



## **Reserve and Reserve Funds Report**

### **Commissioner of Corporate Services and FMS**

### **Budget Standing Committee, Dec. 15, 2015**

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## **Reserves and Reserve Funds**

Council has identified, within the Strategic Plan, a goal to focus on multi-year budgeting to improve long-term financial planning and directed staff to update financial controls and the City's debt management strategy to better manage escalating costs of City operations and services.

Reserves and reserve funds are an essential part of sound financial planning and management. A strong financial standing is vital for long-term planning, sustainability, and to ensure we meet our future goals.

Reserves and reserve funds allow for:

- Financing of planned expenditures such as capital requirements or long-term liabilities
- Protection against unforeseen events and stabilization of future program revenues and/or expenditures
- Funding of irregular or occasional expenses i.e. municipal election every four years

### **Reserves**

A reserve is an allocation of accumulated net revenue. This type of reserve is established through contributions from the City's operating budget at the discretion of Council.

Example: A winter control reserve, established by the City and funded through the City's operating budget.

### **Reserve Funds**

Reserve Funds differ from reserves in that they are established with contributions from external sources and its use is restricted for specific purposes.

Example: The Gas Tax Fund which is federally and provincially funded. Eligible projects are determined by upper levels of government.

### **Discretionary Reserve Fund**

Is a reserve fund created at the discretion of Council which earmarks revenues to finance future expenditures as designated by Council when the fund is initially developed.

### **Obligatory Reserve Fund**

Is a reserve fund that is required by legislation or agreement to be segregated from the City's general revenues for a specific purpose or for the works to be undertaken on behalf of the contributor.

### **Established Reserves and Reserve Funds**

The City does have reserves as well as established discretionary and obligatory reserve funds. More details on the specific reserves, purpose and source of funding is detailed in Appendix 1.

### **Existing Reserves and Reserve Funds**

#### Reserves

- Accumulated Sick Leave
- Fire Equipment Replacement
- Motor Vehicle Replacement
- Encumbrances
- Building Improvement
- Cemetery
- Brownfields

#### Discretionary Reserve Funds:

- Future Mausoleum
- Parking
- Civic Project Fund

#### Obligatory Reserve Funds:

- Future Sidewalks
- Payment in Lieu of Parkland
- Subdivider Deposits
- Residential Development Charges
- Gas Tax Reserve, Federal
- Gas Tax Reserve, Provincial
- Actifest Surplus
- Building Code

### **Current Reserve Status**

Reserves are an important part of long-term financial management and sustainability. While the City does have a number of reserve and reserve funds, the balances and/or contributions to those funds have been lower than the desired targets. Moving forward staff is developing a long-term plan to improve our ability to meet those targets for our established reserves and reserve funds.

## **Recommended New Reserves**

To ensure the City continues to enhance its financial planning and management, staff is recommending the creation of new Reserve and Reserve Funds.

### **A. Tax Rate Stabilization Reserve**

To improve the City's financial management strategy and enhance long-term sustainability, the Tax Rate (TR) Stabilization Reserve would help to minimize the fluctuation of tax rate increases.

#### TR Stabilization funding sources:

The reserve would hold surplus operating funds from previous years to fund any future years operating deficits as an alternative to raising the tax levy.

#### TR Stabilization eligible uses:

The reserve would be used to minimize tax rate increases that are caused by extraordinary or unforeseen events, one-time expenditures, and revenue shortfalls. The reserve would minimize the impact on the general tax levy and help manage cash flow.

### **B. Winter Control**

The Winter Control Program (WCP) budget and expenses fluctuates depending on year to year weather events and conditions.

To ensure the City continues to enhance its financial planning and management, staff are recommending the creation of a Winter Control Program Stabilization Reserve to ensure sustainable funding to support the programs' base operating budgets during seasons of high program service demand.

