



Reserve & Reserve Funds

Corporation of the Town of Milton





Reserves and Reserve Funds: Overview

Reserves and Reserve Funds Overview

Reserves and Reserve Funds

Reserves and reserve funds receive annual contributions from the operating budget to assist with creating a solid financial position to support the Town's future cash requirements. Maintaining sufficient balances in reserves and reserve funds is a critical component of a municipality's long-term financial plan as it strengthens its long-term financial sustainability, helps to minimize fluctuations in the tax rate and provides funding to sustain infrastructure.

The majority of the funding in the 2012 Capital Budget, 73.8%, is from reserves and reserve funds including Development Charge and Capital Provision revenues.

Reserves

A reserve (ie. Equipment Replacement 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. Reserves are part of the revenue fund and therefore, do not earn interest on their own. Any earnings derived from the investment of reserves' money are reported as revenue in the operating fund.

Reserve Funds

A reserve fund differs from a reserve in that reserve fund assets are segregated and restricted to meet the purpose of the reserve fund. All interest earnings derived from such investments must form part of the reserve fund. There are two types of reserve funds:

Obligatory Reserve Funds: (ie. Development Charge Reserve Funds) As per statute or legislation requirements, funds received for special purposes are segregated from the general revenues of the Town. Obligatory reserve funds are created solely for the purpose prescribed for them.

Discretionary Reserve Funds: (ie. Slots Reserve Fund) Funds are segregated from the general revenues of the Town, based on Council direction, to finance future expenditures or to provide for a specific contingent liability so that the funds are available as required.

The Town of Milton maintains reserves and reserve funds designated for specific purposes as approved by Council. The following section groups the reserves and reserve funds by their intended/legislated use. Complete definitions and funding sources can be found in the Supplementary Information section on pages 435-445.

Stabilization Reserves

Stabilization Reserves are used to offset extraordinary and unforeseen expenditure requirements, one-time expenditures, revenue shortfalls, to minimize fluctuations on the general tax levy and to manage cash flows. Council approved policies for stabilization reserves recommend a combined target balance of \$10,488,352. The estimated balance at December 31, 2011 for these reserves is expected to be \$7,880,907 resulting in a shortfall of \$2,607,445. This shortfall has continued to grow over the past few years and leaves the Town in a financially vulnerable position in the event of an unforeseen situation.

	Dec. 31, 2010 Balance	Dec. 31, 2011 Estimated Balance	Dec. 31, 2012 Estimated Balance	Target Balance	Surplus / (Shortfall) in Policy
Tax Rate Stabilization	3,375,376	3,526,387	2,486,136	2,962,486	563,900
Election	-	44,781	90,458	85,000	(40,219)
Winter Control	683,361	683,361	683,361	696,665	(13,304)
Building Rate Stabilization	5,406,785	3,626,378	4,268,444	6,744,200	(3,117,822)
Total Stabilization Reserves/Reserve Funds	9,465,522	7,880,907	7,528,399	10,488,352	(2,607,445)



Reserves and Reserve Funds: Overview

Government Funded Reserve Funds

Government Funded Reserve Funds are established to track the revenues received from the Provincial and Federal Governments for transit and roads infrastructure. Funding received from other levels of government will be used in future budgets as per the guidelines of each program.

	Dec. 31, 2010 Balance	Dec. 31, 2011 Estimated Balance	Dec. 31, 2012 Estimated Balance
Aggregate Permit Fees	711,341	161,323	206,578
Provincial Gas Tax	347,269	361,177	375,503
Federal Gas Tax	2,267,833	356,476	810,764
Total Government Funded Reserves/Reserve Funds	3,326,443	878,977	1,392,846



Corporate Uses Reserves

Corporate Uses Reserves are established to provide for various contingent and potential future liabilities; the target balance for these reserves is \$9,221,001. At the end of December 31, 2011, their estimated balances are expected to be \$6,591,927 resulting in a forecast deficit of \$3,832,255. The most significant shortfall in this area is in the reserve for Working Funds.

The target balance for the Working Funds Reserve is equal to one week worth of cash requirements. Since the Town currently has sufficient liquidity in its cash position, this shortfall in the policy is not an immediate concern. However, in future years, the liquidity position will change and increasing contributions to this reserve will become a greater priority.

