

City of Mississauga  
**Corporate Report**



<p>Date: March 22, 2023</p> <p>To: Chair and Members of Budget Committee</p>	<p>Originator's files:</p>
<p>From: Shari Lichterman, CPA, CMA, Acting City Manager and Chief Administrative Officer</p>	<p>Meeting date: May 3, 2023</p>

## Subject

### 2022 Year End Reserve and Reserve Fund Report

## Recommendation

1. That Britannia Hills Golf Course Reserve Fund (#35583) be renamed to "BraeBen Golf Course Reserve Fund".
2. That the balance of \$12,805,678.11 as listed in Appendix 1 in various Lot Levy Reserve Funds be transferred to various DC Reserve Funds as per Appendix 2, as outlined in the corporate report titled 2022 Year End Reserve and Reserve Fund Report dated March 22, 2023 from the Acting City Manager and Chief Administrative Officer.
3. That the Lot Levy- Fire Reserve Fund (#35104) be closed.
4. That the Lot Levy- Engineering Other Reserve Fund (#35126) be closed.
5. That the Lot Levy- Transit Reserve Fund (#35106) be closed.
6. That the Lot Levy- Major Watercourses Reserve Fund (#35311) be closed.
7. That the balance of \$10,000,000 from Major Storm Improvement Levy Reserve Fund (#35124) be transferred to Tax-capital Reserve Fund (#33121).
8. That \$48,340.86 be transferred from Tax Capital Reserve Fund (#33121) to the Canada Community Building Reserve Fund –Region (#35183).
9. That all necessary required by-laws be enacted.

## Executive Summary

- Reserves and Reserve Funds (R&RFs) balances have decreased by \$104.1 million (net of committed funds) from 2021 year-end to 2022 year-end.
- No adjustments to the 2022 year-end R&RFs balances were required in order to meet targets.
- Four new R&RFs were established and six Reserve Funds were closed in 2022.

## 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 2024-2027 Business Plan based on the status of R&RFs as provided in this report.

### **Discretionary Reserves and Reserve Funds vs. Obligatory Reserves and 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 Reserve Funds 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 2022, 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 2022

Four new R&RFs were established in 2022 through Council approved Corporate Reports:

#### **Parking Meter Revenues (#35519)**

A new Discretionary Reserve Fund was established with the purpose of managing the net revenues that are deposited from the parking meters at year end. The process was updated to enhance financial reporting.

#### **DC Incentive Program Reserve (#30163)**

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

#### **LTD- ASO Taxable (#36126)**

A new Discretionary Reserve Fund named LTD- ASO Taxable (RF# 36126) was established to manage the funding of taxable Long-term Disability claim payments.

#### **LTD- ASO- Non-Taxable (#36127)**

A new Discretionary Reserve Fund named LTD- ASO Non-Taxable (RF# 36127) was established to manage the funding of non-taxable Long-term Disability payments.

### Amendment of Reserve and Reserve Funds

#### **Britannia Hills Golf Course (#35583)**

Rename the Reserve Fund to reflect the updated name of the golf course: "BraeBen Golf Course". Britannia Hills Golf Course was officially renamed to BraeBen Golf Course in 2005.

### Review of Lot Levy Development Credits and Waived Services

Finance and Planning & Building Department staff conducted a line-by-line review to verify the stated liabilities under Section 14 credits that composed the values of prepaid credits and waived services. As a result of that review, total funds of \$12.8 million were identified in relation to properties that were already built-out as shown in Appendix 1. The City is no longer required to set aside funds of \$12.8 million, as the liability decreased by the same amount. Amounts totalling \$12.8 million from various lot levy reserves can now be transferred as per Appendix 2. After the balance fund transfers, the following lot levy Reserve Funds will be closed:

- a) #35104 Fire;
- b) #35126 Engineering Other Levy Unallocated;
- c) #35106 Transit;
- d) #35311 Major Watercourses Unallocated.

With regard to the Stormwater lot levy liability, the Stormwater lot levy reserve should equal the liability. This equality has been maintained over the years. In 2019, the Stormwater DC rate was significantly reduced as result of the passing of the 2019 DC By-law and in 2022, that rate was further decreased. The 2022 year-end balance in the storm lot levy reserve is \$20 million higher than the liability. It is recommended that \$10 million be transferred from Major Storm Improvement Levy Reserve Fund (#35124) to Tax-capital reserve (#33121), since there is no obligation to maintain these funds in the Stormwater lot levy reserve. Furthermore, the excess amount in the reserve was generated through cumulative interest income earned over the years.

### **Transfers**

Due to Asset Management Planning staffing costs deemed ineligible under the Canada Community Building Reserve Fund (CCBF) program, a transfer of \$48,340.86 is required from the Tax Capital Reserve Fund (#33121) to Canada Community Building Reserve Fund –Region (#35183).

