

Municipal Reserves: Are we using them properly in HH?

Well this is tough one to explain.

We have just a few sources of revenue to pay for running Hastings Highlands, which currently costs about \$10 Million a year. Taxing properties is the biggest source followed by handouts (called grants) from the provincial and federal governments (the County level above us provides no grants, but instead grabs about 25% of your tax bill for primarily social services). Then there are all kinds of fees for services, permits, penalties, interest, gas tax, asset sales.

The revenue sources to cover expenses for municipalities other than the above are debt and reserves. Now the easiest way to think of these is to compare them to your personal fiscal situation. If you need to buy a new car in 5 years you can either save up the money over time and when you make the purchase, pay for it out of your savings account... you have some interest to add from the years you tucked funds away...now remember this is not your chequing account which you use for gas, maintenance and general operating cost of the car. Of course the other option is to do nothing and in 5 years take out a loan for the following 5 years of ownership, which of course adds interest costs to your repayment amounts.

Reserves are much like the first option..... Let me illustrate. When we have operating costs (like your chequing account costs) and capital costs (like your saving account funds for a new car) we fund both of these in HH out of current expenses. For instance, HH adds up its costs to operate the municipality on an ongoing basis and then adds forced savings (reserve charges) for long term purchases like buildings, snowplows, computer systems. So the HH budget for 2021 is a combination of ongoing expenses of say \$9MM plus \$1MM in forced savings for replacement of big purchases in the future. You do the same thing when you have an automatic debit to your chequing account which credits your savings account for \$500 every month so in 5 years you have the funds to buy the car.

If you are with me so far I won't spend any time on debt as currently HH is still working off the big debt (\$3.5M) we assumed in 2009... (now down to \$1.2 M) and this council has shown no interest in adding more debt.

As a taxpayer here is what you need to watch for to keep the management of reserves fair. Unlike debt which has a clear repayment schedule in the future, no such rule applies to reserve funding. So for instance if a municipality hasn't set out a clear schedule for replacing long term assets and then are faced with funding 6 snow plows in a year's time.... They might try underfunding the operating costs below realistic levels (say \$7MM for 2021) and using a huge increase in reserves (say \$3M) so they have the money to buy the plows in 2023

What is wrong with this? Well in both scenarios above, you the taxpayer are funding a \$10MM budget...but in the first one you are getting proper operating costs and service whereas in the second one you are being overcharged for the new plows in the future and also getting poor current road service for your tax dollar

You can see how important it is that reserves fiscal planning be constructed in a way that matches the life of the asset (say 10 years for a plow) with the savings program to replace it...debt does this automatically as part of the repayment contract.

Now before you phone your councillor or the mayor let me make one thing abundantly clear...I have no reason to question the current handling of reserves in HH. In fact your treasury a couple of years ago set up a policy on reserves and many small rural municipalities haven't gotten this far. So we are on the right track. But more needs to be done.

Where do we go from here? Well just as you do personally for the car purchase, HH (which has about 15 separate reserve funds totaling around \$5 M) needs to set an annual target for a category...so if its road equipment, how much per year do we need to ensure we add to our equipment reserves so when the replacement time comes, we have the funds.

That's enough for now, and I hope this made some sense as municipal reserves, unlike your car loan are not usually subject to clear policies or rules and therefore can be open to distortion and abuse

I do track this metric, so let me repeat: while I would like to see the policy updated this is not because I have concerns about the treasury staff in HH. If you are in another municipality, you may want to talk to your CAO or Treasurer about how they handle reserves policies and debt. You may be surprised.

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