

City of Mississauga
Corporate Report



<p>Date: April 5, 2024</p> <p>To: Chair and Members of General Committee</p>	<p>Originator's files:</p>
<p>From: Shari Lichterman, CPA, CMA, City Manager and Chief Administrative Officer</p>	<p>Meeting date: April 24, 2024</p>

Subject

2023 Year End Reserve and Reserve Fund Report

Recommendation

1. That Council delegate the Authority to the Commissioner of Planning and Building to approve spending of monies in the Housing Accelerator Fund (#35581) for permitted use as defined by the Housing Accelerator Fund Contribution Agreement between the Canada Mortgage and Housing Corporation and the City of Mississauga as outlined in the Corporate Report dated April 5, 2024 and entitled "2023 Year End Reserve and Reserve Fund Report" from the City Manager and Chief Administrative Officer.
2. That the Safe Restart Municipal Reserve (#30150), the Safe Restart Transit Reserve Fund (#30151), the COVID 19 Recovery Funding Municipal Reserve Fund (#30152), and the DC Exemption Reserve Fund (#35600) be closed.
3. That \$270,553.65 be transferred from the DCA- Hershey (Paramount) Loan Reserve Fund (#31347) to the DCA- Recreation and Parks Development Reserve Fund (#31315), and that the DCA- Hershey (Paramount) Loan Reserve Fund (#31347) be closed.
4. That \$2,759,475.63 be transferred from the Fiscal Stability Reserve (#30125) to the Tax-Funded Planning and Studies Reserve Fund (#33122).
5. That \$12,700,000.00 be transferred from the Building Revenue Stabilization Reserve (#30161) to the Fiscal Stability Reserve (#30125).
6. That \$20,096.10 be transferred from the Tax Capital Reserve Fund (#33121) to the Special Holding Reserve Fund (#35589).
7. That \$4,375,000.00 be transferred from the DCA- Transit Reserve Fund (#31330) to the CIL Parkland Reserve Fund (#32121).
8. That Column III of Schedule C of By-law 0184-2022 be amended for the CBC (Community Benefits Charges) Reserve Fund (#35220).
9. That all necessary required by-laws be enacted.

Executive Summary

- Reserves and Reserve Funds (R&RFs) balances have increased by \$101.7 million (net of committed funds) from 2022 year-end to 2023 year-end.
- Adjustments are proposed for the Fiscal Stability Reserve and the Building Revenue Stabilization Reserve balances.
- Five new Reserve Funds were established, and four Reserve Funds were closed in 2023.

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.

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 and Obligatory Reserve Funds are established by Council for a specific purpose (i.e. Development Charges and Federal and 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 2023, 46% of the balances in the City's R&RF accounts were classified as obligatory. Discretionary R&RFs make up the remaining 54% 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 2023

Five new R&RFs were established in 2023 through Council approved Corporate Reports:

Housing Accelerator Fund (#35581)

The Housing Accelerator Fund (HAF) is a federal incentive funding program that will increase housing supply at an accelerated pace and enhance certainty for developers in the approvals and building process, resulting in transformational change to the housing system. There are three components of the funding framework for the HAF which will be deposited in this Reserve Fund. The purpose of the Reserve Fund is to provide for initiatives that are eligible under the HAF program, such as HAF action plans, Affordable Housing, Housing-related infrastructure and Community-related infrastructure.

Section 37- Bonus Zoning (#35400)

Cash benefits received via an agreement under the former Section 37 of the Planning Act is to be held in a reserve fund set up for that purpose. As such, the monies previously held under Reserve Fund #35220 were moved to Reserve Fund "Section 37 – Bonus Zoning" (#35400).

Developer Contributions- Natural Heritage (#37515)

A new Discretionary Reserve Fund named Developer Contributions-- Natural Heritage(# 37515) was established for contributions collected for the protection, enhancement, restoration and expansion of the Natural Heritage System as a condition of land development approvals.

Developer Contributions- Dundas BRT Streetscape (#37516)

A new Discretionary Reserve Fund named Developer Contributions- Dundas BRT Streetscape (#37516) was established for contributions to be used for the installation of the streetscape within the public right of way (ROW) for Dundas Bus Rapid Transit, collected as a condition of land development approvals.

