**Report of the Executive Policy Committee dated May 16, 2001**

**Financial Management Plan – Review of Reserves File F-1 (Vol. 15)**

**557** - 4. On April 18, 2001, the Executive Policy Committee concurred in the updated Financial Management Plan, forwarded same to Council, and referred the management of reserve funds to the Standing Committee on Fiscal Issues for policy review.

On April 25, 2001, Council adopted the Financial Management Plan (Clause 2 of the Report of the Executive Policy Committee dated April 18, 2001).

On May 8, 2001, the Standing Committee on Fiscal Issues considered the above-noted matter and passed the following motion, namely:-

> *"That the recommendations contained in the report from the Director of Corporate Finance dated May 4, 2001, entitled "Review of Reserves", be concurred in and forwarded to the Executive Policy Committee for favourable consideration."*

The Executive Policy Committee has been advised that Council authority is required to amend the purpose or conditions applicable to any City Reserve.

On January 13, 1998, Corporate Finance made a presentation with respect to the status of the City's reserves, their purpose, balances and issues relating to the use of reserves. Further to that report, the Chief Financial Officer (CFO) requested additional analysis concerning targeted reserve balances. The Corporate Controllers division conducted interviews of each department and prepared a report to the CFO and Director of Corporate Finance dated December 10, 1998 concerning these issues.

Further discussions ensued with departments and the Corporate Controllers division developed target levels for the reserves. In addition, the Corporate Controllers division implemented a process whereby departments now prepare five-year forecasts for their reserves on a quarterly basis. The first forecasts were submitted for the quarter ending December 31, 1999.

During this same time, the Corporate Controllers division was involved in conducting detailed reviews of the land operating reserve, the land dedication reserve and the equipment replacement reserve. Operations in the land operating reserve recently changed significantly. Analysis of the land dedication reserve has led to a request to the City Auditor for further review. The equipment replacement reserve was also reviewed recently and there are significant reporting recommendations that will be implemented by a joint committee of users.

Council reviews reserves upon request and, historically, reserves are established at the same time as the current estimates are considered when departments identify a need for a new reserve.

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The following provides further clarification of the Administrative recommendations:

*Recommendation 1:*

*That for better presentation the classification of Reserves in the City's financial statements be as follows:*

*Stabilization Reserves: - Established to deal with unanticipated fluctuations in revenues or expenditures.*

*Included in the Stabilization Reserves classification are the following:*

*Fiscal Stabilization*
*Mill Rate Stabilization*

*Capital Reserves: - Established to provide funding for capital projects in order to reduce the amount required to finance by debt.*

*Included in the Capital Reserves classification are the following:*

*Watermain Renewal*
*Environmental Projects*
*Wastewater Sewer Renewal*
*Brady Landfill Rehabilitation*
*Computer Equipment Replacement*
*Golf Courses*
*Transit Bus Replacement*
*Combined Sewer*
*Aqueduct Rehabilitation*
*Water Treatment*
*Point Du Bois Generating Station*
*Concession Equipment Replacement*
*Library*
*Equipment Replacement*

*Special Purpose Reserves: - Established to maintain specific program needs and provide budgetary stabilization.*

*Included in the Special Purpose Reserves classification are the following:*

*Commitment*
*Economic Development Investment*
*Housing Rehabilitation Investment*
*Insurance*
*Perpetual Maintenance (Cemeteries)*
*Snow Clearing*
*Assiniboine Park Enterprise*
*Contributions in Lieu of Land Dedication*
*Heritage Investment*
*Idea Bank*
*Land Operating*
*Recreation Programming*
*Workers Compensation*
*Pension Surplus*

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Dividing reserves into three primary categories that include Stabilization Reserves, Capital Reserves and Special Purpose Reserves provides improved presentation and ease of understanding. The individual reserves making up these categories are set out in the recommendation section above. The reserve categories more closely describe the nature of the City's reserves. These categories also directly align to the recommendations made in the new Financial Management Plan which is in the final stages of completion. Stabilization reserves are those that provide the City with financial flexibility to adjust to unexpected issues. Capital reserves relate to funding that has been set aside by the City for capital improvements. Special Purpose Reserves include those that have been created to fund specific needs and are not associated to stabilization or capital reserves.

