

For Information Only

Consolidated Reserves and Reserve Funds Balances as of December 31, 2010

Presented To:	Audit Committee
Presented:	Wednesday, Jun 22, 2011
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Recommendation

For information only.

EXECUTIVE SUMMARY:

The purpose of this report is to provide Council with a snapshot of the audited balances in the reserve and reserve funds at December 31, 2010.

This report is an update from the reports provided to the Finance Committee during 2011 Budget deliberations.

Overall, the consolidated reserve and reserve funds have increased during 2010 by \$9.9 million to \$91.6 million from \$81.7 million at December 31, 2009.

In summary, the following are the highlights:

Balance - January 1 (non-consolidated)	\$ 80.5 million
Add: Interest	1.7 million
Contribution from Corporate Surplus	6.0 million
Other transfers from Operating in accordance with Reserve By-Law	9.8 million
Less: Net transfers approved from 2010 Capital Budget and Other Approvals	<u>(7.8 million)</u>
Balance - December 31 (non-consolidated)	\$ 90.2 million
Add: Reserves of Consolidated Entities	<u>1.4 million</u>
Balance - December 31 (Consolidated)	\$ <u>91.6 million</u>

BACKGROUND:

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

Signed By

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Please see Appendix B which provides a more detailed explanation of each of the City's reserves and reserve funds at the end of 2010.

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.

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 2010 BMA municipal study which is based on statistics for 2009. In 2009, only fifteen of seventy-five participants in the study have a lower percentage than Sudbury. The results across the survey range from a low of 19.6% to a high of 305.7% in 2009. For 2010, there has been an increase at the CGS from 38.6% to 44.4%.

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, 2010 was \$30.4 million, down from \$31.6 million in 2009. 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 Regional Road #80 which are offset by unspent Federal Gas Tax Revenues, subdivision deposits and building permit revenues.

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.

Currently, the By-law governing Reserves, Reserve Funds and Trust Funds is being reviewed to ensure the content is still applicable and appropriate. A report to Policy Committee will follow in the fall 2011.

Appendix A: Historical trend in reserve and reserve funds.

The following tables illustrate the trends in reserve and reserve funds over the past five years:

	2006	2007	2008	2009	2010
CGS Reserves (in '000)	\$ 6,004	\$9,524	\$10,737	\$6,620	\$9,481
CGS Reserve Funds	81,581	89,765	77,878	73,874	80,749
Total CGS Reserves & Reserve Funds	\$87,585	\$99,289	\$88,615	\$80,494	\$90,230
Other Consolidated Entities	626	838	1,285	1,170	1,410
Total	\$88,211	100,127	\$89,900	\$81,664	\$91,640

	2006	2007	2008	2009	2010
Reserves as a % of Taxation	42.8%	47.9%	50.8%	38.6%	44.4%
BMA Study – Median	56.4%	55.3 %	66.2 %	63.7 %	TBD
BMA Study – Low	5.1%	12.5 %	16.3 %	19.6 %	TBD
BMA Study – High	244.0%	238.3%	231.9%	305.7%	TBD

TBD – to be determined

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2010 compared to December 31, 2009**

NAME	RESERVES	31-Dec-10 \$	31-Dec-09 \$
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.	442,406	851,187
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.	75,454	20,945
Committed	Balance is for the South Branch Library and the Valley East Archives project.	460,140	14,910
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.	522,464	273,248
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 2011.	2,541,646	1,734,315
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.	538,765	493,866
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 (i.e. prints for walls, etc.). Not truly City's money.	98,320	81,131
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	This reserve provides for year-to-year variances in the operating budget.	568,416	852,929
Committed	Represents funds committed by Council for a number of one-time programs. The balance includes all of Council's decisions to December 31, 2010 and 2011 budget options as approved by Council. There is an increase in the balance due to budget options funded from this reserve for 2011.	3,770,127	1,834,499
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	\$9,480,678	\$6,619,968

CITY OF GREATER SUDBURY

Reserve and Reserve Fund Balances
as at December 31, 2010 compared to December 31, 2009

