Agenda – Council – September 28, 2011

Report – Standing Policy Committee on Finance – September 15, 2011

Item No. 1 Combining the Fiscal Stabilization Reserve and the Mill Rate Stabilization Reserve into the Financial Stabilization Reserve

STANDING COMMITTEE RECOMMENDATION:

On September 21, 2011, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Finance and submits the following to Council:

1. That the Fiscal Stabilization Reserve and the Mill Rate Stabilization Reserve be combined and renamed the "Financial Stabilization Reserve" and that this Reserve be subject to the regulations outlined in Table 1, which replace all previous regulations for the Fiscal Stabilization Reserve and the Mill Rate Stabilization Reserve.

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

Report – Standing Policy Committee on Finance – September 15, 2011

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On September 21, 2011, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Finance and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On September 15, 2011, the Standing Policy Committee on Finance concurred in the recommendation of the Winnipeg Public Service (report dated September 12, 2011) and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

Title: **Combining the Fiscal Stabilization Reserve and the Mill Rate Stabilization Reserve into the Financial Stabilization Reserve**

Critical Path: **Standing Policy Committee on Finance – Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
Ramona Hodges, Fiscal Planning Officer	Jo-Anne Ferrier, City Treasurer	Mike Ruta CFO	Phil Sheegl CAO

RECOMMENDATIONS

That the Fiscal Stabilization Reserve and the Mill Rate Stabilization Reserve be combined and renamed the "Financial Stabilization Reserve" and that this reserve be subject to the regulations outlined in Table 1, which replace all previous regulations for the Fiscal Stabilization Reserve and the Mill Rate Stabilization Reserve.

REASON FOR THE REPORT

Council approval is required for the establishment of a reserve fund.

IMPLICATIONS OF THE RECOMMENDATIONS

The City of Winnipeg currently has a large number of reserves. Among them are two "Stabilization Reserves" with similar purposes. The Fiscal Stabilization Reserve and the Mill Rate Stabilization Reserve have been in existence since 1997.

The target associated with the City's Financial Management Plan goal to "Ensure adequate reserves" refers to the combined total of the two stabilization reserves:

> "Stabilization Reserves at a minimum of 8% of tax-supported expenditures."

The proposal to combine the two similar reserves into one reserve offers the opportunity to streamline the administration of funds held for stabilization purposes by the City. This approach is also consistent with other cities [e.g., City of Calgary ("Fiscal Stability Reserve") and City of Edmonton ("Financial Stabilization Reserve Fund")].

Table 1 provides a comparison of the two existing stabilization reserves with the proposed "Financial Stabilization Reserve". The purposes, sources of funds, uses of funds, and fund manager for the "Financial Stabilization Reserve" are essentially the same as those in effect for the Fiscal Stabilization Reserve and the Mill Rate Stabilization Reserve. The proposed rules have been simplified.

The balance in the City's two stabilization reserves totaled $81.582 million as at December 31, 2010, which represents 10% of tax-supported expenditures. For comparison purposes, Edmonton's target is 8.3% of general government operating expenses and Calgary's target is a minimum of 5% of tax supported gross expenditures (net of recoveries).

The Government Finance Officers' Association of the United States and Canada (GFOA) recommends the following practice be used in Canada in relation to reserves or stabilization accounts:

> "A jurisdiction should adopt a policy to maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures."

TABLE 1 – COMPARISON OF EXISTING STABILIZATION RESERVES WITH PROPOSED RESERVE

	EXISTING		PROPOSED	Change
	Fiscal Stabilization Reserve	**Mill Rate Stabilization Reserve**	**Financial Stabilization Reserve**	**Y/N**
Purposes	• To counteract the budgetary effect of fluctuations from year to year in property and business taxes.	• To fund deficits in the General Revenue Fund to assist in the stabilization of the City's mill rate and/or property tax requirements.	• To counteract the budgetary effect of fluctuations from year to year in property and business taxes. • To fund deficits in the General Revenue Fund to assist in the stabilization of the City's mill rate and/or property tax requirements.	N
Sources of Funds	• Excess of actual total taxes billed compared to budget. • Interest earned.	• Surpluses in the General Revenue Fund. • Unspent amounts in the Commitment Reserve Fund, after approval by the Fund Manager as to contribution to be retained by the reserve. • Interest earned.	• Excess of actual total taxes billed compared to budget. • Surpluses in the General Revenue Fund. • Unspent amounts in the Commitment Reserve Fund, after approval by the Fund Manager as to contribution to be retained by the reserve. • Interest earned.	N
Uses of Funds	• Shortfall of actual total taxes billed compared to budget. • Major unforeseen expenditures, once the target level exceeded, subject to rules noted below.	• Used to fund deficits in General Revenue Fund, subject to rules noted below.	• Shortfall of actual total taxes billed compared to budget. • Major unforeseen expenditures, once the target level exceeded, subject to rules noted below. • Used to fund year end deficits in General Revenue Fund, subject to rules noted below. • One-time expenditures, once the target level has been reached.	N
	• One-time expenditures, once the combined target level has been reached.			
Fund Manager	City Treasurer	City Treasurer	City Treasurer	N