#### WCP Stabilization Reserve target:

A WCP Stabilization Reserve fund balance equating to 25% of the previous five year rolling average of Winter Control Program expenditures is recommended as a minimum funding level target for the reserve and this target should be updated annually to the current rolling average of program expenditures.

#### WCP Stabilization Reserve funding sources

At any year end wherein the WCP reserve is less than the above described target, deposits to the reserve account will be made to achieve the minimum balance target as funding is available, in sequence from the following sources:

- Winter Control Program budget surplus
- Overall Corporate Surplus

#### Eligible Uses of the WCP Stabilization Reserve

Unless otherwise directed by Council, WCP Stabilization Reserve funds may only be used to offset Winter Control Program operating budget over expenditures.

### **C. FirstOntario Performing Art Centre (PAC)**

With the opening of the new centre, it is vital the PAC not only successfully host its inaugural year but continue to generate additional interest, growth and support for the arts and cultural sector.

And part of its ability to achieve those goals is dependent on its ability to be financially sustainable. As such, two reserve funds are being recommended for the PAC: the Operational Sustainability and Capital Sustainability reserves.

#### **FirstOntario PAC Operational Sustainability Reserve**

This reserve is to offset the PAC annual revenue fluctuations that may occur from time to time due to market conditions, and other factors out of the control of the operation.

##### PAC Operational Sustainability Reserve funding target:

The intent is to seed the reserve with the surplus from the PAC Capital Campaign with the opportunity to add additional funding to the reserve through a few potential funding sources.

##### PAC Operational Sustainability Reserve funding sources:

- Surplus from the PAC Capital Fundraising Campaign
- Annual operation surplus obtained by the PAC
- Annual donations received by the PAC

##### PAC Operational Sustainability Reserve eligible uses:

The reserve would be used to offset any annual revenue deficiencies and support annual program development initiatives.

#### **FirstOntario PAC Capital Sustainability Reserve**

The intent of the Capital Sustainability Reserve is to offset the capital needs of the PAC for the next 25 years to ensure that the building remains in good status, with modern equipment, and the capital needs are sustainable without tax base support or debt financing.

The reserve is expected to have contributions of \$125,000 to \$200,000 per year, and accumulate over the years to generate enough money to pay for capital requirements of the venue for 25 years.

##### PAC Capital Sustainability Reserve funding sources:

The funding for the capital reserve will be generated through a \$2 capital surcharge that is a fee added to the ticket prices of each ticket.

##### PAC Capital Sustainability Reserve eligible uses:

This reserve will allow for theatrical production equipment repairs and replacement as well as capital repairs and replacement.

## **Policy for Reserves and Reserve Funds**

The City of St. Catharines has developed a Reserve and Reserve Fund Policy in accordance with the Municipal Act, 2001, which states that a municipality may establish a reserve and reserve funds for any purpose for which it has the authority to spend money.

The purpose of the Reserve and Reserve Fund policy is to establish consistent principles, standards and guidelines for the maintenance, management and accounting of reserve funds. The Policy is detailed in Appendix 2.

