

Overview of Reserves and Reserve Funds



London
CANADA

Reserves and Reserve Funds

What are Reserves and Reserve Funds?

- A **Reserve Fund** is an amount set aside for a specific purpose by authority of a bylaw (or as required by legislation) that is carried from year to year unless consumed or formally closed. The Industrial Land Reserve Fund, for example, is maintained year over year to fund unpredictable opportunities to purchase industrial land. Cash placed in a reserve fund draws interest.
- **Reserves** are also amounts carried from year to year, but reserves are set up by resolution and are used mainly as cushions against operating budget contingencies or unforeseen events. The Operating Budget Contingency Reserve is simply an amount that can be used to provide a buffer against an unusual operating budget expense such as sudden increased costs resulting from caseload spikes.

What is the Purpose of Reserves and Reserve Funds?

- Funds are accumulated in advance of a large projected project or contingency to smooth the impact on the annual operating budget (e.g. New Major Facilities Reserve Fund, Operating Budget Contingency Reserve).
- To provide for 'intergenerational equity' (e.g. the next sanitary landfill site will likely cost a lot more than the existing site, so building a reserve fund now will ease the burden for future ratepayers). Reserve funds are best used to provide equity when current ratepayers are enjoying a 'benefit'. Debt is best used to spread the burden of an enhancement.
- To comply with the law, as some reserve funds are obligatory (e.g. Development Charge – City Services Reserve Funds).
- The aggregation of reserves and reserve funds saves borrowing costs by providing a cushion against dips in cash flow and a source of interim financing for capital projects. The total level of reserves and reserve funds are one of the factors considered when the City's credit is evaluated on an annual basis (level of liquidity).
- To save for unfunded liabilities that will be required to be paid out at future dates (e.g. Self Insurance Reserve Fund).

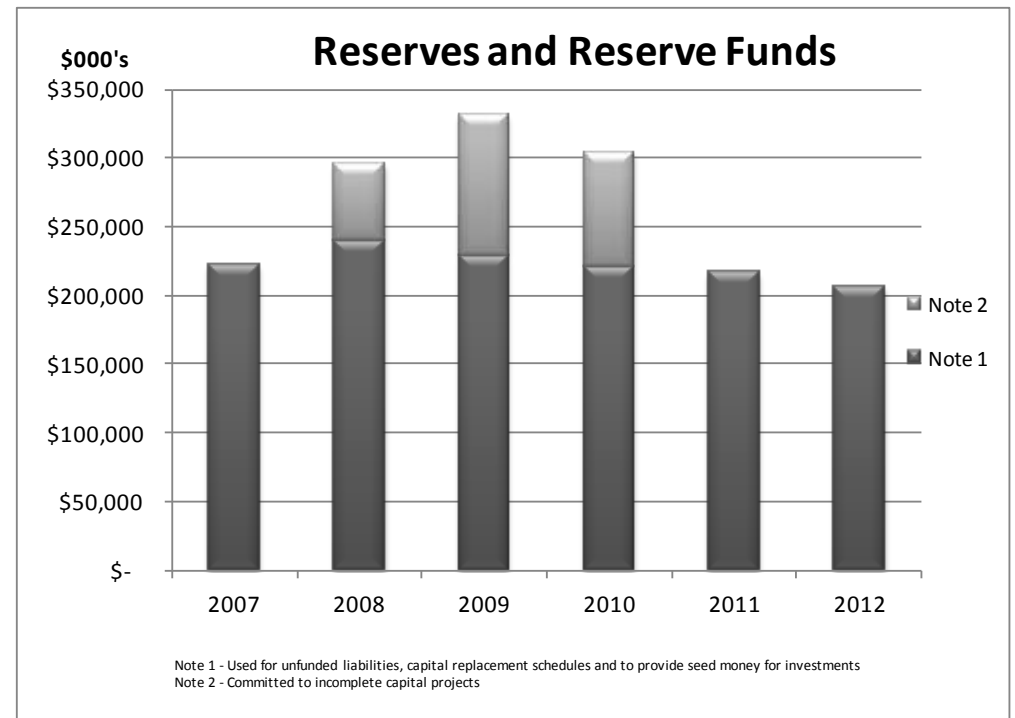
Overview of Reserves and Reserve Fund Principles