### **2022 Year-End Balances and Significant Changes from 2021**

As at December 31, 2022, City staff managed 103 R&RFs with a consolidated 2022 year-end balance of \$962.7 million (net of committed funds). The total balance of R&RFs has decreased by \$104.1 million (net of committed funds) from 2021 to 2022. Table 1 summarizes all operating and capital R&RFs. R&RF balances are managed on an individual basis. Appendix 3 provides a more detailed listing of each R&RF.

**Table 1. Reserves and Reserve Funds – Position (net of committed funds) (\$000s)**

	<u>Year End 2021</u>	<u>Year End 2022</u>	<u>\$ Change in Balance</u>	<u>% Change in Balance</u>
<b>Obligatory R&amp;RFs</b>				
Development Charges	170,189	222,232	52,043	31%
CIL Parkland	75,640	54,359	(21,282)	(28%)
CIL Parking	9,258	925	(8,333)	(90%)
Community Benefits Charge	2,546	13,407	10,861	427%
Provincial Gas Tax	40,636	35,522	(5,114)	(13%)
Federal Gas Tax	113,807	61,704	(52,103)	(46%)
Safe Restart Transit	18,228	0	(18,228)	(100%)
	<b>430,306</b>	<b>388,149</b>	<b>(42,157)</b>	
<b>Discretionary R&amp;RFs</b>				
Fiscal Stability	56,872	50,829	(6,043)	(11%)
Operating Reserves	58,709	68,554	9,846	17%
Stormwater Reserves	5,371	5,546	175	3%
Developer Contributions	25,691	32,554	6,863	27%
Employee Benefits	33,610	30,405	(3,205)	(10%)
Insurance	44,750	40,998	(3,752)	(8%)
Lot Levy	67,747	71,557	3,810	6%
Other Reserve Funds	44,260	36,075	(8,185)	(18%)
Stormwater Reserve Fund	73,568	70,510	(3,059)	(4%)
Tax Capital	203,601	167,350	(36,252)	(18%)
Tax Specific	22,316	203	(22,113)	(99%)
	<b>636,495</b>	<b>574,581</b>	<b>(61,914)</b>	
<b>Total R&amp;RFs</b>	<b>1,066,801</b>	<b>962,730</b>	<b>(104,071)</b>	

Development Charges Reserve Funds received \$111.3 million in revenue for 2022. Approximated \$59 million was dispersed to fund projects for the existing Capital Program. This resulted in an overall increase in the Development Charges Reserves of 30.6%.

Large land parcels were acquired by the City during 2022, thus reducing the balance of the Cash-in Lieu (CIL) of Parkland Reserve Fund by 28.1%.

CIL of Parking Reserve Funds were combined during 2022 into one Reserve Fund for streamlining purposes, following the Parking Master Plan recommendation. During this consolidation, a transfer was done to move an amount equal to \$8.8 million to a discretionary Reserve Fund (Parking Meter Revenues) to align to the correct use of these funds. This transfer accounts for the large decrease in this account. With respect to parking reserve funds,

Section 37 Reserve Fund (Bonus Zoning) was renamed to Community Benefits Charge (CBC) to reflect the change in legislation. As per changes to legislation, Parking is no longer an eligible service under the DC Act however, it is an eligible service for CBC funding. Thus, the funds from the DC- Parking Reserve Fund (#31343) were transferred into this category in the amount of \$8.2 million, which accounts for most of the change in this Reserve Fund.

The decrease of \$10.8 million in the CCBF Reserve Funds is attributed to the funding of the Capital Program and the fact that the City received a one-time doubling (top-up) of funds in 2021.

The balance in the Safe Restart Reserve Funds was used to offset the City's 2022 operating deficit due to COVID-19.

The increase in Developer Contributions is attributed to a transfer of funds from Tax- Capital Reserve Fund regarding a closed project.

Tax Specific Reserve Funds includes various Reserve Funds including Public Safety Fire Reserve Fund. During 2022, funds were assigned for fire stations and equipment.

### **Reserves & Reserve Funds with Targets**

Target balances for specific R&RFs have been identified to ensure these R&RFs are adequately funded. Appendix 4 provides a summary of all R&RFs with targets, comparing 2022 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&RFs 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 R&RFs ensure the City is well positioned for long-range financial planning, and reduce the potential for unanticipated budget pressures.

The City's 2022 deficit (due to COVID-19 pressures) was mostly funded through a combination of Safe Restart Transit and COVID-19 Recovery Funding for Municipalities provided by the Federal and Provincial levels of government with the remaining deficit funded by the City's Fiscal Stability Reserve. Anticipated 2023 and 2024 pressures are due to very low GTAA PILT revenue a result of COVID restrictions in prior years. These shortfalls will be managed through

use of City 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.

Finance Division 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: List of Properties that are Built Out with Prepaid Lot Levy, Waived Storm and Roads Development Charges

Appendix 2: Changes and Balances of Lot Levy Reserve Accounts

Appendix 3: Reserves and Reserve Funds – Year End 2022

Appendix 4: Reserves and Reserve Funds with Targets - Balance Compared to Target



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