



INFORMATION ONLY COUNCIL REPORT

To: Mayor and Council

Date: July 25, 2023

From: Paul Gipps, CAO

Subject: **Reserve Funds Overview**

Report Prepared by: Warren Everton, Director of Finance / CFO

STRATEGIC AREA(S) OF FOCUS

Reserve planning plays a significant role in developing our 10-year capital plan and the overall health of reserves is key to moving forward with strategic projects. Ultimately, reserve strategy is influenced by all aspects of Council's priorities.

Invest in Infrastructure – We will invest in building, improving and maintaining infrastructure to meet the needs of, and to provide a high quality of life for, current and future generations.

Pursue Economic Growth and Prosperity – We will work with stakeholders throughout the region to advocate for and support efforts aimed at helping West Kelowna businesses prosper. With a focus on the future, we will advance opportunities to expand our economy, increase employment, and develop the community in ways that contribute towards prosperity for all.

Strengthen Our Community – We will provide opportunities for the residents of West Kelowna to build connections, celebrate successes, embrace the community's strengths and diversity, address shared needs, and contribute to shaping the community's future.

Foster Safety and Well-Being – We will pursue through direct action, advocacy, and collaboration with local and regional service providers, investments in community health, needs-based housing, emergency preparedness, policing, and other services that foster safety and well-being in West Kelowna.

BACKGROUND

To evaluate reserves it's important to cover numerous aspects of reserve planning:

- Reserve fund policy and statutory reserve bylaws
- Approved reserve needs within the current capital budget
- Reserve requests for capital budget years 2-10

- Audited reserve fund balances as of December 31, 2022
- Consideration of capital project carry forwards and their effect on cash flow

The City's reserve fund policy is contained within the Revenue Policy which uses an additional document (attached) listing minimum and maximum levels to be retained in any given year. For general capital, water and sewer, the minimum reserve balances equate to next 5 years of capital spending in the ten-year plan and the maximums equate to the full 10 years for a given budget year. These criteria are in need of review as many are overly ambitious and not relevant as the City has rarely achieved these balances. Other reserve criteria are based on a percentage of revenue or contract levels. In some instances, these are working but in others such as surplus retention, they are well below threshold. Finance staff are planning to review the policy and bylaws for reasonableness and bring forward wording amendments where appropriate.

The current wording for reserves in the revenue policy is as follows.

Reserve Funds

1. Provide sources of funds for future capital expenditures;
2. Provide a source of funding for areas of expenditure that fluctuate significantly from year to year (equipment replacement, special building maintenance, etc.);
3. Protect the City from uncontrollable or unexpected increases in expenditures or unforeseen reductions in revenues, or a combination of the two; and
4. Provide for working capital to ensure sufficient cash flow to meet the City's needs throughout the year.

Classifications and Interest:

1. Reserve Funds (Statutory Reserves) which are authorized either by the Community Charter or by bylaw; and
2. General (Non-statutory) Reserves which are a combination of budgeted allocations such as equipment replacement reserves, or surplus funds such as the transfer of unspent amounts in our snow clearing budget to a reserve to assist with leveling out expenditures in those years when we get a harsh winter.
3. Interest will be allocated annually to all Statutory and Non-Statutory Reserve Funds at the investment portfolio average rate for the year less one-half percentage point.

FINANCIAL IMPLICATIONS

Reserve Listing 2023 Capital Plan:

The reserve fund listing for 2023 starts with audited opening balances, deducts 2023 and previous approved project spending, then adds transfers to reserve producing a projected balance for the year. Additionally, looking forward, base budget projections are provided for 2024 balances ahead of fall budget deliberations. For this review the 2024 projects

envisioned in the capital plan have been paired down to base levels including ongoing approved spending, any master plan requirements and loan commitments. Since deliberations are not scheduled until the fall, this exercise reduces the 2024 reserve transfers-out to roughly half of the \$18.95 million projected in the 2023 ten-year capital plan.

The approved spending column for 2023 (transfers-out), which includes carryforwards, is shown in the bottom line of the chart at \$45.99 million. The approved spending consists of 2023 projects (\$17.2 million) and carry forward projects (\$28.8 million). The next column over is the 2023 contributions (transfers-in) which comes to \$16.9 million. This spending vs. contribution variance was ambitious and favoured spending for 2023 but reserves have been healthy enough to accommodate it.

Additionally in the reserve chart below, the “Other Reserves” row has been adjusted to reflect the 2022 net annual surplus. Council will recall at the May 9th financial statement approval report, the \$34.2 million in annual surplus netted out to \$2.8 million after removing DCC’s, Gas Tax and other grant revenue.

