

Report from Financial Management Services, Director

Date of Report: January 27, 2017

Date of Meeting: February 1, 2017

Report Number: FMS-B009-2017

File: 10.57.99

Subject: 2016 Year End and Reserves and Reserve Funds update with Potential New Reserves

Recommendation

That the Budget Standing Committee receive this report on the City's 2016 Year End Position and Reserves and Reserve Funds for information purposes; and further,

That the BSC receive for consideration and approval details on a potential new Litigation/Insurance Reserve, Election Reserve and two new reserves for the Meridian Centre: a Capital Reserve and an Event Fund Reserve; and further,

That Budget Standing Committee (BSC) approve the allocations to the following reserves using the a portion of 2016 year end surplus:

- Election Reserve - \$400,000
- Litigation/Insurance Reserve - \$200,000
- Winter Control Reserve - \$150,000
- Tax Stabilization Reserve - \$450,000

Background

At BSC meeting of January 25th, the Committee requested the City's 2016 actual results and staff indicated that the majority of items should be complete, although there may be a few items that are still tentative that need to be finalized.

At a meeting of the BSC, Dec. 13, 2016, direction was given to staff to report back on the potential of a litigation reserve. Information regarding this potential new reserve, as well as potential new Meridian Centre Capital Reserve and a Meridian Centre Event Fund Reserve has been included in this update on current reserves and reserve funds for the committee's information and consideration.

In addition, based on the City's positive year end position, Staff are making recommendations on the allocation of this surplus, beyond what is required for 2017 budget allocation of \$1.1 million.

2016 Year End Results

The City is expecting to end the fiscal year 2016 with a positive year end position when budget is compared to actuals. There are a few factors that contribute to this position. Favourable union contract settlements, staff vacancies during the year that created temporary vacancies that were filled at lower wage rates or on a contract basis which does not require pension or

extended health benefits. In addition, by going to RFP for insurance services, these premiums were under budget by approximately \$230,000. Summary of the year end position have been provided in Appendix 1. Further departmental details are available in the updated 2017 Draft Operating Budget available through the following link.

www.stcatharines.ca/2017draftbudget

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. The policy for reserves and reserve funds can be seen in Appendix 2.

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

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

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
- Community Improvement Plan
- Hydro Funds
- Infrastructure Levy
- Winter Control
- FirstOntario Performing Arts Centre Capital Sustainability
- Tax Rate Stabilization Reserve

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

Report

Current Reserves

Details on all reserves and reserve funds, as well as current balance as of December 31, 2016, is included for the BSC's information as Appendix 3.

Parking Reserve Fund

Appendix 4 has details regarding the Parking Reserve Fund which are included in the 2017 Draft Operating Budget - Parking Meter Reserve Summary.

Potential New Reserves

In the last budget cycle, the BSC established three new reserves: Winter Control, FirstOntario Performing Arts Centre Capital Sustainability, and the Tax Rate Stabilization Reserve.

In the current budget cycle Staff are recommending the creation of four new reserve funds in 2017.

Election Reserve

Every four years the City is required to hold a municipal election. Due to other budget pressures in previous years, the City has not been in a position to set funds aside for the next municipal election in 2018.

With the positive year end results for 2016, staff are recommending the creation of an election reserve and that an amount of \$400,000 be allocated to this reserve which would be available to fund the anticipated costs of the 2018 municipal election.

In addition, staff are further recommending that each year beginning with 2019 that 25% of the anticipated election costs be allocated to the Election Reserve with through the annual budget process. By spreading the costs of the municipal election over the four years lessens the impact on the budget in the year of the election. It also assists in smoothing the cost over the four year period.

Litigation/Insurance Reserve

A litigation reserve is a contingency to cover legal expense costs and possibly damages or costs awarded in circumstances where the City does not have insurance coverage for one or both. These legal expense costs or awarded damages may arise from administrative proceedings, for example hearings before the Ontario Municipal Board (OMB), Ontario Human Rights Commission or Workplace Safety Insurance Board or litigation regarding many contractual disputes, or challenges of municipal by-laws or orders. Another consideration is costs related to expert witnesses/reports which are generally included in litigation reserves as well.

