

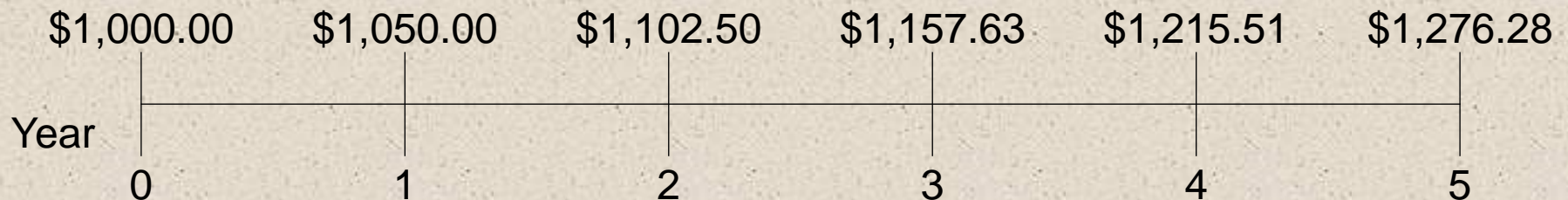
Review of Reserves

INTRODUCTION:

- City of Moose Jaw has held money in reserves dating back to at least the 1950's.
- Reserves are used to fund future expenditures.
- Time Value of Money – Money invested over time will accumulate interest and result in an increase in its value.

Example:

- \$1,000 Invested
- 5% Interest Rate
- Over 5 years



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.

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.

Reserves – Reserves are simply monies set aside for specific purposes such as for future equipment purchases or capital projects.

	Equipment	Capital
