

**City of Maple Ridge  
Audit & Finance Committee**

**April 18, 2016  
9:00 AM  
Blaney Room**

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**Chairperson:** Councillor Masse

**Committee Members:** Mayor Read; Councillors C. Bell; K. Duncan; G. Robson; T. Shymkiw;  
C. Speirs

<b>Staff:</b>	Chief Administrative Officer:	T. Swabey
	GM – Corporate & Financial Svc:	P. Gill
	GM – Public Works & Development	F. Quinn
	GM – Community Dev. Park & Rec	K. Swift
	Manager of Accounting:	C. Nolan
	Manager of Financial Planning	T. Thompson
	Manager Sustainability & Corporate Planning	L. Benson

**Recording Secretary:** Amanda Gaunt

**AGENDA**

- 1. Approval of agenda**
- 2. Approval of minutes of March 14, 2016**
- 3. 2015 Consolidated Financial Statements**  
*Report part of C of W agenda package*
- 4. Reserves**
- 5. Introduction to Financial Reports on C of W Agenda**
- 6. Next Meetings**
  - May 2 – Review of 2015 audit results  
Fiscal Impact

“Original signed by C. Nolan”  
Agenda submitted by: C. Nolan, CPA, CGA  
Manager of Accounting

**City of Maple Ridge**

**Audit & Finance Committee Meeting Minutes**

March 14, 2016

The Minutes of the Audit and Finance Committee Meeting held in the Blaney Room of the Municipal Hall, 11995 Haney Place, Maple Ridge, BC on Monday, March 14, 2016 at 9:00 a.m.

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***PRESENT***

***Committee Members***

Councillor Masse, Chair  
Mayor Read  
Councillor Shymkiw  
Councillor Duncan  
Councillor Speirs

***Municipal Staff***

T. Swabey, Chief Administrative Officer  
P. Gill, General Manager Corporate & Financial Services  
C. Nolan, Manager of Accounting  
T. Thompson, Manager of Financial Planning  
L. Benson, Manager of Sustainability and Corporate Planning  
A. Gaunt, Confidential Secretary

***Absent***

Councillor Bell  
Councillor Robson

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The meeting was called to order at 9:05 a.m.

**1. *Approval of agenda***

**MOVED** by Mayor Read and **SECONDED** by Councillor Shymkiw that the agenda be approved as submitted

CARRIED

**2. *Approval of minutes of January 25, 2016***

That the minutes of the Audit & Finance Committee Meeting of January 25, 2016 be approved.

CARRIED

**3. *Preliminary Year End Update (General Revenue)***

Staff report dated March 14, 2016 discussing preliminary 2015 results in the General Revenue Fund.

The Manager of Accounting gave a power point presentation reviewing the report.

4. ***Investment Update***

Staff report dated March 14, 2016 discussing the City's investment portfolio and investment earnings from 2015.

The Manager of Financial Planning reviewed the report.

5. ***Next Meetings***

- April 18 – Consolidated Financial Statements
- May 2 – Review of 2015 audit results

***Adjournment – 9:25AM***

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B. Masse, Chair

**TO:** Audit & Finance Committee

**MEETING DATE:** 18-April-2016

**FROM:** Manager of Accounting

**FILE NO:**

**MEETING:** Audit & Finance Committee

**SUBJECT:** Reserves

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### EXECUTIVE SUMMARY:

This report is intended to provide an overview of the City's financial resources. They are grouped into four categories:

1. Accumulated surplus (revenue funds). This is the cumulative balance of excess revenues over expenses and net transfers to reserves.
2. Reserve funds. These are established by bylaw to hold financial assets for specific purposes, typically capital.
3. Reserve accounts. These represent discretionary appropriations of surplus established to meet business needs as directed by Council
4. Restricted revenues. These are monies collected from others for which we are obligated to provide specific services.

The amounts on Schedule "A" detail the balances in each of these categories. At the end of 2015 the balance of accumulated surplus in the revenue funds, reserve funds and reserve accounts totaled \$101.66 million and we had a further \$41.68 million in restricted revenues.

### RECOMMENDATION:

None required, for information only.

