



The Corporation of the City of Courtenay

Staff Report

To: Council
From: City Manager (CAO)
Subject: Reserve Bylaw Updates

File No.: 1870-01
Date: December 11, 2024

PURPOSE:

For Council to give first second and third readings to the following reserve establishment bylaws and reserve amendment bylaw:

- Municipal and Regional District Tax Reserve Bylaw No. 3158
- Snow and Ice Control Reserve Bylaw No. 3159
- Solid Waste Reserve Bylaw No. 3160
- Police Contingency Reserve Fund Amendment Bylaw No. 3161
- Election Reserve Bylaw No. 3162

BACKGROUND:

Section 188 (1) of the Community Charter permits municipalities to create reserve funds for specified purposes and to direct funds to these reserves. There are two types of reserves that are permitted under the Community Charter, statutory and discretionary.

Statutory Reserves

A statutory reserve is required to be established by a higher level of government or authority. A municipality does not have discretion with regards to the establishment of this type of reserve, it must maintain the reserve to meet legislative requirements.

The City has the following statutory reserves:

- Land Sale Reserve
- Canada Community Building Fund (Community Works Fund, Gas Tax)
- BC Growing Communities Fund
- Parkland Acquisition Reserve
- Development Cost Charge Reserve
 - Water
 - Sewer
 - Storm
 - Parkland Acquisition
 - Highway (roads)

Discretionary Reserves

A discretionary reserve is one that is established by Council according to the needs of the municipality. Discretionary reserves are truly unique to each municipality as there are no set standards or guidelines for which types of discretionary reserves a municipality should hold. Common discretionary reserves include

operating, capital, roads, equipment, recreation, and legal, but the options are limitless. Discretionary reserves may be established by Council resolution, Council policy, or by bylaw.

The City has the following discretionary reserves:

- Affordable Housing Amenity
- Assessment Appeals
- Gaming
- Infrastructure Reserve
- Machinery and Equipment
- New Works and Equipment
- Parkland Acquisition (non DCC)
- Parks, Recreation, Culture & Seniors Facilities Amenity
- Police Contingency
- Public Parking
- Risk Reserve
- Tree Planting and Replacement

Council normally authorizes contribution and draws of both statutory and discretionary reserves through the annual financial planning process, however, Council can delegate authority to staff if desired. If a draw or contribution to reserves fall outside of the annual financial planning process a Council motion can be passed for the desired transaction.

DISCUSSION:

Municipal and Regional District Tax Reserve

The Municipal and Regional District Tax (MRDT) is a tax levied on short-term accommodation providers in participating areas of British Columbia. The MRDT funds are typically used to support local tourism marketing and development programs. The provincial government administers the MRDT program, with some of the funds held back for administrative purposes, while the remainder is allocated to the local governments or organizations to support tourism efforts in the community.

In addition to the typical use of MRDT funds for tourism, the municipality has elected to allocate a portion of these funds towards affordable housing initiatives through the Online Accommodation Platform (OAP) portion of the MRDT revenue. The establishment of a dedicated MRDT Reserve Fund will allow the municipality to track and manage MRDT revenue in a clear, organized, and accountable manner.

What will the balance of the reserve be?

There is no set optimum reserve balance as the balance will be dictated by MRDT funds received and spent in a given year as authorized through the annual tactical plan.

How will funds be contributed to the reserve?

Contributions to the MRDT reserve will be all funds that exceed the annual tactical plan's budgeted spending. Further contributions to the MRDT reserve could be from OAP funds if available.

How will funds be used from the reserve?

MRDT funds will be used for all purposes as authorized by the MRDT Program. Council approves the annual MRDT tactical plan that guides annual spending and therefore all spending will be authorized by Council through the tactical plan. Funds from the MRDT reserve can be used to supplement annual MRDT

projects that exceed the annual expected MRDT revenue. Affordable housing initiative spending is authorized by the MRDT program and could be accessed in accordance with an approved tactical plan and financial plan.

There is currently \$1,116,691.25 in MRDT funds on hand, of this balance \$941,775.93 is attributed to OAP funds. These funds are currently segregated from the City's General Surplus as they are held as deferred revenue. By moving these funds from deferred revenue to reserve there will be no impact to the City's unappropriated surplus.

Snow and Ice Control Reserve

The Snow and Ice Control Reserve is a new reserve that is intended to create an operating reserve to ensure a specific source of funds is available to offset the instances of snow and ice clearing costs exceeding the annual budget. In the event of a year when snow and ice control costs exceed the available budget, the City could rely on the snow and ice control reserve to supplement additional cash needs instead of relying on the general unappropriated surplus or stopping the service. By creating a specific reserve these funds are ensured to be available for use and will not impact the City's annual operational surplus or deficit.

What will the balance of the reserve be?

