

<b>TO:</b>	<b>CORPORATE SERVICES COMMITTEE MEETING ON MAY 28, 2013</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>RESERVE FUNDS HOUSEKEEPING</b>

<b>RECOMMENDATION</b>
-----------------------

1. That on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer the roles and responsibilities for the establishment of, annual contributions to, drawdowns from and wind down of reserves and reserve funds **BE ENDORSED** as the City Treasurer or designate;
2. That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the following actions **BE APPROVED**:
  - a. Close the Public Sector Major Grants Reserve Fund and transfer the remaining balance to the Economic Development Reserve Fund once all commitment payments have been made, noting that the Economic Development Reserve Fund plan includes funding for both Fanshawe College and the University of Western Ontario;
  - b. Close the City Services Solid Waste Reserve Fund and transfer the remaining balance to the City Services Growth Studies Reserve Fund;
  - c. Close the City Services Public Works Reserve Fund and transfer the remaining balance to the City Services Roads Reserve Fund once;
  - d. Close the Westminster Road Improvements Reserve Fund and transfer the remaining balance to the City Services Roads Reserve Fund;
  - e. Close the Westminster Road Legal Reserve Fund and transfer the remaining balance to the City Services Growth Studies Reserve Fund;
  - f. Close the Westminster Frontend Reserve Fund and transfer the remaining balance to the City Services Growth Studies Reserve Fund; and,
3. That the by-law, as attached in Appendix A, to repeal the by-law establishing the Public Sector Major Grants Reserve Fund **BE APPROVED**, noting that the reserve funds recommended for closure in Recommendation 2. b. through 2. f. above do not have active by-laws due to the nature of when and how they were created;
4. That the following by-laws, as attached in Appendix B, **BE APPROVED** to establish new reserve funds or update out-dated reserve fund by-laws,:
  - a. Technology Services Reserve Fund, to provide a source of funding in order to invest in information technology as set out in the City of London Information Technology Strategy;
  - b. Material Recovery Facility Reserve Fund, for capturing a portion of the revenue from the new material recovery (recycling) facility to fund capital renewal and replacement costs for the facility;
  - c. Water Customer Assistance Reserve Fund, to provide funding for the crisis support, crisis prevention and leak allowance programs under the new value based funding model for water and wastewater approved by Municipal Council on December 11, 2012
  - d. Parking Facilities Reserve Fund, for capturing revenue from city-owned parking lots to fund land, construction and maintenance of city-owned parking facilities; and,
  - e. Municipal Affordable Homeownership Revolving Loan Reserve Fund, to provide an Affordable Housing Program (AHP) loan to eligible purchasers with repayment to be made over a period of 15 years.

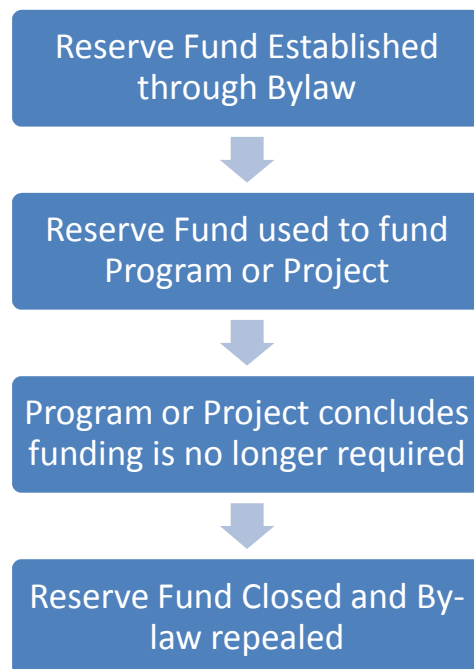
## PREVIOUS REPORTS PERTINENT TO THIS MATTER

None.

## BACKGROUND

A **reserve fund** is an amount set aside for a specific purpose by authority of a by-law (or as required by legislation) that is carried from year to year unless consumed or formally closed. Cash placed in a reserve fund earns interest.