The litigation/insurance reserve would also be available to provide additional funds above annual budget allocations to pay legal expenses and damages below our deductible for insured claims. This reserve is also in addition to the LCS – Legal and Court Costs budget (702.105.450) which is intended to cover routine operating costs

such as fees for land registry and corporate searches and court filing (POA), and to provide a budget to supplement the use of in-house counsel with external counsel for expert advice and representation on specific but usual minor matters.

In previous years the Legal and Court Costs budget has been over spent as it has been used to pay legal expenses related to more significant litigation files. The consequence of this is that funds have not been available to support core LCS functions.

How it would operate

A litigation/insurance reserve can be either general or specific. A general reserve is intended to cover as yet “unknown” matters. In circumstances where a specific proceeding is known and there is certainty that expenses will be incurred budgeting for these anticipated expenses related to that file is recommended. The general reserve could be used to support specific items or they could be included in the annual budget.

Financial considerations

Based on the positive year end results for 2016, staff are recommending that a portion of these funds be transferred to the Litigation/Insurance Reserve in the amount of \$200,000.

It is further recommended that in future years any unspent funds in the City’s Legal and Court Cost expenditures and Self-Insurance expenditures be transferred to this reserve fund, provided the City is in a net positive position for the fiscal year.

The recommended target balance for this reserve fund is \$400,000, which is approximately equal 50% of the annual self-insurance and legal and court cost expenditures. This target should be adjusted regularly as these expenditure items change.

Specific reserve could be required for specific files based on an estimated budget worked out with external counsel. For example, for significant OMB hearings budgets are typically prepared based on the anticipated number of hearing days. For each day of hearing and additional 2:1 or 3:1 days of preparation are required based on the complexity of the matter. So a three-week OMB hearing, for example, could result in 300 billed hours for legal counsel plus expert witness expenses. Litigation is much more difficult to budget for because you cannot predict how far it will go and how the other party will proceed – which directly impacts our own strategy and expenses.

Potential Litigation

In 2017 Planning and Building Services intends to bring forward a new secondary plan for Port Dalhousie and changes to the Heritage District Conservation Plan. Both of these have a high potential to generate appeals to the OMB and because these are City initiatives the City will need to be a full party in those hearings.

Meridian Centre Capital Fund and Event Fund Reserve

SMG and the Meridian Centre Governance Committee are reviewing the potential for a Meridian Centre Capital Reserve, as well as an Event Fund Reserve. Establishing these reserves would require the consideration and approval of Council. For the Budget Standing Committee's consideration, SMG has provided information in Appendix 3.

Based on this information from SMG, Staff has transferred the net expenditure amount over the 2016 net operating budget for the Meridian Centre operations to these two reserve fund, with \$50,000 allocated to the Event Fund Reserve and \$59,000 allocated to the Capital Reserve. The total amount for 2016 is \$109,000.

Allocations to Other Reserves

With the positive 2016 year end results, staff are recommending that the reserve funds created in 2016 that did not have any funds allocated have an allocation of part of the 2016 year end surplus.

The following are the reserve allocations recommended by staff.

- Winter Control - \$150,000 - \$10% of the target reserve balance
- Tax Stabilization Reserve - \$450,000 – approximately 5% contribution towards target balance of just over \$9 million.

Financial Implications

The balance of current reserves are provided in Appendix 3. Financial implications for establishing a new Election Reserve and Litigation/Insurance Reserve is contained within this report and the Meridian Centre reserves can be seen in Appendix 5.

Relationship to Strategic Plan

Economic Sustainability

Goal: Be an affordable city for young people, families and older adults.

Action: Update financial controls and debt management strategy to better manage escalating costs of City operations and services.

Action: Implement multi-year budgeting to improve long-term financial planning.

Prepared and Submitted by:

Kristine Douglas, Director, Financial Management Services

Approved by:

Shelley Chemnitz, Commissioner of Corporate Services

Attachments:

