



Council
For the Meeting of June 28, 2018

To: Council **Date:** June 19, 2018
From: Susanne Thompson, Director of Finance
Subject: Reserve Fund Policy and Reserve Fund Bylaw

RECOMMENDATION

That Council:

1. Approve the amended Reserve Fund Policy that includes the Park Furnishing Dedication Reserve Fund attached as Appendix A
2. Give first, second and third reading to the amended Reserve Fund Bylaw that includes the Park Furnishing Dedication Reserve Fund attached as Appendix B

EXECUTIVE SUMMARY

On June 14, 2018, Council directed staff to bring forth the amendment to the Reserve Fund Policy and Reserve Fund Bylaw to establish a new reserve fund for the Park Furnishing Dedication Program.

The proposed policy and bylaw have been amended to include the Park Furnishing Dedication Reserve Fund. This reserve has been established to assist in funding the maintenance costs of the capital assets acquired through the Park Furnishing Dedication Program and is funded by monetary contributions provided to the City of Victoria as part of the total cost of the dedication. The use of these funds is restricted to funding the maintenance of the dedicated park furnishings over the estimated useful life.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Susanne Thompson".

Susanne Thompson
Director of Finance

Report accepted and recommended by the City Manager:

A handwritten signature in black ink, appearing to read "Jocelyn Denby".

Date: June 21, 2018

List of Attachments

Appendix A: Amended Reserve Fund Policy

Appendix B: Amended Reserve Fund Bylaw

**Department of Finance
Policies and Procedures**

Reserve Funds

Authorized by: City Council

Date of issue: September 30, 2004

Revised: June 2018

Purpose

The purpose of the Reserve Fund Policy is to provide guidance with respect to the development, maintenance, and use of City Reserve Funds.

Guiding Principles

All Reserves Funds must be established, maintained and used for a specified purpose mandated by this policy, statute, or City by-law.

Annual operating surpluses are to be transferred to the Equipment and Infrastructure Reserve or the appropriate Financial Stability Reserve in each fund and used in accordance with the priorities outlined in this policy.

The City shall strive to develop appropriate reserves to meet future financial obligations with respect to City equipment and infrastructure, fiscal needs and employee benefit obligations.

Primary Objectives

Reserves shall be established and expended to:

1. Ensure Stable & Predictable Levies

The City recognizes that unstable and unpredictable tax levies can adversely affect residents and businesses in Victoria. In order to maintain stable and predictable levies, the City will maintain sufficient reserves to buffer the impact of unusual or unplanned cost increases and revenue reductions over multiple budget cycles.

2. Provide for Operating Emergencies

The City is exposed to unusual operating emergencies resulting from inclement weather, catastrophic events, law enforcement issues, environmental hazards and so on. It may not be feasible, or cost-effective, to absorb the costs of such emergencies during one budget cycle. The City will maintain adequate reserves to avoid such emergencies, extensive service interruptions, and prevent risks to infrastructure and public safety.

3. Finance New Capital Assets

Use of Reserves for financing new capital assets is an effective means of matching one-time funds to one-time capital projects. In addition, the City requires financial resources to quickly respond to opportunities that could provide capital infrastructure through private sector partnerships, and other alternative service delivery methods.

4. Safeguard and Maximize Existing Assets

The City has an inventory of specialized machinery, equipment and technology systems necessary for the efficient delivery of services to the public, which needs to be replaced on well-defined lifecycle standards. The City also has a need to provide insurance against unforeseen losses of these and other assets and claims against its assets where it is found legally liable.

General Criteria

Reserves shall be established, maintained and used in accordance with the following General Criteria.

1. Least Cost to Taxpayers

Reserves should support the least cost alternative in the long-term for delivering standards of service adopted by Council. This means they will be used to:

- Buffer the effects of large cost increases and revenue reductions and allow time to adjust City service costs or revenue generation to avoid unnecessary tax increases, and
- Provide internal capital financing which is more cost-effective than external borrowing or leasing.

2. Fairness & Equity to Taxpayers

Reserves should serve to balance the impact of the operating costs and capital costs, on both current and future taxpayers by:

- Applying Reserves derived from one-time revenue sources to one-time capital or operating projects.
- Applying Reserve Funds and current revenues in a ratio, which recognizes the appropriate sharing of savings from current taxpayers with contributions from future taxpayers (this will likely require repayment of all, or a portion of, Reserves from future rates or user fees).