*Recommendation 2:*

*That a policy be adopted that the timing of the establishment of any new reserve be done annually at the same time as Council adopts the current estimates.*

Periodically, departments request that Council add and delete reserves as necessary. We believe that these requests should be considered once a year and at the same time as when the current budget is being submitted for approval to Council. This process would more closely align to the City's business planning cycle.

*Recommendation 3:*

*Subject to Section 338 (3) of The City of Winnipeg Act, the Zoo Animals and Zoo Purposes Reserves be combined. In addition, the reserve be expanded to include a new purpose to enhance the maintenance, operation, planning and minor infrastructure for Assiniboine Park and have additional revenues from net profit of new initiatives, services and products arising from the operation and programming of Assiniboine Park as a business unit as well as revenue sharing from the existing agreement with the Pavilion Gallery Museum Inc. Due to restructuring that the Concession Equipment Reserve balances accumulated for golf courses and Assiniboine Park be transferred to the Golf Course Reserve and the Assiniboine Park Enterprises Reserve respectively. The new combined reserve be renamed the Assiniboine Park Enterprise Reserve and that the Fund Manager be the Director of Community Services.*

Under Section 338(3) of The City of Winnipeg Act, monies raised for a reserve fund can only be used for the purpose of the reserve (as of the date the monies were raised). Where reserves are to be combined, it will be necessary to account for existing funds in a manner that will ensure the monies presently in the fund are used for the original purpose for which they were raised.

The Zoo Animals and Zoo Purposes Reserves together average approximately $1 million in equity and have similar mandates relating directly to Zoo operations.

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Retaining revenues generated within Assiniboine Park for reinvestment into the park will also allow for the City to enter into negotiations with various partners and stakeholders regarding potential joint activities that could potentially result in new revenue generation for both parties. If the City share of monies generated by such activities is not to be reinvested in the park, there will be reluctance at best on the part of partner groups to participate.

Through this reserve the Assiniboine Park Enterprise will be in a far better position to act and react to quickly changing circumstances as a business unit. Moreover, having knowledge that revenues generated by the Enterprise will be reinvested in this public amenity would serve as a strong motivator to create new initiatives and enhance existing programs and infrastructure for the Enterprise and private stakeholders as well. It is recommended that the Director of Community Services be appointed as Fund Manager to ensure that the authority to spend funds and the associated accountability of this responsibility rests with the Administration; said expenditures to be used to enhance maintenance, operations, planning and minor infrastructure renewal for Assiniboine Park.

In summary, expansion of the reserve as proposed herein would represent an extremely positive step in strengthening the symbiotic relationship between the public and the private sector necessary to make the Assiniboine Park Enterprise venture successful financially as well as operationally.

*Recommendation 4:*

*That the Retirement Allowance Reserve Fund be eliminated by re-categorizing the balances to reduce the unfunded liabilities relating to the reserve.*

The Retirement Allowance reserve was set-up to fund the unfunded vacation pay and sick time liabilities that exist. However, there is no need for this reserve because the related liability can be funded on a pay-as-you-go basis. In addition, the liability for the retirement allowance reserve has been included on the City's balance sheet. As a result, it would now be more appropriate to offset the reserve against the unfunded amount. In order to comply with Section 338(4) of The City of Winnipeg Act, the monies raised for the purpose of the reserve will still be allocated to the original purpose. The change proposed is mainly of presentation and accounting methodology.

*Recommendation 5:*

*Subject to Section 338(3) of The City of Winnipeg Act, the Pension Stabilization Reserve and Pension Surplus Reserve be combined and renamed the General Purpose Reserve.*

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Under Section 338(3) of The City of Winnipeg Act, monies raised for a reserve fund can only be used for the purpose of the reserve (as of the date the monies were raised). Where reserves are to be combined, it will be necessary to account for existing funds in a manner that will ensure the monies presently in the fund are used for the original purpose for which they were raised.

The Pension Surplus Reserve and Pension Stabilization Reserve were established in 2000. The Pension Surplus Reserve was funded with the refund of 1998 and 1999 contributions to be utilized for one-time major expenditures. The Pension Stabilization Reserve was, with the difference between the benefit, realized by the City through reduced ongoing pension contributions and that required to be contributed to the General Revenue Fund in any given year. It is recommended that the two reserves be combined to provide greater flexibility in managing the City's finances.

