

City of Mississauga
Corporate Report



<p>Date: June 7, 2021</p> <p>To: Chair and Members of Budget Committee</p>	<p>Originator's files:</p>
<p>From: Shawn Slack, MBA, Acting Commissioner of Corporate Services and Chief Financial Officer</p>	<p>Meeting date: June 21, 2021</p>

Subject

2020 Year End Reserve and Reserve Fund Report

Recommendation

1. That the "2020 Year-End Report on Reserves and Reserve Funds" dated June 07, 2021, from the Acting Commissioner of Corporate Services and Chief Financial Officer, including Appendix 1, be received.
2. That a new Reserve Fund "Automated Speed Enforcement Reserve Fund" (account #35580) be created to collect revenues received from the Automated Enforcement Program and that these funds be used to fund related costs and future road safety initiatives.
3. That all necessary required by-laws be enacted.

Executive Summary

- Reserves and Reserve Funds (R&RF) balances have increased by \$57.6 million from 2019 year-end to 2020 year-end.
- No adjustments to R&RFs balances are being recommended for those R&RFs with targets.

Background

Reserves and Reserve funds (R&RFs) are created to assist with long-term financial stability and financial planning. By maintaining reserves, the City can accumulate funds for future needs or contingent liabilities, a key element of sound long-term financial planning practices. R&RFs also provide stability in times of unexpected shifts in revenues and expenditures. Credit rating agencies consider municipalities with higher reserve balances more advanced in their financial planning. Reserves are maintained to:

- Provide stability in the face of variable and uncontrollable factors (e.g., growth, interest rates, and changes in subsidies) and to ensure adequate and sustainable cash flows;
- Provide financing for one-time or short-term requirements without permanently impacting tax rates;
- Make provisions for replacement of capital assets to sustain infrastructure;
- Provide flexibility to manage debt levels and protect the City's financial position, and
- Provide for future liabilities.

The City's Long Range Financial Plan will be updated in the 2022-2025 Business Plan based on the status of R&RFs as provided in this report.

Discretionary Reserves vs. Obligatory Reserves & Reserve Funds

Discretionary Reserves are established at the discretion of Council, often as part of an overall strategy to fund programs or special projects. Discretionary Reserves are generally used to mitigate the impact of fluctuations in operating costs and revenue. Examples of reserves currently used to mitigate budgetary fluctuations include the Reserve for Winter Maintenance and the Fiscal Stability Reserve. At the City, interest is not allocated to reserves.

Reserve Funds or Obligatory Reserves are established by Council for a specific purpose (i.e. Development Charges and Federal & Provincial Gas Tax). They contain funds that have been set aside as directed by a requirement of provincial or federal legislation, or by a decision of Council. Examples include funds for conducting major repairs, renovations or rehabilitation of buildings or large equipment; acquiring new assets; and, the lifecycle replacement of older city assets. Interest earned on these reserve funds must be allocated to the reserve fund that earned the interest.

At the end of 2020, over 55% of the balances in the City's Reserves & Reserve Funds accounts were classified as obligatory. Discretionary Reserves make up the remaining 45% and are largely earmarked to finance the city's aging infrastructure as well as securing funds for unforeseen or emergency circumstances.

Comments

Opening and Closing of Reserves and Reserve Funds in 2020

Two new R&RFs were established in 2020 through Council approved Corporate Reports.

Tourism Mississauga Reserve

Tourism Mississauga (New Tourism Corporation) was established to promote Mississauga as a tourism destination. The provincial regulations require that 50% of the net MAT (Municipal Accommodation Tax) collected be transferred to this new entity. A separate reserve was established "Tourism Mississauga Reserve (#30162)" to track these monies separately for the new corporation.

Safe Restart Municipal Reserve

Funding under the Safe Restart Municipal Relief Stream Phase 1 was provided upfront to the City in order to address 2020 COVID-19 operating costs and pressures. If the funding received exceeded the City's 2020 COVID-19 operating costs and pressures, the province's directive was that the City place any excess funding into a reserve in order to be accessed to support COVID-19 operating costs and pressures that may continue to be incurred in 2021. The 'Safe Restart Municipal Reserve' was established for this purpose.

New Reserve Fund**Automated Speed Enforcement Reserve Fund**

The Automated Enforcement reserve fund will be established with the purpose of capturing all revenues received through the City's automated enforcement programs. Funding from the reserve fund will be used to fund related operating and capital expenditures, in keeping with legislation where applicable (for example, automated speed enforcement requires that any costs exceeding the delivery of the Municipal ASE program be used to support local public safety and educational initiatives).

