



City of Moose Jaw

COMMUNICATION # EC-2019-0168

TITLE: Review of Reserve Funds

TO: Executive Committee

FROM: Department of Financial Services

DATE: September 5, 2019

PUBLIC: PUBLIC DOCUMENT

RECOMMENDATION

THAT City Administration be directed to put the City's current financing and reserve practices into bylaw form for the review and approval of City Council.

TOPIC AND PURPOSE

The purpose of this report is to provide the Executive Committee with a review of the rationale for the City's reserves, the purpose and amount contained within each reserve and to request City Council to direct City Administration to develop a bylaw establishing these practices.

BACKGROUND

The City of Moose Jaw has held money in its various reserves dating back to the 1950's in order to fund future expenditures. In order to understand the concept of reserves and their inherent benefits and shortcomings, it is necessary to define some of the key terminology used in this report.

- a) **Time Value of Money** – Money has a benefit over time as it can be invested and the accumulated interest will result in the original amount of money being worth more at a future date. Likewise, money can be borrowed and the cost of repayment will be more than the original amount borrowed. A thousand dollars received today is worth more than one thousand dollars received one year from now because it can be invested and provide interest earnings. The time value of money concept forms a key element of the study of finance in that the value of money increasing over time factors into all major financial decisions.

As a result of the time value of money, if one saves money it increases in value and if one borrows money you must repay an amount greater than the money borrowed. This benefit of saving and the cost of borrowing form the fundamental benefit behind the City's reserves.

- b) **Pay-as-you-go Financing** – The pay-as-you go concept of financing refers to funding of capital expenditures from the current revenues or from reserves built up from past revenues.
- c) **Debt Financing** – Debt Financing is the opposite of pay-as-you-go financing in that rather than funding expenditures from current revenues or reserves, one borrows and repays the borrowing with future revenues.
- d) **Reserves** – Reserves are simply monies set aside for specific purposes such as for future equipment purchases or capital projects.
- e) **Self-Sustaining Reserves** – These are reserves that are established in order to provide an ongoing stream of revenues while preserving the principal such that the reserve can continue providing this ongoing stream of funding. The City of Moose Jaw's Capital Expenditure Fund Equity is an example of a self-sustaining reserve.
- f) **Nominal Interest Rate** – This is the actual value of interest paid on an investment or loan before any adjustment for inflation.
- g) **Real Interest Rate** – This is the inflation adjusted interest rate. The real interest rate equals the nominal interest rate less the inflation rate. For Example: If interest paid is 5% and inflation is 2%, the real interest rate is 3%.

The pay-as-you-go philosophy to financing dates back to at least the 1950's in respect to the City of Moose Jaw. The concept behind pay-as-you-go financing is simply that it is better to save and earn interest than to borrow and pay interest. In order to get an idea of the level of reserves over time, a review of past financial statements has taken place with an eye to reviewing the two major funds that the City of Moose Jaw maintains. Those two funds are the Equipment Reserve Fund and the Capital Expenditure Fund. The following table provides an overview of the annual fund balances of these two funds:

	Equipment Reserve Fund	Capital Expenditure Fund
2018	27,765,329	60,760,335
2011	20,234,687	50,388,171
2006	23,569,475	50,551,607 *
2001	20,534,731	35,818,843
1996	15,607,385	29,175,700
1991	5,842,103	25,782,908
1986	7,327,062	21,541,737
1981	5,778,694	9,745,754
1976	2,172,276	4,615,239
1971	1,485,636	1,860,342
1966	842,784	1,382,868
1961	452,507	1,167,691

*Note: Includes Land development funds which is not shown in years prior to 2006.

The biggest obstacle to establishing a pay-as-you-go method of financing capital expenditures is the difficulty in building up the reserves necessary to fund such a program. The City of Moose Jaw, over almost 60 years, has built up those reserves but that would be a very difficult thing to do today.

The biggest benefit of the pay-as-you-go philosophy is that you don't have to borrow and pay the associated interest costs; in fact, the reserves you create earn interest so there is a double benefit.

Another benefit of the pay-as-you-go philosophy is that it provides a framework which requires municipalities to live within their funding limitations. The pay-as-you-go philosophy is very well suited for regular capital expenditure programs such as paved roads, sidewalks, etc.

One of the major drawbacks of pay-as-you-go funding is that it does not do well for unforeseen or major infrastructure projects. These projects need to be done in a relatively short period of time and do not allow for the funding to be accumulated for such projects. Likewise, major infrastructure projects, such as the multiplex for example, again are of such magnitude that to build up the funds over a period of time would result in the benefits from such a project not being enjoyed by the citizens for many years.

Another drawback to pay-as-you-go funding is that its reliance on reserves and the interest earned from those reserves is subject to the fluctuations in interest rates that are seen as part of regular economic activity. The City of Moose Jaw has averaged a 3% return on its reserve investment earnings in recent years; however, this range has fluctuated from double digits to levels nearing 3% which are being experienced today. This fluctuation in interest revenue directly affects the capital programs that the City delivers as less interest earnings means less programs can be delivered.

The City has taken steps to create an Investment Committee with an objective to generate a higher return on invested monies. The following table shows a history of the average rate of return earned on the City's Capital Expenditure Fund investments over the last 31 years.

