

8. CHANGES TO RESERVE FUNDS

COMMITTEE RECOMMENDATIONS AS AMENDED

That Council approve:

1. the consolidation of the Sewer Depreciation, Sewer Levy Contingency, Sewer Surcharge Contingency and Sewer Maintenance Reserve Funds into the Sewer Reserve Fund;
2. the consolidation of the Transportation Equipment Replacement, Landfill Equipment Replacement and Environmental Services Equipment Replacement Reserve Funds into the Corporate Fleet Equipment Replacement Reserve Fund;
3. That Recommendation No. 3, as follows, not be approved and be deleted from the staff recommendation: The consolidation of the Child Care Capital Grant and Child Care Contingency Reserve Funds into the Child Care Reserve Fund;
4. the creation of the Regional Police Service Vehicle and Equipment Replacement Reserve Fund;
5. the creation of the Computer Hardware/Software Replacement Reserve Fund;
6. the closing of the Debenture Currency Exchange Reserve Fund;
7. the enactment or repealing of the necessary by-laws.

DOCUMENTATION:

1. Finance Commissioner's report dated 10 Dec 98 is immediately attached.
2. Extract of Draft Corporate Services and Economic Development Committee Minute, 05 Jan 99, immediately follows the report and includes a record of all votes.

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REGION OF OTTAWA-CARLETON
RÉGION D'OTTAWA-CARLETON

REPORT
RAPPORT

Our File/N/Réf.
 Your File/V/Réf.

DATE 10 December 1998

TO/DEST. Co-ordinator
 Corporate Services and Economic Development Committee

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **CHANGES TO RESERVE FUNDS**

DEPARTMENTAL RECOMMENDATIONS:

That the Corporate Services and Economic Development Committee recommend Council approve:

- 1. the consolidation of the Sewer Depreciation, Sewer Levy Contingency, Sewer Surcharge Contingency and Sewer Maintenance Reserve Funds into the Sewer Reserve Fund;**
- 2. the consolidation of the Transportation Equipment Replacement, Landfill Equipment Replacement and Environmental Services Equipment Replacement Reserve Funds into the Corporate Fleet Equipment Replacement Reserve Fund;**
- 3. the consolidation of the Child Care Capital Grant and Child Care Contingency Reserve Funds into the Child Care Reserve Fund;**
- 4. the creation of the Regional Police Service Vehicle and Equipment Replacement Reserve Fund;**
- 5. the creation of the Computer Hardware/Software Replacement Reserve Fund;**
- 6. the closing of the Debenture Currency Exchange Reserve Fund;**
- 7. the enactment or repealing of the necessary by-laws.**

BACKGROUND

The Council of the Regional Municipality of Ottawa-Carleton is authorized under section 109(1) of the *Regional Municipality of Ottawa-Carleton Act*, R.S.O., to establish or maintain reserve fund(s) for any purpose for which it has authority to spend funds. Since 1977 Council has authorised the creation of 28 reserve funds.

The majority of the reserve funds have been established for the purpose of financing the Region's capital program. Annual appropriations from the operating budget are paid into these reserve funds to provide for the cash financing of the capital program. In addition, a number of contingency reserve funds have been established for protection of potential exposure to rate or levy increases.

A review of all reserve funds was conducted by Finance Department staff with the purpose of updating the reserve fund by-laws for any changes in the corporation and its operations. The recommendations contained in this report are a result of this review.

Consolidation of Sewer Reserve Funds

Since 1977, five separate reserve funds have been created for the sewer system. The purpose of each of these reserve funds is set out in Annex 1. A number of these reserve funds were created when the sewer system was funded by a combination of rates and taxes. Prior to 1989 the RMOC Act precluded the funding of the capital program from sewer surcharge revenue. The Capital Program was funded entirely from funds generated from the former sewer tax levy which was eliminated in 1998. Since 1989 the cash financing of the sewer capital program has been supported by a combination of rates and property taxes. Since the sewer system is now fully funded through the sewer surcharge rate these reserves funds can now be combined. The purpose of the Sewer Reserve Fund will be to provide for both the pay as you go financing of the sewer capital program and any required stabilisation of the sewer surcharge rate.