NAME	RESERVE FUNDS	31-Dec-10 \$	31-Dec-09 \$
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 2010 is \$6.2 million which exceeds the balance in the fund.	2,793,743	2,833,942
Police Sick Leave Reserve Fund	The Police still accumulate sick leave credits of 1.5 days per month, and are entitled to a pay out of 50% of accumulated credits, up to six months of pay, when they leave. Total CGS liability at the end of 2010 is \$6.2 million which exceeds the balance in the fund.	1,956,672	1,641,607
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.	420,441	410,000
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 \$26.5 million relating to post-employment benefits exists.	7,015,920	6,860,761
HR Committed - Succession Planning	Approved by Council for succession planning.	2,133,242	2,258,542
HR Committed	Approved by Council for claims stabilization and rewards and recognition program.	2,293,907	2,306,313
WSIB (Workers Safety Insurance Board) Schedule 2 Reserve Fund	Established through contributions from Current Fund 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.	1,941,955	716,350
Insurance Reserve Fund	Funded through contributions from Current Fund 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.	1,042,842	1,370,853

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2010 compared to December 31, 2009**

NAME	RESERVE FUNDS	31-Dec-10 \$	31-Dec-09 \$
Environmental / Other Initiatives Reserve Fund	Funded from contributions from the operating fund as per budget or Council request	649,962	633,821
Land Acquisition Reserve Fund	Funded from net proceeds of sale of surplus property and used to fund purchases of any required property.	1,992,149	1,995,161
Committed	Used towards purchase of 1160 Lorne Street	0	1,340,000
Parking Improvement Reserve Fund	Funded from net proceeds of parking facilities, and to be used on improvements or expansions to parking facilities.	1,991,783	1,758,199
Committed	Approved by Council for parking improvements from the 2011 Capital Budget.	100,000	0
Pioneer Manor Capital Reserve Fund	Funded from surpluses in the current budget to be used for capital improvements at Pioneer Manor as authorized by Council. Decrease from prior year due to completion of The Lodge (Boreal redevelopment) in 2010.	0	1,149,205
Pioneer Manor Donations Reserve Fund	Funded through donations and to be used specifically for improvements to the grounds and courtyards at Pioneer Manor.	48,566	40,693
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.	6,482,951	6,244,682
Committed	Approved by Council from 2011 Budget for various projects.	200,000	0
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.	1,853,318	2,322,364
Committed	Committed by Council primarily for improvements to Walden Industrial Park and an Industrial Land Infrastructure Assessment.	1,173,348	857,895
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 are earmarked for St. Joseph's Villa and Northern Ontario School of Architecture.	1,575,129	1,531,543
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.	629,191	464,770
Capital Lot Levies Reserve Fund	Funds collected under the terms of capital levy by-laws, and related to some subdivisions. Funds collected can be used only on water and / or wastewater capital projects. Reserve Fund closed in 2010 and balance transferred to Wastewater Reserve Fund	0	232,567

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2010 compared to December 31, 2009**

NAME	RESERVE FUNDS	31-Dec-10 \$	31-Dec-09 \$
Public Safety Reserve Fund	Annual budgeted amounts are contributed to this Reserve Fund for the replacement of 911 Communications Infrastructure.	929,188	774,302
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.	519,219	317,648
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.	75,674	69,850
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.	3,000,000	881,784
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.	4,440	4,329
South Branch Library Reserve Fund	This fund is for the reconstruction of the library. Reserve Fund closed as per Council Report and balance transferred to Library Reserve	0	874,613
Agricultural Drains Reserve Fund	Established in 2009, funded from the operating budget, used to fund the municipal share of agricultural drains maintenance and construction costs of new drains.	580,383	381,993
Police Services Donations Reserve Fund	Under control of the Police Services Board and to be used for crime prevention initiatives.	111,935	73,707
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.	196,287	80,935
Committed	Funds approved in 2011 and 2010 Capital Budgets for various projects.	200,000	665,000
Emergency Services - Ambulance Reserve Fund	Funded through contributions from Current and Provincial grants. Must be used for ambulance capital projects including all vehicles and equipment. May be subject to having to return funds to Province if not used for projects specific to EMS.	2,186,735	2,715,761
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 current fund. Surpluses in this section shall be credited to the reserve fund and deficits are to be funded from this reserve fund.	1,681,056	1,695,826
	Sub Total	\$45,780,035	\$45,505,016

