

# STAFF REPORT



**TO:** Committee of the Whole of Council  
**FROM:** Monica Quinlan, Treasurer  
**SUBJECT:** Status of Reserves & Reserve Funds  
**DATE:** November 1<sup>st</sup>, 2016

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## RECOMMENDATION

THAT Committee of the Whole of Council recommends to Council that it receive the staff report on the Status of Reserves and Reserve Funds for information.

## BACKGROUND

The definition of a **Reserve** is: *an allocation of accumulated net revenue. It has no reference to any specific assets and does not require the physical segregation of money or assets. They are part of the revenue fund and thus **do not earn interest on their own however any interest earned from them is reported as revenue in the operating fund.***

While a **Reserve Fund** is defined as: *these are segregated and restricted funds that are meant for a specific purpose. (i.e. Development Charge Reserve Funds, Water/Wastewater Lifecycle, etc).*

This is an important distinction since the two types of Reserves are used in very different ways. As noted above a Reserve may be created and used in a way that Council may see appropriate and are often used to assist municipalities in smoothing and/or avoiding major tax rate fluctuations, providing funding in emergency situations and/or providing funds to assist in large capital purchases.

Over the years the Town of Wasaga Beach has used Reserves primarily for:

- 1) Land Purchases – 28 Main Street, 950 Powerline Rd, and 36 Main Street;
- 2) To offset Capital Equipment – i.e. Snow Plows, Heavy Duty Trucks, and Tractors etc.;
- 3) To offset large Capital Projects – i.e. Main Street Bridge (2018);
- 4) Emergency Situations – i.e. Software Upgrades, and capital projects not previously considered in the current year's budget.
- 5) Smoothing an increase in policing costs

More recently the Reserves have been used to assist in the support of the Beachfront Property Management Department as included in the Financial Plan presented in April 2015.

