

Chief Financial Officer's Report to
Priorities and Finance Committee
2019 July 02

ISC: UNRESTRICTED
PFC2019-0825

The City of Calgary Reserves and Long Term Liabilities Balances 2018

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's reserves and long-term liabilities as at 2018 December 31 and highlights the accountability systems with respect to The City's reserves established by Administration and in operation in 2018. This report supplements the information on reserves balances and disclosures contained in The City's Annual Audited Financial Statements.

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 RECOMMENDATION:

That the Priorities and Finance Committee recommends that Council receive The City of Calgary Reserves and Long Term Liabilities Balances 2018 for information.

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 of Calgary ("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.

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. In response to comments received from PFC in the prior reserve reporting cycle, Administration has added summary analytics to the 2018 report to improve the understandability of the reserves information and to increase clarity of the reserves information presented.

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

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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 is currently underway and a report is planned to be presented to PFC in the fourth quarter of 2019.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Administration has developed a Financial Reserves Policy FA-050 and the accompanying Procedures for Financial Reserves. This policy and procedures 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 Audited Financial Statements and in Attachment 1.

The City's reserves total \$2,434 million at 2018 December 31 (2017: \$2,191 million) and consist of operating, capital and sustainment reserves. The City had capital commitments of \$1,063 million and operating commitments of \$51 million at 2018 December 31 as reported on The City's Annual Audited 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 2018 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 \$764 million, of which \$656 million is held in the Fiscal Stability Reserve as an operating contingency fund and to provide for one-time funding as approved by Council.
- **Capital reserve** – A reserve to fund approved capital programs, projects and expenditures. There are 17 capital reserves totalling \$984 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 \$686 million is held in 12 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 2018 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.

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The proposed changes resulting from the 2018 Triennial Reserve Review which were approved by Council in the fourth quarter of 2018 have been reflected in this report.

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 Priorities and Finance Committee 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 impact as a result of this report.

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 impact 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

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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 to Council in an annual Reserves Report for information purposes.

ATTACHMENT(S)

1. Attachment 1 - The City of Calgary Reserves and Long Term Liabilities Balances 2018.