

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 20, 2012

Item 2, Report No. 11, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on November 20, 2012.

2 CONSOLIDATED RESERVE POLICY & RECOMMENDATIONS

The Finance and Administration Committee recommends:

- 1) That the recommendation contained in the following report of the Commissioner of Finance & City Treasurer and the Director of Budgeting & Financial Planning, dated October 29, 2012, be approved; and**
- 2) That the presentation by the Director of Budgeting & Financial Planning, and C2, presentation material, be received.**

Recommendation

The Commissioner of Finance & City Treasurer and the Director of Budgeting & Financial Planning, in consultation with the City Manager and the Director of Internal Audit recommend:

1. That the Consolidated Reserve Policy be approved and supersede other prior reserve policies; and
2. That the recommended additional reserve policy adjustments for consideration be approved; and
3. That the realignment of infrastructure reserve balances as outlined in this report be approved; and
4. That the redistribution of amounts between specific reserves as outlined in this report be approved.

Contribution to Sustainability

Reserve funds play a very important role in the City's finances and provide a strong indicator of the City's overall financial health. One of the key attributes of financial sustainability is appropriate reserve fund levels. Adequate reserve balances provide financial flexibility, mitigate risk, weather uncertainty, and ensure the ongoing financial stability of the Corporation. Reserves are also leveraged to sustain City infrastructure, support programs and form an important part of the City's financial strategies. The attached policy provides reserve fund guidance and supports financial sustainability.

Economic Impact

There are no economic impacts as a result of this report.

Communication Plan

Upon approval, the Consolidated Reserve Policy will be incorporated within the City of Vaughan's policy manual. In addition, this policy will support the City's budget process and be referenced in future budget guidelines, instructions and deliberations.

Purpose

To obtain Council's approval of the Consolidated Reserve Policy, additional reserve policy adjustments, the realignment of infrastructure reserve balances, and the redistribution of specific reserve amounts.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 20, 2012

Item 2, Finance Report No. 11 – Page 2

Background – Analysis and Options

1. Consolidated Reserve Policy

The majority of the City's reserve policies have existed for over a decade and therefore a review was in order. In addition, existing reserves policies are currently supported by separate by-laws, council items, and traditional practices and it was necessary to consolidate all reserve policies under one policy to ensure a consistent framework and a central reference document. The policy is intended to assist in the administration of reserve funds and establish consistent guidelines and standards. The key aspects of current Council approved policies and practices were incorporated into the new Consolidated Reserve Policy framework.

The Consolidated Reserve Policy consists of two sections. The first section is the Policy Section which provides an overview and guidance on general principles and topics that apply to all reserve funds. These topics include:

- Reserve Fund Classifications and Types
- Guiding Principles
- Reserve Contributions
- Operating Surplus and Reserve Balances Exceeding Target
- Interest
- Withdrawal/Transfers
- Temporary Reserve Borrowing
- Reserve Levels and Targets
- Reserve Development or Policy Amendments
- Monitoring and Reporting
- Policy Review

The second section titled "Policy Appendix" provides more detailed guidance related to specific reserve funds. Due to the number of reserve funds, it was necessary to organize reserves into categories and types. For each category and type, an overview was developed and, where possible, similar policy traits were consolidated and summarized. Illustrated below are the categories and types supporting the policy:

Discretionary Reserve Funds

- A. Sustainability
- B. Infrastructure Renewal
- C. Corporate Reserve
- D. Special Purpose

Obligatory Reserve Funds

- E. City-Wide Development Charge
- F. Area Specific Development Charge
- G. Restricted Grant Funding

Where applicable, for each reserve the following detail was illustrated:

- Purpose and intended use
- Annual withdrawals/transfers
- Reserve min/max targets
- Funding sources
- If required, specific reporting or guiding legislation references

Specific Policy detail related to the above is provided as Attachment # 1 – Consolidated Reserve Policy.

2. Recommended Additional Reserve Policy Adjustments for Consideration

Given the time that has elapsed since the City's last review of reserves, it is appropriate to reflect on existing reserves and consider opportunities for improvement and efficiency. Below are recommended actions:

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 20, 2012

Item 2, Finance Report No. 11 – Page 3

A. Create an Innovation Reserve:

Purpose: A cornerstone of an effective organization is its ability to identify and implement innovative opportunities.