	Reserve Fund	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 Equipment Reserve Fund and Capital Expenditure Fund make up the bulk (82%) of the City's reserve funds.
- 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 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 and expenditure programs such as paved roads, sidewalks, etc.

- The City has taken steps to create an Investment Committee and for them to look at reviewing the City’s Investment Policy with an eye to garnering 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.

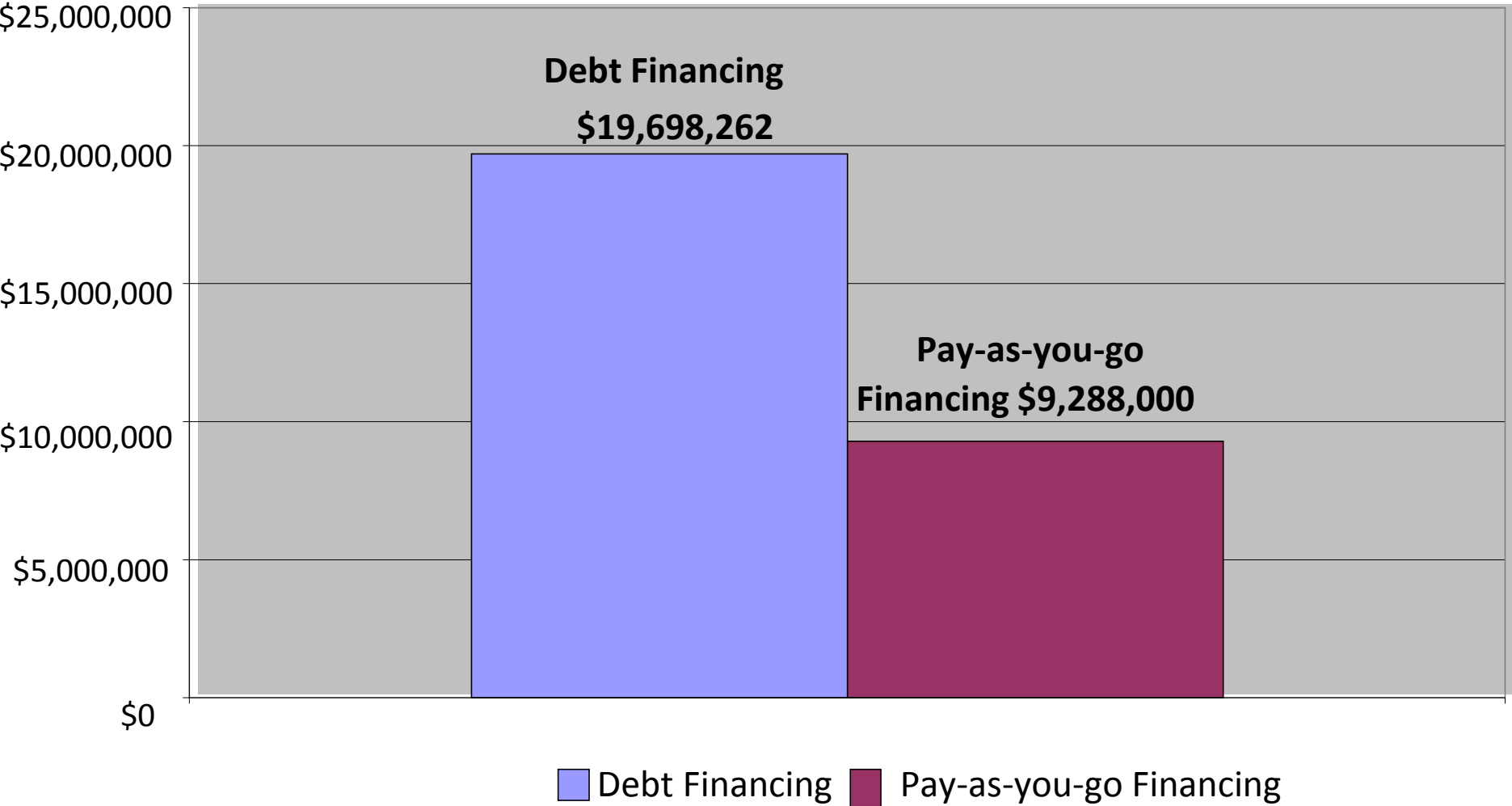
City of Moose Jaw Financing and Reserve Practices

