



Staff Report T2024-25

Committee 2024-12-02

Council 2024-12-16

Amendments

Submitted To: Committee of the Whole | Council
Submitted By: Jennifer Graham, Treasurer
Prepared By: Jennifer Graham, Treasurer
Subject: 2023 Statement of Reserves and Reserve Funds

Recommendation

THAT Staff Report T2024-25 2023 Statement of Reserves and Reserve Funds be received.

Amendments

None.

1. Executive Summary

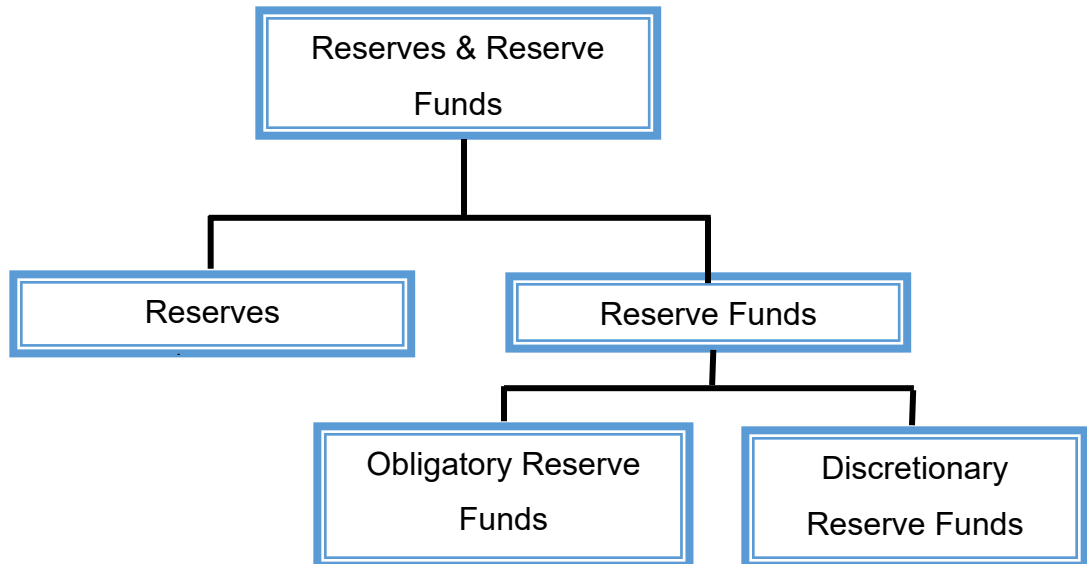
This report provides an overview of the Town's reserves and reserve funds, which are key tools for financial stability and planning. Reserves are used to manage unexpected costs and smooth budget impacts, while reserve funds are set aside for specific purposes and earn interest. As of December 31, 2023, the Town's reserve balances reflect some areas of overfunding and underfunding. Staff will focus on addressing these gaps to maintain reliable services and prepare for long-term needs. Moving forward, strategies will aim to balance community priorities with financial sustainability.

2. Analysis

Overview of Reserve and Reserve Funds

Reserves and Reserve Funds are established by Council to assist with long term financial stability and financial planning. They are a critical component of the Town's

financial plan. By maintaining reserves and reserve funds, the Town can accumulate funds for future or contingent liabilities – a key component of prudent long-term financial planning practices. They also provide a cushion to absorb unexpected shifts in revenues and expenditures, fund one-time expenditure requirements, and minimize fluctuations in taxes caused by cyclical conditions.



Reserves

Reserves are allocations of accumulated net revenue that are not tied to any specific asset. While they are generally used to supplement or support activities funded from general revenues, they do not earn interest. Reserves are typically utilized to address budgetary fluctuations or other unforeseen needs. Examples of reserves include:

- Capital Contingency Reserve
- Municipal Election Reserve
- Operating Contingency Reserve

Reserve Funds

Reserve Funds are segregated and restricted to specific purposes. They are created either through municipal by-laws or as required by federal or provincial legislation. Unlike reserves, reserve funds earn interest, which is allocated directly to the respective fund. Reserve funds are categorized as follows:

- **Obligatory Reserve Funds:**

These funds are mandated by legislation or financial agreements for a defined purpose. They are segregated and used solely for their prescribed purpose.

