



CAO / Director of Finance Joint Report

Reserves as at December 31, 2007

March - 2008

The purpose of this report is to summarize the various segregated funds/reserve accounts held by this Board. The first portion of the report speaks to the need and value of segregated funds/reserves in general terms. Segregated funds are amounts which, although held by the Board, must be spent on activities approved by the appropriate ministry. This report sets out each segregated fund/reserve and provides the rationale for that segregated fund/reserve. The actual amount of each segregated fund/reserve as of December 31, 2007 is included and is consistent with the amounts recorded in the draft 2007 audit.

General

The total amount of reserves (excluding Housing Services Capital Reserve) which the Board may retain is 15% of the Board's gross operating budget. This amount is set out in the District Social Services Administration Boards Act and is considered by most Boards to be the minimum requirement. Effective 2004, reserves in the Housing Services Capital Fund Reserve are invested with the Social Housing Services Corporation as provided for in the Social Housing Reform Act.

Based on the 2008 budget, the reserves cannot exceed 15% or \$4,416,355 (excluding the Housing Services Capital Reserve). The total actual reserve (excluding the Housing Services Capital Reserve) at the end of 2007 is \$2,244,146

Reasons for Reserves

The Board requires reserves for a variety of reasons.

Specific Liabilities:

Reserves are needed to cover specific liabilities including but not limited to future severance payments, unpaid bills, legal proceedings, subsidy adjustments, etc.

Prevention of Borrowing:

The Board has several programs in which it expends funds and then must wait for the retroactive payment of Provincial or Federal subsidies. By resolution, the Board has developed a levy system in which it waits for the retroactive payment of Municipal and unincorporated levies. If the Board has no reserve it must borrow, at significant cost, to cover these expenditures. The Board has been in that position in the past and the interest costs were very high.

Reduction / Elimination of Bank Charges:

Because the Board has reserves, it has been able, through a competitive tendering process, to negotiate very reasonable terms with a bank. Those terms provide for an interest payment at prime and a set service fee of \$100 per month which covers all transactions except EFT. However, EFT transactions are also provided at a preferred rate. In the past when there were no reserves we had very high interest costs and bank charges.

Ability to Respond to Long Term Capital Needs:

The presence of reserves allowed the Board to respond in 2000 and 2001 to resolve serious accommodation issues in both Elliot Lake and Blind River. In Elliot Lake, reserves were used to fund significant renovations for leased space in the Algo Centre Mall and to facilitate a major co-location of several employment and health services in that community. There was no pay-back provision on those renovations as the Board is not the owner of the renovated space. In Blind River, reserves facilitated the construction of an office and once again facilitated an innovative co-location of related services. In this instance the reserves are being repaid as the Board owns the building. Similarly in Hornepayne in 2005 the Board built a garage and renovated an existing purchased house to serve as an EMS base in that community. This was done using reserve funds and those funds are being returned to the reserve on an annual basis over ten years.

In the Housing Services program, reserves are essential as building components and fixtures move through their life cycle. The reserves allow us to deal with exceptional and recurring capital requirements as part of our Housing Services Long Term Capital Plan. In 2007, reserves were utilized to secure funding and long-term borrowing for two new housing projects, a 10 unit project in Echo Bay and a 10 unit project in Dubreuilville.

Ability to Respond to Significant Program Changes:

The Board operates several programs which have been subject to huge cost shifts. During the early 1990's, the Municipal cost for the operation of the social assistance program surged due to an increase in caseload of over 300% in three years. That surge was directly driven by poor economic conditions and a major change in Provincially-set eligibility rules. Unfortunately, reserves had been depleted by the predecessor Board and there was no ability to cushion the impact.

EMS costs dramatically changed from 2001 to 2002 driven by new educational requirements for paramedics imposed by the Province and by unilateral Provincial budget decisions. In this case, there were reserves and the impact was reduced.

Although the Ministry has transitioned to 50/50 cost sharing for EMS, there was a significant reduction in funding for 2007/2008 related to First Nations funding.

Ability to Respond to Significant Grant or Cost Sharing Changes:

The Board is subject to the unilateral decisions of the Province and the Federal government to reduce grants or change cost sharing. This has been a reality with all four program areas under this Board's jurisdiction. Reserves provide some ability, at least in the short term, to offset these sudden unilateral decisions. In almost all of the downloaded programs, open ended cost sharing has been replaced by unilaterally set grants.

Summary of Segregated Funds and Reserves

National Child Benefit – Segregated Fund

The National Child Benefit was introduced in July 1998. The introduction of this Federal benefit resulted in Provincial and Municipal savings in the Ontario Works (OW) and the Ontario Disability Support Programs (ODSP). Municipal NCB savings must be reinvested by each Consolidated Municipal Service Manager under guidelines set by the Ministry of Community and Social Services. Preliminary estimates of savings (but not confirmed actual savings) are developed for each year. These estimates include the anticipated savings on the Ontario Works program and the NCB savings resulting from savings in the Ontario Disability Support Program (ODSP). Actual savings may vary dependent on actual OW and ODSP expenditures. They will also vary if the NCB allowance is again increased. This process results in either an over or under NCB expenditure in each year. NCB under expenditures are segregated into this fund and brought forward as part of the following year's plan. NCB over expenditures are also brought forward as a liability into the following year as part of the following years plan. This fund will be re-evaluated at the end of 2008 as the implementation of the Ontario Child Benefit may impact requirements related to this fund subsequent to July 1, 2008.

