



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: November 26, 2019

Report Number: SRCFS.19.048

Department: Corporate and Financial Services

Division: Financial Services

Subject: 2019 Reserve and Reserve Fund Status
(SRCFS.19.048)

Purpose:

To provide an update on the status of the City's Reserves and Reserve Funds as of June 30, 2019.

Recommendation(s):

That Council receive SRCFS.19.048 for information purposes.

Contact Person:

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Report Approval:

Submitted by: Mary-Anne Dempster, Commissioner of Corporate and Financial Services

Approved by: Neil Garbe, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner, and City Manager. Details of the reports approval are attached.

Background:

Reserves and Reserve Funds play a very important role in the City's finances, and provide a strong indicator of the City's overall financial health. They are established by City By-laws or through Provincial legislation to provide funding flexibility, mitigate risk, operations uncertainty, and to ensure long-term financial stability of the City. Credit rating agencies consider municipalities with appropriate levels of Reserves and Reserve Funds to be more advanced in their financial planning.

Funds are contributed to the various Reserves and Reserve Funds through the following sources:

Internal funding sources: approved budget contributions, approved Capital Asset Sustainability fee, annual surplus contributions, sale of assets, investment income.

External funding sources: development related charges and fees collected, government grants (e.g. Federal Gas Tax) and donations.

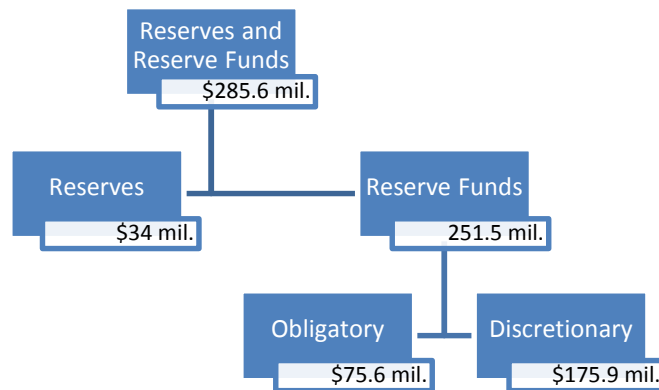
Reserves are allocated at the discretion of Council, often as part of an overall strategy for funding operating programs or projects. They primarily are used to offset against unanticipated expenditures or revenue shortfalls. While Reserve Funds are different from Reserves in that Reserve Fund assets are physically segregated, and restricted by statute or by Council for a specific purpose. Reserve Funds are largely associated with the funding of the City's Capital program, and can be further broken down into Obligatory Reserve Funds and Discretionary Reserve Funds.

As part of the City's long-term financial planning principle and in compliance with the Financial Control By-law, it is necessary to review the financial position of the Reserves and Reserve Funds on a regular basis to ensure appropriate levels and financial sustainability.

2019 Status

As of June 30, 2019, the City had 109 Reserves and Reserve Funds that collectively combined to an uncommitted balance of \$285.6 million. The balances of the two broad categories of Reserves and Reserve Funds are summarized in the chart below:

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Appendix “A” provides definitions of each Reserve and Reserve Fund.

Reserves

Reserves consist of an allocation of revenue set aside through the annual budget or budget forecast at Council’s discretion and are generally used in conjunction with the Operating program. They are not associated with any specific asset and do not retain interest. Historically, interest earned from these Reserves are reflected in the Operating Budget (\$5.8 million budget in 2019). Reserves are further broken down into the following categories: Stabilization reserves (June 30, 2019 balance \$14.7 million), Developer Funded reserves (June 30, 2019 balance \$17.4 million), Other reserves (June 30, 2019 balance \$1.9 million).

