attachment 1 for further information.

1.2 Reserve activity is in accordance with City reserve policies and procedures

Overall, the reserve activity reviewed was recorded in a timely fashion and in accordance with Council and Administrative reserve policies and Administrative reserve procedures.

The Committee, as part of its review, identifies process refinements and has made internal recommendations to improve the efficiency of certain reserves' accounting and budgeting processes. Formal budgeting recommendations have also been made for the Revolving Fund Reserve for General Land Purchases and the Planning & Development Sustainment Reserve.

Refer to Attachment 1 for further information.

2019 Triennial Reserve Review Report

1.3 The reserve's purpose, conditions and/or restrictions are still relevant

Overall, the reserves' purposes, conditions and/or restrictions are still relevant, except for the items outlined below.

The special reporting requirements for the Revolving Fund Reserve for General Land Purchases may no longer be necessary as described in 1.1 above.

The requirement for Council to approve all withdrawals from the Artificial Turf Field Lifecycle Reserve is inconsistent with other reserves and is redundant, as withdrawals are already approved through Council's approved capital budgeting process.

The special reporting requirement for the Legacy Parks Reserve is no longer relevant. In 2016, the Legacy Parks Fund Steering Committee was disbanded and all of its powers, duties and functions were amalgamated into the SPC on Community and Protective Services.

The CBS & CCS Sustainment Reserve is recommended to be separated into two reserves, a Planning & Development Sustainment Reserve and a Business Licence Sustainment Reserve, as it has two reserve purposes that are managed and tracked separately by two different departments.

Planning & Development's adoption of a new financial forecast to more accurately project and monitor annual fee-based service activity requires further monitoring and review to ensure it supports effective reserve management.

The reserve target balance formulas for the Planning & Development Sustainment Reserve and the Utilities Sustainment Reserve are recommended for update.

In addition, there are instances where some reserves' purpose, conditions and/or restrictions are recommended to be updated to improve clarity.

Refer to Attachment 1 for further information and recommendations and to Attachment 2 to view the proposed changes.

1.4 The reserve is still required

As part of the review, the Committee questions whether every reserve being reviewed is needed or can be closed, considering plans for the strategic use of the reserve in the future, the business model, and the current economic climate. No reserves are recommended for closure as part of this year's Triennial Reserve Review.

1.5 General Observations

It was identified that not all reserves budget for investment income consistently. The Committee has internally recommended that a consistent methodology for investment income budgeting be adopted for reserve management. In addition, the Committee has internally recommended that the Treasury Department review its process of investment income allocation for reserves that have multiple reserve activity codes.

2.0 2018 reserve follow-ups

Five reserves from the 2018 Triennial Reserve Review were followed up on in 2019. Two reserves require revisions to their reserve templates, two require further review in the future,

2019 Triennial Reserve Review Report

and one requires no further action. Refer to Attachment 1 for further information and recommendations.

3.0 Fleet Services Reserve – new business

A recommendation relating to the Fleet Services Reserve was included in this report upon the request of the Fleet Services business unit. The Committee has reviewed and supports the requested revisions. A full review of this reserve was not performed as it was not scheduled for review this year. Refer to Attachment 1 for further information and the recommendation.

4.0 Reserve schedule re-balancing

The three-year Triennial Reserve Review schedule was created (in 2010) to be relatively balanced between each of the three years. Since then, reserve activities have changed, including the creation of new reserves, reserve closures, amendments or merger of existing reserves, and increases or decreases to reserve balances. As a result, the annual review schedule requires revision.

The Committee recommends accelerating the review of four reserves, last reviewed in 2018, from 2021 to 2020. Refer to Attachment 3 for a list of reserves proposed to be reviewed in 2020.

Attachments

Refer to Attachment 1 for reserve review comments and recommendations specific to individual reserves.

Attachment 2 includes reserve summaries from the 2018 Annual Reserve Report for the reserves reviewed. Proposed changes to the text are highlighted in red, with strikethrough text recommended for removal.

Attachment 3 includes the list of reserves to be reviewed in 2020.

All three Attachments require Council approval.

Stakeholder Engagement, Research and Communication

All relevant reserve leads and the Administrative Leadership Team were informed and consulted as part of the review.

Strategic Alignment

The Triennial Reserve Review process helps The City become a more effective organization by ensuring its reserves are being managed properly and effectively.

Social, Environmental, Economic (External)

A number of reserves reviewed support social and environmental programs which assist The City in providing such services. Proper management of the reserves helps The City respond to changes in the economic environment with minimal impact to services and maintain its commitment to these social and environmental initiatives.

Chief Financial Officer's Report to
Priorities and Finance Committee
2019 December 03

ISC: UNRESTRICTED
PFC2019-1385

2019 Triennial Reserve Review Report

Financial Capacity

Current and Future Operating Budget:

In certain instances, some reserve transactions are a result of unplanned activities (for example, use of contingency funds) and therefore cannot be budgeted. However, where reserve activities can be planned, those transactions are included in the operating budget. There is no net impact on the 2019–2022 operating budget resulting from this report.

Current and Future Capital Budget:

Where reserve activities can be planned, those transactions are included in the capital budget. There is no impact on the current and future capital budget resulting from this report.

Risk Assessment

The Triennial Reserve Review process helps to mitigate risk by ensuring reserve balances are neither too high, where cash is held unnecessarily, or too low, where funds are insufficient to meet future needs. Maintaining adequate liquidity in the reserve system enables The City to respond quickly and effectively to shortfalls and unanticipated or uncontrollable events, improving corporate resiliency and reducing the risk that service levels might be adversely affected by economic trends and unforeseen circumstances. Strong reserves preserve Council and Administration's flexibility, and the vital role they play in preserving The City's fiscal stability is recognized by our credit rating agencies.

REASON(S) FOR RECOMMENDATION(S):

The recommendations help to streamline administration of reserves and, where required, update reserve purposes, conditions and restrictions to Council and the general public.

ATTACHMENT(S)

1. Attachment 1 – Reserve review comments and recommendations
2. Attachment 2 – Relevant excerpts from the 2018 Annual Reserve Report
3. Attachment 3 – Reserves to be reviewed in 2020