	<u>Principal</u>	<u>Interest</u>	<u>ROR</u>
1988	22,340,420	2,049,609	9.17%
1989	23,160,542	2,632,987	11.37%
1990	24,152,973	2,818,300	11.67%
1991	24,852,759	2,784,699	11.20%
1992	25,435,753	2,518,353	9.90%
1993	25,497,693	2,372,107	9.30%
1994	28,521,053	2,441,969	8.56%
1995	31,715,845	2,693,088	8.49%
1996	27,808,648	2,385,026	8.58%
1997	27,471,226	2,242,622	8.16%
1998	33,482,757	2,137,688	6.38%
1999	26,629,041	1,814,407	6.81%
2000	27,400,263	1,908,509	6.97%
2001	29,423,340	1,999,267	6.79%
2002	30,227,050	1,926,368	6.37%
2003	32,916,443	2,031,094	6.17%
2004	30,302,660	1,831,113	6.04%
2005	35,316,827	1,960,803	5.55%
2006	37,304,857	1,992,270	5.34%
2007	54,926,823	0	4.59% *
2008	70,985,684	2,812,273	3.96%
2009	107,216,035	3,378,300	3.15%
2010	103,805,465	3,317,757	3.20%
2011	93,970,015	3,212,827	3.42%
2012	95,426,242	3,707,808	3.89%
2013	96,484,924	3,555,813	3.69%
2014	98,617,855	0	2.96% *
2015	91,551,081	0	2.89% *
2016	83,786,685	0	2.76% *
2017	75,099,509	0	2.65% *
2018	66,472,749	0	2.40% *

* This is total return all funds, not just investments. Information on investment returns is not available.

The alternative to pay-as-you-go financing is to debt finance projects today and utilize the monies generated from revenues to repay that borrowing. Some will argue that debt financing allows you to have the current taxpayer fund the costs of the project being financed in contrast to a pay-as-you-go method where previous taxpayers accumulate the funds for future taxpayer's benefits. The major drawback of course to this approach is that you end up paying a large amount of interest; however, you do enjoy the benefit of that project immediately.

DISCUSSION

The following discussion will review the City of Moose Jaw's current funds, financing and reserves, annual drawdowns, its rationale, details of the City's reserves and conclusions on the City's financing and reserves.

City of Moose Jaw Financing and Reserve Practices

The City of Moose Jaw has utilized a pay-as-you-go financing philosophy over the years which calls for the expenditure of current revenues or the saving of current revenues in reserves to fund future purchases for all regular and routine capital expenditures. These expenditures include things like equipment purchases and regular capital budget projects such as roadway rehabilitation, sidewalk replacement, etc.

The City of Moose Jaw utilizes debt financing for non-routine capital expenditures of an urgent nature or capital projects of very large magnitude. A good example of an urgent non-routine expenditure would be the Wastewater Treatment Upgrade project of \$26.562 million which the City undertook a number of years ago. Due to the urgent nature of this project, it was not possible to save up the reserves necessary to fund this project in a timely fashion and as a result, borrowing is used to make up the shortfall in funding.

Another example of a major project that utilized debt financing is the Multiplex which due to its large capital requirements was not a project that the City would easily fund through a pay-as-you-go method. Due to the magnitude of the Multiplex project, it was necessary to borrow in order to bring the project to a timely conclusion so that the citizens can receive a benefit today rather than many years from now. As well, by borrowing over a twenty-five-year period, the costs are spread over current and future property tax-payers.