3. Meets Statutory and Legal Requirements

Reserves must meet the requirements of the Community Charter, Federal statutes, City By-Laws or any other contract or judgment enforceable by law.

4. Meets Accounting Standards

Reserves must meet generally accepted accounting principles (GAAP) and accounting standards applicable to local governments (PSAB).

Policy Administration

The Director of Finance shall be responsible to:

- Ensure the Reserve Funds are established and maintained in compliance with this Policy.
- Conduct an annual review of the Reserve Funds and report the results to City Council.
- On an “as required basis”, recommend revisions or amendments to this Policy, due to changes in applicable statutes, accounting standards, or economy.

Administrative Criteria

1. Unique Corporate Purpose

Reserves must have a unique and specific corporate purpose. Every effort must be made to:

- Reduce complexity by combining amounts with similar purposes
- Eliminating those with redundant or outdated purposes, and
- Re-focus departmental reserves to corporate purposes and strategic plans.

2. Interest and Calculation Method

All Reserves Funds will earn interest each year. Interest will be calculated based on the audited fund balance at the end of the prior year. The interest rate used will be the determined on an annual basis.

3. Minimum and Maximum Balances

A minimum and maximum balance shall be established for each Reserve Fund. A minimum balance will ensure that each fund is not depleted to the degree that it is no longer able to serve its intended purpose. A maximum balance ensures that it does not grow beyond its intended purpose.

4. Repayment Period

If funding is borrowed from a reserve, a time period shall be specified for the repayment or replenishment to its specified minimum or maximum balance.

5. Business Case Requirements

A business case shall be provided specifying the purpose, benefits and method of repayment for each proposed Departmental use of a reserve fund, except as provided by statute, City by-law or Council policy. A business case will be subject to the applicable budget, ranking or other prioritization process, and Council approval.

Reserve Funds

City of Victoria Reserve Funds are established under the authority of the Community Charter and are each supported by a bylaw that outlines the purpose and use of each fund.

A description of each of the different types of Reserve Funds covered by this policy is outlined below:

Financial Stability Reserves

Description

Financial Stability Reserves are required to ensure the ongoing financial stability and fiscal health, of all City Entities. Each reserve is funded from the year-end surplus from the appropriate entity (i.e. Operating Fund, Police Department). For the Water, Sewer and Stormwater Utilities, 50% of each utility's surplus are to be applied to the respective financial stability reserve until they reach target balances and the remainder to the respective equipment and infrastructure reserve.

- **Debt Reduction** – This reserve was established to provide a source of funds to finance internal borrowings, local improvements and paying down the City's outstanding debt. It is currently being funded from the City's share of surpluses identified in MFA Sinking Funds and payment holidays on debt issues.
- **Reserve for Insurance Claims** – This reserve was established to provide a source of funds for liability claims not covered under our Insurance Policies.

Guidelines for Using Funds

A Council Resolution or an Adopted Financial Plan Bylaw is required for all appropriations from the Financial Stability Reserve Funds.

All appropriations from Financial Stability Reserves are to be considered in accordance with the following priorities.

1. Operating and Environmental Emergencies

- These appropriations are the highest priority and are based on public safety and demand nature of the expenditure.

2. Revenue Stabilization and Operating Contingency

- These appropriations are intended to stabilize the impacts of cyclical revenue downturns and operating cost increases that are largely temporary and not within the City's ability to adjust in the short-term.

3. Innovation Fund

- As an incentive to encourage creativity and innovation, appropriations may be made to fund departments and/or workgroups that would like to explore innovative and creative solutions directed towards making the Corporation more efficient and effective.
- Business cases requesting use of these funds require that the replenishment methods be specified. These would include future departmental cost or service level adjustments or additional revenue generation necessary to "top up" the accounts over a three-year period.