Several principles provide guidance when considering the creation of, contributions to, draw downs from, and dissolution of reserves and reserve funds:

- Reserves and reserve funds should, for the most part, only be set up in advance of a specific major expenditure or contingency. For example, if a fund is simply used to flow through revenues to match a steady expense, it's a waste of administrative effort.
- Reserve funds should only be created with a specific purpose in mind; however, it is prudent to review the aggregate total of reserves and reserve funds against internal and external benchmarks (e.g. value of capital reserves against replacement cost of infrastructure, total reserves compared to reserves held by other Ontario municipalities).
- The estimated cost and timing of the project or contingency should be reviewed annually and contributions to the reserve fund should be adjusted accordingly to retain adequate balances going forward.

Reserve Fund and Reserves Trends

Certain non-obligatory reserve funds are presented with their projected annual contribution but exclude the projected “drawdown” until a defined expenditure is approved by Council (e.g. funding would remain in the Woodland Acquisition Reserve Fund until a specific lot is identified to be purchased). The graph at right shows the breakdown of actual balance vs. the balance excluding the committed costs relating to capital projects. If you consider commitments for capital projects, a more realistic reserve fund balance is presented as illustrated in the graph years 2011 and 2012.



Reserve Fund Highlights

- Moody's Financial Report dated November 29, 2010 stated "The City of London's (Canada) Aaa debt rating is supported by a prudent, conservative approach to fiscal planning and reflects high and increasing reserve levels." The current reserve fund level has allowed the city to maintain its credit rating and save on borrowing costs in the future.
- The current estimated net book value of the City of London tangible capital assets is \$3.1 Billion (2010 Financial Statements). Adequate reserve funds levels must be remained to replace/repair these assets as they age. The City's capital reserve fund balances currently represent approximately 2-3% of this value.
- Reserve fund balances continue to be impacted negatively from lower investment revenue. Interest rates continue to remain at near historic lows, which although helps the city with its debt issuances results in a lower return on its investments.
- Through various initiatives the city is planning on using strategic draws of \$4.6 Million in 2012 to mitigate the impact on the property tax levy relating to pressures from increases in OW caseload, OMERS contribution rates and other operational items.

**SUMMARY OF CORPORATE CAPITAL AND
OPERATING RESERVE FUNDS/RESERVES BY SERVICE PROGRAM
(\$000's)**

	←----- 2012 -----→					
	ACTUAL BALANCE 31-Dec-10	PROJECTED BALANCE 31-Dec-11	PROJECTED CONTRIBUTION FROM TAX	OTHER INCOME AND INTEREST	PLANNED DRAWS (OUTFLOWS)	PROJECTED BALANCE 31-Dec-12
OBLIGATORY						
<i>City Services</i>	59,742	24,028	-	12,434	(8,615)	27,847
TOTAL OBLIGATORY	59,742	24,028	0	12,434	(8,615)	27,847
NON-OBLIGATORY						
Culture	5,061	3,921	470	315	(610)	4,096
Economic Prosperity	38,485	22,794	10,186	4,206	(19,814)	17,372
Environmental Services	13,549	2,205	2,122	1,604	(2,805)	3,126
Parks, Recreation & Neighbourhood Services	4,262	1,933	387	134	(470)	1,984
Planning & Development Services	11,376	12,025	2,430	511	(2,234)	12,732
Protective Services	7,000	5,754	2,846	206	(3,835)	4,971
Social and Health Services	22,420	14,282	5,143	288	(3,741)	15,972
Transportation Services	48,271	32,316	0	4,666	(11,269)	25,713
Corporate, Operational & Council Services (1)	103,589	99,871	10,760	4,472	(21,030)	94,073
TOTAL NON-OBLIGATORY	254,013	195,101	34,344	16,402	(65,808)	180,039
TOTAL OBLIGATORY & NON-OBLIGATORY	313,755	219,129	34,344	28,836	(74,423)	207,886

(1) The Corporate Operating Reserve Funds/Reserve balance may increase/decrease subject to the municipality's 2011 Audited Financial Statements.