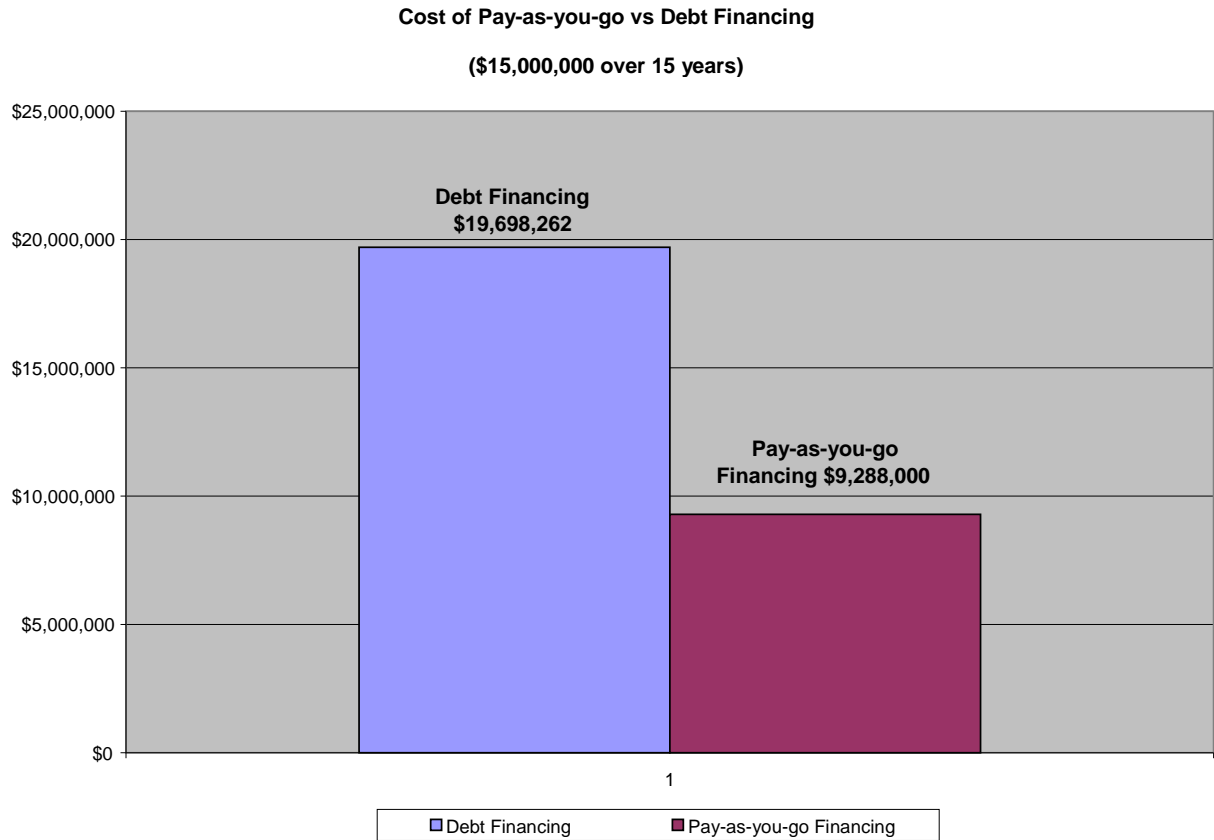
In summary, the City of Moose Jaw utilizes a pay-as-you-go financing program for all of its regular routine equipment and capital projects. Capital projects that are of an unforeseen nature or are major infrastructure projects are funded with a combination of current revenues, reserves and borrowing.

Rationale for City's Financing and Reserve Practices

The City of Moose Jaw has developed an extensive reserve system for specific purposes. The basic rationale for the City's reserve system is that it is better to save and earn interest for regular capital projects than it is to borrow and pay interest for those projects. Due to the diligence of past City Councils and City Administration to plan for future expenditures, it has been possible for the City to accumulate reserves to fund anticipated future expenditures.

The interest benefit that the City of Moose Jaw receives each year from these reserves totals just under \$3,800,000 and would require a tax increase of about 13% in order to replace this annual benefit. If the City could raise its current rate of return by 2% annually, this would generate another \$2,900,000 or the equivalent of an additional 10% in municipal taxation.

The chart below shows the benefits of saving versus borrowing. In this example, a \$15,000,000 expenditure is examined in terms of the cost from a pay-as-you-go financing method versus a debt financing method over a 15-year term. The difference between the two financing methods is \$10,410,262.



Often times a comparison is made between the private sector and the City in terms of financing methods. It is common practice for commercial entities to borrow funds rather than utilize a pay-as-you-go financing method. The reasons for this are inherent in the differences between a public entity and a private entity.

A private entity has two benefits that it receives from borrowing. First of all, the interest charges are tax deductible and result in a reduction in the amount of corporate taxes paid. Secondly, a private entity enters into its decision to proceed on a capital project based upon the rate of return (ROR) on the investment. If a ROR on an investment is sufficient to offset the borrowing costs, then it makes sense to pursue that project through borrowing as it will have a net benefit to the private entity. Public entities such as the City of Moose Jaw do not generally make money on capital projects; rather these projects are to provide a service or program on the most cost-effective basis. This fundamental difference in public entities and private entities explains the different treatment of borrowing by these two groups. Therefore, it is not a fair comparison to compare private sector borrowing to the public sector as the objectives of each sector are fundamentally different.

The rationale for the City of Moose Jaw's financing and reserve practices are that the benefits of the pay-as-you-go method are substantive and provide a major monetary benefit to the taxpayers of Moose Jaw. The ability to use current revenues and to save (reserve) for future expenditures generates interest income for the City and avoids borrowing costs. The City's financing and reserve policy also recognizes the need for debt financing for major non-routine projects where it is necessary to provide the project in a timely manner.

Overview of Funds and Reserves

The City of Moose Jaw has many reserves set aside for a variety of uses. The following is an attempt to describe each reserve, its current reserve level, its funding source, interest generated, and annual drawdowns. Many of the reserves are their own funds while others are simply a reserve fund within the General Revenue Fund.

The City's reserves have been broken down into three categories, Long Term (Indefinite), Mid – Term (5 to 10 yr. time Horizon) and Short Term. (less than 5 yrs.).

