

For Information Only

Consolidated Reserves and Reserve Funds Balances as of December 31, 2011

Presented To:	Audit Committee
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Recommendation

For information only.

EXECUTIVE SUMMARY:

The purpose of this report is to provide Council with a snapshot of the balances in the reserve and reserve funds at December 31, 2011.

Overall, the consolidated reserve and reserve funds have increased during 2011 by \$22.9 million to \$114.5 million from \$91.6 million at December 31, 2010.

In summary, the following are the highlights:

Balance: January 1, 2011 (non-consolidated) \$ 90.2 million

Add: Interest	2.0 million
Contribution from Corporate Surplus	6.5 million
Other transfers from operating in accordance With Reserve By-Law	6.2 million
Net transfers approved from 2011 Capital Budget And other approvals	<u>8.1 million</u>
Balance: December 31, 2011	\$113.0 million
Add: Reserves of Consolidated Entities	<u>1.3 million</u>
Balance: December 31, 2011	\$114.3 million

BACKGROUND:

Please see Appendix A for tables illustrating the trends in reserve and reserve funds over the past five years.

Please see Appendix B which provides a more detailed explanation of each of the City's reserves and reserve funds.

Reserves and reserve funds are generally set aside for significant future purchases, to replace major capital infrastructure, are accumulated to meet a growing future liability, or are simply accumulated to provide a buffer for significant unanticipated expenditures beyond the control of Council.

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The main difference between a reserve and a reserve fund is that a reserve does not earn interest, whereas a reserve fund is in a separate fund and is credited, on a monthly basis, with the interest it has earned.

As outlined in the BMA study, reserves and reserve funds are a critical component of a municipality's long-term financing plan. The purpose for maintaining reserves, as outlined in the report, 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 utility 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

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 2011 BMA municipal study which is based on statistics for 2010. The ratio used is total reserve and reserves funds (excluding water/wastewater reserve funds) as a % of taxation revenues. In 2010, only fifteen of sixty-eight participants in the study have a lower percentage than Sudbury. The results across the survey range from a low of 4% to a high of 220% in 2010. For 2010, there has been an increase at the CGS from 41.0% to 46.0%. Appendix B provides a more detailed explanation of each of the City's reserves and reserve funds at the end of 2010.

By-law

By-law 2010-84, being the by-law to establish and continue reserves, reserve funds and trust funds, is reviewed on an annual basis and recommendations to establish, discontinue or consolidate reserves are brought to Council for approval, and for authority to amend the By-law.

Trust Funds

Trust funds are not included in this report. Trust funds are monies of others, being held in trust by the City, for specific purposes. The money is spent on the intended purpose or returned to the original source. Examples of trusts are the cemetery trust where money has been received and is held in trust to ensure perpetual care and maintenance of the cemeteries, or the funds belonging to residents of Pioneer Manor being held in trust for them.

Deferred Revenue - Obligatory Reserve Funds

Obligatory Reserve Funds are not included in this report as they represent deferred revenues. The balance as at December 31, 2011 was \$27.1 million, down from \$30.4 million in 2010. Deferred Revenue-Obligatory Reserve Funds, that by nature of the revenues received, involve restrictions on their use and are not available for the discretionary use of Council. The decrease relates to spending of Provincial Gas Tax Revenues, Canada Transit Funding, Parks (Section 50) and the Subdivision Deposit Reserves which are offset by building permit revenues and Development Charge reserves.

Long Term Financial Plan

The Long Term Financial Plan, adopted by Council, references reserves in a number of its recommendations:

1.6 Plan for the replacement of infrastructure through the use of life cycle costing and the development of replacement reserves.

5.2 Undertake regular reviews of remaining life and condition of assets and determine required annual reserve contributions sufficient to ensure that 90% of approved infrastructure rehabilitation / replacement schedules can be met at the required time.

8.1 Facility, equipment and infrastructure replacement reserves should be established and funded to ensure that 90% of approved infrastructure rehabilitation / replacement schedules are met (long-term), as determined in point 5.2

8.2 Establish a Stabilization Reserve for programs that are susceptible to significant annual expenditure fluctuations (eg. Winter Maintenance). Program budgets should be based on a moving five year historical average of program spending. In years when surplus funds occur in these programs, surpluses should be reserved, provided an overall City surplus exists. Where the City's overall surplus is less than the program surplus, funds should only be reserved up to the level of the overall City surplus.

8.3 Establish reserves to provide funding for future liabilities (eg. sick leave). Contributions to these reserves should be set, at a minimum, at an amount sufficient to ensure the liability does not increase.

The City needs to address these recommendations through the establishment of and continuation of increased funding for reserves.

