

## For Information Only

### Reserves and Reserve Funds Balances

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Presented:	Monday, Mar 28, 2011
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Type:	Follow Up Reports to Parking Lot Items

### Recommendation

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## Background

This report is to show the City's reserve and reserve fund balances, as well as the projected changes as a result of the 2011 base budget presented to Council on February 16, 2011.

The following is a summary of the history of reserve and reserve funds during 2009, and the forecasted balances for 2010 and 2011 fiscal years.

#### Signed By

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## BACKGROUND

This report is to show the City's reserve and reserve fund balances, as well as the projected changes as a result of the 2011 base budget presented to Council on February 16, 2011.

The following is a summary of the history of reserve and reserve funds during 2009, and the forecasted balances for 2010 and 2011 fiscal years.

	<b>Actual as of December 31/09</b>	<b>Forecasted 2010 (unaudited)</b>	<b>Forecasted 2011 (Forecasted 2010 plus forecasted transactions during 2011)</b>
Reserves (non interest bearing)	\$6.6 M	\$9.4M	\$8.5M
Reserve Funds (interest bearing)	\$73.9M	\$78.3M	\$72.7M
Total Reserve and Reserve Funds	\$80.5M	\$87.7M	\$81.2M

Increase from 2009 to Forecasted 2010 Balance	\$7.2 M
Forecasted Decrease from 2010 to 2011 (See Appendix A for forecasted Reserve and Reserve Fund balances)	(\$6.5 M)

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

	2005	2006	2007	2008	2009
CGS Reserves	\$ 7,385	\$6,004	\$9,524	\$10,737	\$6,620
CGS Reserve Funds	60,356	81,581	89,765	77,878	73,874
Total CGS Reserves & Reserve Funds	\$67,741	\$87,585	\$99,289	\$88,615	\$80,494

	2005	2006	2007	2008	2009
Reserves as a % of Total Expenditures	16.3%	18.5%	20.0 %	19.8 %	N/A
BMA Study – Median	29.6%	31.2 %	34.4%	37.4 %	N/A
BMA Study – Low	8.9%	9.6 %	11.3%	9.3 %	N/A
BMA Study – High	141.7%	135.6%	157.9 %	155.6 %	N/A

	2005	2006	2007	2008	2009
Tax Discretionary Reserves as % of Taxation	39.2%	42.8%	47.9%	50.8%	38.6%
BMA Study – Median	52.3%	56.4%	55.3%	66.2%	63.7%
BMA Study – Low	4.7%	5.1%	12.5%	16.3%	20.5%
BMA Study - High	265.2%	244.0%	238.3%	231.9%	223.7%

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 expenditures. In 2008, which is the last available year that this information for this measure is available, only nine of seventy-five participants in the study had a lower percentage than Sudbury. The results across the survey range

from a low of 9.3% to a high of 155.6% in 2008. For 2008, there has been a decrease at the CGS from 20.0% to 19.8%.

BMA Study no longer includes the reserves as a percentage of total expenditures. Therefore, we are introducing a new measure which is Tax Discretionary Reserves as % of Taxation. The results across the survey range from a low of 20.5% to a high of 223.7%. For 2009, there has been a decrease at the CGS from 50.8% to 38.6%.

### **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.

### **Forecasted Change from January 1, 2011 to December 31, 2011**

Appendix A shows the forecasted reserve and reserve fund balance from December 31, 2010 to 2011. Overall, it is forecasted that the balances will decrease by a net of \$6.5M. This is subject to change based on timing of capital expenditures, unanticipated transactions, and future Council approvals.

In summary, the following are the highlights:

	2010	2011
Forecasted opening balance - January 1	\$80.5M	\$87.7M
Add: Forecasted Interest	\$1.7M	\$1.9M
Add: Net transfers as per Policy and Budget	\$13.3M	\$6.2M
Less: Transfers Approved from 2010/2011 Capital Budget and Other Approvals	<u>(\$7.8M)</u>	<u>(\$14.6M)</u>
Forecasted Balance - December 31	<u>\$87.7M</u>	<u>\$81.2M</u>

Some of the major projects that occurred during 2010 resulting in an increase to the reserve and reserve fund balances are: winter control operating surplus, savings from prior year budget projects in which excess funds have been transferred to reserves which are partially offset by the water and wastewater deficit.

