



City of Richmond

Report to Committee

To: Finance Select Committee
From: Andrew Nazareth
Manager - Budgets & Accounting
Re: **Statutory Reserve acceptable levels**

Date: June 10, 2002
File: 0905-01

Staff Recommendation

That the report to Committee (dated June 10, 2002 from the Budgets & Accounting department) regarding the acceptable levels for Statutory Reserves with options for increasing the current balances be received for information.

Andrew Nazareth
Manager - Budgets & Accounting

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Staff Report

Origin

At the Finance Select Committee Meeting of May 16, 2002 staff were directed to prepare a report on (i) acceptable levels for the Statutory Reserves and (ii) options on how to increase the current balances to the acceptable levels. As well, staff were requested to provide information on what the City would be bound by with respect to legislation.

Analysis

The attached Appendix A provides a listing of the Statutory Reserves current balances, the recommended acceptable levels, resulting shortfalls and current funding sources. The following explains the rationale behind each of the Statutory Reserve recommended balances and also recommends options for increasing the current balances:

1. Affordable Housing – this reserve is required to immediately respond to affordable housing issues and opportunities that arise and which are related to Council's current affordable housing priorities (ex. seniors supportive housing, homelessness, family housing and ongoing policy development on housing issues).

The reserve is currently adequately funded at \$3.8 million, however, we do **recommend that the City should be active in seeking out further private sector and government contributions. As well, the City should engage in fund raising events on an as needed basis.**

2. Capital Reserve – there are two sub-funds in this reserve. The Revolving Fund is the internal bank that lends funds for major capital projects and is repaid over 12 years with interest from the Operating Budget. On the other hand, the Industrial Use Fund is primarily utilized for strategic land acquisition.

Based on the upcoming capital replacement requirements (ex. Community Safety Buildings) the Revolving Fund is grossly under funded to the tune of approx. \$29 million. **We recommend that funding for this shortfall should come from Casino Revenues, tax increases or ideally a combination of both. In addition, the City could take some calculated risk and acquire shares in Corporations as permitted by the Draft Community Charter or incorporate its own corporation to be profit driven in order to earn a more substantial return to rebuild this reserve.** As for the Industrial Use reserve it is under funded by approx. \$2.6 million based on current market and availability of property. **We recommend that this reserve should be 'topped up' from the development of land to earn income.**

3. Capital Building & Infrastructure – there are two sub-funds in this reserve. The Capital Building and Infrastructure fund is required for the capital renewal program being developed by the Facilities Management department. The other fund is the Special Sports one and it is used for the development of modern sport facilities such as artificial sports fields.

Based on the analysis done by Facility Management, the deferred maintenance backlog is approx. \$24 million, that is, the amount of funding required to adequately sustain our ageing facility infrastructure. **We recommend exploring options to run lotteries to fund this shortfall, similar to those run by local hospitals. As well, the development of further pay parking lots and sale of advertising rights on City property should be considered.** The Special Sports reserve is funded from Park development DCCs, however, if major sports field renovations are required **we recommend charging for the use of these quality playing fields.** The present level of under funding for the Special Sports reserve is estimated at \$1 million.

4. Child Care Development – this reserve is required in order to respond to child care development needs as they arise in respect to building new centres, playgrounds, equipment, repairs and improvements.

Based on submissions from the policy planning department the reserve is under funded by \$2 million in order to keep up with possible future demand for regulated child care spaces. Once again, **we recommend that the City should be actively seeking out private sector and government contributions toward this program as well as hosting fund raising events on an as needed basis.**

5. Drainage Improvement – this reserve is required for replacement of our drainage conveyance system which consists of 450 kms of interconnected storm pipes and box culverts, along with numerous ditches and canals. It also covers the 32 lift stations consisting of 102 pumps along the dykes.

Based on a report to General Purposes Committee dated June 27th 2001 from Engineering Planning we have a \$24 million shortfall in the reserve. **We recommend that funding for this shortfall should come from either the establishing of a new utility for drainage in order to generate revenues or borrowing on an as needed basis. Both these options have an impact on taxes.**

6. Equipment Replacement – this reserve is required to replace the public works vehicles, fire rescue vehicles, computer, telecommunications and mechanical equipment.

Overall, this fund is under funded by \$13 million. In fact, the public works vehicle reserve will be depleted in 5 years and the fire rescue vehicle reserve in 1 year. **We recommend pursuing opportunities such as sale and leaseback agreements and lease rather than buy options** which may result in less pressure on this reserve. **As well, should there be any arising surplus at year-end, we recommend making appropriations to these accounts.**

7. Local Improvement – this reserve is used to collect contributions from property owners for local improvement projects such as sidewalks, ditch infills, street lighting, tree plantings and so on. The City contributes 30% of the cost and the property owners the remainder paid over a number of years.

There is no immediate funding shortfall issue here but it can vary from year to year due to timing issues, that is, it is entirely dependent on the number of repayments outstanding and the number of upcoming local improvement jobs.

8. Neighbourhood Improvement – this reserve is used to collect contributions from developers in lieu of completing street improvement work (street lighting, curb, gutter, tree plantings, etc.) for small developments.

There is no funding shortfall here as work is performed based on contributions received.

9. Public Art Program – this reserve is required to sustain the public art program, beautification and partnerships within the community.

Based on submissions from the policy planning department the reserve is under funded by \$0.9 million. **We recommend that the City pursue further private sector and individual artist contributions to cover this shortfall.**

10. Sanitary Sewer - this reserve is required for the replacement of our sewerage collection system which consists of over 430 kms of gravity sewer, 140 lift stations and 90 kms of sanitary forcemains.

