

2015 TRIENNIAL RESERVES REVIEW REPORT

EXECUTIVE SUMMARY

This report summarizes the results the Triennial Reserve Review process performed by an Administrative Reserve Review Committee.

ADMINISTRATION RECOMMENDATION(S)

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 2016 as outlined in Attachment 3.

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 18 reserves reviewed in 2015 was approved by Council (PFC2014-0847 Attachment 3) on 2014 December 14.

BACKGROUND

The creation, use and management of reserve funds in a formalized financial reserve policy is a best practice and consistent feature of most large cities in Canada and the United States. 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 potential downturns in the economy. Reserves provide a measure of financial flexibility to react to budget shortfalls or to financial impacts of significant unexpected issues in a timely manner. 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 and Budget Adjustments approved by Council.

The City's reserves consist of the following:

Reserve Type	# of Reserves	Reserve Balance as of 2014 Dec 31
Operating	16	\$543 million
Capital	17	\$894 million
Sustainment	9	\$285 million
Total per Reserve Report	42	\$1,722 million

Of the \$543 million of operating reserve balance, \$443 million is held in the Fiscal Stability Reserve (FSR) as an operating contingency fund and to provide for one-time funding. Note, at least \$163 million of the FSR has been committed to flood related and other one-time projects.

The majority of the capital reserves are either fully committed or have substantial commitments against them to finance existing approved projects.

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In 2010, Council approved Policy CFO013, Financial Reserves. The primary objective of the revised policy was 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 reflect best practices and provide additional guidance, procedures and responsibilities in the administration and reporting of reserves.

A significant change in Council Policy CFO013 is related to the review process of the reserves. The Policy outlines a triennial review process requiring that one third of the reserves be reviewed each year resulting in all reserves being 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 administration 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 the previous full year of operations for that reserve and shall be completed by an Administrative Reserve Review Committee comprised of:

- The Chief Financial Officer;
- Manager of Corporate Budgets Office (CBO);
- Finance Manager, Corporate Financial Reporting;
- A General Manager; and
- A Business Unit Director.

By the end of the year, the Administrative Reserve Review Committee will prepare a report for the Priorities and Finance Committee. The report will include the criteria used to evaluate the reserves, a summary of all findings, any applicable recommendations based upon the findings, follow up of the previous year's review recommendations if required, and a list of reserves to be reviewed during the following year.

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INVESTIGATION: ALTERNATIVES AND ANALYSIS

For 2015, Council approved the review of 18 reserves representing a \$673 million reserves' balance as of 2014 December 31, or approximately one third of all reserves' balances.

1.0 Initial Review

A reviewer completed a detailed review of reserve transactions and documentation of each reserve. The reviewer collected all relevant reserve documents and reviewed selected 2014 transactions in order to evaluate:

- Contributions from operations to reserves;
- Contributions from reserves to operations or capital;
- Transfers between reserves;
- Compliance of reserve activities with the reserve's mandate and all other City policies and procedures; and
- Completeness and accuracy of the disclosure of financial information in the Annual Reserve Report.

The reviewer provided findings to the Administrative Reserve Review Committee. The committee met several times throughout the year to consider the initial review results, evaluate recommendations made by the reviewer, determine whether the reserves are still relevant today, and whether they still make business sense given current Council objectives.

2.0 Review Guiding Principles

Over the years, reserves have been created for a number of reasons and with various purposes. In order to consistently evaluate various types of reserves and determine whether changes should be recommended, the Administrative Reserve Review Committee previously agreed on a number of guiding principles.

2.1 Minimize Number of open reserves

Where ever possible, the number of reserves should be reduced. The Administrative Reserve Review Committee looked to consolidate or close reserves where multiple reserves serve similar purposes and to eliminate miscellaneous and redundant reserves.

2.2 Business Categories

Currently, reserves are categorized in accounting terms as operating, capital or sustainment. However, the Administrative Reserve Review Committee also categorized reserves by business purpose such that reserves can be evaluated consistently based on the business reason for the reserve. For example, some reserves have been created to manage the timing of cash flows. Such reserves should have a reserve plan and transactions should be budgeted wherever possible, but they do not necessarily lend themselves to a target balance.

Alternatively, reserves created for contingency purposes should have a target balance. Not all transactions for these reserves can be budgeted since Administration can not anticipate a contingent event, but establishing a target balance based on an estimate of risk is appropriate.

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In this instance, having a consistent approach to determining an appropriate contingency amount and setting an appropriate target balance is warranted.

Therefore, reserves created for similar business reasons should be reviewed consistently. Reserves to be reviewed in future years will also be similarly categorized and consistently evaluated.

2.3 Ongoing relevance of Reserves

The Administrative Reserve Review Committee also looked to ensure that the business reason for the reserve was still relevant and where applicable, that Administration has a plan on the strategic use of the reserve going forward and that reserve activity be budgeted where applicable.

3.0 Results of the Reviews

For the past several years, Administration has been following a number of control measures, such as annual checklists and documentation protocols, which have improved reserve processes and oversight.

3.1 Reserve activity meets all authorizing documents requirements

All reserve activity reviewed met authorizing documents.

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

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

No issues identified with recorded reserve activity.

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

All reserves reviewed are being administered as intended. However, there are instances where the reserve's purpose, condition and/or restriction can be clarified.

