



City of
Peterborough

To: Members of the Budget Committee

From: Sandra Clancy, Director of Corporate Services

Meeting Date: July 27, 2015

Subject: Report CPFS15-035
City Reserve and Reserve Funds

Purpose

An information report on the City's Reserve and Reserve Funds.

Recommendations

That Council approve the recommendations outlined in Report CPFS15-035, dated July 27, 2015, of the Director of Corporate Services, as follows:

- a) That Report CPFS15-035, on the City's Reserve and Reserve Funds, be received for information.
- b) That the following Reserves be closed and the balances be transferred to the Capital Levy Reserve for a total of \$43,554:
 - i. General Equipment
 - ii. Leadership and Learning Network
 - iii. Learn not to Burn
- c) That the following Reserves be closed and the balances be transferred to the Peterborough Museum and Archives Administration activity for a total of \$15,593:
 - i. Museum Archives
 - ii. Museum Education
 - iii. Museum Display

Budget and Financial Implications

The report is presented for information purposes only.

Background

Context

At the meeting of February 2, 2015, Council resolved that staff provide a report on the City reserve and reserve funds. The motion read as follows:

That staff provide a report on reserve funds that includes; the amount in each fund, their use and what money may be available for other uses.

Purpose of Reserves

Reserves are established for planned future capital expenditures, unexpected or unpredicted events, or extraordinary expenditures which would otherwise cause fluctuations in the operating or capital budgets. They are long-term financial planning tools.

Not only are reserves an important source of financing that help address some of the longer term funding strategies of the City by ensuring that funds will be available when needed, but they are critical elements of good financial and cash management practices for the ongoing financial stability of the City. In conjunction with investment and debt management strategies, decisions surrounding the prudent use of reserves and how they relate to long-range financial planning for capital projects are important considerations to minimize both debt servicing costs and significant annual budget impacts by allocating costs to benefiting users over a number of years.

Under section 417.1 of the **Municipal Act, 2001**, municipalities have the authority to establish and maintain Reserve Funds for any purpose for which it has the authority to spend money.

The purpose of maintaining reserves is to:

- Facilitate long term financial planning (eg. Sewer Surcharge Reserve Fund)
- To absorb the cost of one-time expenses not included in the operating budget (eg. Winter Control Reserve)
- Provide stability of tax rates in the face of variable and uncontrollable factors such as change in subsidies or caseloads
- Plan for the impact and financing of major capital projects over time (eg. Peterborough Housing Corporation Capital Reserve)
- Provide for the cost of equipment or facility replacements (eg. PW, Transit or Fire Vehicle Replacement Reserves)

- Ensure adequate cash flows
- Provide a source of internal financing
- Provide flexibility in managing debt and protect the City's financial position
- Fund known future obligations (eg. Landfill closure and Post Closure costs, Fire Sick Leave or Employee Future Benefits Reserves)

Reserves offer liquidity, and are one way of maintaining a sound financial position, but cash flow improvements, risk management, or other considerations may affect reserve requirements. Reserves must be supported by financial evidence indicating the extent of the reserves required. Reserves and discretionary reserve funds help to stabilize the general municipal tax levy and reduce the need for debentures. The assets of reserve funds can be invested to earn income, thus reducing the amount of money to be set aside.

Standard and Poor's Assessment of City's Credit Rating Includes a review of Reserve Balances

In December of 2014, the bond rating agency, Standard & Poor's, re-affirmed the City of Peterborough's "AA-" credit rating. As part of the framework used to assess a municipality's credit profile, Standard and Poor's (S&P) reviews its reserve balances each year. The level of reserves can influence several financial factors, including S&P's assessment of the City:

- Budgetary Performance – a measure of the level and volatility of the City's expected cash flows from operations and investment activities, available to service debt.
- Liquidity - a measure of how the City's internal sources of liquidity, such as cash reserves and cash flow generation, are likely to impact its debt servicing capability.
- Debt burden - a measure of how S&P's expectations for the level, structure, and sustainability of the City's debt are likely to impact its debt servicing capability.