Balance end of 2007 is \$99,934 (to be utilized in 2008).

Housing Services Capital Reserve

The Ministry has passed regulations requiring each Consolidated Municipal Service Manager to set aside a prescribed amount each year for capital repairs for its directly operated public housing portfolio. In the ADSAB jurisdiction, the public housing portfolio ownership is registered to the Board (Effective 2004 – previously the Algoma District Local Housing Corporation).

Prior to devolution, the capital needs for the public housing portfolio were met by the Province from general revenues and from Federal subsidies. The capital needs of non-profit providers are met by allowing each non-profit provider to build a capital reserve as part of their annual budget process. As previously noted, beginning in 2003, these capital reserves are invested with the Social Housing Services Corporation.

As a result of Provincial regulations, the amount for ADSAB to set aside each year for capital repairs is \$1,100 per unit per year. For our 264 transferred public housing units the amount is $264 \times \$1,100 = \$290,400$. That amount is levied each year as part of the Housing Services levy. It is then placed in the Housing Services Capital Reserve. The annual capital repair activities are finalized at the January/February Board meeting in each year. The capital repairs approved in each year are then paid from the Housing Services Capital Reserve.

The Ministry of Municipal Affairs and Housing used Federal funds, as part of the transition process, to assist with the building of this reserve. In 2001, \$281,000 was added as a transition transfer. In November 2002, we received \$69,901.40 from the Federal government to add to our Housing Services Capital Reserve for our public housing portfolio. We do not expect any future such transfers. The 2002 surplus for the Algoma District Housing Corporation was also added to this reserve.

Balance end of 2007 is \$771,273.

Severance Reserve

The original base funding template for Emergency Medical Services included an annual reserve transfer for future severance liabilities related to this Program in the amount of \$27,384.

In addition, the Ministry of Municipal Affairs and Housing provided funding in the amount of \$121,803 in 2001 representing statutory entitlements assumed by this Board at the time of transfer of the Housing Services staff. Some of this funding was utilized in 2001 to settle one of the outstanding entitlements. Annual transfers in and out of this fund are reported annually to the Ministry through their prescribed year end reporting process.

Balance end of 2007 is \$292,399.

General Working Fund

This fund includes monies for specific liabilities as well as general operating reserves for the reasons set out above. The Board has the right, under the District Social Services Administration Boards Act, to levy for a reserve. However, during the last 30 years it has not, to our knowledge, done so. As the

District Social Services Boards were being formed in 1998 several DSSABs levied the full reserve allowed in their first year of operation. They now maintain that reserve at the 15% maximum amount.

The reserves which are presently in this fund were built up since the mid 1990s by moving annual surpluses into this reserve. This was done by resolution. These surpluses were generated by dramatic reductions in Ontario Works costs. We should not expect this phenomenon to repeat itself as we have been continuously reducing the portion of the budget related to Ontario Works.

This reserve must also cover any potential future costs related to ambulance bases and vehicles. Some DSSABs have set these reserves up separately and we may wish to consider this at some future date.

This reserve was decreased in 2005 to fund the construction of the Hornepayne ambulance base. Beginning in 2006 and in each subsequent year for the next ten years, an amount of \$13,000 will be budgeted in the EMS operating budget to repay the General Working Fund.

This repayment of a capital construction cost is similar to the arrangement made to fund the building of the Blind River office. In that instance approximately \$35,000 is refunded each year to pay for the construction.

In 2007, this reserve was decreased by \$120,000 to offset the pay equity payments made in the year.

Balance end of 2007 is \$1,819,287.

Housing Services Non-Profit Stabilization Reserve

Since 1998, the Board has been levying member Municipalities for Housing Services. Part of that levy relates to the support of six Municipal non-profit housing projects and two Federal Urban Native housing projects. The amount of subsidy for the years from 1998 to 2004 has been set by the Province based on their budget formulae. In March 2000 we were promised a new budgeting system based on Provincially set benchmarks. That system is now in place. The year to year increase in payments to the Municipal non-profits resulting from benchmarking was 13% for 2006. In order to reduce the year to year impact on the Board levy, 50% of that reserve or \$58,571 was used to offset the 2006 increase and \$26,045 was utilized to partially offset the 2007 increase.

Balance end of 2007 was \$32,526.

This report, once approved, is added to the finance section of the Board website as an ongoing reference document.

Keith Bell, CAO

Cecilia Bruno, Director of Finance