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2010 compared to December 31, 2009**

NAME	CAPITAL FINANCING RESERVE FUNDS (CFRF)	31-Dec-10 \$	31-Dec-09 \$
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.	2,699,201	2,243,494
Committed	Approved funds from 2011 and 2010 Capital Budgets for various software and consulting costs.	110,000	113,615
Equipment and Vehicle Replacement Reserve Fund	Funded through contributions from Current Fund by equipment credits.	3,586,650	4,441,938
Police Vehicle and Equipment Reserve Fund	Funded through contributions from Current Fund. Annual contribution is scheduled to be fully utilized. This Reserve Fund is controlled by the Police Services Board.	1,494,916	519,110
Transit Vehicle and Equipment Reserve Fund	Funded through contributions from Current Fund and to be used for replacing transit vehicles.	2,172,389	2,603,433
Fire Vehicle and Equipment Reserve Fund	Funded through contributions from Current Fund and to be used for replacing fire vehicles and equipment.	170,913	166,669
Recycling Equipment Replacement Reserve Fund	Funded through contributions from Current Fund. 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.	1,138,269	1,229,577
Parks Vehicle and Equipment Reserve Fund	Funded through contributions from Current and to be used for replacing parks equipment. Annual contribution is scheduled to be fully utilized.	129,135	212,481
CFRF - Solid Waste	Funded from annual contributions from the current budget and under expenditures in related 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 \$14.1 million at the end of 2010. In addition, there is a capital funding gap.	1,788,973	2,442,094
Committed	Represents funds approved in 2011 and 2010 Capital Budget for various projects.	819,000	595,628

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2010 compared to December 31, 2009**

NAME	CAPITAL FINANCING RESERVE FUNDS (CFRF)	31-Dec-10 \$	31-Dec-09 \$
CFRF - General	One half of any annual current 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.	2,341,467	798,084
Committed	Represents funds committed by Council for a number of one-time programs. The balance includes all of Council's decisions to December 31, 2010 and from the 2011 Budget.	2,075,568	1,004,779
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.).	464	67,508
Committed	Represents funds committed by Council for various projects from the 2011 Capital Budget.	107,136	0
CFRF - Economic Development	To be funded from unallocated or excess funds in the capital envelope, and to be used only for Economic Development projects.	17,662	122,804
Committed	Committed funds for various projects from 2011 and previous budgets.	574,035	481,356
CFRF - Buildings	Funded from under expenditures in related capital projects. To be used only for assets (buildings) projects.	291,532	260,443
Committed	Previously approved funds for fuel systems, salt domes and depots.	390,765	580,000
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.	1,187,510	919,988
Committed	Committed funds for various projects from 2011 Capital Budget.	500,000	0
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.	2,602,590	2,127,952
Committed	Balance represents funds committed from the 2011 Capital Budget and for property acquisition.	2,014,432	536,196
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.	1,894,059	274,394
Committed	The balance is committed to the Lively treatment plant upgrades and sanitary Rock Tunnel inspections.	549,960	349,960

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2010 compared to December 31, 2009**

NAME	CAPITAL FINANCING RESERVE FUNDS (CFRF)	31-Dec-10 \$	31-Dec-09 \$
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.	5,242,508	4,839,538
Committed	The balance is committed for the City's contribution to the Skead Heritage Homes water project.	5,730	173,103
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.	27,923	368,164
Committed	This amount represents previously approved funds for physician recruitment and approval from 2011 Capital Budget for various projects at Pioneer Manor.	569,172	682,104
CFRF - Fire Services	Funded from under expenditures in related capital projects. To be used only for Fire Services Projects.	29,229	28,503
CFRF - Community Development - Citizen / Leisure Services	Funded from under expenditures in related capital projects. To be used only for Citizen and Leisure Services projects.	368,337	147,742
Committed	Commitments related to Council related projects and scoreboard replacement.	69,084	38,582
	Sub Total	34,968,606	28,369,239
	TOTAL RESERVE AND RESERVE FUNDS	90,229,319	80,494,223