

Report from Financial Management Services, Director

Date of Report: March 27, 2018

Date of Meeting: April 16, 2018

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Subject: Reserve Policy for Agencies, Board and Commissions (ABC's)

Recommendation

That Council require each ABC's governance body to approve a reserves policy for each ABC reserve, that includes terms, conditions, funding sources, funding uses, restrictions, committed amounts, and targeted balances, and provide the policy to Council for their information; and

That Council receive an annual reserve report from each ABC receiving annual funding in excess of \$1 million from the City. The report will include year results, as well as qualitative and quantitative information on reserve purpose, funding sources, funding uses, restrictions, committed amounts, and targeted balances for each of the ABC's reserves.

Summary

Reserves are utilized by both the city operational areas and the City controlled ABC's. The legal, financial, and accountability relationships between City and its ABC's create complexity related to ABC's use of reserves. While there is no available guidance from St Catharine's comparators, the City's own use of reserve targets and reserve maximum balances has been referenced. Recognizing the relationship between Council and the ABC's, strengthening controls including policy and reporting will improve the transparency and accountability around all reserves under the direct and indirect control of Council.

Background

At the November 20, 2017 meeting, Budget Standing Committee (BSC) directed staff to create a policy of maximum reserves for Agencies, Boards and Commissions (ABCs) based on their operating budgets. This direction was confirmed by Council at its December 17, 2017 meeting when it approved this direction as part of the approval of the 2018 Operating Budget.

Report

The ABC's lawfully exist, have their own governance structures, and day to day operate independently from the City, however, they receive significant support from the City.

These ABC's are deemed to be under the control of the City (Council) as defined by Public Sector Accounting Board (PSAB) and are included in the City's consolidated financial statements. Council also approves the ABC's annual budgets allocations from the City.

In recent years, and as reported in the City's annual consolidated Financial Statements, Council has approved the creation of several City reserves with specific terms for funding use and target balances, to better support ongoing financial sustainability, totaling \$52.4 million at December 31, 2016. The City's ABC's also held smaller amounts of reserves totaling \$4.4 million, which resulted in consolidated reserves of \$56.8 million held to fund future expenditures. These balances have remained relatively consistent over the last five years. (see Appendix 1).

While an ABC's own governance committee has the authority and mandate to establish reserves to support ongoing financial sustainability, these reserves can impact the City's funding of the ABC. This situation highlights the need for clarity on how and when ABC's use reserves, including maximum reserve balances.

A scan of comparator municipalities, found that none of these municipalities have related policies. As an alternative approach, staff looked to the City's own reserve policies for guidance.

City reserve maximum targets, are based on the stipulated use of the reserve. The specific City reserves that fund large expenditures occurring unevenly year over year are; the Building Reserve, Fire Equipment Replacement Reserve, and Motor Vehicle Replacement Reserve. The targets for each of these reserves is set at 75% of the replacement value of the related assets the reserve funds. In contrast the tax stabilization reserve, which is available to fund unexpected operational needs, has a maximum target of 10% the annual total tax levies.

Establishing maximum balances for the ABC reserves requires detailed analysis of each reserve's terms conditions and funding sources. As these reserves have been in place for many years, their operation is guided by past practice. For example both the Port Dalhousie Business Association and the Transit Commission have a reserve funded from 3rd party donations and fundraising for specific capital and other special projects. The Transit Commission also allocates excess capital budget funding to a reserve to fund future capital. The St Catharines Downtown Association accumulates net operating surpluses in a reserve to fund future operating deficits and capital, reflecting the specified source of tax revenue that funds the association. The combined deficit for the last five years totals more than \$46,000 and the current reserve balance is 30% of the current year's expenditures.

The Library has the most significant ABC reserves (2016 -\$4.12 million), which it has utilized to fund both operating and capital. A portion of the ongoing reserve funding

resulted from contributions to the reserve that were equivalent to the debt servicing no longer required after the library debt matured in 1978. These reserves have then been used to fund capital maintenance of the city owned library occupied buildings. The Library is in the process of developing formal reserve policies, which include maximum reserve balances. The Library intends to present these policies to its board for their approval in April 2018. The provision of these policies along with annual reporting of reserve activity, would support Council's oversight on these reserves.

Reporting on reserves, is currently provided within the annual presentation of the City's consolidated audited financial statements. While the City also presents annual reporting on its reserves including purpose, targets, funding sources and uses, the same information is not provided for the ABC's reserves. The reporting of year end results for ABC's receiving City funding in excess of \$1 million, including ABC reserves information for would provide reporting that reconciles to the City's consolidated financial statements.

Financial Implications

While the funding to and from reserves directly impacts the City's budgets and funding of capital and other expenditures, there are no specific financial implications resulting from this report.

Relationship to Strategic Plan

The prudent use of reserves can result in improved financial flexibility and supports the City's economic sustainability.

Conclusion

As a result of the unique relationship between the City and its ABC's, reserves maintained by ABC's may directly impact the City's funding of these entities. Accountability and transparency related to the use of reserves by ABC's and the City can be improved through confirmation of reserve terms and conditions and annual reporting on all reserve activity.

Attachments

Appendix 1 - Reserve Balances

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City of St Catharines
Reserve Balances
(in \$000)

	2012	2013	2014	2015	2016
City	\$ 72,172	\$ 54,819	\$ 54,544	\$ 46,570	\$ 52,217
Library	2,729	2,886	3,267	3,683	4,115
Transit	277	287	154	79	138
Paratransit Capital Purpose	251	124	135	90	146
Business Improvement					
Downtown Association	85	45	92	90	108
Port Dalhousie	21	17	16		
Consolidated Reserves					
(note 11 of Financial Stmts)	\$ 75,641	\$ 58,240	\$ 58,316	\$ 50,617	\$ 56,843