



**COMMITTEE OF THE WHOLE
AGENDA REPORT**

TO: Mayor Furniss and Members of Committee of the Whole
MEETING DATE: September 13, 2018
SUBJECT: 2017 FINANCIAL RESERVE TRANSACTIONS

<u>RECOMMENDATION:</u> That Committee of the Whole recommend to Township Council to approve the 2017 financial reserves transactions.		
<u>APPROVALS:</u>	Date	Signature
Submitted By: S. Johnson, Treasurer	<u>2018-09-10</u>	<u>Original Signed by S. Johnson</u>
Approved By: S. McDonald, CAO	<u>2018-09-10</u>	<u>Original Signed by S. McDonald</u>

SUMMARY: The ending balance for all financial reserves at December 31, 2017 was \$10,595,437 or 102.5% of the 2017 levy. The reserves balance at the 2016-year end was \$8,949,498. Major contributing factors to the year over year increase include: a net increase in building permit revenue over expenditures of \$623,233, the transfer of Provincial grant funding due to unspent funds on capital projects and equipment that were approved in 2017. As well, increased contributions from the operating budget to the road reserves of \$250,000 and; the new 5% capital levy that was introduced in the Township’s 2017 budget of \$480,000.

Since 2011, reserve funds have been utilized to close the gap between asset investment and depreciation. Council should continue to make a strict commitment to adequate replenishment of these reserves so that they may continue to be used for this purpose.

Projected financial reserve transactions for 2018 anticipate reserves to reduce to \$9,915,243 or 87.3% of the 2018 levy. The minimal decrease year over year is due to consistent contributions to discretionary reserves which includes again a 5% capital levy contribution of \$517,000 to the Township’s discretionary reserves. This additional capital levy contribution to reserves has proven to be a strategic path to increasing reserves in order to maintain and increase Township service levels and infrastructure. Council will continue to consider an annual capital levy to increase discretionary reserves each budget year.

ORIGIN: Office of the Treasurer

BACKGROUND: Policy C-FS-03 to have Council approve the financial reserve transactions for 2017.

DETAILS: The following table summarizes the reserve transactions for 2017:

2017 ACTUAL FINANCIAL RESERVES					
	Opening	Additions	Interest	Outflow	Closing
Obligatory/Politically Restricted Reserves:					
Development Charges	951,816	171,183	19,375	-	1,142,374
Parkland Dedication	1,319,481	457,450	24,759	(445,047)	1,356,642
Total Obligatory Reserves	2,271,297	628,633	44,134	(445,047)	2,499,016
Restricted Reserves					
Building Services	1,965,376	623,223	42,150	(71,758)	2,558,991
Library	(10,045)	119,957	90	(90,276)	19,725
Total Restricted Reserves	1,955,330	743,181	42,239	(162,034)	2,578,716
Discretionary Reserves:					
Arenas	142,230	20,000	1,811	(110,546)	53,495
Attainable Housing	14,215	8,480	345	-	23,040
Bala Heritage Professional Fees	16,501	-	284	(2,595)	14,190
By-law	-	12,766	119	-	12,885
Capital Levy Reserve	-	480,000	4,482	-	484,482
Cemeteries	60,467	8,958	1,213	-	70,638
Computer Equipment	251,619	154,495	4,575	(179,060)	231,628
Education and Training	25,912	29,257	550	(22,231)	33,487
Election	57,361	29,000	1,327	(1,572)	86,116
Fire	946,368	212,335	17,416	(266,489)	909,629
Municipal Building	6,095	-	114	-	6,208
Mural	31,359	15,000	726	-	47,085
Nursing Station	200,080	-	3,737	-	203,817
Organizational Review FTE posito	148,039	-	-	(148,039)	-
Other equipment	82,258	50,000	1,864	(34,852)	99,270
Parking Facilities	197	-	4	-	201
Parks Equipment	79,562	-	1,430	(5,995)	74,997
Planning	49,043	25,000	1,149	-	75,192
Roads	675,914	921,145	15,959	(563,970)	1,049,048
Street Lighting	5,965	-	117	-	6,082
Weather Event	25,840	-	483	-	26,323
Working Capital	1,903,847	409,908	37,828	(341,691)	2,009,891
Total Discretionary Reserves	4,722,871	2,376,344	95,532	(1,677,041)	5,517,705
Total Financial Reserves	8,949,498	3,748,158	181,905	(2,284,122)	10,595,437
			Total 2017 Levy		10,335,707
			Total Reserves to Levy		102.5%
			TML Discretionary Reserves to Levy		53.4%
			2017 Provincial average		47.6%
			Difference		5.8%

In-Flow

Operating and Capital Reserve additions are transferred in accordance with the 2017 approved budget.