Appendix 1 – 2016 Year End Position

Appendix 2 – Reserve Policy


Appendix 3 – Current Reserves Balances

Appendix 4 – Parking Reserve

Appendix 5 - SMG Meridian Centre Reserve

City of St. Catharines
2016 Year End Results

		2017	2016	2016	\$ Change	% Change
		Budget	Budget	Actuals	2016 Budget Vs. Actual	2016 Budget Vs. Actual
Expenditures						
Office of Mayor and Members of Council	\$	905,157	\$ 668,348	\$ 646,115	\$ 22,233	3.33%
Grants and Committees	\$	10,000	\$ 10,000	\$ 8,905	\$ 1,095	10.95%
	\$	-	\$ -	\$ -		
City Departments						
CAO	\$	1,235,970	\$ 1,221,506	\$ 1,143,863	\$ 77,643	6.36%
Legal Services and Clerks	\$	2,739,565	\$ 2,600,494	\$ 3,008,093	\$ (407,599)	-15.67%
Planning and Building Services	\$	3,870,015	\$ 3,819,656	\$ 3,699,646	\$ 120,010	3.14%
Fire Services	\$	24,679,001	\$ 24,197,713	\$ 22,468,978	\$ 1,728,735	7.14%
Economic Development & Tourism	\$	1,017,955	\$ 940,908	\$ 930,256	\$ 10,652	1.13%
	\$	-	\$ -	\$ -		
Operations Commission						
Transportation & Environmental Services	\$	18,640,808	\$ 18,262,483	\$ 17,990,973	\$ 271,510	1.49%
Parks, Recreation and Culture Services	\$	16,585,346	\$ 16,214,565	\$ 15,701,868	\$ 512,697	3.16%
Meridian Centre	\$	661,548	\$ 675,550	\$ 675,549	\$ 1	0.00%
First Ontario Performing Arts Centre	\$	1,662,192	\$ 1,263,432	\$ 1,331,543	\$ (68,111)	-5.39%
	\$	-	\$ -	\$ -		
Corporate Services Commission						
Financial Management Services	\$	4,100,747	\$ 4,081,892	\$ 4,571,630	\$ (489,738)	-12.00%
Corporate Support Services	\$	5,256,999	\$ 5,183,761	\$ 4,954,016	\$ 229,745	4.43%
Contribution to Capital	\$	1,566,000	\$ 1,400,000	\$ 1,408,000	\$ (8,000)	-0.57%
Total City Departments and Commissions	\$	82,931,303	\$ 80,540,308	\$ 78,539,435	\$ 2,000,873	2.48%
	\$	-	\$ -	\$ -		
Debt Repayment	\$	12,461,990	\$ 12,002,251	\$ 12,074,181	\$ (71,930)	-0.60%
	\$	-	\$ -	\$ -		
Total City Expenditures	\$	95,393,293	\$ 92,542,559	\$ 90,613,616	\$ 1,928,943	2.08%
Boards and Commissions						
Library Board	\$	5,636,200	\$ 5,572,035	\$ 5,572,035	\$ -	0.00%
Transit Commission	\$	10,912,726	\$ 10,154,143	\$ 10,103,643	\$ 50,500	0.50%
Niagara District Airport	\$	207,853	\$ 203,793	\$ 203,793	\$ -	0.00%
	\$	-	\$ -	\$ -		
Total Expenditures	\$	112,150,072	\$ 108,472,530	\$ 106,493,087	\$ 1,979,443	1.82%
REVENUES:						
General Levy	\$	88,133,477	\$ 84,554,378	\$ 84,554,460	\$ 82	0.00%
Urban Service Area Levy	\$	11,678,860	\$ 11,059,034	\$ 11,059,006	\$ (28)	0.00%
Investment in CIP	\$	(1,040,797)	\$ (900,520)	\$ (900,254)	\$ 266	-0.03%
Tax Appeals and Write offs	\$	(590,000)	\$ (490,000)	\$ (1,228,938)	\$ (738,938)	150.80%
Commercial/Industrial Vacancy Rebate	\$	(344,000)	\$ (354,000)	\$ (326,912)	\$ 27,088	-7.65%
Supplemental Taxes	\$	430,000	\$ 650,000	\$ 227,565	\$ (422,435)	-64.99%
Municipal Utilities	\$	594,000	\$ 575,000	\$ 598,043	\$ 23,043	4.01%
Universities and Hospitals	\$	664,505	\$ 660,598	\$ 664,505	\$ 3,907	0.59%
Contributions from Other Governments	\$	2,350,500	\$ 2,449,100	\$ 2,473,779	\$ 24,679	1.01%
Licences and Permits	\$	2,098,000	\$ 1,954,500	\$ 2,434,580	\$ 480,080	24.56%
Rents, Concessions, Franchises	\$	35,000	\$ 77,000	\$ 81,194	\$ 4,194	5.45%
Fines	\$	145,000	\$ 195,200	\$ 195,891	\$ 691	0.35%
Services Charges	\$	52,000	\$ 46,000	\$ 57,082	\$ 11,082	24.09%
Penalties and Interest	\$	2,765,000	\$ 2,678,000	\$ 2,785,123	\$ 107,123	4.00%
Income from Investment	\$	3,739,727	\$ 3,764,940	\$ 3,669,122	\$ (95,818)	-2.55%
Miscellaneous Revenue	\$	353,800	\$ 553,300	\$ 253,213	\$ (300,087)	-54.24%
Surplus	\$	1,085,000	\$ 1,000,000	\$ 1,000,000	\$ -	0.00%
	\$	-	\$ -	\$ -		
Total REVENUES:	\$	112,150,072	\$ 108,472,530	\$ 107,597,459	\$ (875,071)	-0.81%
Net Position						
	\$	-	\$ -	\$ 1,104,372		