Equipment and Infrastructure**Description**

Equipment and Infrastructure Reserves are established to create a funding source for buildings and infrastructure capital projects, new equipment purchases and capital equipment replacement programs. Currently, the city has established equipment and infrastructure reserve funds for the following purposes:

- **Police Vehicles, Equipment and Infrastructure** – This reserve is to fund the replacement and purchase of Police vehicles and equipment. This reserve is funded by annual budget contributions included in the Police operating budget.
- **Police Emergency Response Team Vehicles and Equipment** - This reserve is to fund the replacement and purchase of equipment for the Regional Emergency Response Team. The reserve is funded by the annual surplus from the ERT Program.
- **Victoria Conference Centre Equipment and Infrastructure** – This reserve was established to provide a source of funds to properly maintain the Conference Centre building and furnishings. This reserve is also used to fund equipment replacements and new equipment purchases. The reserve is funded by the annual surplus from the Conference Centre.
- **City Equipment** - This reserve is to fund the replacement and purchase of City equipment. This includes equipment replacement programs, computer equipment and software, office furniture, etc. This reserve is funded by annual budget contributions included in the City operating budget.
- **City Vehicles and Heavy Equipment** – This reserve is to fund the purchase and replacement of City vehicles and heavy equipment. This reserve is funded by annual budget contributions included in the City operating budget.
- **City Buildings and Infrastructure** – This reserve was established to provide a source of funds to properly maintain City Buildings and Infrastructure. This reserve is funded by annual budget contributions that are increasing by \$500,000 per year until the reserve attains an adequate funding level. This increase is subject to annual Council approval.
- **Parking Services Equipment and Infrastructure** – This reserve was established to provide a source of funds to properly maintain the City parkades. The reserve is also used to fund Parking Services equipment replacement and new equipment purchases. This reserve is funded from annual budget contributions included in the City's operating budget.
- **Multipurpose Equipment and Infrastructure** – This reserve was established to provide funding for equipment replacement and maintaining the Multipurpose Facility. This reserve is funded by annual budget contributions from the City's operating budget and RG Properties.
- **Recreation Facilities Equipment and Infrastructure** – This reserve was established to provide a source of funds to properly maintain City Recreation Facilities. The reserve is also used to fund equipment replacement and new equipment purchases for City Recreation Facilities. This reserve is funded from user fees assessed on tickets to events and facility rentals.
- **Archives Equipment** – This reserve is to fund the purchase and replacement of Archives material and equipment. The funding for this reserve comes from grants and donations.

- **Artificial Turf Field** - This reserve was established to provide a source of funds for replacement of the Finlayson field carpet and amenities and for future development of artificial turf fields. This reserve is funded from the fees collected from the rental of the Finlayson field.
- **Gas Tax** - The Governments of Canada, British Columbia and the UBCM entered into the Gas Tax Agreement on September 19, 2005. The Agreement is focused on achieving three environmental sustainability outcomes: reduced greenhouse gas emissions, cleaner water and cleaner air. The Community Works Fund provides annual contributions into this reserve.
- **Water Utility Equipment and Infrastructure** - This reserve was established to provide a source of funds to properly maintain the Water Utility Infrastructure. The reserve is also used to fund Water Utility equipment replacement and new equipment purchases. The reserve is funded by annual budget contributions from the Water Utility and 50% of the Water Utility's surplus until the target balance has been met within the Water Utility Financial Stability Reserve. Once the target balance is achieved, 100% of the surplus will be allocated to the Water Utility Equipment and Infrastructure Reserve.
- **Sewer Utility Equipment and Infrastructure** - This reserve was established to provide a source of funds to properly maintain the Sewer Utility Infrastructure. The reserve is also used to fund Sewer Utility equipment replacement and new equipment purchases. The reserve is funded by annual budget contributions from the Sewer Utility and 50% of the Sewer Utility's surplus until the target balance has been met within the Sewer Utility Financial Stability Reserve. Once the target balance is achieved, 100% of the surplus will be allocated to the Sewer Utility Equipment and Infrastructure Reserve.
- **Stormwater Utility Equipment and Infrastructure** - This reserve was established to provide a source of funds to properly maintain the Stormwater Utility Infrastructure. The reserve is also used to fund Stormwater Utility equipment replacement and new equipment purchases. The reserve is by annual budget contributions from the Stormwater Utility and 50% of the Stormwater Utility's surplus until the target balance has been met within the Stormwater Utility Financial Stability Reserve. Once the target balance is achieved, 100% of the surplus will be allocated to the Stormwater Utility Equipment and Infrastructure Reserve.