Types of Reserves

The City, along with most Ontario municipalities, holds several different types of reserves on its books.

By definition, reserves and reserve funds are comprised of funds set aside for specific purposes by Council and funds set aside for specific purposes by legislation, regulation or agreement. There are three types of reserves: Obligatory Reserves, Discretionary Reserve Funds and Reserves.

Obligatory Reserve Funds:

By definition, Obligatory Reserve Funds are monies set aside and legally restricted by provincial legislation, a municipal by-law, or agreement. The funds are raised for a specific purpose and cannot be used for any other purpose. The main Obligatory Reserve Funds are the Development

Charges (DC) Reserve Funds that are regulated by the **Development Charges Act, 1997**.

Although DC reserve funds are the most common Obligatory Reserve Funds, the City holds others as well. These include:

- Sub-divider contributions
- Recreational land (the Planning Act)
- Building Code Act, 1992 (Section 2.23)
- Federal Gasoline Tax
- Provincial Gasoline Tax
- Canada Transit Funding
- Building Canada Funds (BCF)

For financial reporting purposes, reserve funds set aside by legislation, regulation or agreement are reported as deferred revenue, which is a liability, in the City's financial statements. Only when the applicable obligatory reserve funds have been utilized or 'earned', is the City permitted to recognize the monies as revenues.

Discretionary Reserve Funds:

By definition, Discretionary Reserve Funds are monies set aside for a specific purpose by Council and legislated by municipal by-law. If Council should decide to spend the money for purposes other than what it was originally intended for, then a new by-law must be passed under section 417(4) of the **Municipal Act, 2001**.

Examples include:

- Sewer Surcharge Reserve Funds – By-laws 93-18 and 83-46
- New Subdivision Trees – By-law 90-231
- Public Works Equipment – By-law 50-4879
- Police Facility Renovation Project – By-law 08-144
- Affordable Housing Partnership Reserve – By-law 11-114

General Reserves:

By definition, Reserves are monies set aside by approval of Council and not restricted by legislation. Reserves can be related to projects that are of a nature prescribed and managed by approval of Council. Reserves make no reference to any specific asset and do not require the physical segregation of money or assets.

Target Reserve Levels

There is no “one-size fits all” approach to defining target reserve levels. The level of reserves the City currently has allows for flexibility in addressing operating requirements and in permitting the municipality to temporarily fund capital projects internally, allowing time to access debt markets and take advantage of favourable conditions. Other factors that influence reserve levels include:

- Services provided by the City
- Age and condition of infrastructure, and inventory of fleet vehicles
- Level of expenditures
- City debt policy
- Economic conditions and projections

City of Peterborough Reserves

Appendix A provides a summary of the 115 reserves that the City holds. The list has been organized into broad categories that help define the purpose of the funds.

The following explains each column in Appendix A and provides more information about each.

Purpose of Reserve

Column 3 provides a narrative as to what the funds are used for.

Annual Reconciliation of Activity

Column 4 indicates whether or not there is a standard motion approved through the Budget process that, should there be an operating surplus/deficit in the applicable divisional activity, an amount may be added/withdrawn from the reserve at year end. Having this standing motion approved by Council each year assists in reducing the “yo-yo” affect when expenditure levels are difficult to predict. In a good year, the funds can be transferred to the reserve or funds can be withdrawn in a year when the operating expenditures exceed the budget. The City’s overall year end position is always taken into consideration before a recommendation is made.

Amount in Each Reserve

Columns 5 to 7 indicate which type of reserve it is and the balance as of December 31, 2014. Chart 1 shows the total balance by type.

Chart 1**Type of Reserve and Balance as of December 31, 2014**

Obligatory Reserve Funds	\$16.2 million
Discretionary Reserve Funds	\$25.6 million
General Reserves	\$75.8 million
Total	\$117.6 million

Annual Provisions to Reserves

Column 8 indicates the amount if there is an approved amount in the 2015 Operating Budget to add monies to a reserve. The total amount for 2015 is \$15.6 million. This occurs in a situation where there is a current or future known commitment that will be funded from the reserve and the City must have the funds available to meet the commitment. Each year staff review the commitments to ensure that the provision is still required.

