

THE CORPORATION OF THE MUNICIPALITY OF MISSISSIPPI MILLS

STAFF REPORT

DATE: April 17, 2024
deferred from the April 9, 2024 meeting

TO: Committee of the Whole

FROM: Kathy Davis, Director of Corporate Services, Treasurer

SUBJECT: Review of Reserves and Reserve Funds

RECOMMENDATION:

THAT Committee of the Whole recommend that Council approve the proposed amendments to Policy FIN-07 Reserves and Reserve Funds, AND THAT Committee of the Whole recommend that Council approve the proposed realignment of Reserves and Reserve Funds as detailed.

BACKGROUND:

During the 2024 Budget process, it was identified that Council would benefit from a more detailed review and report related to the Municipality's reserves and reserve funds. To enable more informed decision making, Council directed staff to bring a staff report to provide such details, as well as recommendations related to the Municipality's reserves. Reserves are an important component of the Municipality's overall financial health and investment structure, and are relied upon regularly to support operations and capital projects during the annual budgeting process.

Staff have conducted a review, and this report summarizes the findings and recommendations. As part of its research, and to support proposed revisions to the Municipality's policy, staff completed a documentation review which included (attached to this report):

1. MFOA Discussion Paper dated December 10, 2021 related to Municipal reserves and reserve funds in Ontario
2. Mississippi Mills Reserves policy FIN-07
3. Reserve continuity schedule as updated for the 2024 budget

The review also included consideration for a renewed mechanism to report opening balances, committed funds, contributions, and reserve balances to Council in summary form with detailed backup. Additionally, staff evaluated the current process for tracking reserves and funds allocated for specific projects, funds spent from those allocations, and remaining balances.

Finally, staff conducted an analysis related to each reserve with a goal of consolidating and simplifying reporting and tracking, ensuring targets are identified and visible, and proposing a plan if the reserve appeared to be over or under funded.

It is noted that in addition to the immediate review of the Municipality's reserves and reserve funds, the Municipality's Asset Management Plan, Long Term Financial Plan, and DC Study update are also in progress and may have future implications for the findings and recommendations in this report. Attention should be given to targets for the different reserves in conjunction with the completion of MM2048 master plans, any applicable rate studies, the Asset Management Plan, and the Long Term Financial Plan.

DISCUSSION:

The discussion is broken into four sections:

1. Policy Review
2. Reserve and Reserve Fund Tracking and Reporting
3. Analysis and Consolidation of Specific Reserves and Reserve Funds
4. Ratios and Reserve Targets

1. Policy Review

Attachment 4 to this report is a marked up version of the proposed amendments to Policy FIN-07 Reserves. Attachment 5 is a clean version of proposed revised Policy FIN-07 Reserves and Reserve Funds for Council's review and consideration.

The research and review conducted by staff included a review of other organizations' policies and procedures. This review, in conjunction with the information in the MFOA Discussion Paper (Attachment 1), and applicable legislation, support this proposal to refine the categorization of the Municipality's reserves.

While the policy as it exists speaks only to Reserves, the recommended changes incorporate Reserve Funds into the policy; this is the norm in other policies that we reviewed and reflects findings in the MFOA Discussion Paper. Based on this information, four changes are proposed.

Proposed Change # 1 – change the name of the policy from Reserve Policy to Reserve and Reserve Fund Policy

Proposed Change # 2 – include reference to Section 417 of the Municipal Act, 2001, S.). 2001, c.25 and amendments thereto

Proposed Change # 3 – expand upon the objective of the policy

Proposed Change # 4 – clarify definitions for the purposes of the policy, for Deferred Revenue, Discretionary Reserve Fund, Obligatory Reserve Fund, Reserve, and Reserve Fund

The current policy is structured to delineate three types of reserves: stabilization reserves, program specific reserves, and capital reserves. For each type of reserve, the purpose, and a description of funding sources, target levels, and uses is described. To augment the information in the policy and provide further clarity, two additional sections are proposed:

Proposed Change # 5 – add a section related to record keeping

Proposed Change # 6 – add a section describing roles and responsibilities for Council, CAO, Clerk, and Treasurer.