*Recommendation 6*

*Subject to Section 338(3) of The City of Winnipeg Act that*

- *$7.035 million be transferred from the Pension Surplus Reserve to the Fiscal Stabilization Reserve and $9.664 million be transferred to the Mill Rate Stabilization Reserve*
- *That in 2001 $3.1 million of net taxes added be transferred to the Mill Rate Stabilization Reserve and that beginning in 2002, the Fiscal Stabilization Reserve revenue be limited to interest earned, and that the revenue from net supplementary taxes added in a year be recorded as revenue in the General Revenue Fund.*
- *That the Mill Rate Stabilization Reserve continue to grow by way of interest earned and any year-end surplus.*
- *That if either Stabilization Reserve has achieved its target but the total of 10% tax-supported expenditures of Stabilization Reserves has yet to be achieved, then excess interest revenue of either Reserve be redirected to the Reserve which has yet to reach its individual target of 5%.*
- *That if the Stabilization Reserves are in excess of the 10% target then the excess funds be identified as available for one-time expenditures.*
- *That if the Stabilization Funds are reduced below the target of 10% or that the pace of increase in the stabilization funds as approved in the Financial Management Plan are not being met that a replenishment plan be adopted by Council which may include using net added taxes in addition to surplus and interest to achieve the 10% target.*

On April 25, 2001, City Council adopted the Financial Management Plan which includes Recommendation 6 that Stabilization Reserves be at a minimum of 10% of tax-supported revenues by 2009. In order to effect that recommendation and still provide City Council with budgetary flexibility the policies stated above are being recommended.

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*Recommendation 7:*

*That the classification of the General Reserve Fund be changed to be appropriated surplus (classified as equity) as opposed to "reserve". It is further recommended that the account be renamed to "Equity in Capital Assets".*

The general reserve is used to provide internal financing for capital expenditures. This is not truly a reserve but more so a fund where surpluses have occurred. It would be preferable to describe this balance as appropriated surplus and remove it from our reserves. If this balance was removed our reserves would fall in total to $180mm which is more in line with other municipalities. Further, it is recommended that the name of the reserve be called "Equity in Capital Assets".

In addition, unlike most other reserves the General Reserves assets are in infrastructure such as road, streets and provides an accounting methodology to depreciate capital assets and recognize internal debt. The other reserves established typically have assets in cash or investments.

In order to comply with Section 338(4) of The City of Winnipeg Act, the monies raised for the purpose of the reserve will still be allocated for the original purpose. The change proposed is mainly of presentation and accounting methodology.

*Recommendation 8*

*That the Fund Manager for the Golf Course Reserve Fund be changed from the Chief Administrative Officer to the Chief Operating Officer, Golf Courses*

The Golf Course Reserve Fund Manager has recently been the Chief Administrative Officer. Due to organizational changes where the Golf Courses have been moved from the Community Services Department to the Planning, Property and Development Department, it is recommended that the Chief Operating Officer, Golf Courses be the Fund Manager.

*Combining other reserves*

The City considered a number of other reserves that could be combined. In each case, departments have asked to retain these reserves in their current state. The following reserves were examined in this respect:

- The Computer Replacement and Concession Equipment Replacement reserves have equity balances averaging $300,000 annually. These reserves could be combined with the Equipment Replacement Reserve. We are not recommending the reserves be combined as the Equipment Reserve Fund is mainly for replacement of equipment of capital nature while the Computer Replacement Reserve is designed to be a replacement

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program for technology which allows for the smoothing of budgets for that purpose. All user departments were concerned in combining these two reserves with the Equipment Replacement Reserve because they have specific purposes. The larger departments use the Equipment Replacement Reserve to facilitate major capital acquisitions. Because of the size of the fund, acquisitions of equipment may be influenced from time to time by the financial position of the City.

- The Recreation Programming reserve averages $700,000 in amount. The fund is managed by Community Services and is used to fund community activities. The department was asked whether the Fund could be folded with the idea that future expenditures would be budgeted in current operations. Because of the nature of the fund and its application to the community as a whole, Community Services has asked to retain the fund as is.
- There are perpetual maintenance reserve funds for the St. Vital, Transcona and Brookside cemeteries. Community Services was asked whether these funds could be combined into one. By Provincial legislation, each fund must be identified separately with each cemetery.
- The Library Reserve will be examined by Community Services to determine if the formula for accessing funds accumulated in the reserve could be changed to accelerate the use of funds.

