



INFORMATION ONLY COMMITTEE OF THE WHOLE REPORT
Finance, Administration and Protective Services
For the May 21, 2019 Committee of the Whole Meeting

DATE: May 8, 2019
TO: Jim Zaffino, CAO
FROM: Warren Everton, CFO
RE: Reserve Funds Overview and Policy

BACKGROUND:

Council's policy on reserve funds was last updated in 2015 and has an administration requirement for the Chief Financial Officer to conduct an annual review of the reserve fund balances. The review also is designed to allow revisions and amendments to the policy as needed from year to year.

The goals of the policy require reserves to be:

- Sufficient to support the financial health and stability of City of West Kelowna
- Consistent and supportive of the financial plan
- Conform to statutory and legal requirements

The types of reserves held by the City

- Statutory Reserves – non-discretionary, specific and established by bylaw
- Non-Statutory Capital Reserves – these reserves have been established and appropriated from surplus for a specific purpose or specific group of assets
- Operating Reserves – designed to stabilize reoccurring spikes in specific operational costs
- Unappropriated Surplus – accumulated excess revenues over expenses in reserve. These reserves are discretionary in nature

The 2019 Capital planning process has been completed with the adoption of the financial plan bylaw. The 2019 projects are confirmed and in many cases now in process. This workshop is designed to look forward to the subsequent years and take another look at the City's preparedness for the balance of the 10-year capital plan. It would be ideal if the Mayor and Council could bring their Capital Plan Binders as these documents will be referenced during the meeting.

Taking a step back to look at the planning process, we find that capital planning begins first with public safety as the highest priority. Following that building reserves in anticipation of replacement and the timing of asset end-of-life is critical. This is where an Asset Management Plan is crucial to identifying, tracking and ultimately replacing assets. Management is currently applying for a grant and engaging with a consultant to update its plan. Finally, expansion of services or new services are also important aspects of building reserves in anticipation of future needs. This reduces the reactive need for tax increases and debt financing when these projects become a reality.

Many local governments similar in size to West Kelowna have long established and well funded reserves due to the length of time they have been collecting them. West Kelowna, being an 11

year old City has not had much time to build reserves and ideally that process never ends. Ultimately a City's plan is to get to an equilibrium point where usage doesn't deplete reserves before they can be built back up for subsequent projects. The following is a table that compares some statistics of similar sized cities for the 2017 financial statement reporting period.

2017	Vernon	Penticton	Campbell River	Mission	West Kelowna
Comparative Financials					
Financial Assets	111,923,000	104,878,827	83,234,327	105,387,127	75,181,429
LT Debt					
General	6,482,000	24,744,872	5,303,754	5,056,920	7,326,941
Water	0	7,167,910	2,894,000	0	6,795,062
Sewer	12,199,000	5,260,623	637,590	0	6,858,414
Total Debt	18,681,000	37,173,405	8,835,344	5,056,920	20,980,417
Tangible Capital Asset Total	570,690,000	314,408,591	252,433,364	456,643,539	358,887,030
Total Revenue	90,233,000	119,264,570	71,231,170	70,527,754	62,293,677
Savings					
Annual Surplus	8,308,000	18,998,296	15,123,547	15,977,008	5,152,335
Reserve total	57,454,000	76,329,298	41,821,590	59,130,347	29,966,028
DCCs	13,167,000	14,589,967	9,556,225	11,108,279	16,718,109
Total Savings	78,929,000	109,917,561	66,501,362	86,215,634	51,836,472

LEGISLATIVE REQUIREMENTS:

Establishment of reserve funds

188 (1) A council may, by bylaw, establish a reserve fund for a specified purpose and direct that money be placed to the credit of the reserve fund.

(2) If a municipality receives money in respect of any one of the following, the council must establish a reserve fund for the applicable purpose:

(a) money received from the imposition of a development cost charge, which must be placed to the credit of a reserve fund in accordance with section 566 [use of development cost charges] of the Local Government Act;

(b) money received

(i) from the sale of park land,

(ii) under section 27 (2) (b) [disposal of park land], or

(iii) under section 510 (14) [provision of park land on subdivision] of the Local Government Act, which must be placed to the credit of a reserve fund for the purpose of acquiring park lands;

(c) money received under section 41 (1) (d) [disposal of highway property that provides access to water], which must be placed to the credit of a reserve fund in accordance with that section;

(d) money received under section 525 (2) [parking space requirements] of the Local Government Act, which must be placed to the credit of a reserve fund for the purpose of providing

(i) off-street parking spaces, or

(ii) transportation infrastructure that supports walking, bicycling, public transit or other alternative forms of transportation;

(e) except for tax sale proceeds, money received from the sale of land and improvements, which must be placed to the credit of a reserve fund for the purposes of paying any debt

remaining in relation to the property and of acquiring land, improvements and other assets of a capital nature.