The most significant change to the proposed policy relates to adding Reserve Funds. Reserve Funds are different than Reserves, in that they are funds with assets that are segregated and restricted to meet the purpose of the reserve fund, based on statutory requirements or defined liabilities payable in the future. Earnings derived from their investment are generally maintained in the reserve fund.

Reserve Funds are further segregated into Discretionary and Obligatory. An Obligatory Reserve Fund is established by legislation for a specific purpose. The Municipality currently has three Obligatory Reserve Funds: Development Charges, Cash-in-Lieu of Parkland, and Cash-in-Lieu of Parking. A Discretionary Reserve Fund would be approved by by-law and created at the discretion of Council for a designated purpose. The Municipality does not currently have any Discretionary Reserve Funds.

Proposed Change # 7 – add a chart for Reserve Funds describing the same elements as for Reserves, being purpose, description of funding sources, target levels, uses, record keeping, and roles and responsibilities.

A final section is proposed for the revised policy, for Council's consideration, being general procedures to establish, fund, and utilize reserves and reserve funds.

Proposed Change # 8 – Procedure

The current policy required review every five (5) years. The last time the policy was updated was 2011, and because such significant change is proposed, staff would offer that a review in three (3) years could be beneficial for Council in case there are further amendments or other considerations that become evident in the interim.

Proposed Change # 9 – that the review of the policy be conducted every three years as opposed to every five years.

2. Reserves and Reserve Fund Tracking and Reporting

During 2024 Budget deliberations, Council was provided with Attachment 3, a reserve continuity schedule. Because the 2022 audit was not complete, and the 2023 year was under way, projections based on the closing 2022 balances and the projected spending

for 2023 were used to estimate 2024 activity and closing balances. Staff were interested in finding a more reliable mechanism to provide actual, budgeted, and projected balances to Council during the budget process.

Staff reviewed a detailed listing of reserve balances within the capital and program specific reserves, which included historical amounts related to some projects that were complete. Staff were interested therefore in summarizing and consolidating the historical information to provide a meaningful and current state picture of the Municipality's reserves, and committed funds, to Council.

A revised tracking mechanism was developed as a prototype to test whether the objectives of a) facilitating the calculation of accurate projections, b) summarizing reserve information by program, and c) identifying funds that had been committed and were available, could be met with one tool. The hope was that at-a-glance reporting could be available, with supporting details maintained in one place.

Attachment 6 is a reserve summary, which includes the cover page of the revised tracker, and detailed reserve listings, to be discussed in the next section. The summary depicts the type of reserve as referenced in the proposed policy, and the target for the reserve (if established). Note that the summary does not include Development Charges, which is an obligatory Reserve Fund, but is managed and reported on separately and in accordance with current legislation.

Staff would welcome feedback from Council related to the summary, presentation, and information included to best support Council's decision making with respect to Reserves and Reserve Funds.

3. Analysis and Consolidation of Specific Reserves and Reserve Funds

To conduct a consistent and reliable analysis related to each of the Municipality's Reserves, the approach was as follows:

- Review the 2022 audited closing balance, 2023 budgeted activity, and 2024 budgeted activity to determine the projected closing balance at the end of 2024
- Review funds allocated within each reserve to confirm whether the funds are still needed or whether they can be made available for future spending, and prepare recommendations for consolidation into the available balance. Assumptions in this exercise considered that
 - Projects approved before 2022 are complete
 - Funds identified as being added to reserves for a specific purpose would require Council's direction to expend
 - Funds known to have been approved by Council motion to be held in reserves should be noted as such so that the amount remains available until spent
- Determine the committed and available balance of funds as of the end of 2024, and whether the balance meets the applied target (where applicable)

- Make recommendations for consideration in future Council meetings and/or in the 2025 budget process

For simplicity, aggregate balances are reported below, and detail is available in Attachment 6 should Council wish to refer to items in the different reserve accounts. In Attachment 6, staff have noted where balances are held in reserves for completed projects. In these instances, staff recommends that the balances being held for these completed projects be released and consolidated back into available funds in that particular reserve. These recommendations are identified on the applicable worksheets in the last two columns. The accounts where consolidation is recommended are noted below with an asterisk*.