The optimum reserve balance will be 50% of the annual snow and ice control budget. The annual snow and ice control budget is based on a 5-year rolling average of the actual annual spending on snow and ice control. By adopting a percentage of the projected annual budget, the optimum balance will constantly be updated and remain at an appropriate level.

2024 Snow and Ice Control Budget \$627,500

2025 Snow and Ice Control Budget \$650,300

2025 Optimum balance \$325,150 (50% of \$650,300)

How will funds be contributed to the reserve?

Funds will be contributed annually through the financial planning process as authorized by Council. In a given year when snow and ice control costs are less than budgeted, these funds could be transferred to the reserve, if the reserve is not yet at its optimum balance. If snow and ice control costs continually come in under budget, and the snow and ice control reserve is already at its optimum balance the unspent funds would flow to the general unappropriated surplus. If snow and ice control expenses continue to diminish the optimum balance of the reserve will also naturally diminish as the snow and ice budget is based on average actual costs.

How will funds be used from the reserve?

Funds will be used in any given year where the actual snow and ice control expenses exceed the authorized budget. Staff will be delegated authority to transfer funds from the reserve as required.

Solid Waste Reserve

The Solid Waste Reserve is intended to create an operating reserve similar to the Water and Sewer funds. By creating an operating reserve, the City can ensure that a surplus or deficit created by the solid waste service is segregated. By segregating these funds, the City can ensure solid waste fee revenue in excess of expenses is specifically saved for future use and restricted to provide for future solid waste services. Furthermore, this reserve could be used to save for known future expenditures in the solid waste function such as the eventual replacement of carts.

What will the balance of the reserve be?

The optimum balance of the reserve is yet to be established as the City is currently in the first year of its 10-year solid waste contract. Staff will return to Council in the future to provide details on the optimum balance. In the near term, the balance of the reserve will be the cumulative surplus or deficit created annually by the solid waste service for 2023 and 2024. Solid waste fees and expenditures are approved by Council on an annual basis through the financial planning process and would directly impact the anticipated annual surplus or deficit in the solid waste service.

How will funds be contributed to the reserve?

Funds will be contributed annually based on the surplus created by the solid waste service. Additional funds could be authorized by Council to be contributed to the reserve through the annual financial planning process.

How will funds be used from the reserve?

Funds will be drawn from the reserve as authorized by Council in a given year through the annual financial planning process. Additionally, staff will be delegated authority to withdraw funds from the reserve if the solid waste service creates a deficit at yearend.

By treating the solid waste service similar to the Water and Sewer funds the City can ensure that property tax funds or other sources of revenue are not inadvertently subsidizing the solid waste service.

Alternatively, by placing surplus created by the solid waste service, the City can ensure that solid waste fees are not subsidizing other City expenses. The solid waste reserve is a key component in ensuring the solid waste service is treated similar to a utility.

Police Contingency Reserve Amendment

The Police Contingency Reserve Bylaw No 2890, 2017 was adopted on August 21, 2017. The reserve had an annual contribution limit of \$250,000, a minimum balance of \$350,000 and an optimum balance of \$750,000. The intention of the reserve was to fund 2 full-time regular police members and provide funding for unanticipated policing operating and capital expenses. The cost of 1 officer in 2017 was \$168,000 where as the anticipated cost for 1 officer is \$258,000 in 2025.

Given the optimum balance of \$750,000 less 2 members funded from reserve at 2017 rates \$336,000 (\$168,000+\$168,000) leaves \$414,000, once we remove the minimum balance of \$350,000 it leaves only \$64,000 available to cover all other policing costs. Given the rise in per member costs and the estimated costs to investigate major crimes, the optimum balance is no longer adequate.

The expected yearend balance of the reserve is \$1,295,300 for 2024. The anticipated budget vs actual costs for policing in 2024 is projected to produce a surplus of \$72,000, this is substantially lower than prior years due to availability of RCMP members and steps taken by RCMP to improve staffing to pre-covid levels.

The table below summarizes the surplus or deficit created by the Police Protection Service from 2020 to 2024

Police Protection Surplus Analysis	
Year	Surplus (Deficit)
2020	\$ (11,753)
2021	1,598,094
2022	1,158,911
2023	2,484,325
2024 - Projected	71,749

What will be the balance of the reserve?

Staff are proposing to update the optimum balance of the reserve from the current fixed amount of \$750,000 to the equivalent of the current cost of 10 RCMP members. By changing the optimum balance to be based on the current cost of an RCMP member the reserve balance will keep up with inflation and continue to be relevant to actual policing costs. The optimum balance would increase to \$2,580,000 for 2025. 10 members was chosen as it approximately represents 1/3 of the current authorized member strength of 31.4 and provides a reasonable sum of money to be held in reserve. A balance must be struck between holding too little, too much or just the right amount of funds on hand to respond to intended events.

How will the funds be contributed to the reserve?

The initial increase required to bring the reserve up to the 2025 optimum balance will be a single transfer from the City's prior years unappropriated surplus. From the table above the RCMP function has contributed to the City's surplus over the years and the estimated one-time transfer of \$1,350,000 to the reserve would not substantially impact the City's other overall financial position.

