



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: October 19, 2021

Report Number: SRCFS.21.045

Department: Corporate and Financial Services

Division: Financial Services

Subject: 2021 Reserve and Reserve Fund Status (SRCFS.21.045)

Purpose:

To provide an update on the status of the City's Reserves and Reserve Funds as of August 31, 2021.

Recommendation(s):

- 1) That Council receive SRCFS.21.045 for information purposes.
- 2) That for administration purposes, the following reserve funds realignment be approved; their existing by-laws be repealed and their corresponding accounts be closed.
 - a) Roads Repair and Replacement and Sidewalk Reserve Fund merged with Transportation Network Repair and Replacement Reserve Fund as they provide funding for transportation related assets; and
 - b) Indoor Recreation Development Charges Reserve Fund merged with Outdoor Development Charges Reserve Fund as these eligible services are now combined into one umbrella - Parks and Recreation Development Charges Reserve Fund per the Development Charges Act (DCA).

Contact Person:

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Report Approval:

Submitted by: Sherry Adams, Commissioner of Corporate and Financial Services

Approved by: Mary-Anne Dempster, 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.

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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 and donations.

Reserves are allocated at the discretion of Council, often as part of an overall strategy for funding Operating programs or projects. They are used mainly to help 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.

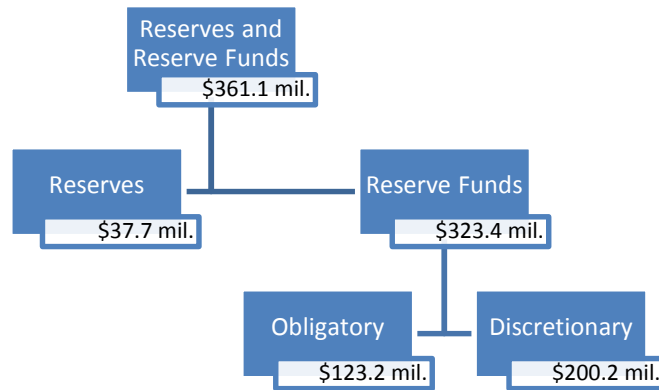
As part of the City's long term financial planning principle and in compliance with the Financial Control By-law, it is necessary to review the financial position of the Reserves and Reserve Funds on a regular basis to ensure appropriate levels and financial sustainability. Staff will continue to inform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

In 2019, the City moved to the "fund – as you- go approach" and as such projects are funded at the time when capital acquisitions are made while the approved budget is earmarked. For the purpose of this report we are presenting the committed reserve balances. The uncommitted balance would be appropriate for reporting of year end results (i.e. DC Background Study etc) to account for all acquisitions that are otherwise subject to timing difference during the year.

2021 Status

As of August 31, 2021, the City has 89 Reserves and Reserve Funds that collectively combined to an uncommitted balance of \$361.1 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. Interests earned from these Reserves have historically been reflected as part of the Operating Budget (\$5.1 million budget in 2020 and \$4.2 million budget in 2021). Reserves are further broken down into the following categories: Stabilization reserves (August 31, 2021 balance \$15.8 million), Developer Funded reserves (August 31, 2021 balance \$19.8 million), Other Reserves (August 31, 2021 balance \$2.1 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 \$15.8 million as at August 31, 2021, as shown below:

Stabilization Reserves	August 31, 2021	December 31, 2020
Tax Rate Stabilization Reserve	6,670,625	6,670,625
Water Sewage Rate	6,261,001	5,637,779
225 EBC Revenue Stabilization	569,260	569,260
Tax Adjustment Stabilization Reserve	544,139	544,139
Elections Reserve	543,226	444,609
Snow Removal	533,215	533,215
O.M.B	300,002	442,914
Staffing Training Development	262,534	262,534
Theatre Revenue Stabilization	69,428	69,428
Total	\$ 15,753,431	\$ 15,174,502

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Tax Rate Stabilization Reserve

The Tax Rate Stabilization Reserve represents over 40% 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. The balance of the Tax Rate Stabilization Reserve has fallen from \$8.3 million at the end of 2015 to \$6.7 million. Since 2016, the City has used \$5.8 million to stabilize the tax impact in the Operating Budget.

