



## **Staff Report for Budget Committee of the Whole Meeting**

**Date of Meeting:** June 28, 2022

**Report Number:** SRCFS.22.015

**Department:** Corporate and Financial Services

**Division:** Financial Services

**Subject:** 2021 Reserve and Reserve Fund Status (SRCFS.22.015)

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### **Purpose:**

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

### **Recommendation(s):**

That Council receive SRCFS.22.015 for information purposes.

### **Contact Person:**

Diana Selicean, Capital and Reserves Financial Management Advisor Ext. 6427

Sara Beukeboom, Manager Fiscal Planning and Strategy Ext. 6311

### **Report Approval:**

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

**Approved by:** Darlene Joslin, Interim 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 are established by City By-laws or through Provincial legislation to provide funding flexibility, mitigate risk, operations uncertainty, and ensure long-term financial stability of the City. They play a very important role in the City's finances, and provide a strong indicator of the City's overall financial health.

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, capital close reports, investment income.

External funding sources: development related charges and fees collected, government grants and donations.

Reserves are allocated at the discretion of Council, generally as part of an overall strategy for funding Operating programs or projects. They are used mainly to aid in stabilizing unanticipated expenditures or revenue shortfalls. 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 2020, the City moved to the "fund – as you- go approach" and as such, funds are no longer tied up until the completion of the project and rather projects are funded at the time when capital acquisitions are made while the approved capital budget is earmarked. For the purpose of this report, we are presenting the earmarked reserve balances.

### 2021 Year End Balances and Significant Changes since 2020

As of December 31, 2021, the City has 89 Reserves and Reserve Funds with a consolidated 2021 year-end balance of \$442.25 million. The total balance of reserves and reserve funds has increased by \$96.11 million (28%) from 2020 to 2021 as shown in the table below:

Reserve and Reserve Funds Type	Year End 2020	Year End 2021	\$ Change in Balance
<b>Reserves</b>	37,109,403	47,093,452	9,984,049
<b>Reserve Funds</b>	309,030,201	395,152,768	86,122,566
<b>Obligatory</b>	105,051,799	167,975,214	62,923,415
<b>Discretionary</b>	203,978,403	227,177,554	23,199,151
<b>Total</b>	<b>\$346,139,605</b>	<b>\$442,246,220</b>	<b>\$96,106,615</b>

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In 2021, the City experienced an increase in building construction, as the industry recovered after the immediate impact of the COVID-19 pandemic and the associated economic uncertainties of 2020. This contributed to the increase in deposits to reserve funds: collections from third parties deposited (\$61.8 million in 2021) and interest allocated (\$12.2 million in 2021).

A series of mitigation strategies and cost saving measures implemented with the intent to offset COVID-19 related financial impacts resulted in cost savings and slightly higher transfers to reserves and reserve funds compared to transfers from the reserves and reserve funds:

### Other Transfers In:

- \$28.1 million transfer from the operating budget to ensure appropriate reserve balance levels,
- \$1.2 million return from grant funding and \$34.31 from capital close reports (\$21 million due to closure of the Civic Precinct project),
- \$6.2 million surplus transfer pending Council approval from operating fund (2021 year end operating fund transfer per SRCFS.22.011 \$2.8 million) and (2021 year end Water & Wastewater fund transfer per SRCFS.22.011 \$3.4 million)

Transfers Out: \$8.1 million transferred to fund expenditures in the operating fund, \$39.6 million used to fund capital spend

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 (\$4.2 million budget in 2021). Reserves represent 10.6% of the total reserves and reserve funds and have increased by \$10.0 million from 2020 (\$37.1 million) to 2021 (\$47.1 million). Reserves are further broken down into the following categories:

- Stabilization reserves (Dec 31, 2021 balance \$20.6 million),
- Developer Funded reserves (December 31, 2021 balance \$24.2 million),
- Other Reserves (December 31, 2021 balance \$2.2 million).

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### Stabilization Reserves

These 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 \$20.6 million as at December 31, 2021, as shown below:

Stabilization Reserves	Year End 2020	Year End 2021	\$ Change in Balance
Tax Rate Stabilization	6,670,625	9,258,139	2,587,514
Water Sewage Rate	6,261,001	7,963,801	1,702,800
Staffing Training Development	262,534	651,579	389,045
Elections	444,609	596,104	151,495
225 EBC Revenue Stabilization	569,260	569,260	-
Tax Adjustment Stabilization	544,139	544,139	-
Snow Removal	533,215	533,215	-
O.M.B.	442,914	442,914	-
Theatre Revenue Stabilization	69,428	69,428	-
Total	\$15,797,724	\$20,628,578	\$4,830,854

The 2021 change in balance is mainly due to the surplus transfer recommendation of \$2.8 million from the operating fund to the Tax Rate Stabilization Reserve and the transfer of \$1.7 million from water fund to the Water Sewage Rate Reserve.

The balance of the Tax Rate Stabilization Reserve has gradually reduced from \$8.3 million at the end of 2015 to \$6.7 million at the end of 2020. The \$2.8 million transfer from operating fund will bring the balance to \$9.3 million that will provide a contingency to address any unanticipated shortfalls associated with additional costs or underachieved revenues that may arise.