The Calgary Heritage Authority Reserve and the Heritage Incentive Reserve both are relatively new reserves and are administered as per authorizing documents, but the reserves' purpose and restrictions listed in the annual reserve report could be streamlined to better describe the use of the reserves.

In addition, a note could be added to the Self-Insurance reserve page to inform the reader that even though there was no reserve activity, The City has incurred and paid claims from operations.

Community and Neighbourhood Services (CNS) manages the Family & Community Support Services (FCSS) program which is budgeted to provide \$31.4M in program grant funding to community agencies (CPS2015-0150 ATT 1 and ATT 2). Funding is provided through a joint municipal/provincial funding program which is used by the agencies to support preventive social services that enhance the lives of vulnerable Calgarians. While funding is provided to the agencies for the programs they manage, funding is not provided for the following:

1. To build the capacity of the agencies (e.g. agency governance and organizational issues);
2. Responding to emerging social issues; and

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3. To cover any shortfall from the provincial FCSS allocation of funds in a given year.

The reserve is used to assist these organizations meet the needs as stated above so they can then continue to provide the services to citizens.

The Administrative Reserve Review Committee is recommending changes to the FCSS annual reserve report page to better describe how the reserve is being used, and that investment income on the outstanding balance be added to the reserve.

The Downtown Improvement Reserve is used for public improvement capital projects in the downtown area. A condition restricting the use of funds, to a maximum of \$300,000 per year plus carry-forwards, limits the type of capital projects that can be undertaken. Nevertheless, the Centre City Implementation Program Manager uses the funds to implement small-scale beautification initiatives, such as the City Bridge Banner Program, and to contribute to other capital funding sources to complete larger public realm improvement projects. This allows for improvement projects which would not otherwise be undertaken by the Corporation (for example, underpass enhancement and architectural illumination projects).

While the reserve does provide value, there are two areas which require updating. The original authorizing documents (OD85-120) did not define the term "Downtown". It generally referred to the area where The City was receiving license of occupation fees (for example sidewalk patios and commercial use of +15 easement), which in 1985 was predominately in the downtown business core. Over the years, the areas where license of occupation fees are collected has expanded, and the majority of all fees are now collected in the Centre City, which includes the downtown business core and surrounding communities. As such, it is recommended that the geographic boundary where Downtown Improvement Reserve funds can be spent be updated to reflect the entire Centre City (as defined in the Council Approved 2007 Centre City Plan), not just the downtown business core.

The Administrative Reserve Review Committee is also recommending updating the Downtown Improvement reserve's purpose to include additional operating maintenance costs for enhanced assets in the Centre City. The enhanced assets often require additional maintenance which is not currently being funded (for example, maintaining specialty lighting and other features in the renovated underpasses). A budgeted portion of the approved capital projects fully or partially funded by the reserve will be contributed to the reserve to fund the maintenance.

3.4 The reserve is still required

As part of the review, the Administrative Reserve Review Committee does question whether every reserve being reviewed is needed, or can be closed.

The Millican-Ogden Community Enhancement reserve was created in 2006 with \$285,000 from the Fiscal Stability Reserve to fund local improvements in the community. To date \$114,000 has been spent. The Administrative Reserve Review Committee is recommending that if a plan by the community association is in place by the end of 2016, then the reserve funds are to be used and the reserve to be closed by no later than 2017, December 31. If a plan is not in place by 2016, December 31, then the reserve is to be closed by the end of 2016.

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Although the Mall Programming and the Parking Land Acquisition reserves have had little activity recently, both are expected to use funds in the next few years and therefore no recommendations to either reserve required at this time.

The LED Traffic Signal Display Re-Lamping Reserve is a reserve which requires an update to its terms. The reserve was originally created in 2006 to set aside funds to pay for lifecycle replacement of LED Traffic Signal lights. Traffic Signal LED technology has matured such that a dedicated lifecycle reserve is no longer necessary. The cost to lifecycle LED Traffic Signals has stabilized and can now be funded through the Roads operating budget in place of reserve contributions. However, Roads now has an approved capital project to convert streetlights to Light Emitting Diode lamps which over time will result in energy savings to The City. The reserve will now be used to set aside energy savings to help pay for the initial capital cost of installing the LED lamps and also with the replacement of the LED lamps over time.

Please see Attachment 1 for a complete list of general comments and reserve recommendations. Attachment 2 includes reserve summaries from the 2014 Annual Reserve Report for the reserves reviewed. Suggested changes to the text are highlighted in red and underlined. Strikethrough text to be removed.

Attachment 3 includes the list of reserves to be reviewed in 2016.

All three attachment require Council approval.

Stakeholder Engagement, Research and Communication

All relevant reserve leads and General Managers 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 maintain its commitment to these social and environmental initiatives.

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 to be included in the operating budget.

Current and Future Capital Budget:

Where reserve activities can be planned, those transactions are to be included in the capital budget.

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.

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REASON(S) FOR RECOMMENDATION(S):

The recommendations help to streamline administration of reserves and help clarify reserve purposes, conditions and purposes to Council and the general public.

ATTACHMENT(S)

1. Reserve review comments and recommendations
2. Relevant Excerpts from the 2014 Annual Reserve Report
3. Reserves to be reviewed in 2016