2020 Year-End Balances and Significant Changes from 2019

As at December 31, 2020, City staff managed 107 R&RFs with a consolidated 2020 year-end balance of \$958.9M (excluding accruals and other year-end accounting adjustments). The total balance of R&RFs has increased by \$57.6M from 2019 to 2020. Table 1 summarizes all operating and capital R&RFs. R&RF balances are managed on an individual basis. Appendix 1 provides a more detailed listing of each R&RF.

Table 1. Reserves and Reserve Funds - Position (\$000s)

	<u>Year End 2019</u>	<u>Year End 2020</u>	<u>\$ Change in Balance</u>	<u>% Change in Balance</u>
Obligatory R&RFs				
Safe Restart Municipal Reserve	-	-	-	-
Developer Contributions	21,444	23,157	1,713	8.0%
Gas Tax Reserve Funds	156,246	143,716	-12,529	-8.0%
Lot Levy Reserve Funds	62,868	65,305	2,437	3.9%
Stormwater Reserve Funds	40,756	64,450	23,694	58.1%
Development Charges Reserves	103,566	127,072	23,506	22.7%
Planning Act Reserve Funds	132,627	107,424	-25,202	-19.0%
	517,506	531,125	13,618	
Discretionary R&RFs				
Fiscal Stability Reserve	51,253	55,752	4,500	8.8%
Operating Reserves	33,644	52,946	19,302	57.4%
Stormwater Reserves	5,442	5,952	510	9.4%
Employee Benefit Reserve	35,594	34,484	-1,111	-3.1%
Insurance Reserve Funds	45,891	46,052	161	0.4%
Other Reserve Funds	21,128	12,067	-9,061	-42.9%
Tax Capital	181,818	195,956	14,138	7.8%
Tax Specific Purpose	9,028	24,543	15,515	171.8%
	383,798	427,751	43,953	
Total R&RFs*	901,304	958,875	57,571	

*Excluding accruals and other year-end accounting adjustments.

*Funding will be transferred as per Federal/Provincial agreements.

Development Charges Reserve Funds received a higher than budgeted amount of revenues throughout the year. Funds were transferred midyear to and from certain Downtown Road Construction capital projects. Additionally, some funds were returned to the reserves during the 2019 Yearend and 2020 Midyear WIP process. This resulted in an overall increase in the Development Charges Reserves of 23%.

Planning Act Reserve Funds encompass the Cash-in-Lieu (CIL) Reserve Funds. The CIL Parkland RF saw a number of land acquisitions during 2020, thus reducing the balance in the account.

The Operating Reserves increased during 2020 due to various revenue transfers from cost centers: Building Permit, Development Fees and Tourism. The most significant change in the Operating Reserves Fund category (offsetting in Other Reserve Funds) was the transfer of the 2018 and 2019 balances into the new Tourism Mississauga Reserve from the MAT Reserve.

Stormwater Reserve Funds have realized a 22.7% increase during 2020 mainly due to return of funds from Capital projects through the 2019 year-end and 2020 Midyear WIP report. Some projects of note are: Mississauga LRT Storm Sewer Improvements (PN19135) and Sheridan Creek Erosion Control- Lushes Ave. to behind Fletcher's Valley Crescent (PN20147). Tax Specific Purpose Reserve Funds saw an increase in 2020 mainly from funds returned during the 2020 Midyear WIP Process.

The Public Safety RF increased due to a reallocation of funds from three fire capital projects. Fire Station 123 - Burnhamthorpe/Winston Churchill - Design and Construction (PN 19269) returned \$11.2M, to be re-budgeted in 2021 in order to begin construction concurrently with Fire Station 124 to take advantage of economies of scale. Projects for New Fire Trucks for Station 123 and 124 (PN 20257 and PN 20258) were returned and re-budgeted (\$2.2M each) in 2022 to align with new fire station construction.

Reserves & Reserve Funds with Targets

Target balances for specific R&RFs have been identified to ensure these R&RFs are adequately funded. Table 2 provides a summary of all R&RFs with targets, comparing 2020 year-end balances to target. R&RF targets and balances are continually reviewed by finance staff. Any funding requirements or revised targets are addressed through the annual Business Plan & Budget process, or specific corporate reports.