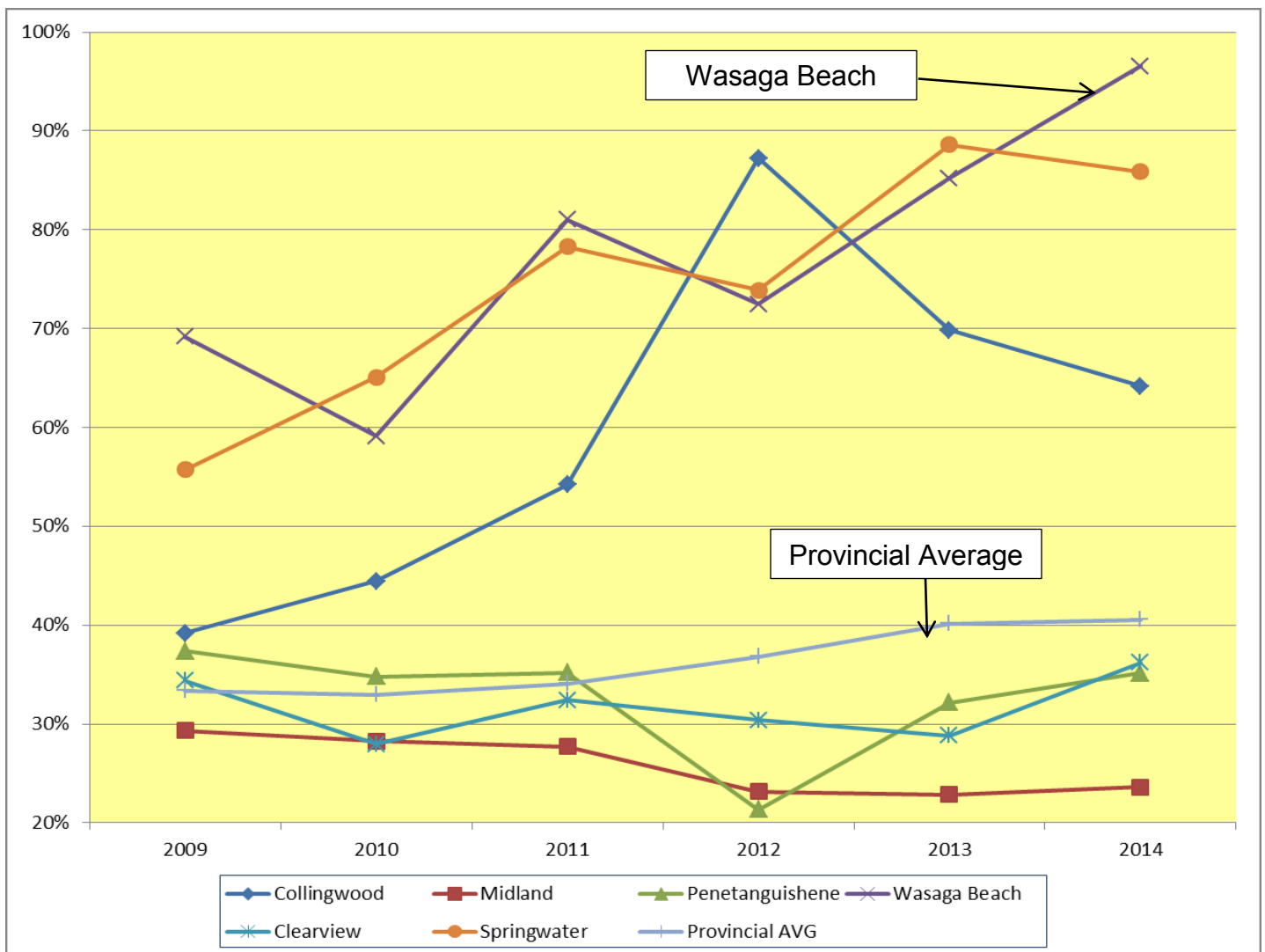
## DISCUSSION

Each year the Treasurer reports on the Financial Indicator Review that is submitted by the Province. These financial indicators show various pieces of information, one of which is the: "Reserves as a Percentage of Operating Expenses." Over the past several years, as detailed in the table below the Town has been well above the Provincial Average/Median. **However it is important to note that all of the information used to analyze at the Provincial Level for the Town includes Water/Wastewater Reserves and these funds are not available for all uses, this is also true of the investment in Hydro.**

	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Provincial Median	Provincial Average	Risk Level / Range
Total Reserves & Discretionary Reserve Funds	23,330	22,005	24,733	29,344	32,336			> 20 %
Operating Expenses / Expenditures	28,438	30,054	28,732	29,985	32,001			10% - 20%
Reserves as a % of Op Expenses / Expenditures	<b>82.0%</b>	<b>73.2%</b>	<b>86.1%</b>	<b>97.9%</b>	<b>101.0%</b>	55.8%	61.4%	< 10%

\*\* (When comparing year over year it is important to note that beginning in 2013 the Waste Management Levy was no longer included in the Municipal Operating Expenditures and instead was included in the County Levy - \$1.5 Mio.)\*\*

In comparison to neighbouring Municipalities the town is near the top position and well above the Provincial Average as detailed in the graph below.



With respect to the appropriate amount of reserves to be held by a Municipality the Province defines that any amount less than or equal to 10% of the total annual expenditures is considered to be at a

high risk, a moderate risk is defined as 10% - 20%, and low risk at anything greater than 20%. These amounts of course do not take into consideration the pressures Municipalities are experiencing due to the lack of funds available to maintain the Asset Management Plans. However the Financial Indicator recently provided by the Province titled "Asset Consumption Ratio" measures the age of a municipality's physical assets and the extent to which depreciable assets have been consumed by comparing the amount of the assets that have been used up and their cost. The Province defines the following indicators:

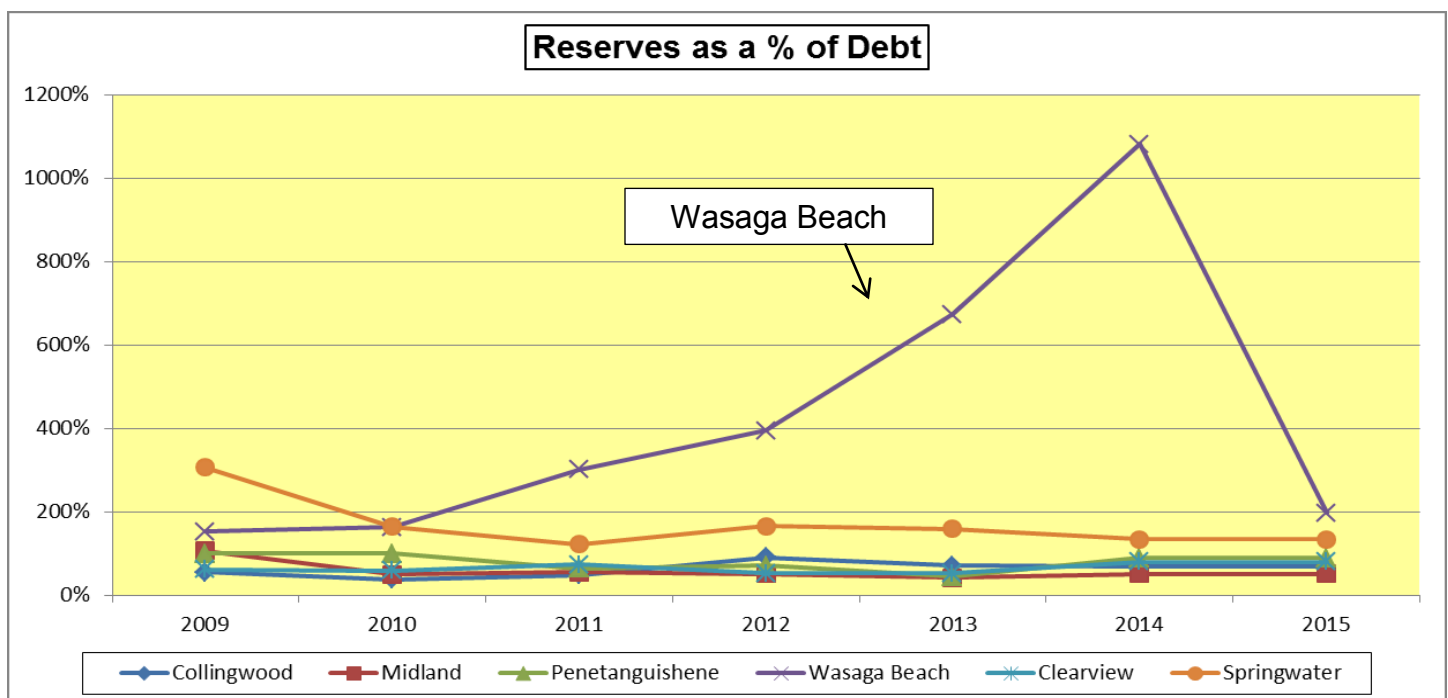
- < 25% - Relatively New Infrastructure;
- 26% to 50% - Moderately New Infrastructure;
- 51% to 75% - Moderately Old Infrastructure; and
- > 75% - Old Infrastructure.

The Town's results are detailed below and are consistent with the AMP presented to Committee.

	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Provincial Median	Provincial Average	Risk Level / Range
Closing Amortization Balance (TCA)	61,588	65,665	71,120	77,132	82,829			> 10%
Closing Historical Cost Balance (TCA)	246,755	267,265	267,265	281,539	307,805			10% to (10%)
Asset Consumption Ratio	<b>25.0%</b>	<b>24.6%</b>	<b>26.6%</b>	<b>27.4%</b>	<b>26.9%</b>	41.8%	44.0%	< (10%)

As noted above the Town is at a moderate level and below the stated Provincial Average.