Anticipated spending in 2011 resulting in a decrease to the reserve and reserve fund balances are: various 2011 capital budget projects funded from reserve such as Maley Drive, Transit Capital (bus replacements and renovations to 1160 Lorne Street), and Construction/Demolition Recycling Facility at the Sudbury Landfill Site.

### **Deferred Revenue - Obligatory Reserve Funds**

The City receives certain sub divider contributions and other revenues under the authority of federal and provincial legislation. These funds, by their nature, are restricted in their use and, until applied to specific expenditures are recorded as deferred revenue.

Appendix B details the forecasted balances in the obligatory reserve funds.

### **CONCLUSION**

The information presented on reserve and reserve funds has been accumulated based on information currently available, and staff's best estimates. The balances are unaudited and subject to change, based on Council decisions, differences between estimates and actual transactions and unanticipated revenues or expenditures.

Appendix A

CONTINUITY OF RESERVES & RESERVE FUNDS  
December 31, 2011 Forecast

Account Name	Est Balance 31-Dec-10	Investment Income	2011 Transactions	Est Balance 31-Dec-11
<b>CONTINUITY OF RESERVES</b>				
Election	(431,877)		(268,000)	(699,877)
Library Reserve Committed	(14,910)		-	(14,910)
Library/Citizen Service Centre Reserve	(75,454)		-	(75,454)
Land Reclamation Reserve	(522,464)		68,786	(453,678)
Various Expenditures	(2,287,895)		1,003,508	(1,284,387)
Ontario Works	(340,150)		-	(340,150)
Organizational Development	(538,765)		-	(538,765)
P.M.Fundraising	(98,320)		98,320	(0)
Future D/C Study	(15,788)		-	(15,788)
Tax Rate Stabilization	(3,775,630)		-	(3,775,630)
Tax Rate Stabilization-Committed	(1,231,805)		55,524	(1,176,281)
Vector Borne Disease	(107,000)		-	(107,000)
<b>Total Reserves</b>	<b>(9,440,058)</b>	<b>-</b>	<b>958,138</b>	<b>(8,481,920)</b>

