



Reserve Fund Policy Review

March 26, 2015



Purpose of Review

- ◆ **Understand purpose of each fund**
 - Can any of the existing funds be eliminated or combined with another fund?
- ◆ **Target balances - how much is enough?**



Basic Assumptions

- ◆ **City intends to continue Financial Sustainability Policy**
 - Reserves are the primary capital funding strategy, in order to minimize the use of debt
- ◆ **To address target balances, we looked at:**
 - Guidelines from professional associations
 - Common practices of other jurisdictions
 - The City's stated intentions at the time a reserve was created
 - The City's subsequent actual practices
 - We assume that one goal of capital funding strategy is to minimize disruption to existing services and smooth out the financial demands on citizens



Reserve Funds

- ◆ **Our review focused on the 40 reserve funds identified in existing Reserve Fund Policy**
 - 14 primary reserve funds are established in a City Bylaw
 - 26 are subfunds of the primary reserve funds



Primary Purposes of City Reserves

- ◆ **Dedicated Revenue**

- Only purpose is to keep money separate until it is spent on designated purpose

- ◆ **Planned Future Obligations**

- Employee pensions and benefits

- ◆ **Risk Mitigation**

- Fiscal stability reserves, a cushion for risks such as revenue disruption or sudden, compelling expenditures

- ◆ **Planned Capital Funding**

- Saving in advance for capital expenditures allows debt to be avoided

Note: Risk and Capital funds have overlapping purposes:

- A healthy capital reserve also mitigates risk
- Capital funds that are responsible for a certain type of assets always have an element of risk for unplanned capital



Review of Reserve Fund Lineup

Fund Description	Primary Purpose of Reserve
<i>Funds recommended for elimination are in red italics.</i>	
Financial Management Reserves	
City Financial Stability Reserve *	Risk mitigation
Police Financial Stability Reserve *	Risk mitigation
Water Utility Financial Stability Reserve	Risk mitigation
Sewer Utility Financial Stability Reserve	Risk mitigation
<i>Begin to use Water/Sewer Fin. Stability Reserves.</i>	
Debt Reduction *	Risk mitigation
<i>Insurance Claims *</i>	Risk mitigation
<i>Working Capital Fund *</i>	Risk mitigation
<i>Combine Insurance Claims and Working Capital with City Financial Stability, and reclassify Debt Reduction Fund.</i>	



Review of Reserve Fund Lineup

Fund Description	Primary Purpose of Reserve
Equipment and Infrastructure Reserve	
Police Vehicles, Equip and Infrastructure	Planned capital funding
Emergency Response Team Vehicles/Equip	Dedicated Revenue Source
City Equipment	Planned capital funding
Archives Equipment	Dedicated Revenue Source
<i>Strategic Planning Initiatives</i>	Dedicated Revenue Source
<i>Move to City Equipment Fund.</i>	
City Vehicles and Heavy Equipment	Planned capital funding
Victoria Conf Centre Equip and Infrastructure	Planned capital funding
City Buildings and Infrastructure	Planned capital funding



Review of Reserve Fund Lineup

Fund Description	Primary Purpose of Reserve
Equipment and Infrastructure Reserve, continued	
Parking Services Equip and Infrastructure	Planned capital funding
Multipurpose Equipment and Infrastructure	Planned capital funding
Recreation Facilities Equip & Infrastructure	Dedicated Revenue Source
Artificial Turf Field (Topaz Park)	Dedicated Revenue Source
Gas Tax	Dedicated Revenue Source
Water Utility Equipment and Infrastructure	Planned capital funding
Sewer Utility Equipment and Infrastructure	Planned capital funding
Stormwater Utility Equipment and Infrastructure	Planned capital funding



Review of Reserve Fund Lineup

Fund Description	Primary Purpose of Reserve
Employee Benefit Obligation Reserve	
Police Retirement Benefits	Planned Future Obligations
Police Employee Pension Buybacks	Planned Future Obligations
Police Pension Corporation Over Contributions	Planned Future Obligations
City Retirement Benefits	Planned Future Obligations
City Employee Pension Buybacks	Planned Future Obligations
City Pension Corporation Over Contributions	Planned Future Obligations