- The City of Moose Jaw has utilized a pay-as-you-go financing philosophy over the years which calls for the expenditures of current revenues or the saving of current revenues in reserves to fund future purchases for all regular and routine capital expenditures.
- The City of Moose Jaw utilizes debt financing for non-routine capital expenditures of an urgent nature or capital projects of very large magnitude.
- The City of Moose Jaw has developed an extensive reserve system which sets aside monies for many specific purposes. Each reserve has a specific purpose and funds are accumulated accordingly.

- 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.
- 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.

Cost of Pay-as-you-go vs Debt Financing
(\$15,000,000 over 15 years)



Long Term Funds

	<u>2018</u>	<u>Drawdowns</u>
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

	<u>2018</u>	<u>Drawdowns</u>
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	\$ 1,654,035	Will be used to fund major parking initiative
	<u>\$ 29,971,694</u>	

Short Term Funds

	<u>2018</u>	<u>Drawdowns</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>	

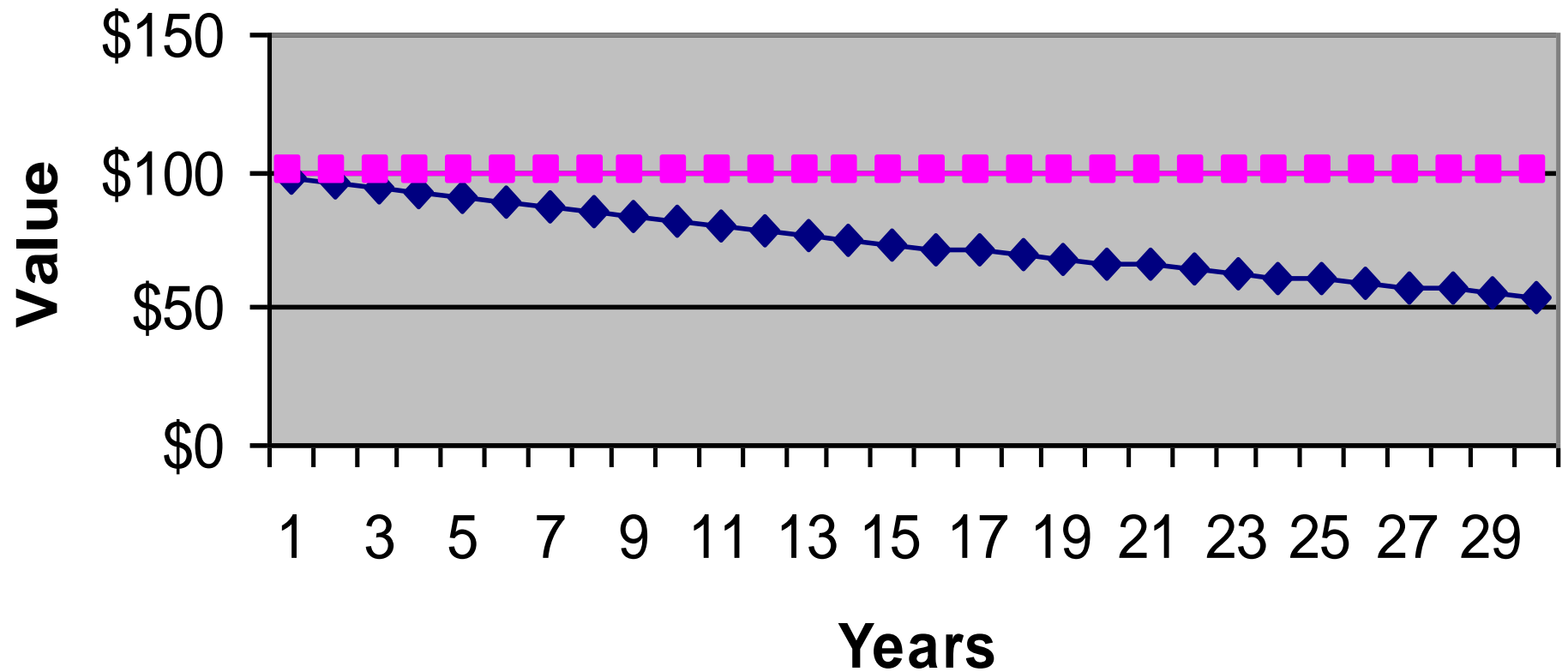
Capital Expenditure Fund

• 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 Capital Expenditure Fund serves a number of purposes for the City of Moose Jaw. The primary role of the 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 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.

Effect of Inflation on Purchasing Power of \$100



—◆— Not adjusted for inflation —■— Adjusted for Inflation

- 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.