### DISCUSSION:

The City of Maple Ridge has financial resources that have been summarized on the attached Schedule "A". Some of these resources are subject to legislation in the *Community Charter* while others are not. As part of our financial planning process, detailed projections are done for key reserves to ensure that the available resources can support the planned activities.

The transactions between our reserves, funds and accounts, are referred to as transfers. Transfers are internal transactions that do not result in revenues or expenses. For example, we accumulate funds in the Capital Works Reserve for large projects and each year a portion of general taxation is transferred to the reserve to build the necessary capacity to fund those projects. As another example, each year, we transfer money to the Equipment Replacement Reserve so that we have the resources needed to replace equipment at the end of its useful life. These are both examples of "transfers to" transactions. We also have "transfers from" transactions. For example, in 2015, some of our fleet vehicles were replaced and the identified funding source was the Equipment Replacement Reserve and monies were transferred **from** the reserve for those purchases.

The City's financial resources can be categorized as follows:

**1. Accumulated Surplus (Revenue Funds)**

The City's business is comprised of three major cost centres: General Revenue, the Sewer Utility and the Water Utility. The excess of revenues over expenses and net transfers to reserves for each cost centre flows to the accumulated surplus balance. It is important to keep in mind that the balances shown are cumulative, not the result of one year of operations; they are the result of operations since incorporation in 1874.

The combined accumulated surplus balance in the revenue funds at the end of 2015 is \$24.6 million, an increase of \$5.7 million from 2014, \$3.4 million of which is related to future works in the sewer and water utilities.

The General Revenue fund has an accumulated surplus amount of \$9.86 million and, in line with Council's Financial Sustainability Plan, this amount is available to fund extraordinary one-time items. In the utilities, the accumulated surplus balances are used for Council's rate stabilization policy. Under this policy, accumulated surplus amounts are deliberately built over a period of time in order to provide for variations in both our annual infrastructure investment and our commitment for larger regional projects. When those expenditures occur, the accumulated surplus balances are drawn down. This practice allows the City to smooth the impact of variations in annual spending on our rate payers. In the Sewer Utility, the accumulated surplus balance is \$6.4 million at the end of 2015 and is projected to increase over the next 4 years. If new federal wastewater regulations impact regional capital investment requirements they will be addressed at the regional level with Maple Ridge paying our respective portion. The Water Utility has an accumulated surplus balance of \$8.35 million at the end of 2015, and is also projected to increase over the next 4 years. In past years, the Regional District had projected rate increases that were very significant, with one year as high as 18%. Since that time they have deferred projects and have passed along only marginal increases. Building the accumulated surplus balance allows the City to smooth the impact of future increases from the Regional District expected for those deferred projects.

**2. Reserve Funds**

Reserve funds are established by bylaw and hold financial resources for specific purposes, typically for capital investment. Once a reserve fund has been established, the funds in it can only be used for the purposes noted in the establishing bylaw and any use of the funds must be authorized in the Financial Plan Bylaw. As part of our long-term financial planning it is not unusual to build the balance in a reserve over time in order to provide for larger planned expenditures in the future. This practice allows us to smooth the impact of planned variations in annual spending.

The following provides a brief summary of the City's reserve funds:

**i). Local Improvement**

The balance in this fund is comprised mainly of monies returned to us by the Municipal Finance Authority (MFA) when debt was retired for which sinking fund monies had been held. These funds are intended to be used for local capital improvement projects where a community benefit is realized and a municipal contribution is needed.

**ii). Equipment Replacement**

Each year, we transfer monies to this reserve in recognition of the fact that the equipment in use today will need to be replaced in the future. This reserve provides for the replacement of our municipal fleet and fire department vehicles, as well as our computers

and photocopiers. The useful life of equipment and fleet vehicles the City uses in its day-to-day business ranges from 3 years for some of our technology equipment and up to 25 years for some of our fire protection vehicles. In order to provide for the replacement of this wide variety of equipment it is not unusual for the balance in this reserve to build for a period of time as we accumulate the monies we will need to expend when we replace some of our more expensive equipment. Between 2016 and 2020 expenditures in excess of \$12 million are contemplated from this funding source to support projects such as our fleet renewal and the replacement of fire trucks.