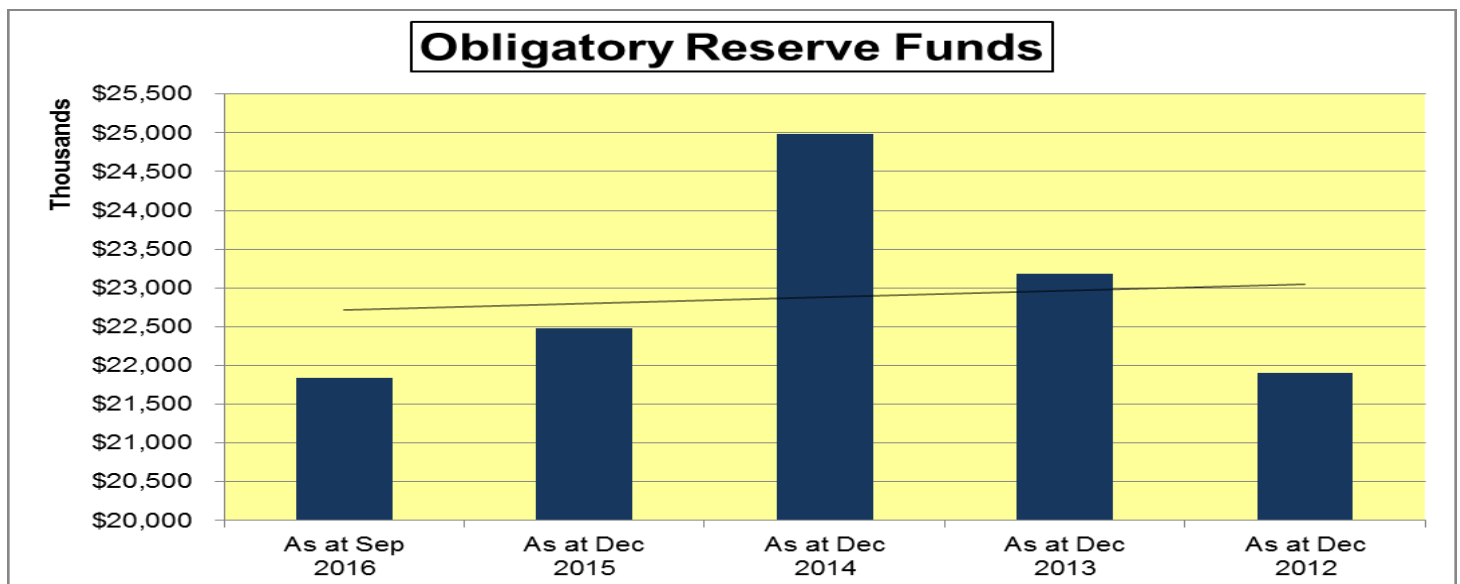
When considering levels of reserves it is also important to understand each municipality's debt level and in the graph below these details are included. Once again it is clear that the Town is well positioned amongst its' neighbouring municipalities when reviewing Reserves as a % of Debt for the years 2009 - 2014. Even once 2015 data is included (note that for all other Municipalities 2014 data is used in place of current 2015 data) the Town continues to be positioned within range.



The chart below illustrates the amount of funds the Town is currently holding in the **Obligatory Reserves (Reserve Funds)**. As you will note these funds are authorized for use only for specific needs as outlined in the DC Act, Federal & Provincial Gas Tax Agreements, the Building Code Act and the Municipal Act.

Obligatory Reserve Funds	As at Sep 2016	As at Dec 2015	As at Dec 2014	As at Dec 2013	As at Dec 2012
Oblig RF: Parkland	\$ 1,536,441	\$ 1,425,980	\$ 1,318,768	\$ 1,136,214	\$ 1,043,599
Oblig RF: Building Code Act	122,610	121,183	155,865	254,273	249,850
Oblig RF: Federal Gas Tax	1,430,347	1,496,407	971,320	439,558	(18,350)
Oblig RF: Provincial Gas Tax	43,057	17,628	79,396	77,842	27,450
Oblig RF: Public Works (Buildings/Fleet) DC	564,575	450,499	610,515	541,288	431,887
Oblig RF: Emergency & Fire Services DC	(998,442)	(1,093,508)	(1,146,593)	(1,210,318)	(1,333,552)
Oblig RF: Roads and Related DC	6,631,131	5,789,885	7,553,979	8,956,202	7,860,645
Oblig RF: Parks and Recreation DC	2,329,126	2,192,542	1,929,125	1,648,424	1,160,194
Oblig RF: Library Service DC	570,841	527,358	487,134	444,991	380,534
Oblig RF: General Government DC	(43,758)	(53,432)	(38,302)	(20,175)	(28,451)
Oblig RF: Waterworks DC	836,398	450,242	1,293,096	1,628,852	2,234,547
Oblig RF: Sewerworks DC	(917,845)	(1,014,678)	(1,069,374)	15,749	823,166
Oblig RF: Storm Drainage DC	(1,350,529)	(1,604,752)	(1,719,660)	(1,707,327)	(1,687,567)
Oblig RF: Transit DC	7,839	711	-	-	-
Oblig RF: Parking DC	2,142	195	-	-	-
Reserves: Water	4,523,350	5,336,901	5,677,297	3,941,150	4,012,456
Reserves: Sewer	6,550,283	8,435,628	8,888,689	7,032,533	6,752,854
Total	\$ 21,837,566	\$ 22,478,790	\$ 24,991,254	\$ 23,179,257	\$ 21,909,262

As you can see from the information above there are four (4) DC accounts that are currently overdrawn due mainly to the difference between the 2010 Development Charge Background Study's forecasted units and the actual amount as well as the timing of projects. Please note that the updated 2015 Development Charge Background Study includes the repayment of these negative balances as well as a more conservative approach to the forecasted number of units. Additionally it is noted that the cyclical pattern of reserves lowering in some years and gaining in others is normal for these types of funds due to the timing of individual projects. The graph below illustrates these results.