### **Prepared by:**

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### **Approved by:**

Shelley Chemnitz, Commissioner of Corporate Services

**City of St. Catharines - Reserves and Reserve Funds**

**Appendix 1**

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2014	Targeted Balance	Basis for Targeted Balance
Working Funds	Cash management device for cash flow and to reduce the need for short-term loans	- Annual operating budget contribution	- Unforeseen expenditures that may occur - Unbudgeted/new expenditures	\$ 28,000	NA	The 2015 budget utilized the remaining funds in this reserve. The purposes of the reserve will now be achieved through the tax stabilization reserve
Accumulated Sick Leave	IAPFF Local 485 employees can accumulate unused sick leave which could be taken as cash on termination	- Annual operating budget contribution	- Sick leave paid out upon termination/retirement for eligible employees	\$ 3,038,000	\$ 5,025,000	\$5,025,100 - Total accumulated sick leave calculated as at December 31, 2014
Fire Equipment Replacement	Replacement of major equipment	- Annual operating budget contribution - Gain on disposition of major fire fighting equipment - Proceeds on disposition of major fire fighting equipment	- Purchase of major fire fighting equipment	\$ 670,000	\$ 6,393,000	- Maximum balance of 10% estimated replacement cost of major fire fighting equipment
Motor Vehicle Replacement	Replacement of major equipment	- Annual operating budget contribution - Gain on disposition of motor vehicle equipment - Proceeds on disposition of motor vehicle equipment	- Purchase of motor vehicle equipment	\$ 709,000	\$ 7,204,000	- Maximum balance of 50% of total estimated replacement cost of motor vehicle equipment owned by the City  Estimated replacement cost as at December 31, 2014: \$14,407,214 x 50% = \$7,203,607
Encumbrances	Fund unliquidated encumbrances or commitments	- Annual operating budget contribution - Annual water and wastewater budget contribution	- Obligations that were included as part of the operating or water and wastewater budget for which payment is outstanding at year end.	\$ 19,105,000	N/A	Fluctuates as Balance is dependent on obligations for which payment is outstanding at year end

**City of St. Catharines - Reserves and Reserve Funds**

**Appendix 1**

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2014	Targeted Balance	Basis for Targeted Balance
Building Improvement	Provide for commitments to building improvement projects	- Annual operating budget contribution - Grants/rebates on building improvement expenditures	- Building improvement projects	\$ 1,438,000	\$ 44,564,000	- Maximum balance of 10% of total estimated replacement cost of buildings owned by the City  Estimated replacement cost as at December 31, 2014: \$445,644,713 x 10% = \$44,564,471
Cemetery	Net cemetery activity to be used for capital items	- Transfer of annual net cemetery revenues - Surcharges on cemetery transactions	- Capital items used in cemetery operations	\$ 30,000	\$ 345,000	- Maximum balance of 25% of annual Cemetery revenues  2015 budgeted Cemetery revenues: \$1,378,500 x 25% = \$344,625
Brownfield Reserve	Brownfield development	- Contribution from Province of Ontario - Cost recovery - billing of City partners	- Expenditures related to Brownfield development (professional fees, capital expenditures, etc).	\$ 19,000	- N/A - One-time legacy fund to be drawn down over time	- N/A - One-time legacy fund to be drawn down over time

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2014	Targeted Balance	Basis for Targeted Balance
<b>RECOMMENDED NEW RESERVES</b>						
Winter Control	Fund potential shortfalls in the winter control budget due to higher than anticipated incidents of inclement weather	- Transfer of annual winter control surplus (if any)	- Transfer to cover annual winter control deficit (if any)	\$ -	\$ 1,578,000	- Maximum balance equating to 25% of the previous five year rolling average of Winter Control Program expenditures - Rolling average for 2010 to 2014 \$1,578,309 - Target Balance should be updated annually to the current rolling average of
FirstOntario Performing Arts Centre - Sustainability Reserve	To offset any budgetary pressures as a result of being a new facility launching its programing as well as to ensure long-term sustainability of the arts and culture facility.	- Annual operating budget contribution - Transfer of Annual operating budget surplus - Transfer of positive results: budget vs actual - Net fundraising surplus	- Transfer to cover Annual deficit (if any) - Unforeseen or unbudgeted/new expenditures	\$ -	\$ 2,500,000	- Maximum balance of one year's worth of expenditures. Balance represents 2016 budgeted expenditures.  - Sufficient to cover future potential FOPAC deficits
FirstOntario Performing Arts Centre - Capital Sustainability Reserve	To offset the capital needs of the PAC for the next 25 years to ensure that the building remains in good status with modern equipment without tax base support or debt financing	- \$2 surcharge added to each ticket sold at the PAC	- Capital items used in PAC operations (replacement of existing capital and/or upgrades) - Unforeseen or unbudgeted/new expenditures	\$ -	\$ 6,075,000	- Maximum balance of 10% of total estimated replacement cost of PAC  the Project Budget for the PAC: \$60,757,101 x 10% = \$6,075,710
Tax Rate Stabilization Reserve	Minimize the fluctuation of tax rate increases due to extraordinary or unforeseen events. Provides an alternative to raising total tax levies	- Annual operating budget contribution - Transfer of annual operating budget surplus	- Annual operating budget contribution - Unforeseen expenditures that may occur - Unbudgeted/new expenditures	\$ -	\$ 9,119,000	- Maximum balance of 5% to 10% of annual total tax levies.  2015 budgeted tax levies: \$91,197,000 x 10% (maximum) = 9,119,700