Working Capital

The Working Capital / Stabilization Reserve has been \$1.1M for a number of years. In the policy, this reserve has a target balance of 15% of revenues, which in 2024 would be \$2,036,037. To ensure alignment with policy, Council can consider the options of either a) decreasing the target level in the policy, b) increasing the reserve balance through contributions in the annual budgeting process, or c) reallocating funds from other reserves into this reserve to meet the target.

Capital / General*

This reserve does not have a set target, however, if the intent is to maintain reserves that will support the regular replacement of assets, depreciation would be a reasonable indicator of the investment required to renew assets. As of the end of 2022, the Municipality's accumulated depreciation amounted to \$54M. As we progress through the MM2048 Master Plans, space needs analysis, asset management plan, and long term financial plan, staff can bring more information and recommendations to Council to support appropriate targets and planning to ensure that reserves are adequate. Borrowing to support the renewal of assets is also a consideration which could reduce the target for reserves and support a structure whereby those benefiting from any investments in capital would be paying for the investments. The reserve has a projected 2024 balance of \$5.7M. This includes approved projects for 2022, 2023, and 2024 for a total of \$584K.

Contingency / General Admin*

This reserve has a balance of \$337,727. There have been no additions to or draws from this reserve since 2022 and there are no projects allocated from this reserve.

Administration*

The Administration reserve supports maintenance and upkeep of the Municipal Office and the Almonte Old Town Hall. There is a projected balance of \$93,549 at the end of 2024.

Police

This reserve has a balance of \$247,194. There have been no additions to or draws from this reserve since 2022 and there are no projects allocated from this reserve.

Building Department*

The projected balance at the end of 2024 is \$591,442. This account has historically been used to accumulate annual surpluses and deficits from operations of the Building Department. The Municipality's auditor, KPMG, has provided clarification that any surplus generated by the Building Department should be recorded on the Financial Statements as deferred revenue. It is recommended therefore that this reserve be drawn down to cover annual deficits for the building department when needed, and closed when it has been fully utilized. In the future, any surplus funds realized through general operations of the department should be recognized as deferred revenue, which is a liability for the Municipality, and represents funds that must be used for the specific purpose for which they were collected, in the future.

Accessibility

This reserve has a balance of \$1,670. There have been no additions to or draws from this reserve since 2022 and there are no projects allocated from this reserve.

Public Works – Equipment Replacement

This reserve has a balance of \$34,289. There have been no additions to or draws from this reserve since 2022 and there are no projects allocated from this reserve.

Public Works – Roads Department*

Considering the projects approved from this reserve, the projected 2024 year end balance is \$3,031. Deposits to the reserve have lagged against projects approved for spending. Council may want to consider whether funds can be reallocated from the Capital / General reserve in the future to support infrastructure projects related to Roads.

Public Works – Winter Control

This reserve has a balance of \$97,620. There have been no budgeted additions to or draws from this reserve since 2022 and there are no projects allocated from this reserve. It is recommended that a review of this balance and consideration for inflation be completed for the 2025 budget.

Waste Management

The projected 2024 year-end balance in this reserve is \$975,325. Annual surpluses and deficits from operations related to Waste Management services are allocated to this reserve account.

Septage

This reserve has a balance of \$396,292. There have been no budgeted additions to or draws from this reserve in 2024 and there are no projects allocated from this reserve.

Childcare*

The projected 2024 year end balance is \$435,831. This reserve is used to fund capital and projects for the Municipality's childcare services.

Recreation*

Approved projects have exceeded the available balance in this reserve. Should all projects be completed and all allocated funds spent by the end of 2024, the reserve will have a negative balance of (\$196,778). Council may want to consider whether funds can be reallocated from the Capital / General reserve to support infrastructure projects related to Recreation.