Specific Commitments

Columns 9 and 10 indicate existing, known commitments against the Reserves. Column 9 specifies all commitments to various capital projects and totals \$96.7 million. This figure does not include any commitments against the 2016 Capital Budget. Column 10 indicates other future commitments which totals \$32.7 million, most of which are based on Actuarial reviews. At the present time, total commitments amount to approximately \$129.4 million.

Future Capital Budget Planning

For reserves where their purpose is to provide funds for future capital projects, Column 11 shows their balance as a commitment. The capital program relies heavily on funding from reserves. Over the last four years, the capital program included the following amounts from reserves:

- 2012 - \$27.1 million
- 2013 - \$29.2 million
- 2014 - \$13.1 million
- 2015 - \$19.9 million

If Council wishes to redirect any of these reserve balances for other purposes, then alternative plans will need to be identified to mitigate the future obligations that will arise from the original intended purpose or to find alternative financing.

Uncommitted Balances

Column 12 indicates the uncommitted balance that could be used for other financial purposes. There are many reserves that assist in managing the operating budget and are available to fund very specific activities if costs are extraordinary in a given year.

There are also many reserves that are overcommitted, and appear as negative amounts. To maintain liquidity, and not borrow for general operations, cash is being used from those reserves with positive balances to offset negative balances.

Lastly, Obligatory reserves, by legislation, must be used for purposes stated.

Propose to close 6 Reserves

In preparing this report, there are a few reserves that are no longer needed. It is proposed that the General Equipment, Leadership and Learning Network and Learn not to Burn reserves be closed and that the balances be transferred to the Capital Levy Reserve. The total of the three reserves is \$43,554.

It is also recommended that three reserves related to the Peterborough Museum and Archives be closed and the balances be transferred to the Museum Administration operating account. This will clean up the old reserves and fund some out-of-the-ordinary expenditures in 2015 that occurred due to the renovation that were not anticipated when the 2015 operating budget was prepared. The total of these three reserves is \$15,593.

Summary

Council is encouraged to exercise caution when considering how to use uncommitted Reserves. Reserves offer liquidity, financial flexibility and are a great long-range financial planning tool. In some instances, Reserves have been built up over a number of years, and once depleted, will be difficult to replace.