## City of St. Catharines - Reserves and Reserve Funds


Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2014	Targeted Balance	Basis for Targeted Balance
<b>DISCRETIONARY RESERVE FUNDS</b>						
Future Mausoleum	Fund debt repayment and future mausoleum construction	<ul style="list-style-type: none"> <li>- Surcharges on cemetery transactions - mausoleum plot sales include a surcharge used to fund future mausoleum construction</li> <li>- Interest on reserve fund balance</li> </ul>	<ul style="list-style-type: none"> <li>- Expenditures related to new mausoleum construction</li> </ul>	\$ 19,000	\$ 1,500,000	<ul style="list-style-type: none"> <li>- Projected cost of future mausoleum construction incorporating construction price index</li> </ul>
Actifest	Legacy fund from Senior Games for programmes promoting healthy lifestyles for Seniors 55+	<ul style="list-style-type: none"> <li>- Transfer of surplus from 2004 Ontario Senior Games</li> <li>- Grants</li> <li>- Interest on reserve fund balance</li> </ul>	<ul style="list-style-type: none"> <li>- Expenditures related to the promotion of healthy lifestyles for citizens aged 55+ years</li> </ul>	\$ 8,000	- N/A - One-time legacy fund to be drawn down over time	- N/A - One-time legacy fund to be drawn down over time
Civic Project Fund	Fund community projects, external cultural and community improvement initiatives. Used to fund significant new facility construction and/or purchases	<ul style="list-style-type: none"> <li>- Proceeds from St. Catharines Hydro Inc. / Hamilton Hydro Inc. merger in 2005</li> <li>- Interest income - internal loan re: construction of Seymour Hannah</li> <li>- Interest on reserve fund balance</li> <li>- Sale of land</li> </ul>	<ul style="list-style-type: none"> <li>- Community grants</li> <li>- Interest paid to support Operating Fund</li> <li>- Cultural Investment Program</li> <li>- Physician Recruitment Program</li> <li>- Heritage Grant Program</li> <li>- Habitat for Humanity</li> <li>- Contributions towards major capital projects</li> </ul>	\$ 21,754,000	\$ 68,591,000	<ul style="list-style-type: none"> <li>- Maximum balance of 10% of net City assets.</li> <li>Net City assets as at December 31, 2014: \$685,910,000 x 10% = \$68,591,000</li> </ul>
Parking Operations	Net revenue from parking operations	<ul style="list-style-type: none"> <li>- Transfer of annual net parking operations revenue</li> <li>- Interest on reserve fund balance</li> </ul>	<ul style="list-style-type: none"> <li>- Parking lot acquisition, construction and improvements</li> <li>- Purchase of parking control equipment</li> </ul>	\$ 1,452,000	\$ 8,000,000	<ul style="list-style-type: none"> <li>- Maximum balance of 10% of total estimated replacement cost of parking infrastructure owned by the City</li> <li>Estimated replacement cost as at December 31, 2015: \$80,000,000 x 10% = \$8,000,000</li> </ul>