Guidelines for Using Funds

Use of equipment and infrastructure reserves is restricted to the following types of purchases:

- Major construction, acquisition, or renovation activities as defined in the Capital Asset Policy that add value to the municipal physical assets or significantly increase their useful life. Some examples include:
 - Renovation and construction projects pertaining to new or existing city buildings,
 - Renewal, replacement, enhancement or construction of city infrastructure, sewers, storm drains, water distribution systems, buildings, roads, sidewalks, traffic systems, parks, etc.
- Vehicles and heavy equipment, individual pieces of equipment and ongoing annual equipment replacement programs as defined in the Capital Asset Policy.

Note: A Council resolution or an adopted Financial Plan Bylaw is required for all appropriations from the Reserve Funds. Further, a Council Resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.

Employee Benefit Obligations

Description

Reserves for employee benefit obligations will be established where the City is incurring a retirement benefit liability or other employee related liability, which the City is obligated to pay at some future date. Current reserves established include:

- **Police Retirement Benefits** – This reserve is to fund retirement benefits (one months pay and vested sick leave) accrued to retiring Police officers. This reserve is funded by annual contributions included in the Police operating budget.
- **Police Employee Pension Buybacks** – Police employees are entitled to purchase additional pension service time related to their probation period, provided they were not covered by pension. The City is obligated to pay 50% of the cost once the employee retires or reaches 55 years of age. This reserve was established to fund the City's share of costs for employees purchasing pension service for probation periods. This reserve is funded by annual contributions included in the Police operating budget.
- **Police Pension Corporation Over Contributions** – This reserve was established to accumulate the City's share of Police pension over contributions. These amounts are payable to the employee upon retirement. This reserve is funded from pension contributions refunded to the City by the BC Pension Corporation.
- **City Retirement Benefits** - This reserve has been established to help fund retirement benefits (one months pay and vested sick leave) accrued to retiring City Employees. This reserve is funded by annual contributions included in the City's operating budget.
- **City Employee Pension Buybacks** - City employees are entitled to purchase additional pension service time related to their probation period provided they were not covered by pension. The City is obligated to pay 50% of the cost once the employee retires or reaches 55 years of age. This reserve was established to fund the City's share of costs for employees purchasing pension service for probation periods. This reserve is funded by annual contributions included in the City's operating budget.
- **City Pension Corporation Over Contributions** - This reserve was established to accumulate the City's share of Firefighter pension over contributions. These amounts are payable to the employee upon retirement. This reserve is funded from pension contributions refunded to the City by the BC Pension Corporation.

Guidelines for Using Funds

Use of funds is restricted to the purpose for which each fund was established. Funds may only be accessed to supplement funding a retirement payout.

Note: A Council resolution or an adopted Financial Plan Bylaw is required for all appropriations from these Reserve Funds. Further, a Council resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.

Development Cost Charges

Description

This reserve is required by the Community Charter to account for the proceeds from development cost charges levied against new developments. The reserve is funded from the proceeds of development cost charges levied.

Guidelines for Using Funds

Use of these funds is governed by the Development Cost Charge Bylaw and restricted to the funding approved projects as allowed by that bylaw.

Note: *An adopted Financial Plan Bylaw is required for all appropriations from this Reserve Fund. Further, an amendment to the Development Cost Charge Bylaw is required to create additional reserve fund categories, delete categories or shift funds between categories.*

Tax Sale Lands

Description

The Tax Sale Lands Reserve was established to account for proceeds from any sales of City land and buildings. This reserve is funded from all sales of City land and buildings.

Guidelines for Using Funds

These funds are available for building and land purchases and improvements, and capital expenditures required for preparing City properties to sell (i.e. remediation, servicing, etc.)

Note: *A Council resolution or an adopted Financial Plan Bylaw is required for all appropriations from this Reserve Fund. Further, a Council resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.*

Parks and Greenways Acquisition

Description

This reserve was established to provide a source of funds for purchasing Park Lands. It is currently funded from 10% of the proceeds of any City land sale.

Guidelines for Using Funds

These funds are available for purchasing park lands or lands to be developed into a park.

Note: *A Council Resolution or an adopted Financial Plan Bylaw is required for all appropriations from this Reserve Fund. Further, a Council resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.*

Local Amenities

Description

This reserve tracks and accounts for monies received from a developer, for public amenities related to specific developments (i.e. pathways, parks, docks, etc.). This reserve is funded from contributions by developers.

Guidelines for Using Funds

Use of these funds is restricted to the purpose for which each contribution was based on.