Review of Reserve Fund Lineup

Fund Description	Primary Purpose of Reserve
<i>Economic Development Reserve</i> Move to Bldgs and Infrastructure Fund.	Dedicated Revenue Source
Development Cost Charges Reserve	Dedicated Revenue Source
Tax Sale Lands Reserve	Planned capital funding
Parks and Greenways Acquisition Reserve	Planned capital funding
Local Amenities Reserve	Dedicated Revenue Source
Victoria Housing Reserve	Dedicated Revenue Source
Dockside Affordable Housing Reserve	Dedicated Revenue Source
Climate Action Reserve	Dedicated Revenue Source
Art in Public Places Reserve	Dedicated Revenue Source
Downtown Core Area Public Realm Improvemts.	Dedicated Revenue Source
Heritage Buildings Seismic Upgrades Reserve	Dedicated Revenue Source

Target Balances – How much is enough?

Depends on primary purpose of reserve:

- ◆ **Dedicated Revenue**

- No target balance

- ◆ **Planned Future Obligations**

- Target balance based on actuarial analysis

- ◆ **Risk Reserves**

- Target balance based on Government Finance Officers Association (GFOA) guidelines
- Replenishment method should be included in policy



Risk Reserves

◆ General Operating Reserves

- Includes City Financial Stability, Police Financial Stability, Debt Reduction, Self Insurance, and Working Capital funds
- Target balance: 60 days General Fund operating expenses – \$24.5 million
- Current reserve balance exceeds this target
- Replenishment plan should be specified upon drawdown below target

◆ Police Financial Stability

- Agreement requires 2% of operating budget - \$940,000

◆ Water and Sewer Financial Stability

- 60 days of operating expenses (about 16.5%)
 - Water \$2.2 million
 - Sewer \$600,000
- Suggest committing at least 50% of operating surpluses until fully funded
- Eventually Stormwater Financial Stability Fund as well



Target Balances – How much is enough?

◆ Capital Reserves

- For ***major capital reserves***, target balance should be the sum of:
 - *Capital contingency* (minimum fund balance, not available for planned capital expenditures)
 - *Projected cash requirements* needed to fund capital program without borrowing
- For ***property acquisition reserves***, target balance should be based on representative acquisitions under formal acquisition strategy.



Capital Contingency – Suggested Approach

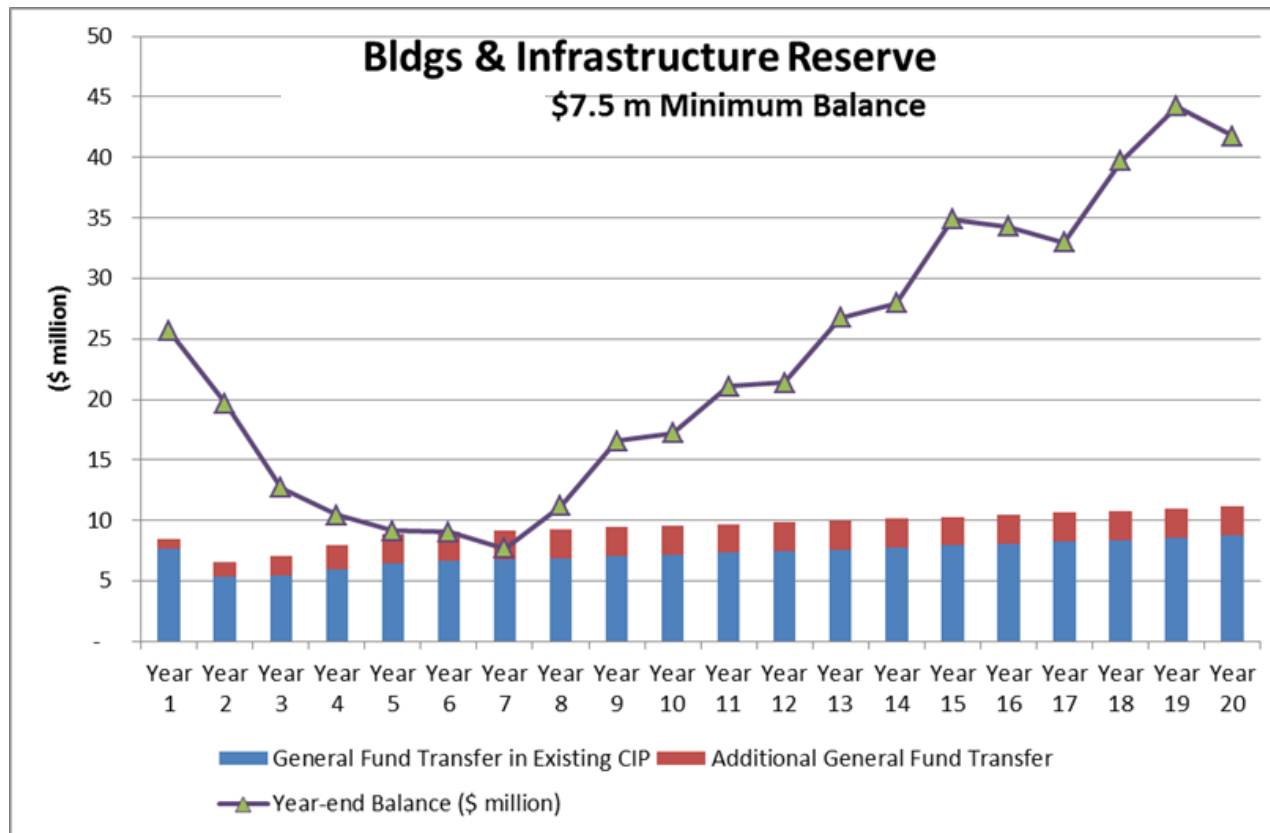
Major Capital Reserves:

Fund List	Est. 2013 Replacement Cost	Suggested Min. Reserve (% of Replacement Cost)	Implied Capital Contingency (rounded)
Police Vehicles & Equipment	\$ 11,528,760	0.30%	\$ 30,000
City Equipment	22,268,615	0.30%	70,000
City Vehicles and Heavy Equipment	29,315,846	0.30%	100,000
Victoria Conference Centre	91,034,100	0.50%	400,000
Buildings and Infrastructure	1,067,826,100	0.70%	7,500,000
Parking Services	53,467,525	0.30%	200,000
SOFMC Multipurpose Arena	67,613,914	0.50%	300,000
Recreation Facilities	25,466,572	0.50%	100,000
Water Equipment and Infrastructure	282,814,789	0.30%	800,000
Sewer Equipment and Infrastructure	332,482,665	0.30%	1,000,000
Total	\$ 1,983,818,886		\$ 10,500,000



Example of Capital Cash Flow Forecast

- ◆ Example Buildings & Infrastructure capital program about \$13-16 million/year, based on 2008 facilities assessment
- ◆ Cash flow forecast assumes \$7.5 million capital contingency
- ◆ The key question here is not reserve fund balance but General Fund transfer, shown by red & blue bars
- ◆ Blue bars show General Fund transfer currently shown in capital plan
- ◆ Red bars show additional General Fund transfer needed to fund \$13-16 million per year in capital spending





Target Balance – Major Capital Reserves

- ◆ **Formulas can be used for capital contingency, but there is no formula for the largest part of the target balance, which is the planned capital funding**
 - Frequent capital planning is an unavoidable responsibility that comes from policy of avoiding debt
- ◆ **We recommend that comprehensive system plans be updated at least every six years**