Use of money in reserve funds

189 (1) Subject to this section, money in a reserve fund, and interest earned on it, must be used only for the purpose for which the fund was established.

(2) If the amount to the credit of a reserve fund is greater than required for the purpose for which the fund was established, the council may, by bylaw, transfer all or part of the amount to another reserve fund.

(3) If the current municipal revenue is not sufficient for the amount required to pay compensation in respect of property expropriated or injured or to carry out works referred to in section 32 (3) [entry on land to mitigate damage], the council may, by bylaw, use money from a reserve fund to the extent required.

(4) As a restriction on subsection (2), a transfer from a reserve fund established for a capital purpose may only be made to another reserve fund established for a capital purpose.

(4.1) Despite any other enactment, if

(a) money in a reserve fund established for a capital purpose, including a reserve fund under section 566 of the Local Government Act established for a capital purpose, is not currently required for that purpose, and

(b) the municipality has another reserve fund established for a capital purpose, the municipality may use money in the first reserve fund for the purposes of the second reserve fund.

(4.2) If money from one reserve fund is used under subsection (4.1) for the purposes of another reserve fund, the municipality must repay to the first reserve fund, no later than the time when the money is needed for the purposes of that reserve fund,

(a) the amount used, and

(b) an amount equivalent to the interest that would have been earned on the amount used had it remained in the first reserve fund.

(5) As a restriction on subsections (2) and (3), a council may not transfer amounts or use money from a fund required under section 188 (2) (a) [development cost charge reserve fund] or (b) [park land acquisition reserve fund] unless the bylaw is approved by the minister.

COUNCIL REPORT/RESOLUTION HISTORY:

Date	Report Topic/Resolution	Resolution No.
November 24, 2015	Reserve Fund Policy Approval	C423/15
December 8, 2008	Minimum Reserve Balances	COW050-09

FINANCIAL IMPLICATIONS:

Maximums and minimums for each type reserves have been established by type in Council's Reserve Fund Policy. These levels as well as the funding sources, uses and expected balances appear in Schedule 1 attached.

Respectfully submitted,



Warren Everton
CFO



Tracey Batten
Deputy CAO

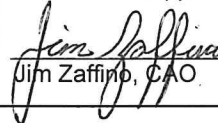
Powerpoint: ☒ Yes ☐ No

Attachments:

Schedule 1 – Reserve Balances with Max & Min

Schedule 2 – Transfers to Reserve, Capital Funding & Capital Expenses

Approved for Agenda


Jim Zaffino, CAO

May 16, 2018
Date

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City of West Kelowna
Schedule 1 - Budgeted schedule of accumulated surplus
Period ending December 31, 2019

	Balance, beginning of year	Transfer to	Transfer From	Interest	Balance, End of year
Reserves					
Capital - General	5,154,624	3,719,664	(4,570,922)	64,550	4,367,917
Capital - Water	3,760,686	1,927,440	(2,847,755)	42,606	2,882,977
Capital - Sewer	226,544	448,200	(805,768)	1,965	(132,989)
Community projects (Gas Tax)	2,434,312	2,840,234	(4,382,867)	13,375	905,054
Equipment Replacement	4,145,761	1,160,000	(2,496,637)	42,137	2,851,262
Fire	-	-	-	-	-
Future expenses	2,006,455	702,800	(1,901,971)	12,109	819,381
Municipal Facilities:	4,696,139	700,000	-	80,942	5,477,081
Other:	4,300,213	25,144,511	(25,168,798)	64,139	4,340,065
Policing	640,237	-	(138,000)	7,534	509,769
Property Acquisition	1,636,612	-	-	24,549	1,661,161
Recreation:	145,549	106,554	(344,000)	1,378	(87,320)
Road Maintenance & Snow Clearing:	630,929	-	-	9,464	640,392
Storm Drainage	187,958	10,302	(256,680)	876	(59,296)
Total reserves	39,738,848	36,865,705	(43,250,975)	510,439	24,175,454