**iii). Capital Works**

The capital works reserve provides funding for future capital investment. Each year, 1% of general taxation is credited to the reserve along with fixed transfer amounts of approximately \$200,000. Additionally, 75% of the proceeds from any land sales are transferred to this reserve unless Council directs otherwise. An example of this can be seen in the agreement Council recently entered into for the phased sale of the town centre lands over the next four years. The full proceeds from that sale will be transferred to this reserve to be invested in community assets. Our practice is to retain a minimum balance of 10% of the prior year's taxation in order to have some funds available in the event of an emergency.

**iv). Fire Department Capital**

Each year 2% of general taxation is transferred to the reserve to build the financial resources we need to increase the City's fire protection capacity as the community grows. In the past, the balance in this reserve was deliberately built up to provide for the renovation and expansion of Fire Hall #1; it was subsequently drawn down between 2007 and 2010 to fund that project. At the present time, the balance is once again growing in order to provide the funding for the construction and equipping of Fire Hall #4, and looking further ahead, for the acquisition of land for Fire Hall #5.

**v). Sanitary Sewer**

This fund resulted from surpluses on sanitary sewer projects in previous years and is available for use on current and future sanitary sewer projects.

**vi). Land**

This reserve receives 25% of the proceeds from land sales, unless Council directs otherwise, and is used for land acquisitions. In 2009, the fund received an infusion of \$1.5 million as part of the year-end process to provide funding for land acquisitions of importance to Council where there was no other identifiable source of funding. In 2010, Council was able to use this reserve to assist with the purchase of strategic lands in the town centre. Those lands are now being sold as part of a phased agreement and the proceeds will be directed to the Capital Works Reserve as a funding source for community assets.

**3. Reserve Accounts**

Reserve accounts are appropriations of surplus established to meet business needs. They can be established or dissolved as Council directs to ensure that identified business needs are met and risks are managed appropriately. At the end of 2015, there is a total of \$40.8 million in the City's reserve accounts, an increase of \$5.45 million, most of which is driven by increases in the reserves for committed projects, police services and building inspections as discussed in the following section.

The following provides a brief summary of the City's reserve accounts:

i). **Committed Projects (capital and operating)**

These represent items approved by Council in prior years that were not completed at the end of our fiscal year, and are ongoing work items. Many of the studies and projects in the financial plan take more than one year to complete, or may be deferred as immediate priorities shift. Examples include provision for plans and studies in the Albion Flats area, costs expected as part of the exit from the Cost Share agreement for recreation and the work required for the closure plan for the old Cottonwood Landfill site. In some instances, the timing of expenditures is uncertain, such as those related to Council's incentive programs. In that example expenditures are dependent on development activity in the community. A number of the capital projects that will receive funding from this reserve are reliant on third party funding and/or awaiting the outcome of property acquisition negotiations.

ii). **Self Insurance**

In order to control insurance premium costs we have relatively high deductibles and have chosen to self-insure many events. This reserve provides funding insurance deductibles and self-insured claims.

iii). **Police Services**

This reserve was established to fund one-time police services initiatives. As per Council practice, at least 50% of RCMP contract savings are transferred into this reserve each year. Some of the projects funded from this reserve are the result of changing standards mandated by the RCMP, for example the need to retrofit the cells in 2010. In 2015, this reserve provided funding in support of Council's Resilience Initiative. As part of our year-end process, 50% of contract savings were transferred to the reserve. There are still outstanding items with the RCMP contract to be settled and this reserve will be available to fund those items when the financial impacts can be quantified.

iv). **Core Reserve**

This reserve was established at the outset of the project that saw the construction of our downtown facilities. It provided a mechanism to build our capacity to finance the project over time while smoothing the impact to taxpayers. Today, it assists in managing the cash flows related to the commercial component of the project and is also available to assist with capital improvements to the downtown facilities. In 2010, funds from this reserve were used to assist with the acquisition of strategic lands in the downtown area.

v). **Recycling Reserve**

The Recycling Reserve retains the balance of recycling levies and MMBC revenues in excess of contract costs as well as the City's share of the Recycling Society's profits. The reserve is used to provide funding for recycling related projects, such as studies or equipment purchases.

