

ITEM	10
MANAGER'S REPORT NO.	57
COUNCIL MEETING	87 09 21

RE: CORPORATE PLANNING - RESERVES POLICY

MUNICIPAL MANAGER'S RECOMMENDATION:

1. THAT the recommendations of the Director Finance be adopted.

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TO: MUNICIPAL MANAGER

1987 September 11

FROM: DIRECTOR FINANCE

File: M4-10

RE: CORPORATE PLANNING - RESERVES POLICY

RECOMMENDATIONS

1. THAT the appropriate fund levels for each of the waterworks and sanitary sewer system reserves be increased from \$1.0 million to \$1.5 million, and
2. THAT the Riverway Land Development Reserve be used for preliminary development of the Riverway Golf Course west of Royal Oak Avenue and south of Marine Way.

REPORT

BACKGROUND

On 1985 July 02, Council approved the principles and concepts in the Reserves Policy which was developed as part of the Corporate Planning Process. That policy is subject to the annual review by Council. Prior to the presentation of the updated policy to Council, this report recommends and outlines several changes proposed to be included in the updated policy. Also, this report recommends that the purpose of the Riverway Land Development Reserve remain unchanged until the Parks and Recreation Commission plan the development of the site and examine the options available to the municipality.

It is planned to present to Council, in several weeks, a copy of the updated Reserves Policy for consideration and approval. The intent of this report is to present to Council the recommended changes prior to finalization of the updated policy, so they may be approved for incorporation into the updated policy. The updated policy will retain the same format and principles and concepts as approved by Council in 1985.

PLANNED CHANGES TO POLICY

There are two proposed policy changes that will reflect better the waterworks and sanitary sewer reserves working capital positions.

The fund levels for each of the waterworks and sanitary sewer system reserves are maintained for the following reasons:

- . To maintain a reserve for unforeseen changes.
- . To absorb and moderate unanticipated large rate increases.
- . To maintain adequate working capital for the system.
- . To maintain investment income from the working capital for the municipality to offset municipal costs of administration (other than direct Engineering administration) on behalf of the system.

The actual fund levels have not been less than \$1.5 million since 1982. Due to the recent increased level of capital expenditures for these utilities, the operating fund levels have been declining since 1985, in spite of rate increases. There is also an upward trend in operating and maintenance costs as well as debt charges from the Regional District. In order to help absorb large fluctuations in capital spending, help moderate rate increases and better reflect the levels of funds over the past several years, it is recommended that the appropriate fund levels for each of the waterworks and sanitary sewer system reserves be increased from \$1.0 million to \$1.5 million.

While the desirable level of \$1.5 million is being recommended, it is recognized from past experience, that the fund level varies both above and below this level. **Attached** are copies of the proposed updated reserve policies.

REAFFIRMATION OF RIVERWAY LAND DEVELOPMENT RESERVE PURPOSE

At the Council meeting on 1987 July 27 Council considered a report regarding a revenue contract related to the sale of peat, etc., from the proposed Riverway Golf Course site. At that meeting a question was asked regarding the appropriateness of placing revenue from that contract into a reserve account rather than including the proceeds with operating revenue. At the time that we first started preparing the site it was considered that revenue derived was of a one-time occurrence, and that it was appropriate to use revenue to develop the site.

In the Reserves report which was considered by Council in 1985 July, the stated purpose of the Riverway Land Development reserve was:

"This reserve will be used for preliminary development of the Riverway Golf Course site west of Royal Oak Avenue and south of Marine Way."

The preparation of the site is expected to be completed in the Fall of 1993. During the preparation period, in total, it is expected that \$2.0 million will be generated in cash, which under the current policy would be placed in reserve. In addition, topsoil valued at about \$1.0 million will be supplied to Burnaby as payment in kind. The net effect is that about 67% of the proceeds are being placed in reserve, and 33% is being taken into revenue in the form of reduced costs.