	Dec. 31, 2010 Balance	Dec. 31, 2011 Estimated Balance	Dec. 31, 2012 Estimated Balance	Target Balance	Surplus / (Shortfall) in Policy
Legal Matters	499,623	750,578	1,007,204	500,000	250,578
Per Unit Development Processing Fee	1,125,703	1,203,182	1,274,031		
Insurance	622,581	653,959	662,930	500,000	153,959
WSIB	573,196	680,105	733,738	431,304	248,801
Working Funds	1,000,000	1,064,000	1,064,000	7,467,013	(6,403,013)
Training	174,182	150,719	263,449	100,000	50,719
Growth Related Resources	2,174,431	2,089,385	1,524,689	222,684	1,866,701
Total Corporate Use Reserves	6,169,715	6,591,927	6,530,040	9,221,001	(3,832,255)

“Government Funded Reserve Funds are established to track the revenues received from the Provincial and Federal Governments for transit and roads infrastructure.”



Reserves and Reserve Funds: Overview

Program Specific

Program Specific Reserve Funds have been established in response to specific programs or special funding that has been received.

	Dec. 31, 2010 Balance	Dec. 31, 2011 Estimated Balance	Dec. 31, 2012 Estimated Balance
Sports Field Development	50,572	60,213	70,347
Perpetual Maintenance	368,550	430,357	494,017
Mayors Legacy	74,318	76,548	78,844
MDHS Reunion Fund	338	247	153
WSIB Settlement	13,381	9,215	4,863
Milton District Hospital Expansion	-	271,647	667,653
Investment in the Arts	460,088	978,834	558,199
Total Program Specific Reserve Funds	967,249	1,827,060	1,874,076

Boards & Committees

Boards & Committees Reserves are established for the exclusive use of Boards and Committees of the Town.

	Dec. 31, 2010 Balance	Dec. 31, 2011 Estimated Balance	Dec. 31, 2012 Estimated Balance
Library Tax Rate Stabilization	50,000	70,274	56,888
Library Capital Works	250,073	254,054	283,100
Downtown Business Improvement	8,542	5,642	2,242
Seniors' Fundraising	114,966	114,966	114,966
Total Board and Committee Reserves	423,582	444,937	457,197

Capital Reserves

Capital Reserves and Reserve Funds are used to fund specific replacement / renewal of capital assets. As the assets of the Town increase, so should the contribution from the operating budget to these reserves for the replacement and refurbishment needs of the underlying capital asset, based on lifecycle costing. Rather than increasing along with the asset base, the estimated total balance at December 31, 2011 is declining to \$35,680,648 compared to the 2010 year end balance of \$50,426,185. This is largely due to the decline in the Roads Development Charges Reserves in 2011. This will require the Town to start drawing on the cash flow assistance financing provided by developers in the form of letters of credit. Landowners agreed to provide cash flow assistance for the roads needed to support the growth to the extent that funds need to be expensed prior to all the revenues being collected from development charges. The cash flow assistance are funds the Town is borrowing from the landowners to finance road infrastructure and will be repaid from future development charge proceeds.

As staff proceed with the development of life cycle costing, the composition, utilization and target balances of the Capital Reserves will be reviewed.





Reserves and Reserve Funds: Overview

Capital Reserves continued

	Dec. 31, 2010 Balance	Dec. 31, 2011 Estimated Balance	Dec. 31, 2012 Estimated Balance	Target Balance	Surplus / (Shortfall) in Policy
Municipal Building Components	427,817	970,754	911,642	742,545	228,208
Municipal Building Replacement	1,281,644	49,387	264,684	2,488,381	(2,438,993)
Computer Requirements	391,551	188,208	289,719	1,044,969	(856,761)
Equipment Replacement	1,980,513	1,950,080	1,927,663	1,732,440	217,640
Capital Works	8,219,242	10,044,707	11,369,973		10,044,707
Capital Provision	1,270,038	2,771,126	6,286,392		
Cash-in-lieu of Parkland	70,503	718,626	493,223		
Cash-in-lieu of Parking	102,065	105,126	108,280		
Storm Water Management	125,070	128,822	132,687		
Transit and Transportation	1,019,643	219,643	767,015		
Property Transactions	5,696,872	4,085,089	3,990,825		
Ontario Lottery Corporation Proceeds	9,888,260	9,846,101	10,112,239	5,523,836	4,322,265
Development Charges	19,952,968	4,602,977	20,664,521		
Total Capital Reserves/Reserve Funds	50,426,185	35,680,648	57,318,864	11,532,171	11,517,066