vi). **Building Inspections**

This reserve is designed to allow us to deal with the impact of an unexpected reduction in building permit revenues. The amount of revenue realized from building permits varies from year to year in relation to development activity. In the past five years revenues have missed financial plan targets twice. When revenues exceed budgeted targets, a portion of the favourable variance is transferred to this reserve. In years when building permit revenues fall short of financial plan targets, we can mitigate the impact by transferring monies from the reserve, providing us with some capacity to sustain service levels in the short-term. In 2015, building permit revenues exceeded financial plan targets by

approximately \$1.3 million and 50% of this was transferred to the reserve. In 2016, this reserve will assist with the funding required for the additional development services resources approved by Council.

**vii). Gravel**

Soil removal fees are credited to this account each year. It is intended to assist with minor infrastructure repair that may be required as a result of soil removal activities. In 2011, this reserve provided the funding needed to resurface a portion of Dewdney Trunk Road that sees a lot of traffic from gravel trucks.

**viii). Community Works (gas tax)**

In 2014, Council entered into an agreement with the Union of BC Municipalities to receive a share of federal gas tax monies under the Community Works Fund. Monies received under this agreement are transferred to the reserve and will be used to fund projects in accordance with a list of eligible project and expenditure categories set out in the agreement. In 2015 the full amount of funding received in 2014 and 2015 was used to help fund works along 128 Avenue.

**ix). Facility Maintenance**

Not all facility maintenance is required on an annual basis and this reserve was established to smooth the impact of annual fluctuations in required maintenance costs.

**x). Snow Removal**

This reserve is intended to ensure that the City has the financial capacity to respond to costs associated with higher than normal costs for snow and ice control without the need to curtail other services. Our annual budget for this activity in 2015 was \$309,000, with actual costs at \$175,000. Annual costs fluctuate in relation to the severity of weather experienced in any given year and it has not been unusual to see costs in excess of budget. The reserve was established in 1999 with a balance of \$200,000; in each of 2007 and 2008, in recognition of inflationary pressures and the increased costs associated with changing weather patterns the targeted balance in the reserve was increased to \$700,000. In 2011, costs exceeded budgeted amounts by \$14,000 and this amount was transferred from the reserve to offset the impact to the bottom line. No similar draw down has been required since.

**xi). Cemetery Maintenance**

Any excess of revenues over expenses in the cemetery cost centre are transferred to this reserve at year-end. The account is used as a funding source to maintain the cemetery function, both the facility and related technology and is intended to provide the funding for the debt entered into for cemetery expansion. Our experience over the past number of years is suggesting that we will need to look to general revenue to assist with debt servicing costs as revenue projections are not being realized. The perpetual care fund is a separate entity and is managed as a trust.

**xii). Infrastructure Sustainability**

In 2007, the first infrastructure sustainability account was established in recognition of the need to build the City's capacity to maintain our growing infrastructure. The replacement cost of which exceeds \$1.5 billion. The level of annual maintenance and rehabilitation spending required to maintain our infrastructure to appropriate standards is estimated at approximately \$30 million. Our annual expenditures are significantly less than this. Beginning in 2008, we began to dedicate a 1% tax increase to address the gap between



required and actual spending. In 2013, this was reduced to a 0.5% increase per year through 2016, increasing to a 0.7% increase per year in 2017 and 2018.

**xiii). Drainage Improvements**

This reserve was established in 2013 concurrently with Council's drainage levy. Monies generated from the levy are transferred to this reserve and will be used as a funding source for improvements to the City's drainage system. The 2016 financial plan provides for almost \$1 million from this reserve to support projects including works on Loughheed Highway and other improvements to the City's stormwater system.

**xiv). Critical Building Infrastructure**

This reserve was established in 2006 in recognition of the need to provide for emergency or irregular items associated with facility maintenance. Facilities, such as the RCMP building, Municipal Hall and the Leisure Centre were constructed at approximately the same time; consequently, it is likely that some of the building infrastructure will need to be replaced at similar times. Such infrastructure is costly to replace and our existing lifecycle budget does not have the capacity to provide the necessary funding. The reserve is intended to provide that capacity without having to defer other planned facility infrastructure maintenance. The reserve has been used to support projects such as the energy retrofit undertaken at the Leisure Centre that saw the replacement of the existing boiler and the installation of solar panels to reduce energy costs at the facility.

