

Background

This report provides the Finance and Administration Committee with historical information on reserves and reserve funds, a proposed policy on reserve funds, as well as proposed changes for the reserve fund by-law.

The chart below provides a summary of reserves and reserve funds. Reserves and reserve funds are funds set aside for a specific purpose and the difference between the two is that a reserve fund earns interest whereas a reserve does not. The committed portion represents funds set aside within reserves that have already been approved to be spent towards capital projects or set aside for future operating liabilities but not yet spent.

	2014	2015	2016	2017	2018
Reserves	\$5,550,896	\$8,165,551	\$7,143,741	\$6,616,212	\$4,211,029
Reserve Funds	150,673,781	156,746,835	152,129,306	136,283,349	143,232,139
Total	156,224,677	164,912,386	159,273,047	142,899,561	147,443,168
Committed Portion - Capital	70,210,387	67,170,595	86,199,863	75,084,440	49,877,993
Committed Portion - Operating	1,949,655	9,688,446	10,095,034	9,822,551	8,350,255
Total after Committed Portion	\$84,064,636	\$88,053,345	\$62,978,150	\$57,992,570	\$89,214,920

Importance of Reserve Funds

Reserves are monies authorized by Council to be set aside for future capital and operating needs. They are a key component of the City's long-term financial strategy, supporting the City's priority of achieving long-term financial viability. The City's reserves and reserve funds are maintained by the City for four main purposes:

- To support the sustainability of assets by providing for the renewal, major maintenance and replacement of existing capital assets;
- To smooth the financial impact of unplanned cost increases or revenue reductions, or to stabilize fluctuations on property taxation and/or other fees;
- To respond to or capitalize on opportunities that could impact services such as government matching grants, private sector partnerships or other alternative service delivery methods; and
- To fund new capital assets to address community growth.

Reserves support effective long-term planning by matching revenues and expenses over the long-term to ensure the sustainability of services and assets. They also provide Council financial flexibility to capitalize on unanticipated opportunities and respond to budget shortfalls that could otherwise result in property tax increases. In addition, a well-balanced approach to the planning and use of reserves is considered good financial management and contributes to the City's strong credit rating.

Comparison to Other Municipalities

The chart below shows that Greater Sudbury is below the average range of our BMA comparators for all indicators. It is important to highlight that the City earned AA credit rating from S&P Global in 2019 based on its practice of strong financial management, including responsible reserves stewardship. Standard & Poors did however note that reserves were lower than comparable municipalities.

Municipalities have limited sources of funding to establish and replenish reserves & reserve funds. Municipalities either plan and manage reserve balances, or the annual surpluses and deficits determine the year end balances. The City has been doing the latter and recommending a change to improve the long-term planning of reserves.

Indicator	CGS 2015	CGS 2016	CGS 2017	CGS 2018	BMA Average 2018	BMA Median 2018
Reserves per capita	\$998	\$994	\$865	\$887	\$1,034	\$885
Debt to reserve ratio	0.20	0.50	0.50	0.50	0.90	0.50
Tax Discretionary Reserves as % of Taxation	57%	52%	44%	39%	72%	78%
Discretionary Reserves as % of Own Source Revenues	41%	38%	33%	29%	56%	56%

The City's discretionary reserve funds in comparison to other municipalities are lower than average. The City's tax discretionary reserves as a percent of taxation in 2018 was 39% while the BMA average was 72% and the BMA median was 78%. This is an indication that the City does not have as much flexibility to use reserve funds to immediately address unanticipated expenditures; when the committed portion of these reserve funds are spent these ratios will be even lower. With unplanned asset failures and climate change effects, the risk is growing that reserves are insufficient to continue using them the same way we have in the past. We need to plan and fund reserves with dedicated allocations to lower the risk.

Proposed Changes to the Reserve Fund By-Law

1. Consolidation of Reserve Funds

In reviewing the reserve funds, there were a number of reserves that were identified that do not require separate tracking and therefore it is recommended that these reserve funds be consolidated with the Tax Rate Stabilization Reserve and the Capital Financing General Reserve Fund, as shown in Appendix A. Any commitments associated with the consolidated reserve funds will be transferred to the Tax Rate or Capital Financing General committed accounts.

The Capital Budget Policy takes an enterprise-wide approach to prioritizing and funding capital projects, therefore a number of reserve funds have been consolidated to support enterprise-wide planning and prioritization. This has reduced the number of reserve funds outstanding which has helped to improve efficiency in monitoring and tracking the reserves.

The reserve funds that will be consolidated are shown in Appendix A and will become effective in the 2019 year end financial statements.