Reserve Summary	2023 Reserve Summary (Including Prior Years Carry Forwards)				2024 Reserve Projection			
	Audited Balance	Transfers Out	Transfers In	Dec 31/23 Projected Balance	Jan 01/24 Opening Balance	Transfers Out	Estimated Transfers In	Dec 31/24 Projected Balance
	Jan 01/23	Total	Total	Balance	Balance	Total	Total	Balance
Total Equipment Reserves	3,698,236	(4,320,978)	1,347,421	724,679	724,679	(278,283)	1,358,086	1,804,481
Total Capital Reserve	7,646,825	(12,728,590)	6,255,384	1,173,620	1,173,620	(6,200,000)	6,364,433	1,338,053
Total Facility Reserves	8,241,977	(11,972,574)	875,840	(2,854,757)	(2,854,757)	-	880,858	(1,973,899)
Total Fire Department Reserves	1,326,480	(1,471,000)	1,238,450	1,093,929	1,093,929	-	1,281,400	2,375,329
Total Other Reserves incl Net Surplus	12,098,494	(3,185,877)	1,398,717	10,311,335	10,311,335	-	1,415,689	11,727,024
Reserve - Future Expenditure	1,819,666	(1,409,691)	525,533	935,508	935,508	-	566,845	1,502,353
Reserve - Gas Tax	5,500,758	(6,092,223)	1,516,535	925,070	925,070	(1,200,000)	1,492,865	1,217,935
Total Water Reserves	8,423,096	(3,751,220)	3,077,166	7,749,042	7,749,042	-	3,284,038	11,033,080
Reserve - Sewer	1,055,069	(1,061,249)	639,787	633,608	633,608	-	624,954	1,258,562
Reserve - Storm Drainage	143,364	-	2,867	146,232	146,232	-	16,123	162,355
Reserves - Subtotal	49,953,966	(45,993,402)	16,877,700	20,838,265	20,838,265	(7,678,283)	17,285,291	30,445,273

Carryforward Capital Projects:

Linking reserves to capital spending is challenging since actual cash outlay timing is a moving target. When considering adequate balances, it’s important to look at cash flow and determine the timing of completion of carryforward and current projects. There are always complicating factors like inflation affecting costs when projects are delayed or slow to complete. In the current interest rate environment this is mitigated by the increased interest earned on the resulting reserve balances.

The following section shows the current and carry-forward spending totals as they relate to reserve balances. These are up to date as of second quarter 2023 and show an aggregated completion rate of 70%. Please note that percentage completion is strictly an

accounting statistic based on payments and purchase order commitments as they compare to budget. Some of these projects are complete even though actual to budget is less than 100%, which is a good news story.

Capital Projects Status					Funding Source				
Project Yr.	No. of Projects (WIP)	(WIP) Total (Actual Spent + Committed)	(WIP) Approved Budget of Remaining Projects	(WIP) Percentage of Remaining Projects Completed	Reserve	DCC	Debt	Grants	Other
2023- Ammendment	2	47,260	1,110,000	4%	835,800	159,200	115,000	-	
2023	74	5,392,498	31,184,735	17%	13,211,495	4,269,352	12,055,000	1,000,000	648,888
2022	64	8,295,688	16,729,690	50%	13,508,619	287,925	2,433,147	500,000	
2021	34	22,596,799	33,057,684	68%	11,116,573	1,101,487	11,535,052	228,315	9,076,256
2020	24	2,636,026	3,183,564	83%	2,548,115	-	635,449	-	-
2019	4	247,278	450,129	55%	412,584	11,105	17,435		9,005
2018	4	542,864	835,706	65%	835,706	-	-	-	-
2017	5	337,594	411,951	82%	344,951	67,000	-	-	-
RV-WTP	1	74,035,811	75,000,000	99%		10,498,000	23,500,000	41,002,000	-
Grand Total	212	114,131,818	161,963,459	70%	42,813,843	16,394,069	50,291,083	42,730,315	9,734,149

CONCLUSION

Reserve health in general is a critical aspect of both financial planning and cash flow as capital projects run their course. The City's reserves are in reasonably good condition, but care must be taken in the coming planning cycles to balance usage, alternative funding options (grants/debt) and reserve contributions to adequately save for the City's future needs.

REVIEWED BY

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Trevor Seibel, Deputy CAO

APPROVED FOR THE AGENDA BY

Paul Gipps, CAO

PowerPoint: Yes No

Attachments:

Consolidated schedule of accumulated surplus as Dec 31, 2022