**xv). Infrastructure Grants Contribution**

This reserve was established in 2008 to provide the capacity to take advantage of infrastructure grant programs that typically require a municipality to provide matching funds in order to secure funding. In 2010, as senior levels of government began winding down the round of infrastructure grant programs in place at the time, Council authorized using some of the monies in this reserve to assist in the acquisition of strategic lands in the downtown area. Council may wish to reactivate this account in the future to respond to funding programs offered by senior levels of government.

**xvi). Gaming Revenues**

In 2010, Council entered into an agreement with the Province that resulted in the City receiving a portion of the net revenues from gaming at the Maple Ridge Community Gaming Centre. Monies received under this agreement are to be used to benefit the community. In June of 2011, Council adopted a policy framework to guide the use of gaming monies in the community (Policy 5.55). Under this policy, gaming revenues will be targeted to fund non-recurring items, in particular, capital improvements that cannot be funded through development charges.

**4. Restricted Revenues**

Restricted revenues are monies collected from others for which we are obligated to provide specific works. Due to the restrictions on their use, these monies are reported as a liability until the specific works are undertaken.

The following provides an overview of the City's restricted revenues:

**i). Development Cost Charges**

These funds are collected from the development community and are used to assist in funding specific infrastructure requirements resulting from development. DCC's are the largest source of funding for the District's capital program with planned new investment in

infrastructure exceeding \$50 million over the next 5 years. Actual construction schedules are dependent on development.

**ii). Parkland Acquisition (ESA)**

The Parkland Acquisition Reserve consists of monies paid by the development community in lieu of providing parkland that are subsequently used to acquire environmentally sensitive areas, such as land required for watercourse protection. Land acquisitions along the North Alouette and adjacent to Davison's Pool exhausted this funding source in 2007. Subsequent collections have rebuilt some capacity in this account.

**iii). Albion Amenities**

This reserve was established in 2013 for monies collected from developments in the Albion Area where an amenity contribution was required. Any monies collected will be credited to this reserve and will help to fund future amenities in the Albion area. As at the end of 2015 the balance of collections was \$211,000

**iv). Downtown Parking Facilities**

Funds credited to this account are collected from developers in lieu of providing parking spaces are to be used for the provision of parking in the downtown area.

**v). Developer Specified Projects**

Charges collected from the development community to assist with the provision of certain infrastructure works.

**CONCLUSIONS:**

The above information and attached schedule are intended to provide an overview of the City's financial resources. At the end of 2015 our accumulated surplus in the revenue funds, reserve funds and accounts total \$101.66 million and we have a further \$41.68 million in restricted revenues. Much of this amount is held for capital investment in the community. Not included in these amounts are non-financial resources, such as our land holdings in Silver Valley.

The City has a sound business planning framework which includes a series of financial sustainability policies. The resources outlined in this report were established over many years and assist Council in managing the City's finances.

*"Original signed by Catherine Nolan"*

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Prepared by: Catherine Nolan, CPA, CGA  
Manager of Accounting

*"Original signed by Paul Gill"*

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Approved by: Paul Gill, CPA, CGA  
GM, Corporate and Financial Services