Examples include:

- Development Charge Reserve Funds
- Canada Community Building Fund Reserve Fund
- Building Stabilization Reserve Fund.

- **Discretionary Reserve Funds:**

Established by Council to finance future expenditures within the Town's authority or to address specific contingent liabilities, these funds are segregated from general revenues and earn interest. Discretionary reserve funds are created through by-laws. An example is the Lifecycle Replacement Reserve Fund.

Reserves – December 31, 2023 (See Figure 1 below)

Overall, the reserves balances decreased from \$7,028,437 to \$6,169,994, a decrease of \$858,444. This decrease is largely due to the dissolution of the Post Employment Benefits reserves with the balance of \$1,774,100 transfer to the Lifecycle Reserve Fund – refer to [Staff Report 2024-04 Employee Future Benefits](#). This transfer was offset by an increase to the General reserve of \$1,497,185 which included a year end surplus allocation of \$1,372,185, which was budgeted to be used in 2024 to balance the budget. These balances also include reserves that the Town holds “in trust” for the Library (\$53,549) and the BIA (\$348,945). The balance of reserves under the control of Council is \$5,767,499.

Figure 1

Statement of Reserves				
Year Ending December 31st, 2023				
	Balance Dec-31-22	Transfers to Reserves	Transfers from Reserves	Balance Dec-31-23
<u>Working Funds</u>				
Capital Contingency	\$ 1,500,000	\$ 31,353	-\$ 31,353	\$ 1,500,000
Operating Contingency	380,000	16,000		396,000
General	753,012	1,497,185	- 18,696	2,231,501
<u>Specified Use Funds</u>				
WSIB	300,000	-	-	300,000
Post Employment Benefits	1,774,100	-	1,774,100	-
<u>Per Service Purposes</u>				
Accessibility	30,000	-	-	30,000
Affordable Housing	576,000	-	-	576,000
Airport Debenture	134,566	-	25,264	109,302
Balsam St. Debenture	45,823	-	22,912	22,911
Library Capital	779	-	-	779
Library General	29,904	7,000	-	36,904
Library Internet	21,575	-	5,707	15,867
Mayor's Golf Tournament	24,982	-	-	24,982
Municipal Election	29,866	35,000	-	64,866
Public Art	82,221	5,000	-	87,222
PW Fleet/Roadworks	523,241	512,971	- 962,223	73,989
Winter Control	350,727	-	-	350,727
<u>Other</u>				
BIA	471,643	10,743	- 133,442	348,945
GRAND TOTAL	\$ 7,028,437	\$ 2,115,252	-\$ 2,973,696	\$ 6,169,994

Obligatory Reserve Funds – December 31, 2023 (see Figure 2 below)

The Obligatory Reserve Funds balance ended the year at \$10,564,771, which is an increase of \$1,670,247 year over year. The increase is largely due to the contributions from the Ontario Community Infrastructure Fund (OCIF).

These Reserve funds are for a legislated purpose or a specifically defined purpose through a financial agreement. Under the terms of the various transfer payment agreements unspent funds at yearend must be placed in an interest bearing reserve fund.

Discretionary Reserve Funds – December 31, 2023 (See Figure 2 below)

The Discretionary Reserve Funds balance ended the year at \$64,665,746, which is a slight decrease of \$543,592 year over year. The largest component of the funds are the Water Reserve Fund and Wastewater Reserve Fund for a combined total of \$34,093,454 (2022 - \$36,890,235).