The chart below illustrates the amount of funds the Town is currently holding in **General Reserves**, excluding the Water/Wastewater Life-cycle amounts as well as the investment in Hydro. These reserves are available for Council's use as they see appropriate.

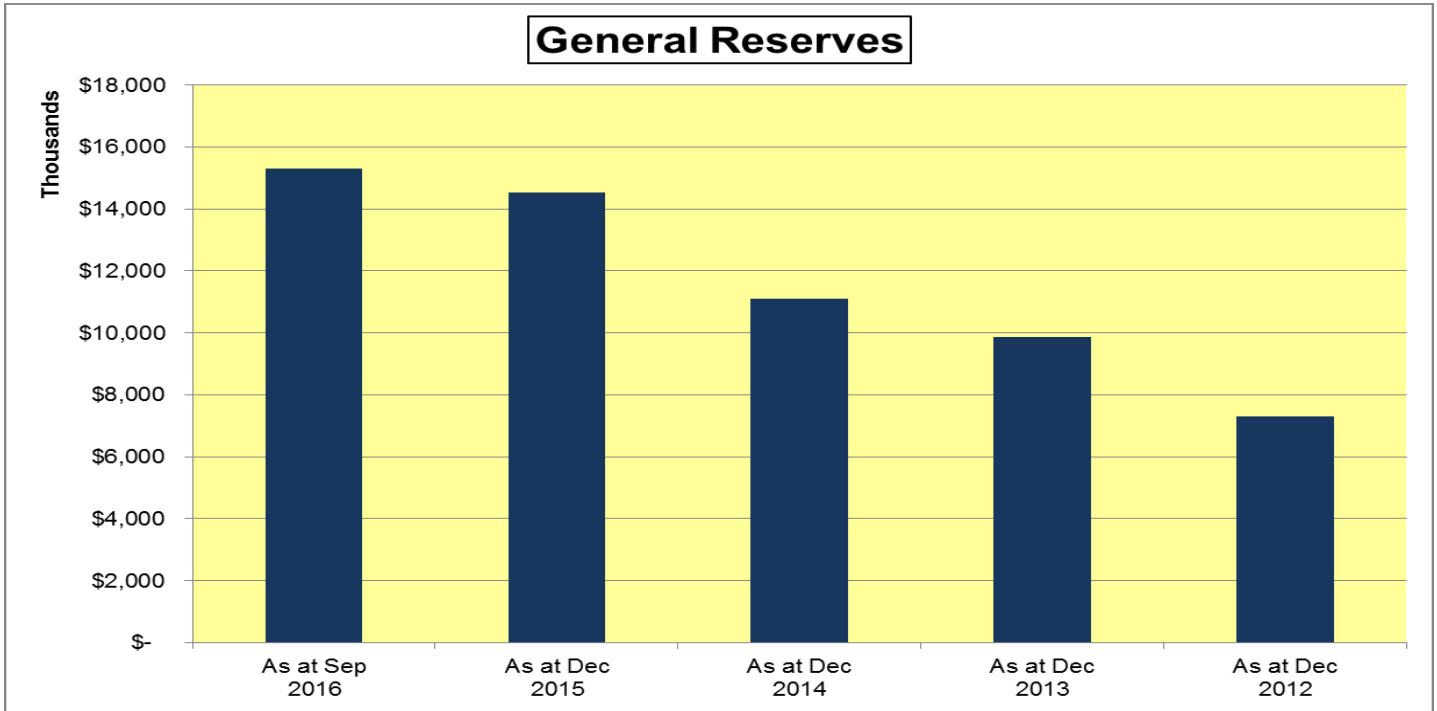
General Reserves	As at Sep 2016	As at Dec 2015	As at Dec 2014	As at Dec 2013	As at Dec 2012
Reserves: Policing	\$ 545,343	\$ 744,090	\$ 561,242	\$ 257,519	\$ 29,519
Reserves: Legal/OMB	186,871	186,871	186,871	186,871	186,871
Reserves: Information Technology	115,475	132,157	127,534	121,534	210,437
Reserves: Affordable Housing	(29,858)	(29,858)	(41,644)	(8,000)	-
<b>Reserves: Beach Area 1 &amp; 2 Improvements *</b>	<b>(1,408,802)</b>	<b>(1,408,802)</b>	<b>(1,379,672)</b>	-	-
<b>Reserves: Beachfront Property Management †</b>	<b>(1,476,904)</b>	<b>(361,213)</b>	-	-	-
Reserves: Dome Site Property Rehabilitation	10,353	10,353	10,353	-	-
Reserves: Insurance	96,271	96,271	96,271	96,271	96,271
Reserves: Sidewalks	306,426	306,426	306,426	306,426	318,626
Reserves: EDO	150,689	150,689	202,709	192,709	55,635
Reserves: Administration	324,930	324,930	216,711	216,711	166,103
Reserves: Elections	43,747	25,000	-	56,744	40,000
Reserves: Fire	16,795	16,795	11,995	3,350	-
Reserves: Building	200,426	200,551	202,134	203,260	210,668
Reserves: Public Works General	1,801,425	1,154,246	1,855,782	2,024,553	2,075,622
Reserves: Winter Maintenance	67,048	67,048	-	-	-
Reserves: Road Occupancy Permits	189,200	195,200	166,200	142,200	130,200
Reserves: Waste Management	126,854	186,848	186,848	221,217	57,812
Reserves: Storm Maintenance	15,840	15,840	-	-	-
Reserves: Library	327,270	327,270	327,270	319,040	305,247
Reserves: Cemetery	47,579	47,579	36,646	22,253	19,053
Reserves: Parks/Recreation/Facilities	320,100	414,136	478,364	442,321	167,604
Reserves: Emerald Ash Borer	16,167	16,167	-	-	-
Reserves: Mayor's Challenge Surplus	60,587	61,832	61,081	56,473	110,409
Reserves: Transit	85,980	101,583	93,212	48,212	-
Reserves: Parking	8,992	4,000	-	53,191	345,023
<b>Reserves: Beach Area 2 Parking Lot ***</b>	<b>(36,362)</b>	<b>(64,362)</b>	<b>(92,362)</b>	-	-
Reserves: Tax Rate Stabilization	2,843,278	2,843,278	1,680,994	1,445,223	1,332,827
Reserves: Working Funds	2,016,091	2,036,443	1,706,806	1,498,614	1,356,580
<b>Reserves: Capital Replacement ****</b>	<b>8,333,219</b>	<b>6,735,434</b>	<b>4,106,887</b>	<b>1,973,457</b>	<b>93,157</b>
Total	\$ 15,305,030	\$ 14,536,802	\$ 11,108,659	\$ 9,880,149	\$ 7,307,664