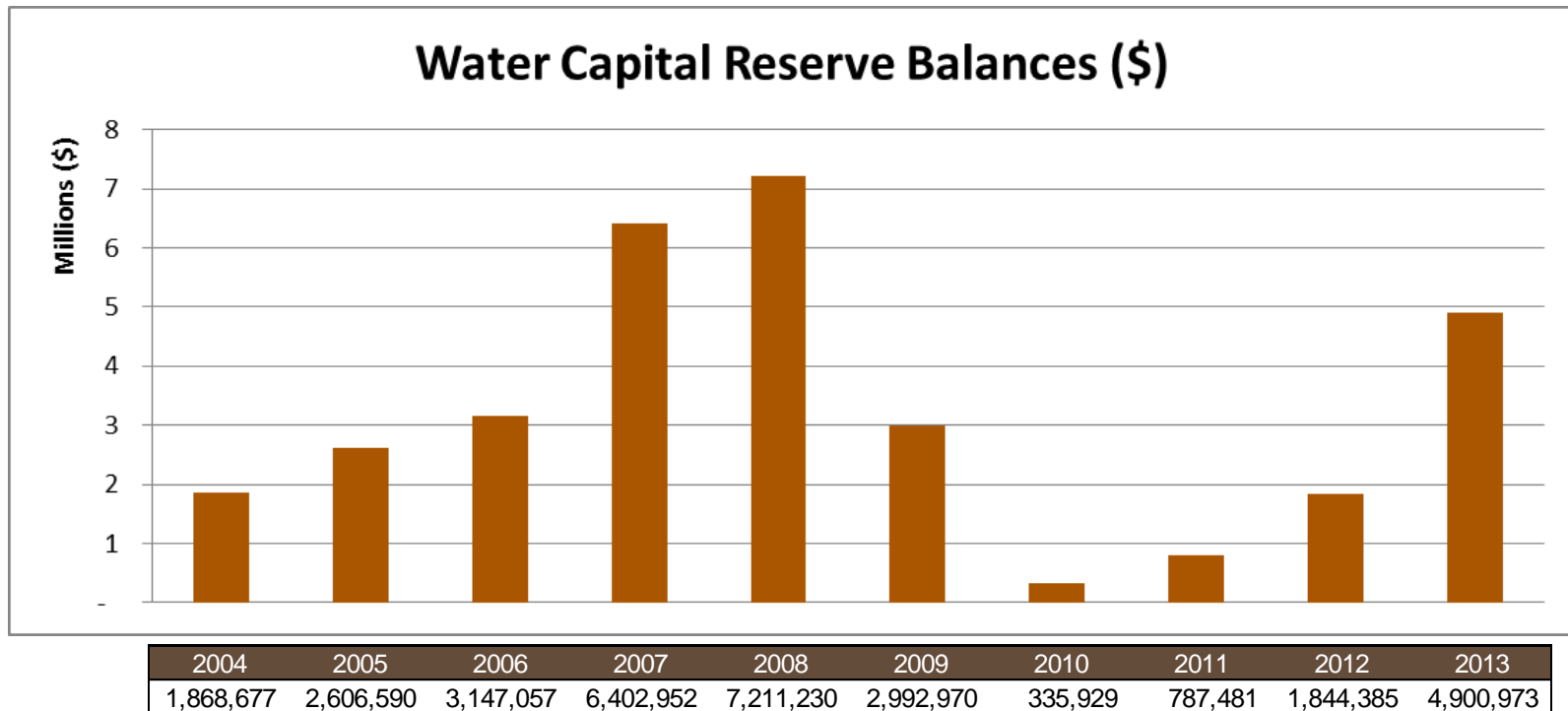
Target Balance – Property Acquisition Funds

- ◆ **Property acquisition funds should have target balance based on types of assets to be acquired, from formal acquisition strategy**
- ◆ **For example, Parks and Greenways strategy should have:**
 - List of target parcels or criteria for priority acquisitions
 - Suggested target balance is enough money to acquire three neighborhood park sites
 - Replenishment strategy should identify time frame and alternative source of funding if sales of City lands are insufficient



