
TO: GENERAL COMMITTEE

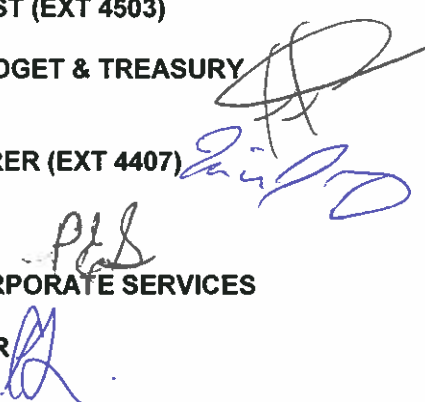
SUBJECT: LEGACY RESERVE ADJUSTMENTS

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GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES

CHIEF ADMINISTRATIVE OFFICER APPROVAL: CARLA LADD, CHIEF ADMINISTRATIVE OFFICER



RECOMMENDED MOTION

1. That the following amounts be transferred to the Tax Rate Stabilization Reserve (13-04-0461) and the legacy reserves be closed:

a) Contingencies (13-04-0402)	\$ 610,309
b) Insurance (13-04-0403)	\$ 86,318
c) Bad Debts (13-04-0463)	\$ 4,661
d) Suggestion Awards Program (13-04-0465)	\$ 88,212

2. That the Council Priorities Reserve (13-04-0410) be renamed the Strategic Priorities Reserve and used to fund projects that advance Council Strategic Priorities, with the following associated parameters:
 - a) An annual operating budget account for Strategic Priorities (01-13-1525-0000-3000) shall be maintained to provide funding for opportunities that support strategic priorities which may arise during the year; and
 - b) Any deficit/surplus that exists in this account at year end shall be transferred to/from this reserve.

3. That the Taxes Reserve (13-04-0464) be renamed the Assessment Appeal Reserve and be used to fund unanticipated assessment appeal activity, with the following associated parameters:
 - a) An annual operating budget account for Assessment Appeal (01-24-0804-0000-8005) shall be maintained to provide funding for assessment appeal decisions ,and
 - b) Any deficit/surplus that exists in this account at year end shall be transferred to/from this reserve.

4. That the Early Retirement Reserve (13-04-0462) be used to fund unplanned early retirements and terminations, with the following associated parameters:

- a) An annual operating budget account for unplanned Early Retirements (01-12-1410-0000-2820) shall be maintained to provide funding for unplanned early retirements or terminations that cannot be funded within the associated departmental operating budget.
 - b) Any year-end deficit/surplus in this account as it relates to Early Retirements shall be transferred to/from this reserve.
5. That the Working Funds Reserve (13-04-0401) and the General Support Services Reserve (13-04-0460), for which the balances were depleted as part of the 2014 Business Planning process (Motion 14-G-017), be closed.

PURPOSE & BACKGROUND

6. Amendment #4 to motion 14-G-017 2014 Business Plan modified paragraph 29. to state "That the CAO and General Manager of Community and Corporate Services review the timeliness and process used to provide information and respond to Council's direction regarding use of legacy reserves, and report back to General Committee on improvements to reporting." This report is intended to make recommendations on the legacy reserves, to adjust these reserves to reflect current needs and provide more transparent and streamlined reporting to Council.

ANALYSIS

Legacy Reserves

7. The general approach to investigate legacy reserves included a detailed historical transaction review, reviewing archived staff reports and council motions, speaking with various knowledgeable parties within Finance and across the corporation, and contacting former City staff. All of the reserves that are being recommended to be closed have had little or no activity in the past several years or longer, do not have a funding strategy, and have no external restrictions that were identified. The following paragraphs describe the findings of the review process.

Legacy Reserves Recommended for Closure

8. The "Contingency Reserve" (13-04-0402) has been used in the past to fund legal liabilities against the City. The nature of the reserve is similar to the Tax Rate Stabilization Reserve and is intended to capture and fund one-time surpluses or exposures. Prior to 2010, unspent amounts in the Contingencies Account (01-13-1520) were transferred to the reserve as outlined in 02-G-608 and as amended in 06-G-016. The financing strategy was discontinued in 2010. There are no liabilities that have been identified on the financial statements that are outside of the City's insurance coverage. Similar to the long range financial plan strategy for Tax Capital, consolidating like reserves provides the City with maximum flexibility to fund exposures as they arise. The current balance of \$610,309 is recommended to be added to the Tax Rate Stabilization Reserve and the Contingency Reserve be closed.
9. The intended purpose for the "Insurance Reserve" (13-04-0403) was use for self-funded insurance requirements. Current insurance exposure exists within the deductible limit as outlined in the City's insurance policy. These costs are estimated and covered within the business plan. There are no outstanding insurance liabilities identified on the City's Financial Statements. The intent of the reserve is being met through the operating budget and therefore the outstanding balance of \$86,318 is recommended to be added to the Tax Rate Stabilization Reserve and the Insurance Reserve be closed.
10. The "Bad Debts Reserve" (13-04-0463) was intended to fund uncollectable non-tax receivables. The City's most significant receivables are Tax and Water billings, both of which are fully secured