Based on a report to General Purposes Committee dated June 27th 2001 from Engineering Planning we have an \$11.8 million shortfall in the reserve. **We recommend funding to cover this shortfall should come from an increase in sewer utility rates or borrowing on an as needed basis. Both options have an impact on taxes.**

11. Steveston Off-Street Parking – this reserve accepts contributions from the developers in the Steveston area in lieu of providing off-street parking stalls. The funds collected are expended towards land purchase for the purpose of parking lot development.

There is no funding shortfall issue here as land is only purchased based on the amount of contributions received.

12. Steveston Road Ends – this reserve accepts revenues realized from the sale of road end lots in Steveston. These funds are then used for the development of parks and areas for public open space and amenities.

There is no funding shortfall here as development is only done based on the amount of contributions received. The program has a limited life as once all the remaining properties are sold the reserve will be closed.

13. Waterfront Improvement – this is a new reserve with a forthcoming report re its purpose and funding options. It has a \$2.6 million funding shortfall based on the requirements of the 5 Year Capital Plan. **A couple of possible revenue options to keep in mind are boat launch fees and opening up of a prime location waterfront business such as a theme restaurant.**

14. Watermain Replacement – this reserve is required for replacement of the our water distribution system which consists of 620 kms of watermain, 13 pressure regulating chambers and over 4,000 hydrants.

Based on a report to General Purposes Committee dated June 27th 2001 from Engineering Planning we have a \$17.5 million shortfall in the reserve. **We recommend funding to cover this shortfall should come from an increase in the water utility rates or borrowing on an as needed basis. Both these options will have an impact on taxes.**

With regards to the issue of legislation, the Budgets & Accounting department has conducted extensive research under PSAB (Public Sector Accounting Board), IASB (International Accounting Standards Board), FASB (Financial Accounting Standards Board), CICA (Canadian Institute of Chartered Accountants) and GFOA (Government Finance Officers Association) websites and manuals. The result of this review has indicated that there are no official generally accepted accounting principles legislating any ratio or specific amount for a statutory reserve. An informal poll was also taken of some of the other Lower Mainland municipalities but it did not yield any further results.

Financial Impact

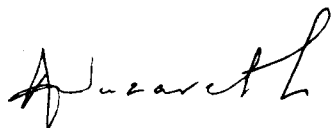
Overall, the City's non-DCC reserves are currently at \$67 million. Based on our analysis this total balance is severely under funded by well over \$100 million particularly for a City of this size with an ageing infrastructure.

Conclusion

Although the shortfall of \$100+ million poses no immediate risk the City's long-term viability and standard of living is dependant on healthy reserves and thus it would be prudent to put together a long term funding plan to address this issue. In addition, as there are no legislated minimum balances or ratios we recommend using the following minimum standard as a rule of thumb:

The City Statutory Reserves balance should be maintained at the lesser of the two following amounts:

- 1) **rolling 5 Year Capital Plan total expenditures – currently at \$179 million.**
- 2) **20% of the total capital assets – current book value is at \$888 million, therefore, translates to \$178 million.**



Andrew Nazareth
Manager - Budgets & Accounting

City of Richmond
Statutory Reserve Analysis (excl. DCC reserves)
as at June 6, 2002

Statutory Reserve	Balance @ June 6, 2002	Recommended Acceptable Balance	Shortfall	Current Funding Source (interest earned +)
1. Affordable Housing	3,751,252	3,751,252	0	Developers
2. Capital Reserve:				
Revolving Fund	20,786,419	50,000,000	29,213,581	Operating Budget
Industrial Use	1,438,184	4,000,000	2,561,816	Proceeds from land sale
3. Capital Building & Infrastructure:				
Capital Building & Infrastructure	1,815,535	24,000,000	22,184,465	City
Special Sports Reserve	27,138	1,000,000	972,862	DCC Parks Development
4. Child Care Development	12,797	2,000,000	1,987,203	Private, City
5. Drainage Improvement	236,738	24,250,000	24,013,262	City
6. Equipment Replacement:				
Public Works Vehicles	3,072,830	8,000,000	4,927,170	Operating Budget
Fire Vehicles	393,879	5,613,436	5,219,557	Operating Budget
Computer related	936,483	2,500,000	1,563,517	City
Telecommunications	260,146	1,000,000	739,854	City
Mechanical	783,900	1,400,000	616,100	City
7. Local Improvement	2,749,098	2,749,098	0	Property Owners, City
8. Neighbourhood Improvement	1,906,648	1,906,648	0	Developers
9. Public Art Program	79,533	1,000,000	920,467	Private, Community, City
10. Sanitary Sewer	9,716,232	21,500,000	11,783,768	Sewer Operating Budget
11. Steveston Off Street Parking	70,414	70,414	0	Developers
12. Steveston Road Ends	42,629	42,629	0	Sale of road ends
13. Waterfront Improvement	TBA	2,600,000	2,600,000	TBA
14. Watermain Replacement	18,972,678	36,500,000	17,527,322	Water Operating Budget
TOTAL	\$ 67,052,533	\$ 193,883,477	\$ 126,830,944	

DCC Reserves (for information only):

Drainage/Storm Sewer	8,750,212
Public Open Space	4,024,583
Parks Development	1,135,139
Roads	10,791,233
Sewer	720,556
Water	2,682,013
	<u>\$ 28,103,736</u>