



Reserves & Surplus Funds

December 2016



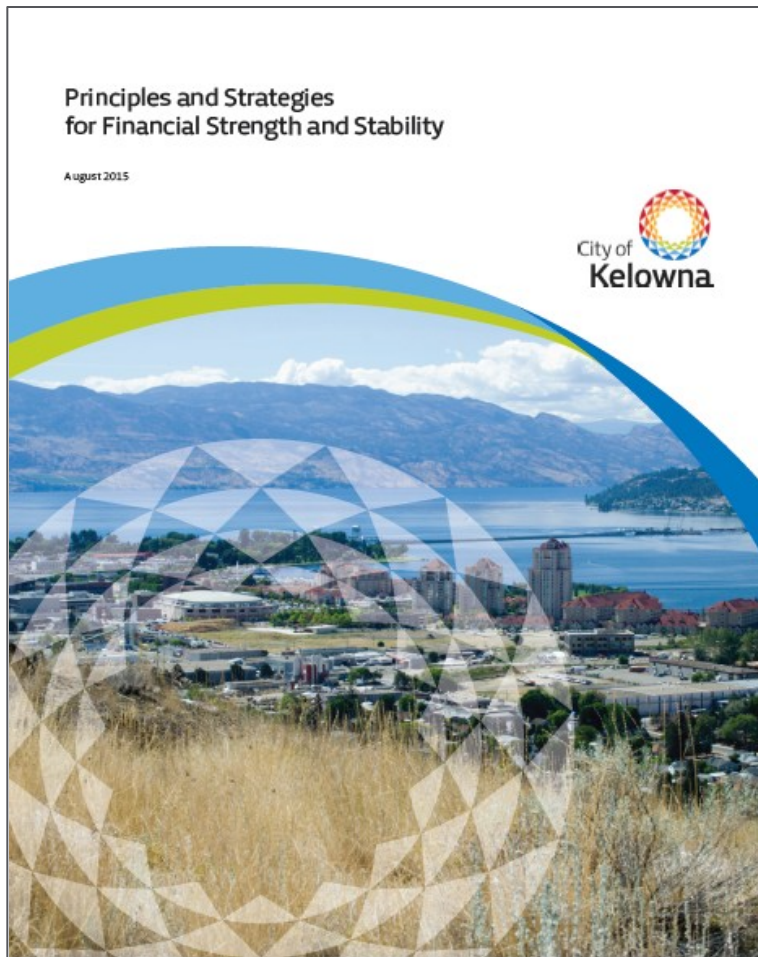
Establishing Reserve Accounts & Funds

A Financial Best Practice



City of Kelowna

2015 Principles & Strategies for Financial Strength & Stability



Principles & Strategies for Financial Strength & Stability

August 2015



PRINCIPLES



PRAGMATIC. Financial decisions take measured risks while ensuring appropriate service levels are protected



FLEXIBLE. Financial policies allow for opportunities and changing circumstances



SUFFICIENT. Revenues and expenses support the City's service levels and long-term goals



TRANSPARENT. Financial strategies, plans and processes are accessible and visible



BALANCED. Service levels are affordable and appropriate

STRATEGIES

User Fees & Charges

Everyone will pay a fair amount for the services they receive

Services will be reasonably accessible by all citizens

User fees will be transparent and easy to understand

Reserves & Surplus Funds

The purpose of each reserve will be documented and reviewed regularly

Ongoing operating requests will not be funded from reserves

Accumulated surplus will only be used as an emergency funding source

Assets - Renew

The City will invest in existing infrastructure renewal in accordance with the long-term capital plan

Funding for asset renewal will be balanced against service levels and risk tolerance

Life cycle costs should be managed through preventative maintenance and renewal strategies

Financial strategies – Reserves & surplus funds

Objective: *To maintain sufficient reserves so the City has the flexibility to respond to opportunities, and maintain or improve levels of service.*

Financial strategies – Reserves & surplus funds

Strategies

- ▶ 9.1 The purpose of each reserve will be documented and reviewed regularly
- ▶ 9.2 Ongoing operating requests will not be funded from reserves
- ▶ 9.3 Accumulated surplus will only be used as an emergency funding source

Reserves

- ▶ Accumulated Surplus
- ▶ Reserves Accounts (General Reserves)
- ▶ Statutory Reserves (Reserve Funds)

Reserves

- ▶ Accumulated Surplus
 - ▶ Annual surplus
 - ▶ Each fund has one
 - ▶ Utility funds – surplus to reserves, accumulated surplus
 - ▶ Airport & General fund – surplus to reserves, accumulated surplus
 - ▶ Emergency funding