Appendix A

CONTINUITY OF RESERVES & RESERVE FUNDS  
December 31, 2011 Forecast

Account Name	Est Balance 31-Dec-10	Investment Income	2011 Transactions	Est Balance 31-Dec-11
<b>CONTINUITY OF RESERVE FUNDS</b>				
<b>General Reserve Funds</b>				
Greater City Sick Leave	(2,793,743)	(72,116)	106,828	(2,759,031)
Police-Sick Leave	(1,956,672)	(56,725)	(156,781)	(2,170,178)
Police Part 65 Benefits	(420,441)	(11,285)	(0)	(431,726)
Human Resources Management	(7,015,920)	(188,306)	-	(7,204,226)
H.R. Comm - Succession Planning	(1,531,099)	(36,680)	164,460	(1,403,320)
H.R. Committed to	(2,293,907)	(57,933)	135,433	(2,216,407)
WSIB Schedule 2	(1,941,955)	(56,692)	(170,268)	(2,168,915)
Insurance	(1,042,842)	(31,177)	(118,748)	(1,192,767)
Environmental/Other Initiatives	(649,962)	(17,445)	-	(667,407)
P.M.Donations	(48,566)	(869)	16,180	(33,255)
Industrial Park Reserve	(1,853,318)	(45,378)	162,618	(1,736,078)
Regional Industrial R.F.Committed	(1,173,348)	(31,492)	(0)	(1,204,840)
Community Initiatives (NOSA)	(1,575,129)	(69,116)	(1,000,000)	(2,644,245)
Regional Business Centre	(629,191)	(14,351)	94,484	(549,059)
Roads Winter Control	(3,000,000)	(80,520)	0	(3,080,520)
VETAC	(4,440)	(119)	0	(4,559)
Agricultural Drains	(714,862)	(16,898)	85,287	(646,472)
Police Services Donations	(111,935)	(3,004)	0	(114,939)
Cemeteries	(387,670)	(10,712)	(11,442)	(409,824)
<b>General Reserve Funds Subtotal</b>	<b>(29,145,000)</b>	<b>(800,819)</b>	<b>(691,949)</b>	<b>(30,637,768)</b>
<b>Capital Reserve Funds</b>				
Land Acquisition	(1,992,149)	(63,265)	(365,000)	(2,420,414)
Parking Improvements	(2,091,783)	(58,274)	(79,376)	(2,229,432)
Social Housing Capital	(6,682,951)	(174,001)	200,000	(6,656,953)
Communications Infrastructure	(929,188)	(40,909)	(595,000)	(1,565,097)
Stomrwater Management	(519,219)	(13,936)	(0)	(533,155)
Centennial Drive Booster Station	(75,674)	(2,031)	(0)	(77,705)
South End Library	-	(1,528)	(56,920)	(58,448)
Emergency Service Ambulance	(2,058,485)	(58,990)	(139,376)	(2,256,852)
Larch Street Reserve Fund	(1,660,686)	13,930	2,179,681	532,925
Cap Fin R/F Info Tech	(2,809,203)	(72,446)	110,000	(2,771,649)
Equipment & Vehicle Replacement - Fleet	(3,586,650)	(98,815)	(95,000)	(3,780,465)
Equipment & Vehicle Replacement - Police	(1,494,916)	(19,501)	768,340	(746,077)
Equipment & Vehicle Replacement - Transit	(2,172,389)	(20,622)	1,404,044	(788,967)
Equipment & Vehicle Replacement - Fire	(170,913)	(0)	170,913	(0)
Recycling Equipment	(1,138,269)	(27,297)	121,251	(1,044,314)
Equipment & Vehicle Replacement - Parks	(129,135)	(1,165)	85,719	(44,582)
Cap Fin R/F Solid Waste	(2,607,973)	(48,016)	819,000	(1,836,988)
Capital Financing Reserve Fund	(3,988,656)	(75,951)	1,158,875	(2,905,731)
Capital Financing Committed	(890,832)	(23,493)	15,524	(898,801)
Cap Fin R/F Administrative	(107,600)	(12)	107,136	(477)
Cap Fin R/F Ecom Dev	(137,662)	(3,695)	-	(141,357)
Cap Fin R/F Econ Dev Comm	(443,835)	(8,742)	118,133	(334,443)
Cap Fin R/F P.W. Bldg	(291,532)	(7,825)	(0)	(299,356)
Cap Fin R/F P.W. Bldg Comm	(390,765)	(11,835)	(50,200)	(452,801)
Cap Fin R/F-Police	(1,588,613)	(31,956)	398,000	(1,222,569)
Cap Fin R/F - Roads	(4,119,138)	(70,297)	1,500,000	(2,689,435)
Cap Fin R/F - Roads Committed	(504,237)	(13,534)	-	(517,771)
Cap Fin R/F-Wastewater	(1,180,930)	(31,696)	0	(1,212,626)
Cap Fin R/F-Wastewater-Committed	(549,960)	(14,761)	(0)	(564,720)
Cap Fin R/F-Water	(3,788,042)	(101,670)	0	(3,889,712)
Cap Fin R/F-Water Committed	(5,730)	(154)	-	(5,884)
Cap Fin R/F- H & S.S.	(354,323)	(749)	326,400	(28,672)
Cap Fin R/F- H & S.S. - Committed	(242,772)	(5,743)	28,800	(219,714)
Cap Fin R/F - Fire	(29,229)	(0)	29,228	(1)
Cap Fin R/F Leisure Services Committed	(69,084)	(1,854)	0	(70,938)
Cap Fin R/F Leisure Services	(368,337)	(9,886)	0	(378,223)
<b>Capital Reserve Funds Subtotal</b>	<b>(49,170,858)</b>	<b>(1,100,720)</b>	<b>8,160,172</b>	<b>(42,111,406)</b>
<b>Total Reserve Funds</b>	<b>(78,315,857)</b>	<b>(1,901,539)</b>	<b>7,468,223</b>	<b>(72,749,174)</b>
<b>Total Reserves and Reserve Funds</b>	<b>(87,755,915)</b>	<b>(1,901,539)</b>	<b>8,426,361</b>	<b>(81,231,094)</b>

