

THE CORPORATION OF THE CITY OF BROCKVILLE
BY-LAW NO. 38-97

A BY-LAW TO RATIONALIZE CERTAIN RESERVE FUNDS

WHEREAS the Municipal Act, Section 163 (1), c.M.45, R.S.O. 1990 and amendments thereto, permits every municipality as defined in the *Municipal Affairs Act* to establish and maintain a reserve fund for any purpose for which it has authority to spend funds; and

WHEREAS Council deems it advisable to rationalize and amalgamate certain reserve funds to provide comprehensive management of the financial resources and costs associated with the City's sewer system and treatment facilities.

NOW THEREFORE THE COUNCIL OF THE CORPORATION OF THE CITY OF BROCKVILLE ENACTS AS FOLLOWS:

1. **THAT** reserve fund RL410-8600-L973 be closed, the balance in the account transferred to reserve fund RL410-8600-L957.
2. **THAT** reserve fund RL410-8600-L958 be closed, the balance in the account transferred to reserve fund RL410-8600-L957 and by-law 166-83, as amended by by-law 196-89, rescinded.
3. **THAT** reserve fund RL410-8870-L963 be closed, the balance in the account transferred to reserve fund RL410-8600-L957 and by-laws 75-66, as amended by by-law 149-74, 116-82, 192-82, rescinded.

GIVEN UNDER THE SEAL OF THE CORPORATION
OF THE CITY OF BROCKVILLE AND PASSED THIS
22ND DAY OF April, 1997



MAYOR



CLERK

1996 12 12
REPORT FOR THE BUDGET COMMITTEE

96-280-11
RATIONALIZATION OF RESERVE FUNDS
WATER POLLUTION CONTROL PLANT
EQUIPMENT RESERVE FUND
TO THE SEWER RATE RESERVE FUND
FILE:F20-00;F05-38;F05-39

C.M. LAROCQUE
DIRECTOR OF FINANCE

RECOMMENDATION

"A" CLOSING OF CERTAIN RESERVE FUNDS

THAT the following Reserve Funds be closed and transferred to the Sewer Rate Reserve Fund:

- | | | |
|---------------------------------------|-----------|-----------|
| 1. The Railroad Tunnel Reserve Fund | \$ 15,179 | |
| Account No. RL410-8600-L958 | | |
| 2. The Victoria Building Reserve Fund | \$ 90 | \$ 15,269 |
| Account No. RL410-9600-L973; and, | | |

"B" 1997 CONTRIBUTION FROM CAPITAL

THAT a further contribution be designated for transfer to the Sewer Rate Reserve Fund from the Capital Budget Item # 4(a) 2. in the amount of [Attachment 1.]

\$ 89,000

and;

"C" REDUCE CURRENT BUDGET CONTRIBUTION TO WPCP EQUIPMENT RESERVE FUND

- (1) THAT the \$146,246 Contribution to Reserve, presently in the Current Budget, be deleted in 1997 and future years, thereby enabling a reduction in the Mill Rate of approximately .85%; and

- (2) THAT the Water Pollution Control Plant Equipment Reserve Fund be closed and the balance of
- in Account RL410-8870-L963 be transferred to the Sewer Rate Reserve Fund; and

\$228,753
\$333,022

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"D" SEWER RATE REVENUE TO OPERATING
BUDGET

- (1) THAT based on the capacity report of the Municipal Engineer and the Director of Operations, secondary treatment and expansion initially contemplated in previous years' Long Range Capital Program be deleted; and
- (2) THAT based on adoption of "D"(1), staff be and are hereby directed to review and report on the impact of development charges in conjunction with these projects and the new Development Charges Act to be passed in 1997; and

THAT a revised cash flow model, Attachment 2., be adopted for incorporation into the 1997 Budget Process, allowing for a Contribution to Current Budget of \$417,000; thereby enabling a further reduction in Mill Rate of 2.43%; and

THAT in 1998 and future years, a contribution of \$150,000 be allocated from the Capital Contribution From Current.

BACKGROUND - BCS

In conjunction with the 1996 Budget deliberations, the Administration reported on a number of initiatives evolving around a Rationalization of the City's Reserves and Reserve Funds. Reference was made to a continued analysis of operations of the Water Pollution Control Plant and the Sewer Service Charge related thereto. A recommendation was adopted increasing by \$160,000 the transfer from the Reserve to the Operating Budget to reduce the amount of the operating costs funded on the Mill Rate from \$833,000 to \$673,000 in 1996. On July 23rd of this year, Council adopted a further Report No. 96-93-04, entitled "Recommendations on 1995 Capital Fund Surplus: - Establishment of a Capital Fund Management Reserve; - Considerations for 1997 Capital Budget Solutions".

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This report completes our review/rationalization of the overall operation of the City's Sewer System from house/business to river. It is interesting to note that in 1997, the cost is \$3,529,000.

The philosophical approach being recommended in this report is:

1. All costs of operating the sewer system should be captured in one area.
2. The City should continue and adopt an approach to consciously recover all sewer system operating costs through the Sewer Service Charge (a user pay system) which, according to this report, if adopted, would occur by the Year 2003. The opportunity to pursue this objective is made available through the further analysis of capacity and secondary treatment requirements which are no longer an immediate requirement and may never be requirements to be met. For purposes of this report, the Sewer Service Charge is maintained at the 100% level. Users are not being requested to pay any increase in the Sewer Service Charge. However, by adopting the recommendations in this report, a reduction of 2.43% in the 1997 Mill Rate is achieved. The alternative to applying these funds to the Operating Budget of 1997 and subsequent years to offset existing sewer system operating costs would be to reduce the Sewer Service Charge by approximately 15%. This would equate to a \$30 annual reduction to the average residential water user versus a \$29 reduction in the tax bill of the average user, who lives in a \$4,000 assessed value home [Market \$130,000].

