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Halifax Regional Council
July 15, 2003

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

A handwritten signature in black ink, appearing to read "George McLellan".

George McLellan, Chief Administrative Officer

A handwritten signature in black ink, appearing to read "S. Dale MacLennan".

S. Dale MacLennan, CA, Director, Financial Services

DATE: July 7, 2003

SUBJECT: Reserves Transfers - 2002/03

ORIGIN

Finalization of year-end results for the fiscal year ended March 31, 2003.

RECOMMENDATIONS

It is recommended that:

- As a result of the change in the valuation allowance policy, Council approve the following transfers to the Reserve Funds for the fiscal year ended March 31, 2003:
 - \$ 1,930,958 to Q308 Operations Stabilization Reserve
 - \$ 1,000,000 to Q310 Service Improvement Reserve
 - \$ 1,500,000 to Q306 Self Insurance Reserve
 - \$ 1,600,000 to Q309 Snow & Ice Control Reserve
 - \$ 400,000 to Q106 Wastewater/Stormwater Management Reserve,for a total of \$6,430,958. The transfer to Q106 is to be in the form of a loan to be repaid in 2004/05 as outlined in the discussion section of this report, and,

- Council approve an amendment to the Reserve Business Case for the Operations Stabilization Reserve to increase the reserve maximum from \$1,000,000 to \$2,000,000, and
- Pending the transfers noted above, Council approve a withdrawal of \$395,319 from Q106 Wastewater/Stormwater Management Reserve and \$250,000 from Q309 Snow & Ice Control Reserve, and,
- Council approve a withdrawal of \$269,226 from Q105 Environmental Protection Reserve to reflect actual costs in 2002/03.

BACKGROUND

Reserves have long been used by HRM and its predecessor units to assist in planning, saving and smoothing of expenditures. In December 1998, Council approved the Reserves Policy as part of the Multi-Year Financial Strategy whereby “each Reserve will have a specific Business Case developed by the appropriate Director in conjunction with the Director of Financial Services” and that “reserve funding is incorporated into a financial plan as an integral part of the operating and capital budgets.”

In accordance with the change in the Accounting Principle for Valuation Allowance as prescribed for Nova Scotia Municipalities by Service Nova Scotia and Municipal Relations (SNSMR), HRM has changed its policy for providing an allowance for uncollected taxes and other receivables. Compliance with the change in policy is required starting with the 2002/03 fiscal year. Previous calculations of the valuation allowance were based on formulas prescribed by SNSMR which did not necessarily reflect the collection experience of the Municipality. The new Accounting Principle is not based on a formula, rather it is management’s best estimate based on facts including a review of individual accounts, past collection experience and general business conditions at the time.

The change in the policy has resulted in a reduction in the Valuation Allowance for Uncollectible Taxes in the amount of \$6,430,958 and, in accordance with the Transition Rules for the new policy, this amount will be included as an Extraordinary Item in the Statement of Operations for the year ended March 31, 2003. In addition, SNSMR has recommended that this Extraordinary Item be transferred to Operating Reserves.

Therefore, there is an opportunity to transfer an additional \$6,430,958 from the Operating Fund to the Reserves Fund to be available for future requirements.

DISCUSSION

Transfers associated with Policy change:

Q308 Operations Stabilization Reserve

This reserve is used to smooth significant fluctuations in expenditures which cannot be anticipated at budget time and are beyond the control of the organization. It is funded from an annual allocation from Fiscal Services operating budget and the reserve business case recommends that future contributions be made until the reserve reaches a maximum of \$1,000,000. During the initial budget review for 2003/04, it was anticipated that an additional \$825,000 would be transferred to this reserve from the operating fund. However, with pressures on the operating budget and with the knowledge that the valuation allowance policy was under review, the transfer from Fiscal Services was removed from the 2003/04 budget. Prior to this transfer, the unappropriated balance in this reserve as at March 31, 2003 is \$368,000 with one final future commitment in 2004/05 for \$403,884 for loan repayments. To ensure this reserve is available for its intended use, it is recommended that \$1,930,958 of the one-time valuation allowance gain be allocated here. The annual contribution and the revised maximum of \$2,000,000 will be reviewed as part of the 2004/05 and future budgets.

Q310 Service Improvement Reserve

The Service Improvement Reserve is used to provide loans for business redesign projects that improve HRM's business processes and for which seed capital is required and is capped at a maximum of \$1,500,000 in available dollars. Based on the 2003/04 Reserve Budget, the balance in this reserve at March 31, 2004 will be approximately \$500,000. Therefore, it is recommended that \$1,000,000 of the one-time valuation allowance gain be allocated to this reserve.

Q306 Self Insurance Reserve

This reserve is used to provide funds for settlement of claims below HRM's insurance deductibles, for minimum deductibles on claims covered by our outside provider insurance policy and for any expenses related to these claims. It is funded on an annual basis from the Fiscal Services operating budget. Over the past three years, the expenditures have exceeded the amount transferred from the operating fund and the balance in the reserve has eroded from \$1.4 million at March 31, 2000 to a balance of \$201,000 at March 31, 2003. Currently, there are significant outstanding claims and premiums are experiencing a greater than 20% increase. Given these current pressures on insurance costs and to ensure that funds are available to fund risk management activities designed to reduce the overall risk to the Municipality, it is recommended that, at a minimum, \$1,500,000 of the one-time valuation allowance gain be allocated to the Self Insurance Reserve.