Reserves

▶ Accumulated Surplus projected 2016 balances

▶ General Fund	\$2,251,000
▶ Airport Fund	\$596,279
▶ Water Fund	\$12,131,623
▶ Wastewater Fund	\$25,060,054
▶ Natural Gas Fund	\$4,293,141
▶ Library Fund	\$165,878

Reserves

- ▶ Reserves accounts (General Reserves)
 - ▶ future identified purpose
 - ▶ accessed
 - ▶ repurposed

General reserves

▶ 67 General Fund reserves	\$44,528,647
▶ 5 Airport Fund reserves	(\$7,862,593)
▶ 6 Water Fund reserves	\$14,409,202
▶ 6 Wastewater Fund reserves	\$7,397,511

General Reserves

Reserve and Surplus Summary							
Reserve Category	Reserve Name	Purpose	Funding Source	Minimum \$ Level	Optimum \$ Level	Dec 2015 Balance	Level / Conditions
<i>General Operating Reserves</i>							
Planning Initiatives							
Maintaining Assets							
Expenditure Equalization							
	R034 Snow Removal	To provide for emergency snow removal services	Annual unspent budget	50% of snow removal budget - \$790,000	Annual snow removal budget - \$1,580,000	\$905,390	Provides for 2 years at 50% over annual budget
Revenue Equalization							
Investments							

Minimum and optimum \$ levels

1. Review long-term financial requirements
2. Analyze potential financial risks
3. Quantify the risks
4. Establish target reserve balance level

Reserves

- ▶ Statutory Reserves (Reserve Funds)
 - ▶ established through bylaw
 - ▶ specific purpose
 - ▶ must revise the bylaw to repurpose funds

Community Charter

- ▶ Development cost charges
- ▶ Parkland sales
- ▶ Highway property
- ▶ Off-street parking
- ▶ Land sales and land improvements

Statutory Reserves

- ▶ 32 Capital Works, Machinery and Equipment (CWME) Reserves
- ▶ 13 Development Cost Charge (DCC) Reserves
- ▶ 3 Land Sales Reserves (including a Parkland Sales Reserve)
- ▶ 3 Parking Reserves

Statutory Reserves

- ▶ Capital Works, Machinery and Equipment (CWME) Reserves
 - ▶ \$40,656,901
- ▶ Land Sales Reserves
 - ▶ \$6,561,484
- ▶ Parking Reserves
 - ▶ (\$1,514,826)
- ▶ Development Cost Charge (DCC) Reserves
 - ▶ \$9,760,073

Statutory Reserves

<u>Reserve and Surplus Summary</u>				
Reserve Category	Purpose	Funding Source	Minimum \$ Level	Optimum \$ Level
Capital Works, Machinery & Equipment	Various purposes depending on the reserve	Annual or excess revenues received	Reserve specific	Reserve specific
Land Reserves	To acquire land for park, special needs housing or general purposes	Sale of existing City properties, property tax or donations	Reserve specific	Reserve specific
Parking Reserves	To provide for construction and upgrades to parking facilities and equipment	Net revenues after expenses from the parking area and contribution to the general fund	Reserve specific	Reserve specific
Development Cost Charges	To provide for the DCC projects as per the 20 Year Servicing Plan.	Charge assessed against new development.	Reserve specific	Reserve specific

Capital Program

Capital Program	Description
Real Estate	Land acquisition
Building	Facilities & improvements
Parks	Park land/trail/area development
Transportation	Roadways/pathways/traffic signals
Solid Waste	Landfill and biosolids improvements
Storm Drainage	Drainage systems
Information Services	Communication hardware/software
Vehicle & Mobile Equipment	Vehicles & equipment
Fire Capital	Fire vehicles & equipment

Capital Program

Capital Program	Reserves Available
Real Estate	Land Sales, Parking
Building	General, CWME
Parks	General, Land Sales, DCC
Transportation	General, CWME, DCC
Solid Waste	CWME
Storm Drainage	General, CWME
Information Services	General
Vehicle & Mobile Equipment	CWME
Fire	General, CWME

Annual surplus allocation

- ▶ City Manager with consultation from the Finance Director recommend allocation
- ▶ Recommendation is made to the Audit Committee for final decision



Reserve Administration

- ▶ Interest allocation – quarterly
 - ▶ General – prime rate less 2%
 - ▶ Statutory – quarterly average investment rate
- ▶ Contributions to and appropriations from reserves – are funded quarterly
- ▶ Projections for budget planning
- ▶ Balance reporting
 - ▶ Council outlook
 - ▶ Budget documents
 - ▶ Annual report

Controls

- ▶ Maintain reserve projections
- ▶ Participate in planning exercises
- ▶ Review reserve purpose
- ▶ Enforce reserve strategies



Questions?