 CITY OF ST. CATHARINES	Corporate Services Commission				
	Subject:	Reserve And Reserve Fund Policy		Policy #:	#
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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.

 CITY OF ST. CATHARINES	Corporate Services Commission				
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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.

 CITY OF ST. CATHARINES	Corporate Services Commission				
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Procedures

Introduction:

City Council shall:

- a) 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;
- b) Approve transactions to and from reserves and reserve funds through the budget process or by specific resolution.

Chief Administrative Officer shall:

- a) 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:

- a) Develop and update the policy as necessary and present changes to Council;
- b) Ensure that the principles and requirements contained in the policy are applied consistently across all departments;
- c) Perform transfers to and from reserves and reserve funds as authorized by Council;
- d) Recommend strategies for the adequacy of reserve and reserve fund levels and;
- e) 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:

- a) Provide the Director of Financial Services with the most current capital asset information to be used in evaluating the adequacy of the capital reserve;
- b) Consult with the Director of Financial Services when reserve or reserve funds should be established;
- c) 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.

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2016	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	\$ -	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	\$ 3,005,640	\$ 5,035,000	\$5,035,038 - Total accumulated sick leave calculated as at December 31, 2015
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	\$ 833,191	\$ 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	\$ 7,072,202	\$ 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.	\$ 19,540,710	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

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2016	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	\$ 1,609,722	\$ 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	\$ 29,842	\$ 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).	\$ -	- N/A - One-time legacy fund to be drawn down over time	- N/A - One-time legacy fund to be drawn down over time
Community Improvement Plan Reserve	To fund the City Community Improvement Plan	-Annual operating budget contribution	-Council Approved CIP projects	\$ 4,572,593		
Hydro Funds	One time hydro funding source	-One time special dividend received from Hydro	-Operating Budget support	\$ 200,000	- N/A - One-time funding	- N/A - One-time funding and to be fully utilized in 2017
Infrastructure Levy Reserve	Infrastructure Levy to support capital projects to address infrastructure gap	-1% annual tax levy	-as per Infrastructure levy policy	\$ 890,000	-No upper funding level as infrastructure gap is significant	-No upper funding level as infrastructure gap is significant
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)	\$ 150,000	\$ 1,578,000	- Maximum balance equating to 100% 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 program expenditures
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	\$ 450,000	\$ 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, 2016	Targeted Balance	Basis for Targeted Balance
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	\$ 129,795	\$ 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
TOTAL				\$ 38,483,695		