Figure 2

Statement of Reserves Funds				
Year Ending December 31st, 2023				
	Balance Dec-31-22	Transfers to Reserves	Transfers from Reserves	Balance Dec-31-23
Obligatory Reserve Funds				
Parkland Levy	\$ 642,329	\$ 728,948	\$ -	\$ 1,371,277
Provincial OMCC Funding	42,927	1,139	-	44,065
Main Street Revitalization Funding	3,100	82	-	3,182
Ontario Community Infrastructure Fund (OCIF)	1,787,635	1,672,770	- 876,275	2,584,130
Federal Gas Tax (CCBF)	4,449,985	841,846	- 528,092	4,763,738
Building Dept. Stabilization Reserve	1,968,549	49,317	- 219,487	1,798,379
Discretionary Reserve Funds				
Land Acquisition	3,461,672	90,743	- 82,959	3,469,456
Working Capital	1,663,262	332,045	- 102,245	1,893,063
10% Non-DC	319,479	8,476	-	327,955
Greening Legacy	1,019,603	27,077	-	1,046,680
Arts & Culture Legacy	1,529,404	38,974	- 137,262	1,431,116
Multiple Use Recreation Facility	3,058,808	81,155	-	3,139,963
Hospital Development	2,039,205	1,828,203	-	3,867,409
Heritage	73,332	1,946	-	75,278
Lifecycle Replacement	6,215,510	4,467,576	- 5,148,227	5,534,860
Modernization	326,866	6,801	- 141,054	192,613
Municipal Parking	1,620,092	520,437	- 112,350	2,028,179
Social Housing - Birch Street Apartments		98,886	-	98,886
Special Capital Levy	1,716,567	364,722	-	2,081,288
Water	18,155,348	3,854,452	- 6,221,930	15,787,871
Waterfront Master Plan	5,356,303	140,633	- 111,387	5,385,549
Wastewater	18,653,887	3,783,561	- 4,131,864	18,305,583
GRAND TOTAL	\$ 74,103,861	\$ 18,939,787	-\$ 17,813,132	\$ 75,230,517

Adequacy Report (See Appendix A)

The Reserve and Reserve Fund Management Policy states that the Town will strive to maintain reserve and reserve funds that promote financial stability and flexibility within a target range of 5% to 15% of own source revenues.

Funds for stability and flexibility:

Figure 3

Accessibility	\$ 30,000
Airport Debenture	109,302
Balsam Debenture	22,911
Capital Contingency	1,500,000
General	2,231,501
Municipal Election	64,866
Operating Contingency	396,000
Winter Control	350,727
WSIB/Salary Contingency	300,000
Building Code	1,798,379
Heritage	75,278
Working Capital	1,893,063
	<u>\$8,742,025</u>

The Town's own source revenues from the 2023 FIR were \$65,855,749. The range of 5% to 15% produces a dollar range of \$3,292,787 to \$9,878,362. The Town is well within the range of the policy.

In addition, the Government Finance Officers Association (GFOA) continues to recommend that general fund contingency reserves or reserve funds be measured as a percentage of the government's tax-related own-source revenues. The suggested minimum reserve level remains at two months' worth of operating revenues or approximately 16.7%. This guidance has not changed recently and reflects best practices for maintaining financial resiliency and readiness for unexpected economic or operational disruptions.

The Town's own source tax related only revenues budgeted for 2024 were \$39,587,626, which equates to 22%.

The Ministry of Municipal Affairs and Housing uses total reserves and discretionary reserve funds as a percentage of operating expenses to determine the "level of challenge" a municipality may have in meeting future needs or contingencies. This is a measure of sustainability. A municipality is measured against peer municipalities based on the FIR municipal classification. The Town has consistently been in the low challenge range since 2006.