based on the Municipal Act, 2001. The exposure to the City is considered minimal and is not deemed to require a reserve strategy. The reserve carries a small balance of \$4,661 and has had no transactions posted to it since 2004. It is recommended that the balance be added to the Tax Rate Stabilization Reserve and the Bad Debts Reserve be closed.

11. The "Suggestion Awards Program Reserve" (13-04-0465) was created to fund award programs within the City. The costs are generally reserved for contests, retirement gifts, flowers, awards, etc. The reserve currently has no funding strategy and has had only one transaction posted to the reserve since 2004. The current business plan includes a small budget for these types of expenditures. It is recommended that the current balance of \$88,212 be added to the Tax Rate Stabilization Reserve and the Suggestion Awards Program Reserve be closed.
12. The balances in the Working Funds Reserve (13-04-0401) and General Support Services Reserve (13-04-0461) were applied against debt as outlined on Staff Report 14-G-017. Therefore it is recommended at this time that these reserves be closed.

Legacy Reserves Recommended to be Retained

13. The "Council Priorities Reserve" (13-04-0410) is currently used for strategic priorities as identified by Council. Prior to 2012, the Council Strategic Priorities account was included in the business plan with an operating budget of \$150,000. In 2012, the allocation was reduced to \$85,000 and in 2013 it was reduced further to \$25,000. The Council Priorities Reserve was used to fund additional needs beyond what was carried in the annual operating budget and any funds not required within the year were transferred to the Council Priorities Reserve.
14. It has been identified that there is a need for a capital funding source to fund strategic projects such as the University Project. Currently the only funding source available for Strategic Capital Projects would be the Tax Capital Reserve which is intended to fund asset renewal and replacement. Staff are recommending that the Council Strategic Priority account be renamed Strategic Priorities Reserve. In the future, when PowerStream dividends are no longer required to be re-invested in PowerStream, consideration can be given to applying some or all of the dividends to this reserve. A policy will be developed at the time the dividends become available.
15. The "Taxes Reserve" (13-04-0464) is intended to be available to fund Assessment Review Board (ARB) decisions that exceed the annual operating allocation. Assessment appeals are very difficult to estimate due to the unpredictability of timing and tax impact of the ARB decisions. The use of this reserve creates the opportunity for the City to set the annual operating budget for appeals at a reasonable level and allows the variances in assessment appeals activity to be smoothed by the reserve. It is recommended that the reserve be renamed to Assessment Appeal Reserve for greater clarity and that any surplus or deficit within the Assessment Appeals operating account (01-24-0804-0000-8005) be transferred to/from the reserve. The annual budget may require to be adjusted annually based on changes in assessment appeal patterns in order to ensure the long term sustainability of the reserve.
16. The "Early Retirement Reserve" (13-04-0462), with a current balance of \$173,442, has been used as a funding source for significant liabilities associated with unplanned early retirements and terminations. There is an ongoing need to maintain this reserve to fund any overspending in the operating budget (account 01-12-1410-0000-2820) to the extent that the overspend relates to early retirement costs.

ENVIRONMENTAL MATTERS

17. There are no environmental matters related to the recommendations.

ALTERNATIVES

18. There is one alternative available for consideration by General Committee:

Alternative #1

General Committee could choose not to close, rename and/or consolidate the suggested reserve accounts.

This alternative is not recommended, as the revised list of reserve accounts will facilitate a more streamlined funding approach, reflecting the true nature and purpose of each account. Making these revisions will facilitate the administration and reporting for each reserve.

FINANCIAL

19. Finance staff will amend the City's Financial Policies Framework regarding reserves to align with the direction received from Council through this report.
20. The 2014 Year End Staff Report will include direction on the appropriation of year-end surpluses as described in this report.

LINKAGE TO COUNCIL STRATEGIC PRIORITIES

21. The 2014-2018 Council Strategic Plan has not been finalized as of the time of writing of this report.
22. The recommendations included in this Staff Report support Council's previous goal to strengthen Barrie's financial condition.