Long Term Funds

	2018	Drawdowns
Capital Expenditure Fund Equity	\$ 36,922,713	Investment Earnings in excess of inflation
Equipment Reserve Fund LT Portion	\$ 20,000,000	Reinvested
Portion of Land Development Funds	\$ 10,974,417	All Investment Earnings
Snowbird's Scholarship Fund	\$ 9,211	75% of Investment Earnings
Columbarium Perpetual Care	\$ 92,981	Periodic
Perpetual Care Fund	<u>\$ 2,131,446</u>	Investment Earnings
Total Funds	\$ 70,130,768	

Medium Term Funds

Cemetery Deferred Revenue Fund	\$ 1,219,616	Periodic
Housing Reserve	\$ 999,092	Period withdrawals for 5% share of housing projects
Police Accumulated Surplus	\$ 1,268,507	Periodically for one-time items
City Accumulated Surplus	\$ 1,651,465	Currently overdrawn - Target 5% Op Budget
Landfill Closure	\$ 9,767,239	Utilized when landfill closes 2021 to 2061
Mosaic Place & Yara Centre	\$ 557,127	Utilized for major expense
Supp Pension Reserve	\$ 2,431	Paid out when employees leave City.
Outdoor Columbarium Reserve	\$ 41,311	Periodically to fund new niches
Crematorium Bld reserve	\$ 117,888	Periodically to fund building repairs
Emp Disability and Death fund	\$ 1,076,323	None, but could be used to provide death benefit
Contaminated Site Reserve	\$ 235,293	To be used to remediate contaminated sites
Portion of Land Dev funds	\$ 10,974,147	All Investment Earnings, periodically draws down for land projects.
Other Funds held in Trust	\$ 407,220	Investment Earnings
Parking Reserve	<u>\$ 1,654,035</u>	Will be used to fund major parking initiative
	\$ 29,971,694	

	2018	Drawdowns
<u>Short Term Funds</u>		
Sanitary Sewer Reserve	\$ 6,294,066	Used to fund Capital Program
Solid Waste Reserve	\$ 202,921	Used to fund Capital Program
Waterworks Reserve	\$ 13,758,186	Used to fund Capital Program
Traffic Safety Reserve	\$ 526,676	Used periodically for Traffic Safety Initiatives
Uncompleted Works	\$ 1,517,115	Used within year or two
Emp Retirement Fund	\$ 118,891	Used to fund retirement payouts
Unexpended Capital	\$ 5,844,696	Used to fund Capital Program
Flood Prone	\$ 68,095	No longer required
Facilities Bld Reserve	\$ 398,431	Periodic use for major building repairs
Residential & Commercial Appeal Reserve	\$ 11,922	Used to fund appeal losses
Fire Bld Reserve	\$ 33,641	Periodic use for building repairs
Police Bld Reserve	\$ 19,819	Periodic use for building repairs
Equipment Reserve Fund ST Portion	\$ 7,765,328	Used to buy equipment
	<u>\$ 36,559,787</u>	

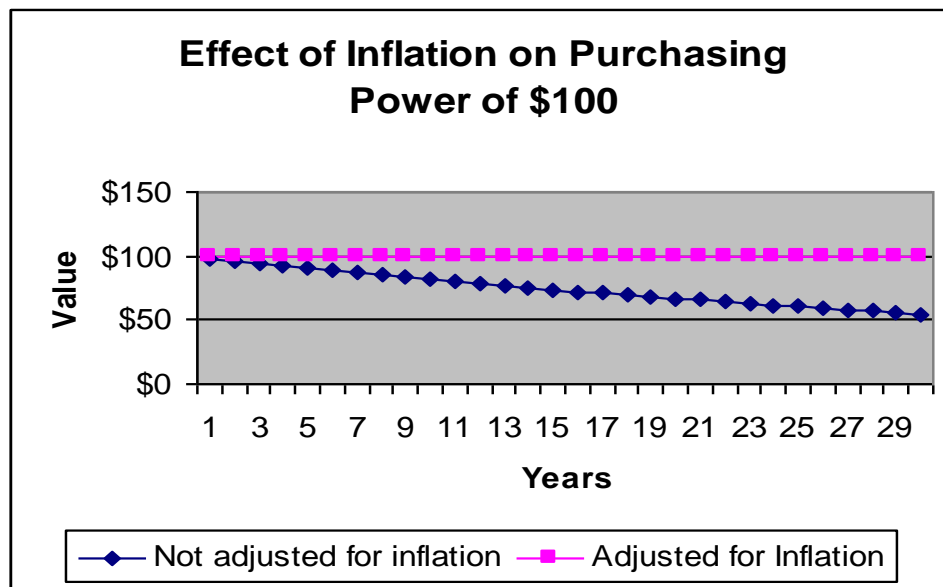
Capital Expenditure Fund

• Capital Expenditure Fund Equity	\$36,922,713
• Land Development Funds	\$21,948,294
• Contaminated Sites Reserve	\$ 235,293
• Parking Reserve	\$ 1,654,035
• Unexpended Capital	\$ 5,844,696

The primary role of the Capital Expenditure Fund is to provide an ongoing stream of funding to the City's non-utility portion of the Capital Budget (general reserve portion) annually. The general reserve portion of the Capital Budget is funded annually by SPC Franchise Fees, land development profits, Capital Expenditure Fund Investment Income, Federal and Provincial Grant Funding. Investment income generated for the general reserve portion of the Capital Budget comes from all of the monies in the Capital Expenditure Fund with the exception of the hospital levy reserve.