Stabilization Reserves

Stabilization reserves are used to mitigate the tax and/or rate impacts from fluctuations in operating costs and revenues or to accumulate funds for future contingent liabilities. The City currently has nine stabilization Reserves totaling \$14.7 million as at June 30, 2019, as shown below:

Stabilization Reserves	June 30, 2019	December 31, 2018
Tax Rate Stabilization	7,383,233	7,822,719
Water Sewage Rate	3,997,048	3,637,048
225 EBC Revenue Stabilization	869,260	867,530
O.M.B	724,304	724,304
Tax Adjustment Stabilization	544,139	544,139
Winter Snow Removal	533,215	533,215
Staffing Training Development	313,204	449,504
Elections	216,463	136,682
Theatre Revenue Stabilization	88,367	69,428
Total	\$ 14,669,232	\$ 14,784,568

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Tax Rate Stabilization Reserve

The Tax Rate Stabilization Reserve represents over 50% of the total balance of all stabilization reserves. It was established to offset extraordinary and unforeseen expenditure requirements and revenue shortfalls to mitigate tax increases. Since 2009, the City has used \$8.1 million to stabilize the tax impact in the Operating Budget. In 2016, Council directed staff to phase out the Growth Rate Stabilization Strategy from the Operating Budget (2020 is the final year of phase out). It is projected the balance of the Tax Rate Stabilization Reserve will fall from \$8.3 million at the end of 2015 to \$7 million at the end of 2019.

Developer Funded Reserves

Developer Funded Reserves capture fees charged for development, which are used to fund development related activities such as inspections, water meters, tree planting, and streetlights. The June 30, 2019 balance for these Reserves was \$17.4 million as summarized in the table below:

Developer Funded Reserves	June 30, 2019	December 31, 2018
Engineering Review Fee	6,561,060	6,541,439
Inspection	5,735,701	5,624,040
Water Meters	1,335,455	1,423,855
Trees	456,173	646,113
Street Signs	558,923	641,077
Park Inspection	506,608	621,608
Administrative / Legal	468,425	554,799
Anti- Tampering Devices	555,730	553,813
Development R&R	508,902	508,902
Monitoring	459,195	477,795
Sewage Inspection	337,231	337,224
Street Lights	(52,680)	(52,680)
Total	\$ 17,430,722	\$ 17,877,984

Other Reserves

Other Reserves include Disabled Parking Fines Reserve and Lake Wilcox Remediation. The June 30, 2019 balance was approximately \$1.9 million.

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Other Reserves	June 30, 2019	December 31, 2018
D.D.O. Woodland Management	1,203,000	1,338,000
Disabled Parking Fines	197,095	197,095
Terrestrial Natural Area Restoration	203,093	178,505
Crosby Park Enhance Reserve	85,427	85,427
Recycling & Green Bin	107,587	54,007
Heritage Centre Donations	16,531	16,531
Yonge St.Comm Rev	10,757	10,757
Ontario Cannabi Legalization	84,168	-
Lake Wilcox Remediation	8,181	9,981
Total	\$ 1,915,839	\$ 1,890,303

Reserve Funds

Reserve Funds differ from Reserves in that Reserve Funds are physically segregated from other assets; all interest earned by the Reserve Funds should be captured and retained within that fund and they are largely associated with the Capital Program. There are two types of Reserve Funds: **obligatory** and **discretionary**.

Obligatory Reserve Funds

Obligatory Reserve Funds are funds received and set aside for specific purposes by legislation, provincial statute or contractual agreements. These funds can only be used for the purposes prescribed. The uncommitted balance in these accounts total \$75.6 million as at June 30, 2019 and is grouped in four main categories: Development Charge (June 30, 2019 balance \$42.8 million), Cash-in Lieu of Parkland (June 30, 2019 balance \$31.6 million), Federal Gas Tax (June 30, 2019 balance (\$2.5) million), and Other Obligatory Reserve Funds (June 30, 2019 balance \$3.7 million).

Development Charge Reserve Funds

As set out under Section 16(1) of the Development Charges Act, these Reserve Funds are comprised of Development Charges collected and their use is restricted to fund development or growth related infrastructure. In 2019 Council adopted new City-wide and Area Specific Development Charges with the next update expected in 2021. The combined balance of these Reserve Funds is \$42.8 million as at June 30, 2019.

Development Charges Reserve Funds	June 30, 2019	December 31, 2018
City Wide Development Charges (Combined)	25,765,290	25,987,422
Area Specific (combined)	17,059,676	17,305,923
Total	\$ 42,824,966	\$ 43,293,345

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Lot Levies and Cash-in-lieu of Parkland

Established as per Section 42 (15) of the Planning Act, for the purchase of new parkland and development of new parks, the Cash-in-lieu of Parkland Reserve Fund has an uncommitted as at June 30, 2019 balance of \$31.6 million. The average annual revenues of \$9.4 million collected since 2009 have been used to fund new parkland, the 10% un-funded portion of growth Outdoor Recreation projects and the portion of theming and sustainable infrastructure in redeveloped parks.