Reserve funds have a life span that will differ depending on the purpose of funding. When the specific program or project comes to an end, the funding is no longer required. In order to minimize the administrative work of tracking the reserve funds, administration will recommend that some be closed and any balances transferred to another applicable reserve fund. The chart below shows the life cycle of a reserve fund.



Administration will also be recommending establishing or amending reserve funds for programs or projects that are already currently ongoing.

## ACTIONS

### **ROLES AND RESPONSIBILITIES AROUND THE ESTABLISHMENT, CONTRIBUTION, DRAWDOWN AND WIND UP OF RESERVES AND RESERVE FUNDS**

The City Treasurer, Chief Financial Officer or designate upholds the roles and responsibilities for the establishment of, contribution to, drawdown from and windup of reserves and reserve funds according to the following principles.

#### **(a) Establishment of Reserve and Reserve Funds**

Setting principles around the establishment of reserve funds is an important part of the reserve fund process. Creating excess reserve and reserve funds adds to the administrative work that is required, allocates financial resources improperly and earmarks funding that may be used for other purposes. Strict criteria must be followed to ensure that an adequate number of reserve funds with proper purpose are created.

Reserves and reserve funds will only be established if they are supported by a financial plan identifying contribution sources and projected disbursements required to meet their planned future obligations. A review of the following criteria should be made before the establishment:

##### **Reserve:**

- 1) The nature of the expense/revenue item that the reserve is cyclical in nature. There is a possibility there may be large fluctuations year over year that are out of the control of administration (i.e. fuel, energy).
- 2) Savings that have been realized during a period that are being accumulated for a specific identified project. A reserve should NOT be set up for an expenditure that is not being specifically identified (i.e. AODA).

##### **Reserve Fund:**

- 1) To fund a specific project or program either ongoing or that will occur in the future.

#### **(b) Annual Contributions to Reserves and Reserve Funds**

As part of the budgeting and business planning process, contributions to reserve funds and reserves should be reviewed on an annual basis. Funding levels should be adjusted accordingly in order to ensure that each reserve fund does not exceed its targeted balance. These targeted balances are established based on the nature of the reserve or reserve fund. Priority should be placed on balances that fund working capital, risk management and contingencies/stabilization. Priority funding should be adopted at follows:

These principles establish the concept of building a solid foundation of reserves and reserve funds relating to working capital, risk management and contingencies/stabilization, and then building up from that.

This concept will be utilized by administration in its yearly review of the contributions to each reserve and reserve fund of the City to ensure higher priority funds receive adequate levels of financing.

#### **(c) Drawdowns from Reserve and Reserve Funds**

##### ***Reserve Funds***

Drawdowns from reserves funds are done throughout the year but are established during the capital budget process. As the funds are spent in a program or project, a drawdown is done to ensure each capital project is funded properly

Drawdowns from reserve funds must be for programs or projects that meet guidelines defined in the by-law when the reserve fund was established. By following these guidelines it will ensure that funds in the reserve fund are used as they were originally intended when it was established.

## **Reserves**

Drawdowns from reserves should be performed by administration when it is deemed that there is an adequate need for the funding and it is in the overall best financial interest to the organization as deemed by the City Treasurer /Chief Financial Officer or designate.

### **(d) Wind Down of Reserve and Reserve Funds**

A reserve fund/reserve should be closed and wound down when the program or project that it is used to fund meets any of the following criteria:

- (1) No longer in the scope of the City of London strategic priorities
- (2) Program commitments have been completed and no future commitments are expected from the program
- (3) Administration is confident that balances in other areas can mitigate the need to hold the balance

### **Remaining Funds upon Wind Down**

#### **(i) Reserve Fund**

Any remaining funds still in a reserve fund upon its wind down will be moved to a reserve fund that has a similar purpose. If no such reserve fund can be determined, it is recommended that the funds be moved into the general reserves of the City (Operating Budget Contingency Reserve) to assist with future tax rate mitigation. Any closing of reserve funds and the allocation of corresponding funds will be approved by Council during the annual reserve fund report.