City of St. Catharines - Reserves and Reserve Funds

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2016	Targeted Balance	Basis for Targeted Balance
RECOMMENDED NEW RESERVES						
Election Reserve	To fund the cost of the municipal election	- Annual operating budget contribution equal to 25% of anticipated election costs	- election expenses in election year	\$ 400,000	\$500,000	-Target Balance represents the cost of the municipal election which occurs every four years.
Litigation/Insurance Reserve	To fund "unknown matters" and to provide additional amounts to pay legal expenses and damages below City's deductible.	- Unspent funds in the City's Legal and Court Cost; and Self-Insurance expenditures '-allocations from year end surplus	-unknown litigation matters and legal cost and damages below City's insurance premium deductible	\$ 200,000	\$400,000	-Target balance represents approximately 50% of the annual self-insurance; and legal & court cost expenditures.
Meridian Centre Capital Reserve	To fund capital replacements and upgrades	- Surplus funds from annual operating budgets	-capital expenses based on capital plan approved as part of the City's annual capital upgrade program	\$ 59,000	\$ 5,264,000	- Maximum balance of 10% of net facility assets. Net facility assets as at December 31, 2015: \$51,140,000 x 10% = \$5,114,000
Meridian Centre Event Fund Reserve	To support events that have significant benefit to the community and create additional revenue generating potential	- Surplus funds from annual operating budgets '-Portion of additional revenues generated from events that this fund was used to support	-capital or other expenses related to the attraction of events to the facility, subject to approve of the Governance Committee	\$ 50,000	\$ 5,264,000	-\$150,000 for event fund portion.
TOTAL				\$ 709,000		

City of St. Catharines - Reserves and Reserve Funds

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2016	Targeted Balance	Basis for Targeted Balance
DISCRETIONARY RESERVE FUNDS						
Future Mausoleum	Fund debt repayment and future mausoleum construction	<ul style="list-style-type: none"> - Surcharges on cemetery transactions - mausoleum plot sales include a surcharge used to fund future mausoleum construction - Interest on reserve fund balance 	<ul style="list-style-type: none"> - Expenditures related to new mausoleum construction 	\$ 101,457	\$ 1,500,000	<ul style="list-style-type: none"> - Projected cost of future mausoleum construction incorporating construction price index
Actifest	Legacy fund from Senior Games for programmes promoting healthy lifestyles for Seniors 55+	<ul style="list-style-type: none"> - Transfer of surplus from 2004 Ontario Senior Games - Grants - Interest on reserve fund balance 	<ul style="list-style-type: none"> - Expenditures related to the promotion of healthy lifestyles for citizens aged 55+ years 	\$ 5,658	- 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"> - Proceeds from St. Catharines Hydro Inc. / Hamilton Hydro Inc. merger in 2005 - Interest income - internal loan re: construction of Seymour Hannah - Interest on reserve fund balance - Sale of land 	<ul style="list-style-type: none"> - Community grants - Interest paid to support Operating Fund - Cultural Investment Program - Physician Recruitment - Heritage Grant Program - Habitat for Humanity - Contributions towards major capital projects 	\$ 11,383,636	\$ 68,591,000	<ul style="list-style-type: none"> - Maximum balance of 10% of net City assets. Net City assets as at December 31, 2014: \$685,910,000 x 10% = \$68,591,000
Parking Operations	Net revenue from parking operations	<ul style="list-style-type: none"> - Transfer of annual net parking operations revenue - Interest on reserve fund balance 	<ul style="list-style-type: none"> - Parking lot acquisition, construction and improvements - Purchase of parking control equipment 	\$ 1,741,232	\$ 8,000,000	<ul style="list-style-type: none"> - Maximum balance of 10% of total estimated replacement cost of parking infrastructure owned by the City Estimated replacement cost as at December 31, 2015: \$80,000,000 x 10% = \$8,000,000

City of St. Catharines - Reserves and Reserve Funds

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2016	Targeted Balance	Basis for Targeted Balance
OBLIGATORY RESERVE FUNDS						
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	\$ 1,001,035	- 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	\$ 1,090,441	- 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)	\$ 265,454	\$ 1,560,000	- Maximum balance of one year's worth of building permit department's expenditures. Balance represents 2016 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	\$ 872,024	- 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, 2016	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"> - Payments from developers collected to fund growth related capital expenditure - Interest on reserve fund balance 	<ul style="list-style-type: none"> - Eligible project costs for capital projects defined and listed in the approved Development Charge Background Study and By-Law 	\$ 3,514,509	\$ 3,514,509	<ul style="list-style-type: none"> - Development Charges set in accordance with the approved Development Charge Background Study and By-Law - Balance collected sufficient to fund growth related expenditures as per Development Charge Background Study and By-Law
Gas Tax Reserve - Provincial	Public transportation	<ul style="list-style-type: none"> - Payments from Provincial Government to fund public transportation - Interest on reserve fund balance 	<ul style="list-style-type: none"> - Transfers to St. Catharines Transit for upgrades to public transportation infrastructure 	\$ 897,463	- 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"> - Payments through Association of Municipalities of Ontario on behalf of the Federal Government - Interest on reserve fund balance 	<ul style="list-style-type: none"> - Eligible project costs for infrastructure supporting cleaner air, cleaner water or reduced greenhouse gas emissions in accordance with Federal Gas Tax Agreements 	\$ 8,723,152	- N/A - funding levels set by Infrastructure Canada (Federal Government)	- N/A - funding levels set by Infrastructure Canada (Federal Government)

