

Date: April 8, 2022	Originator's files:
To: Chair and Members of General Committee	
From: Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer	Meeting date: April 27, 2022

Subject

2021 Year End Reserve and Reserve Fund Report

Recommendation

That the corporate report dated April 8, 2022 from the Commissioner of Corporate Services and Chief Financial Officer entitled "2021 Year End Reserve and Reserve Fund Report" be approved, as follows;

1. That a new Reserve Fund entitled "Parking Meter Revenues" (#35519) be created to be used to transfer surplus from Parking Revenue;
2. That \$291,276.99 be transferred from the "Special Holding Reserve Fund" (#35589) to "Parking Meter Revenues" (#35519);
3. That a new Reserve entitled "DC Incentive Program Reserve" (#30163) be created for the implementation of an incentive program for eligible non-profit developments;
4. That CIL Parking Reserve Funds (#35351 to #35355 and #35360) be merged into one Reserve Fund under #35351 and that the Reserve Fund be renamed to "CIL Parking- City Wide (#35351);
5. That Column II of Schedule "B" of By-law #0298-2000 be amended to the following description for "Debt Management Reserve Fund - Tax Capital": Debt funds to be allocated to debt projects or debt surplus funds to be re-allocated for similar projects;
6. That the Federal Gas Tax Reserve Funds (#35182 and #35183) be renamed to "Canada Community Building Fund Reserve Fund- AMO" (#35182) and "Canada Community Building Fund Reserve Fund-Region" (#35183);
7. That funding of \$12,182,362 be transferred from the Affordable Housing Reserve Fund (#35596) to the DC Incentive Program Reserve (#30163);
8. That funding of \$4,000,000 be transferred from the Building Revenue Stabilization Reserve (#30161) to the Affordable Housing Reserve Fund (#35596);
9. That \$659,212.48 be transferred from the MoveOntario 2020 Higher Order Transit Reserve Fund (#35187) to the Capital Reserve Fund (#33121);
10. That all necessary required by-laws be enacted.

Executive Summary

- Reserves and Reserve Funds (R&RF) balances have increased by \$107.4M from 2020 year-end to 2021 year-end.
- No adjustments to R&RFs balances required in order to meet targets.
- Four new R&RFs were established and one Reserve Fund was closed in 2021.

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 2023-2026 Business Plan based on the status of R&RFs as provided in this report.

Discretionary Reserves & Reserve Funds 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.

Discretionary 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 2021, over 40% of the balances in the City's R&RF accounts were classified as obligatory. Discretionary R&RFs make up the remaining 60% 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 2021

Four new R&RFs were established in 2021 through Council approved Corporate Reports:

Automated Enforcement Reserve Fund (#35580)

According to the provincial guideline for Automated Speeding Enforcement revenue: “municipal revenue, collected under any Municipal ASE program, that exceeds the costs of delivering the Municipal ASE program is used to support local public safety and educational initiatives”. A reserve fund was set up for any revenue received from the ASE program, after which the funds will be transferred to cover the program expenses, and to be used for road safety initiatives.

COVID19 Recovery Funding Municipal Reserve Fund (#30152)

Should the funding received exceed the City’s 2021 COVID-19 operating costs and pressures, the province’s expectation is that the City will place the excess funding into a reserve fund to be accessed to support any future 2022 COVID-19 operating costs and pressures. A separate “COVID-19 Recovery Funding for Municipalities Program” Reserve Fund was established for this purpose.

Discretionary DC Exemption Reserve Fund (#35600)

The purpose of this Reserve Fund is to fund any discretionary DC exemptions, such as interest, approved by Council. The Discretionary DC Exemption Reserve Fund was funded through tax through the 2022 operating budget. This will be used to fund future DC projects.

Tax-Funded Planning and Studies (#33122)

A new Tax-Funded Planning and Studies Reserve Fund was established with the purpose of segregating funding for various studies such as Master Plans and Studies across all service areas. These projects have previously been funded through the Tax-Capital Reserve Fund. This administrative segregation will provide increased transparency regarding how much is spent on planning studies. Equivalent funding will be transferred from the Tax Capital Reserve Fund.

One Reserve Fund was closed in 2021 through Council approved Corporate Reports:

Donations- Boeing Airport Memorial (#35538)

The donation made by Boeing Toronto Ltd. in the amount \$25,000 plus all accrued interest to Dec 31, 2020 is to be used for its intended purposes of honouring the employees that worked at this site by creating Story Boards for the Avro Arrow Project. Council enacted a bylaw to transfer the funds from the Boeing Reserve Fund (#35538) to the AVRO Arrow Project (PN#19351) and subsequently close the Boeing Reserve Fund.