CONCLUSION:

It is recommended that the City continue to implement and foster prudent reserve and reserve fund policies, especially in light of the intense capital financing pressures which it faces over the next five to ten years.

Periodically the By-law governing Reserves, Reserve Funds and Trust Funds is reviewed to ensure the content is still applicable and appropriate.

Appendix A: Historical Trend in Reserves and Reserves Funds (000's)

The following tables illustrate the trends in Reserve and Reserve Funds over the last 5 years

	2007	2008	2009	2010	2011
CGS Reserves	\$9,524	\$10,737	\$6,620	\$9,481	\$9,884
CGS Reserve Funds	89,765	77,878	73,874	80,749	103,112
Other Consolidated Entries	838	1,285	1,170	1,410	1,483
Less W/WW Reserves Funds	(18,576)	(8,793)	(5,637)	(7,692)	(15,725)
Total CGS Reserves & Reserve Funds	\$81,551	\$81,107	\$76,027	\$83,948	\$98,754

Tax Descretionary Rreserves (Less W/WW) as % of Taxation

	2007	2008	2009	2010	2011
Reserves and Reserve Funds as a % of Taxation	47.9%	51.0%	39.0%	41.0%	46.0%
BMA Study – Median	55.0%	67.0%	64.0%	60.0%	TBD
BMA Study – Low	25.0%	19.0%	21.0%	4.0%	TBD
BMA Study – High	238.0%	232.0%	224.0%	220.0%	TBD

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2011 compared to December 31, 2010**

NAME	RESERVES	31-Dec-11 \$	31-Dec-10 \$
Election Reserve	Annual contributions are made to this reserve so as to avoid major budget fluctuations in election years. Funds will be withdrawn for the next municipal election in 2014.	702,348	442,406
Libraries / Citizen Service Centre Reserve	Because libraries receive Provincial operating grants, a working reserve is required. When the City is in a surplus position overall, any Library surplus is contributed to this reserve, and deficits are funded from this reserve. Also used to finance capital and special projects.	148,235	75,454
Committed	Balance is for the Valley East Archives project.	14,910	460,140
Land Reclamation Reserve	Fund created from surpluses due to net under expenditures in Land Reclamation over the years. Used to offset fluctuations in the cost of purchasing seedlings each year, which eliminates fluctuations in operating costs.	717,359	522,464
Reserve for Various Expenses	Created at year-end, through resolution of Council, to allow funds budgeted in current year to be carried forward to the following year to pay for certain items. The majority of these funds will be spent in 2012.	2,167,678	2,541,646
Ontario Works Reserve	Established to be used as a buffer for such instances as the Province increasing benefits to recipients mid-year when no budget provision had been made.	340,150	340,150
Human Resources Organizational Development Reserve	This reserve shall be funded from any annual under expenditures in training related accounts, and shall be used to fund training and development of City staff.	562,572	538,765
Pioneer Manor Fundraising Reserve	Net revenue resulting from fund-raising activities at Pioneer Manor (mainly through auxiliary). Committee of residents, auxiliary, staff recommend expenditures from this reserve. All funds committed in 2011 Capital Budget	25,330	98,320
Future Development Charges Study Reserve	Set aside to fund the next Development Charges background study in 2014.	15,788	15,788
Tax Rate Stabilization Reserve	One half of any annual operating surplus or deficit is funded from or contributed to this reserve. This reserve provides for year to-year variances in the operating budget.	2,291,109	568,416
Committed	Represents funds committed by Council for a number of one-time programs. The balance includes all of Council's decisions to December 31, 2011 and 2012 budget options as approved by Council.	2,791,657	3,770,127
Reserve for West Nile Virus	Established to fund the City's share of West Nile Virus/Vector Borne Disease expenditures that may be incurred and levied by the Health Unit.	107,000	107,000
	Sub Total	\$9,884,136	\$9,480,678

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**Reserve and Reserve Fund Balances
as at December 31, 2011 compared to December 31, 2010**

