

Chief Financial Officer's Report to
Priorities and Finance Committee
2020 July 14

ISC: UNRESTRICTED
PFC2020-0723

The City of Calgary Reserves and Long Term Liabilities Balances 2019

EXECUTIVE SUMMARY

This report is presented in accordance with the requirements contained within Council Policy on Reserves CFO013 and provides financial information on The City of Calgary's (The City) reserves and long term liabilities balances as at 2019 December 31 and highlights the accountability systems with respect to The City's reserves established by Administration and in operation in 2019. This report supplements the information on reserves balances and disclosures contained in The City's annual financial statements.

This report also requests a suspension of work associated with the 2020 Triennial Reserve process as approved in PFC2019-1385, with resources redirected to support a Reserves Optimization review as part of the Solutions for Achieving Value and Excellence (SAVE) Initiative. A well capitalized reserves portfolio coupled with strong governance systems contributes to The City's strong financial practices and liquidity, evidenced by a strong credit rating. This also demonstrates Administration's continued success in meeting Council's priority of a Well Run City.

ADMINISTRATION RECOMMENDATIONS:

That the Priorities and Finance Committee recommends that Council:

1. Receive The City of Calgary Reserves and Long Term Liabilities Balance 2019 for the Corporate Record and Discussion;
2. Suspend the requirements of Council Policy CFO013 section 1.4 "Periodic review of a reserve (Triennial Reserve process)" for the 2020 work scope as provided in PFC2019-1385 Attachment 3, and redirect Administration resources in an alternate work scope as recommended by the Administrative Leadership Team to the SAVE Program - Reserves Optimization review; and
3. Direct Administration to determine the work scope under Council Policy CFO013 section 1.4 at the conclusion of the SAVE Program - Reserves Optimization review and obtain approval from Council for any work scope revisions.

PREVIOUS COUNCIL DIRECTION / POLICY

As per the direction in Council Policy CFO013, Reserves information shall be reported to the Priorities and Finance Committee (PFC) and to Council in an annual Reserves Report for information purposes.

BACKGROUND

The creation of a portfolio of financial reserves and the optimal funding and judicious management of these reserve funds is part of the long-term fiscal strategy at The City. Reserves are used to accumulate funds over time to replace capital assets, to provide a measure of financial flexibility to react to budget shortfalls and to manage the financial impact of significant unexpected issues in a timely manner. The City has a balanced approach to the planning and use of reserves and has an established policy framework in place for guiding the responsible stewardship of reserves and to ensure that these funds are managed prudently.

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Council Policy on Reserves CFO013 was updated in 2010 and the Administration Policy on Financial Reserves FA-050 was created in 2010 and these policies reinforced and enhanced the annual reporting requirements on reserves. This report supplements the information on reserves balances and disclosures contained in The City's annual financial statements and is compiled by Corporate Financial Reporting within the Finance business unit in accordance with reserves policies and procedures.

Council Policy on Reserves CFO013 also defines the requirements for the periodic review of all reserves as part of the Triennial Review process. Administration Policy on Financial Reserves FA-050 defines the purpose of the review, which is to ensure that reserves are being managed properly and to evaluate the continued relevance of individual reserves. Every active reserve will be reviewed at least once every three years. The Administrative Review Committee is tasked with providing a report on the results of its review of the Council approved reserves to the Priorities and Finance Committee by the end of each year. The 2019 triennial review process was completed for the 2018 reserves and a report was presented to PFC in the fourth quarter of 2019, for which the relevant findings have been incorporated into Attachment 1.

The SAVE program, takes a strategic approach to find savings while continuing to provide quality services that Calgarians want and expect. As part of SAVE, the Administrative Leadership Team has recommended an alternative work scope as part of a Reserves Optimization review. This alternate work redirects resources which previously performed the Triennial Reserves Review to the Reserves Optimization review. Administration is seeking a temporary suspension of the Triennial Reserves Review for 2020 in favour of the Reserves Optimization review. The details of this change can be found in Attachment 2.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Financial Reserves Policy FA-050 and the accompanying Procedures for Financial Reserves define the roles, responsibilities of all parties associated with administering financial reserves. Corporate Financial Reporting within the Finance business unit is responsible for ensuring that the reserve balances are accurately reported in The City's annual financial statements and in Attachment 1.