Developer Contributions- Lakeshore BRT Streetscape (#37517)

A new Discretionary Reserve Fund named Developer Contributions- Lakeshore BRT Streetscape (#37517) was established for contributions to be used for the installation of the streetscape within the public right of way (ROW) for Lakeshore Bus Rapid Transit, collected as a condition of land development approvals.

Closing of Reserve and Reserve Funds

Due to the COVID-19 pandemic, the City of Mississauga received various funding from other levels of government to help with the deficit. These funds were deposited in specific Reserves and Reserve Funds that were set up for the purpose of housing these program funds until they were used to cover the City deficit. As these programs have ended, the following reserve and reserve funds should be closed as they have achieved their purpose:

1. Safe Restart Municipal Reserve (#30150)
2. Safe Restart Transit Reserve Fund (#30151)
3. COVID 19 Recovery Funding Municipal Reserve Fund (#30152).

Staff also recommend the closing of DC Exemption Reserve Fund (#35600) as all DC incentive programs will be consolidated and this reserve fund is no longer required.

Amendment of Reserve and Reserve Funds

Housekeeping Changes

Housekeeping change in the Reserve and Reserve Fund By-law #0184-2022 is needed in the description of the CBC (Community Benefits Charges) Reserve Fund (#35220) to the following:

Pursuant to Section 37 of the Planning Act, R.S.O. 1990, c. P.13, as amended, all money received by the municipality under a community benefits charges by-law shall be paid into a special account for the purpose of funding capital costs of facilities, services and matters required because of development or redevelopment in the area to which the by-law applies.

Transfers

1. By-law #647-1997 authorized the internal borrowing of \$6,592,000 at an interest rate of 5.5%. By-law #648-1997 authorized the internal borrowing of \$1,690,000 at an interest rate of 5.5%. The loans have been repaid in full from the collection of Development Charges. The balance of \$270,553.65 in the DCA- Hershey (Paramount) Loan Reserve Fund (#31347) is to be transferred from DCA- Hershey (Paramount) Loan Reserve Fund account (#31347) to DCA- Recreation and Parks Development (#31315) and this account is to be closed.
2. The Tax-Funded Planning and Studies reserve fund was set up to segregate funding for various studies across all Service Areas. In previous years various Service Areas have contributed funds from Operating into the Fiscal Stability Reserve to fund future studies. As an improvement for tracking and record keeping, the accumulated balance of \$2,759,475.63 relating to Studies is to be moved from the Fiscal Stability Reserve (#30125) to the Tax-Funded Planning and Studies Reserve Fund (#33122).
3. After reviewing the R&RFs' targets and yearend balances, staff recommend that the amount in the Building Revenue Stabilization Reserve (#30161) that is over the target of \$15.6 million is to be transferred to the Fiscal Stability Reserve (#30125) to help

replenish the level in this reserve as it has been used to fund the City-wide deficit in the last couple years.

Council Approved Development Charges Grant

The current DC By-law provides for a grant-in-lieu of development charges (DCs) attributable to 25 per cent of the total floor area of the building, solely on the first building permit. Given the Eden Food Bank was applying for a building permit to expand the building, the grant-in-lieu provision in the DC By-law did not apply. As such, Council adopted Resolution 0177-2023 that provided for a grant-in-lieu of DCs for the area of the building related to religious assembly. The grant amount of \$20,096.10 was issued to Eden Food Bank upon permit issuance and now the equivalent amount must be transferred from the Tax Capital Reserve Fund to the Special Holding Reserve Fund to offset the value of the grant.

Land Transfer from Parks to Transit

MiWay requires approximately 12.5 acres of land for the development of its third garage. Ten (10) acres has been purchased from Orlando Corporation in 2013. The remaining 2.5 acres is to be allocated from the park systems (Totoredaca Park) to MiWay in the amount for \$4,375,000. The request is being made to finalize the transfer of 2.5 acres with a corresponding Reserve Fund transfer from DCA – Transit (#31330) to Cash in Lieu- Parkland (#32121).

Delegation of Authority- Housing Accelerator Fund

The City is approved to receive \$112,998,131 under the Housing Accelerator Fund Program. The first installment totalling \$28,249,532.75 was received in November 2023. Staff are asking Council to delegate authority to the Commissioner of Planning and Building to approve spending of monies in the Housing Accelerator Fund to be spent towards a “permitted use” as defined in the City’s agreement with CMHC.