NAME	RESERVE FUNDS	31-Dec-11 \$	31-Dec-10 \$
Sick Leave Reserve Fund	Annual contributions from current budget to be used to pay out accumulated sick leave credits. Most employees no longer receive sick leave credits, but are covered through weekly indemnity and long term disability. Sick leave credits in existence at the time of the change were left intact, and employees are entitled to a payout of 50% of these credits, to a maximum of 6 months pay, when they retire. Employees at Pioneer Manor and Fire Services still accumulate 1.5 days per month of sick leave. Total CGS liability at the end of 2011 is \$6.1 million which exceeds the balance in the fund.	2,782,442	2,793,743
Police Sick Leave Reserve Fund	Balance in fund is to pay sick leave to retiring Greater Sudbury Police Service employees in accordance with policies of the City of Greater Sudbury.	1,946,092	1,956,672
Police Services Post 65 Employment Benefits Reserve Fund	The Police have set up this reserve fund to provide for retirees' benefits past the age of 65. This reserve fund can be funded from net expenditures in the Police operating budget, budgeted contributions and unallocated funds from its capital envelope.	431,196	420,441
Human Resources (HR) Management Reserve Fund	Balance in fund indicates favourable claims experience. To be used to fund claims and absorb fluctuations in premium rates. Can also be used for any initiatives targeted to reduce or control expenses to the benefit plans and sick leave reserve fund. In addition, an unfunded liability of \$27.1 million relating to post-employment benefits exists.	6,041,595	7,015,920
HR Committed - Succession Planning	Approved by Council for succession planning.	1,907,543	2,133,242
HR Committed	Approved by Council for claims stabilization and rewards and recognition program as well as \$500,000 as approved during the 2012 Budget to fund the attrition policy during 2012.	3,125,218	2,293,907
WSIB (Workers Safety Insurance Board) Schedule 2 Reserve Fund	Established through contributions from operating by assessing 'premiums' on payroll. The reserve is used to pay invoices from WSIB, to top up salaries in accordance with Collective Bargaining Agreement requirements and to pay rehabilitation expenses. The reserve ensures there is no detrimental impact on the operating budget. It is strongly recommended that the balance in this reserve fund be maintained in order to have funds available should the City experience any catastrophic loss. All City employees except Pioneer Manor are under Schedule 2.	2,622,759	1,941,955
WSIB Schedule 2 Committed	Amount set aside as a contingency for catastrophic events	630,000	0
Insurance Reserve Fund	Funded through contributions from operating and used to fund adjuster expenses and the deductible portion of claims. There are many outstanding claims, with the deductible portion of most claims being \$50,000. The fund is required to ensure that claims can be covered with no impact on the Current Fund. If deductible limits or claims experience should increase, the annual contributions to this reserve may also have to be increased.	1,270,646	1,042,842
Environmental / Other Initiatives Reserve Fund	Funded from contributions from operating as per budget or Council request	666,589	649,962
Land Acquisition Reserve Fund	Funded from net proceeds of sale of surplus property and used to fund purchases of any required property.	2,359,164	1,992,149
Committed	Approved by Council for purchase of Green Space	200,000	0

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**Reserve and Reserve Fund Balances
as at December 31, 2011 compared to December 31, 2010**

NAME	RESERVE FUNDS	31-Dec-11 \$	31-Dec-10 \$
Parking Improvement Reserve Fund	Funded from net proceeds of parking facilities, and to be used on improvements or expansions to parking facilities.	2,248,119	1,991,783
Committed	Approved by Council for parking improvements from the 2011 and 2012 Capital Budget.	159,725	100,000
Pioneer Manor Donations Reserve Fund	Funded through donations and to be used specifically for improvements to the grounds and courtyards at Pioneer Manor. A total of \$43,350 is committed in the 2011 Capital Budget	61,619	48,566
Social Housing Capital Reserve Fund	Used to fund any major capital undertakings for the housing stock. Operating surpluses in this section are to be credited to this reserve fund if the City is in an overall surplus position. Deficits are to be funded from this reserve fund. This fund is capped at \$10 million.	6,742,010	6,482,951
Committed	Approved by Council from 2012 Budget for various projects.	200,000	200,000
Industrial Park Reserve Fund	Established from proceeds of land sales in the Industrial Park and to be used for the expansion or creation of Industrial Parks.	1,180,947	1,853,318
Committed	Committed by Council primarily for improvements to Walden Industrial Park, LaSalle Industrial Park and an Industrial Land Infrastructure Assessment.	1,502,161	1,173,348
Community Initiatives	Funded through contributions from operating with Council approval for community projects with the funds being either conditional or required at a later time. Funds previously reserved for the Northern Ontario School of Architecture funds were transferred to fund the Liability to the School of Architecture.	127,345	1,575,129
Business Centre Reserve Fund	Originally established through a contribution from the Industrial Reserve Fund, has continued through contributions from partners in the Regional Business Centre. The balance therefore is not completely attributable to the City. The Business Centre was created to help businesses become established and viable. Surpluses and deficits in the Regional Business Centre are credited to or debited from this fund.	570,380	629,191
Communications Infrastructure Reserve Fund	Annual budgeted amounts are contributed to this Reserve Fund for the replacement of 911 Communications Infrastructure. The project is to be completed during 2012/2013.	1,547,957	929,188
Stormwater Management Reserve Fund	This Reserve Fund is funded by deposits received through Site Plan Control Agreements and Subdivision Agreements for future storm water development initiatives.	835,816	519,219
Centennial Drive Booster Reserve Fund	Funded through \$2,000 per lot charge collected on registration of Plans of Subdivision in the area near Centennial Drive. Funds must be used to upgrade the booster for water service.	85,662	75,674
Roads Winter Control Reserve Fund	Established in 2003 in accordance with Long Term Financial Plan recommendations as a stabilization reserve. May be used to offset Winter Control over expenditures.	3,076,741	3,000,000
Vegetation Enhancement Technical Advisory Committee (VETAC) Reserve Fund	Funded through donations and to be used for projects recommended by the Vegetation Enhancement Technical Advisory Committee, as authorized by Council.	4,553	4,440
CLELC Reserve Fund	Funded through surpluses in Lionel E. Lalonde Centre and other Emergency Preparedness Capital Projects. This fund will be used for future capital projects.	133,386	0