Comparison of Reserve Balances to Policy

In December 2006, Council approved updated policies for various reserves and reserve funds that identify the purpose and target balance of each. Striving to meet the target balances is vital to strengthen the Town's financial sustainability to meet its long-term needs, minimize fluctuations in the tax rate, and to sustain infrastructure. Despite the current policies, target balances are typically not being met due to a lack of year end surpluses; budget cuts required to maintain tax rate increases at the level of inflation; increased capital expenditures; and having to draw on funds earlier than anticipated to meet growth demands.

Summary of Movement in Reserves and Reserve Funds

The following pages show the 2010 actual balances, 2011 estimated balances and forecast 2012 activity for reserves and reserve funds.

Summary of Significant Changes in Reserves and Reserve Funds

When compared year over year, some reserves and reserves funds show a significant increase (greater than 10%) in their balances due to contributions being made to the reserve in anticipation of future needs. These reserves and reserve funds include: Library Capital Works, Legal Matters, Election, Capital Works, Transit and Transportation, Computer Requirements, Aggregate Permits Fees, Training, Municipal Buildings Replacement, Capital Provision, Perpetual Maintenance, Building Rate Stabilization, Milton District Hospital Expansion, Sports Field Development and Federal Gas Tax.

Other reserves and reserves funds such as the Tax Rate Stabilization, Municipal Building Components, Growth Related Resources, Cash-in-lieu of Parkland, and Property Transactions, are reflecting a significant decrease. These reserves and reserve funds have been accumulating balances over the years in preparation for times of need. For example, the Tax Rate Stabilization reserve is being used in 2012 to stabilize the tax rate impact on the community and smooth out any fluctuations in the operating budget.

Reserves and reserve funds such as the WSIB, Milton District High School Reunion Scholarship Fund, WSIB Settlement, Investment in the Arts and DBIA Surplus are declining as per their intended use outlined on pages 435-445 of this document.



Reserves and Reserve Funds: Schedule of Movement

	Dec. 31, 2010 Actual Balance	Dec. 31, 2011 Estimated Balance	Projected 2012 Activity								Dec. 31, 2012 Estimated Balance
			Interest Earned	Contribution from Capital	Contribution from Revenue	Other Revenue	Developer Contribution	Transfer to Capital	Transfer to Revenue	Long Term Liabilities	
Reserves											
Tax Rate Stabilization	3,375,376	3,526,387			38,672					(1,078,923)	2,486,136
Library Tax Rate Stabilization	50,000	70,274								(13,386)	56,888
Library Capital Works	250,073	254,054			36,779					(7,733)	283,100
Legal Matters	499,623	750,578			289,211	17,415				(50,000)	1,007,204
Per Unit Development Processing Fee	1,125,703	1,203,182					522,585			(451,736)	1,274,031
Election	-	44,781			45,677						90,458
Winter Control	683,361	683,361									683,361
Insurance	622,581	653,959			128,971					(120,000)	662,930
WSIB	573,196	680,105			218,633					(165,000)	733,738
Municipal Building Components	427,817	970,754			678,888				(738,000)		911,642
Capital Provision	1,270,038	2,771,126					4,787,572		(1,272,306)		6,286,392
Capital Works	8,219,242	10,044,707			4,554,541	750,000			(3,979,275)		11,369,973
Transit and Transportation	1,019,643	219,643			547,372						767,015
Computer Requirements	391,551	188,208			279,801	10,800			(189,090)		289,719
Equipment Replacement	1,980,513	1,950,080			1,680,346				(1,702,764)		1,927,663
Working Funds	1,000,000	1,064,000									1,064,000
Aggregate Permit Fees	711,341	161,323				250,000			(204,745)		206,578
DBIA Surplus	8,542	5,642				2,000			(5,400)		2,242
Seniors' Fundraising	114,966	114,966			26,400				(26,400)		114,966
Training	174,182	150,719			224,623				(111,893)		263,449
Growth Related Resources	2,174,431	2,089,385							(564,696)		1,524,689
Municipal Buildings Replacement	1,281,644	49,387			215,297						264,684