Estimate 2017

Schedule No P1

Parking Meter Reserve Fund

Expenditure Account	Estimate 2017		Estimate 2016		Actual 2016	Actual 2015
Reserve Fund Balance						
- January 1	\$1,741,231		\$1,453,805		\$ 1,453,805	\$1,452,157
Net Revenue Added During Year:						
Meters	348,662		355,720		483,400	337,699
Parking Violations					47,065	
Off-Street Parking	73,624		290,691		348,377	314,256
Ontario Street Garage						
Carlisle Street Garage						
Interest Earned	2,760	425,046	5,000	651,411	5,470	659,232
	\$2,166,277		\$2,105,216		\$2,338,118	\$2,111,389
Net Expenditure For Year:						
Parking Violations	137,396		183,075			99,523
Off-Street Parking						
Ontario Street Garage	232,033		220,504		89,760	64,189
Carlisle Street Garage	616,445		689,890		507,127	493,872
Parking trfr to General Fund						
Capital/Revenue						
	985,874		1,093,469		596,887	657,584
Reserve Fund Balance						
-December 31	<u>\$1,180,403</u>		<u>\$1,011,746</u>		<u>\$1,741,231</u>	<u>\$1,453,805</u>

Estimate 2017

Parking Summary

Schedule No P2

	Estimate 2017	Estimate 2016	Actual 2016	Actual 2015	% Change 2016 Budget
EXPENDITURE					
320.105 Parking Meters	326,638	287,009	204,831	310,464	13.81%
320.110 Parking Violations	867,396	882,076	795,698	819,914	-1.66%
320.115 Off-Street Parking	458,376	217,709	212,100	162,024	110.54%
320.120 Ontario St. Garage	565,839	576,304	458,747	427,720	-1.82%
320.125 Carlisle St. Garage	561,860	596,224	493,694	448,399	-5.76%
Debt/Interest payment capital/revenue	665,135	665,266	665,266	665,369	-0.02%
				0	
	<u>3,445,244</u>	<u>3,224,587</u>	<u>2,830,336</u>	<u>2,833,890</u>	6.84%
REVENUE					
320.105 Parking Meters	675,300	642,729	688,232	648,163	5.07%
320.110 Parking Violations	730,000	699,000	842,763	720,392	4.43%
320.115 Off-Street Parking	532,000	508,400	560,477	476,280	4.64%
320.120 Ontario St. Garage	333,806	355,800	368,987	363,530	-6.18%
320.125 Carlisle St. Garage	610,550	571,600	651,833	619,897	6.81%
Interest earned	<u>2,760</u>	<u>5,000</u>	<u>5,444</u>	<u>7,277</u>	
Total Revenue	2,884,416	2,782,529	3,117,736	2,835,538	3.66%
Less: Total Expenditure	<u>(3,445,244)</u>	<u>(3,224,587)</u>	<u>(2,830,336)</u>	<u>(2,833,890)</u>	6.84%
Transfer To (From) Reserve Fund	<u>(560,828)</u>	<u>(442,058)</u>	<u>287,400</u>	<u>1,648</u>	26.87%

ESTIMATE 2017

PARKING

SCHEDULE NO. P3

		2017 ESTIMATE
320.105	<u>PARKING METERS</u> Meters - replace meters with pay/display machines	<u>\$100,000</u>
	<u>OTHER EQUIPMENT</u> Coin sorting and coin wrapping machines	<u>\$30,000</u>
320.115	<u>OFF STREET PARKING</u> 26 Raymond Street - land purchase	<u>\$155,000</u>
320.120	<u>ONTARIO STREET GARAGE</u> <u>OTHER EQUIPMENT</u> HID card reader (device and install) Cash Register	<u>\$7,500</u> <u>1,000</u> <u>\$8,500</u>
	<u>CONSULTING FEES</u> Strand Monitoring	<u>\$25,000</u>



Capital Replacement Fee and Potential Uses of these Funds

The ticket fee that is collected on paid tickets is currently, as per the SMG/City of St. Catharines management agreement, falling to the bottom line of the overall facility operation. In essence it is treated simply as an additional revenue stream.