**OVERVIEW OF CORPORATE CAPITAL AND
OPERATING RESERVE FUNDS / RESERVES BY SERVICE PROGRAM
(\$000's)**

	ACTUAL BALANCE 31-Dec-10	PROJECTED BALANCE 31-Dec-11	PROJECTED CONTRIBUTION FROM TAX	OTHER INCOME AND INTEREST	PLANNED DRAWS (OUTFLOWS)	PROJECTED BALANCE 31-Dec-12
OBLIGATORY						
City Services	59,742	24,028	-	12,434	(8,615)	27,847
TOTAL OBLIGATORY	59,742	24,028	0	12,434	(8,615)	27,847
NON-OBLIGATORY						
Culture						
London Public Library						
Sick Leave	232	237	50	4	(150)	141
Collections Reserve	26	0	0	0	0	0
Facilities	1,399	253	420	9	(300)	382
Museum London						
Operating Endowment Reserve Fund	2,797	2,714	0	163	(140)	2,737
Acquisition Reserve Fund	40	26	0	1	(20)	7
Creative City	144	135	0	3	0	138
Public Art Acquisition & Maintenance	423	556	0	135	0	691
Total Culture	5,061	3,921	470	315	(610)	4,096
Economic Prosperity						
Civic Investments	9,232	8,223	2,505	2,584	(4,586)	8,726
Economic Development	11,054	6,357	3,681	209	(10,100)	147
Economic Development Infrastructure	292	0	0	0	0	0
Industrial Oversizing	9,798	5,130	1,000	108	(489)	5,749
Major Institutional Capital Grants	630	522	0	5	(500)	27
Industrial Land	4,530	481	2,400	1,268	(2,814)	1,335
London Convention Centre						
Vacation Pay Reserve Fund	57	70	0	0	0	70
Lieu Time Reserve Fund	0	0	0	0	0	0
Operating Reserve Fund	500	500	0	0	0	500
Facility	2,291	1,398	600	21	(1,275)	744
Tourism London	101	113	0	11	(50)	74
Total Economic Prosperity	38,485	22,794	10,186	4,206	(19,814)	17,372
Environmental Services						
Sanitary Landfill Site	13,527	2,183	2,122	1,604	(2,805)	3,104
Waste Diversion	22	22	0	0	0	22
Total Environmental Services	13,549	2,205	2,122	1,604	(2,805)	3,126