The adequacy review of the **Working Funds Reserves** indicates that our reserves are overfunded in the amount of \$1.7M. This is due to the transfer for the 2023 surplus to the General reserve which will be used to fund 2024 operations and balance the budget. The adequacy review of the **Discretionary Reserve Funds** shows an overage of \$1.3M, which is largely due to:

1. Land Acquisition – over funding of \$2.5M. While the target is \$1M, given the future needs of the Town for infrastructure projects and the expense of land, it is considered a reasonable and practical balance. Note the majority of this will be used in 2024.
2. Municipal Parking – over funding of \$1.5M. The target balance for this fund is \$500,000 and the fund is intended to be spent on:
 - a. Purchase and capital maintenance of any Town parking infrastructure and the purchase of associated components, including parking related technology and fleet requirements;
 - b. Where metered parking is implemented, design and construction of new Town parking infrastructure and the purchase of associated land, including financing costs;
 - c. Costs associated with parking related studies, analysis, policy or strategy development; and,

- d. Any operating deficit incurred by the Town's Parking Program.

As the Town may move forward to less "hard costs" for physical parking machines, as electronic parking apps become more readily available easy to use as a less expensive option – the target balance may need to be reviewed.

3. Waterfront Master Plan – overfunding of \$3M. This is due mainly to the additional funds applied to this through the Asset Sale Proceeds, to specifically fund the Heritage Drive works. While the original intention was to fund only 1/3 of the first phase, in recognition of the works requiring grant funding for the remainder. However, given the progress of the Grain Terminals it is staff's opinion that the balance is reasonable.

These overages are offset by the underfunding of \$6M in Lifecycle Replacement. The Town's combined Core and Non-Core Asset Management Plans have acknowledged a substantial funding gap for the annual lifecycle replacement needs. This shortfall represents a critical challenge in sustaining the infrastructure at its desired level of service. As the Town progresses towards completing the final phase of the Asset Management Plan in 2025, a comprehensive approach will be undertaken to address these gaps. Strategies will focus on reassessing the desired levels of service, exploring diverse funding mechanisms to bridge the gap, and prioritizing investments to align with the community's strategic goals and financial sustainability framework. This process will involve careful evaluation of service standards, potential efficiencies, and options for phased implementation to mitigate the impact on taxpayers while ensuring long-term asset reliability and performance.

In 2025, staff will continue advancing the development and implementation of a Long-Term Strategic Financial Plan. As part of this initiative, Reserve Funds will undergo a detailed review to ensure they are appropriately structured. This review will include assessing existing funds, proposing adjustments to target balances, and recommending any necessary changes to align with the Municipality's financial objectives

Conclusion

The Town's reserves and reserve funds play an essential role in ensuring financial stability and flexibility. They help manage unexpected costs, reduce tax fluctuations, and prepare for long-term needs like infrastructure repairs. While some areas are

overfunded and others underfunded, the Town will focus on finding the right balance to meet current and future needs while keeping services reliable and sustainable for the community.

3. Input from Other Sources

Reviewed at Department Heads on November 26th, 2024.

4. Applicable Policy or Legislation

Municipal Act

5. Considerations

2024-2028 Community Based Strategic Plan: Advances pillar(s) below:

Sustainable Connected Vibrant Responsible

Services adjusted if any [Choose an item.](#)

Climate Change / Sustainability: [Choose an item.](#)

Communication / Engagement: [Choose an item.](#)

Accessibility / Equity, Diversity, Inclusion: [Choose an item.](#)

Registered Lobbyist(s) relating to content: [\[add content and meeting dates\]](#)

Next steps and future action required following endorsement:

[\[insert info – example: By-law to be updated and posted by Legislative Services staff.](#)

6. Appendices and Other Resources

Appendix A: Adequacy Review of Reserves and Reserve Funds

7. Approval

Prepared By:

Jennifer Graham, CPA CA, Treasurer

Reviewed By:

Summer Valentine, Acting CAO/Director of Planning, Building and Economic
Development

CAO Comments:

Endorsed by Summer Valentine, Acting CAO on November 26, 2024 to proceed to COW.