The following proposal is put forth to the Meridian Centre Governance Committee as a plan for isolating these funds for one or more specific purposes. However, it must be understood that by isolating these funds, and removing some or all of them from operating revenues, there will be a detrimental effect on the bottom line as it is currently calculated. A larger loss will appear on our statements.

History

Since SkyDome was built in 1989, facility owners/operators have recognized the need for not only upkeep of spectator facilities but also capital improvements. Privately owned venues, typically owned by sports franchises, have internal mechanisms for isolating revenues for these purposes. While municipally owned facilities face the same challenges, they often struggle to isolate funding for a spectator facility when there is, of course, also an endless need for capital at other city owned facilities.

To assist in isolating these revenues, ticket surcharges were devised to allow for a 'user pay' system of revenue generation, a surcharge on top of paid tickets, that is earmarked for a capital fund. This is now done in most modern and many older facilities in North America.

Origin of the CRF at the Meridian Centre

Within the Operating Agreement between the City of St. Catharines and SMG subsection of **Definitions**, "Operating Revenues" are defined and specifically include 'ticket surcharges.'

"Operating Revenues" – (a) any and all revenues of every kind or nature derived from SMG's operation of the Facility, including, but not limited to: license, lease and concession fees and rentals, revenues from merchandise sales, advertising and sponsorship sales and renewals (including, without limitation, revenues from the sale of naming rights), event sponsorship revenues, equipment rentals, utility revenues, box office revenues, ticket surcharges (if any), ticket service fees, parking revenues, food service and concession revenues (however, if such revenues are collected in the first instance by and retained by the concessionaire, the amount of such revenues owed by the concessionaire to the Facility shall be included as Operating Revenues), commissions or other revenues from decoration and set-up, security and other subcontractors (however, if such revenues are collected in the first instance by and retained by such subcontractors, the amount of such revenues owed by such contractors to the Facility shall be included as Operating Revenues), miscellaneous operating revenues, revenues generated from separate agreements with SMG Affiliates pertaining to the Facility, and interest revenues, all as determined in accordance with generally accepted accounting principles and recognized on a full accrual basis. For the sake of clarity, the parties acknowledge that revenues from the sale of tickets for events at the Facility are not Operating Revenues, but are instead revenues of the promoter and/or performer of each such event. To the extent that SMG collects such ticket sale revenue on behalf of such promoter and/or performer, such ticket sale revenue shall be the source of funds from which SMG collects the rental charges and other event reimbursements due by such promoter and/or performer for use of the Facility, which such charges and reimbursements are Operating Revenues hereunder.

However within Operating Revenues the ticket surcharge is not specifically earmarked for capital rather it is accumulated into the bottom line. This revenue is therefore included in the bottom line that is agreed to by the City and SMG in the annual budget. Surcharges was also treated this way in the original Pro Forma submitted in 2012 and 2013.

IceDogs Lease

While an amount is not included in the definition in the Operating Agreement, a ticket surcharge is specified within the IceDogs lease agreement with the City:

3.3.1.2 All ticket surcharge revenue will be paid to the City. The surcharge shall initially be set at \$1.00 (exclusive of taxes) for each ticket sold, net of complimentary tickets. Ticket surcharge shall be deducted at settlement and the IceDogs shall be paid net of surcharge. Surcharge for season tickets shall be deducted at settlement on a game-by-game basis. On every fifth (5th) anniversary during the Term, the City will be entitled to an increase in the ticket surcharge (but not an increase in the percent of ticket sales as per 3.3.1.1.a hereof) calculated on the basis of Consumer Price Index change for Ontario for the previous five (5) years.

Defining the Size of the Surcharge

Within the original SMG Pro Forma, a line amount was included based upon the IceDogs contractual ticket surcharge and what we considered an industry standard rate for buildings of this size of \$2.50, inclusive of HST.