Submitted by,

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Attachments

Appendix A – Schedule of Reserve and Reserve Funds

Appendix A

Schedule of Reserve and Reserve Funds

Ref	Description	Purpose of Reserve To assist in financing or fund...	Year-End Transfer ?	Obligatory Reserve Funds, Deferred Revenue	Discretionary Reserve Funds	General Reserves	2015 Budget Provision to Reserve	Capital Commitments	Other Future Commitments	Needed for future capital budget planning	Uncommitted Balance
1	2	3	4	5	6	7	8	9	10	11	12
				\$	\$	\$	\$	\$	\$	\$	\$
Per Service Purpose:											
General government											
16	Elections Reserve	Annual Contr.for municipal election every 4th year	Y			263,643	180,000	-	-		443,643
17	Electronic Data Processing Equipment	IT Capital Expenditures	Y			485,789	-	(376,418)	(8,250)	(101,121)	-
18	PTS MS Office Licences	Software License Capital Expenditure				196,757	15,000	(88,400)	-	(123,357)	-
19	Pay Equity	Pay equity costs				29,191	-	-	-		29,191
20	Leadership & Learning Network	Funds remaining from Conference				2,081	-	-	-		2,081
21	Organizational Dev & Ben Res	In year organizational development issues	Y			4,617	-	-	-		4,617
22	Accessibility Improvements	Accessibility Capital Expenditures				169,645	50,000	(198,810)		(20,835)	-
23	Sustainability	Sustainability Capital Expenditures	Y			27,400	-	-	-	(27,400)	-
24	Court House - 70 Simcoe St	Court House Capital Expenditures	Y			456,667	39,652	(285,000)	-	(211,319)	-
25	Risk Management	In year risk management issues				160,850	25,000	-	-		185,850
Protection services											
26	Peterborough County/City Paramedics Service Reserve	Extraordinary In year cost	Y			461,392	-	-	-		461,392
27	Learn Not To Burn	Funds remaining from Conference				4,141	-	-	-		4,141
28	Fire Fighting & Safety Equip	Future Fire safety equipment				228,182	112,000	(172,279)	-	(167,903)	-
29	Fire Dispatch Reserve	Fire Dispatch Capital Expenditure				51,977	-	-	-	(51,977)	-
30	Fire Vehicle Equipment	Fire vehicles and equipment				678,473	400,000	(291,396)		(787,077)	-
Transportation services:											
Roadways											
31	Prov. 07/08 Surplus Res Fnd	Unspent Provincial funding received				430,514	-	(404,147)	-	(26,367)	-
32	Utility Services Dept Capital	USD Capital Expenditures				334,781	100,000	(43,981)		(390,800)	-
33	Subdivision Engineering Fees	To match revenues with year of expenditure	Y			501,788	-	-	-		501,788
34	Engineering Design & Inspection	To match revenues with year of expenditure	Y			355,801	-	-	-		355,801
35	Decorative Streetlighting	Decorative Streetlighting Capital Expenditures				5,845	-	-	-	(5,845)	-
36	Bridge Reserve	Bridge Capital Expenditures				1,914,899	225,000	(659,292)		(1,480,607)	-
37	Winter Control	Extraordinary winter season costs	Y			548,174	-	-	-		548,174
38	Traffic Signals	Traffic Capital Expenditures	Y			744,160	76,500	(300,000)		(520,660)	-
39	Devlpt Proj Signs (Traffic)	Traffic Signs Capital Expenditures				80,453	-	(41,279)	-	(39,174)	-
40	Rear Lane Reserve	Operating costs to maintain Lanes				2,448	-	-	-		2,448

Ref	Description	Purpose of Reserve To assist in financing or fund...	Year-End Transfer ?	Obligatory Reserve Funds, Deferred Revenue	Discretionary Reserve Funds	General Reserves	2015 Budget Provision to Reserve	Capital Commitments	Other Future Commitments	Needed for future capital budget planning	Uncommitted Balance	
1	2	3	4	5	6	7	8	9	10	11	12	
				\$	\$	\$	\$	\$	\$	\$	\$	
Transit												
41	Transit Capital	Transit Vehicles replacement				3,034,608	602,500	(2,353,400)		(1,283,708)	-	
Air Transportation												
42	Airport Equipment	Airport Equipment (changed to Capital Expenditures)				200,000	-	-	-	(200,000)	-	
43	Airport Development Review Reserve	Operating costs for Development review	Y			8,918	12,000	-	-		20,918	
44	Airport Pavement	Airport Capital Expenditures					50,000			(50,000)	-	
Environmental services:												
Sanitary sewer system												
45	Centennial Fountain	Fountain Capital Expenditures				19,565	-	-	-	(19,565)	-	
46	FRMP - Res Sewer Surcharge	FRMP Capital Expenditures				17,371,577	2,500,000	(12,304,163)	-	(7,567,414)	-	
47	Sewer Surcharge	Sanitary Sewer related Capital Expenditures				20,184,961	5,468,572	(15,617,887)		(10,035,646)	-	
Storm sewer system												
48	FRMP - Res Capital Levy	FRMP Capital Expenditures				12,421,532	2,500,000	(13,191,672)	-	(1,729,860)	-	
Waste disposal												
49	Waste Management	Waste Management Capital Expenditures				4,109,127	660,000	(2,583,700)		(2,185,427)	-	
50	Landfill Closure	Closure & Post closure costs				2,927,701	227,000	-	(4,493,793)		(1,339,092)	
Health services												
51	County-City Health Unit	Municipal share to match prov. one-time funding					40,348	-	-	-	(40,348)	-
Social and family services												
52	General Assistance	Extraordinary GA costs due to incr caseload/cost	Y				4,368,415	-	(207,500)	(220,948)		3,939,967
53	SS Community Social Plan 50/50 Reserve	Shared with the County					219,050	-	-	-		219,050
54	Social Services - Early Learning Child Development	Provincial Funds for Early Learning Program					497,471	-	-	-		497,471
55	Fairhaven Home for the Aged	Fairhaven Debt financing				394,788	-	-	-		394,788	