Going forward, if the current years Police Protection service creates a surplus these funds would be transferred to the reserve. If additional funding is required to bring the reserve to the optimum balance these contributions would be calculated and presented to council through the annual financial planning process. Funding for future reserve contributions required in excess of any surpluses created would be funded through general taxation as these are the funds that pay for Police Services.

How will funds be used from the reserve?

The updated reserve would be used to cover the costs of major time investigation and other unanticipated police operating and capital expenses. The reserve would no longer be used to fund 2 RCMP members, as this practice simply requires the City to put money into the reserve and pull that same money out of the reserve annually to fund the positions. The reserve will only be used for those unanticipated costs vs the known on going costs. There will be little impact to the City's budget for this change as stated before contributions and draws from the reserve were near equal.

Election Reserve

The Election Reserve is intended to create a tool to contribute funds annually towards the regular 4-year election expense and to provide funding for the election. By contributing annually towards the election, the City can smooth out the cost of holding the election. Furthermore, by having funds on hand the City can absorb the cost of an unanticipated by-election if needed.

What will be the balance of the reserve?

The optimum balance of the reserve will be equal to the cost of the last regular election. By using this optimum balance, the City can contribute equal annual payments towards the election cost vs incurring 100% of election funding in a single year.

2022 Election - \$90,900

How will the funds be contributed to the reserve?

Funds will be contributed to the election reserve annually based on ¼ the cost of the prior normal election. Contributions will be authorized by Council through the annual financial planning process.

How will funds be used from the reserve

Funds will be withdrawn from the reserve in a given normal election year, this will be authorized by Council through the annual financial planning process. Staff will seek a resolution from Council to use election reserve funds if a by-election or other election is required outside of the regular schedule.

POLICY ANALYSIS:

Reserve contributions are most commonly authorized by Council through the annual financial planning process. Reserve balances are reported annually in the City's audited financial statements.

FINANCIAL IMPLICATIONS:

Individual financial implication of various bylaws is included in the discussion section of the report.

ADMINISTRATIVE IMPLICATIONS:

Changes in reserve bylaws will be incorporated in to the annual financial planning process with regards to contributions or draws. Operating reserve impacts will be addressed by staff as the anticipated results occur that apply to each reserve.

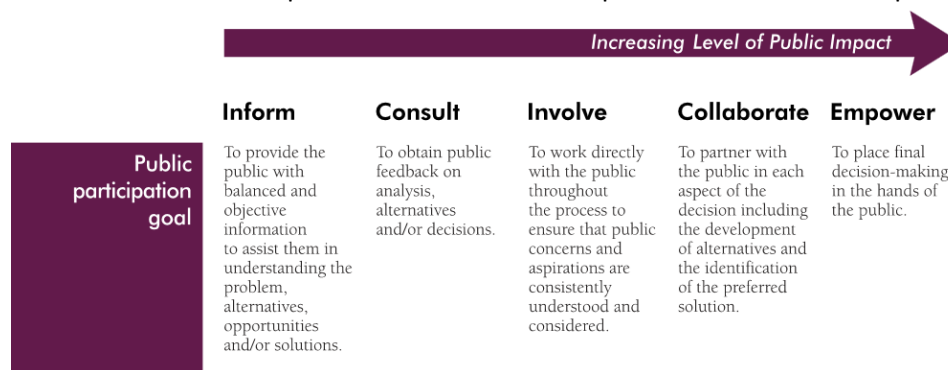
STRATEGIC PRIORITIES REFERENCE:

This initiative addresses the following strategic priorities:

- Financial Sustainability - Ensure capacity to accommodate big change

PUBLIC ENGAGEMENT:

Staff would inform the public based on the IAP2 Spectrum of Public Participation:



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OPTIONS:

1. TO BE MADE AS SEPARATE RESOLUTIONS:

THAT Council give first, second and third reading to Municipal and Regional District Tax Reserve Bylaw No. 3158, 2024

THAT Council give first, second and third reading to Snow and Ice Control Reserve Bylaw No. 3159, 2024

THAT Council give first, second and third reading to Solid Waste Reserve Bylaw No. 3160, 2024

THAT Council give first, second and third reading to Police Contingency Reserve Fund Amendment Bylaw No. 3161, 2024

THAT Council give first, second and third reading to Election Reserve Bylaw No. 3162, 2024

2. THAT Council provide alternative direction to staff.

ATTACHMENTS:

1. Municipal and Regional District Tax Reserve Bylaw No. 3158, 2024
2. Snow and Ice Control Reserve Bylaw No. 3159, 2024
3. Solid Waste Reserve Bylaw No. 3160, 2024
4. Police Contingency Reserve Fund Amendment Bylaw No. 3161, 2024
5. Election Reserve Bylaw No. 3162, 2024

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