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 August 31, 2021 balance for these Reserves was \$19.8 million as summarized in the table below:

Developer Funded Reserves	August 31, 2021	December 31, 2020
Engineering Review Fee	7,911,084	7,941,222
Inspection	6,627,053	6,294,633
Water Meters	1,441,060	1,690,872
Administrative / Legal	845,345	552,563
Park Inspection	576,622	314,335
Anti- Tampering Devices	569,187	565,786
Development Repair and Replacement	551,040	551,040
Street Signs	428,749	474,915
Sewage Inspection	385,108	350,471
Monitoring	342,246	419,346
Trees	217,018	197,009
Street Lights	(52,680)	(52,680)
Total	\$ 19,841,831	\$ 19,299,512

Other Reserves

Other Reserves include Disabled Parking Fines Reserve, David Dunlap Observatory Woodlot Management Reserve and Terrestrial Natural Area Restoration. The August 31, 2021 balance was approximately \$2.1 million.

In 2019, the “Ontario Cannabis Legalization Implementation” Reserve was establish to support activities related to recreational cannabis implementation in Richmond Hill for funds received from the OCLIF (Ontario Cannabis Legalization Implementation Fund). So far the province provided City of Richmond Hill with \$84,168.

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Other Reserves	August 31, 2021	December 31, 2020
D.D.O.Woodland Management Reserve	1,191,930	1,191,930
Terrestrial Natural Area Restoration	391,909	326,278
Disabled Parking Fines	147,095	197,095
Recycling and Green Bin	127,537	90,500
Ontario Cannabis Legalization Implementation	84,168	89,168
Crosby Park Enhance Reserve	85,427	85,427
Heritage Centre Donations	16,531	16,531
Yonge St. Community Revitalization	10,757	10,757
Lake Wilcox Remediation	4,481	4,481
Total	\$ 2,059,835	\$ 2,012,167

Reserve Funds

Reserve Funds differ from Reserves in that Reserve Funds are physically segregated from other assets; all interests 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 \$123.2 million as at August 31, 2021 and is grouped in four main categories: Development Charges (August 31, 2021 balance \$64.8 million), Cash-in Lieu of Parkland and Lot Levies (August 31, 2021 balance \$43.3 million), Canada Community – Building Fund (formerly Federal Gas Tax) (August 31, 2021 balance \$13.4), and Other Obligatory Reserve Funds (August 31, 2021 balance \$1.6 million).

Development Charges 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 and recently passed an update in 2021. The combined balance of these Reserve Funds is \$64.8 million as at August 31, 2021

Development Charges Reserve Funds	August 31, 2021	December 31, 2020
City Wide Development Charges (Combined)	47,407,012	36,447,794
Area Specific (combined)	17,420,769	17,220,524
Total	\$ 64,827,781	\$ 53,668,318

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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 August 31, 2021 balance of \$43.3 million. The average annual revenues of \$7.3 million collected since 2016 have been used to fund new parkland, the 10% un-funded portion of growth Outdoor Recreation capital projects and the portion of theming and sustainable infrastructure in redeveloped parks.

Lot Levies and Cash-in-lieu of Parkland	August 31, 2021	December 31, 2020
Cash-in-lieu of Parkland	43,142,947	37,752,981
Sidewalk	226,044	225,285
Total	\$ 43,368,991	\$ 37,978,266

Canada Community- Building Fund

Introduced in 2005, the Canada Community- Building Fund (formerly known as Federal Gas Tax) provided Ontario municipalities with a source of stable, predictable and long-term funding towards environmentally sustainable municipal infrastructure. Recent changes to Canada Community-Building Fund expanded the list of eligible capital uses of which will allow for greater funding towards the City’s strategic priorities. The balance as at August 31, 2021 was \$13.4 million. The temporary higher balance in this reserve fund is a result of timing difference between allocation of funding and receipt of an additional installment received late November 2020. Funds are earmarked for the eligible capital projects in the 2022 Capital Budget Request.

Other Obligatory Reserve Funds

The other Obligatory Reserve Funds totaled \$1.6 million as at August 31, 2021 and was comprised of two reserve funds:

Building Rate Stabilization Reserve Fund: was established to mitigate fluctuations in building permit revenues and risk associated with an economic downturn and is funded from building permit revenues.