New Reserve and Reserve Fund**Parking Meter Revenues (#35519)**

A new Discretionary Reserve Fund is to be established with the purpose of managing the net revenues that are deposited from the parking meters at year end. The current process is being changed to enhance financial reporting. RF#35589 has been used temporarily for yearend purposes. An adjusting entry will move the funds into the new Reserve Fund once it is established.

DC Incentive Program Reserve (#30163)

A new Reserve is to be established for providing funds for the implementation of an incentive program for eligible non-profit developments.

Consolidation of Reserve Funds

In the Parking Master Plan it was determined that it would be beneficial to merge the six geographically-delineated parking reserve accounts into one reserve fund. The City follows a principle that prioritizes its City-wide capital program on a need basis. Merging the six capital reserves into one account would help the City to maintain this principle. It is recommended that the following reserve funds be consolidated into reserve fund #35351 and be renamed to "CIL Parking- City Wide".

35351- CIL Parking Port Credit
35352- CIL Parking Cooksville
35353- CIL Parking Clarkson
35354- CIL Parking Streetsville
35355- CIL Parking Lakeview
35360- City Centre Off- Street Parking

Amendment of Reserve and Reserve Funds**Debt Management Reserve Fund -Tax Capital (#37100)**

To align with the new accounting process for funding capital projects, the following description change is recommended for this Reserve Fund:

Current By-law Column II Wording: "Debt surplus funds to be re-allocated for future debt projects or reallocate funding where a deficit exists on similar projects."

Proposed By-law Column II Wording: "Debt funds to be allocated to debt projects or debt surplus funds to be re-allocated for similar projects."

Federal Gas Tax Reserve Funds (#35182 and #35183)

As of June 29, 2021 the Federal Gas Tax Fund has been renamed to Canada Community-Building Fund (CCBF). This name change better reflects the program's evolution over time and does not alter or modify the objectives or requirements of the program. For the City to be aligned with this change it is recommended to rename the City's Federal Gas Tax Reserve Funds:

- #35182- FEDERAL GAS TAX RESERVE FUND-C to Canada Community Building Fund – AMO
- #35183 - FEDERAL GAS TAX RESERVE FUND-R to Canada Community Building Fund – Region

Transfers

- 1) A corporate report dated March 11, 2022 entitled, "Development Charges Grants for Eligible Non-Profit Developments" was approved to establish and to administer grants for eligible non-profit developments, including long-term care homes, hospices, shelters and transitional homes. The grant is intended to reimburse non-profit organizations on the City portion of development charges paid on eligible developments. On the same corporate report, a grant was approved by Council to be provided to Trillium Health Partners in the amount of \$9,917,802.51 for their development providing 632 long-term care beds at 2180 Speakman Drive.

In 2021, Council approved a zero per cent interest rate on deferred DC payments, to support the City's Housing Strategy and alignment with the Region of Peel DC deferral annual interest rate. However, due to budget pressures, the 2022 operating budget request of \$2.8M to fund the program was reduced to \$1.4M.

In order to fund the Grants for Eligible Non-Profit Development program and the Zero Interest Deferral program fully up to 2024, a transfer of \$12,182,362 is recommended to be transferred from the Building Revenue Stabilization Reserve (#30161) to the DC Incentive Program Reserve (#30163).

- 2) A corporate report dated March 14, 2022 entitled, "Development Charges Grants for Eligible Affordable Rental Housing" was approved to provide a grant program equivalent to the City portion of development charges to support affordable rental housing on a 500 unit pilot basis. The annual cost is estimated at \$2M.

Initial funding of this program will be done through a transfer from the Building Revenue Stabilization reserve (#30161) to the Affordable Housing Reserve Fund (#35596) in the amount of \$4M.

- 3) A reallocation of interest from the Move Ontario 2020 Higher Order Grant program to the Tax Capital Reserve Fund (#33121) in the amount of \$659,212.48. The conditions of the funding agreement were met and thus the interest accrued in this account is being transferred in order to fund future capital transit initiatives.

LEAN Project: Funding Capital Projects

A LEAN Green Belt Project was undertaken by Finance staff this year to redesign the process of funding transfers to the Council approved capital projects. Previous process was to move the funds from the R&RFs to the Project immediately upon Council approval. The money was tied up until the completion of that project, at which time any leftover money would be returned back to the reserve or reserve fund. This cycle could take anywhere between 2 and 4 years, or longer.

