

FINANCE COMMITTEE REPORT

Report Date	November 27, 2024
Meeting Date	December 04, 2024

Chairman Sullivan and Members of Finance Committee

SUBJECT: 2024 Operating and Capital Reserves

OPEN OR CLOSED SESSION

This matter is to be discussed in open session of Finance Committee.

AUTHORIZATION

Primary Author	Commissioner/Dept. Head	Chief Administration Officer
<i>Craig Lavigne</i>	<i>Kevin Fudge</i>	<i>J. Brent McGovern</i>

RECOMMENDATION

It is recommended that members of the Finance Committee approve the transfers to and from the following reserves and forward a copy of the report to Common Council for approval.

General Operating Reserves

- \$816,000 from the General Operating Fund to the General Operating Reserve
- \$1,134,758 from the General Operating Reserve to the General Operating Fund
- \$250,000 from the General Capital Reserve to the General Operating Reserve

General Capital Reserves

- \$12,662,936 from the General Operating Fund to General Capital Reserve
- \$6,543,838 from the General Capital Reserve to the General Capital Fund
- \$250,000 from the General Capital Reserve to General Operating Reserve

Utility Operating Reserves

- \$1,118,631 from the Utility Operating Fund to the Utility Operating Reserve (Industrial Rate Stabilization)
- \$1,637,894 from the Utility Operating Reserve to the Utility Operating Fund

Utility Capital Reserves

- \$3,124,400 from the Utility Operating Fund to the Utility Fund Capital Reserve

EXECUTIVE SUMMARY

The Reserve Policy was approved by Common Council on December 11, 2017. The purpose of the Reserve Policy is to address longer term funding strategies to minimize debt servicing costs, address the infrastructure deficit, and mitigate the effects of unanticipated events. Permitted uses of reserves according to the Reserve Policy are:

1. Major unanticipated/unforeseen events.
2. Major Capital renewal.
3. Future Liabilities.
4. One-time operating expenses which are greater than \$100,000 and are not part of the recurring operating budget.
5. Infrastructure deficit; and
6. Investment in growth opportunities.

In addition to the Reserve Policy, the City must comply with the Provincial Reserve Fund Regulation which prescribes that the establishment, funding, and withdrawal of Reserve funds which can only be done through resolutions of Common Council before the end of each calendar year.

To comply with the Provincial Legislation, Staff recommend that Common Council approve the recommendation in this report for contribution to and withdrawal from the Reserves. Many of the recommendations have been approved by Council (Exhibit A) and the purpose is to finalize the actuals transfers to and from the various reserves.

PREVIOUS RESOLUTIONS

See Exhibit A

STRATEGIC ALIGNMENT

This report aligns with Council's approved Reserve Policy.

REPORT

BACKGROUND

The City must comply with the Provincial Reserve Fund Regulation which prescribes that the establishment, funding, and withdrawals of Reserve funds can

only be done through resolutions of Common Council before the end of each calendar year.

General Fund

The General Operating Reserve balance for the end of 2024 will be \$8,388,570. The maximum amount that can be held in this reserve is regulated by Provincial regulations. Municipalities can have a balance of no more than 5% of previous years' operating budget which would be \$8,864,375 for Saint John.

General Operating Reserve has funding to mitigate the risks and support various initiatives such as;

- Winter storm mitigation
- Benefit fluctuations due to actuarial reviews
- Various growth-related initiatives

Transfers to the Operating Reserve includes funding of \$181,000 from Growth and Community Development services operating budget for development incentives and urban development incentives to fund commitments already made. There is also \$135,000 transferred into the Operating Reserve as part of the 2024 budget and an additional \$250,000 transferred from the Strategic Land Reserve to fund Industrial Parks initiatives and \$500,000 to fund future development incentives. There will also be \$412,624 transferred into the Operating Reserve for interest earned on funds held in the reserve which is a Provincial requirement.

The transfers out of the Growth and Operating Reserves for 2024 is \$1,134,758. The transfers out include the agreement with SJ Sea Dogs (\$17,500), Sophia Recovery (\$50,000), Powwow Event (\$50,000), Bylaw Enforcement and enhancement project (\$147,258), funding for Industrial Parks (\$250,000) and funding for the study of raising the Courtney Bay Causeway (\$280,000). These transfers were also approved previously by Common Council.

General Capital Reserves which will have a balance of \$32,175,098 at the end of 2024. There are no Provincial limits on Capital Reserve balances. The General Capital Reserve has funding for the following.

- Fleet Reserves
- Information Technology
- Capital Replacement
- Recreation Facility
- Strategic Real Estate Reserve
- Self insurance Reserve

The 2024 Operating Budget included a transfer of \$3,665,721 to the Capital Reserve with \$3,000,000 to be allocated to toward a new multipurpose recreation

facility. Transfer to various fleet reserves, IT reserves, and insurance reserve were all budgeted for as part of the 2024 Operating budget.

The following transfers to the General Fund Capital Reserve are being recommended to align with use of one-time funds, timing delays in projects and carry over of expenses to occur in 2025:

- Land Sales to be transferred to Strategic Land Reserve - \$681,586
- Road Resurfacing Project to be completed in 2025 - \$1,650,000
- Sale of equipment - \$340,000
- Fund future Fire Ladder Truck - \$1,000,000
- Additional contribution to reserve - \$1,000,000

The transfer from the Capital Reserve includes \$1,518,039 for Capital projects that were approved with funding from Capital Reserves and \$1,500,000 for land purchase on behalf of Industrial Parks and \$250,000 from the land reserve to fund operating of Industrial Parks which were previously approved by Common Council.

The transfers to and from the Fleet and IT reserves are part of both Operating budget and Capital budgets. There is also an additional \$978,512 in interest that is transferred across the Capital Reserves and the amount is higher than past interest due to the current high interest rates.

Utility Fund

Utility Operating Reserve has a maximum limit of \$2,609,471 and will have a balance of \$1,964,684 for 2024. The operating reserves includes funds for

- Managing risk of unforeseen impacts to potable revenue or expenditures
- Industrial Rate Stabilization

The transfer of \$1,118,631 into the Operating Reserve was part of the 2024 Industrial Raw Water Operating Budget. Staff are also recommending the transfer of \$1,637,804 from the Industrial Operating Reserve to fund a significant operating expenditure under the industrial raw water budget that occurred in 2024.

The Utility Capital Reserve will have a balance of \$17,035,172 for 2024 and balance includes reserves for.

- Fleet Replacement
- Industrial Capital
- Potable Capital – includes the additional \$1,500,000 due to revenue surplus

The Operating budget included the transfers into the fleet, industrial reserves and there was also \$678,935 in interest transferred into the reserves.

Conclusion

The City has continued to follow its various financial policies and has been able to build its reserves that were essentially nonexistent a short few years ago. The Operating Budget Policy ensures that non-recurring revenues do not fund ongoing services.

SERVICE AND FINANCIAL OUTCOMES

This report aligns with Common Council's previous resolutions, long term financial plan, reserve policies, and approved 2024 budget.

INPUT FROM OTHER SERVICE AREAS AND STAKEHOLDERS

Input has been received from other services areas

ATTACHMENTS

Exhibit A – 2024 Reserve Schedule