

# RESERVE & RESERVE FUNDS



The Corporation of the Town of Milton





Reserve and reserve funds receive annual contributions from the operating budget and external sources 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 annual capital budget is from reserve and reserve funds. Development Charges, reserve funds and Capital Provision reserve funding alone account for 53% of the 2011 capital budget funding.

## Reserves

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. Reserves are part of the revenue fund and therefore, do not earn interest on their own. Any earnings derived from 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

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

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 378-387.





# RESERVE AND RESERVE FUNDS - OVERVIEW



## 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 \$13,747,085. The estimated balance at December 31, 2010 for these reserves is expected to be \$8,488,484 resulting in a shortfall of \$5,258,601. 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, 2009 Balance	Dec. 31, 2010 Estimated Balance	Dec. 31, 2011 Estimated Balance	Target Balance	Surplus / (Shortfall) in Policy
Tax Rate Stabilization	3,029,892	3,422,788	3,370,483	2,615,772	807,016
Election	87,680		44,781	42,500	(42,500)
Winter Control	683,361	683,361	683,361	697,286	(13,924)
Building Stabilization	6,229,129	4,382,335	2,589,116	10,391,528	(6,009,193)
<b>Total Stabilization Reserves</b>	<b>10,030,062</b>	<b>8,488,484</b>	<b>6,687,741</b>	<b>13,747,085</b>	<b>(5,258,601)</b>

## Government Funded Reserve Funds

These 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, 2009 Balance	Dec. 31, 2010 Estimated Balance	Dec. 31, 2011 Estimated Balance
Aggregate Permit Fees	504,158	733,611	183,593
Provincial Gas Tax	87,030	301,554	310,601
Federal Gas Tax	1,909,353	323,953	61,225
<b>Total Government Funded Reserves/Reserve Funds</b>	<b>2,500,542</b>	<b>1,359,119</b>	<b>555,418</b>

## Corporate Uses

Corporate Use reserves are established to provide for various contingent and potential future liabilities, the target balance for these reserves is \$7,754,016. At the end of December 31, 2010 their estimated balances are expected to be \$4,510,818 resulting in a forecast deficit of \$3,243,197. 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, 2009 Balance	Dec. 31, 2010 Estimated Balance	Dec. 31, 2011 Estimated Balance	Target Balance	Surplus / (Shortfall) in Policy
Legal	669,934	595,551	846,506	500,000	95,551
Insurance	512,395	515,035	479,612	500,000	15,035
WSIB	585,118	477,427	380,927	431,304	46,123
Working Funds	1,000,000	1,000,000	1,064,000	6,037,435	(5,037,435)
Training	133,471	128,581	105,118	100,000	28,581
Growth Related Resources	1,794,223	1,794,223	1,709,177	185,277	1,608,947
<b>Total Corporate Use Reserves</b>	<b>4,695,142</b>	<b>4,510,818</b>	<b>4,585,341</b>	<b>7,754,016</b>	<b>(3,243,197)</b>



# RESERVE AND RESERVE FUNDS - OVERVIEW



## Program Specific

These reserves have been established in response to specific programs or special funding that has been received.

	Dec. 31, 2009 Balance	Dec. 31, 2010 Estimated Balance	Dec. 31, 2011 Estimated Balance
Sports Field Development	41,022	50,132	59,760
Mayors Legacy	71,507	73,652	75,862
MDHS Reunion Fund	423	334	243
WSIB Settlement	17,150	29,732	54,896
<b>Total Program Specific Reserve Funds</b>	<b>130,101</b>	<b>153,850</b>	<b>190,761</b>

## Boards & Committees

Reserves have been established for the exclusive use of Boards and Committees of the Town.

	Dec. 31, 2009 Balance	Dec. 31, 2010 Estimated Balance	Dec. 31, 2011 Estimated Balance
Library	352,101	248,651	268,925
Downtown Business Improvement	14,833	14,833	11,933
Seniors' Fundraising	108,955	103,807	103,807
<b>Total Board and Committee Reserves</b>	<b>475,889</b>	<b>367,290</b>	<b>384,664</b>

## Capital Reserves

Capital Reserves 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. The existing historic value of assets that will need replacing/renewing in future years is \$823,486,000, in comparison the estimated Capital Works Reserve balance is forecast to be \$2,423,637 at the end of 2010. Rather than increasing, like the asset base that these reserves fund, the estimated total balance at December 31, 2010 is declining to \$20,014,279.

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

	Dec. 31, 2009 Balance	Dec. 31, 2010 Estimated Balance	Dec. 31, 2011 Estimated Balance	Target Balance	Surplus / (Shortfall) in Policy
Municipal Building Components	385,791	425,248	721,017	665,440	(240,192)
Municipal Building Replacement	417,466	1,300,841	313,135	1,499,498	(198,657)
Computer Requirements	361,852	396,383	189,708	879,217	(482,834)
Equipment Replacement	1,375,159	1,967,006	1,838,891	1,732,440	234,566
Capital Works	8,236,758	2,423,637	2,300,803	508,314	1,915,324
Transit & Transportation	1,555,827	949,920	149,920		949,920
Property Transactions	1,622,135	3,300,459	1,078,247		3,300,459
Ontario Lottery Corporation Proceeds	10,492,880	9,250,784	7,747,234	5,600,000	3,650,784
<b>Total Capital Reserves</b>	<b>24,447,867</b>	<b>20,014,279</b>	<b>14,338,956</b>	<b>10,884,908</b>	<b>9,129,370</b>



### 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.



# RESERVE AND RESERVE FUNDS - SCHEDULE OF MOVEMENT



## Summary of Movement in Reserves and Reserve Funds

The following tables show the 2009 actual balances, 2010 estimated balances and forecast 2011 activity.