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1	2	3	4	5	6	7	8	9	10	11	12
				\$	\$	\$	\$	\$	\$	\$	\$
Social housing											
56	Home Ownership Loan Fund	Housing incentive Program				76,561	-	-	-		76,561
57	Kawartha & Otonabee Native Cap. Reserve	K & O Native Capital Expenditures				486,260	-	-	-	(486,260)	-
58	Investment AH - Ptbo Renovates	Housing incentive Program				19,062	-	-	-		19,062
59	Social Housing	Extraordinary Social Housing costs	Y			2,163,982	-	(87,845)	-		2,076,137
60	Social Housing-City/County	Extraordinary Social Housing costs	Y			273,492	-	-	-		273,492
61	Social Housing-DOOR Funding	Provincial funding specific to DOOR program				513,442	-	(21,254)	(437,500)		54,688
62	Ptbo Housing Corp Capital Reserve	PHC capital Expenditures				1,699,326	100,000	-	-	(1,799,326)	-
63	Affordable Housing PropertyRes	Housing incentive Program				198,627	-	-	-		198,627
64	Affordable Housing Partnership	Housing incentive Program				513,154	150,000	(150,000)	-		513,154
Recreation facilities - Other											
65	Museum Accession	Acquisition and care of artifacts/archival collection				32,819	-	-	-		32,819
66	Museum Archives	Funds remaining from Special Project				4,771	-	-	-		4,771
67	Museum - Education	Funds remaining from Special Project				8,624	-	-	-		8,624
68	Museum Renovation	Museum Capital Expenditures	Y			90,057	15,000	-	-	(105,057)	-
69	Evinrude Centre - Surcharges	Used to help fund EV debt				6,427	-	-	-	(6,427)	-
70	PSWC Capital Conservation	PSWC Capital Expenditures	Y			524,185	81,567	(259,939)	-	(345,813)	-
71	New Athletic Fields	New Athletic Fields Capital Expenditures				618	-	-	-		618
72	Beavermead Reserve	Beavermead Capital Expenditures	Y			7,402	-	-	-		7,402
73	Artificial Turf	Artificial Turf Capital Expenditures				70,835	50,000	-	-	(120,835)	-
74	Market Hall Performing Arts	Market Hall Capital Expenditures	Y			51,662	4,640	-	-	(56,302)	-
75	Sportfield Lights	Sportfield Lights Capital Expenditures				35,415	25,000	-	-	(60,415)	-
76	PACAC Reserve	PACAC Costs	Y			19,127	-	-	-		19,127
77	Marina	Marina Capital Expenditures				40,116	9,000	-	-		49,116
78	General Recreation Reserve	Recreation Capital Expenditures				57,723	-	-	-		57,723
79	Museum display	Funds remaining from Special Project				2,198	-	-	-		2,198

