

# 2021 Reserves Review

City Council  
*December 6, 2021*

# Agenda

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Reserves Overview

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Closure of Reserves

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Proposed Reserves

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Policy Amendments

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Financial Stabilization Reserve - Risk Based Review

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# Reserves Overview

- Reserves are holding accounts with funds set aside for a specific program or use:
  - Specific purpose
  - Regulatory/3rd party requirement
  - Stabilization
- Funded through tax-levy or other specific revenue sources
- Amounts not used during the year remain in the reserve for future years use
- Use of reserve funds is limited to a specific usage determined by:
  - Council (sometimes through approved policy)
  - 3rd party agreement or prescribed legislation

# Reserves Overview (Continued)

- Reserve Controls
  - System of internal controls to guide, monitor and update reserves
  - Council has sole authority to create or close reserves
  - Use and funding of reserves approved by Council
- Reserves Review
  - Conducted every three years
  - Prudent financial management and best practice
  - Confirms appropriateness of balances and transactions
  - Analysis of the City's financial risk exposure as part of the Financial Stabilization Reserve review
  - Assesses organizational requirements to add or close reserves

# Closure of Reserves

## Telus Field Capital Reserve

- Established in 2004 as required through a licensing agreement.
- License fees to be held to pay for structural repairs at Telus Field (now RE/MAX Field).
- Licensing agreement has ended and no requirement to hold license fees to cover repair costs.
- Recommending closure - **Recommendation # 1**

## Enterprise Portfolio

- Established in 2000 as a part of City Policy *C479 Fiscal Policy for the Enterprise Portfolio - Community Services*:
  - manage revenue fluctuations
  - fund business development opportunities
- On April 19, 2021 Council repealed City Policy *C479 Fiscal Policy for the Enterprise Portfolio - Community Services*.
- Recommending closure and transfer of existing funds of \$1M to Financial Stabilization Reserve - **Recommendation #2**

# Proposed Reserve

## Commercial Revitalization Reserve

- Combines three complementary programs that support economic revitalization in Business Improvement Areas:
  - Storefront Improvement
  - Development Incentive
  - Corner Store
- Includes the consolidation of two existing reserves:
  - *Development Incentive Reserve*
  - *Storefront Improvement Reserve*.
- **Recommendation #3** in the report

# Policy Amendments

- Repeal Policy *C217D Reserve and Equity Accounts*, and replace it with Policy *C217E Reserve and Equity Accounts* (**Recommendations #4 & 5**), with the following changes:
  - Add a Reserve Register:
    - List of all City reserves - purpose and description
    - Key policy & guidance documents for each reserve
    - Allowable and non-allowable expenses
  - Clarification on authorization and use of reserve funds (Expenditure Authority Framework),
  - Clarity on monitoring and reporting process
  - Separate policy for the Financial Stabilization Reserve (*C629 Financial Stabilization Reserve*).

# New Policy - Financial Stabilization Reserve (FSR)

- Establishment of Policy, *C629 Financial Stabilization Reserve* (**Recommendation #6**)