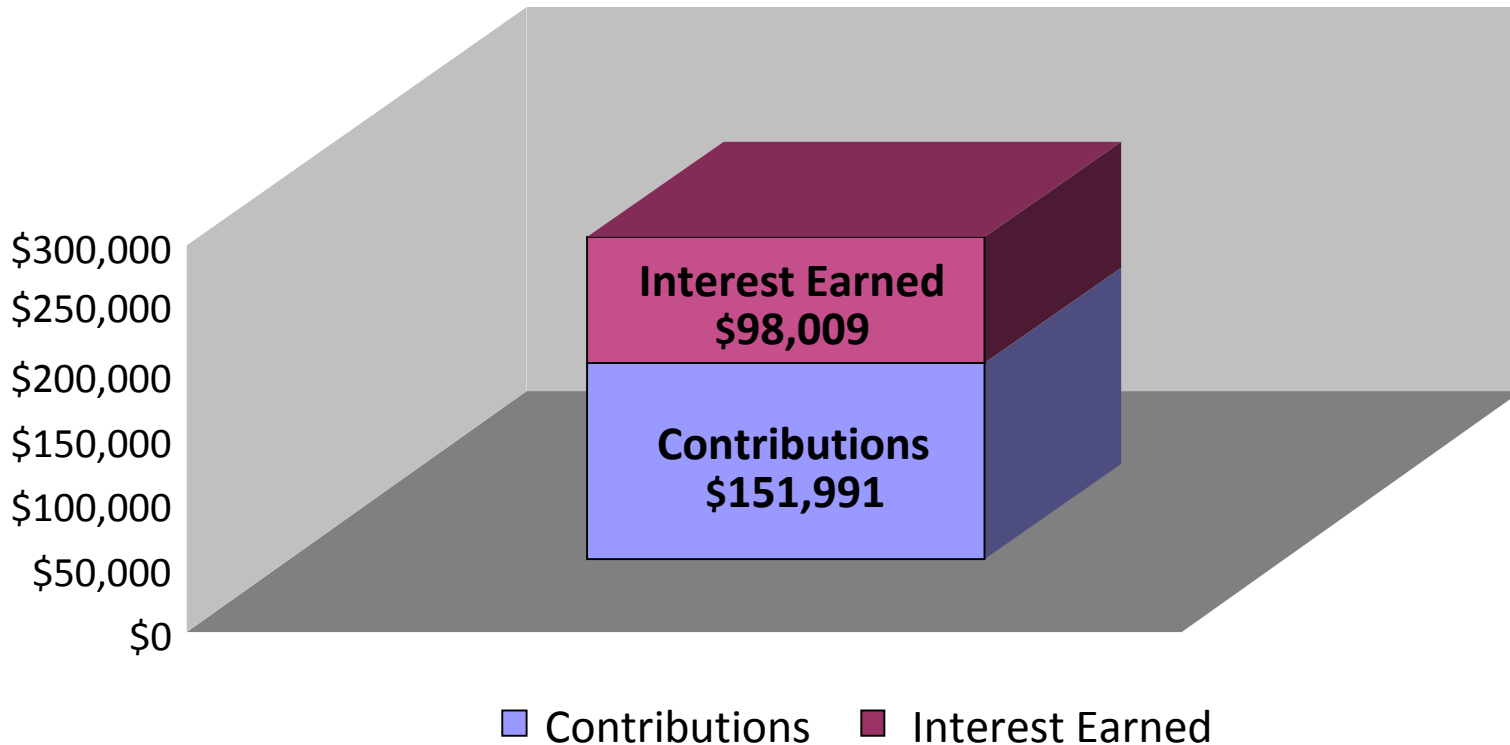
- A secondary role of the Capital Expenditure Fund is to provide financing for land development.
- In this role, the Capital Expenditure Fund initially provides the financing for land development and then over a period of time, receives the proceeds of land sales back to it to repay the monies financed.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

- The Capital Expenditure Fund also 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 Fund