*Analysis:*

The following information is relevant with respect to Winnipeg in comparison to other jurisdictions. The financial information set out should be reviewed in conjunction with the observations noted below.

RESERVES:

| | ***EDMONTON 1999*** | ***CALGARY 1999*** | ***WINNIPEG 1999*** |
|---|---|---|---|
| | 000's | | |
| | | | |
| Number of reserves | 20+ | 13+ | 30 |
| Total $ in reserves | 98,487 | 148,836 | 178,555 |
| Total revenues | 1,066,458 | 1,399,025 | 1,042,966 |
| Reserves as a % of Revenues | 9.3% | 10.6% | 17.1%* |
| Balance in stabilization reserves | 40,117 | 62,853 | 18,752 |
| Stab. Reserves as a % of total | 40.7% | 42.2% | 10.5% |

* Approximately $84 MM of reserves relate to utilities that add $302 MM of revenue to City operations. Utility reserves represent 27.8% of total utility revenue. As a result, the percentages noted above for Winnipeg are much higher than Edmonton and

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Calgary where utility operations are in whole or in part excluded from reserves and revenue results.

COMPARISON OF STABILIZATION RESERVES:

| ***City*** | ***1999*** | ***1998*** |
|---|---|---|
| Edmonton | 40,117 | 31,834 |
| Calgary | 62,853 | 78,254 |
| Winnipeg | 18,752 | 10,610 |

As noted above, excluding the General Reserve Fund the City has 30 reserves with a combined balance of approximately 179mm. However, the following five major reserves were established near the end of 1999:

Economic development reserve
Housing rehabilitation reserve
Pension stabilization reserve
Heritage investment reserve
Pension surplus reserve

The following observations can be made from the information presented above:

- Excluded from Winnipeg's reserve balance is the general reserve fund which is unique to our City. The general reserve balance represents the City's calculation of its equity in capital assets. The City's of Calgary and Edmonton embrace a similar concept but have valued their equity on the basis of Public Sector Accounting Principles.
- Included in reserve totals for Winnipeg are reserves relating to utility operations. The electric energy and water utility services in Edmonton have been moved to separately incorporated companies. The financial results from these operations have not been included in Edmonton's consolidated financial results. Similarly, Calgary has separately incorporated a company to house its electric energy operation.
- Calgary and Edmonton have captioned reserves in an "Other" category on their financial statements so it is difficult to tell how many reserves they actually have at any point.
- Municipalities use reserves for different purposes. Many of Winnipeg's reserves have been set-up to accommodate replacement or repair of major infrastructure. Balances will increase and decrease depending on when projects are expected to be complete. Calgary and Edmonton do not appear to have as many reserves relating to infrastructure. In addition, it is possible that Calgary and Edmonton may run certain financial activity directly through their general revenue fund. As an example, Calgary and Edmonton do not appear to have an equipment replacement reserve similar to Winnipeg.
- Calgary and Edmonton have larger balances accumulated in their stabilization reserves in comparison to Winnipeg. In addition, their equity balances are much larger as a percentage of total assets. Much of Winnipeg's assets have been financed by debt.

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Details concerning reserves and their projected balances are outlined on Appendix "B". Please note that projected balances are approximate and may change from year to year.

Continued funding of reserves is important to the financial health and viability of the City of Winnipeg. Not only does this course of action enable the City to save and plan for future projects, but it provides financial flexibility for unanticipated events. In turn, financial flexibility provides City Council with the ability to maintain or reduce property taxes to acceptable levels.

Council has several policy options when considering reserves.

- Funding for reserves could be maintained at their current levels.
- Contributions to reserves could be reduced or eliminated.
- Contributions to certain reserves could be extended over a longer period. For example, contributions to the fiscal stabilization reserve could be extended so that the target reserve balance is not reached until after 2005.
- Alternatively, interest payments to reserves could be reduced to cut back on the build-up of balances.
- Finally, reserves could be eliminated or periodically adjusted to reduce their balances.