While \$2.50 is fine on concerts and most family shows, it can be quite a hit, even larger than the rent component, on low ticket price events. Therefore a sliding scale is used with a floor of \$1.00 (including taxes) on most tickets up to \$15.00. At that point, we raise it in small increments until we push to the full \$2.50, usually somewhere between \$25 and up.

Since the definition of operating revenues includes ticket surcharges, the collected ticket surcharge (or Capital Replacement Fee) is currently included as a separate revenue line on the Income Statement. However since the facility operates with a net operating deficit, no net surplus is identified for capital maintenance or improvement.

Responsibility for Capital Purchases

The City of St. Catharines/SMG Operating Agreement clearly lays out the responsibility for all capital purchases over \$5,000:

Without limiting the generality of the foregoing, SMG shall have, without (except as otherwise expressly noted below) any prior approval by the City, sole right and authority to:

(c) maintain the Facility in the condition received, reasonable wear and tear excepted; provided that the City shall be responsible for undertaking all Capital Improvements and Capital Equipment purchases as provided in Section 5.8];

“Capital Improvements” – any and all building additions, alterations, renovations, repairs or improvements that have an initial dollar cost of not less than \$5,000 per project.

Clause 5.8 refers to an annual capital plan.

5.8 Capital Improvements; Capital Equipment.

The obligation to pay for, and authority to perform, direct and supervise Capital Improvements and Capital Equipment purchases shall remain with the City, except as otherwise provided in Section 5.11, and will not be considered Operating Expenses. An annual plan shall be submitted by SMG setting forth SMG’s recommendation for Capital Improvements and Capital Equipment purchases to be accomplished during the year and shall be accompanied by an estimate of the cost of all such items and projects and a request that the City budget funds therefor. The City shall retain the discretion to determine whether and to what level to fund Capital Improvements and Capital Equipment purchases to the Facility, except as otherwise provided in Section 5.11.

Conclusion

A clear need for an isolated capital fund for the Meridian Centre exists.

1. Capital Considerations

Scheduled replacement:

- Carpeting
- Furniture
- Computers
- Smallwares
- Acrylic shielding (hockey glass)

Potential Unexpected Replacement:

- HVAC unit
- Cooling Towers
- Zamboni

Capital Investment

- Additional tables, china, linens for banquets
- Videoboard replacement
- LED Lighting

2. Development of a Meridian Centre Event Fund

With the extraordinary level of competition in the area, and the ability of promoters to select any of a number of venues in a 6-8 hour drive, being a 'rental' facility, meaning the Meridian Centre never takes risk on shows, is proving detrimental.

In order to increase our event load being the ability to 'co-promote' events is becoming more and more expected by promoters. Allowing promoters to share risk can be the difference in becoming the venue of choice when there are other options.

Additionally, being able to develop events in house (like events that are specific to a facility's region such as a wine related event) is also critically important.

SMG possesses a very powerful event pro-forma spreadsheet that allows for extensive testing of a prospective event's risk potential. This tool will allow for almost any scenario in ticket sales, most importantly developing a 'worst case scenario' to hedge against any result.

In order to facilitate development of a Capital Reserve Fund and a Meridian Centre Event Fund, SMG recommends the following:

- Dedication of up to \$100,000 annually to a Meridian Centre Capital Fund
- Money to be moved from the income statement to individual balance sheet reserves during consolidation into the city's books
- Governance committee to work with council to allow for smoother and speedier release of funds for governance committee approved purchases.

And

- Dedication of up to \$50,000 annually to a Meridian Centre Event Fund
- Governance committee, or select members, would have approval over dispersal of Meridian Centre Event Fund dollars.
- In many cases these funds would be used only offset a loss on an event in the Meridian Centre's books. If an event was successful, these funds would not be used.
- For events supported by the Meridian Centre Event Fund that are cash positive, funds generated over expenses would first go to pay back any shortfall in the fund that was the result of any previous loss.
- This could mean that this fund would stay in the 'black.' If that was the case a cap on this fund of \$150,000 would suffice. In any year that the fund was fully capitalized at year end, no money would be transferred in that year.

This is simply a recommendation from SMG. Nothing within this document can take place without direction from the city. In the end, the support of the Governance Committee is crucial as is development and sign-off on the mechanism and the effect on the bottom line reporting of the Meridian Centre.