	Minimum \$	Maximum \$	Minimum Level	Maximum Level
Capital - General	17,283,906	45,200,360	Adequate to fund capital projects identified as capital funded for the next 5 years of the 10 year capital plan	Adequate to fund all capital projects identified as capital funded in the 10 year capital plan
Capital - Water	7,985,424	15,585,663	Adequate to fund capital projects identified as water capital funded for the next 5 years of the 10 year capital plan	Adequate to fund all capital projects identified as water capital funded in the 10 year capital plan
Capital - Sewer	1,356,351	2,679,351	Adequate to fund capital projects identified as sewer capital funded for the next 5 years of the 10 year capital plan	Adequate to fund all capital projects identified as sewer capital funded in the 10 year capital plan
Community projects (Gas Tax)	N/A	N/A	N/A	N/A
Equipment Replacement	8,885,657	14,416,572	Minimum funds available to fund five upcoming years of vehicle and equipment replacements.	Funds for all scheduled replacements in the 10 year financial plan.
Fire	4,370,400	874,080	5% of fire operational expenditures rounded to the nearest higher \$100,000	10% of fire operational expenditures rounded to the nearest higher \$100,000
Future expenses	500,000	1,300,000	1% of general operating fund revenues, rounded to the nearest \$100,000	2.5% of general operating fund revenues, rounded to the nearest \$100,000
Municipal Facilities:				
Other:	7,800,000	11,700,000	Two months of regular general fund operating expenditures, rounded to the nearest higher \$100,000	Three months of regular general fund operating expenditures, rounded to the nearest higher \$100,000
Policing	558,630	1,117,270	10% of RCMP contract expenditures rounded to the nearest higher \$100,000	20% of RCMP contract expenditures rounded to the nearest higher \$100,000
Property Acquisition	-	\$0	\$0	Adequate to fund Property Acquisitions as identified in Master plans or Council priorities
Recreation:	-	\$0	\$0	Adequate to fund recreational projects outlined in the 10 year capital plan
Road Maintenance & Snow Clearing:	200,000	400,000	\$200,000 – required to address winter maintenance requirements in the event of a defined "Hard Winter".	\$400,000 – required to address winter maintenance requirements in the event of a defined "Exceptionally Hard Winter".
Storm Drainage	-	\$0	\$0	Adequate to fund storm drainage projects outlined in the 10 year capital plan

Classification	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
Transfer to Reserves:										
Capital Infrastructure - New	3,719,664	3,998,429	4,044,207	4,349,200	4,504,210	5,159,378	5,664,740	6,270,307	7,062,731	7,818,725
Capital Infrastructure - Renewal (15% of Growth)	111,716	63,781	66,523	69,384	61,234	63,744	66,358	69,079	71,911	74,859
Equipment Replacement	600,000	600,000	900,000	900,000	900,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Universal Accessibility	-	-	-	-	-	-	-	-	-	-
Future Expenditures	702,800	447,462	525,049	763,358	1,108,276	706,410	707,973	813,164	672,198	1,375,071
Accumulated Surplus	-	-	-	-	-	-	-	-	-	-
Gas Tax	1,420,117	1,420,117	1,420,117	1,420,117	1,420,117	1,420,117	1,420,117	1,420,117	1,420,117	1,420,117
City Hall Reserve	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000
Recreation Reserve	106,554	107,116	219,540	269,540	269,540	269,540	319,540	319,540	319,540	319,540
	7,360,851	7,336,904	7,875,436	8,471,598	8,963,377	9,519,190	10,078,727	10,792,206	11,446,497	12,208,312
Available for Increase of Service Level, reduce taxes or increase reserves - 2019										
Available for Increase of Service Level, reduce taxes or increase reserves - 2020	139,614	141,709	143,834	145,992	148,182	150,404	152,660	154,950	157,274	159,634
Available for Increase of Service Level, reduce taxes or increase reserves - 2021		456,200	463,043	469,988	477,038	484,194	491,457	498,828	506,311	513,905
Available for Increase of Service Level, reduce taxes or increase reserves - 2022			470,252	477,306	484,465	491,732	499,108	506,595	514,194	521,906
Available for Increase of Service Level, reduce taxes or increase reserves - 2023				449,614	456,358	463,203	470,151	477,204	484,362	491,627
Available for Increase of Service Level, reduce taxes or increase reserves - 2024					541,111	549,228	557,466	565,828	574,316	582,930
Available for Increase of Service Level, reduce taxes or increase reserves - 2025						511,526	519,199	526,987	534,892	542,915
Available for Increase of Service Level, reduce taxes or increase reserves - 2026							567,540	576,053	584,694	593,464
Available for Increase of Service Level, reduce taxes or increase reserves - 2027								632,422	641,909	651,537
Available for Increase of Service Level, reduce taxes or increase reserves - 2028									584,668	550,365
TOTAL TRANSFERS										
Plus Fire Department Reserve	\$ 7,500,466	\$ 7,934,813	\$ 8,952,564	\$ 10,014,497	\$ 11,070,530	\$ 12,169,477	\$ 13,336,309	\$ 14,731,074	\$ 16,029,115	\$ 17,380,549
Total Available to Transfer to Reserve incl. Discretionary Funds	\$ 8,060,466	\$ 8,494,813	\$ 9,512,564	\$ 10,574,497	\$ 11,630,530	\$ 12,729,477	\$ 13,896,309	\$ 15,291,074	\$ 16,589,115	\$ 17,940,549
Less Discretionary Funds	\$ -	\$ 597,908	\$ 1,077,128	\$ 1,542,899	\$ 2,107,154	\$ 2,650,287	\$ 3,257,582	\$ 3,938,868	\$ 4,582,619	\$ 5,172,238
Net Transfer to Reserve	\$ 8,060,466	\$ 7,896,904	\$ 8,435,436	\$ 9,031,598	\$ 9,523,377	\$ 10,079,190	\$ 10,638,727	\$ 11,352,206	\$ 12,006,497	\$ 12,768,312

