

2019 CITY OF CAMBRIDGE

# BUDGET

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2019 Draft Budget - Reserve & Reserve Funds

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## Reserve and Reserve Funds

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### What are Reserves & Reserve Funds?

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Reserves and reserve funds are monies set aside for a specific purpose. Some must be set aside because of legislation, while others are set aside at the direction of Council. The City holds reserve funds for three major purposes:

- For contingency: so that taxes and utility rates don't need to spike if there were some unforeseen event or lost revenues.
- For capital: setting aside funds for future capital rehabilitation or replacement based on expected capital needs.
- For legislated reasons: some funds must be held in reserve as per legislation from the Province. For example development charges collected from developers that will be used to fund new capital due to growth.

#### **THERE ARE THREE TYPES OF RESERVE FUNDS:**

- Reserve: does not earn interest; interest earned on its balance goes towards the tax-supported operating budget.
- Discretionary Reserve Fund: created at Council's direction and earns interest.
- Obligatory Reserve Fund: created through legislation or agreements and earns interest.

Obligatory reserve funds must be used for the purposes defined by the legislation or agreements that govern them. Council is not authorized to use the funds for any other purpose.

## Reserve and Reserve Funds

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### 2019 Budget Impact

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The following section shows the budget impacts to the City's reserves and reserve funds. Details of each fund's purpose, source of funds, intended use, and target balances can be found in [Appendix A](#).

#### **TAX-SUPPORTED OPERATING**

Reserves and reserve funds for the tax-supported operating budget have various intended uses depending on the reserve or reserve fund. Some support specific operational programs, such as the building revitalization program or contaminated sites grant program. Others are to partially fund City liabilities, including the Future Employee Benefits and Workplace Safety and Insurance reserve funds. And some reserve funds, such as the Rate Stabilization and the Winter Maintenance reserve funds, act as the City's operating contingency funds. There is also the Election reserve fund with the intended purpose of smoothing budget impacts, as the election is only held once every four years.

## Reserve and Reserve Funds

The impact of the 2019 budget on these reserves and reserve funds is as follows:

	CURRENT BALANCE*	CAPITAL BUDGET IMPACT	TAX-SUPPORTED OPERATING BUDGET IMPACT	WATER UTILITY BUDGET IMPACT	OTHER COMMITMENTS	RECOMMENDED RESERVE FUND BYLAW CHANGES	PROJECTED BALANCE AFTER 2019 DRAFT BUDGET
<b>Reserves &amp; Reserve Funds for Tax-Supported Operating</b>							
<b>Reserves</b>							
Training and Development	(110,039)					110,039 A	-
Contaminated Sites Grant Progr.	447,980						447,980
Bldg Revitalization Program	442,160						442,160
Rate Stabilization	3,267,310		(594,800)			(69,216) A,C	2,603,294
Hydro Dividend Stabiliztn R.F.	1,221,609		(886,000)				335,609
<b>Discretionary Reserve Funds</b>							
Capital Works Debt Retirement	1,720,883		(27,900)		(1,692,983)		-
Heritage Conservation	71,617						71,617
Archives Reserve Fund	38,545						38,545
Election	18,539		100,000				118,539
Winter Reg Road Maintenance Res Fund	139,474					(139,474) B	-
Winter Maintenance	40,455					139,474 B	179,928
Legal Reserve Fund	40,823					(40,823) C	-
Self Insurance Reserve Fund	2,247,360						2,247,360
Future Employee Benefits	9,702,418		(178,100)				9,524,318
Workplace Safety & Insurance	2,131,660		(115,900)				2,015,760
Replacement Tree Planting RF	-						-
<b>Total</b>	<b>\$21,420,793</b>	<b>\$-</b>	<b>\$(1,702,700)</b>	<b>\$-</b>	<b>\$(1,692,983)</b>	<b>\$-</b>	<b>\$18,025,110</b>

\* Current balance is as of January 15, 2019 and prior to 2018 year-end financial close entries

## Reserve and Reserve Funds

As part of the 2019 budget process, staff undertook a review of all City reserves and reserve funds. Staff are recommending the closure of the following operating related funds:

- ➔ Training and Development Reserve - this was originally created to stabilize the cost of training in the operating budget. The budgets for training have been stable for many years, and this stability is expected to continue. As such, staff recommend this reserve be eliminated and its negative balance be covered from the Rate Stabilization reserve.
- ➔ Regional Winter Maintenance Reserve - the cost of winter maintenance at the City varies based on the severity of the winter. To minimize tax impacts due to this variability, the City holds two reserve funds: one for City-owned roads and one for Region-owned roads that the City is responsible for maintaining. As these two reserve funds are so directly related, there is no need to track them separately and it is recommended that the Regional Winter Maintenance reserve fund be eliminated with its balance rolled into the Winter Maintenance Reserve Fund.
- ➔ Legal Reserve Fund - this fund was created to address variability in the City's external legal costs. A review of the recent experience in these costs demonstrates that while there is variability, it does not warrant having its own reserve fund; similar to other operational programs at the City, variability may be covered through other operational savings or through the Rate Stabilization Reserve. As such, this reserve fund is recommended to be eliminated, with its balance transferred to the Rate Stabilization Reserve Fund.

### LIBRARY RESERVE FUNDS

The City holds three reserve funds on behalf of Idea Exchange. The impact of the 2019 budget on these reserve funds is as follows:

	CURRENT BALANCE*	CAPITAL BUDGET IMPACT	TAX-SUPPORTED OPERATING BUDGET IMPACT	WATER UTILITY BUDGET IMPACT	OTHER COMMITMENTS	RECOMMENDED RESERVE FUND BYLAW CHANGES	PROJECTED BALANCE AFTER 2019 DRAFT BUDGET
<b>Library Discretionary Reserve Funds</b>							
Facility Mtce-Library	374,543						374,543
Book Processing -Library	14,129						14,129
Book Purchase-Library	304,554		(70,000)				234,554
<b>Total</b>	<b>\$693,226</b>	<b>\$-</b>	<b>\$(70,000)</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$623,226</b>

\* Current balance is as of January 15, 2019 and prior to 2018 year-end financial close entries

## Reserve and Reserve Funds

### WATER UTILITIES

The City holds reserves and reserve funds as operating contingency for the water and sewer operations, to minimize sudden impacts in the utility rates. The impact of the 2019 budget on these reserve funds is as follows:

	CURRENT BALANCE*	CAPITAL BUDGET IMPACT	TAX-SUPPORTED OPERATING BUDGET IMPACT	WATER UTILITY BUDGET IMPACT	OTHER COMMITMENTS	RECOMMENDED RESERVE FUND BYLAW CHANGES	PROJECTED BALANCE AFTER 2019 DRAFT BUDGET
<b>Reserves &amp; Reserve Funds for Water Utilities</b>							
<b>Reserves</b>							
Train & Dev Water/Sewer	807,525					807,525 D	-
<b>Discretionary Reserve Funds</b>							
Wastewater Rate Stabilization	3,205,019			(174,300)		403,763 D	<b>3,434,482</b>
Water Rate Stabilization R.F.	3,398,747			(147,700)		403,763 D	<b>3,654,810</b>
<b>Total</b>	<b>\$7,411,292</b>	<b>\$-</b>	<b>\$-</b>	<b>\$(322,000)</b>	<b>\$-</b>	<b>\$-</b>	<b>\$7,089,292</b>

\* Current balance is as of January 15, 2019 and prior to 2018 year-end financial close entries

Staff are recommending the closure of the following water utility related fund:

- ➔ Training and Development Reserve - this was originally created to stabilize the cost of training in the operating budget. The budgets for training have been stable for many years, and this stability is expected to continue. As such, staff recommend this reserve be eliminated and its balance be allocated to the Wastewater and Water Rate Stabilization reserve funds.

## Reserve and Reserve Funds

### CAPITAL DISCRETIONARY RESERVE FUNDS

The City is committed to maintaining our infrastructure in a state of good repair to provide reliable and efficient services, building new infrastructure for service improvement and future growth, and implementing priorities identified by the City's strategic plan. The City owns, operates and maintains public infrastructure with an estimated replacement value of \$2.4 billion. Capital reserve funds support the effective financial planning and sustainability of the City's assets.