**OVERVIEW OF CORPORATE CAPITAL AND
OPERATING RESERVE FUNDS / RESERVES BY SERVICE PROGRAM
(\$000's)**

	ACTUAL BALANCE 31-Dec-10	PROJECTED BALANCE 31-Dec-11	PROJECTED CONTRIBUTION FROM TAX	OTHER INCOME AND INTEREST	PLANNED DRAWS (OUTFLOWS)	PROJECTED BALANCE
					←-----2012-----→	
Parks, Recreation & Neighbourhood Services						
Woodland Acquisition	3,711	1,568	262	32	(200)	1,662
Golf Course Operations	223	74	0	101	(100)	75
Storybook Gardens	87	50	125	1	(170)	6
Animal Welfare Benefit	241	241	0	0	0	241
Total Parks, Recreation & Neighbourhood Services	4,262	1,933	387	134	(470)	1,984
Planning and Development Services						
Development Charges Exemption	3,712	1,840	500	42	0	2,382
Downtown Rehab. & Redevelopment Grants	3,808	5,248	600	107	(1,534)	4,421
Miscellaneous Property Acquisition	2,084	3,397	880	75	(200)	4,152
Downtown and Old East Incentive Loan Program	401	169	350	287	(500)	306
Official Plan	0	0	100	0	0	100
Building Permits	1,371	1,371	0	0	0	1,371
Total Planning and Development Services	11,376	12,025	2,430	511	(2,234)	12,732
Protective Services						
London Police Services						
Sick Leave	702	646	65	7	(585)	133
Employment Benefits	354	361	0	7	0	368
Unfunded Liability	1,998	2,038	0	41	0	2,079
Service Recruitment	632	645	0	13	0	658
Vehicle Replacement	531	1,138	1,764	125	(1,647)	1,380
London Fire Department						
Vehicle Replacement	2,783	926	1,017	13	(1,603)	353
Total Protective Services	7,000	5,754	2,846	206	(3,835)	4,971
Social and Health Services						
Courts Administration Building Repair & Mtce.	296	207	35	4	(60)	186
Dearness Home	500	597	400	9	(675)	331
New Affordable Housing	8,022	3,328	2,000	87	0	5,415
Social Housing Major Repairs (Private/Non-Profit)	6,095	4,262	500	90	0	4,852
Public Housing Major Upgrades	3,679	1,912	2,208	38	(2,208)	1,950
Consolidated Verification Process (CVP)	2,712	2,619	0	47	(513)	2,153
AODA	0	316	0	0	0	316
Social Housing	47	134	0	0	0	134

**OVERVIEW OF CORPORATE CAPITAL AND
OPERATING RESERVE FUNDS / RESERVES BY SERVICE PROGRAM
(\$000's)**

	←----- 2012 -----→					
	ACTUAL BALANCE 31-Dec-10	PROJECT BALANCE 31-Dec-11	PROJECTED CONTRIBUTION FROM TAX	OTHER INCOME AND INTEREST	PLANNED DRAWS (OUTFLOWS)	PROJECTED BALANCE 31-Dec-12
Middlesex London Health Unit						
Dental Treatment Reserve	198	201	0	5	0	206
Funding Stabilization Fund	317	317	0	0	(250)	67
Septic Tank Inspection Program Reserve Fund	6	6	0	0	0	6
Vested Sick Leave Reserve Fund	548	383	0	8	(35)	356
Total Social and Health Services	22,420	14,282	5,143	288	(3,741)	15,972
Transportation Services						
Federal Gas Tax	9,054	321	0	4,006	(4,000)	327
Fuel Stabilization	495	495	0	0	0	495
London Transit Commission						
Capital Program Reserve Fund	3,155	2,503	0	220	(260)	2,463
Energy Management Reserve Fund	2,778	2,778	0	0	0	2,778
General Operating Reserve	3,319	2,319	0	0	0	2,319
Health Care Management Reserve	1,794	1,594	0	0	(253)	1,341
Provincial Gas Tax Reserve Fund	23,987	19,758	0	150	(6,106)	13,802
Other Capital Infrastructure Reserve Fund	1,714	0	0	0	0	0
Public Liability Insurance Reserve Fund	1,975	2,548	0	290	(650)	2,188
Total Transportation Services	48,271	32,316	0	4,666	(11,269)	25,713
Corporate, Operational & Council Services						
Vehicle Replacement - City	10,666	5,240	4,148	1,015	(6,187)	4,216
Sick Leave - City	5,791	5,632	328	110	(575)	5,495
Self Insurance	12,654	12,878	1,209	1,603	(2,500)	13,190
WSIB Catastrophic Loss Reserve Fund	8,133	8,571	525	238	(315)	9,019
Energy Management	1,888	2,005	100	41	0	2,146
Municipal Elections	941	1,338	0	397	0	1,735
Operating Budget Contingency (1)	23,523	21,220	0	0	(7,039)	14,181
Severe Weather	1,312	1,312	0	0	0	1,312
Unfunded Liability	30,491	30,900	0	0	0	30,900
Efficiency, Effectiveness and Economy	2,938	3,589	0	900	(2,344)	2,145
Facilities - City	4,422	6,339	4,450	151	(2,070)	8,870
Parking - City	830	847	0	17	0	864
Total Corporate, Operational & Council Services	103,589	99,871	10,760	4,472	(21,030)	94,073
TOTAL NON-OBLIGATORY	254,013	195,101	34,344	16,402	(65,808)	180,039
TOTAL OBLIGATORY & NON-OBLIGATORY	313,755	219,129	34,344	28,836	(74,423)	207,886

(1) The Corporate Operating Reserve Funds/Reserve balance may increase/decrease subject to the municipality's 2011 Audited Financial Statements.