ANALYSIS/RATIONALE:

RECOMMENDATIONS "A" & "B"

Recommendations "A" & "B" are designed to accommodate the amalgamation of the Water Pollution Control Plant Reserve Fund with the Sewer Rate Reserve Fund in an effort to focus much of the management of certain costs of the Water Pollution Control Plant through one reserve fund.

These recommendations provide an available and needed source of revenue to the reserve which will set the stage for and enable the subsequent recommendations.

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RECOMMENDATION "C"
REDUCE \$146,246 CONTRIBUTION FROM CURRENT
TO THE WPCP EQUIPMENT RESERVE FUND

In past years, the City earned approximately \$310,000 in revenue from selling access to the sewer system. Part of this revenue has been kept in the Current Fund [about \$95,000], with the balance transferred to the WPCP Equipment Reserve Fund to help accommodate future expenses.

This year, for 1997, we are experiencing a significant drop in revenue due to clients moving elsewhere. As a result, only \$48,000 is now in the Current Budget to help offset operating costs. [See analyses contained in Attachment 3.]. This is particularly burdensome, at a time when the operating costs are growing due to the increased size of the operation. Less money is also available for transfer to the WPCP Reserve Fund, which has historically been used to purchase equipment.

A critical look is essential, both at the cost side [items to be purchased] and at the way they are funded.

Identifying all costs might be better achieved by amalgamating through only one reserve fund instead of the existing two. Also, having the required increased contribution to the single reserve fund compete in the Capital Budget for an annual allocation, will provide for a more concentrated review.

Therefore, this recommendation to rationalize the closing and use of other reserve funds, frees up the need to transfer an amount of \$146,246 from the Current Operating Budget and, thus, will help reduce the Mill Rate.

In order to avoid a jumpgap in future years, it is recommended that future contributions in a similar amount, say \$150,000, come from a prioritization out of the amount contributed to the Capital Budget. Such prioritization would be justified by the annual review of future expenses to be funded from the reserve fund. Excess of visioned expenses greater than contributions could cause the reserve fund to go negative, indicating the need for further reductions or increased contributions.

For purposes of presenting this in the model, the \$150,000 has been incorporated into the cash flow [Attachment 1.], as a revenue, along with the visioned purchases [Attachment 4.].

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RECOMMENDATION "D"

PLANT CAPACITY AND FUTURE MAJOR CAPITAL PROJECTS

The Ten Year Capital Program, over the past number of years, has anticipated a need for a Pollution Control Plant Upgrade [Secondary Treatment] and an expansion, beginning in the Years 1998 to 2006. These had been inserted into the Program, as a result of advice and direction from the Provincial Government. Financial planning for funding these projects included such sources as Contributions From Current. As well, revenue was sought from development charges towards the capital cost to help reduce the amount to be debentured. The Sewer Rate Service Charge [collected on the water bill] was designed to help pay the debt charges resulting from the amount debentured.

The Sewer Rate By-law, at only 100%, as opposed to some municipalities at 125% or more, was designed to partially recover both existing debt charges and the growing operating costs that would result, due to the bigger plant. The plan was to gradually move toward recovering operating costs, as much as the reserve fund would allow, while still maintaining sufficiency to handle the debt charges of existing and contemplated debentures.

RECENTLY

The Director of Operations and the City Engineer have determined, through further review and analyses, that upgrade and expansion can be deleted. This presents an opportunity to review the financial side for impacts on both Capital and Reserve Funds and on the mill rates of the "Current Operating Budget". [See Attachment 5.]

The present 1997 draft Operating Budget has approximately \$1,190,000 in costs, less \$290,000 existing contribution, which leaves \$900,000 still on the mill rate. (Page 3 of Cash Flow Model attached as Attachment 2.). The original plan of recovery has been to increase the contribution by the increase in the costs over 1996 [an additional \$227,000].

However, removal of the work and its debt charges provides an opportunity to make a greater contribution earlier in the process, beginning with 1997; [i.e., an additional \$190,000 could be captured].

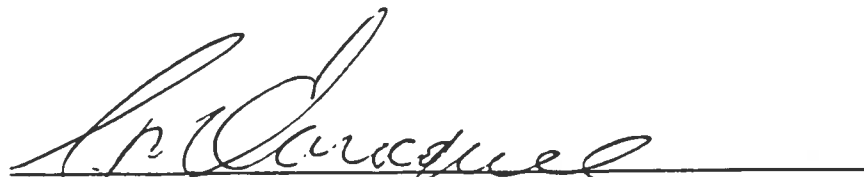
However, by now amalgamating the WPCP Equipment Reserve Fund and its contemplated expenditures, the model goes negative and will cause a future consideration to either reduce the equipment purchases, or inject more money.


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FUTURE CAPITAL EXPANSION/UPGRADE - WHEN/IF NECESSARY

The Sewer Rate Reserve Fund Model, beyond the Year 2004, begins to accumulate, again, to enable a contribution towards the upgrade and expansion, in whatever year it is now envisioned to occur. For example, by the Year 2006, the Sewer Rate Model would accumulate to \$1,037,000, enabling a contribution towards the debt charges of the expansion/upgrade when needed. By about Year 2003 to 2006, a decision whether to reduce, maintain or increase the Sewer Rate can be made according to the needs that are identified at that time.

As indicated in Recommendation "D" (1), staff will report on the impact of Development Charges of these changes in conjunction with the new Development charges Act, when passed.


C.M. Larocque
Director of Finance


B.C. Switzer
Chief Administrative Officer/City Clerk