Ref	Description	Purpose of Reserve To assist in financing or fund...	Year-End Transfer ?	Obligatory Reserve Funds, Deferred Revenue	Discretionary Reserve Funds	General Reserves	2015 Budget Provision to Reserve	Capital Commitments	Other Future Commitments	Needed for future capital budget planning	Uncommitted Balance
1	2	3	4	5	6	7	8	9	10	11	12
				\$	\$	\$	\$	\$	\$	\$	\$
Planning and development											
80	Control Monuments - New Subdivisions	Control Monuments Capital Expenditures			22,528	-	(40,500)	-		(17,972)	
81	Economic Development Initiatives Reserve	Economic Development Activities			22,725	-	-	-		22,725	
82	Industrial Land	Industrial Land Capital Expenditures			392,224	-	(514,496)	-		(122,272)	
83	Property Purchases	Property Purchases Capital Expenditures			1,876,765	370,000	(18,694)	-	(2,228,071)	-	
84	Loggerhead Marsh	Amts committed to Loggerhead March Developers			493,242	-	-	(493,242)		-	
85	Site Plan Compliance (Plng)	To Fulfil performance security issues			15,883	-	-	-		15,883	
86	Planning Technical Studies	Planning Studies Capital Expenditures			8,620	-	-	-		8,620	
87	Doctor Recruitment Incentive	Payments to recruit new Doctors			24,000	80,000	-	(48,335)		55,665	
88	Parkland Acquisition	Parkland Capital Expenditures			139	-	-	-		139	
Obligatory reserve funds / Deferred revenue:											
Development Charges Act - Non-discounted services											
89	Dev Chrgs - Police Protection		63,327			-	(37,500)		25,827		
90	Dev Chrgs - Fire Protection		(333,451)			-	(289,000)		(622,451)		
Development Charges Act - Discounted services											
91	Dev Chrgs - General		1,691,139			-			1,691,139		
92	Dev Chrgs - General Government		73,676			-	(242,915)		(169,239)		
93	Dev Chrgs - Transit		441,986			-	(58,600)		383,386		
94	Dev Chrgs - Indoor Recreation		203,070			-	(219,000)		(15,930)		
95	Dev Chrgs - Library Board		1,101,679			-	(1,180,500)		(78,821)		
96	DC - Eng Ser Roads & Related		6,820,201			-	(17,688,810)		(10,868,609)		
97	DC - Eng Ser Sewage Treatment		(1,465,359)			-	-		(1,465,359)		
98	Dev Chrgs - Park Dev & Facilities		334,964			-	(1,243,750)		(908,786)		
99	Dev Chrgs - Parking		737,082			-	-		737,082		
100	Dev Chrgs - Public Works		(261,673)			-	(504,000)		(765,673)		
101	Dev Chrgs - Jackson		2,351,314			-	(1,959,035)		392,279		
102	Dev Chrgs - Carnegie East		(2,119,855)			-	(467,150)		(2,587,005)		
103	Dev Chrgs - Lily Lake		(1,702,835)			-	(3,108,250)		(4,811,085)		
104	Dev Chrgs - Chemong East		(180,698)			-	(870,562)		(1,051,260)		
105	Dev Chrgs - Chemong West		(946,929)			-	(1,283,443)		(2,230,372)		
106	Dev Chrgs - Carnegie West		4,301			-	(201,600)		(197,299)		
107	Dev Chrgs - Liftlock		8,583			-	(25,000)		(16,417)		
108	Dev Chrgs - Coldspring		24,278			-	(3,100,000)		(3,075,722)		
109	Dev Chrgs - City-Wide Dev Area		325,905			-	(277,480)		48,425		
110	Dev Chrgs - Affordable Housing		-	-	(90,000)		(90,000)				

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1	2	3	4	5	6	7	8	9	10	11	12
				\$	\$	\$	\$	\$	\$	\$	\$
Recreational land (the Planning Act)											
111	New Subdivison Trees			381,830			-	(145,400)	-	(236,430)	-
112	Parkland 5% in lieu			72,657			-	-	-		72,657
Building Code Act, 1992 (Section 2.23)											
113	Building Division Reserve		Y	277,739			-	-	-		277,739
Gasoline Tax - Province											
114	Prov - Gas Tax Funds - Transit			(5,588)			-	-	-		(5,588)
Gasoline Tax - Federal											
115	Federal Gas Tax			8,301,465			-	(12,404,795)	4,557,466	(454,136)	-
								2015 FGT allocation			
				16,198,808	25,627,403	75,778,799	15,676,431	(96,653,866)	(33,253,442)	(38,030,786)	(34,656,653)