#### **(ii) Reserves**

It is recommended that any remaining funds still in a reserve that has been deemed no longer required by administration be moved into the general reserves of the City (Operating Budget Contingency Reserve) to assist with future tax rate mitigation.

By efficiently closing down older reserves and reserve funds and reallocating financial resources to other areas, the City of London will be able to more effectively manage its overall reserve fund balances.

## **RESERVE FUNDS RECOMMENDED TO BE CLOSED**

As part of the City's ongoing reserve fund review process, certain reserve funds have been identified as antiquated and no longer required for what they were designed to be used for. Any money remaining in these reserve funds should be moved to a reserve fund of similar use or applied to a capital project on a go forward basis consistent with the principles that have been established. Winding down old reserve funds allows for easier tracking of reserve funds resulting in increased efficiency of resources. In some cases, a by-law establishing the reserve fund will need to be repealed for the reserve fund to be closed down.

### **a) Public Sector Major Grants Reserve Fund**

This reserve fund was established to provide for the costs of making capital grants from time to time to various publicly funded institutions in the City of London such as, but not limited to, hospitals and postsecondary educational institutions. In the last ten years, the City provided capital grants to the University of Western Ontario and Fanshawe College through this reserve fund. The last committed payments to be made out of this reserve fund were made in 2012. The remaining balance is approximately \$19,500.

It is recommended that the remaining funds in the Public Sector Major Grants Reserve Fund be transferred into the Economic Development Reserve Fund, noting that the plan for the Economic Development Reserve Fund includes funding for both Fanshawe College and the University of Western Ontario. This report recommends approving a by-law to repeal the by-law that established the Public Sector Major Grants Reserve Fund (see **Appendix A**).

**b) City Services Solid Waste Reserve Fund**

This reserve fund was originally established by the City under the Development Charges Act, 1994 to finance the growth-related portion of capital costs incurred by solid waste for growth related waste collection vehicles.

As part of the new levy structure under the 2009 DC study, no amount is being applied to this reserve fund going forward. As such, this reserve fund is no longer required as there are no longer any commitments.

It is recommended that the remaining balance (approximately \$97,000) be transferred to the City Services – Growth Studies Reserve Fund and the City Service Solid Waste Reserve Fund be closed.

**c) City Services Public Works Reserve Fund**

This reserve fund was originally established by the Corporation under the Development Charges Act, 1994 to finance the growth related portion of capital costs incurred by public works for growth related building space and public works vehicles.

As part of the new levy structure, under the 2009 DC study, no amount is being applied to this reserve fund going forward. As such, this reserve fund will no longer be required and there are no further commitments.

It is recommended that the remaining balance (approximately \$1,000) be transferred to the City Services – Roads Reserve Fund and the City Services Public Works Reserve Fund be closed.

Note that there are no by-laws to repeal for the above two city services reserve funds because they were eliminated with the most recent Development Charges By-law in 2009.

**d) Westminster Road Improvements Reserve Fund**

This reserve fund was established to set aside developer contributions designated for growth related costs associated with the development of Avenue Rd in the former Town of Westminster. The reserve fund has not had any activity in many years and has no projected commitments in the future. It is recommended that the current balance of approximately \$35,000 be transferred to the City Services – Roads Reserve Fund and the Westminster Road Improvements Reserve Fund be closed.

**e) Westminster Road Legal Reserve Fund**

This reserve fund was established to set aside funds provided by the developer to reimburse the former Town of Westminster for engineering and legal costs associated with the subdivision known as Avenue Road. This reserve fund has not had any activity in many years and has no projected commitments in the future. It is recommended that the current balance of approximately \$7,500 be transferred to the City Services – Growth Studies Reserve Fund and the Westminster Road Legal Reserve Fund be closed.