**City of St. Catharines - Reserves and Reserve Funds**

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2014	Targeted Balance	Basis for Targeted Balance
<b>OBLIGATORY RESERVE FUNDS</b>						
Future Sidewalks	When sidewalk requirements are waived by Council the funds are placed in a reserve for a period of 20 years	- Transfer of sidewalk deposits - Interest on reserve fund balance	- Sidewalk construction and improvements	\$ 996,000	- N/A - Contributions dependent upon development activity therefore upper limit not applicable	- N/A - Annual contributions dependent upon development activity - Funds should be utilized in a timely manner upon receipt rather than remaining in reserve indefinitely
Payment in Lieu of Parkland	5% cash-in-lieu of parkland dedication - Sec 542(15) <i>Planning Act</i>	- Cash payments made by the developer to the municipality in lieu of conveyance of land - Interest on reserve fund balance	- Parkland construction and improvements	\$ 1,045,000	- N/A - Contributions dependent upon development activity therefore upper limit not applicable	- N/A - Annual contributions dependent upon development activity - Funds should be utilized in a timely manner in accordance with the <i>Planning Act</i> upon receipt rather than remaining in reserve indefinitely
Building Code	Net building permit fees - Provincial legislation	- Transfer of annual net building permit income (if any) - Interest on reserve fund balance	- Transfer to cover annual net building permit deficit (if any)	\$ 82,000	\$ 1,560,000	- Maximum balance of one year's worth of building permit department's expenditures. Balance represents 2015 budgeted expenditures for Building & Plumbing department  - Sufficient to cover future potential net building permit deficits
Subdivider Deposits	Fund expenditures for the specific subdivision	- Payments from developers held by the municipality as a deposit	- Refund of deposit back to developer upon successful completion of project - Amount taken from deposit and moved into revenue if developer unable to complete work and City is required to complete works	\$ 387,000	- N/A - Contributions dependent upon development activity therefore upper limit not applicable	- N/A - Annual contributions dependent upon development activity - Funds should be utilized in a timely manner upon receipt rather than remaining in reserve indefinitely

## City of St. Catharines - Reserves and Reserve Funds

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2014	Targeted Balance	Basis for Targeted Balance
Residential Development Charges	Fund growth-related net capital costs for which the Development Charge was imposed - Sec 16(1) <i>Development Charge Act</i>	<ul style="list-style-type: none"> <li>- Payments from developers collected to fund growth related capital expenditure</li> <li>- Interest on reserve fund balance</li> </ul>	<ul style="list-style-type: none"> <li>- Eligible project costs for capital projects defined and listed in the approved Development Charge Background Study and By-Law</li> </ul>	\$ 3,445,000	\$ 3,445,000	<ul style="list-style-type: none"> <li>- Development Charges set in accordance with the approved Development Charge Background Study and By-Law</li> <li>- Balance collected sufficient to fund growth related expenditures as per Development Charge Background Study and By-Law</li> </ul>
Gas Tax Reserve - Provincial	Public transportation	<ul style="list-style-type: none"> <li>- Payments from Provincial Government to fund public transportation</li> <li>- Interest on reserve fund balance</li> </ul>	<ul style="list-style-type: none"> <li>- Transfers to St. Catharines Transit for upgrades to public transportation infrastructure</li> </ul>	\$ 3,462,000	- N/A - funding levels set by Ministry of Transportation	- N/A - funding levels set by Ministry of Transportation
Gas Tax Reserve - Federal	Infrastructure projects - roads sewers, watermains	<ul style="list-style-type: none"> <li>- Payments through Association of Municipalities of Ontario on behalf of the Federal Government</li> <li>- Interest on reserve fund balance</li> </ul>	<ul style="list-style-type: none"> <li>- Eligible project costs for infrastructure supporting cleaner air, cleaner water or reduced greenhouse gas emissions in accordance with Federal Gas Tax Agreements</li> </ul>	\$ 8,155,000	- N/A - funding levels set by Infrastructure Canada (Federal Government)	- N/A - funding levels set by Infrastructure Canada (Federal Government)

 CITY OF ST. CATHARINES	<b>Corporate Services Commission</b>				
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## Policy

### Introduction:

The City of St. Catharines has established a Reserve and Reserve Fund Policy in accordance with the Municipal Act, 2001, which states that a municipality may establish a reserve and reserve funds for any purpose for which it has the authority to spend money.