	Dec. 31, 2010 Estimated Balance	Projected 2011 Activity							Dec. 31, 2011 Estimated Balance	
		Interest Earned	Contribution from Capital	Contribution from Revenue	Other Revenue	Developer Contribution	Transfer to Capital	Transfer to Revenue		Long Term Liabilities
<b>Reserves</b>										
Tax Rate Stabilization	3,422,788			457,695				(510,000)		3,370,483
Library Board	248,651			20,274						268,925
Legal Matters	595,551			283,540	17,415			(50,000)		846,506
Per Unit Development Processing Fee	952,415					522,585		(445,106)		1,029,894
Election				44,781						44,781
Winter Control	683,361									683,361
Insurance	515,035			126,442				(161,865)		479,612
WSIB	477,427							(96,500)		380,927
Municipal Building Components	425,248			463,361			(167,592)			721,017
Capital Provision	5,320,796					8,040,852	(619,122)			12,742,526
Capital Works	2,423,637			2,981,615	750,000		(3,854,449)			2,300,803
Transit & Transportation	949,920						(800,000)			149,920
Computer Requirements	396,383			275,689	10,800		(493,164)			189,708
Equipment Replacement	1,967,006			1,222,282			(1,350,397)			1,838,891
Working Funds	1,000,000			64,000						1,064,000
Aggregate Permit Fees	733,611				250,000		(800,018)			183,593
DBIA Surplus	14,833				2,500			(5,400)		11,933
Seniors' Fundraising	103,807									103,807
Training	128,581			112,420				(135,883)		105,118
Growth Related Resources	1,794,223						(20,350)	(64,696)		1,709,177
Municipal Buildings Replacement	1,300,841			412,294			(1,400,000)			313,135



# RESERVE AND RESERVE FUNDS - SCHEDULE OF MOVEMENT



	Dec. 31, 2010 Estimated Balance	Projected 2011 Activity							Dec. 31, 2011 Estimated Balance	
		Interest Earned	Contribution from Capital	Contribution from Revenue	Other Revenue	Developer Contribution	Transfer to Capital	Transfer to Revenue		Long Term Liabilities
<b>Reserve Funds</b>										
Provincial Gas Tax	301,554	9,047			524,839			(524,839)		310,601
Perpetual Maintenance	391,702	12,501			50,000					454,203
Cash-in-lieu of Parkland	338,542	16,006				390,000			(246,969)	497,580
Building Rate Stabilization	4,382,335	131,470						(1,924,689)		2,589,116
Property Transactions	3,300,459	64,710					(1,891,533)		(395,389)	1,078,247
Milton District Hospital Expansion	-			269,976						269,976
Cash-in-lieu of Parking	98,674	2,960								101,634
Storm Water Management	123,949	3,718								127,667
Sportsfield Development	50,132	1,624		8,004						59,760
MetroLinx BikeLinx Program	16,603	498								17,101
Federal Gas Tax	323,953	5,692			1,654,579		(1,923,000)			61,225
Mayor's Legacy Fund	73,652	2,210								75,862
Milton District High School Reunion Scholarship Fund	334	9						(100)		243
WSIB Settlement	29,732	29,664						(4,500)		54,896
A&E-Fund Raising/Donations					200,000					200,000
Ontario Lottery Corporation Proceeds	9,250,784	251,202			5,600,000		(6,729,750)	(625,002)		7,747,234
Development Charges*	25,022,854	714,459				20,153,024	(44,303,890)		(1,312,038)	274,409

\* excluding cashflow assistance

## Summary of Significant Changes in Reserves and Reserve Funds

When compared year over year, some reserves and reserve funds show an increase in their balances due to contributions being made to the reserve in anticipation of future needs. These reserves and reserve funds include: Legal Matters, Election, Municipal Building Components, Capital Provision, Perpetual Maintenance, Cash-in-lieu of Parkland and Sports Field Development.

Other reserves and reserve funds such as the Transit and Transportation, Computer Requirements, Aggregate Permit Fees, Municipal Buildings Replacement, Federal Gas Tax, Ontario Lottery Corporation Proceeds, and Development Charges are

reflecting a decrease. These reserves and reserve funds have been accumulating balances over the years in anticipation of infrastructure needs which have been presented in the 2011 Capital Budget and are now required to be drawn upon to assist in funding the projects.

Reserves and reserve funds such as the WSIB, Training, Milton District High School Reunion Scholarship Fund, WSIB Settlement, DBIA Surplus, and Building Stabilization are declining as per their intended use outlined on pages 378-387 of this document. The Building Stabilization reserve is being used in 2011 to stabilize the building department's budget as revenues in the 2011 operating budget are based on 1,500 building permits. This level of activity will result in a draw on this reserve to balance the departmental budget.