Consolidation of Equipment Replacement Reserve Funds

In 1995, the Corporate Fleet Service was created by consolidating the fleet operations in Transportation, Environmental Services and Solid Waste Divisions. The Corporate Fleet Service is responsible to acquire and maintain vehicles and equipment and to depreciate the fleet assets in order to fund their replacement. The Corporate Fleet Service is operated as a separate business area and is funded through the rental rates charged for vehicle and equipment usage. As a result of this consolidation of fleet operations it is no longer necessary to maintain three separate equipment replacement reserve funds. The new reserve fund should allow for both the purchase of new and replacement equipment.

Consolidation of the Child Care Capital and Contingency Reserve Funds

The review of the reserve funds indicated that there is no need to maintain two reserve funds for Child Care and that these two reserve funds could be consolidated into one reserve fund with the joint purpose of providing capital financing and any required stabilisation of the Child Care Levy, including the funding of expansion spaces.

Police Vehicle and Equipment Reserve Fund

The 1998 Capital Budget and 1999 - 2007 Forecast for the Regional Police Service provides for the cash financing of vehicle replacements. It has been the established practise of the Region to account for cash financing by making a contribution from the operating budget to a reserve fund and then financing the capital project from the reserve fund. It is recommended that cash financing provided within the Regional police Service be contributed to the Police Vehicle and Equipment Reserve Fund which will in turn fund the annual capital requirements. As the number of vehicle replacements may vary from year to year, the use of a reserve fund permits an even contribution level on the operating budget side while recognizing the variations in the amount of capital spending from year to year.

Computer Replacement Reserve Fund

Since 1997, a user fee has been charged to the operating departments for each personal computer. The user fee covers the future cost of software upgrades, hardware maintenance, and hardware replacement. These fees are then used to fund the corporate computer maintenance/replacement capital project. It is recommended that the user fees be contributed to the Computer Replacement Reserve Fund which will in turn fund the annual capital requirements.

Debenture Currency Exchange Reserve Fund

This reserve fund was established to receive the exchange premiums from issue of foreign denominated debt. These premiums, combined with the interest earnings of the reserve fund, would be used to fund the exchange premium on the interest and principal payments of the foreign debt. In 1996 the last foreign currency debenture issue was retired and the balance of the reserve fund was reduced to zero. Changes to provincial legislation will preclude this accounting treatment of the exchange premium on any future issues of foreign denominated debt. It is recommended that By-law 63 Of 1976 be repealed.

CONSULTATION

The changes recommended are administrative in nature and therefore public consultation is not applicable. The operating departments affected by these changes have been consulted and support these changes.

EXPENDITURE JUSTIFICATION

The recommendations of this report are administrative in nature and therefore there are no financial implications.

*Approved by
J.C. LeBelle*

ANNEX 1: EXISTING RESERVE FUNDS

Sewer Capital Reserve Fund - By-law 42 of 1977

The purpose of this reserve fund was to receive annual appropriations of operating contributions which would be utilised to fund capital growth and or expansion of the Sewer system.

Sewer Levy Contingency Reserve Fund - By-law 147 of 1987

This reserve fund was to provide for the stabilisation of tax rates in future years.

Sewer Depreciation Reserve Fund - By-law 90 of 1989

The purpose of this reserve fund was to contribute any sewer surcharge revenues which would fund the replacement of the sewer system infrastructure.

Sewer Maintenance Reserve Fund - By-law 91 of 1989

The purpose of this reserve fund was to contribute any revenue from the sewer maintenance and cleaning operating budget, which exceed the actual sewer maintenance and cleaning costs. The Sewer Maintenance Reserve Fund was to offset any future deficiencies and/or for the stabilisation of future annual budgets for sewer maintenance and cleaning.

Transportation Equipment Replacement Reserve Fund - By-law 87 of 1980

Environmental Services Equipment Replacement Reserve Fund - By-law 255 of 1984

Landfill Equipment Replacement Reserve Fund - By-law 167 of 1982

The Purpose of these reserve funds is to receive annual depreciation contribution from operations to be used to fund the replacement of the equipment. By-law 255 of 1984 permits the purchase of new and replacement equipment.

Child Care Capital Reserve Fund - By-law 158 of 1988

The purpose of this reserve fund is to assist and contribute to the capital costs of child care centres.

Child Care Contingency Reserve Fund - By-law 89 of 1989

The purpose of this reserve fund is to stabilise the Child Care levy and to provide for offsetting future deficits.

Debenture Currency Exchange Reserve Fund - By-law 63 of 1976

The purpose of this reserve fund is invest the exchange premium received on the issue of foreign denominated and to fund the exchange cost of the principal and interest payments on the foreign denominated debt.