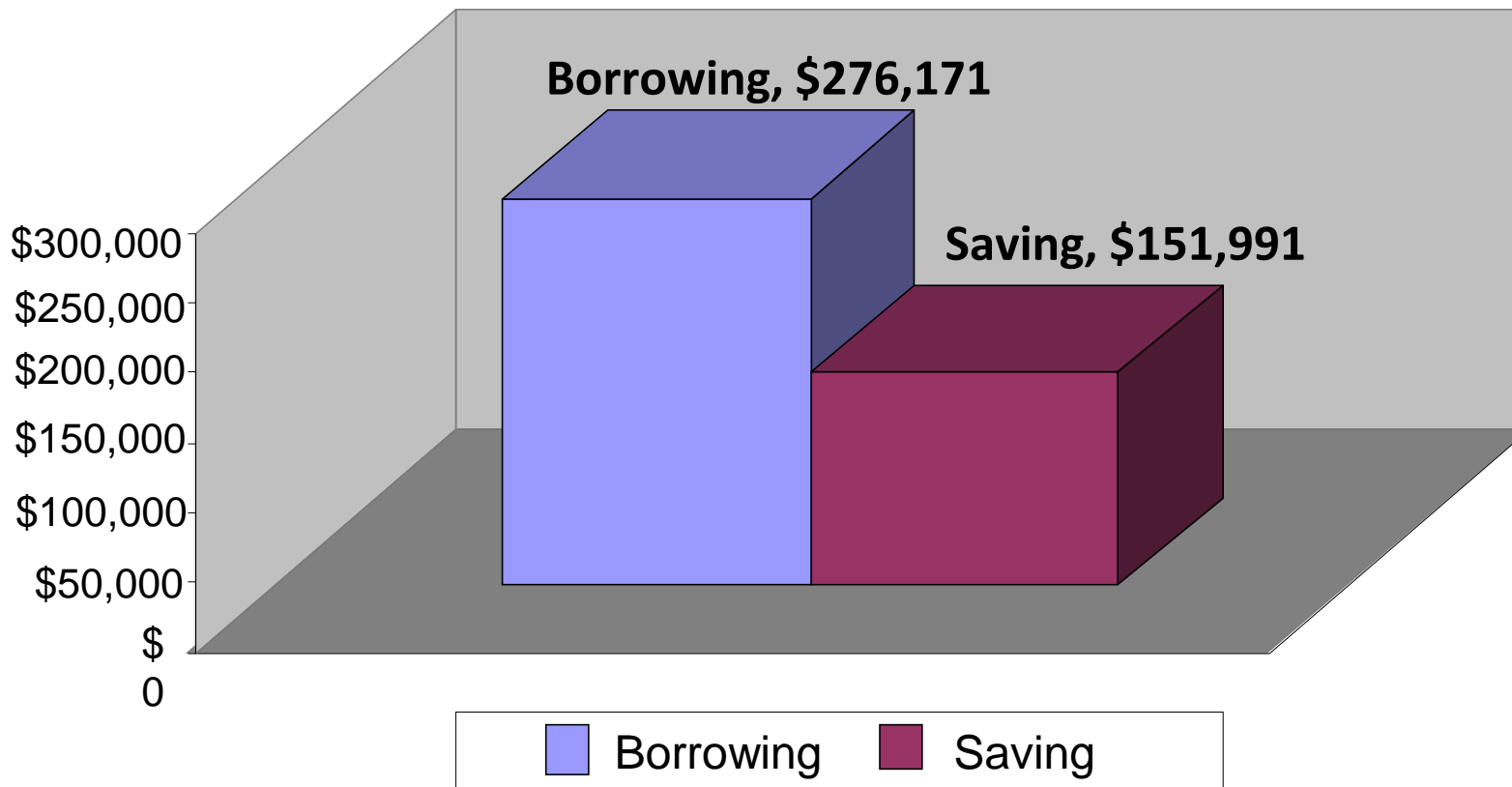
(\$27,765,329)

Example of Equipment Reserve Funding (Replacement Funding Over 15 Years)



- Motor Patrol (Grader) 15 year life
- Interest Earned at 6%
- Approximately \$152,000 from Contributions
- Approximately \$98,000 from Interest Earnings (40%)

Borrowing vs. Saving for Grader Replacement



- If the Equipment Reserve did not exist and one had to borrow:
 - Borrowing cost for a \$250,000 Grader is \$276,171.
 - Cost of reserving monies \$151,991.

What happens if the City were to utilize some of the monies accumulated for Equipment Replacement?

- \$5,000,000 utilized for some other initiative.
- Lost annual interest revenue is \$300,000.
- The annual loss compounds as the interest revenue is not contributed to the reserve.

Example:

Lost Interest

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

- Over time, the use of these funds would erode the Equipment Reserve resulting in less than replacement funding being available to replace equipment.
- This shortfall would ultimately need to be made up by the Citizens of Moose Jaw.

General Revenue Fund

- Contains a number of the City's small reserves.
- 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>

General Revenue Fund (continued)

- 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.

General Revenue Fund (continued)

- 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

- City has had a pay-as-you-go method of financing capital projects since the 1950's.
- Pay-as-you-go financing is complimented by debt financing for major projects that need to come to fruition in a timely manner.
- The reserves generate investment income. This is estimated to be greater than \$120,000,000 since the 1950's.
- This \$120 million has benefited the tax payers of Moose Jaw by keeping taxation down over the years.

- Currently reserves earn over \$3,700,000 annually. This is equivalent to 13 percentage points of taxation.
- The Investment Committee's efforts to enhance the return on reserves by having them actively managed by professionals is targeting a return of \$5,500,000 annually. The equivalent of 19 percentage points of taxation.
- The City's reserve funding and financing practices have been developed over many years.
- These practices should be formalized into bylaw form and adopted by City Council. This will provide a permanent and transparent framework for the management of reserve funding and financing.

Discussion & Questions