Lot Levies and Cash-in-lieu of Parkland	June 30, 2019	December 31, 2018
Cash-in-lieu of Parkland	31,463,335	30,727,194
Sidewalk	162,502	145,776
Total	\$ 31,625,837	\$ 30,872,970

Federal Gas Tax

Introduced in 2005, the Federal Gas Tax provided Ontario municipalities with a source of stable, predictable and long-term funding towards environmentally sustainable municipal infrastructure. Recent changes to Gas Tax funding expanded the list of eligible capital uses to allow for greater funding towards the City's strategic priorities. The balance as at June 30, 2019 was \$2.5 million. The temporary deficit in this reserve fund is a result of timing differences between allocation of funding and receipt of cash, the second Federal Gas Tax payment is typically received in October/November. It is estimated that the City would receive \$70 million over the 2009-2019 period.

Other Obligatory Reserve Funds

The other Obligatory Reserve Funds totaled \$3.7 million as at June 30, 2019, as indicated below.

Other Obligatory Reserve Funds	June 30, 2019	December 31, 2018
Building Permit Stabilization	3,681,719	4,085,619
Road & Bridge Investment FD	723	723
S.37 Community	-	-
Total	\$ 3,682,442	\$ 4,086,342

Discretionary Reserve Funds

Discretionary Reserve Funds are established by Council for specific purposes, but there are no external restrictions placed on the usage of these funds. The June 30, 2019 balance of \$175.9 million is grouped into the following categories: Tax Supported Repair and Replacement \$41 million, Rate Supported Repair and Replacement \$42.8 million, Hydro \$66.8 million and Other Discretionary Reserve Funds \$25.3 million.

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Tax Supported Repair and Replacement Reserve Funds

There are eight (8) different Reserve Funds in the tax supported repair and replacement category with a combined June 30, 2019 balance of \$41 million.

The Tax Rate Repair and Replacement Reserve Funds provide for repairs and replacement of existing capital facilities and structures in full service and safe operating condition. As with other major municipalities in Ontario, the City is faced with aging infrastructure and population growth resulting in tremendous pressure on the Repair and Replacement Reserve Funds. In 2016, Council approved a 1% contribution from 2016 to 2025 as a capital asset sustainability fee. In order to address the long-term funding pressures, the City has established a Capital Sustainability Committee. The Committee is currently in the midst of a series of consultations to develop a prudent long range capital sustainability strategy. The results of these meetings will inform staff on service levels, and capital priorities continuing into the future. The Committee's review will continue into fiscal 2021, and Staff will report back during the 2021 capital budget process with an updated 10-year forecast and Financial Plan.

The balance of each tax supported Repair and Replacement Reserve Fund is listed in the table:

Tax Supported Repair and Replacement Reserve Funds	June 30, 2019	December 31, 2018
Infrastructure R&R	15,169,956	17,766,234
Capital Asset Continuity	10,418,235	17,602,669
Transportation Network R&R	10,334,492	10,474,862
225 E.B.C R&R	1,769,320	2,310,556
Road Repair	1,249,157	1,251,644
Arena R&R	1,209,640	1,209,640
Theater R&R	674,109	611,166
Cash to Capital	235,851	868,730
Total	\$ 41,060,760	\$ 52,095,501

Rate Supported Repair and Replacement Reserve Funds

There are four (4) different Rate Supported Reserve Funds in the repair and replacement category with a combined June 30, 2019 balance of \$42.7 million. As at June 30, 2019, the balance for the Watermain, Sanitary Sewer, and Watermeter R&R reserves were \$37.4 million, which is meeting the requirement for full provision under the Safe Drinking Water Act.

The Water Quality Protection reserve fund, which provides for the periodic rehabilitation of environmental, and storm water management systems, had a balance of \$5.3 million as at June 30, 2019.