The timing of this transfer to projects affects the interest allocation in Reserve Funds. Interest is allocated first on average RF balances based on a calculated rate. Any residual holding after that is allocated on a percentage RF balance. Transferring funding at the time of project approval causes a misalignment between timing of transferring of funding to the project and project expenditures from accounting standpoint. To improve this process a new procedure was created;

sub-reserve and sub-reserve funds were set up to segregate encumbered funds but still be able to roll up and be part of the overall R&RF balance. The money from these accounts is transferred to the projects to cover expenses in the year that they are incurred.

Other benefits of this project that were accomplished:

- control over capital project progress
- simplify and improve financial planning
- efficiencies during budgeting and WIP cycles

2021 Year-End Balances and Significant Changes from 2020

As at December 31, 2021, City staff managed 111 R&RFs with a consolidated 2021 year-end balance of \$1.066B. The total balance of R&RFs has increased by \$107.4M from 2020 to 2021. 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 2020</u>	<u>Year End 2021</u>	<u>\$ Change in Balance</u>	<u>% Change in Balance</u>
Obligatory R&RFs				
Development Charges	127,072	170,189	43,117	33.9%
CIL Parkland	95,214	75,642	-19,572	-20.6%
CIL Parking	9,180	9,258	78	0.8%
Bonus Zoning	3,030	2,546	-484	-16.0%
Provincial Gas Tax	51,274	40,636	-10,637	-20.7%
Federal Gas Tax	92,443	113,807	21,365	23.1%
Safe Restart Transit	0	18,228	18,228	-
	378,212	430,308	52,095	
Discretionary R&RFs				
Fiscal Stability	55,752	56,872	1,119	2.0%
Operating Reserves	52,946	58,727	5,782	10.9%
Stormwater Reserves	5,952	5,371	-581	-9.8%
Developer Contributions	23,157	25,691	2,534	10.9%
Employee Benefits	34,484	33,610	-874	-2.5%
Insurance	46,052	44,750	-1,302	-2.8%
Lot Levy	65,305	67,747	2,442	3.7%
Other Reserve Funds	12,067	44,260	32,193	266.8%
Stormwater Reserve Fund	64,450	73,568	9,118	14.1%
Tax Capital	195,956	203,065	7,110	3.6%
Tax Specific	24,543	22,316	-2,227	-9.1%
	580,663	635,978	55,315	
Total R&RFs	958,875	1,066,285	107,410	

Development Charges Reserve Funds received \$97.7M in 2021. Funds were transferred to fund the DC 2021 Capital Program and funds were returned during the 2020 Yearend and 2021 Midyear WIP process. This resulted in an overall increase in the Development Charges Reserves of 33.9%.

The City acquired large land parcels during 2021, thus reducing the balance of the CIL Parkland Reserve Fund by 20.6%.

Various projects eligible for Section 37 funding commenced in 2021.

The overall balance in the Provincial Gas Tax Reserve Funds decreased by \$10 million in 2021 attributed to a reallocation of interest from the Move Ontario 2020 Higher Order Grant program to the Tax Capital Reserve Fund. The conditions of the funding agreement were met and thus the interest accrued in this account was transferred in order to fund future capital transit initiatives.

The increase in the Federal Gas Tax Reserve Funds is mostly attributed to the doubling (top-up) announced in Bill C-30.

The large increase in the “Other Reserve Funds” category is attributed to the funding received from the COVID19 Recovery Funding for Municipalities program in the amount of \$20.3M, out of which \$2.7M was used towards funding the City’s deficit. The other large transfer was into the Affordable Housing Reserve Fund from the Building Revenue Surplus.

Stormwater Reserve Funds have increased during 2021 mainly due to the transfer from operating for the Stormwater Pipe Reserve Fund as well as some returns of funds from Capital projects due to project completion.

Reserves & Reserve Funds with Targets

Target balances for specific R&RFs have been identified to ensure these R&RFs are adequately funded. Appendix 2 provides a summary of all R&RFs with targets, comparing 2021 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.

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 2021 deficit (due to COVID-19 pressures) was funded by emergency funding from both the Federal and Provincial levels of government. COVID related pressures in 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 GTAA 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 and Reserve Funds – Year End 2021

Appendix 2: Reserves and Reserve Funds with Targets - Balance Compared to Target



Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer

Prepared by: Ann Wong, Manager, Financial Strategies