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**Reserve and Reserve Fund Balances
as at December 31, 2011 compared to December 31, 2010**

NAME	RESERVE FUNDS	31-Dec-11 \$	31-Dec-10 \$
Agricultural Drains Reserve Fund	Funded from the operating budget, used to fund the municipal share of the construction costs of new drains.	1,002,160	580,383
Committed	Funding for Agricultural Drains as per Net Assessments	378,915	0
Police Services Donations Reserve Fund	Under control of the Police Services Board and to be used for crime prevention initiatives.	114,255	111,935
Cemeteries Reserve Fund	Cemetery Services is self-funding; this reserve is funded through any annual cemetery operating surplus and is to be used only to fund cemetery deficits and for cemetery capital projects.	290,160	196,287
Committed	Funds approved in 2011 and 2012 Capital Budgets for various projects including Mausoleum Phase 5.	312,478	200,000
Emergency Services - Ambulance Reserve Fund	Funded 50/50 through contributions from the operating budget and Provincial grants. Must be used for ambulance capital projects including all vehicles and equipment and stations. May be subject to having to return funds to Province if not used for projects specific to EMS.	2,393,587	2,186,735
Committed	Funds approved in 2011 Capital Budget for various projects.	264,068	
199 Larch Street Building Maintenance Reserve Fund	Established at time of purchase of 199 Larch (a \$17 million asset), with annual contributions. To be used to offset any major capital repairs, thus preventing a substantial impact on the operating budget. Surpluses in this section shall be credited to the reserve fund and deficits are to be funded from this reserve fund. All funds committed in 2012 Capital Budget..	21,660	1,681,056
	Sub Total	\$47,236,948	\$45,780,035

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**Reserve and Reserve Fund Balances
as at December 31, 2011 compared to December 31, 2010**

NAME	CAPITAL FINANCING RESERVE FUNDS (CFRF)	31-Dec-11 \$	31-Dec-10 \$
CFRF - Information Technology	Funded from any under expenditures in the Information Technology section, if the City is in an overall surplus position. Also funded from any under expenditures in related capital projects. To be used for information technology projects only.	3,393,760	2,699,201
Committed	Approved funds from 2011 Capital Budgets for various software and consulting costs.	110,000	110,000
Equipment and Vehicle Replacement Reserve Fund	Funded through contributions from operating by equipment credits. A total of \$881,547 is committed in the 2011 and 2012 Capital Budgets	5,270,399	3,586,650
Police Vehicle and Equipment Reserve Fund	Funded through contributions from operating. Annual contribution is scheduled to be fully utilized. This Reserve Fund is controlled by the Police Services Board. A total of approximately \$1.5M is committed in the 2011 and 2012 Capital Budgets.	2,181,129	1,494,916
Transit Vehicle and Equipment Reserve Fund	Funded through contributions from operating and to be used for replacing transit vehicles. A total of \$405,576 is committed in the 2011 and 2012 Capital Budgets.	1,335,446	2,172,389
Fire Vehicle and Equipment Reserve Fund	Funded through contributions from operating and to be used for replacing fire vehicles and equipment. This amount is fully committed in the 2012 Capital budget	182,962	170,913
Recycling Equipment Replacement Reserve Fund	Funded through contributions from operating. Much of the recycling equipment is 15 years old and has almost reached the end of its useful life. It is anticipated that the equipment will have to be replaced within the next few years, and the full balance of this fund will be required.	1,044,778	1,138,269
Parks Vehicle and Equipment Reserve Fund	Funded through contributions from operating and to be used for replacing parks equipment. A total of approximately \$28,000 is committed in the 2011 Capital Budget.	88,807	129,135
CFRF - Solid Waste	Funded from surplus funds in solid waste capital projects. To be used only for solid waste projects. The balance of this reserve fund is required for projects identified in the approved Certificate of Approval for the landfill sites, in particular the Sudbury site which is slated to become the only landfill site in the City once all other sites are closed. The post-closure liabilities amounted to \$11.15 million at the end of 2011. In addition, there is a capital funding gap.	1,713,685	1,788,973
Committed	Represents funds approved in 2011 and 2012 Capital Budget for various projects.	961,000	819,000