The balance of each rate supported Repair and Replacement Reserve Fund is listed in the table:

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Rate Supported Repair and Replacement Reserve Funds	June 30, 2019	December 31, 2018
Sanitary Sewer R&R	23,312,103	23,169,057
Watermain R&R	13,577,394	12,697,713
Water Quality Protection	5,301,356	9,415,624
Watermetre R&R	538,942	4,235,895
Total	\$ 42,729,794	\$ 49,518,289

Hydro Reserve Funds

In 2003, Council created new Reserve Funds with the proceeds from the sale of the former Richmond Hill Hydro. Three (3) repair and replacement reserves are grouped in the tax rate supported Repair and Replacement reserves. The combined June 30, 2019 balance totaled \$66.8 million.

Hydro Reserve Funds	June 30, 2019	December 31, 2018
Community Enhancement & Vitality	55,142,651	55,141,951
Strategic Rapid Transit Initiatives	8,245,372	8,275,874
Ecological Legacy	3,386,291	3,401,678
Total	\$ 66,774,314	\$ 66,819,503

Ecological Legacy Reserve Fund

This Reserve Fund was established with a \$6 million balance to be used for community based projects for the purpose of furthering ecological initiatives. Initially, Council's approved intent was to maintain the principal. However, given this Reserve Fund was previously the primary source of funding identified for the Emerald Ash Borer (EAB) Management Strategy, the initial \$6 million balance could not be maintained. In 2016, Council directed Staff to protect the remaining principal balance. The principal balance of \$3 million is maintained in the Ecological Legacy Reserve Fund and only the interest earned is available for disbursement.

Community Enhancement and Economic Vitality Reserve Fund

This Reserve Fund was established for capital projects that will enhance the quality of life and enrich the economic vitality of the community. It has been earmarked as part of the equation for funding the phase in of the winter snow windrow removal and public works enhancement program. The June 30, 2019 balance was \$55.1 million.

Other Discretionary Reserve Funds

The other Discretionary Reserve Funds totaled \$25.3 million as at June 30, 2019, as indicated below.

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Other Discretionary Reserve Funds	June 30, 2019	December 31, 2018
Property Divestiture & Acquisitions	10,030,023	10,030,023
Worker's Compensation-WSIB	6,884,972	6,884,972
Yonge St. E&W Boundary	3,909,152	3,909,152
Insurance	1,860,378	1,724,378
Sick Leave	940,142	940,142
Rouge & Don River Watershead	766,715	761,202
Non-Growth Development	421,781	587,737
Payment in Lieu for Parking	443,641	230,595
Public Art Reserve Fund	56,649	46,649
Village of Richmond Hill BIA	23,488	23,488
Elvis Stojko Bursary	4,155	4,155
New Civic Building	3,508	3,508
Mayor's Endowment Art	1,472	1,472
Performances for Int'l Events	550	550
Total	\$ 25,346,628	\$ 25,148,024

Financial/Staffing/Other Implications:

This staff report provides status on Reserves and Reserve Funds. There are no financial/staffing/other implications as a result of this report.

Relationship to the Strategic Plan:

Presentation of the status of the City's Reserve and Reserve Funds demonstrates wise management of resources in Richmond Hill.

Conclusion:

Reserves and Reserve Funds play a vital role in the City's finances. One of the key attributes of financial sustainability is appropriate levels of Reserves and Reserve Funds. It is necessary to review the financial position of the City's Reserves and Reserve Funds on a regular basis to ensure appropriate levels and align their purposes to reflect current priorities. Staff will continue to inform Council regular on the adequacy of the Reserve and Reserve Funds.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format, please call contact person listed in this document.

Appendix A: Definitions of Reserves and Reserve Funds

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Report Approval Details

Document Title:	SRCFS.19.048 2019 Reserve and Reserve Fund Status.docx
Attachments:	- SRCFS.19.048 Appendix A - 2019 Reserve and Reserve Fund Status.pdf
Final Approval Date:	Nov 21, 2019

This report and all of its attachments were approved and signed as outlined below:

David Dexter - Nov 20, 2019 - 10:55 AM

MaryAnne Dempster - Nov 21, 2019 - 10:44 AM

Neil Garbe - Nov 21, 2019 - 2:37 PM