Operational Reserve Recommendations[1]for Council Approval 2021 July 20:

1. Re-direct property tax revenue of $10M directly to the Lifecycle Maintenance Upgrade Reserve (LMUR) and $30M directly to the Pay-As-You-Go (PAYG) held in the Reserve for Future Capital instead of flowing through the Debt Servicing Reserve;

2. Merge the Fiscal Stability Reserve (FSR) and Budget Savings Account (BSA); and

3. Merge the Lifecycle Maintenance Upgrade Reserve (LMUR) and Reserve for Future Capital (RFC), and separate the Green Line portion into a stand-alone reserve.

Background Context for Operational Recommendations[1]:

Debt Servicing Reserve

The Debt Servicing Reserve (DSR) is funded through a $94.75M annual contribution from property taxes and maintains an ongoing balance of $52.57M. Each year the DSR is used to pay principal and interest on tax-supported debt and contributes $10M to the Lifecycle Maintenance and Upgrade Reserve (LMUR) and $30M to Pay-As-You-Go (PAYG) held in the Reserve for Future Capital. Any additional amount not committed is transferred to the LMUR, to maintain a balance of $52.57M in the DSR.

In 2021, the expected additional amount to be transferred to the LMUR is $30.32M; in 2022 that amount will be $31.38. It is proposed that the amount of funding to the LMUR from the DSR is reduced by $5M annually; the funding will be transferred to the operating budget for 2021 onwards through the Mid-Cycle Adjustments process. *(This budget savings recommendation was approved by Council in November 2020 (C2020-1215))*

It is also proposed that adjustments are made so that the fixed amounts committed to other reserves ($10M to the LMUR and $30M to the Reserve for Future Capital for PAYG) flow directly from property taxes into those reserves, rather than through the DSR, in the interests of transparency.

Fiscal Stability Reserve (FSR) and Budget Savings Account (BSA)

Prior to 2015, all positive variances flowed into the Fiscal Stability Reserve (FSR). The Budget Savings Account (BSA) was created in 2015 with a longer-term vision to provide an incentive for Business Units (BU) to find savings by allowing them access to 50% of their favourable variance to fund their priority initiatives. However, the BSA has been used corporately since its inception due to the economic challenges faced by The City, while also having been used in Council communications, including the monthly Executive Information Report and Accountability reports, to emphasize BU savings. The FSR and BSA should be merged as the BSA has not been used to its long-term purpose. If potential savings incentive programs that replicate the intent of the

[1] Excerpts from the Financial Reserves Optimization Business Case Approved by ELT in 2020

BSA are still desired, approaches can be considered as part of the work required to merge the reserves.

No savings are expected from merging the two reserves, but administrative efficiencies will be realized as productivity gains. There is an intangible benefit associated with greater transparency in terms of the total variance contributed, offset by reduced transparency in terms of the breakdown of variances contributed by BUs and corporately.

Lifecycle Maintenance Upgrade Reserve (LMUR) and Reserve for Future Capital (RFC)

The Lifecycle Maintenance and Upgrade Reserve (LMUR) and the Reserve for Future Capital (RFC) should be merged, as there is significant overlap between the two in their actual use. The Green Line Portion of the LMUR – which is a dedicated portion of the LMUR – should be separated out into its own reserve, better reflecting its intended purpose.

No initial savings are expected from merging the two reserves, but administrative efficiencies will be realized as productivity gains and there is an intangible benefit associated with greater transparency.

[1] Excerpts from the Financial Reserves Optimization Business Case Approved by ELT in 2020