TABLE 1 – COMPARISON OF EXISTING STABILIZATION RESERVES WITH PROPOSED RESERVE

<table>
<tr><th rowspan="2"></th><th colspan="2">EXISTING</th><th>PROPOSED</th><th>Change</th></tr>
<tr><th>Fiscal Stabilization Reserve</th><th>Mill Rate Stabilization Reserve</th><th>Financial Stabilization Reserve</th><th>Y/N</th></tr>
<tr><td>Target Balance</td><td>• 5% of the tax-supported adopted budget expenditures.</td><td>• 5% of the tax-supported expenditures.</td><td>• A minimum of 8% of tax-supported expenditures, consistent with the Financial Management Plan target approved on March 23, 2011.</td><td>Y</td></tr>
<tr><td rowspan="6">Rules</td><td>• No transfers be made to the General Revenue Fund to fund current operations.</td><td>• No transfers to the General Revenue Fund to fund current operations, unless the reserve balance exceeds target, in which case, half the excess is automatically transferred to revenue in the following year.</td><td>• No transfers made to the General Revenue Fund to fund ongoing current operations.</td><td>Y</td></tr>
<tr><td colspan="2">• Use of these funds in any given year limited to no more than 20% of the prior year’s reserve balance.</td><td rowspan="3">• Funds above the 8% target may be used for major unforeseen expenditures and deficits in any given year. Accessing funds for major unforeseen expenditures and deficits in any given year require Council approval if the required draw would reduce the reserve balance below the 8% target.</td><td>Y</td></tr>
<tr><td>• Any use of these funds contingent upon approval by two-thirds of Council.</td><td></td><td>Y</td></tr>
<tr><td></td><td>• Used to fund up to a maximum of 50% of any deficit in the General Revenue Fund.</td><td>Y</td></tr>
<tr><td colspan="2">• If the Stabilization Funds are reduced below the target of 10% or the pace of increase in the stabilization funds as approved in the Financial Management Plan are not being met, 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.</td><td>• If the Financial Stabilization Reserve is reduced below the target of 8% of tax-supported expenditures, a replenishment plan be adopted by Council.</td><td>Y</td></tr>
<tr><td colspan="2">• 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%.</td><td></td><td>Y</td></tr>
<tr><td>Balances</td><td>$39.672 million as at Dec. 31, 2010</td><td>$41.910 million as at Dec. 31, 2010</td><td colspan="2">The combined balance of $81.582 million would flow to the new reserve.</td></tr>
</table>

HISTORY

- On May 16, 1973, City Council created the Future Tax Levies Reserve Fund to counteract the budgetary effect of fluctuations from year to year in the increased assessments due to the completion of major building construction projects.
- On March 20, 1997, City Council approved the “Fiscal Stability Plan” which included the renaming of the Future Tax Levies Reserve Fund Reserve to the Fiscal Stabilization Reserve and the creation of the Mill Rate Stabilization Reserve (with initial funding from a portion of the balance of the former Future Tax Levies Reserve Fund). Rules regarding the sources of funds, purposes and utilization of funds were established for each reserve.
- On December 13, 2000, City Council amended the rules governing the Fiscal Stabilization Reserve to provide for transfers to or from that reserve to offset any variance in the tax projections used in the development of the annual estimates and the actual amounts billed in the spring of each year, and that any corresponding transfers be approved.
- On April 25, 2001, City Council adopted the Financial Management Plan which established a target for the two stabilization reserves at a minimum of 10% of tax-supported expenditures by 2009.
- A review of reserves followed the Financial Management Plan’s adoption and, on May 23, 2001, City Council amended the rules for the reserves.
- On March 22, 2005, City Council amended the rules governing the Fiscal Stabilization Reserve to permit transfers to or from this Reserve to offset any variance in the revenue projections for net supplementary taxes used in the budget and the actual amounts achieved.
- On March 23, 2011, City Council adopted the Financial Management Plan which established a target for the two stabilization reserves at a minimum of 8% of tax-supported expenditures. A balance between holding sufficient resources to effectively manage unplanned events and the resulting pressure on affordability for the taxpayer is necessary. As the City's long-term financial modelling anticipates revenues and expenditure levels to continue to be predictable, without significant volatility, a combined Stabilization Reserve level of a minimum of 8% of tax supported expenditures is appropriate.

FINANCIAL IMPACT

No financial impact - As this is a policy document, there are no direct financial implications.

"Original signed by Radhika Abeysekera"
R. Abeysekera
Campus Controller
Corporate Finance Department

CONSULTATION

In preparing this report there was consultation with:

Legal Services
Assessment and Taxation

SUBMITTED BY

Department	Corporate Finance
Division	Financial Planning and Review Division
Prepared by:	Ramona Hodges, Fiscal Planning Officer
Date:	September 12, 2011
File No.	