There is an amount of \$35,000 included in the allocations specific to the Augusta Street Splash Pad, which is held further to Council motion.

Planning*

The projected 2024 year end balance is \$14,659. This reserve is used to fund capital and projects for the Municipality's planning department.

Economic Development*

This reserve has been used for multiple purposes. In addition to approved budgeted projects and capital items, the account has been used to collect funds for future spending at Council's direction. The raised funds being held in the reserve include:

Variety Show	\$2,360
Nudes Calendar	\$2,748
Orchestra Profits	\$1,215
Trash Dance	\$1,490
Active Transportation Summit	\$2,488
Total	\$10,301

In addition, proceeds from the sale of real estate has been held in this account:

Adelaide / Menzies sale	\$1,145,630
Registry Office (50%)	\$ 383,809
Total	\$1,530,439

The current Reserve policy states that “Net proceeds from the sale of assets” should be deposited to capital reserves. It is recommended that Council consider the use of these funds and provide direction to staff to ensure that they are directed toward appropriate projects or capital projects.

Ticket Surcharge

The 2022 closing balance was \$15,231. Note that ticket surcharge revenue of \$10,647 from 2022 was recorded in error with the operational surplus at year end and will be reallocated in 2023, bringing the balance to \$25,878.

Cash in Lieu of Parkland

This is an obligatory Reserve Fund. The 2022 closing balance was \$121,779. Note that revenue of \$28,467 from 2022 was recorded in error with the operational surplus at year end and will be reallocated in 2023, bringing the balance to \$150,246. The requirement for Cash in Lieu of Parkland is that a minimum of 60% of parkland reserves be spent each year, and this was not considered in the 2024 budget. As such, it is recommended that projects amounting to at least \$90,148 be considered and approved for 2024 and that the 2025 budget process include consideration for spending as required.

Cash in Lieu of Parking.

This is an obligatory Reserve Fund. The 2022 closing balance was \$55,738. Note that revenue of \$6,000 from 2022 was recorded in error with the operational surplus at year end and will be reallocated in 2023, bringing the balance to \$61,738.

Water and Sewer

After the approval of multiple projects in 2023 and 2024, the projected balance in this reserve at the end of 2024 is \$1,440,052. Operating surpluses and deficits for water and sewer are recorded to this account at the end of each fiscal year, in addition to capital projects and approved contributions to the reserve.

Fire Department*

The reserve is projected to have a balance of \$117,298 at the end of 2024. This reserve is used to fund capital and other purchases for the Fire Department.

Library*

This reserve is projected to have a balance of \$60,677 at the end of 2024. It is used to facilitate building repairs and maintenance and other capital projects for the library.

Ramsay & Pakenham

Three historical reserve accounts, per Council direction, have been collapsed into the Municipality's general capital reserve, for a total of \$2,908.

Business Park / Industrial Development

At the end of 2022, the balance in this reserve was \$1,173,735.

The total costs for the Business Park as of the end of 2023 are projected to be \$1,870,142, of which \$935,071 will be funded by the Economic Ontario Development Fund grant which was secured for this purpose, and the remainder from the reserve. The projected balance at the end of 2023 is therefore \$238,664.

Reserve and Reserve Fund Summary

In summary, Attachment 6 provides a full listing of 2022 balances and 2023 and 2024 projected activity for each reserve detailed above.

	Budgeted Activity	Closing Balance
2022		\$20,068,263
2023	(\$1,071,372)	\$18,996,890
2024	(\$3,433,648)	\$15,125,345

