

Request for Recommendation

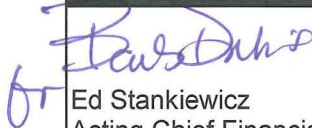
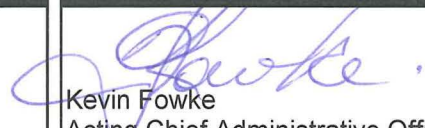
Finance and Administration Committee




Type of Decision									
Meeting Date	February 2, 2016				Report Date	January 28, 2016			
Decision Requested		Yes	X	No	Priority		High	X	Low
	Direction Only				Type of Meeting	X	Open		Closed

Report Title
Committed Reserve Funds

Budget Impact/Policy Implication		Recommendation	
	This report has been reviewed by the Finance Division and the funding source has been identified.	For information only.	
X	Background Attached		Recommendation Continued

Recommended by the Department	Recommended by the C.A.O.
 Ed Stankiewicz Acting Chief Financial Officer/Treasurer	 Kevin Fowke Acting Chief Administrative Officer

Report Prepared By	Division Review
 Apryl Lukezic Co-Ordinator of Budgets	

Purpose:

This report is to provide additional information on committed reserve funds and the potential availability for other areas/projects as requested by the Finance and Administration Committee on January 19, 2016.

The 2016 Budget presented to the Finance and Administration Committee on December 8, 2015, included a section on Reserves and Reserve Funds. This section provided the forecasted balances in each reserve and reserve fund for the end of 2015 and 2016.

Maintaining Reserve and Reserve Funds

As outlined in the BMA Study, it explains the reserves and reserve funds are a critical component of a municipality's long-term financing plan. The purpose for maintaining reserves is to:

- Provide stability of tax rates in the face of variable and uncontrollable factors (consumption, interest rates, unemployment rates, changes in subsidies)
- Provide financing for one-time or short term requirements without permanently impacting tax and water/wastewater rates
- Make provisions for replacements/acquisitions of assets/infrastructure that are currently being consumed and depreciated
- Avoid spikes in funding requirements of the capital budget by reducing their reliance on long-term debt borrowings
- Provide a source of internal financing
- Ensure adequate cash flows
- Provide flexibility to manage debt levels and protect the municipality's financial position
- Provide for future liabilities incurred in the current year but paid for in the future

Therefore, reserves offer liquidity which enhances the municipality's flexibility, both in addressing unplanned operating requirements and in permitting the municipality to temporarily fund capital projects internally. The level of reserves and reserve funds is a key measure of the financial health of a municipality. Compared

to other municipalities in Ontario, the City is below the median as it pertains to reserves and reserve funds as a percentage of total taxation, as identified in the 2015 BMA municipal study which is based on statistics for 2014. The ratio used is total reserve and reserve funds (excluding water/wastewater) as a percentage of taxation revenues. In 2014, 35 of 103 participants in the study have a lower percentage than Sudbury. The results across the survey range from a low of -12% to a high of 193% in 2014. In 2014, the City remained at the same level of 54%.

City's Committed Reserves and Reserve Funds

The City's balance of reserves and reserve funds is estimated at \$155 million at the end of 2015, of which approximately 52% or \$74 million is specifically committed for a specific project, program or future liability/expense. The types of "committed" reserve funds include the following:

1. Capital Financing Reserve Funds.

There are several committed reserve funds for Roads, Water, Wastewater, Fleet, Leisure, Emergency Medical Services and so on. The amounts in these committed reserve funds have been previously approved by City Council(s) for specific capital projects which are in progress and/or have not yet been completed. The reserve funds that are not in the committed reserve fund are set aside for future capital projects based on replacement lifecycle and upgrades as required.

2. General Reserve Funds.

There are several general reserve funds established for future liabilities/expenses such as WSIB, sick leave, human resources and election. The WSIB reserve fund was established as the City is self-insured and significant funds would be required if an employee experiences a significant injury while working on the job. Also, the Sick Leave reserve funds for unused credits will be used to pay out employees when they cease their employment with the City. Only Fire Services and Pioneer Manor employees continue to accumulate 1.5 days per month of sick leave. Therefore, there are known and potential future liabilities that these reserve funds will fund to avoid significant expenses in a single year on the tax levy.

The remaining reserve funds are not "committed" but are set aside for the specific purpose of that reserve fund as outlined in the City's Reserve and Reserve Fund By-law.

City's Reserve Fund Availability

Of all of the reserves and reserve funds, there are two that are "uncommitted" and that can be used for any purpose, which are:

1. Tax Rate Stabilization Reserve (estimated balance of \$2.57 million on Dec 31, 2015)

However, this reserve has a purpose to provide for year-to-year variances in the operating budget. For example, if the City experiences an operating deficit and there are insufficient funds in this reserve to cover it, then it will most likely be added to the budgeted tax levy increase for the following year.

2. Capital Financing Reserve Fund – General (estimated balance of \$34,000 on Dec 31, 2015)

This reserve fund is the only source of funding for capital projects that have no capital envelope or insufficient capital funding. In the past few years, this reserve fund has provided funding for projects such as SCBA equipment for Fire Services, Elevator replacement at TDS and the Solar Panels for Gerry McCrory Countryside Complex and Pioneer Manor.

Impact of Reserve Funds on Investments and Potential Debt

The balance of the reserve funds will vary throughout the year and year over year based on the timing of payments and completion of capital projects, as well as any potential liability relating to WSIB and sick leave.

These reserve funds are invested by the City to generate investment income. Based on cash flow needs (timing of payments), investments are redeemed in order for the City to be able to meet the obligations of these cash payments. If the reserve funds are used for debt purposes, then the funds will no longer be available to meet its cash obligations for previously approved capital projects, future capital needs and any likely and potential liability expense payments as they arise.

Conclusion

This report provides additional information to explain committed reserve funds and the availability of these funds on debt as well as the impact on investments.