The Capital Expenditure Fund Equity is a self-sustaining reserve fund in that the monies in the fund are allowed to grow at the rate of inflation while the remaining interest is used to fund a portion of the annual Capital Budget. The Capital Expenditure Fund Equity remains a self-sustaining reserve fund and maintains its income generating power by only allowing the real interest portion of interest earnings to flow to the general reserve to be spent each year. The inflationary component is left in the Capital Expenditure Fund equity to provide a hedge against inflation and to keep the purchasing power of the investment contribution to the Capital Expenditure Fund at a constant level.

The table below shows what happens to the Capital Expenditure Funds' purchasing power if the inflationary component of investment income is not reinvested in the equity of the reserve. As can be seen from the table below in a period of only 30 years at a modest inflation rate of 2.0% annually, the purchasing power of \$100 is reduced by almost 50%. This is the same thing that would happen to the purchasing power of the interest generated by the Capital Expenditure Fund Equity which is used to finance the General Reserve portion of the Capital Budget.



The City's current practice of reinvesting the inflationary component of the investment income earned on the Capital Expenditure Fund has allowed the purchasing power of the investment earnings to be maintained. A reversal of this practice would show a short-term increase in investment earnings, followed by a steady and unending drop-off in the purchasing power of that investment income. Although the benefit of such a practice is long-term, it is certainly one that the City of Moose Jaw is benefiting from today as the capital reserves would not be at the level they are without this practice having been in place for many years.

The City has been criticized for the growth of its Capital Expenditure Fund reserves. It is important to realize this growth is the result of a portion of the interest earnings being kept to offset the impact of inflation. In real dollar terms, the reserve portion of the Capital Expenditure Fund Equity does not grow; however, in nominal terms it does grow each year to offset the loss of purchasing power due to inflation.

A secondary role of the Capital Expenditure Fund is to provide financing for land development. In this role, the Capital Expenditure Fund initially provides the financing for land development and then over a period of time, receives the proceeds of land sales back to it to repay the monies financed. Profits from land development and investment income flow into the Capital Budget to fund infrastructure renewal.

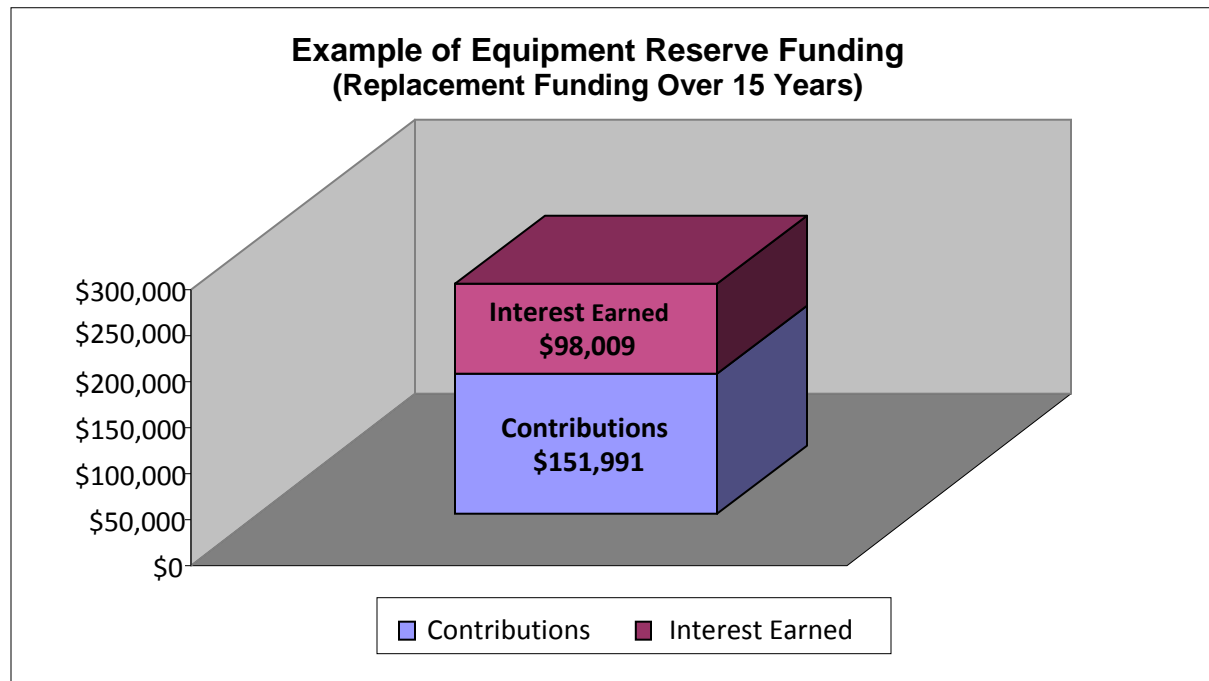
The Capital Expenditure Fund contains a reserve for contaminated site remediation as required by Public Sector Accounting standards. The City has three identified contaminated sites and this reserve was established to provide funding to remediate at some point.

The Capital Expenditure Fund also contains a Parking Reserve which has received proceeds over the years from the sale of City-owned parking lots. The reserve was established to fund future City parking initiatives.