**OVERVIEW OF CORPORATE CAPITAL AND
OPERATING RESERVE FUNDS / RESERVES
(\$000's)**

	ACTUAL BALANCE 31-Dec-10	PROJECTED BALANCE 31-Dec-11	←----- 2012 -----→				PROJECTED BALANCE
			PROJECTED CONTRIBUTION FROM TAX	OTHER INCOME AND INTEREST	PLANNED DRAWS (OUTFLOWS)		
OBLIGATORY							
<i>City Services</i>	59,742	24,028		-	12,434	(8,615)	27,847
NON-OBLIGATORY							
Capital Reserve Funds	113,657	62,010		31,967	12,008	(44,023)	61,962
Operating Reserve Funds	31,767	32,418		2,262	2,077	(3,903)	32,854
Operating Reserves	61,359	60,916	(1)	-	1,397	(9,383)	52,930
Boards and Commissions	47,230	39,757		115	920	(8,499)	32,293
TOTAL NON-OBLIGATORY	254,013	195,101		34,344	16,402	(65,808)	180,039
TOTAL OBLIGATORY & NON-OBLIGATORY	313,755	219,129		34,344	28,836	(74,423)	207,886

(1) The Corporate Operating Reserve Funds/Reserves balance may increase/decrease subject to the municipality's 2011 Audited Financial Statements.

**CORPORATE CAPITAL RESERVE FUNDS
CONTINUITY SCHEDULE FOR 2011 (\$000'S)**

	ACTUAL BALANCE 31-Dec-10	PROJECTED BALANCE 31-Dec-11	PROJECTED CONTRIBUTION FROM TAX	OTHER INCOME AND INTEREST	2012 PLANNED DRAWS (OUTFLOWS)	PROJECTED BALANCE
OBLIGATORY - CAPITAL						(2)
City Services - Consolidated	57,353	24,015	-	12,081	(8,565)	27,531
Parklands	2,389	13	-	353	(50)	316
TOTAL OBLIGATORY - CAPITAL	59,742	24,028	0	12,434	(8,615)	27,847
NON-OBLIGATORY - CAPITAL						
Civic Investments	9,232	8,223	2,505	2,584	(4,586)	8,726
Development Charges Exemption	3,712	1,840	500	42	0	2,382
Economic Development	11,054	6,357	3,681	209	(10,100)	147
Economic Development Infrastructure	292	0	0	0	-	0
Facilities - City	4,422	6,339	4,450	151	(2,070)	8,870
Convention Centre	2,291	1,398	600	21	(1,275)	744
Courts Administration Building Repair & Mtce.	296	207	35	4	(60)	186
Dearness Home	500	597	400	9	(675)	331
Library	1,399	253	420	9	(300)	382
Parking Facilities	830	847	-	17	-	864
Federal Gas Tax	9,054	321	0	4,006	(4,000)	327
Grants - Downtown Rehab. & Redevelopment	3,808	5,248	600	107	(1,534)	4,421
Major Institutional Capital Grants	630	522	0	5	(500)	27
Industrial Oversizing	9,798	5,130	1,000	108	(489)	5,749
Industrial Land	4,530	481	2,400	1,268	(2,814)	1,335
Woodland Acquisition	3,711	1,568	262	32	(200)	1,662
Miscellaneous Property Acquisition	2,084	3,397	880	75	(200)	4,152
Downtown and Old East Incentive Loan Program	401	169	350	287	(500)	306
Golf Course Operations	223	74	0	101	(100)	75
Storybook Gardens	87	50	125	1	(170)	6
Sanitary Landfill Site	13,527	2,183	2,122	1,604	(2,805)	3,104
New Affordable Housing	8,022	3,328	2,000	87	-	5,415
Social Housing Major Repairs (Private/Non-Profit)	6,095	4,262	500	90	-	4,852
Public Housing Major Upgrades	3,679	1,912	2,208	38	(2,208)	1,950
Vehicle Replacement - City	10,666	5,240	4,148	1,015	(6,187)	4,216
- Fire	2,783	926	1,017	13	(1,603)	353
- Police	531	1,138	1,764	125	(1,647)	1,380
TOTAL NON-OBLIGATORY - CAPITAL	113,657	62,010	31,967	12,008	(44,023)	61,962