Section 37 Community Benefits: was established to hold funds collected from Section 37 of the Planning Act that can be used to fund the growth-related, capital costs of any potential service.

Discretionary Reserve Funds

Discretionary Reserve Funds are also established by Council for specific purposes but there are no external restrictions placed on the usage of these funds. The total as at August 31, 2021 balance of \$200.2 million is grouped into the following categories: Tax Supported Repair and Replacement Reserve Funds \$54.5 million, Rate Supported Repair and Replacement Reserve Funds \$52.8 million, Hydro Reserve Funds \$65.1 million and Other Discretionary Reserve Funds \$27.8 million.

Page 7**Tax Supported Repair and Replacement Reserve Funds**

There are eight (8) different Reserve Funds in the tax supported repair and replacement category that have a combined August 31, 2021 balance of \$54.5 million.

The Tax Rate Funded Repair and Replacement Reserve Funds are established to provide for repair 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 that result in tremendous pressures on the Tax Supported Repair and Replacement Reserve Funds. In 2016, Council approved a 1% contribution from 2016 to 2025 as a capital asset sustainability fee.

The balance of each Tax Supported Repair and Replacement Reserve Fund is listed in the table:

Tax Supported Repair and Replacement Reserve Funds	August 31, 2021	December 31, 2020
Infrastructure Repair and Replacement/ Cash to Capital	31,938,420	32,044,645
Capital Asset Continuity*	10,100,725	10,870,373
Transportation Network Repair and Replacement*	7,875,842	9,264,580
225 E.B.C Repair and Replacement	1,931,362	1,931,362
Road Repair	1,412,026	1,409,373
Arena Repair and Replacement	1,285,551	1,285,551
Total	\$ 54,543,927	\$ 56,805,885

*Hydro Reserves of Repair and Replacement type

Rate Supported Repair and Replacement Reserve Funds

There are four (4) different Rate Supported Reserve Funds in the repair and replacement category that have a combined August 31, 2021 balance of \$52.8 million. As at August 31, 2021 the combined balance for the Water and Wastewater Fund comprised of Watermain, Sanitary Sewer, and Watermeter reserve funds was \$48 million.

The Water Quality Protection reserve fund provides for the periodic rehabilitation of environmental, and storm water management systems has a balance of \$4.7 million as at August 31, 2021.

The balance of the Rate Supported Repair and Replacement Reserve Funds is listed in the table below:

Rate Supported Repair and Replacement Reserve Funds	August 31, 2021	December 31, 2020
Water and Wastewater Fund	48,013,485	50,248,967
Water Quality Protection	4,783,465	4,254,204
Total	\$ 52,796,950	\$ 54,503,171

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Hydro Reserve Funds

In 2003, Council created five new Reserve Funds with the proceeds from the sale of the former Richmond Hill Hydro. Two of the hydro reserves related to repair and replacements are grouped in the Tax Supported and Rate Supported Repair and Replacement reserves. The combined August 31, 2021 balance for the other hydro reserves totaled \$65.1 million.

Hydro Reserve Funds	August 31, 2021	December 31, 2020
Community Enhancement and Vitality	54,042,744	54,042,744
Strategic Rapid Transit Initiatives	7,472,631	8,744,831
Ecological Legacy	3,532,472	3,547,725
Total	\$ 65,047,846	\$ 66,335,300

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, and an approved intent to not spend 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 principal balance. The principal balance of \$3 million is maintained in the Ecological Legacy Reserve Fund, and retained for future ecological initiatives and that only the interest earned be available for disbursement.

Community Enhancement and Economic Vitality Reserve Fund

This Reserve Fund was established with a \$40 million balance 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 of the phase in of the winter snow windrow removal and public works enhancement program. The August 31, 2021 balance is \$54 million.

Strategic Rapid Transit

Established with a \$5 million balance for long range strategic rapid transit projects which are multi-jurisdictional in nature, this reserve is a potential funding source for City's portion of grade separation related to All Day GO Service. The August 31, 2021 balance is \$8.7 million.

Other Discretionary Reserve Funds

The other Discretionary Reserve Funds totaled \$27.8 million as at August 31, 2021, as indicated below.