Intended Use/Limitations: This reserve is intended to provide seed funding for innovative value propositions, which require upfront investment. Eligible projects will require a business case including payback and recovery metrics. This is to ensure there is accessible funding for future projects. (If adopted, a formal process for accessing these funds through annual budgets will be developed)

Annual withdrawals – Determined through the budget process.

Target: A maximum of \$5 million

Funding Source: Year-end city operating surplus. (Initial funding for this reserve is discussed in a later section of this report).

B. Create an Information Technology Asset Replacement Reserve:

Purpose: Information Technology assets are very similar to the other City assets and should be treated consistently by reserving funds for their eventual repair and replacement.

Intended Use/Limitations: To fund repair and replacement costs associated with City information technology infrastructure, including computers, telephones, and central computing items (e.g. networks, servers, etc.). Software upgrades and computing peripheral devices are excluded.

Target: **a balance equivalent to accumulated amortization for the reserve asset class**

Funding Source: Dedicated annual contributions, and subject to existing policies. (It is recommended that existing annual funding in the capital from taxation budget, approximately \$1m, be converted to a dedicated reserve contribution).

C. Expand the Roads Reserve Purpose:

It is recommended the Roads Reserve's intended use be expanded to include relevant road appurtenances, such as streetlights, traffic signals, guardrails, curbs, traffic signals, etc. This will become the primary funding source for these items as Roads and Bridges are primarily funded through debentures and gas tax. Contributions will be review once better forecasting and history is established.

D. Merge the following Reserves:

- Building and Facilities Pre 1999 Reserve and Post 1998 Reserve (ref. # 601170 & 601171). Funds for these reserves are used for the same purpose and tracking projects separately is administratively difficult.
- Uplands Reserve and Uplands Capital Improvement Reserve (ref. # 60195 & 90196). There is an updated agreement and no longer a need to maintain two reserves.
- City-Wide Library and City Wide Material Reserves (ref. # 620040 & 62050). Merging these reserves together is consistent with the development charge fee and collection practices. Allocations and component tracking can be conducted internally, similar to other development reserves.

E. Operating Surplus Allocation:

The current policy for operating surplus allocation specifies that, after the first \$2.5 million of the annual operating surplus has been applied to the following budget year to reduce pressure on the tax rate, the balance of any surplus will be allocated on a 50/50 basis to the Tax Rate Stabilization Reserve and the Working Capital Reserve.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 20, 2012

Item 2, Finance Report No. 11 – Page 4

Staff now recommend that the list of priority reserves eligible for an allocation of annual operating surplus be expanded to include the Post Retirement Reserve, Infrastructure Reserves and the Innovation Reserve. This methodology will allow flexibility to address changing priorities and assist in moving the individual reserve balance towards the target level.

F. Remove Inactive Reserve Accounts:

After conducting a review, there were a number of zero balance reserves resulting from inactivity or their initial purpose was achieved. As a result it is recommended the following reserves be removed.

Transit Reserve (Ref # 60160)	Vaughan Hospital Reserve (Ref # 61033)
Curb Cuts Reserve (Ref # 61018)	Pine Valley Sanitary Relief (Ref # 63000)
PD6 Watermain (Ref # 63020)	Western Maple Sub Trunk Sanitary (Ref # 63030)
Maple Collector (Ref # 63050)	Western Maple Sub Trunk (Ref # 63040)
City Wide- City Hall (Ref # 64000)	Langstaff Road Watermain (Ref # 63100)
City Wide- ITS (Ref # 64010)	Concord Trunk – Segment 1 (Ref # 63151)
City Wide- Financing (Ref # 64020)	Concord Trunk – Segment 2 (Ref # 6315)
Clarence St. Sanitary (Ref # 63010)	

3. Recommended Realignment of Infrastructure Reserve Balances

The identification of infrastructure needs and the resulting infrastructure funding within the City of Vaughan has evolved over time and as a result some asset classes have received different funding contributions. Based on a review of infrastructure reserves, it is apparent there is a level of inequity when comparing life cycle needs vs. available balances. It is therefore recommended for infrastructure reserve balances to be realigned based on their associated proportion of future requirements. Future requirements are based on lifecycle replacement timing and estimate funding needs over the next 5 years. The following table summarizes the findings:

<i>Infrastructure Reserve</i>	<i>2012 Opening Balance</i>	<i>% of 5 yr Spend Est.</i>	<i>*5 yr Spend Est. % \$</i>	<i>Realignment</i>	<i>New Balance</i>	<i>% of 5 yr Spend Est.</i>
Vehicle Replacement	2,410,071	36%	17% 6,647,582	924,345	3,334,416	50%
Fire and Equipment	3,430,191	81%	11% 4,259,455	(1,293,655)	2,136,536	50%
Heritage Fund	470,922	18%	7% 2,582,950	824,682	1,295,603	50%
B&F	13,463,440	82%	41% 16,382,207	(5,246,152)	8,217,289	50%
Parks Infrastructure	128,230	1%	25% 9,806,671	4,790,780	4,919,010	50%
Total	19,902,854	50%	100% 39,678,865	-	19,902,854	50%

** Based on Life Cycle timing estimates*

Note: City Playhouse and Uplands are excluded as they are supported through revenue based contributions.

4. Recommended Redistribution of Specific Reserve Amounts

In reference to the recommended reserve policy, discretionary reserve balances are reviewed in context of the reserve policy targets. Based on this analysis, there is an opportunity to redistribute balances from four reserves. These reserves and associated redistribution amounts are as follows:

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 20, 2012

Item 2, Finance Report No. 11 – Page 5

<i>Reserve</i>	<i>Target</i>	<i>\$ to Redistribute</i>
General Working Capital	10% own source revenue	\$ 6,150,000
Tax Rate Stabilization	10% own source revenue	\$ 830,000
Winterization Reserve	1/3 rd of the 4 yr Winter Division annual avg.	\$ 2,600,000
Debenture	*Mitigation Plan/ 10% of debenture costs	\$ 10,750,000
Total		\$ 20,330,000

** Note: A balance remains to mitigate incremental debenture payments, until debenture terms begin to roll (2017/18).*

It is recommended for the above mentioned balances to be allocated to the following reserves:

<i>Reserve</i>	<i>Allocate \$</i>	<i>Comments</i>
Innovation Reserve	\$ 2,500,000	To provide seed funding for new innovative reserve to fund value propositions, which require upfront investment.
Post Employment Benefit Reserve	\$ 9,500,000	This is a growing requirement in the City. Actuarial estimate totals \$66.3m and growing. Current reserve balance is \$11m.
Infrastructure Reserves	\$ 8,330,000	Infrastructure funding is an ongoing concern for most Canadian municipalities. Allocating a portion of this balance to infrastructure reserves will assist in reducing the funding gap.
Total	\$ 20,330,000	

The allocation of the \$8.330m to infrastructure reserves is based on the same logic as the alignment of infrastructure reserve balances.

<i>Reserve</i>	<i>*Adj. Resv. \$</i>	<i>Redistribution</i>		<i>Revised Resv. \$</i>	<i>% of Spend Est.**</i>
Vehicle Replacement	3,334,416	1,395,563	17%	4,729,979	71%
Fire and Equipment	2,136,536	894,211	11%	3,030,746	71%
Heritage Fund	1,295,603	542,253	7%	1,837,856	71%
B&F	8,217,289	3,439,206	41%	11,656,495	71%
Parks Infrastructure	4,919,010	2,058,768	25%	6,977,778	71%
Total	19,902,854	8,330,000	100%	28,232,854	71%

Relationship to Vaughan Vision 2020

The above recommendations are consistent with the City's overarching goal of organizational excellence and specifically relate to financial planning and asset management corporate initiatives.

Regional Implications

There are no Regional implications associated with this report.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 20, 2012

Item 2, Finance Report No. 11 – Page 6

Conclusion

The Budgeting and Financial Planning department have undertaken a review of the City's reserve funds. As a result the following recommendations have been developed for Council consideration, which include:

- An updated and consolidated reserve policy
- Additional reserve policy adjustments for consideration
- Realignment of infrastructure reserve balances
- Redistribution of specific reserve amounts

The above recommendations are consistent with the City's overarching goal of organizational excellence and specifically relate to financial planning and asset management corporate initiatives.

Attachment

Attachment 1 – Consolidated Reserve Policy

Report prepared by:

John Henry, CMA
Director of Budgeting & Financial Planning
Ext. 8348

Jackie Macchiusi, CGA
Capital and Reserve Supervisor
Ext. 8267

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)