CAPITAL FUNDING

Classification	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
Transfers from Reserves - Capital:										
Capital Infrastructure - New	4,662,518	4,325,183	6,078,486	3,875,400	2,828,606	3,856,180	5,503,699	3,222,400	9,325,847	5,582,065
Capital Infrastructure - Renewal (15% of Growth)										
Equipment Replacement	982,146	1,909,500	1,735,500	1,814,595	815,303	1,921,122	622,055	1,762,107	2,500,280	1,741,179
Water Reserves										
Future Expenditures	362,500	987,844	35,000	550,000	985,000	508,800	1,572,516	-	-	-
Accumulated Surplus										
Gas Tax (Community Works)	1,000,000	470,000	1,314,000	500,000	1,050,000	1,000,000	1,550,000	500,000	1,050,000	-
Property Acquisition Reserve										
Elections										
Community Hall/City Hall Rental Return			29,870	68,000				71,000	718,152	-
City Hall Construction				-					11,425,053	-
Recreation Reserve		135,000								
Grant										
City Yard Reserve			340,574	-						
Parks Capital				44,200						
Land Acquisition				1,740,331						
DCC - Parks		271,923	55,688	-	6,494	52,470	2,350,738			
DCC - Roads	144,400	2,825,496	3,147,415	-	-	216,600	-	216,600	1,578,200	2,250,000
DCC - Storm	17,500	-	-	150,000	227,500	43,750	157,500	-	-	9,813,135
Policing	92,000	46,000	46,000	46,000	46,000	46,000	46,000	46,000	46,000	-
Storm Sewer										46,000
Johnson-Bentley Aquatic Reserve										
Gas Tax Funding										
Lakeview Hall Reserve										
Playground Equipment										
Donations (Cash in Lieu)										
Recoverable /Donation										
Debt Proceeds									500,000	
Total Capital Financing	\$ 7,241,064	\$ 10,970,946	\$ 21,282,533	\$ 9,038,526	\$ 5,958,903	\$ 7,894,922	\$ 11,802,508	\$ 5,818,107	\$ 27,143,532	\$ 19,432,379

**City of West Kelowna 2019 - 2028 Financial Plan
General Fund Capital Expenditures Schedule "B3"**

General Fund - Capital Expenditures	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
General Government Services										
Administration	220,000	50,000	65,000	168,000	235,000	-	-	71,000	-	-
Information Services	358,690	361,500	428,495	393,595	892,303	256,122	-	314,107	158,280	272,579
Protective Services										
R.C.M.P.	92,000	46,000	49,000	60,400	46,000	56,000	46,000	46,000	63,400	46,000
Fire	189,000	1,288,000	1,224,000	1,116,000	326,600	1,355,000	152,000	1,248,000	1,842,000	1,222,200
Transportation Services										
Roads & Maintenance	5,872,974	5,758,340	6,609,300	3,610,000	3,130,000	5,433,800	4,772,000	2,324,000	4,229,700	14,891,600
Street Lighting	-	-	-	-	-	-	-	-	-	-
Traffic Control Equipment	-	-	-	-	-	-	-	-	-	-
Environmental Health Services										
Public Health Services	-	-	-	-	-	-	-	-	-	-
Cemetery	-	-	-	-	-	-	-	-	-	-
Recreation & Cultural Services										
Storm Sewer	-	-	-	-	-	-	-	-	-	-
Recreation	-	-	-	-	-	-	-	-	-	-
Facilities	302,500	2,798,806	11,897,737	2,816,531	1,125,000	12,000	848,946	1,800,000	20,730,152	-
Parks	205,900	668,300	1,009,001	874,000	204,000	782,000	5,633,507	15,000	120,000	3,000,000
Museum	-	-	-	-	-	-	-	-	-	-
TOTAL CAPITAL EXPENDITURES	7,241,064	10,970,946	21,282,533	9,038,526	5,958,903	7,894,922	11,802,508	5,818,107	27,143,532	19,432,379