\* **Beach Area 1 & 2 Improvements** - this balance of (\$1.4 Mio) was the portion of funding that went towards the geometric works completed on Mosley Street, the pedestrian crossings, the beautification of public spaces and the purchase of 28 Main Street. These funds were used as part of a five (5) year improvement plan for that area and the financial plan was to finance this through the sale of a portion of the assembled lands at the beachfront;

\*\* **Beachfront Property Management** – this balance of (\$1.5 Mio) are the funds that are being used to support the Beachfront Properties as part of the five (5) year financing plan approved in 2015. We are nearing the end of the second year of this plan and are within the forecasted amounts predicted at that time;

\*\*\* **Beach Area 2 Parking Lot** - this balance of (\$36k) are the funds were used to update the parking lot that was re-assumed by the Town from the MNR. These funds are currently being repaid through the revenues received in the Parking Department and will be fully repaid by the end of 2017;

\*\*\*\* **Capital Replacement Fund** – this balance of \$8.3 Mio is part of the Asset Management Plan (AMP) as presented to Committee this evening. These funds have been accumulated over the years as part of the OMPF transfer. As described in the AMP the Town currently has a funding gap of \$2.8 Mio/year and continuing this **contribution to the Capital Replacement Fund of \$2.2 Million per year as well as maintaining the balance will ensure that the Town continues to be financially viable into the future.**



## **CONCLUSION**

As can be seen through the analysis detailed above staff is of the opinion that the Town continues to be well positioned with its' reserve amounts. However it is important that the Town continues to work towards closing the infrastructure funding gap as defined by the AMP, this means that continued investment will need to occur to secure a viable and successful future.

Respectfully Submitted,

Monica Quinlan, CPA CMA  
Treasurer