With respect to Obligatory Reserve additions, Parks are mostly earned as cash-in-lieu of parkland from the creation of vacant land through severances, the sale of road allowances and issuing of license agreements. Effective January 1, 2014, proceeds from the sale of road allowance and issuing of license agreements are allocated to the Roads Reserve. Development Charges are collected when permits are issued for any new development that occurs within the Township. Both of these revenue streams may vary depending on the level of activity in the given year.

Interest

The Township earns interest through the general bank account. The total of the interest earned in the year is divided among the reserves accounts based on their average balance. Investment interest earned in 2017 is up \$58,942 from 2016 due to the timing of cash inflows and outflows throughout the calendar year in the Township's general bank account.

Out-Flow

Obligatory Reserves are restricted by legislated usage of the funds. Parks Reserve may only be utilized for the purchase (and required maintenance of) recreational assets, and therefore disbursements were allocated in such a manner for 2017. Development Charges may be spent on capital required to increase service capacity deemed necessary due to development within the Township.

Discretionary Reserve disbursements are applied based on the 2017 approved budget. Computer Equipment disbursement included purchases of the Township's new information technology virtual infrastructure, operating and application licenses. The roads disbursements included various road and bridge projects.

2018 Projections

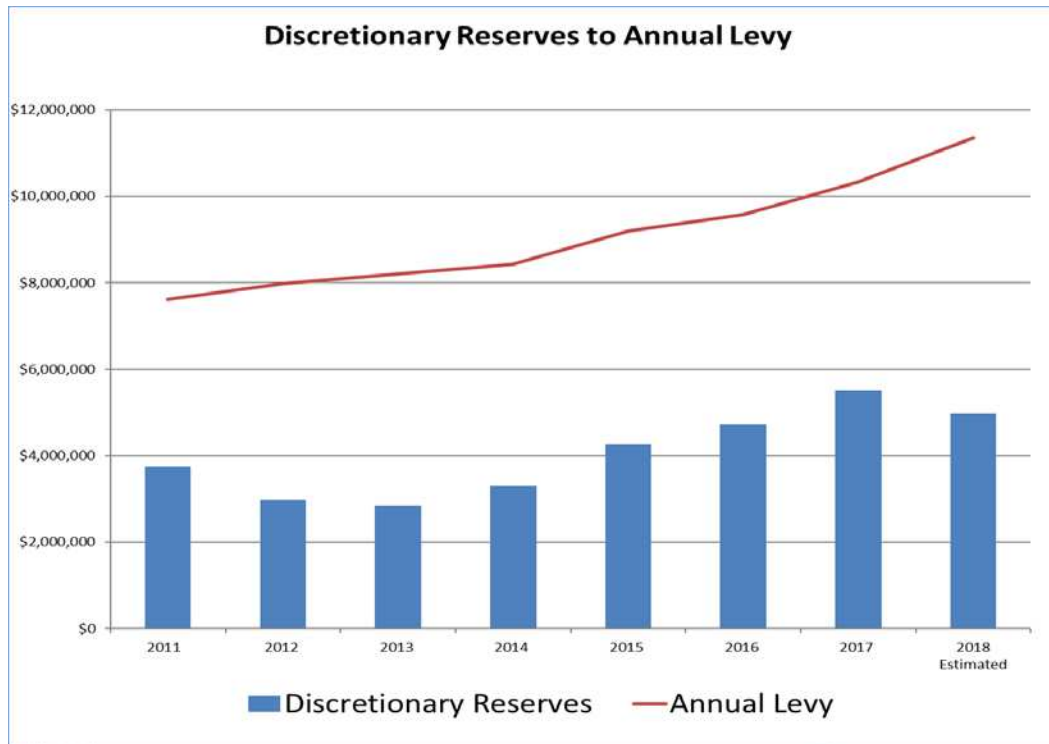
The following table summarizes the reserve transactions that are anticipated for 2018:

2018 ESTIMATED FINANCIAL RESERVES					
	Opening	Additions	Interest	Outflow	Closing
Obligatory/Politically Restricted Reserves:					
Development Charges	1,142,374	50,000	11,405	(150,000)	1,053,779
Parkland Dedication	1,356,642	50,000	15,897	(209,950)	1,212,589
Total Obligatory Reserves	2,499,016	100,000	27,301	(359,950)	2,266,367
Restricted Reserves					
Building Services	2,558,991	103,938	24,791	(45,000)	2,642,720
Library	19,725	80,000	-	(67,500)	32,225
Total Restricted Reserves	2,578,716	183,938	24,791	(112,500)	2,674,945
Discretionary Reserves:					
Arenas	53,495	20,000	1,951	(50,000)	25,446
Attainable Housing	23,040	8,480	116	-	31,636
Bala Heritage Professional Fees	14,190	-	799	(7,300)	7,689
By-law	12,885	30,000	-	(40,000)	2,885
Capital Levy Reserve	484,482	517,000	-	(863,000)	138,482
Cemeteries	70,638	10,000	1,188	(7,500)	74,326
Computer Equipment	231,628	113,127	1,420	(32,544)	313,632
Education and Training	33,487	-	468	-	33,955
Election	86,116	29,000	1,129	(92,619)	23,626
Fire	909,629	20,000	15,192	(232,700)	712,121
Municipal Building	6,208	-	111	-	6,319
Mural	47,085	15,000	705	-	62,790
Nursing Station	203,817	-	2,220	-	206,037
Other equipment	99,270	10,000	1,475	(75,500)	35,245
Parking Facilities	201	50,000	4	-	50,205
Parks Equipment	74,997	-	520	(18,000)	57,517
Planning	75,192	-	1,119	-	76,311
Roads	1,049,048	750,000	12,455	(737,392)	1,074,111
Street Lighting	6,082	-	196	-	6,278
Weather Event	26,323	-	470	-	26,793
Working Capital	2,009,892	1,945,160	31,369	(1,967,895)	2,018,526
Total Discretionary Reserves	5,517,705	3,517,768	72,908	(4,124,450)	4,983,930
	10,595,437	3,801,706	125,000	(4,596,900)	9,925,243
				Total 2018 Levy	11,351,213
				Total Reserves to Levy	87.4%
				TML Discretionary Reserves to Levy	43.9%
				2017 Provincial average	47.6%
				Difference	-3.7%

Major in-flows includes \$750,000 to the Roads Reserve and a 5% capital levy that was introduced in the 2017 budget; which has been included again in the 2018 budget in the amount of a \$517,000 contribution to discretionary reserves for future infrastructure requirements. It is recommended to increase annual capital funding to meet future infrastructure spending as per the Township's ten-year capital plan.

Trends and Analysis

The graph below depicts the discretionary reserves held in relation to the levy over the last seven years and 2018's projected balances. Due to the 2017 additional contribution of \$250,000 to the roads reserve and the 5% capital levy contribution to discretionary reserves, this has increased discretionary reserves as compared with the balance at the end of 2016.



Reserves should be held to assist with cash flow fluctuations, future requirements, emergencies, unexpected events and as general working capital. Capital infrastructure that is not expected to be funded by debt financing, grant proceeds, or out of the general levy should be considered when establishing reserve contributions at budget time.

During the 2018 budget deliberations, it was identified by staff that other recommendations must be considered in combination with a 5% dedicated capital levy being added to discretionary reserves each year, as this will not be enough to fund the Township’s forecasted capital needs over the next ten years and into the future.

Reserve balances were utilized to increase capital spending, effectively closing the gap between infrastructure investment and related depreciation.

Other Allowances

Aside from reserves, allowances for items such as uncollectable taxes are also allocated in the financial position of the Township; however, they are presented as liabilities rather than reserve accounts because of the limited ability to use the funds for discretionary purposes.