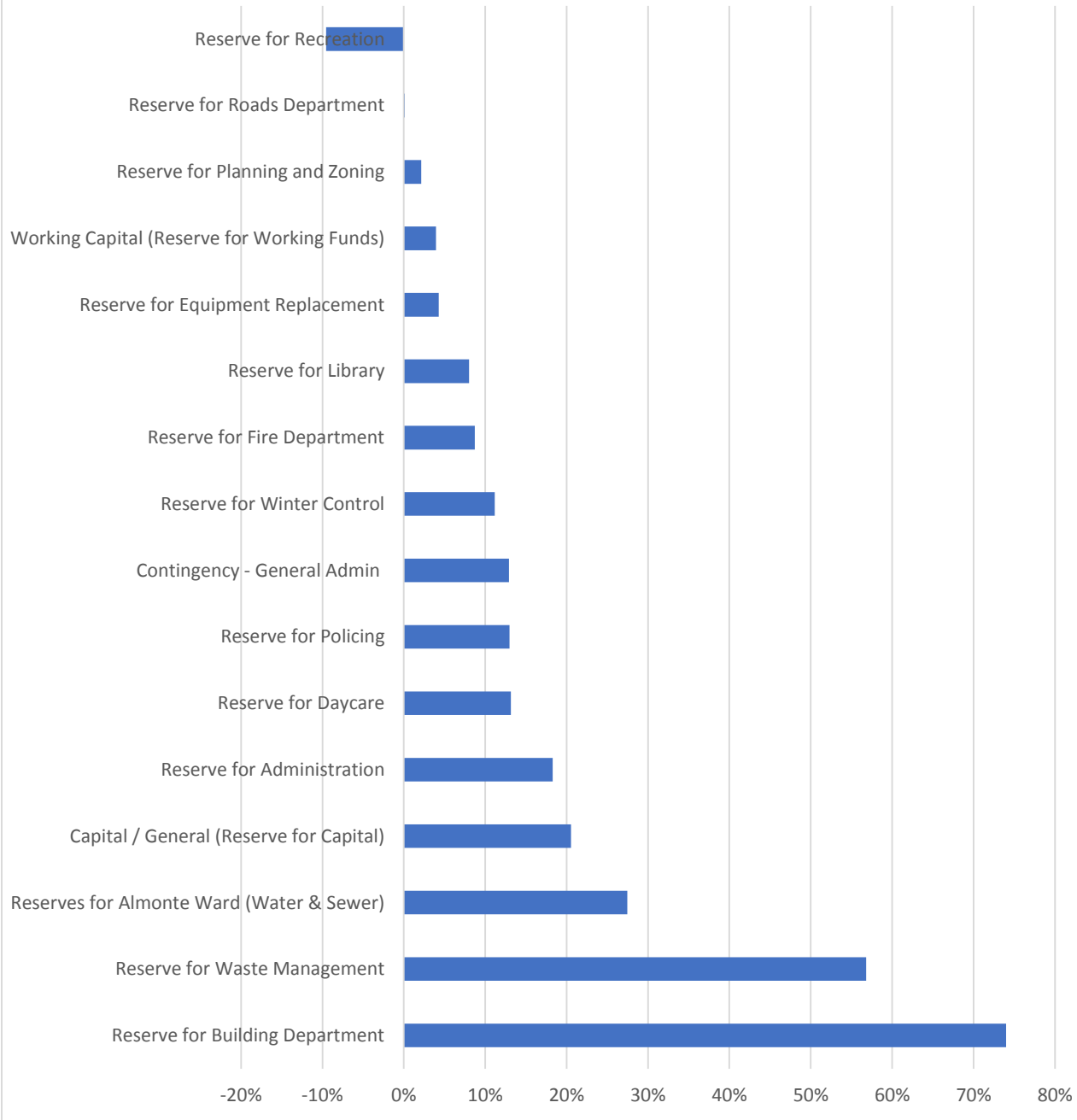
4. Ratios and Reserve Targets

2022 Financial Information Return (FIR) data in the table below depicts the Municipality's growth in reserves as a % of municipal expenses over 5 years, as well as comparisons to like Municipalities. The Ministry considers anything over 20% as being low risk. While the Municipality has demonstrated a commitment to ensuring that adequate reserves are on hand to meet future funding needs, consideration for inflation and growth in the years to come will be important in future budget deliberations.

