

For Information Only

2009 Reserves and Reserve Funds Balances

Presented To:	Finance 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, 2009.

Overall, the consolidated reserve and reserve funds have decreased during 2009 by \$8.2 million to \$81.7 million from \$89.9 million at December 31, 2008.

The decrease of \$8.2 million is due to:

Net Program Specific over expenditures	\$ -4.1 million
Interest Earned by Reserve Funds	2.1 million
Other approved net transfers	-6.1 million
Decrease in Consolidated Entities	<u>-0.1 million</u>
Increase in closing Reserve and Reserve Fund Balance	\$ - 8.2 million

BACKGROUND:

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.

The decrease in the City's reserve and reserve funds relating to net program specific over expenditures of \$4.1 million were impacted largely by the draws from water, wastewater reserve funds according to policy.

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These over expenditures were offset by program under expenditures including but not limited to Police, Information Technology, Housing and Land Reclamation.

The other approved net transfers were highlighted by transfers to operating for 2009 budget options (\$3M), spending of 2008 reserve for various projects (\$0.8M) in 2009, launch of the organics program (\$1.5M) and various other small projects totalling \$6.1 million.

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

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, as identified in the 2009 BMA municipal study which is based on statistics for 2008. In 2009, only nine of seventy-five participants in the study have 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 17.8% to 15.4%. Appendix B provides a more detailed explanation of each of the City's reserves and reserve funds at the end of 2009.

By-law

By-law 2009-99, 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, 2009 was \$31.6 million, up from \$27.9 million in 2008. 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 increase relates to 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.

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 reserve and reserve funds.

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

	2005	2006	2007	2008	2009
CGS Reserves (in '000)	\$ 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
Other Consolidated Entities	382	626	838	1,285	1,170
Total	\$68,123	\$88,211	100,127	\$89,900	\$81,664

	2005	2006	2007	2008	2009
Reserves as a % of Total Expenditures	16.3%	18.5%	20.0%	*17.8%	15.4 %
BMA Study – Median	29.6%	31.2%	34.4 %	37.4%	TBD
BMA Study – Low	8.9%	9.6%	11.3 %	9.3%	TBD
BMA Study – High	141.7%	135.6%	157.9%	155.6%	TBD

* restated based on restated statement of operations for 2008 to be comparable to 2009 new reporting requirements
TBD to be determined

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2009 compared to December 31, 2008**

NAME	RESERVES	31-Dec-09 \$	31-Dec-08 \$
Reserve - Election	Annual contributions are made to this reserve so as to avoid major budget fluctuations in election years. Funds will be withdrawn in 2010 for the next municipal election.	851,187	594,964
Reserve Libraries / Citizen Service Centre	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.	20,945	35,491
Committed	Balance is for the Valley East Archives project.	14,910	44,500
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.	273,248	271,457
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 2010.	1,734,315	2,482,672
Reserve for Ontario Works	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
H/R 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.	493,866	580,312
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.	81,131	62,659
Future Development Charges Study Reserve	Set aside to fund the Development Charges study.	15,788	51,247
Tax Rate Stabilization Reserve	This reserve provides for year-to-year variances in the operating budget.	852,929	728,453
Committed	Represents funds committed by Council for a number of one-time programs. The balance includes all of Council's decisions to December 31, 2009. There is a significant decrease in the balance due to no budget options were funded from this reserve for 2009.	1,834,499	4,785,145
Reserve for Agricultural Drains	Funded through contributions from the current budget to ensure sufficient funds on hand for municipal portion of agricultural drains maintenance. In 2009 this reserve was transferred to a reserve fund to earn interest to be able to assist in future sustainability for these endeavours.	0	377,532

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**Reserve and Reserve Fund Balances
as at December 31, 2009 compared to December 31, 2008**

NAME	RESERVES	31-Dec-09 \$	31-Dec-08 \$
Reserve for Property Evaluation	Annual contribution to this reserve to update property evaluations for insurance purposes. This fund was transferred to the Insurance Reserve Fund in 2009.	0	274,949
Reserve for West Nile Virus	Established to fund the City's share of West Nile Virus expenditures that may be incurred and levied by the Health Unit.	107,000	107,000
	Sub Total	\$6,619,968	\$10,736,531