Table 2. Reserves and Reserve Funds with Targets - Balance Compared to Target (\$000s)

Reserves and Reserve Funds*	Target	YE 2020 Target	YE 2020 Balance	% to Target	Projected YE 2030	Comments
Reserve for Winter Maintenance	33% of last 5-year average winter maintenance expenditures	7,429	9,561	129%	6,461	Balance over target being maintained in preparation of funding future pressures (e.g., bus stop clearing).
Reserve for Building Permit Revenue Stabilization	100% of the average of actual building permit revenue and development fee revenue for the highest two years in the last five years	15,576	25,569	164%	25,569	Reserve is used for fluctuations in economic activity.
Fiscal Stability Reserve	10% of own-source revenue, less target for other stabilization / contingency funds (currently, Winter Maintenance and Building Permit Revenue Stabilization).	64,597	55,752	86%	59,803	Reserve balance available for unforeseen or emergency circumstances.
Insurance Reserve Funds	Year-end value of case reserves plus 50% of the actuarial present value for Incurred but Not Reported (IBNR) claims (both from the Actuarial Insurance Report).	24,882	46,052	185%	33,058	Reserve adequate for future needs.
Employee Benefits Reserve Fund	Total of 2x 5 years average expenditure for (1) vacation payouts; (2) sick leave payouts; (3) group life insurance; plus (4) full actuarial estimate for WSIB.	40,882	34,484	84%	17,199	Potential future year budget adjustment may be required to achieve a target balance.
Tax Capital Reserve Fund	Maintain cash balance equivalent to one year's worth of the 10-year forward-looking average of the tax-supported capital expenditure requirements (excluding debt).	107,000	186,765	175%	107,000	Reserve is managed to target; balance can vary significantly from year to year. This reserve is used to fund the City's capital program.
Stormwater Capital Reserve Fund	Maintain cash balance equivalent to 10-year average.	25,000	44,310	177%	25,000	Reserve is managed to target; balance can vary significantly from year to year. This reserve is used to fund the City's Stormwater capital program.
Federal Gas Tax	Equal to one year's contribution (prior year).	43,000	87,869	204%	43,000	Balance in reserve is significantly above target due to doubling of Federal Gas Tax received. Expectation is that funding will be used to fund the City's eligible capital projects.
Provincial Gas Tax	Equal to one year's contribution (prior year).	18,745	31,611	169%	18,900	Temporary increase in balance projected to return to normal by 2025.
DCA - General Government		200	-3,837	-1918%	200	
DCA - Dev Related Studies-Discounted Services		100	-493	-493%	100	
DCA - DCA Dev Related Studies-Non Discounted Services		400	162	41%	400	
DCA - Recreation and Parks		8,100	23,432	289%	8,100	
DCA - Fire Services		1,200	-9,493	-791%	1,200	
DCA - Library		900	4,574	508%	900	
DCA - Transit		1,800	10,354	575%	1,800	
DCA - Roads and Related Infrastructure		19,000	39,348	207%	19,000	
DCA - Public Works		900	12,208	1356%	900	
DCA - Parking		700	6,255	894%	700	
Stormwater - DCA		0	35,198	0%	0	
	Equal to one year's contribution (prior year).					Balances are used to fund Development Capital projects. Balances can vary significantly from year to year due to project cashflow requirements.

*Excluding accruals and other year-end accounting adjustments.

Financial Impact

There are no financial impacts resulting from the recommendations in this report. The R&RF balances are in a fiscally stable position. Annual capital budget development and the Long Range Financial Plan ensure that R&RFs are optimally used to address infrastructure replacement and city building needs. Strong and predictable R&RF balances also ensure the City can fund projects should anticipated senior government funding not be available or to cost-share infrastructure projects (e.g. ICIP). Established principles and procedures for the City's Reserves and Reserve Funds ensure the City is well positioned for long-range financial planning, and reduce the potential for unanticipated budget pressures.

The City's 2020 deficit (due to COVID-19 pressures) was funded by emergency funding from both the Federal and Provincial levels of government. COVID related pressures in 2021, 2022 and 2023 are anticipated to be significant, largely in part due to slowly recovering transit and recreation revenues, as well as negative impacts due to very low PILT revenue. These shortfalls will be managed through a combination of already announced Safe Restart and COVID-19 Recovery Funding, use of reserves, aggressive management of costs, monitoring of revenues and continued advocacy for Federal and Provincial assistance.

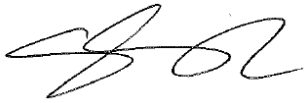
Conclusion

Strong R&RF management and administration are key components of the City's long-term planning strategies and assists the City in achieving sustainability and flexibility while minimizing vulnerability. Planning for future liabilities and providing for a contingency ensures these liabilities and risks can be addressed as required.

Financial Strategies has established an approach of continuous improvement with respect to R&RFs. Policies, procedures and guidelines continue to be developed. Staff will continue to report ongoing activity through the Budget and Business Planning cycle and through the annual R&RF report.

Attachments

Appendix 1: Reserves/Reserve Funds – Year End 2020



Shawn Slack, MBA, Acting Commissioner of Corporate Services and Chief Financial Officer

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