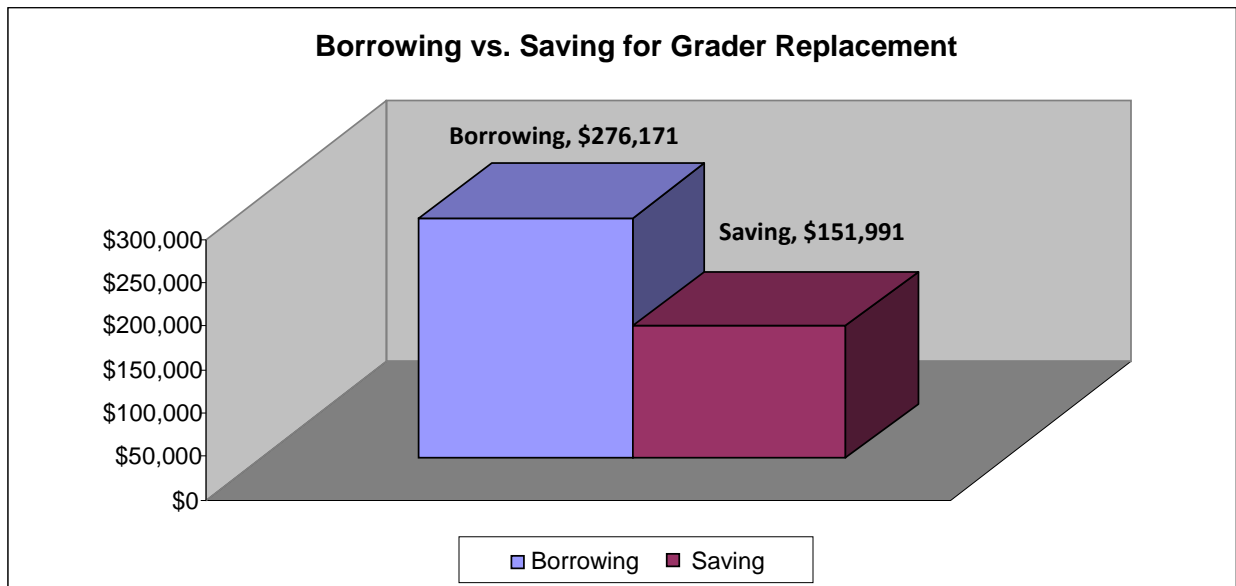
Equipment Reserve (\$27,765,329)

The Equipment Reserve Fund's purpose is to provide the funding necessary to replace the City's fleet of equipment which totals approximately \$42,000,000 in value. Each item of equipment is depreciated over its expected life such that sufficient funds will be available to purchase a new piece of equipment at that time. Funding for equipment replacement consists of a depreciation component funded from either the Operating or Capital Budget (depending on where the item is used) and the interest earned on the funds accumulated over the life of the asset. The end result is sufficient funds are in place to purchase a new unit at the end of its life.

In 2018 there was \$2,700,000 in depreciation contributed to the equipment reserve and \$740,000 in interest earned by the reserve. Reserve expenditures vary depending on equipment needs and range from an estimated \$5,500,000 in 2019 to 1,200,000 in 2022. On average the reserve would spend close to the amount taken in with the only growth coming from increased equipment values. The ability of the equipment reserve to earn and accumulate interest significantly reduces the overall contribution for equipment replacement. The chart below shows an example of a motor grader with a 15 year life and the amount of depreciation contributed and the amount of interest earned (at 6%) to be able to fund its replacement cost of \$250,000. In this particular case, approximately 40% of the contribution towards the replacement in 15 years comes from interest earned.



If interest was not earned on these monies, it would be necessary to collect these monies from additional depreciation contributions. On top of this, many communities do not have any type of reserve system so when it comes time to replace equipment, it is necessary to borrow to be able to finance the replacement of an equipment item. The chart below illustrates the cost of borrowing to replace an equipment item versus the City's equipment reserve system. As can be seen from the chart, the benefit of the City's equipment reserve system is very significant.



The equipment reserve also contains control accounts which collect excess monies from equipment replacement. These accounts are intended to act as a buffer when too little or too much depreciation has been collected over the life of a piece of equipment. Excess depreciation is also used to fund new equipment items such as the recent funding of the automated garbage collection system which was partially funded from excess control account monies.

Since there are a number of variables to equipment replacement such as total life and replacement value, it is not unusual to come up with too little or too much depreciation on an item of equipment. This excess or shortfall ends up in the control account of each department's equipment reserve account. The control account is normally used to fund any shortfalls in equipment purchases and new equipment purchases and generally the excesses and shortfalls even out over time.

The equipment reserve is fully funded at \$27,765,329. At the fully funded level, all pieces of equipment have the correct amount of funding allocated to them such that full replacement funding will be in place when they are scheduled to be replaced.

If the City didn't fully fund replacement or as an example, decided to use \$5,000,000 of the \$27,765,000 accumulated for another purpose, it would result in a shortfall in annual investment earnings that form part of the funding for equipment replacement.

For example, \$5,000,000 earning 6% interest will contribute \$300,000 annually to replacement funding. The end result of utilizing some of the reserve funding is that you would have a shortfall in replacement funding when it comes time to replace equipment. If this position persisted over time, the shortfall would become very significant.

