

Making Proper Use of the Various Funds

Municipalities can plan for several types of funds as they prepare their budgets. Reserve funds, financial reserves, working funds... Though their names may sound similar, these funds serve very different purposes. They must be managed responsibly and used properly to ensure the long-term financial health of cities and municipalities. Carmen McDuff, a municipal management advisor with the Association des directeurs municipaux du Québec (ADMQ), shines some light on the topic.

"The fund I prefer, and which I believe should be considered in all municipalities, is the working fund," says Ms. McDuff from the outset. This fund, which must be created by by-law, may come from unrestricted operating surplus or from a loan by by-law. It allows the municipality to fund itself and provide for its operating needs in terms of equipment.

For example, a working fund can be used to make expensive purchases such as vehicles or computer servers. Using this fund lets municipalities avoid having to prepare a loan by-law for these purchases, thereby saving a lot of time and effort. However, a working fund cannot exceed 20% of a municipality's budget. The amount available for this fund can therefore be increased depending on the annual budgets. Note that any changes to a working fund must be made by amending the initial by-law.

- "No municipality wants to announce to its population
- that it needs to increase taxes by 20% to pay for a given
- year's projects. Good financial management is
- important to avoid that kind of situation."



Carmen McDuff
Municipal management advisor
with the ADMQ

Reserve funds

Reserve funds are earmarked for specific activities or needs. A good example, in this election year, is the reserve fund for elections, which every municipality is required to have. Municipalities contribute to it annually over four years to raise the total amount required to hold elections.

This fund allows municipalities to plan ahead and spread the election budget over multiple years, meaning that they shouldn't need to shelve other projects in election years due to lack of funds.

Some municipalities also have reserve funds specific to their situations, such as quarry and sandpit funds. Like the funds set aside for elections, they are restricted and may not be used for expenditures other than those for which they are earmarked.



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The financial reserve

The financial reserve is actually a tax collected in anticipation of costly projects. A city or municipality planning a major expenditure in the coming years can tax in advance.

"Municipalities often build up financial reserves for sludge emptying, which is required every 10 years or so and is very costly," says Ms. McDuff.

Like a working fund, the financial reserve lets municipalities avoid loan by-laws, which means they won't incur debt for a project that can be planned. Once again, the benefit of this approach is that it prevents a substantial tax increase in the year the project is carried out. It's another case of opting for predictability, both for the municipality and for taxpayers.

Each municipality should also keep a certain amount in the unrestricted operating surplus, which acts as a nest egg. In unforeseen circumstances, or if a municipality is heading for a deficit, it can be used as backup.

When is it appropriate to take out a loan?

Although loan by-laws are not generally the first option suggested to municipalities to finance their endeavours, they do become necessary for large-scale projects, such as road repairs or building construction.

However, it's important to keep track of your overall borrowing and not have too much at any one time, otherwise debt and related interest rates may spiral out of control, advises the former director general.

"Managing a city's budget is like managing a personal budget. You should always ensure that you can meet basic needs through your spending. For a city, these needs are the core expenditures required to keep it running smoothly."

To avoid borrowing too much or too often, good financial planning and diligent management of available funds are essential at all times.



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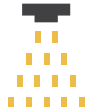
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