

# Reserve Allocation to Address Snow Removal Cost Volatility

Appropriation within the Financial Stabilization Reserve

## Recommendation:

That an allocation within the Financial Stabilization Reserve, specific to snow and ice control, following the principles outlined in Attachment 2 of the December 10, 2010, Finance and Treasury Department report 2010FTF056, be approved.

## Report Summary

**This report outlines a reserve allocation mechanism to assist in managing the financial risk and volatility related to annual snow and ice control expenses.**

## Report

Uncontrollable fluctuation and volatility of expenses within the annual operating budget are a challenge to manage. The City has established a general Financial Stabilization Reserve as one strategy to provide financial flexibility and manage risk. More specifically, financial strategies have been introduced to help to manage the volatility with respect to streams such as planning revenues and investment earnings.

The snow and ice control activity is managed based on the service standards set out within City Policy C409F - *Winter Road Maintenance Program*. Expenses relating to Snow

and Ice Control are somewhat volatile and are beyond the City's control.

## Budget for Snow and Ice Control

The comprehensive snow policy (now C409F - *Winter Road Maintenance Program*) was adopted by City Council on March 20, 2007, with the significant increase in funding to meet the revised policy addressed as part of the 2008 operating budget. The budget has been adjusted in subsequent years for changes to service level requirements. A table in Attachment 1 provides the prior five year financial history of the snow and ice control activity, along with the actual accumulation of snowfall and number of occurrences. The 2010 budget and level of expenses projected to the end of the year is also included.

A number of factors influence the program costs including the snowfall amount, number of snowfall occurrences, freeze/thaw cycles, the temperature at the time and when the snowfall occurs. Environment Canada's 30 year historical data is used to determine the budget required to meet the service standard as set out in the policy in an average year.

The annual operating budget now incorporates funding for nine major snow storms, with a normal snowfall per year of 123.5 centimetres. Generally, a major snow storm requires a general cycle of plowing using all City equipment with hired equipment required for six of the nine major storms.

## Snow Removal Reserve - History

A separate snow removal reserve was in place from 1984 to 2002. However, the annual operating budget for snow removal was not adequate at that time

to address a normal winter. Therefore, the reserve did not have a reasonable expectation of replenishment and expenditure variances were managed at a corporate level instead.

In 2002, the snow removal reserve balance of \$7.5 million was consolidated with the Financial Stabilization Reserve as an outcome of the *2002 Reserve and Equity Review* approved by City Council. The *2002 Reserves and Equity Review* focused on maximizing the flexibility of the reserve holdings through consolidation where possible, and move toward a recommended level in the Financial Stabilization Reserve, available to address emergent financial issues corporately.

A report to Council in March 2010 reiterated managing any variances from snow and ice control from a more general corporate perspective utilizing the Financial Stabilization Reserve. The perspective being provided here continues to support maximizing corporate flexibility but also acknowledges more specifically the significant financial variability of snow and ice control expenses within the annual operating budget.

### Snow and Ice Control Reserve Allocation

Administration is recommending that the net surplus or shortfall for the snow and ice control activity be transferred annually to a balance specifically allocated within the Financial Stabilization Reserve. The balance allocated will be used to assist in funding years when expenditures greater than that for an average winter are required.

The reserve allocation for this purpose would be capped at a level considered adequate to fund two significant snow events – currently estimated at \$12 million, with that maximum level to be inflation adjusted annually.

A more complete listing of the recommended principles for the establishment and management of the reserve allocation have been provided in Attachment 2 to this report. The annual transfer would be completed based on the principles. Quarterly financial performance reporting will be augmented to provide financial information specific to the snow and ice control activity and the projected transfer to/from the reserve allocation.

The allocation for snow and ice control will continue to form part of the Financial Stabilization Reserve for purposes of comparison against the minimum and target levels set by policy for the reserve.

### **Policy**

C217B – *Reserve and Equity Accounts*

### **Focus Area**

This report contributes to building organizational capacity focus area of the governance outcome area.

### **Justification of Recommendation**

The specific reserve allocation for snow and ice control will provide a mechanism to manage the related financial cost fluctuations annually.

### **Attachments**

1. Snow and Ice Control Trends
2. Principles for Reserve Allocation with Respect to Snow and Ice Control

**Others Approving this Report**

- R. Boutilier, General Manager,  
Transportation Department

### Snow and Ice Control Trends

Table 1 displays the operating result of the Snow and Ice Control program in relation to the accumulation of snowfall and the number of snow occurrences for 2005 to 2009.

<b>Table 1 - Snow and Ice Control</b>					
<b>Year</b>	<b>Budget \$000's</b>	<b>Actual \$000's</b>	<b>Year-end Variance \$000's</b>	<b>Snowfall (cm)</b>	<b>Snowfall occurrences (#)</b>
2005	22.3	21.7	0.6	85.9	66
2006	28.4	37.1	(8.7)	135.4	62
2007	32.7	34.6	(1.9)	112.4	75
2008	49.1	46.6	2.5	99.6	97
2009	49.7	49.3	0.4	141.0	103
2010*	44.4	40.4	4.0	50.6	61

\* Year-end projections are as of September 30, 2010 reporting. Snowfall accumulation and number of occurrences are as of October 31, 2010.

## Principles for Reserve Allocation with Respect to Snow and Ice Control

The following are general principles for the recommended reserve allocation for snow and ice control within the Financial Stabilization Reserve:

1. The snow and ice control budget is intended to be maintained at a level adequate to meet established service standards for an **average** winter, based on Environment Canada's 30 year historical data for Edmonton.
2. The reserve allocation is intended to relate to snow and ice control only (excludes spring cleanup, pothole repair and other maintenance).
3. The reserve allocation is not intended to fund service beyond the level endorsed within City Policy C409F - *Winter Road Maintenance Program* or to circumvent the City's operating or capital budget approval processes.
4. Any net variance for snow and ice control is to be transferred annually to the financial stabilization reserve and allocated (earmarked) to manage future financial volatility of snow and ice control expenses, with the following constraints:
  - The allocation within the financial stabilization for this purpose is to be capped at a maximum level of \$12 million in 2010, with the maximum level to be adjusted annually by the percentage change in the Edmonton CPI (November from November of the previous year).
  - Any related transfer to the reserve will not exceed the overall City tax-supported operating surplus for the year.
  - Any related transfer from the reserve will not exceed the balance of the reserve allocated for this purpose.
5. Expenditures and revenues related to snow and ice control will be segregated within the financial system to support periodic reporting. Quarterly financial performance reporting will include specific information relating to the year to date and projected net expenses and reserve transfer for the snow and ice activity.
6. The balance allocated within the Financial Stabilization Reserve for this purpose is to be included in the comparison against the minimum and target levels, as set out within City Policy C217B *Reserve and Equity Accounts*, for the Financial Stabilization Reserve.
7. The reserve allocation principles for snow and ice control will be specifically reviewed in the next general reserve review scheduled for 2012.