The Parks and Recreation Commission are now starting to plan the development of the site and examine the options available to the municipality. Depending on the course of action chosen, a decision can then be made on what to do with the funds in the reserve. Meanwhile, it is recommended that the purpose of the reserve remain unchanged.

It is recommended that the Riverway Land Development Reserve be used for preliminary development of the Riverway Golf Course west of Royal Oak Avenue and south of Marine Way.

Attached is a copy of the existing policy.

CHANGES APPROVED BY COUNCIL SINCE 1985 AND CHANGES RESULTING FROM MUNICIPAL ACT AMENDMENTS

The updated policy, when presented to Council, will also reflect the following changes approved by Council and those reflecting the latest Municipal Act Amendments enacted on 1987 July 16.

- Repayment of funds to the internal reserves for new borrowings in 1985 and onward are now on a 20 year, rather than a 10 year repayment basis, and the payments are equalized (blended), rather than equal principal basis.

This change was approved by Council on 1985 July 15 in the same report that Council approved the major \$20.9 million Recreation and Cultural Services expenditure program. Flowing from this change was the accompanying modification as follows:

- Derived reserves (i.e. appropriations from capital reserves for expenditures) no longer earn, nor are credited with interest. They are used on a cash need - cash flow basis. Derived reserves in place at the time of the change in policy now have interest earned credited to the source reserve.

During the preparation of the 1986 Capital Budget, there was a policy change to include the Housing Reserve as part of the reserves designated for Land Assembly and Development. The following policy change was included in the 1986 Capital Budget Overview and adopted by Council.

- The Housing Reserve is now part of the Land Assembly and Development Reserves available for funding those projects that qualify under this program.

The following modifications, resulting from 1987 amendments to the Municipal Act, will also be incorporated into the updated policy, as applicable.

- Ministerial approval is no longer required for expenditures under Sections 378 and 380 from Capital Works, Machinery and Equipment and Tax Sale Reserves, nor is it needed to approve waterworks and sanitary sewer rate increases.

WORKING CAPITAL CHANGES MADE

In the policy approved by Council in 1985, Trust and Agency funds were not used for general revenue working capital. In order to improve our working capital position, it was concluded that the non-specific portion of these funds (funds other than bequests) could be used as part of the working capital. The external auditors have approved this change in 1986, and this change was implemented by the Director Finance. The levels of non-specific funds such as performance deposits vary but are usually about \$1 million to \$1.5 million in total. Using more funds for working capital reduces the amount of short term borrowing required just prior to tax collection. Any variation in the level of non-specific trust funds is compensated by the amount of borrowing needed. Specific trust funds (e.g. bequests) will continue to be kept separate from operating funds.



Howard Karras  
DIRECTOR FINANCE

PWT/cie

cc: Directors

WATERWORKS UTILITY - OPERATING FUNDS

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PURPOSE

This fund represents the accumulation of waterworks revenues in excess of expenditures over the years. As such, it is maintained for the following reasons:

1. To maintain a reserve for unforeseen changes.
2. To absorb and moderate unanticipated large rate increases.
3. To maintain adequate working capital for the system.
4. To maintain investment income from the working capital for the municipality to offset municipal costs of administration (other than direct Engineering administration) on behalf of the system.

FUNDING

The balance in this fund increases when utility operating revenues exceed expenditures, and decreases when expenditures exceed revenues, when funds are utilized for the revenue shortfall. Revenues are controlled by rate charges, connection fees and an operating charge to the Fire Department. Since 1974 rates have only been increased twice, in 1986 and in 1987. For the most part, expenditures are set by others (Greater Vancouver Regional District) but are also affected by the size of the capital program. Interest earnings are not credited to the utility but are taken into general municipal revenue in order to offset administrative costs absorbed by general revenues.