Note: *A Council resolution or an adopted Financial Plan Bylaw is required for all appropriations from this Reserve Fund. Further, a Council resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.*

Victoria Housing

Description

This reserve has been established to provide a source of funds to help fund housing projects including projects that fall under the Secondary Suite Incentive Program. The reserve is funded by annual contributions included in the City's Operating Budget.

Guidelines for Using Funds

Use of these funds is restricted to the funding of housing projects including those that fall under the Secondary Suite Incentive Program.

Note: *A Council resolution or an adopted Financial Plan Bylaw is required for all appropriations from this Reserve Fund. Further, a Council resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.*

Dockside Affordable Housing

Description

This is a reserve that has been established to provide a source of funds to help fund affordable housing projects in Dockside. The Dockside Master Development Agreement outlines certain requirements around affordable housing that the developer has to meet. There is an option to provide cash instead of the affordable housing requirements. Those funds would be put into this reserve. In addition, the reserve is funded by 20% of the building permit fees applicable to the Dockside development.

Guidelines for Using Funds

Use of these funds is restricted to the funding of affordable housing projects in Dockside.

Note: *A Council resolution or an adopted Financial Plan Bylaw is required for all appropriations from this Reserve Fund. Further, a Council Resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.*

Climate Action

Description

This reserve has been established to provide a source of funds for funding climate mitigation and adaptation strategies that target energy and GHG reductions associated with facilities or transportation of either City-owned assets or community public lands and services. This reserve is funded by the Climate Action Revenue Incentive Program (CARIP) grants.

Guidelines for Using Funds

Use of these funds is restricted to the funding of climate change initiatives.

Note: *A Council resolution or an adopted Financial Plan Bylaw is required for all appropriations from this Reserve Fund. Further, a Council resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.*

Art in Public Places

Description

This reserve has been established to provide a source of funds for art in public spaces and expand opportunities for artists and members of the public to participate in the process. The Arts in Public Places policy outlines the funding formula for this reserve.

Guidelines for Using Funds

Use of these funds is restricted to the funding of art in public places initiatives.

Note: *A Council resolution or an adopted Financial Plan Bylaw is required for all appropriations from this Reserve Fund. Further, a Council resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.*

Downtown Core Area Public Realm Improvements

Description

This reserve has been established to assist in funding improvements that tangibly and visibly improve the physical condition, appearance and function of the public realm within the Downtown Core Area and provide a public benefit to the overall surrounding area.

This reserve is funded by monetary contributions provided to the City of Victoria as part of the Density Bonus System described in the *Downtown Core Area Plan*. The *Downtown Core Area Plan* outlines the funding formula for this reserve.

Guidelines for Using Funds

Use of these funds is restricted to the funding of public realm improvements that support the objectives and policies of the *Downtown Core Area Plan*.

Note: *A Council resolution or an adopted Financial Plan Bylaw is required for all appropriations from this Reserve Fund. Further, a Council resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.*

Heritage Buildings Seismic Upgrades

Description

This reserve has been established to assist in funding a portion of the cost of seismic upgrading as part of the re-use, retrofit and conservation of eligible heritage buildings within the Downtown Neighbourhood.

This reserve is funded by monetary contributions provided to the City of Victoria as part of the Density Bonus System described in the *Downtown Core Area Plan*. The *Downtown Core Area Plan* outlines the funding formula for this reserve.

Guidelines for Using Funds

Use of these funds is restricted to funding a portion of the cost of seismic upgrading of eligible heritage buildings as described in the *Downtown Core Area Plan*.

Note: *A Council resolution or an adopted Financial Plan Bylaw is required for all appropriations from this Reserve Fund. Further, a Council resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.*

Park Furnishing Dedication

Description

This reserve has been established to assist in funding the maintenance costs of the capital assets acquired through the Park Furnishing Dedication Program.

This reserve is funded by monetary contributions provided to the City of Victoria as part of the total cost of the dedication. The maintenance contingency is a percentage of the amenity capital cost.

Guidelines for Using Funds

Use of these funds is restricted to funding the maintenance of the dedicated park furnishings over the estimated useful life.

Note: *A Council resolution or an adopted Financial Plan Bylaw is required for all appropriations from this Reserve Fund. Further, a Council resolution is required to create additional reserve fund categories, delete categories or shift funds between categories.*