2023 Year-End Balances and Significant Changes from 2022

As at December 31, 2023, City staff managed 107 R&RFs with a consolidated 2023 year-end balance of \$1,064.4 million (net of committed funds). The total balance of R&RFs has increased by \$101.7 million (net of committed funds) from 2022 to 2023. 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.

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

	<u>Year End</u> <u>2022</u>	<u>Year End</u> <u>2023</u>	<u>\$ Change in</u> <u>Balance</u>	<u>% Change</u> <u>in Balance</u>
Obligatory R&RFs				
Development Charges	222,232	231,509	9,278	4%
CIL Parkland	54,359	140,476	86,118	158%
CIL Parking	925	4,446	3,521	381%
Community Benefits Charges	13,407	13,296	(110)	(1)%
Provincial Gas Tax	35,522	40,435	4,913	14%
Canada Community Building Fund	61,704	26,950	(34,754)	(56)%
Section 37- Bonus Zoning	0	8,404	8,404	-
Safe Restart	0	0	0	-
Housing Accelerator Fund	0	28,426	28,426	-
	388,149	493,944	105,795	
Discretionary R&RFs				
Fiscal Stability	50,829	43,227	(7,601)	(15)%
Operating Reserves	68,554	69,403	848	1%
Stormwater Reserves	5,546	6,007	461	8%
Developer Contributions	32,554	32,980	426	1%
Employee Benefits	30,405	36,492	6,087	20%
Insurance	40,998	39,610	(1,388)	(3)%
Lot Levy	71,557	52,907	(18,650)	(26)%
Other Reserve Funds	36,075	45,438	9,363	26%
Stormwater Reserve Fund	70,510	64,521	(5,989)	(8)%
Tax Capital	167,350	180,322	12,972	8%
Tax Specific	203	(465)	(668)	(329)%
	574,581	570,441	(4,141)	
Total R&RFs	962,730	1,064,384	101,654	

In 2023, Total R&RFs grew by approximately 10.6% or \$101.7 million. This increase is mainly attributed to the growth in obligatory reserves, which grew by \$105.8 million.

The Cash-in Lieu (CIL) of Parkland Reserve Fund increased by \$86.1 million due to net returns of \$78 million due to unsuccessful land negotiations.

Cash-in Lieu (CIL) of Parking Reserve Funds grew by \$3.5 million in 2023 as a result of payments received by the City in lieu of providing parking.

The decrease of \$34.8 million in the CCBF Reserve Funds is attributed to the funding of the Capital Program for CCBF eligible projects.

The Housing Accelerator Fund (HAF) was established in 2023 to hold HAF funding which will be disbursed in four separate advances. In 2023 the increase of \$28.4 million represents the first installment received and the interest.

The Fiscal Stability Reserve decreased by a net of \$7.6 million or 15% mainly to fund the City's 2023 deficit of \$10.5 million.

Employee Benefits Reserve Funds net balance increased in 2023 by \$6.1 million, due to the addition of the Long Term Disability Administrative Services (LTD ASO) Reserve Funds totalling \$10.4 million of recorded excess premiums which are to help pay for future LTD claims, partially offset by \$4.2 million lower balance to cover WSIB expenditures.

Lot Levy decreased by a net of \$18.7 million mainly due to properties already built out. As well, the City is no longer required to set aside funds for the stated liabilities under Section 14 credits that composed the values of prepaid credits and waived services.

Other Reserve funds includes a variety of program specific reserve funds. The overall increase can be mostly attributed to program surplus transfers from operating, such as Municipal Accommodation Tax, and Parking Meter Revenue.

Tax Specific Reserve Funds includes various program specific reserve funds including the Public Safety Fire Reserve Fund. During 2023, 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 2 provides a summary of R&RFs with targets, comparing 2023 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 capital projects should anticipated senior government funding not be available or opportunities with cost-sharing infrastructure projects (e.g. ICIP) arise. Established principles and procedures for the City's R&RFs position the City is well for long-range financial planning and reduce the potential for unanticipated budget pressures.

The City's 2023 deficit was funded from the Fiscal Stability Reserve. Anticipated 2024 pressures are due to low but recovering GTAA PILT revenue as a result of COVID restrictions in prior years. These shortfalls will be managed through the 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.

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 2023

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



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