CITY OF GREATER SUDBURY

Reserve and Reserve Fund Balances
as at December 31, 2011 compared to December 31, 2010

NAME	CAPITAL FINANCING RESERVE FUNDS (CFRF)	31-Dec-11 \$	31-Dec-10 \$
CFRF - General	One half of any annual operating surplus or deficit is funded from or contributed to this reserve fund. It is also the only source of funding for capital projects that have no capital envelope.	4,786,205	2,341,467
Committed	Represents funds committed by Council for a number of one-time programs. The balance includes all of Council's decisions to December 31, 2011 and amounts from the 2012 Budget.	2,944,268	2,075,568
CFRF - Administrative	Funded from any under expenditures in related capital projects. To be used only for corporate infrastructure (i.e. telephone systems, docutech equipment, etc.).	3,133	464
Committed	Represents funds committed by Council for various projects from the 2011 Capital Budget.	93,194	107,136
CFRF - Economic Development	To be funded from unallocated or excess funds in the capital envelope, and to be used only for Economic Development projects.	418,967	17,662
Committed	Committed funds for various projects from 2011 and previous budgets.	424,642	574,035
CFRF - Buildings	Funded from under expenditures in related capital projects. To be used only for assets (buildings) projects.	330,791	291,532
Committed	Previously approved funds for fuel systems, salt domes and depots.	440,965	390,765
CFRF - Police	Funded from under expenditures in related capital projects. Will be used only for Police projects. Reserve is under the control of Police Services Board.	1,254,086	1,187,510
Committed	Committed funds for various projects from 2011 and 2012 Capital Budgets.	1,800,406	500,000
CFRF - Roads	Funded from under expenditures in related capital projects. To be used only for Roads projects. Increase in the balance of the reserve is due to development charges collected.	3,597,896	2,602,590
Committed	Balance represents funds committed from the 2011 and 2012 Capital Budgets and for property acquisition.	5,870,051	2,014,432
CFRF - Waste Water	Funded from under expenditures in related capital projects and development charges. In addition, surpluses and deficits in this utility are contributed to or funded from this reserve fund. To be used only for Wastewater projects. Used to address any emergency upgrades which may be required, upon authority of Council.	3,335,305	1,894,059
Committed	The balance is committed to the Lively treatment plant upgrades, sanitary Rock Tunnel inspections and various projects approved in the 2012 Capital Budget.	3,719,907	549,960

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2011 compared to December 31, 2010**

NAME	CAPITAL FINANCING RESERVE FUNDS (CFRF)	31-Dec-11 \$	31-Dec-10 \$
CFRF - Water	Funded from under expenditures in related capital projects, development charges and deposits at the building stage for water meter installation. In addition, surpluses and deficits in this utility are contributed to or funded from this reserve fund. To be used only for water projects, including water meter installation and any projects necessitated by the Ministry of the Environment. Used to address any emergency upgrades which may be required, upon authority of Council.	5,259,801	5,242,508
Committed	The balance is for projects previously budgeted but deferred to a future date plus projects approved in the 2012 Capital Budget.	3,410,000	5,730
CFRF - Community Development - H & S S	Funded from restructuring and high wage subsidies received from the Province for Pioneer Manor, and from any under expenditures in related capital projects.	81,857	27,923
Committed	This amount represents previously approved funds for physician recruitment and approval from 2011 Capital Budget for various projects at Pioneer Manor.	50,580	569,172
CFRF - Fire Services	Funded from under expenditures in related capital projects. To be used only for Fire Services Projects.	0	29,229
Committed	Committed funds for various projects from the 2012 Capital Budget.	29,976	0
CFRF - Community Development - Citizen / Leisure Services	Funded from under expenditures in related capital projects. To be used only for Citizen and Leisure Services projects.	288,279	368,337
Committed	Commitments related to Council related projects and scoreboard replacement.	1,452,460	69,084
	Sub Total	55,874,735	34,968,606
	TOTAL RESERVE AND RESERVE FUNDS	112,995,819	90,229,319