

**Corporate Planning and Financial Services Report to
Executive Committee
2023 February 28**

**ISC: UNRESTRICTED
EC2023-0222
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Fee Based Reserves

RECOMMENDATION(S):

That Executive Committee recommend that Council receive this report for the Corporate Record.

HIGHLIGHTS

- Pursuant to Council's direction as part of the approval of the 2023-2026 Service Plans and Budgets, 13 fee based reserves were examined. No funding is recommended to be released from these reserves to fund tax-supported expenditures.
- Reserves are initiated, managed and reviewed according to Council policy CFO013.
- Fee revenues underlying the reserves are intended for the activities from which they are generated. There is a risk of legal challenge if fee revenues are used for another purpose.
- Eight of the reserves do not have capacity due either to long-term sustainment needs (reserve 2 through 7) or commitments in the 2023-2026 Service Plans and Budgets (reserves 8 to 10).
- Three reserves (reserves 11 to 13) do not have tax-supported activities that could be supported by their reserves.
- Two reserves (reserves 1 and 4) are currently undergoing extensive reviews that are expected to be completed by the end of 2023. Determination of funding available from these reserves at this time is premature.
- Funding on-going costs from one-time sources such as reserves is not recommended as it creates a higher property tax impact in the following year.
- Background and Previous Council Direction is included as Attachment 1.

DISCUSSION

This report responds to Council's direction to conduct a review of fee-based reserves to determine if there are tax-supported initiatives that could be funded from them. As shown in Attachment 2, Administration identified 13 fee-based reserves for review. This table shows the total and uncommitted balances, along with the committed expenditures as at 2021 December 31. Year end financial processes are currently underway that will finalize the 2022 balances; however, these were not available at the time of the analysis.

Each service considered the use of these reserves as part of the process to prepare the 2023-2026 Service Plans and Budgets. The table in Attachment 2 includes the spending commitments approved in the 2023-2026 Service Plans and Budgets.

All figures in Attachment 2 are intended to give an order of magnitude perspective on the capacity of the reserves only and should not be used to infer a total balance. Balances along with updated commitments as of the end of 2022 will be included in the Reserves and Long-Term Liabilities Balances report that will be presented to Council later this year.

All City reserves fall under Council Policy CFO013. The terms of each reserve define the purpose, funding source, and any other conditions and restrictions. Each reserve is reviewed every three years as part of the Triennial Reserve Review process, with the results presented to

Fee Based Reserves

Council. The next Triennial Reserve Review report will be presented to Council in 2023 June. This review includes eight of the reserves in Attachment 2. The Triennial Reserve Review

process has not explicitly included the question of using reserve funding for tax-supported initiatives, but rather left this implicit in the evaluation of the use of the reserves and the review of each reserve's purpose. Administration will begin including this question explicitly in order to enhance the management diligence of the reserves.

Fee based reserves are funded either as part of the budgeted expenditure from fee revenues or from operating surplus from the fee revenues. Fees charged for City services need to be used to fund the activities for which the fees are charged. Similarly, fee-based reserves should only be used to fund activities for which the fees are charged.

As noted in Attachment 2, the Planning & Development Reserve (labeled 1 in Attachment 2) is included in the Triennial Review to be presented in June. As the terms of the Triennial Reserve Review are limited, Planning & Development Services is also concurrently conducting a broader review of the Planning & Development Reserve. Planning & Development Services has to date identified approximately \$700 thousand that could be used to fund tax-supported expenditures, however Administration considers it to be premature to make a recommendation until these reviews are completed. This will maximize the value of the review process and allow any recommendations to consider the full context and long-term strategy for the reserves in funding the relevant services.

Three of the reserves reviewed (labeled 11 to 13 in Attachment 2) are not directly related to any tax-supported activities, therefore should not be considered to fund tax-supported initiatives unless the initiatives can clearly be shown to relate to the fee in question. Of the remaining reserves, three (labeled 8 to 10 in Attachment 2) have been fully committed for the 2023-2026 budget cycle. These reserves are included in the current Triennial Reserve Review.

The final six reserves (labeled 2 to 7 in Attachment 2), while related to tax-supported services, are in place to fund long-term operating and capital, include lifecycle maintenance. These reserves have identified potential deficiencies to the long-term funding needs or target balances. Therefore, no funds are deemed available to offset the cost of tax-supported initiatives. Four of these reserves are also included in the current Triennial Reserve Review, including the Calgary Parking Authority Reserve (labeled 4 in Attachment 2). As well, as part of the integration of the Calgary Parking Authority into City operations, Calgary Parking Authority's financial policies are also being revised and the use of the reserve is being reviewed.

An additional consideration in the analysis is the impact of using reserve funding for this purpose. Property taxes are an on-going revenue source that are used to fund on-going expenditures. Reserves are currently used to fund one-time operating costs. Replacing tax-funding with one-time funding such as reserves creates a larger increase for taxpayers in the following year for any given level of service and expenditure. This option should only be used sparingly and in conjunction with a plan and communication for the following year.

EXTERNAL ENGAGEMENT AND COMMUNICATION

- | | |
|------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <input type="checkbox"/> Public engagement was undertaken | <input type="checkbox"/> Dialogue with interested parties was undertaken |
| <input type="checkbox"/> Public/interested parties were informed | <input checked="" type="checkbox"/> Public communication or engagement was not required |

This report presents the results of an internal review. Public communication and engagement were not required.

IMPLICATIONS

Social

Not applicable. Social implications were analysed and considered as part of the 2023-2026 Service Plans and Budgets.

Environmental

Not applicable. Environmental implications were analysed and considered as part of the 2023-2026 Service Plans and Budgets.

Economic

Not applicable. Economic implications were analysed and considered as part of the 2023-2026 Service Plans and Budgets.

Service and Financial Implications

No anticipated financial impact

RISK

There are no risks identified with the recommendation as this maintains the current financial structure in the approved 2023-2026 budgets. Risks relates to the 2023-2026 Service Plans and Budgets were identified in C2022-1051.

There are legal risks associated with using fee-based reserves for purposes beyond those that generated fee revenues.

Reserves are a financial risk management tool. Using reserves other than for the stated purposes can increase the financial risk that funds for reserve-supported activities are not available when needed.

ATTACHMENT(S)

1. Attachment 1 – Background and Previous Council Direction
2. Attachment 2 – Summary of Fee Based Reserves

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Les Tochor	Corporate Planning & Financial Services	Approve
Carla Male	Corporate Planning & Financial Services	Approve