The impact of the 2019 budget on these reserve funds is as follows:

	CURRENT BALANCE*	CAPITAL BUDGET IMPACT	TAX-SUPPORTED OPERATING BUDGET IMPACT	WATER UTILITY BUDGET IMPACT	OTHER COMMITMENTS	RECOMMENDED RESERVE FUND BYLAW CHANGES	PROJECTED BALANCE AFTER 2019 DRAFT BUDGET
<b>Capital Discretionary Reserve Funds</b>							
Capital Works Reserve Fund	3,713,385	(7,713,800)	9,429,800		(2,060,661)		<b>3,368,724</b>
Capital Works Committed Fund	1,835,513	-			(1,816,346)		<b>19,167</b>
Wastewater Capital Reserve Fund	12,080,301	(8,441,700)		3,536,500			<b>7,175,101</b>
Water System Capital Res Fund	7,537,986	(6,793,200)		6,778,400			<b>7,523,186</b>
Cemetery Improvements	605,906	(612,100)	(68,500)				<b>(74,694)</b>
Cemetery Land Purchase	48,765	-					<b>48,765</b>
Columbarium Purchase Res Fund	97,499	(75,000)					<b>22,499</b>
Equipment Reserve Fund	3,066,302	85,500	1,853,000		(916,000)		<b>4,088,802</b>
Water Meter Replacement R.F.	2,244,112	-		260,900			<b>2,505,012</b>
Facility Mtce RF	4,592,140	(417,000)	19,500			237,199 E	<b>4,431,839</b>
Sports Field Revitalization RF	428,590	-	<b>32,600</b>			(461,190) E	<b>-</b>
Jacob Hespeler Field RF		-				223,992 E	<b>223,992</b>
Soccer Facility Capital Exp	225,384	-					<b>225,384</b>
Public Art Reserve Fund	134,680	25,000					<b>159,680</b>
Energy Conservation	1,425,417	(31,000)	102,100				<b>1,496,517</b>
Economic Development	19,762,256	-	(349,100)				<b>19,413,156</b>
<b>Total</b>	<b>\$57,798,236</b>	<b>\$(23,973,300)</b>	<b>\$11,019,400</b>	<b>\$10,575,800</b>	<b>\$(4,793,007)</b>	<b>\$-</b>	<b>\$50,627,129</b>

\* Current balance is as of January 15, 2019 and prior to 2018 year-end financial close entries

## Reserve and Reserve Funds

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Staff are recommending the closure of the following capital-related fund:

➔ Sports Field Revitalization Reserve – this reserve fund encompasses two parts:

1. Setting aside funds for Jacob Hespeler Field capital rehabilitation and replacement; it is recommended these funds be transferred to a new fund for this specific purpose.
2. A portion of user rate increases related to sports goes towards enhanced maintenance of city sports fields and facilities. Previously, these additional revenues were transferred into the reserve fund. Moving forward, these revenues will remain in the operating budget to pay for this enhanced maintenance program, reducing reliance on tax dollars. The remaining balance in this reserve fund will be transferred to the Facility Maintenance Reserve Fund.

### EQUIPMENT RESERVE FUND

The City owns and operates more than 200 vehicles, fire protection equipment, and heavy construction equipment valued at more than \$37 million. These vehicles and equipment are of varying life cycle of eight to 15 years and need to be replaced at the end of their life for continued services.

The current balance in the Equipment Reserve Fund is \$3.1 million and it is funded with approximately \$1.9 million per year from operations. This funding comes from the programs using the equipment, such as Fire Services, Public Works, and Parks, Recreation and Culture. The program is charged a rental rate to use the equipment, with a portion of the rental fees paying for the operating cost (e.g. fuel, maintenance, licensing, etc.), and another portion is set aside for future replacement. The objective is to ensure sustainability of equipment replacements by charging the full cost of using the equipment back to the programs, as well as reflect the true cost of running the programs inclusive of their equipment use.