Example:		<u>Lost Interest</u>
Yr. 1	5,000,000	300,000
Yr. 2	5,300,000	318,000
Yr. 3	5,618,000	337,080
Yr. 4	5,955,080	357,305
Yr. 5	6,312,385	378,743
Yr. 6	6,691,128	401,468
Yr. 7	7,092,596	425,556

As the example shows, you would over a period of time, use up additional equipment reserve monies funding the annual interest shortfall. At some point, this would need to be funded either from additional contributions, capital or borrowed. At the end of the day, the tax payers would pay more for equipment replacement.

General Revenue Fund

The General Revenue Fund is the main operating fund for the City of Moose Jaw and is the home of the Operating Budget revenue and expenditure accounts and what is commonly referred to as the Operating Budget. Other than this intended purpose, the General Revenue Fund has over time become home to a number of smaller reserves of monies held for specific City purposes. A brief listing of these reserves that exist within the General Revenue Fund are detailed below:

Housing Reserve (\$999,092) – Setup by City Council to fund future City share of housing projects.

Uncompleted Works (\$1,517,115) – Monies are reserved from year-to-year for uncompleted works.

City of Moose Jaw

GENERAL REVENUE FUND ACCUMULATED SURPLUS COMMITMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Schedule "4"

	Balance Dec. 31, 2017 \$	Additions in 2018 \$	Deductions in 2018 \$	Balance Dec 31, 2018 \$
BUDGETARY ITEMS				
Accounts Receivable Project	19,200	-	19,200	-
Arbitration Expenses	241,846	-	42,800	199,046
Contaminated Site Recovery	50,659	-	-	50,659
Contractual Services - JDE Project	10,000	-	10,000	-
Education Funding	3,662	-	3,662	-
Election Expenses	62,089	-	16,480	45,609
Flood Control	15,000	-	-	15,000
Heritage Projects	23,473	-	-	23,473
Human Resource Claim	4,000	-	-	4,000
Insurance Valuation	8,628	-	-	8,628
Inventory Labelling	2,400	-	-	2,400
Legal Services	110,870	-	110,870	-
Mosquito Control	55,729	-	1,710	54,019
Murals of Moose Jaw	13,466	14,687	13,466	14,687
Parks and Recreation Grant Funding	145,680	124,807	145,680	124,807
Pension Board	19,655	-	19,655	-
Snow Removal	906,943	-	-	906,943
Special Needs Advisory Funding	2,028	3,028	2,028	3,028
Storm Sewer Reserve	15,000	-	-	15,000
Tangible Capital Assets	49,816	-	-	49,816
	<u>1,760,144</u>	<u>142,522</u>	<u>385,551</u>	<u>1,517,115</u>

Police Building Reserve (\$19,819) – To provide for major building repair costs.

Fire Building Reserve (\$33,641) – To provide for major building repair costs.

Facilities Building Reserve (\$398,431) – To provide for major building repair costs.

Accumulated Surplus City (\$1,651,465) – Amounts accumulated from annual operating surpluses. Monies in excess of 5% of Operating Budget can be used for one-time expenditures authorized by Council.

Accumulated Surplus Police (\$1,268,507) – Amounts accumulated from annual operating surpluses.

Landfill Closure Reserve (\$9,767,239) – Monies to fund landfill closure costs.

Residential and Commercial Appeal Reserves (\$11,922) – This is funded from taxation and used to offset appeal losses.

Mosaic Place & Yara Centre (\$557,127) – Monies left over from construction setup in reserve for future major repairs by City Council.

Supp Pension Reserve (\$2,431) – Reserve to fund pension funding above CRA limits.

Traffic Safety Reserve (\$526,676) – Holds monies generated from automated speed enforcement that can be used for safety initiatives.

Columbarium Fund

The Columbarium Fund is funded from sales from crematorium niches. The intent of the monies retained in the fund is to provide for perpetual care of the niches and capital replacement.

Perpetual Care (\$92,981)

Provides funding for ongoing perpetual care.

Crematorium Building Reserve (\$117,888)

This reserve is funded from lease revenues for the chapel and crematorium with funds intended to provide for major repair.

Outdoor Columbarium Reserve (\$41,311)

Provides for funding for expansion of Columbarium.

Cemetery Deferred Revenue Fund (\$1,219,616)

The Cemetery Deferred Revenue Fund contains monies prepaid by cemetery lot purchasers for opening and closing services. These monies are utilized to fund the Operating Budget expenditures related to the provision of these services.

Employees Retirement Fund (\$118,891)

The Employees Retirement Fund provides for the payment of sick pay and service payouts for employees per provisions of the City's Collective Agreements. Funding from this reserve is derived from an annual contribution made from the operating fund and interest earnings.

Employees LTD and Death Benefit Fund (\$1,076,323)

The Collective Bargaining Agreement with the Moose Jaw Fire Association calls for a death benefit equal to 70% of the salary earned at the time of death. The City is required to guarantee a payment of these monies subject to the claim being accepted by the Worker's Compensation Board. The benefit will not exceed 20 years or normal retirement date of the employee. Amounts received from Worker's Compensation, City Insurance Plan, Canada Pension Plan, etc. is deducted from the amount owed by the City of Moose Jaw. There has been one claim made in the past from 1978 to 1993 which resulted in a substantial annual payment over this period of time. The intent of the monies accumulated in this fund is to provide for any future payouts that may occur.