Note 1

**Note 1** Interest is contributed in accordance with the reserve and reserve fund by-law. It has been estimated that the City's rate of return on investments will be approximately 2.6%

Appendix B

CONTINUITY OF RESERVES & RESERVE FUNDS  
December 31, 2011 Forecast

Account Name	Est Balance 31-Dec-10	Investment Income	2011 Transactions	Est Balance 31-Dec-11	Comments
CONTINUITY OF OBLIGATORY RESERVE FUNDS					
Federal Gas Tax	(11,080,602)	(287,009)	387,218	(10,980,393)	
Gas Tax Rebate Public Transportation	(863,611)	(5,546)	656,972	(212,186)	Note 2
Sewer & Water Payments	(458,845)	(12,315)	(0)	(471,161)	Note 3
Road Levies Payments	(1,081,449)	(29,026)	-	(1,110,474)	
Canada Transit Funding R/F	(1,223,970)	(0)	1,223,970	(0)	
Parks (Section 50)	(837,135)	(23,621)	(42,933)	(903,689)	Note 3
Subdivision Deposits(Asphalt Resurfacing)	(5,169,133)	(154,647)	(592,723)	(5,916,503)	Note 3
S.P.A. Deposits(Sidewalks)	(862,521)	(24,748)	(59,540)	(946,809)	Note 3
Tree Planting	(1,087,189)	(29,282)	(3,793)	(1,120,264)	
Bldg Permit Rev Stabilization	(7,426,488)	(208,632)	(346,715)	(7,981,834)	
DC General Government	(17,726)	(806)	(12,306)	(30,838)	Note 4
DC Library	-	(2,114)	(78,754)	(80,868)	Note 4
DC Fire	(128,576)	(5,793)	(87,253)	(221,622)	Note 4
DC Police	-	(2,512)	(93,591)	(96,103)	Note 4
DC Parks & Rec	(224,601)	(15,433)	(350,404)	(590,438)	Note 4
DC Public Works	-	(1,746)	(65,056)	(66,802)	Note 4
DC Ambulance	(22,667)	(1,017)	(15,211)	(38,895)	Note 4
DC Transit	-	(699)	(26,040)	(26,739)	Note 4
DC Emergency Preparedness	-	(1,064)	(39,639)	(40,703)	Note 4
DC Roads	-	(46,480)	(1,731,763)	(1,778,243)	Note 4
DC Water	-	(2,993)	(111,495)	(114,488)	Note 4
DC Wastewater	-	(2,065)	(76,924)	(78,989)	Note 4
DC Drains	-	(1,338)	(49,868)	(51,206)	Note 4
<b>Total Obligatory Reserve Funds</b>	<b>(30,484,513)</b>	<b>(858,885)</b>	<b>(1,515,848)</b>	<b>(32,859,245)</b>	
<b>Note 1</b>					

**Note 1** Interest is contributed in accordance with the reserve and reserve fund by-law. It has been estimated that the City's rate of return on investments will be approximately 2.6%.

**Note 2** Annually the City is informed of the amount of gas tax it is allocated. Transit services utilizes these funds for capital purchases such as the transit buses and renovations to the Transit garage as well as to fund ridership growth initiatives.

**Note 3** The subdivision (roads, water / waste water, sidewalks) balances, parks, etc will also be drawn down as capital works are performed during 2011 and increased by contributions.

**Note 4** These reserves have been established by development charges collected since the revised by-law was approved in 2009. These funds will be drawn upon as capital works are performed in accordance with the 2009 Development Charges Background Study.