Based on an analysis of equipment replacement needs, these rental rates are not at a sufficient level and will require increases in the future to ensure sustainability of the Equipment Reserve Fund. To address the funding gap and phase-in the rate increases, the 2019 capital budget proposes to reallocate \$0.8 million in capital levy funding that would have gone into the Facility

## Reserve and Reserve Funds

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Maintenance Reserve Fund. This reallocation is forecasted to continue again in 2020, and then reduce by \$0.1 million annually until the equipment rates have risen to a sustainable level. The Facility Maintenance Reserve Fund has sufficient funding levels to support this reallocation and to meet the needs in the ten-year capital investment plan.

Additionally, the previous capital budget included \$0.25 million to be contributed to a new Core Application Reserve Fund towards sustainability of the City’s technology. Upon further review of the reserve funds in 2018, technology projects can continue to use the main Capital Works Reserve Fund. This planned \$0.25 million is also recommended to be reallocated to the Equipment Reserve Fund in 2019 and 2020, and then reduce by \$0.05 million annually until the equipment rates have risen to a sustainable level.

In total, \$5.4 million is forecasted to be funded from the capital levy towards the Equipment Reserve Fund, ensuring continued sustainability of the City’s equipment.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Capital Levy Contribution to Equipment Reserve Fund	\$1,050,000	\$1,050,000	\$900,000	\$750,000	\$600,000	\$450,000	\$300,000	\$200,000	\$100,000	\$-

## Reserve and Reserve Funds

### OBLIGATORY RESERVE FUNDS

The obligatory reserve funds must be used for the purposes defined by the legislation or agreements that govern them. Council is not authorized to use the funds for any other purpose. The impact of the 2019 budget on these reserve funds is as follows:

	CURRENT BALANCE*	CAPITAL BUDGET IMPACT	TAX-SUPPORTED OPERATING BUDGET IMPACT	WATER UTILITY BUDGET IMPACT	OTHER COMMITMENTS	RECOMMENDED RESERVE FUND BYLAW CHANGES	PROJECTED BALANCE AFTER 2019 DRAFT BUDGET
<b>Obligatory Reserve Funds</b>							
Cash in Lieu of Parking	24,893						24,893
Gas Tax Reserve Fund	1,638,028	(5,540,000)			3,941,283		39,312
Development Charges-San. Sewer	(7,078,051)	(5,215,800)	(40,000)				(12,333,851)
Development Charges-Storm Sew.	1,265,610	(181,900)	(40,000)				1,043,710
Development Charges-Watermains	2,554,147	(1,253,800)	(40,000)				1,260,347
Development Charges-Roadways	241,634	(17,354,400)	(40,000)				(17,152,766)
Development Charges-Indoor Rec	(820,331)		(32,000)				(852,331)
Development Charges-Parks	1,759,215		(10,000)				1,749,215
Development Charges-Fire Serv.	(476,403)						(476,403)
Development Charges-Library	2,134,890	(92,700)					2,042,190
Development Charges-Works Yard	(256,819)	(511,900)					(768,719)
Development Charges-Studies	1,244,534	(466,000)					778,534
Dev Charges-General Government	231,280						231,280
Dev Charges-City Engineering	668,331	(282,800)					385,531
Parkland Cash in Lieu	(1,145,926)						(1,145,926)
Building Permit Stabilization	1,552,073	(250,000)					1,302,073
Density Bonusing Reserve Fund	-						-
<b>Total</b>	<b>\$3,537,107</b>	<b>\$(31,149,300)</b>	<b>\$(202,000)</b>	<b>\$-</b>		<b>\$-</b>	<b>\$(23,872,909)</b>

\* Current balance is as of January 15, 2019 and prior to 2018 year-end financial close entries

## Reserve and Reserve Funds

Development charges are used to fund projects that support growth in the city. In total, development charges fund 41 per cent of the 2019 capital investment plan, for a total of \$25.3 million. The significant size of these projects exceeds what the City currently has collected in the development charge reserve funds, as shown in the negative balances in the Sewer and Road Development Charge reserve funds above. Borrowing will be required in 2019 to fund some development projects until the development charges are collected. This borrowing has no cost to the tax payers, as all debt charges are covered through growth funding in the form of development charges. The City is currently completing a development charge study, with an update to the City's development charge bylaw and rates expected in May 2019.