## Existing policy highlights:

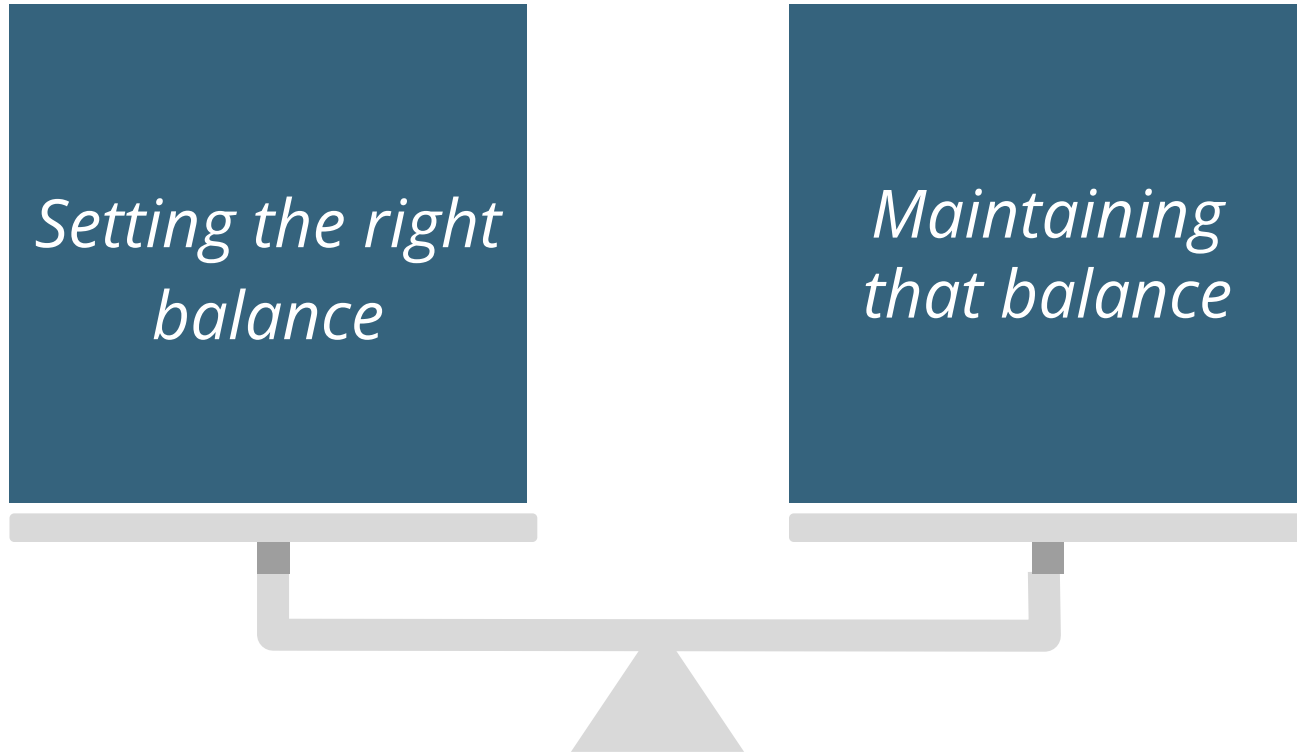
- Annual tax-supported operating surplus is transferred to the unappropriated FSR.
- Tax-supported deficit is a reduction to the unappropriated FSR.
- Used to fund one-time emergent items (not recommended to be used to fund ongoing items).
- Minimum and target balances based on tax-supported operating expenses.
- Risk based review - every 3 years.

## New policy highlights:

- **Carryforward of all existing policy points**
- Standalone policy from *C217D Reserve and Equity Accounts*,
- Clarity of definitions including unappropriated and appropriated,
- Added guidance of approval of funds from reserves (Expenditure Authority Framework).



# Financial Stabilization Reserve



# Financial Stabilization Reserve

Financial Stabilization Reserve  
Unappropriated  
2012-2021



# Financial Stabilization Reserve

## Risk Based Review



### Guidance

GFOA - Research & Consulting Centre

Internal subject matter experts

City's Enterprise Risk Management



### Application

Identification of significant risks:

- Extreme events
- Revenue stability
- Expenditure volatility
- Capital funding & delivery
- Leverage



### Assessment

Financial exposure quantification

Adjust for:

- Likelihood
- Mitigation

# Financial Stabilization Reserve

## Risk Exposure (in \$ millions)

Risk Category	Minimum Exposure (Minimum)	Maximum Exposure (Target)
Extreme Events	\$ 5.3	\$ 22.4
Revenue and Expenditure Volatility	\$ 59.3	\$ 143.9
Capital Funding	\$ 27.5	\$ 70.0
Leverage	\$ 8.8	\$ 17.6
<b>Potential Balances</b>	<b>\$100.9</b>	<b>\$ 253.9</b>
Percentage of Tax-Supported Expenses*	4.6%	11.5%

\*2020 Tax-Supported Operating Expenses\*\* \$2,207.3

\*\*Based on 2020 City of Edmonton Consolidated Financial Statements, excluding non-cash items (e.g. amortization)



**i** Questions?