Flood Prone Property Acquisition Fund (\$68,095)

The Flood Prone Acquisition Fund was created to provide a source of funding for acquisition of properties within the Moose Jaw River Valley. The monies in the fund were generated from annual contributions from the Capital Budget and interest earnings. The acquisition program was discontinued in 2016.

Perpetual Care Fund (\$2,131,446)

The Cemeteries Act requires the City to have a Perpetual Care Fund where funds charged for perpetual care are maintained and interest earnings are used for ongoing perpetual care.

Snowbirds' Scholarship Fund (\$9,211)

This fund provides for an annual scholarship for students who are involved in the cadet program.

Waterworks Reserve Fund (\$13,758,186)

The Waterworks Reserve Fund contains any surplus monies that the Waterworks Utility generates from its regular operations. The monies in this fund are utilized to fund capital requirements of the utility. The current funds are being utilized to fund the Buffalo Pound transmission line and reservoir work. These funds came from borrowing.

Sanitary Sewer Reserve Fund (\$6,294,066)

The Sanitary Sewer Reserve Fund contains any surplus monies that the Sanitary Sewer Utility generates from its regular operations. The monies in this fund are utilized to fund all capital requirements of the utility.

Solid Waste Utility (\$202,921)

This fund contains any surplus monies from operations and is used to fund the capital needs of the utility.

Other Funds (\$407,220)

The City holds a number of funds in trust for other operations. As well, the Cemetery Perpetual Care funds are held in trust for the funding of maintenance costs of the City's two cemeteries per *The Cemetery Act*. The other funds in trust include Cultural Centre Trust, Art Museum Trust, Educational Trust and the Petroschuk Trust.

SUMMARY:

The City of Moose Jaw has utilized a pay-as-you-go method of financing regular capital projects since the 1950's. Today the City has an extensive system of reserves which provide specific funds for specific purposes. The majority of the City's reserves exist within the Capital Expenditure Fund and the Equipment Reserve Fund. These two funds provide the funding framework for the City's capital projects from equipment acquisition to roadway replacement, sidewalk rehabilitation and recreation facility renewal.

The City's pay-as-you-go financing method is complimented by debt financing for major projects which need to come to fruition in a timely manner. Examples of two such projects would be the Wastewater Treatment project and the Multiplex project. The reserves described in this document represent a variety of monies that have been set aside over a period of time for very specific purposes. The interest earned on these reserves since their establishment in the 1950's is estimated to be greater than \$120,000,000.

The \$120 million in interest earnings has directly benefited the taxpayers of Moose Jaw by keeping tax rates down over the years. The reserve system and the monies accumulated in them provide an ongoing subsidy to the City's revenues of over \$3,700,000 annually from interest earned on the reserves. The use of pay-as-you-go financing rather than debt financing also provides a framework for municipalities to live within their funding limitations.

The rationale for the City of Moose Jaw's financing and reserve practices is that it is better to save than borrow where possible due to the time value of money. Since the money saved earns interest, it directly benefits the various capital projects it is being accumulated towards. The City's current reserves generate over \$3,700,000 annually and would require a 13% increase in the municipal tax levy to replace. This is an ongoing annual benefit which is significant in an annual amount and even more significant over a period of 20 or 50 years.

The City of Moose Jaw's Reserve funding and financing practices are based upon practices built up over many years and even today continue to meet the current recommended practices for funding of municipal capital needs. If there is one major drawback to the current practices, it is that they have not been formally adopted by City Council. In preparing this report, a number of other communities were surveyed and the majority had established their policies over many years but had also established their reserves and associated policies through City Council bylaw.

The establishment of a bylaw or bylaws to reflect the City's current fiscal policies related to financing and reserves would provide a much more permanent and transparent framework for the financial management of the City's reserves. City Administration would foresee the drafting of such a bylaw which would then be submitted to the Executive Committee of Council for review and amendment prior to proceeding to City Council for final approval.

PRESENTATION

VERBAL & VISUAL: The Director of Financial Services will provide a verbal and visual presentation of the report.

ATTACHMENTS

1. Review of Reserves PowerPoint Presentation.

REPORT APPROVAL

Written by: Brian Acker, B. Comm., CPA, CMA, Director of Financial Services
Reviewed by: Tracy Wittke, Assistant City Clerk
Approved by: Jim Puffalt, City Manager
Approved by: Fraser Tolmie, Mayor

To be completed by the Clerk's Department only.

Presented to Regular Council or Executive Committee on _____.

No. _____ Resolution No. _____

<https://moosejaw.escribemeetings.com/Reports/Review of Reserve Funds.docx>

Report Approval Details

Document Title:	Review of Reserve Funds - EC-2019-0168.docx
Attachments:	- Attach 1 - Review of Reserves PowerPoint Presentation.pdf
Final Approval Date:	Sep 16, 2019

This report and all of its attachments were approved and signed as outlined below:



Tracy Wittke



Jim Puffalt



Fraser Tolmie