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**Reserve and Reserve Fund Balances
as at December 31, 2009 compared to December 31, 2008**

NAME	RESERVE FUNDS	31-Dec-09 \$	31-Dec-08 \$
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 2009 is \$6.3 million which exceeds the balance in the fund.	2,833,942	2,804,007
Sick Leave Reserve Fund - Police	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 2009 is \$6.3 million which exceeds the balance in the fund.	1,641,607	1,337,757
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.	410,000	0
Human Resources 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 \$25.7 million relating to post-employment benefits exists.	6,860,761	6,352,982
Committed - Succession Planning	Approved by Council for succession planning.	2,258,542	2,720,170
Committed	Approved by Council for claims stabilization and rewards and recognition program.	2,306,313	2,258,950
WSIB (Workers Compensation 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.	716,350	523,757

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**Reserve and Reserve Fund Balances
as at December 31, 2009 compared to December 31, 2008**

NAME	RESERVE FUNDS	31-Dec-09 \$	31-Dec-08 \$
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.	1,370,853	1,809,141
Environmental / Other Initiatives	Funded from proceeds from the sale of landfill gas to be used to fund "green projects" or other initiatives.	633,821	349,582
Land Acquisition Reserve Fund	Funded from net proceeds of sale of surplus property and used to fund purchases of any required property.	1,995,161	1,755,055
Committed	Earmarked for future purchase of land.	1,340,000	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.	1,758,199	1,676,794
Committed	Approved in 2009 Budget for 4 pay & display machines, was transferred to capital.	0	76,000
Pioneer Manor Capital	Funded from surpluses in the current budget to be used for capital improvements at Pioneer Manor as authorized by council. This reserve fund is fully committed based on previous Council approvals.	1,149,205	1,314,130
Pioneer Manor Donations Reserve Fund	Funded through donations and to be used specifically for improvements to the grounds and courtyards at Pioneer Manor.	40,693	38,451
Social Housing Capital Reserve Fund	Established with Provincial Funding with a small portion remaining which is payable to GSHA employees for benefits (\$263,000), as established by the Province at the time of devolution. Balance needed 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.	6,244,682	5,997,880
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.	2,322,364	2,571,042
Committed	Committed by Council primarily for improvements to Walden Industrial Park and an Industrial Land Infrastructure Assessment.	857,895	415,044
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.	1,531,543	1,000,000

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**Reserve and Reserve Fund Balances
as at December 31, 2009 compared to December 31, 2008**

NAME	RESERVE FUNDS	31-Dec-09 \$	31-Dec-08 \$
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.	464,770	428,264
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.	232,567	226,235
Public Safety	Annual budgeted amounts are contributed to this Reserve Fund for the replacement of 911 Infrastructure.	774,302	379,327
Stormwater Management	This Reserve Fund is funded by deposits received through Site Plan Control Agreements and Subdivision Agreements for future storm water development initiatives.	317,648	0
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.	69,850	64,048
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.	881,784	857,777
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.	4,329	4,211
CLELC Reserve Fund	Funded from the operating budget to be used to fund capital projects for the Lionel E Lalonde Centre.	0	0
Museum Reserve Fund	Carried forward from the former Rayside-Balfour to be used for projects related to that museum. Funds were utilized in 2009 for the construction of the Azilda Library and Museum project.	0	25,495
South Branch Library Reserve Fund	Net rent proceeds from the tenant at the South Branch location were credited to this reserve fund to be used for required renovations. Council has committed these funds for the reconstruction of the library.	874,613	989,462
Agricultural Drains	Established in 2009, funded from the operating budget, used to fund the municipal share of agricultural drains maintenance and construction costs of new drains.	381,993	0
Police Services Donations Reserve Fund	Under control of the Police Services Board and to be used for crime prevention initiatives.	73,707	99,641

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2009 compared to December 31, 2008**