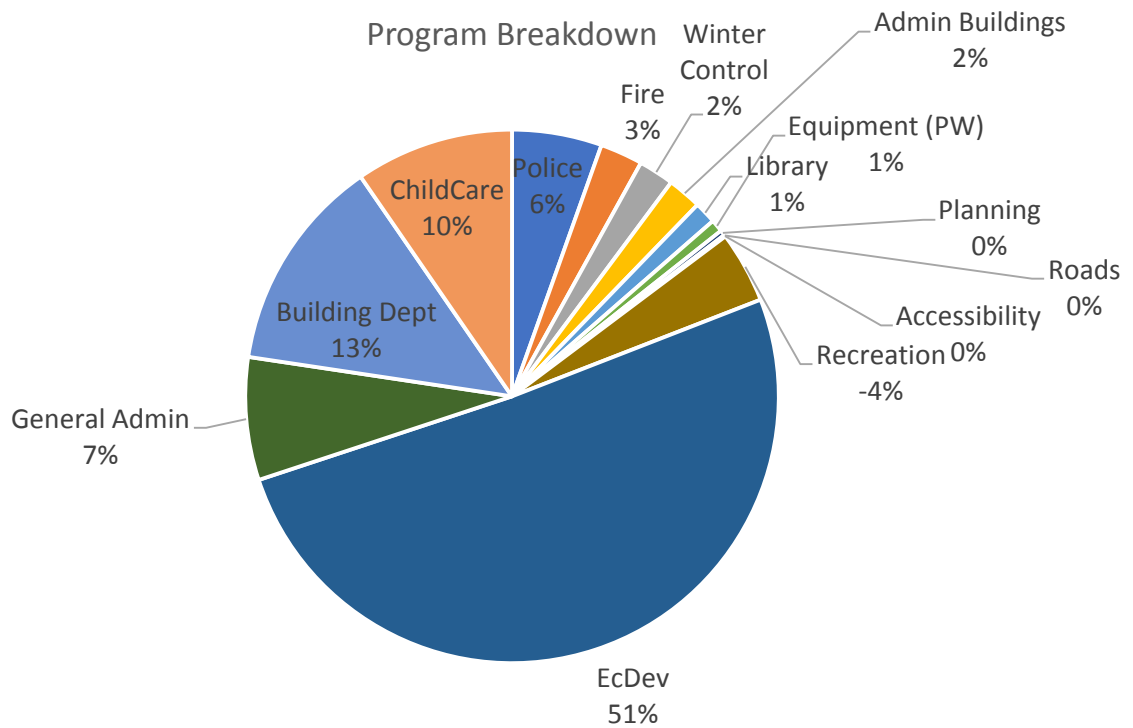
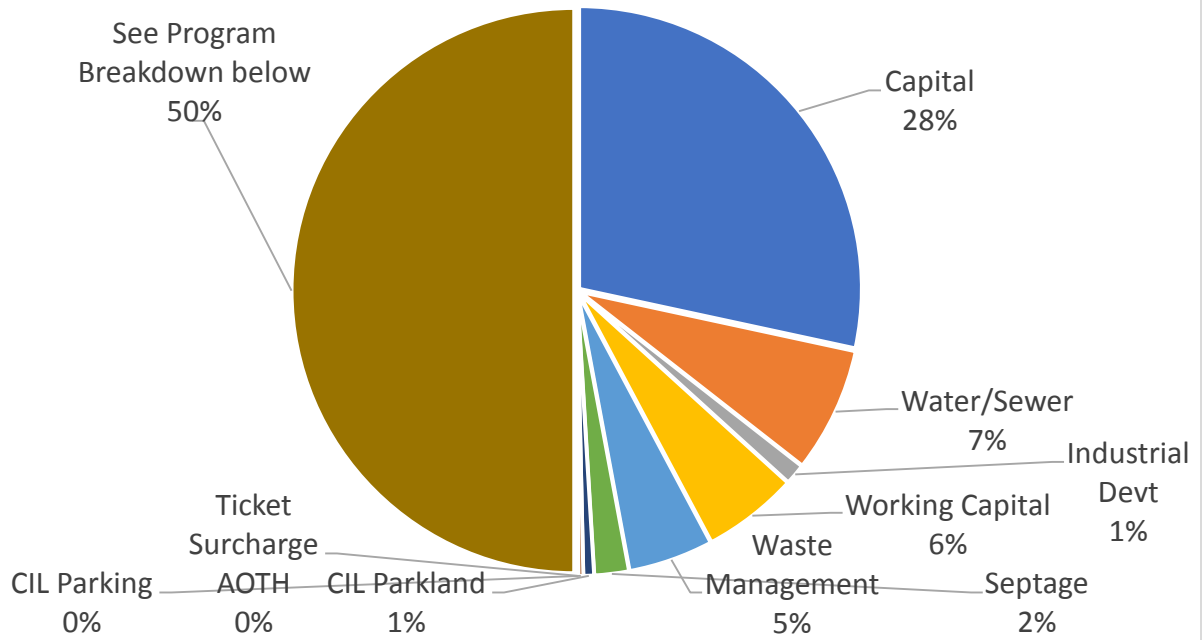
	Actuals	South - LT - Counties - Rural		Level of Risk
		Median	Average	
2018	45.9%	64.0%	71.5%	LOW
2019	56.2%	73.3%	78.8%	LOW
2020	74.3%	82.4%	87.5%	LOW
2021	87.1%	84.3%	90.7%	LOW
2022	85.3%	83.5%	90.2%	LOW