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Other Discretionary Reserve Funds	August 31, 2021	December 31, 2020
Property Divesture and Acquisition	13,573,560	10,921,052
Worker's Compensation - WSIB	6,018,727	6,018,727
Yonge St. E and W Boundary	3,532,208	4,119,200
Insurance	2,362,532	2,226,532
Rouge and Don River Watershead	809,065	809,065
Theatre Repair and Replacement	659,762	659,762
Payment in Lieu for Parking	465,025	465,025
Sick Leave	120,540	120,540
Non-Growth Development	114,307	206,598
Public Art Reserve Fund	59,635	59,635
Village of Richmond Hill BIA	54,552	54,552
Elvis Stojko Bursary	4,385	4,385
New Civic Building	3,702	3,702
Mayor's Endowment Art	1,528	1,528
Road and Bridge Investment Fund	723	723
Performances for Int.'l Events	581	581
Total	\$ 27,780,832	\$ 25,671,607

Interest Allocation

The investment income realized on the City's investment portfolio each year is allocated between the operating budget and reserve funds. All income earned on short term investments are designated to the operating budget. However, given the persistent challenging environment due to interest rates at historic lows, interest allocation to the operating budget has been subsidized continuously at the expense of reserve funds.

Only the discretionary reserve funds and obligatory reserve funds receive interest. There is no stipulation in the Municipal Act regarding how interest is to be allocated, other than being at the discretion of the Treasurer.

Reserve funds within each group are assigned the applicable rate that primarily equates to return on the long term investment portfolio. The resulting interest amount is then simply a product of the return rate and the reserve fund's average balance for the year.

Realignment of Reserve and Reserve Funds

Funds for the Roads Repair and Replacement, Sidewalk and Transportation Reserve Fund are used for the same purpose, to fund transportation assets hence merging these reserve funds would be consistent with the tracking of capital projects.

Staff recommend that for administration purposes the Sidewalk Reserve Fund and Roads Repair Reserve Fund be merged with the Transportation Network Repair and Replacement Reserve

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Fund and their outstanding uncommitted balances be transferred to the Transportation Network Repair and Replacement Reserve Fund as shown below. Any returns from closing existing projects after this merge will be posted to the Transportation Network Repair and Replacement Reserve Fund.

From		To	
Reserve Name	Amount	Reserve Name	Amount
Sidewalk	226,044	Transportation	1,638,070
Road Repair	1,412,026		

Upon Council approval, by-law 292-91 “Road Repair and Replacement Fund” and by-law 287-91 “Sidewalk Reserve Fund” will be repealed.

To align with the Development Charges Act, staff recommend that the Indoor Development Charges Reserve Fund and Outdoor Development Charges Reserve Fund be merged into one reserve fund and renamed to the “Parks and Recreation” Development Charges Reserve Fund.

Through recent legislative changes, the DC Act combined the below eligible recreation services under one umbrella:

- Outdoor Recreation and Park Development/Amenities and Trails
- Parks & Recreation Vehicle & Equipment
- Recreation Facilities

From		To	
Reserve Fund Name	Amount	Reserve Fund Name	Amount
Indoor Recreation	21,418,523	Parks and Recreation	24,505,540
Outdoor Recreation	3,087,017		

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 Council Strategic Priorities 2020 and 2022:

Presentation of the status of the City’s Reserve and Reserve Funds reflects wise management of resources but also touches on other goals within the Strategic Priorities: Fiscal Responsibility in Richmond Hill to serve as a role model for municipal management.

Through the reserves and reserve funds by-laws, internal guidelines and external regulations, staff are closely monitoring the transfers to and from reserve funds as approved in the capital and operating budgets and reviews the financial position of the Reserves and Reserve Funds on a regular basis to ensure appropriate levels and financial sustainability.

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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 regularly 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.21.045 2021 Reserve and Reserve Funds Status.docx
Attachments:	- SRCFS.21.045 Appendix A - Reserve and Reserve Fund Definitions.pdf
Final Approval Date:	Oct 12, 2021

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

David Dexter - Oct 8, 2021 - 12:20 PM

Sherry Adams - Oct 8, 2021 - 3:12 PM

MaryAnne Dempster - Oct 12, 2021 - 8:56 AM