NAME	RESERVE FUNDS	31-Dec-09 \$	31-Dec-08 \$
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.	80,935	374,221
Committed	Funds approved in 2010 Capital Budget for various projects.	665,000	255,000
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.	2,715,761	2,932,707
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.	1,695,826	1,447,973
	Sub Total	\$45,505,016	\$42,425,103

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2009 compared to December 31, 2008**

NAME	CAPITAL FINANCING RESERVE FUNDS (CFRF)	31-Dec-09 \$	31-Dec-08 \$
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.	2,243,494	2,247,153
Committed	Previously approved funds for various software and consulting costs.	113,615	934,504
Equipment and Vehicle Replacement Reserve Fund	Funded through contributions from Current Fund by equipment credits.	4,441,938	4,103,107
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.	519,110	476,701
Transit Vehicle and Equipment Reserve Fund	Funded through contributions from Current Fund and to be used for replacing transit vehicles.	2,603,433	3,059,690
Fire Vehicle and Equipment Reserve Fund	Funded through contributions from Current Fund and to be used for replacing fire vehicles and equipment.	166,669	158,699
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.	1,229,577	1,316,225
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.	212,481	280,225
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 \$13.8 million at the end of 2009. In addition, there is a capital funding gap.	2,442,094	2,867,417
Committed	Included \$2 million for the Organics Launch. Current balance represents funds approved in 2010 Capital Budget for various projects and an in bound scale.	595,628	2,366,622
CFRF - CD Buildings	Funding from any unallocated or excess funds from the Community Development capital envelope to be used only for CD Buildings capital projects with the approval of Council.	0	0

CITY OF GREATER SUDBURY

**Reserve and Reserve Fund Balances
as at December 31, 2009 compared to December 31, 2008**

NAME	CAPITAL FINANCING RESERVE FUNDS (CFRF)	31-Dec-09 \$	31-Dec-08 \$
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.	798,084	615,095
Committed	Represents funds committed by Council for a number of one-time programs. The balance includes all of Council's decisions to December 31, 2009.	1,004,779	1,990,519
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.).	67,508	64,753
Committed	Funds approved in 2009 Budget for central inserter machine replacement was transferred to capital.	0	66,521
CFRF - Economic Development	To be funded from unallocated or excess funds in the capital envelope, and to be used only for Economic Development projects.	122,804	104,684
Committed	Committed funds for various projects.	481,356	539,733
CFRF - Buildings	Funded from under expenditures in related capital projects. To be used only for assets (buildings) projects.	260,443	229,155
Committed	Previously approved funds for fuel systems, salt domes and depots.	580,000	750,000
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.	919,988	749,095
Committed	Funds approved in 2009 Budget for leasehold improvements, transferred to capital.	0	1,000,000
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.	2,127,952	748,496
Committed	This balance is committed for property acquisition.	536,196	663,952
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.	274,394	159,139
Committed	The balance is committed to the Lively treatment plant upgrades and sanitary Rock Tunnel inspections.	349,960	1,802,000

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**Reserve and Reserve Fund Balances
as at December 31, 2009 compared to December 31, 2008**

NAME	CAPITAL FINANCING RESERVE FUNDS (CFRF)	31-Dec-09 \$	31-Dec-08 \$
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.	4,839,538	6,832,370
Committed	The balance is committed for the City's contribution to the Skead Heritage Homes water project.	173,103	0
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.	368,164	939,268
Committed	This amount represents previously approved funds for physician recruitment and the Boreal redevelopment at Pioneer Manor.	682,104	105,370
CFRF - Fire Services	Funded from under expenditures in related capital projects. To be used only for Fire Services Projects.	28,503	27,727
CFRF - Community Development - Citizen / Leisure Services	Funded from under expenditures in related capital projects. To be used only for Citizen and Leisure Services projects.	147,742	84,999
Committed	Commitments related to Council related projects and scoreboard replacement.	38,582	170,102
	Sub Total	28,369,239	35,453,321
	TOTAL RESERVE AND RESERVE FUNDS	80,494,223	88,614,955