FUND TREND

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
	\$000	\$000	\$000	\$000	\$000
Fund balance - closing	1,873	1,585	2,191	2,412	2,000
	=====	=====	=====	=====	=====

Since 1981, the surplus balance peaked again in 1985, primarily due to curtailed capital spending as a result of the civic strike in 1981, but the balance has trended downward since in 1986 and 1987 (projected) due to restoration of capital spending and drawdown on the reserve, in spite of the rate increases.

APPROPRIATE FUND LEVEL

The utility fund balance will be maintained at a minimum of \$1.5 million to absorb large fluctuations in capital spending, help moderate rate increases and provide for an adequate working capital level.



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CONTROL

The surplus amount is controlled by the water rates charged to users. The setting of rates is governed by the Municipal Act, Sections 640 and 641, and must be by by-law. Rate changes must be advertised in the local newspapers. Rates are reviewed at least once every year in advance to ensure that the fund level is maintained.

LEGALITY

The setting of rates is governed by the Municipal Act, Sections 640 and 641, and must be by by-law.

SANITARY SEWER SYSTEM FUNDS - OPERATING FUNDS

PURPOSE

This fund represents the accumulation of sanitary sewer revenues in excess of expenditures over the years. As such, it is maintained for the following reasons:

1. To maintain a reserve for unforeseen changes.
2. To absorb and moderate unanticipated large rate increases.
3. To maintain adequate working capital for the system.
4. To maintain investment income from the working capital for the municipality to offset municipal costs of administration (other than direct Engineering administration) on behalf of the system.

FUNDING

The increase/decrease in the fund amount depends on the balance between the sewer system operating expenditures and revenues. Operating deficits can be financed from prior years' operating fund balance. Revenues are controlled to a large extent by rates set for parcel tax and usage. Recently, rates have been increased as follows:

1980	10%	1984	Nil
1981	10%	1985	Nil
1982	19.2%	1986	5%
1983	10%	1987	2 1/2%

For the most part, expenditures are set by other bodies such as the Greater Vancouver Regional District, and also depend on debt repayment. Interest earnings are not credited to the sewer system but are taken into general municipal revenue in order to offset administrative costs.

FUND TREND

	1982	1983	1984	1985	1986
	\$000	\$000	\$000	\$000	\$000
Fund balance - closing	963	1,587	2,304	2,645	2,581
	====	====	====	====	====

The surplus balance peaked in 1985, primarily due to curtailed capital spending, but the balance has trended downward since 1986 and 1987 (projected) due to the restoration of the capital program, in spite of the rate increases.

APPROPRIATE FUND LEVEL

The utility fund balance will be maintained at a minimum of \$1.5 million to absorb large swings in the Sewerage Facilities Assistance grant, the Greater Vancouver Sewerage and Drainage District levy, and in capital spending. When the effect of these factors is significant, this fund level will ensure that only modest increases in rates, of 10% or less, are required to compensate. The level should also provide adequate working capital.

CONTROL

The surplus amount is controlled by the sewer rates charged to users. Rate increases are governed by the Municipal Act, Sections 640 and 641, and must be implemented by by-law. Rate changes must be advertised in the local newspapers. Rates are reviewed every year in advance to ensure that the fund level is maintained.

LEGALITY

Council, as policy, has determined that the sanitary sewer system should function as a financially self-sustaining utility.

RIVERWAY LAND DEVELOPMENT

PURPOSE

This reserve will be used for preliminary development of the Riverway Golf Course site west of Royal Oak Avenue and south of Marine Way.

FUNDING

Funding is provided from the municipality's share of the proceeds from the sale of peat moss, topsoil, and fill dumping fees; and investment income earned.

FUND TREND

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Fund balance - closing	Nil	1	50	126
		===	===	===

APPROPRIATE FUND LEVEL

The fund level is dependent on the volume of peat moss removed and volume of fill dumped, which is now estimated to grow to about \$2.0 million by the end of the project.

CONTROL

Expenditure of funds for development of the Riverway Golf Course site will flow through the normal capital budget process and Council approval.

LEGALITY

This reserve was approved as part of the normal operating budget process.