	2015	2014	2013	2012	2011
ACCUMULATED SURPLUS (REVENUE FUNDS)					
General Revenue	\$ 9,859,165	\$ 7,522,666	\$ 6,895,061	\$ 6,091,162	\$ 5,750,719
Sewer Revenue	6,413,897	4,662,448	3,183,533	3,139,776	2,508,311
Water Revenue	8,354,639	6,737,009	5,802,444	4,004,157	3,176,352
	<u>24,627,701</u>	<u>18,922,123</u>	<u>15,881,038</u>	<u>13,235,095</u>	<u>11,435,382</u>
RESERVE FUNDS					
Local Improvement	2,550,517	2,538,017	2,526,837	2,546,836	2,410,449
Equipment Replacement	13,093,289	11,986,081	11,248,713	10,201,905	8,739,798
Capital Works	11,623,295	11,405,241	11,483,128	11,534,975	9,597,847
Fire Department Capital Acquisition	7,054,422	5,585,277	5,059,939	3,837,795	2,636,745
Sanitary Sewer	1,614,769	1,591,334	1,566,114	1,549,532	1,525,588
Land	275,235	271,887	267,578	237,793	234,121
	<u>36,211,527</u>	<u>33,377,837</u>	<u>32,152,309</u>	<u>29,908,836</u>	<u>25,144,548</u>
RESERVE ACCOUNTS					
Specific projects - capital	6,143,821	4,583,648	5,021,293	3,940,405	4,279,626
Specific projects - operating	8,397,216	7,887,243	8,470,583	7,904,720	4,840,167
Self insurance	830,351	832,090	833,360	853,830	921,367
Police services	6,735,888	6,023,054	4,150,222	3,589,380	3,209,740
Core development	1,720,419	1,511,459	1,357,795	1,337,430	904,121
Recycling	1,513,787	1,179,983	1,310,331	1,519,591	1,504,858
Community development	1,349	1,330	1,308	1,296	1,274
Building inspections	2,494,848	1,951,137	1,621,941	1,604,768	1,579,971
Gravel extraction	727,831	661,008	618,532	487,715	478,835
Community Works (Gas Tax)	-	271,332	-	-	-
Neighbourhood improvements	-	-	-	-	51,477
Facility maintenance	1,840,198	1,392,917	582,358	750,376	479,668
Snow removal	686,015	686,015	686,015	686,015	686,015
Cemetery maintenance	30,781	84,810	190,559	125,198	109,068
Infrastructure Sustainability (town centre bldgs)	329,415	223,188	135,028	104,860	38,926
Infrastructure Sustainability (road network)	1,710,679	1,527,202	848,329	1,013,438	882,417
Infrastructure Sustainability (drainage)	-	372,431	289,310	249,861	201,882
Drainage Improvements	1,522,548	491,678	150,000		
Critical infrastructure reserve	200,923	208,672	205,365	203,191	200,052
Infrastructure grants contribution	3,557	3,557	3,557	9,383	9,383
Gaming revenues	779,954	453,492	1,235,451	1,043,811	704,430
	<u>35,669,580</u>	<u>30,346,246</u>	<u>27,711,337</u>	<u>25,425,268</u>	<u>21,083,277</u>
WATER AND SEWER RESERVE ACCOUNTS					
Self Insurance - Sewer	134,873	128,373	121,873	115,373	108,873
Specific projects - Sewer	2,155,690	2,204,628	3,028,476	2,557,611	2,917,913
Self Insurance - Water	113,228	106,728	102,028	95,528	89,028
Specific projects - water	2,746,632	2,579,794	2,003,211	2,973,941	3,563,856
	<u>5,150,423</u>	<u>5,019,523</u>	<u>5,255,588</u>	<u>5,742,453</u>	<u>6,679,670</u>
TOTAL RESERVES					
	<u>\$ 77,031,530</u>	<u>\$ 68,743,606</u>	<u>\$ 65,119,234</u>	<u>\$ 61,076,557</u>	<u>\$ 52,907,495</u>
TOTAL RESERVES AND REVENUE ACCUMULATED SURPLUS					
	<u>\$ 101,659,231</u>	<u>\$ 87,665,729</u>	<u>\$ 81,000,272</u>	<u>\$ 74,311,652</u>	<u>\$ 64,342,877</u>
RESTRICTED REVENUES					
Development cost charges	\$ 33,971,866	\$ 37,155,173	\$ 38,773,658	\$ 39,541,745	\$ 35,660,974
Parkland acquisition	1,203,400	1,028,090	764,167	559,473	295,082
Albion Amenities	211,160	-	-	-	-
Downtown parking facilities	310,717	291,467	286,849	166,770	164,193
Developer specified projects	5,988,904	5,720,704	5,325,301	5,089,215	4,922,373
	<u>\$ 41,686,047</u>	<u>\$ 44,195,434</u>	<u>\$ 45,149,975</u>	<u>\$ 45,357,203</u>	<u>\$ 41,042,622</u>