

**2017 Triennial Reserve Review Report and 2016 Report on Reserves and Long-Term Liabilities (C2017-1123)**

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**EXECUTIVE SUMMARY**

This report provides an update on the status of The City's reserves. It summarizes the results of the 2017 Triennial Reserve Review as well as the process performed by an Administrative Reserve Review Committee. Additionally, The City's Report on Reserves and Long Term Liabilities for 2016 is included.

**ADMINISTRATION RECOMMENDATION:**

That Council:

1. Approve the changes to reserves recommended by the 2017 Triennial Reserves Review as outlined in Attachment 11.1 and Attachment 11.2;
2. Approve the list of reserves to be reviewed in 2018 as outlined in Attachment 11.3;
3. Approve the amendment of the Community Sustainability & Public Art Reserve as outlined in Attachment 11.4; and
4. Receive for information the 2016 Report on Reserves and Long Term Liabilities, contained in Attachment 11.5.

**RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2017 DECEMBER 05:**

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That the Administration Recommendations contained in Report PFC2017-1241 be approved.

**PREVIOUS COUNCIL DIRECTION / POLICY**

The City Auditor's Office completed an audit of The City's Financial Reserves in 2009. In response to this audit, FCS2010-01 (AC2009-74), Administration assisted in the creation of a Council Policy on Financial Reserves, #CFO013, along with an associated Administration Policy and procedures.

Council Policy #CFO013 mandates a Triennial Reserve Review process in which every reserve is reviewed at least once every three years. Nine reserves were reviewed in 2017; the review of these reserves was approved by Council (PFC2016-0796 Attachment 3) on 2016 December 13. A report on the results of the review and any recommendations is to be provided to the Priorities and Finance Committee for its review and thereafter forwarded to Council for approval.

Council Policy #CFO013 requires that Reserves information be reported to the Priorities and Finance Committee and to Council in the annual Reserves Report for information purposes.

Council Policy #CFO013 provides for amendments to a reserve, which may be undertaken as a response to the Triennial Reserve Review or proactively by the originating City department.

To allow this year's reserve review to coincide with and be considered alongside the 2018 budget adjustments process, it is being reported directly to Council by special approval by the Chief Financial Officer and City Manager as allowed by and in accordance with Council policy #CFO013.

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### 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 a 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 2016 Dec 31
Operating	15	\$676 million
Capital	17	\$900 million
Sustainment	12	\$513 million
Total per Reserve Report	44	\$2,089 million

Within the 15 operating reserves, \$557 million is held in the Fiscal Stability Reserve as an operating contingency fund and to provide for one-time funding. The majority of the 17 capital reserves totalling \$900 million are either fully committed or have substantial commitments against them to finance existing approved projects and these commitments will reduce the balances over time. A total of \$513 million is held in 12 separate sustainment reserves.

The attached reports present:

- The results of the Triennial Reserves Review for 2017;
- Recommendations for reserve amendments as a result of the review process as well as the proactive amendment of the Community Sustainability & Public Arts reserve; and
- Detail on all reserves and long term liabilities including the approval and authorization, funding sources, any conditions and restrictions on use and a summary of activity in each of the last five years.

### INVESTIGATION: ALTERNATIVES AND ANALYSIS

#### Triennial Reserves Review Process

For 2017, Council approved the review of nine reserves, representing \$551 million in reserve balance as of 2016 December 31.

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

- i. Reserve activity meets all authorizing documents requirements;

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- 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 is completed by the Administrative Reserve Review Committee and covers reserve operations for its current and previous full year of operations. The Administrative Reserve Review Committee is comprised of:

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

### 1.0 Initial Review

A review team completed a detailed review of reserve transactions and documentation of each reserve. The review team collected all relevant reserve documents and reviewed selected 2015 and 2016 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 review team 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 review team, determine whether the reserves are still relevant, and whether they continue to align with 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

Wherever 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

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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.

### **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**

#### **3.1 Reserve Activity Meets all Authorizing Documents Requirements**

All reserves reviewed are being administered as intended.

#### **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 were identified with recorded reserve activity; however, there is an opportunity to present the reserve activities more clearly within the reserve reports. Recommendations on this are included within this report. Refer to Attachment 11.1 and 11.2 for further information.

#### **3.3 The Reserve's Purpose, Funding, Conditions and/or Restrictions are Still Relevant**

The reserves' purposes, funding, conditions and/or restrictions are still relevant. There are instances where a reserve's purpose, funding, conditions and/or restrictions are recommended for update.