(1) Total contributions above represent amounts to be raised in the Current budget and other sources of income received to help fund drawdowns, ie. City Services Development charges, Parkland Levies, Industrial Land sales and interest earnings

**CORPORATE CAPITAL RESERVE FUNDS
PROJECTED BALANCES TO 2020 (\$000'S)**

	ACTUAL	PROJECTED	PROJECTED BALANCE						
	BALANCE 31-Dec-10	BALANCE 31-Dec-11	2012	2013	2014	2015	2016	2017-2021	
OBLIGATORY - CAPITAL									
City Services - Consolidated (1)	57,353	24,015	27,531	11,380	7,908	5,408	5,685	3,751	
Parklands	2,389	13	316	575	940	1,211	1,589	3,279	
TOTAL OBLIGATORY - CAPITAL	59,742	24,028	27,847	11,955	8,848	6,619	7,274	7,030	
NON-OBLIGATORY - CAPITAL									
Civic Investments	9,232	8,223	8,726	8,293	7,945	7,702	7,475	9,605	
Development Charges Exemption	3,712	1,840	2,382	223	732	1,252	1,782	4,595	
Economic Development	11,054	6,357	147	340	650	966	5,227	32,001	
Economic Development Infrastructure	292	0	0	-	-	-	-	-	
Facilities - City	4,422	6,339	8,870	12,352	15,823	16,479	19,071	34,571	
Convention Centre	2,291	1,398	744	1,122	402	284	648	850	
Courts Administration Building Repair & Mtce.	296	207	186	225	204	243	223	304	
Dearness Home	500	597	331	489	347	26	27	2	
Library	1,399	253	382	514	548	582	617	803	
Parking Facilities	830	847	864	881	899	917	935	1,032	
Federal Gas Tax	9,054	321	327	334	341	348	355	818	
Grants - Downtown Rehab. & Redevelopment	3,808	5,248	4,421	3,738	3,300	3,052	2,991	4,758	
Major Institutional Capital Grants	630	522	27	28	29	30	31	36	
Industrial Oversizing	9,798	5,130	5,749	6,083	6,690	7,277	7,487	11,501	
Industrial Land	4,530	481	1,335	2,688	4,534	349	1,926	10,623	
Woodland Acquisition	3,711	1,568	1,662	1,758	2,058	2,364	2,676	4,332	
Miscellaneous Property Acquisition	2,084	3,397	4,152	4,922	5,707	6,508	7,325	11,661	
Downtown and Old East Incentive Loan Program	401	169	306	580	891	1,251	1,649	3,978	
Golf Course Operations	223	74	75	77	79	81	83	223	
Storybook Gardens	87	50	6	6	6	6	6	32	
Sanitary Landfill Site	13,527	2,183	3,104	233	1,042	2,595	4,351	17,355	
New Affordable Housing	8,022	3,328	5,415	7,543	9,714	11,928	14,187	24,157	
Social Housing Major Repairs (Private/Non-Profit)	6,095	4,262	4,852	5,454	6,068	6,694	7,333	10,725	
Public Housing Major Upgrades	3,679	1,912	1,950	1,989	2,029	2,070	2,111	2,331	
Vehicle Replacement - City	10,666	5,240	4,216	6,908	6,530	7,836	8,193	9,563	
- Fire	2,783	926	353	753	1,023	1,196	707	910	
- Police	531	1,138	1,380	1,615	1,786	2,047	2,325	3,451	
TOTAL NON-OBLIGATORY - CAPITAL	113,657	62,010	61,962	69,148	79,377	84,083	99,741	200,217	

(1) Future City Services Reserve fund balances may potentially require adjustment subject to changes from the 2014 Development Charge Study.