The City's reserves total \$2,737 million at 2019 December 31 (2018: \$2,434 million) and consist of operating, capital and sustainment reserves. The City had capital commitments of \$1,666 million and operating commitments of \$49 million at 2019 December 31 as reported in note 28 in The City's annual financial statements. These commitments will be partially funded from reserves in future years.

A summary definition of these reserves categories and information on reserves within these categories at 2019 December 31 is as follows:

- **Operating reserve** – A reserve to fund operating expenditures for one-time projects, pilot programs, to stabilize operating budgets for unanticipated fluctuations in revenues or expenditures, to comply with a contractual agreement, or for contingency funds for operational emergencies. There are 16 operating reserves totalling \$603 million, of which \$536 million is held in the Fiscal Stability Reserve as an operating contingency fund and to

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provide for one-time funding as approved by Council.

- **Capital reserve** – A reserve to fund approved capital programs, projects and expenditures. There are 14 capital reserves totalling \$1,267 million and a majority of them are either fully committed or have substantial commitments against them to finance existing approved projects and these commitments will reduce the existing balances over time.
- **Sustainment reserve** – A reserve to fund both operating and capital expenditures for activities that are treated as self-sustaining. A total of \$867 million is held in 17 separate sustainment reserves, of which the majority of them are either fully committed or have substantial commitments to finance existing approved projects and these commitments will reduce the existing balances over time.

Attachment 1 The City of Calgary Reserves and Long Term Liabilities Balances 2019 provides detailed financial information on the reserves at The City and includes the reserves terms and financial details for each individual reserve as an appendix. Attachment 1 also identifies reserves closed within the last five years.

Stakeholder Engagement, Research and Communication

Business Units through their designated Operational Leads and Financial Leads are responsible for ensuring that the reserve funds are being used in accordance with the approved terms for the reserve, are recorded and reported in accordance with established practices and comply with the documentation standards defined within the Administration Policy and Procedures. This annual report on reserves is compiled by Corporate Financial Reporting in accordance with Administration's Policy and Procedures on financial reserves from these business unit's reports and documentation on reserves.

Strategic Alignment

This report is provided for information to contribute to the PFC and Council fulfilling their governance responsibilities. Robust public information on reserves and long term liabilities is essential to ensure public confidence and fulfill the public's need for transparency and accountability.

Social, Environmental, Economic (External)

Certain reserves support social programs which assist The City in providing such services. Certain reserves support environmental programs and compliance with environmental regulations.

Financial Capacity

Current and Future Operating Budget:

Certain reserves support operating programs which assist The City in providing services. There is no current or future operating budget request as a result of this report.

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Current and Future Capital Budget:

Certain reserves support capital programs and capital commitments which assist The City in providing capital assets. There is no current or future capital budget request as a result of this report.

Risk Assessment

Administration manages The City's reserves in accordance with the reserve's purpose and any or all conditions and/or restrictions placed upon the reserve by Council. Administration also ensures that reserves continue to be aligned with Council's priorities. The reporting of reserves activity and balances in this report seek to demonstrate the proper management of reserves.

Maintaining adequate liquidity provides financial capacity and 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):

As per the direction in Council policy CFO013, Reserves information shall be reported to the PFC and Council in an annual Reserves Report for information purposes.

To support the SAVE Program, resources previously delivering the 2020 Triennial Reserves process will be directed to the Reserves Optimization review and the 2020 Triennial Reserves process will be suspended.

ATTACHMENT(S)

1. Attachment 1 – The City of Calgary Reserves and Long Term Liabilities Balances 2019
2. Attachment 2 – SAVE Program – Reserves Optimization