**f) Westminster Frontend Reserve Fund**

This reserve fund was established to set aside funds related to an agreement between certain developers and the former Town of Westminster. The agreement contained provisions whereby the developers who financed certain studies (water and sewer studies) would be reimbursed by the Town upon collecting levies from other benefitting, non-front ending developers. This reserve fund has not had any activity in many years and has no projected commitments in the future. It is recommended that the current balance of approximately \$7,500 be transferred to the City Services – Growth Studies Reserve Fund and the Westminster Frontend Reserve Fund be closed.

Note that there are no by-laws to repeal for the three “Westminster” reserve funds above because these funds were inherited from Westminster Township during amalgamation so City of London by-laws are not in place.

## **NEW RESERVE FUNDS RECOMMENDED TO BE ESTABLISHED**

New by-laws (see **Appendix B**) are being recommended to establish the following reserve funds. These projects have already been approved through previous reports however, bylaws are outstanding for the establishment of reserve funds.

### **a) Technology Reserve Fund**

This reserve fund will be utilized to fund the Information Technology Strategy 2012-2014 “Enabling Growth & Service Excellence” that was presented to Council in January 2012 by the Technology Services Division. The balance was established with the \$1,000,000 in savings from the Technology Services Division as part of the 2011 year end.

### **b) Material Recovery Facility Reserve Fund**

This reserve fund is being established for capturing a portion of the revenue from the new material recovery (recycling) facility to fund capital renewal and replacement costs for the facility. Contributions will be made on a yearly basis based on up to 25% of the revenue from the sale of recyclable materials in excess of operating costs.

### **c) Water – Customer Assistance Reserve Fund**

The reserve fund is being established to provide funding for the crisis support, crisis prevention and leak allowance programs approved under the water and wastewater rate model as approved by Municipal Council on December 11, 2012. Funding for the reserve fund comes from a \$0.25 per month customer assistance charge included in the new rates.

- *Crisis Support:* Provides funding to the existing programs: THAW, LEAP, United Way and RENT BANK for crisis support to registered low income homes and families.
- *Crisis Prevention:* Provides funding for registered low-income families to make changes to water using fixtures in their homes and recover the costs associated with the work.
- *Leak Allowance:* Provides funding to small business, small landlord or residential customers to reduce their water bill following an unexpected or uncontrollable event.

## **NEW RESERVE FUND BY-LAWS RECOMMENDED TO BE APPROVED**

Certain reserve funds have been identified as requiring updated bylaws. The following summarizes the recommended use for each reserve fund as outlined in the revised by-laws in **Appendix B**.

### **a) Parking Facilities Reserve Fund**

This reserve fund was established for capturing revenue from city owned parking lots to fund land, construction and maintenance of city-owned parking facilities.

### **b) Municipal Affordable Homeownership Revolving Loan Reserve Fund**

This reserve fund was established to provide an Affordable Housing Program (AHP) loan to eligible purchasers with repayment to be made over a period of 15 years.

<b>CONCLUSION</b>
-------------------

Reserve funds have a life span that will differ depending on the purpose of funding. As a housekeeping measure the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer is recommending closing various reserve funds as well as amending and creating by-laws relating to other reserve funds for programs that are already ongoing.

<b>PREPARED BY:</b>	<b>REVIEWED BY:</b>
<b>Josh Clark, Financial Planning &amp; Policy</b>	<b>Alan Dunbar, Manager of Financial Planning &amp; Policy</b>
<b>CONCURRED BY:</b>	<b>RECOMMENDED BY:</b>
<b>Larry Palarchio, Director of Financial Planning &amp; Policy</b>	<b>Martin Hayward, Managing Director, Corporate Services and City Treasurer, Chief Financial Officer</b>

## **APPENDIX A**



## **APPENDIX B**