### Definitions:

#### Reserve

A reserve is an allocation of accumulated net revenue. This type of reserve is established through contributions from the City's operating budget at the discretion of Council.

#### Reserve Funds

Reserve Funds differ from reserves in that they are established with contributions from external sources and its use is restricted for specific purposes.

### Purpose:


The purpose of the Reserve and Reserve Fund policy is to establish consistent principles, standards and guidelines for the maintenance, management and accounting of reserve funds.

The purpose of reserves and reserve funds are to:

- adhere to statutory requirements
- enable financial stability and flexibility
- act as a provision for major capital expenditures
- empower the Corporation to reduce fluctuations in the operating budget as a result of expenditures
- and create an opportunity for continuous improvements as well as fiscally responsible long-term planning and sustainability

### Establishment of Reserve and Reserve Funds:

- a) The City of St. Catharines has established:
  1. Reserves
  2. Reserve Funds
    - i. Discretionary – a reserve fund created at the discretion of Council which earmarks revenues to finance future expenditures as designated by Council.

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ii. Obligatory – a reserve fund that is required by legislation or agreement to be segregated from the City's general revenues for a specific purpose or for the works to be undertaken on behalf of the contributor.


- b) Council, on the recommendation of the Director of Financial Services, may establish a discretionary reserve fund and shall establish an obligatory reserve fund.
- c) A reserve or reserve fund can be recommended only if at least one of the following applies:
  - 1. A mandatory obligation exists, either pursuant to legislation or contract;
  - 2. The funds are intended for purchasing or maintaining capital assets;
  - 3. The funds are donated for a specific purposes;
  - 4. The funds are intended to fund a future liability.

### **Contributions To and Transfers From:**

- a) Contributions to Reserves as approved in the Operating Budget will be transferred to the reserves on an annual basis;
- b) Contributions to Reserves will be recommended annually;
- c) Transfers from a reserve or reserve fund will not occur if the transfer will put the reserve in a negative balance.

### **Closing Reserves and Reserve Funds:**

- a) If the purpose or purposes for which the reserve or reserve fund was created have been accomplished and the reserve or reserve fund is determined to no longer be necessary, the Director of Finance, shall report to Council with a recommendation on: the closure of the reserve, the disposition of any remaining funds, and the necessary amendment to the reserve by-law.

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## Procedures

### Introduction:

#### City Council shall:

- In accordance with the Municipal Act, 2001, Section 240, develop and evaluate policies and ensure that administrative policies, practices and procedures are in place to maintain the financial integrity of the municipality;
- Approve transactions to and from reserves and reserve funds through the budget process or by specific resolution.

#### Chief Administrative Officer shall:

- Support the Commissioner of Corporate Services and the Director of Financial Services in ensuring the principles and mandatory requirements contained in the policy are applied consistently across all City departments.

#### Director of Financial Services shall:

- Develop and update the policy as necessary and present changes to Council;
- Ensure that the principles and requirements contained in the policy are applied consistently across all departments;
- Perform transfers to and from reserves and reserve funds as authorized by Council;
- Recommend strategies for the adequacy of reserve and reserve fund levels and;
- Report the reserve and reserve fund balances and forecast to the Budget Standing Committee and/or to City Council as part of the annual budget process.

#### Departments shall:

- Provide the Director of Financial Services with the most current capital asset information to be used in evaluating the adequacy of the capital reserve;
- Consult with the Director of Financial Services when reserve or reserve funds should be established;
- Consult with the Director of Financial Services when the use of reserve or reserve funds is required;

### Application:

This policy shall apply to all reserves and reserve funds established for the City of St. Catharines, unless otherwise stated by the Corporation and approved by Council. This policy shall be applied fairly and consistently in a manner that maintains the general purpose, intent, and meaning of the policy.