Council directed Administration (C2016-0632) to work with the Calgary Police Service to review the maximum annual contribution to, and the maximum year-end balance of, the Pay-As-You-Go Fund as part of the Triennial Reserve Review in 2017. The review was conducted by the Calgary Police Service, and the Calgary Police Commission approved a recommendation for no change to these restrictions at this time. This recommendation is included within this report.

This report also recommends for approval a one-time contribution from the Fleet Services Capital Reserve to the capital portion of the Budget Savings Account for Infrastructure Calgary.

The Golf Course Division within the Recreation business unit received a gift of \$1 million in 2017 from the estate of a private citizen. The direction from the estate for the use of these funds aligns with the purpose of the Golf Course Levy Reserve. A recommendation is being made in this report to authorize this one-time contribution to the Golf Course Levy Reserve. There are

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associated restrictions for the use of these funds included within the recommendation in Attachment 11.1.

Although the Community Sustainability & Public Arts reserve was not included in the 2017 Triennial Reserves Review process, Administration is proactively recommending an amendment to the reserve to provide more transparency between the two initiatives by splitting the reserve into two reserves: one for Community Sustainability, and one for Public Arts. The realignment of this reserve into two reserves meets the public's need for transparency and accountability.

Refer to Attachments 11.1, 11.2 and 11.4 for further information on these recommendations.

### **3.4 The Reserve is Still Required**

As part of the review, the Administrative Reserve Review Committee questions whether every reserve being reviewed is needed, or can be closed. No reserve has been recommended for closure as a result of this year's review.

The Fleet Services Capital reserve has not been used in the past three years. Fleet Services is developing a capital plan in 2018 for the utilization of the reserve. It is recommended that a limited scope review of the reserve be performed in 2018 based on this capital expenditure plan; any recommendations arising will be brought forward in the 2018 Triennial Reserve Review.

Council, through a motion arising as a result of report CPS2017-0539, directed Administration to return to Council at the 2018 budget adjustment process with options on how to move forward with City-owned golf course operations. The outcome of this analysis may have implications to the Golf Course Levy Reserve. It is recommended that, should a significant change in the golf courses' operating model result from the motion arising project, these changes be reviewed in the 2018 Triennial Reserve Review cycle to determine whether there are any implications for the reserve.

As previously approved by Council (PFC2015-0917), the Millican-Ogden Community Enhancement Reserve was to be closed by no later than 31 December 2017. As the reserve has met its purpose and its funds have been spent with no balance remaining, it will be closed in accordance with previous approval. The reserve will no longer be reviewed as part of the Triennial Reserve Review process, but will continue to be reported on in accordance with the reserve policy and procedures.

Refer to Attachment 11.1 and 11.2 for further information.

### **3.5 Report Attachments**

Refer to Attachment 11.1 for a complete list of general comments and reserve recommendations.

Attachment 11.2 includes reserve summaries from the 2016 Report on Reserves and Long Term Liabilities for the reserves reviewed. Recommended changes to the text are printed in red. Text with strikethroughs is to be removed.

Attachment 11.3 includes the list of reserves to be reviewed in 2018.

Attachment 11.4 includes a recommendation for a proactive amendment of the Community Sustainment & Public Art Reserve.

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The first four attachments require Council approval.

Attachment 11.5 contains the 2016 Report on Reserves and Long Term Liabilities, which is presented without any edits recommended as a result of the 2017 Triennial Reserves Review as changes recommended to be made occur after 2016 December 31. This report is for Council information.

### **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.

The 2016 Report on Reserves and Long Term Liabilities is provided for information to contribute to Council fulfilling their governance responsibilities. Robust public information on reserves and long term liabilities is essential to ensure public confidence and fulfill our obligation for transparency and accountability.

### **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 included in the operating budget. There is no impact on the current 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 capital budget resulting from this report.

### **Risk Assessment**

The Triennial Reserve Review process and the Report on Reserves and Long Term Liabilities promote responsible stewardship of reserves and ensure that these funds are managed prudently.

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**REASON(S) FOR RECOMMENDATION(S):**

As directed in the Council-approved policy #CFO013, Administration is required to provide a Triennial Reserves Review process as well as make annual reports to the PFC and Council on Reserves and Long Term Liabilities; as detailed above, this report is being made directly to Council.

The recommendations provided in this report meet these obligations, and 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 11.1 – Comments and Recommendations of the 2017 Triennial Reserves Report
2. Attachment 11.2 – Excerpts from the 2016 Report on Reserves and Long-Term Liabilities
3. Attachment 11.3 – List of reserves proposed to be reviewed in 2018
4. Attachment 11.4 – Amendment of the Community Sustainability & Public Arts Reserve
5. Attachment 11.5 – 2016 Report on Reserves and Long Term Liabilities