2. Minimum Targets and Other Changes to Reserve Funds

Based on the Long-Term Financial Plan, prepared by KPMG in April 2017, it recommended that the City review the current reserve funds and establish minimum and maximum amounts for some of the reserves. Specifically, it recommended that review of the reserve funds will help to establish minimum amounts to ensure the sufficiency of these funds to meet future service sustainability needs. In reviewing the reserve funds, this would also include a reevaluation of the reserves where minimum and maximum amounts have already been established.

A minimum target has been determined for some reserve funds based on professional judgment to manage risk in areas where it has been deemed appropriate. This will help to ensure sufficiency of the fund balances and the City's ability to improve its financial position in comparison to other municipalities. If a reserve fund balance does not meet the minimum target, attention will be given to those reserve funds and effort will be made to increase the fund balances to the minimum target level. A rationale in selecting the minimum targets for certain reserve fund has been established and is shown in Appendix B.

There is no recommendation for a maximum target as the needs are so great that there is not any risk that a reserve will have too much funding available.

Starting with the 2021 Budget, staff will recommend that the Budget direction include a contribution to reserves that will be prorated (based on the recommended minimum levels) to the three main reserves being:

- Tax Rate Stabilization Reserve
- Capital Financing General Reserve Fund
- Winter Control Reserve Fund

A contribution to the reserve funds will enable the City to increase the reserves to maintain financial stability and long-term financial planning.

Appendix B also provides information on the reserve funds that will remain in the Reserve Fund By-law along with their revenue sources and purpose.

3. Obligatory Reserve Funds

Appendix C is a listing of all obligatory reserve funds and the purpose and use of the funds as it relates to various agreements or acts.

The Appendix includes new obligatory reserve funds which will be added to the Reserves and Reserve Funds and they are: Subwatershed Provincial Fund Reserve Fund, OMCC Provincial Grant Reserve Fund, AMO Funding Reserve Fund. These additions reflect new funding agreements where funds must remain in a separate account and earn interest until fully spent.

In addition, there are a few obligatory reserve funds which will be removed when the balances are zero and include the Development Charges – Cemetery Services Reserve Fund and the Development Charges – Public Works. The reason for the removals is due to the fact that the City no longer collects development charges for cemetery services or public works.

4. Greater Sudbury Housing Corporation

This policy and by-law excludes the Greater Sudbury Housing Corporation (GSHC) as the GSHC has its own reserve funds and policy including limits.

Reserve and Reserve Fund Policy

Appendix D includes the recommended Reserve and Reserve Fund Policy which outlines the management and administration of the City's reserves and reserve funds.

Commitment for Succession Planning Request

In 2007 and 2009, Council approved a fund in the amount of \$2.9 million to be established to assist the City to address short- and long-term human resource planning needs.

Since 2007, the succession fund has supported the hiring and successful transfer of knowledge for forty-six (46) positions, under three categories:

1. Apprentice and Co-Operative Education Placements (Technicians) – funds apprenticeships in positions that have pending retirements in difficult to attract fully licenced skilled trades.
2. Pre-hire – provide overlap between outgoing employee and replacement hire.
3. Strategic hire – positions that support succession initiatives or anticipated retirements that require significant organizational information, experience and skills.

A portion of the funds were reserved for outreach recruitment with most of the funds used for pre-hiring and strategic hiring for key positions and support for apprenticeship and co-operative educational opportunities. Within the next 5 years, the organization forecasts that approximately 15% of staff can retire. While this does not indicate with certainty that these employees will retire, their eligibility creates a vulnerability for the City. The Executive Leadership Team assesses and calibrates its talent pipeline for key roles in the organization through a series of Talent Management activities. These activities lead to steps with individual employees such as arranging developmental assignments, training and leadership education, and overlap with retiring employees. The succession management guidelines authorized by Council in 2007 establishes the kinds of activities that are eligible for funding through the use of these succession management funds.

Coupled with the potential upcoming wave of retirements within the City, there is a recognized shortage that will continue to grow within the technical and skilled trade roles. The Ontario Chamber of Commerce (OCC) conducted a study that indicated over 50% of employers recruiting for a role within engineering and infrastructure reported difficulty in recruiting. Ten out of the 57 inside unit/non union jobs (17%) we focused on required reporting. This does not speak to whether or not the second round of recruitment was successful. The areas of focus were: IT, Finance/Accounting and Technical positions from GIS. The City's experience with engineering, leadership and top technical roles is similar. Our experience is consistent with the OCC's report.

These challenges within our workforce and within the labour market support the continued need to allocate succession funds to ensure that the City can attract prospective employees to the City to key roles and support their integration into our workforce.

As a result, staff is requesting that \$2.2 million be committed from the Human Resources Reserve Fund to continue with succession planning initiatives as outlined in this report.

Conclusion:

Staff recommends that Council adopts the Reserve and Reserve Fund Policy as well as the changes as outlined in this report. These changes will be reflected within the Reserves, Reserve Funds and Trust Funds By-law and will become effective for the 2019 year end financial statements.