Reserves Are There to Be Used

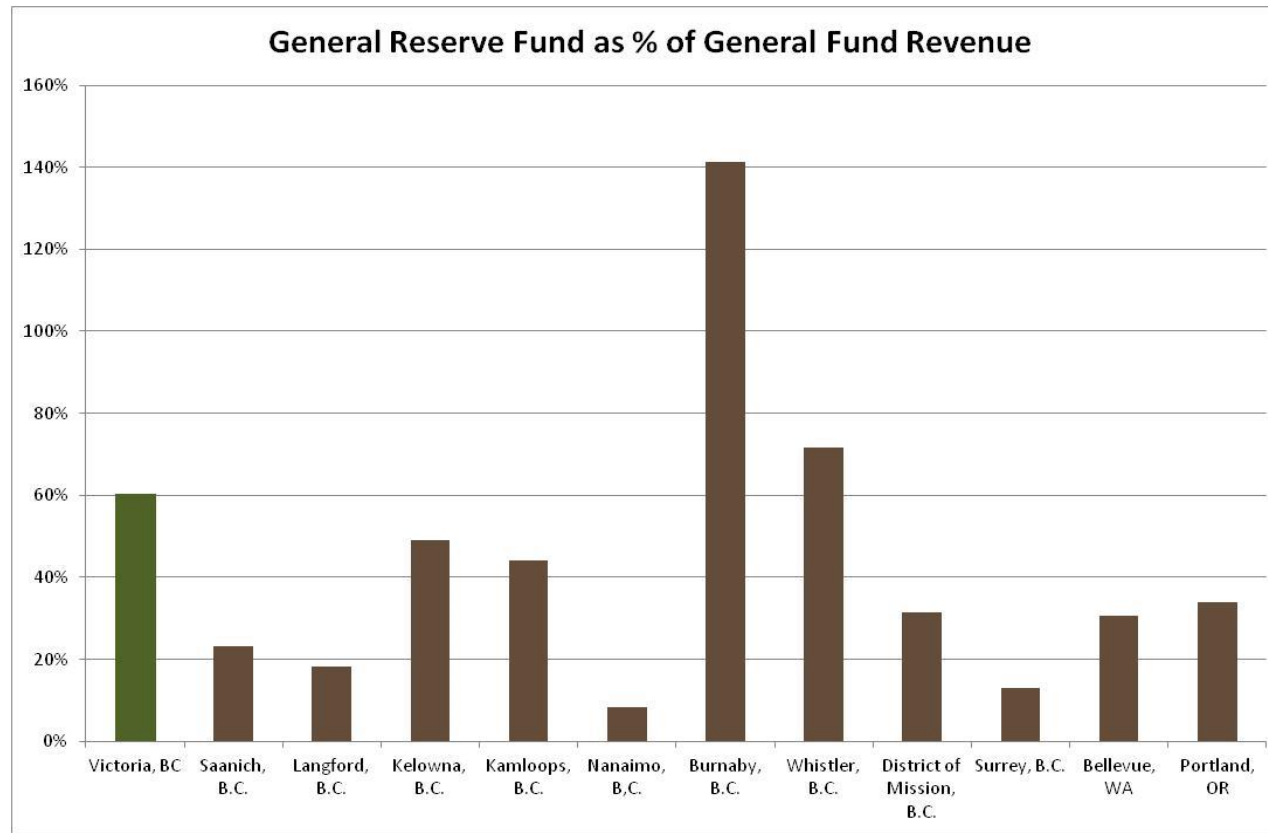
- ◆ For example, Water Capital Reserve fund balance grew until 2009-2010, when it was drawn down in a major water main replacement project
- ◆ Now being replenished again
- ◆ Fluctuations in a reserve balance simply mean that it is being used





Comparison with Other Jurisdictions

- ◆ **2013 General Operating and Capital Reserves as Percentage of General Revenue**
 - This measures conservatism in capital funding strategies and preparation for risks.
 - Victoria has among the highest percentages in this comparison pool





Summary Observations

- ◆ **General operating reserves are adequately funded in relation to GFOA Best Practices**
- ◆ **Water and sewer financial stability reserves should be funded also**
- ◆ **A few reserve funds can be eliminated or reclassified**
- ◆ **“Dedicated revenue” reserves do not need a target balance**
- ◆ **We recommend target balance formulas for risk reserves and capital contingencies**



Summary Observations

- ◆ **For major capital funds, target balance is sum of capital contingency and cash needed to fund capital program**
- ◆ **Victoria has a serious commitment to reserve funding of capital needs – Financial Sustainability Policy**
- ◆ **The City appears to do a good job of funding that commitment based on what is known**
 - However, gaps remain in what is known
- ◆ **Comprehensive system planning can address gaps in what is known, allowing target balances for major capital reserves to be forecasted**
- ◆ **For property acquisition reserves, target balance should be based on acquisition strategy**



Questions?

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