Reserves and Reserve Funds: Schedule of Movement

	Dec. 31, 2010 Actual Balance	Dec. 31, 2011 Estimated Balance	Projected 2012 Activity							Dec. 31, 2012 Estimated Balance	
			Interest Earned	Contribution from Capital	Contribution from Revenue	Other Revenue	Developer Contribution	Transfer to Capital	Transfer to Revenue		Long Term Liabilities
Reserve Funds											
Provincial Gas Tax	347,269	361,177	10,887			528,278			(524,839)		375,503
Perpetual Maintenance	368,550	430,357	13,661			50,000					494,017
Cash-in-lieu of Parkland	70,503	718,626	21,559							(246,962)	493,223
Building Rate Stabilization*	5,406,785	3,626,378	116,672		525,394						4,268,444
Property Transactions	5,696,872	4,085,089	74,393		199,350					(368,008)	3,990,825
Milton District Hospital Expansion	-	271,647	13,881		382,125						667,653
Cash-in-lieu of Parking	102,065	105,126	3,154								108,280
Storm Water Management	125,070	128,822	3,865								132,687
Sportsfield Development	50,572	60,213	1,929		8,204						70,347
Federal Gas Tax	2,267,833	356,476	17,250			1,654,579		(1,217,540)			810,764
Mayor's Legacy Fund	74,318	76,548	2,296								78,844
Milton District High School Reunion Scholarship Fund	338	247	6						(100)		153
WSIB Settlement	13,381	9,215	208						(4,560)		4,863
Investment in the Arts	460,088	978,834	29,365						(450,000)		558,199
Ontario Lottery Corporation Proceeds	9,888,260	9,846,101	294,951			5,600,000		(5,000,000)	(628,812)		10,112,239
Development Charges	19,952,968	4,602,977	164,383				33,857,917	(16,328,627)		(1,632,130)	20,664,521

* Forecast has not been included, as a detailed analysis will be completed as part of the user fee update in 2012.



Reserves and Reserve Funds: Schedule of Movement

	10 Year Forecast								
	Dec. 31, 2013 Estimated Balance	Dec. 31, 2014 Estimated Balance	Dec. 31, 2015 Estimated Balance	Dec. 31, 2016 Estimated Balance	Dec. 31, 2017 Estimated Balance	Dec. 31, 2018 Estimated Balance	Dec. 31, 2019 Estimated Balance	Dec. 31, 2020 Estimated Balance	Dec. 31, 2021 Estimated Balance
Reserves									
Tax Rate Stabilization	2,808,926	3,412,622	3,593,061	3,372,153	3,867,082	4,161,937	4,139,705	4,332,107	3,530,128
Library Tax Rate Stabilization	87,731	319,001	241,195	398,868	820,915	1,539,102	2,588,338	4,006,965	5,837,087
Library Capital Works	79,429	6,703	132,232	176,900	475,494	542,847	591,317	1,055,212	1,626,649
Legal Matters	1,263,830	1,520,456	1,777,082	2,033,708	2,290,334	2,546,960	2,803,586	3,060,212	3,316,838
Per Unit Development Processing Fee	1,652,971	2,142,767	2,831,211	3,665,107	4,487,099	5,289,003	6,095,371	6,872,351	6,420,615
Election	136,135	-	45,677	91,354	137,031	-	45,677	91,354	137,031
Winter Control	683,361	683,361	683,361	683,361	683,361	683,361	683,361	683,361	683,361
Insurance	671,901	680,872	689,843	698,814	707,785	716,756	725,727	734,698	743,669
WSIB	791,744	854,210	921,225	992,880	1,069,269	1,150,485	1,236,626	1,327,789	1,424,076
Municipal Building Components	1,169,692	1,567,479	1,990,404	2,328,867	1,848,266	2,220,403	2,627,998	2,695,735	2,836,573
Capital Provision	8,652,080	9,366,377	10,729,255	11,851,465	9,537,973	5,560,729	810,568	111,242	(598,620)
Capital Works	9,388,405	8,223,937	9,699,441	11,174,945	8,855,427	8,930,931	9,006,435	7,681,939	9,157,443
Transit and Transportation	657,193	547,371	547,371	547,371	547,371	547,371	547,371	547,371	547,371
Computer Requirements	385,125	386,431	481,837	577,243	672,649	768,055	863,461	958,867	1,076,654
Equipment Replacement	2,799,434	2,732,602	3,794,552	5,751,306	7,871,975	9,395,983	12,093,811	12,585,879	15,534,886
Working Funds	1,064,000	1,064,000	1,064,000	1,064,000	1,064,000	1,064,000	1,064,000	1,064,000	1,064,000
Aggregate Permit Fees	256,578	306,578	556,578	708,978	105,588	355,588	605,588	555,588	505,588
DBIA Surplus	2,242	2,242	2,242	2,242	2,242	2,242	2,242	2,242	2,242
Seniors' Fundraising	114,966	114,966	114,966	114,966	114,966	114,966	114,966	114,966	114,966
Training	376,179	488,909	601,639	714,369	827,099	939,829	1,052,559	1,165,289	1,278,019
Growth Related Resources	1,524,689	1,524,689	1,524,689	1,524,689	1,524,689	1,524,689	1,524,689	1,524,689	1,524,689
Municipal Buildings Replacement	479,981	270,278	60,575	275,872	491,169	706,466	921,763	1,137,060	1,352,357