**CORPORATE
OPERATING RESERVE FUNDS AND RESERVES FOR 2011 AND 2012
(\$000'S)**

	ACTUAL BALANCE 31-Dec-10	2011 INFLOWS	2011 PLANNED DRAWS (OUTFLOWS)	PROJECTED BALANCE 31-Dec-11	2012 INFLOWS	2012 (OUTFLOWS)	PROJECTED BALANCE 31-Dec-12
CORPORATE OPERATING RESERVE FUNDS							
Sick Leave - City	5,791	441	(600)	5,632 (1)	438	(575)	5,495
Self Insurance	12,654	2,736	(2,512)	12,878 (2)	2,812	(2,500)	13,190
WSIB Catastrophic Loss	8,133	753	(315)	8,571 (3)	763	(315)	9,019
Consolidated Verification Process (CVP)	2,712	756	(849)	2,619	47	(513) (4)	2,153
Creative City	144	3	(12)	135	3	-	138
Energy Management	1,888	139	(22)	2,005	141	-	2,146
Public Art Acquisition & Maintenance	423	133	-	556	135	-	691
Waste Diversion	22	-	-	22	-	-	22
TOTAL OPERATING RESERVE FUNDS	31,767	4,961	(4,310)	32,418	4,339	(3,903)	32,854
CORPORATE OPERATING RESERVES							
Animal Welfare Benefit	241			241	-	-	241
Building Permits	1,371			1,371	-	-	1,371
Fuel Stabilization	495			495	-	-	495
Municipal Elections	941	397		1,338	397	-	1,735
Operating Budget Contingency (5)	23,523	2,120	(4,423)	21,220	-	(7,039)	14,181
Severe Weather	1,312			1,312	-	-	1,312
Social Housing	47	200	(113)	134	-	-	134
Unfunded Liability (6)	30,491	409		30,900	-	-	30,900
Official Plan	-			-	100	-	100
AODA	-	527	(211)	316	-	-	316
Effectiveness, Efficiency and Economy	2,938	842	(191)	3,589	900	(2,344) (7)	2,145
TOTAL OPERATING RESERVES	61,359	4,495	(4,938)	60,916	1,397	(9,383)	52,930
TOTAL OPERATING RESERVES AND RESERVE FUNDS	93,126	9,456	(9,248)	93,334	5,736	(13,286)	85,784

(1) Actual balance of Sick Leave liability at December 31, 2010 \$ 4,982,634

(2) Total open claims against the Self Insurance Reserve Fund (Dec/10) \$ 12,106,699

(3) Total open claims against the WSIB Catastrophic Reserve Fund (Dec/10) \$ 6,295,200

(4) The London CaReS Strategy approved a drawdown from the CVP reserve Fund in 2008 and each year thereafter for a total of five years.

(5) The Operating Budget Contingency Reserve inflow/outflow may increase/decrease subject to 2011 year audit and 2012 forecast planning.

i. Contribution to Operating Budget Contingency Reserve is based on 2nd quarter Operating Budget Status report less funding approved for World Figure Skating Championships in 2013

ii. Based on 2011 2nd quarter monitoring report, 2011 strategic draw from the Operating Budget Contingency Reserve is not required

(6) Net unfunded liabilities as reported on the annual financial report have increased from \$96.3 million in 2009 to \$98.1 million in 2010.

(7) The EEE outflow for 2012 includes \$2.3 Million for Service London