While this information in aggregate shows a positive trend, future growth and the needs of different programs should be considered in more detail. The first chart below shows 2024 projected reserve balances as a percentage of annual operating budgets for the Municipality's different programs. The second charts show overall projected reserve balances to the end of 2024, as a percentage of the \$15M projected reserve balance.

Reserves as a % of Operating Budget



Reserves - Projected Balances



OPTIONS:

Option A: THAT Committee of the Whole recommends that Council approve the proposed amendments to Policy FIN-07 Reserves and Reserve Funds, AND THAT Committee of the Whole recommends that Council direct staff to consolidate and update Reserves and Reserve funds as detailed in Attachment 6 to this report.

Option B: THAT Committee of the Whole recommend that Council approve the proposed amendments to Policy FIN-07 and request further information and another report related to Reserves and Reserve Funds, as highlighted in discussion.

OPTION C: THAT Committee of the Whole does not recommend that Council approve the proposed amendments to Policy FIN-07 but request alternative amendments, and request further information and another report related to Reserves and Reserve Funds, as highlighted in discussion.

FINANCIAL IMPLICATIONS:

This discussion related to the health of the Municipality's reserves. While there are no direct financial implications, this information can help support future decision making.

STRATEGIC PLAN

This report supports Priority 4, Sustainable Financial Stewardship. As Council considers MM2048 planning, Master Plans, Asset Management Plans, and Long Term Financial Plans, reserve balances and financial health will be an important consideration.

PUBLIC ENGAGEMENT

No public engagement is required at this time, however, it is suggested that 2025 Budget Spotlights include information about reserves.

SUMMARY:

This report discusses the Municipality's current Reserve policy and recommends changes to that policy to provide greater clarification and to include Reserve Funds.

The report shares information with Council about the tracking mechanisms and proposed changes to these which will help make tracking and reporting related to reserves more efficient.

An individual summary is then provided related to each of the Municipality's reserves and reserve funds (with the exception of Development Charges), and where applicable, additional information and considerations for the 2025 budget are included.

Finally an analysis of the projected reserves and funds to the end of 2024 is included.

This report is provided for information purposes at this time, but may serve as a reference in 2025 budget discussions and long term financial planning.

Respectfully submitted by,

Reviewed by:

Kathy Davis,
Director of Corporate Services, Treasurer

Name,
Title

ATTACHMENTS:

1. MFOA Discussion Paper dated December 10, 2021
2. Mississippi Mills Reserves policy FIN-07
3. Reserve continuity schedule as updated for the 2024 budget
4. Proposed Policy FIN-07 with amendments
5. Proposed Policy FIN-07
6. Reserve Summary and detailed schedules