Reserves and Reserve Funds: Schedule of Movement

	10 Year Forecast								
	Dec. 31, 2013 Estimated Balance	Dec. 31, 2014 Estimated Balance	Dec. 31, 2015 Estimated Balance	Dec. 31, 2016 Estimated Balance	Dec. 31, 2017 Estimated Balance	Dec. 31, 2018 Estimated Balance	Dec. 31, 2019 Estimated Balance	Dec. 31, 2020 Estimated Balance	Dec. 31, 2021 Estimated Balance
Reserve Funds									
Provincial Gas Tax	390,259	405,457	421,112	437,236	453,843	470,949	488,568	506,716	525,408
Perpetual Maintenance	559,588	627,126	696,689	768,340	842,140	918,154	996,449	1,077,093	1,160,155
Cash-in-lieu of Parkland	261,093	22,002	(224,084)	(477,323)	(737,883)	(1,006,055)	(1,036,237)	(1,067,324)	(1,099,344)
Building Rate Stabilization*	4,396,498	4,528,393	4,664,244	4,804,172	4,948,297	5,096,746	5,249,648	5,407,138	5,569,352
Property Transactions	3,896,530	3,802,484	3,708,980	3,615,472	64,453	(262,129)	(589,395)	(900,774)	(949,033)
Milton District Hospital Expansion	1,092,721	1,548,753	2,037,771	2,561,923	3,123,491	3,724,899	631,574	657,407	684,791
Cash-in-lieu of Parking	111,529	114,875	118,321	121,870	62,089	514	530	545	562
Storm Water Management	136,667	140,767	144,990	149,340	153,820	158,435	-	-	-
Sportsfield Development	80,784	91,535	102,608	114,013	125,761	137,861	150,323	163,160	176,382
Federal Gas Tax	711,415	40,759	74,196	30,319	1,513	133,025	739,055	1,600,654	2,494,044
Mayor's Legacy Fund	81,210	83,646	86,155	88,740	91,402	94,144	91,379	51,677	53,228
Milton District High School Reunion Scholarship Fund	56	58	60	61	63	65	67	69	71
WSIB Settlement	381	-	-	-	-	-	-	-	-
Investment in the Arts	574,945	592,193	609,959	628,258	647,105	666,518	-	-	-
Ontario Lottery Corporation Proceeds	9,882,263	9,645,387	9,401,404	9,150,103	8,891,262	8,624,656	8,350,051	8,067,209	7,775,881
Development Charges	7,886,632	2,509,278	2,483,237	24,735,415	16,606,211	18,457,975	34,107,619	35,482,559	27,084,623

* Forecast has not been included, as a detailed analysis will be completed.