The Executive Policy Committee recommends:

I. That for better presentation the classification of Reserves in the City's financial statements be as follows:

*Stabilization Reserves*: - Established to deal with unanticipated fluctuations in revenues or expenditures.

Included in the Stabilization Reserves classification are the following:
Fiscal Stabilization
Mill Rate Stabilization

*Capital Reserves*: - Established to provide funding for capital projects in order to reduce the amount required to finance by debt.

Included in the Capital Reserves classification are the following:

Watermain Renewal
Environmental Projects
Wastewater Sewer Renewal
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Computer Equipment Replacement
Combined Sewer
Aqueduct Rehabilitation
Water Treatment
Point Du Bois Generating Station
Concession Equipment Replacement

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| | |
|---|---|
| Golf Courses | Library |
| Transit Bus Replacement | Equipment Replacement |

*Special Purpose Reserves*: - Established to maintain specific program needs and provide budgetary stabilization.

*Included in the Special Purpose Reserves classification are the following:*

| | |
|---|---|
| Commitment | Contributions in Lieu of Land |
| Economic Development Investment | Dedication |
| Housing Rehabilitation Investment | Heritage Investment |
| Insurance | Idea Bank |
| Perpetual Maintenance (Cemeteries) | Land Operating |
| Snow Clearing | Recreation Programming |
| Assiniboine Park Enterprise | Workers Compensation |
| | Pension Surplus |

II. That a policy be adopted that the timing of the establishment of any new reserve be done annually at the same time as Council adopts the current estimates.

III. Subject to Section 338 (3) of The City of Winnipeg Act, the Zoo Animals and Zoo Purposes Reserves be combined. In addition, the reserve be expanded to include a new purpose to enhance the maintenance, operation, planning and minor infrastructure for Assiniboine Park and have additional revenues from net profit of new initiatives, services and products arising from the operation and programming of Assiniboine Park as a business unit as well as revenue sharing from the existing agreement with the Pavilion Gallery Museum Inc. Due to restructuring that the Concession Equipment Reserve balances accumulated for golf courses and Assiniboine Park be transferred to the Golf Course Reserve and the Assiniboine Park Enterprises Reserve respectively. The new combined reserve be renamed the Assiniboine Park Enterprise Reserve and that the Fund Manager be the Director of Community Services.

IV. That the Retirement Allowance Reserve Fund be eliminated by re-categorizing the balances to reduce the unfunded liabilities relating to the reserve.

V. Subject to Section 338(3) of The City of Winnipeg Act, the Pension Stabilization Reserve and Pension Surplus Reserve be combined and renamed the General Purpose Reserve.

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VI. Subject to Section 338(3) of The City of Winnipeg Act that:

- $7.035 million be transferred from the Pension Surplus Reserve to the Fiscal Stabilization Reserve and $9.664 million be transferred to the Mill Rate Stabilization Reserve
- That in 2001 $3.1 million of net taxes added be transferred to the Mill Rate Stabilization Reserve and that beginning in 2002, the Fiscal Stabilization Reserve revenue be limited to interest earned, and that the revenue from net supplementary taxes added in a year be recorded as revenue in the General Revenue Fund.
- That the Mill Rate Stabilization Reserve continue to grow by way of interest earned and any year-end surplus.
- That if either Stabilization Reserve has achieved its target but the total of 10% tax-supported expenditures of Stabilization Reserves has yet to be achieved, then excess interest revenue of either Reserve be redirected to the Reserve which has yet to reach its individual target of 5%.
- That if the Stabilization Reserves are in excess of the 10% target then the excess funds be identified as available for one-time expenditures.
- That if the Stabilization Funds are reduced below the target of 10% or that the pace of increase in the stabilization funds as approved in the Financial Management Plan are not being met that a replenishment plan be adopted by Council which may include using net added taxes in addition to surplus and interest to achieve the 10% target.

VII. That the classification of the General Reserve Fund be changed to be appropriated surplus (classified as equity) as opposed to “reserve”. It is further recommended that the account be renamed to “Equity in Capital Assets”.

VIII. That the Fund Manager for the Golf Course Reserve Fund be changed from the Chief Administrative Officer to the Chief Operating Officer.

IX. That the Proper Officers of the City be authorized to do all things necessary to effect the intent of the foregoing.

Moved by His Worship Mayor Murray,
Adoption of the clause.

Carried.