Q309 Snow & Ice Control Reserve

This reserve is to provide funding for costs associated with snow and ice control which are beyond

that provided in the annual operating budget. The balance should not exceed 25% of the average of the most recent five fiscal years of actual snow and ice costs, currently approximately \$2.7 million and the balance should not drop below 10% of the same average, currently approximately \$1.1 million. The balance in the reserve at March 31, 2003, prior to the transfers recommended in this report, is \$1,230,000.

Over the past three years, the budget for snow and ice has been between \$8 and \$9 million whereas actual costs have been in the range of \$12 to \$14 million. A report is coming to Council regarding a review of the snow & ice operations in response to the upward trend in these costs. For 2002/03, operating budget surpluses in some of the other operating areas covers the majority of the snow & ice deficit, however, with no reserve withdrawal, there will be a small general rate deficit. The operating budget for 2003/04 includes no operating deficit carry forward. Therefore, in accordance with the Reserve Business Case, it is recommended that \$250,000 be withdrawn from the Snow & Ice Control Reserve. In addition, to ensure that the minimum balance can be maintained and the reserve is available when required, it is recommended that \$1,600,000 from the valuation policy change adjustment be transferred to this reserve. Therefore, the net transfer to the Snow & Ice Control Reserve for 2002/03 will be \$1,350,000.

Q106 Wastewater/Stormwater Management Reserve

In compliance with By-Law S-100 Respecting Sewer Charges, this reserve provides for the annual costs of maintaining the wastewater and stormwater collection system. The Wastewater/Stormwater Management Charge is collected on behalf of HRM by the Halifax Regional Water Commission based on per cubic metre of water consumption. Growth in HRM's wastewater and stormwater collection system has been steadily increasing in recent years plus existing infrastructure is gradually deteriorating thus requiring increased maintenance. In addition, a change in policy in 1999 whereby HRM became responsible for the replacement of deficient service laterals within the street right-of-way has dramatically increased costs. Expenditures have exceeded revenues for the past 2 years and there is now no equity balance in the reserve to manage any future overexpenditures.

For the year ended March 31, 2003, the operating costs were \$395,319 greater than the available balance in the reserve. While separate reports are coming forward to Council regarding cost pressures and rates, a \$400,000 loan transfer to the reserve and withdrawal of \$395,319 will fund the current year's operating costs. It is recommended that the \$400,000 transfer be in the form of a loan to be repaid to the Operations Stabilization Reserve in 2004/05.

Other Transfers:

Q105 Environmental Protection Reserve

In compliance with By-Law S-100 Respecting Sewer Charges, this reserve provides for the annual operating costs of the sewage treatment plants, a domestic water plant, a sludge transport unit, and a biosolids stabilization lagoon, as well as various interceptor sewers, pumping stations and associated forcemains. Operating costs for the year were budgeted at \$5,087,540, however, final costs for the year were \$5,356,766. Therefore, Council approval for the withdrawal of \$269,226 is recommended to cover the full operating costs of these operations. There are sufficient funds in the reserve to cover this withdrawal. Separate reports are coming forward to Council regarding cost pressures and rates.

BUDGET IMPLICATIONS

There are no negative budget implications of these recommendations. The transfer of the \$6,430,958 to the various operating reserves is a one-time gain which, in accordance with Accounting policy is being transferred to operating reserves to be available for future use. The transfers from the Snow & Ice Control, Environmental Protection and Wastewater/Stormwater Reserves are in accordance with the Reserve Business Cases and provide for the funding of actual operating expenditures incurred during 2002/03.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLANS

This report complies with the Municipality's Multi-Year Financial Strategy as well as relevant legislation. There is no impact on the approved Capital budget, however, this report is recommending additional reserve transfers over and above what was in the original Operating and Reserve budgets and is in accordance with policies and procedures regarding withdrawals from and utilization of Capital and Operating reserves.

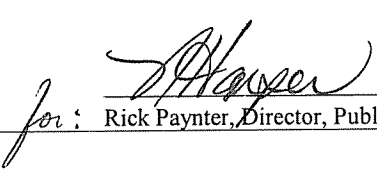
ALTERNATIVES

Alternative uses of available funds are unlimited, however, these priorities have been identified and are the recommended courses of action.

ATTACHMENT

- Valuation Allowance Policy

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by:	Pam Caswill, CA, Manager of Accounting	490-6324
Report Approved by:	 for: Rick Paynter, Director, Public Works & Transportation Services	490-4855

ATTACHMENT

Accounting Policy

(e) Valuation Allowances:

Uncollected taxes:

The Municipality provides an allowance for uncollected taxes which is based on a review of individual accounts plus a percentage of the remaining balances based on past collection experience as follows:

- 2 % of commercial and residential taxes outstanding at the end of the current year which have been outstanding less than one year plus;
- 10% of commercial and residential taxes outstanding at the end of the current year which have been outstanding for one to two years plus;
- 20% of commercial and residential taxes outstanding at the end of the current year which have been outstanding for greater than two years plus;
- 20% of business occupancy taxes outstanding at the end of the current year which have been outstanding less than one year plus;
- 100% of business occupancy taxes outstanding at the end of the current year which have been outstanding for over one year.

Other receivables:

The Municipality provides an allowance for all other receivables based on a review of the individual accounts outstanding at the end of the year. The amount is estimated taking into consideration all circumstances known at the date of the review.

Unresolved assessment appeals:

The Municipality provides a valuation allowance for unresolved assessment appeals. The amount is estimated based on experience reflecting the probable result of such appeals