### Developer Funded Reserves

Developer Funded Reserves capture fees charged for development, used to fund development related activities such as:

- engineering reviews,
- inspections,
- water meters,
- tree planting, and
- streetlights.

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The December 31, 2021 balance for these Reserves was \$24.2 million as summarized in the table below:

Developer Funded Reserves	Year End 2020	Year End 2021	\$ Change in Balance
Engineering Review Fee	7,941,222	9,495,096	1,553,873
Inspection	6,294,633	8,040,875	1,746,242
Water Meters	1,690,872	1,883,938	193,065
Administrative / Legal	552,563	947,667	395,104
Park Inspection	314,335	832,281	517,946
Anti- Tampering Devices	565,786	585,701	19,914
Monitoring	419,346	577,246	157,900
Development Repair and Replacement	551,040	551,040	-
Sewage Inspection	350,471	498,425	147,954
Street Signs	474,915	485,671	10,757
Trees	197,009	393,312	196,302
Street Lights	(52,680)	(52,680)	-
<b>Total</b>	<b>\$19,299,512</b>	<b>\$24,238,571</b>	<b>\$4,939,059</b>

The \$4.9 million balance increase from 2020 to 2021 is mainly attributable to the increase in the collection of engineering review fees and inspection fees collected for larger subdivisions and site plans with more costly and complex infrastructure.

### Other Reserves

Other Reserves include Disabled Parking Fines Reserve, David Dunlap Observatory Woodlot Management Reserve and Terrestrial Natural Area Restoration. The December 31, 2021 balance was approximately \$2.2 million.

Other Reserves	Year End 2020	Year End 2021	\$ Change in Balance
D.D.O. Woodland Management	1,191,930	1,195,130	3,200
Terrestrial Natural Area Restoration	326,278	509,548	183,270
Disabled Parking Fines	197,095	197,095	-
Recycling and Green Bin	90,500	120,666	30,166
Ontario Cannabis Legalization Implementation	84,168	89,168	5,000
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	1,981	(2,500)
<b>Total</b>	<b>\$2,007,167</b>	<b>\$2,226,304</b>	<b>\$219,137</b>

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### 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. At the end of 2021 Obligatory Reserves had an earmarked balance of \$167.98 million (38% of total reserves and reserve funds).

Obligatory Reserve Funds are grouped in four main categories:

- Development Charges (December 31, 2021 balance \$97.0 million),
- Cash-in Lieu of Parkland and Lot Levies (December 31, 2021 balance \$49.9 million),
- Canada Community – Building Fund (formerly Federal Gas Tax) (December 31, 2021 balance \$15.8 million), and
- Other Obligatory Reserve Funds (December 31, 2021 balance \$5.3 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 earmarked balance of these Reserve Funds is \$97.0 million as at December 31, 2021.

Development Charges Reserve Funds	Year End 2020	Year End 2021	\$ Change in Balance
City Wide Development Charges (Combined)	36,447,794	78,707,984	42,260,191
Area Specific (combined)	17,220,524	18,299,699	1,079,175
<b>Total</b>	<b>\$53,668,318</b>	<b>\$97,007,683</b>	<b>\$43,339,365</b>

In 2021, Development Charges Reserve Funds received from developers \$25.4 million and released back into the reserve funds \$21.1 million from previously earmarked capital projects (Civic Precinct), received \$1.1 million in interest and funded \$4.3 million in capital projects.

With the collection increase, Parks and Recreation and Library Services reserve funds previously in a deficit due to timing difference or earmarking of existing projects, are now in a positive balance for 2021.

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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 balance as at December 31, 2021 of \$49.6 million. The average annual revenues of \$8.4 million collected since 2016 have been used to fund new parkland, the 10% un-funded portion of growth related Outdoor Recreation capital projects and the portion of theming and sustainable infrastructure in park revitalization.

<b>Lot Levies and Cash-in-lieu of Parkland</b>	<b>Year End 2020</b>	<b>Year End 2021</b>	<b>\$ Change in Balance</b>
<b>Cash-in-lieu of Parkland</b>	37,752,981	49,631,906	11,878,924
<b>Sidewalk</b>	225,285	226,044	759
<b>Total</b>	<b>\$37,978,266</b>	<b>\$49,857,950</b>	<b>\$11,879,684</b>

In 2021, as the level of economic activities increased post-Covid, Cash-in lieu of Parkland Reserve Fund received \$12.4 million in collection fees, funds were transferred to fund the Capital Program, and funds were returned from capital projects closed. This resulted in an overall increase of \$11.8 million in the 2021 ending balance.

### 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 December 31, 2021 was \$15.8 million. The interim higher balance in this reserve fund is a result of timing differences between allocation of funding and receipt of an additional installment of \$5.9 million received late November 2021. Funds are earmarked for the eligible capital projects in the 2022 Capital Budget Request.

### Other Obligatory Reserve Funds

The other Obligatory Reserve Funds totaled \$5.3 million as at December 31, 2021 and comprised of two reserve funds:

Building Rate Stabilization Reserve Fund was established as required by the Building Code Act, to mitigate fluctuations in building permit revenues and risk associated with an economic downturn. The increase in revenue from building and plumbing permits were commensurate to the increased level of building construction activity and as a result, \$1.2 million surplus was transferred to this reserve fund.

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Section 37 Community Benefits Reserve Fund was established to hold funds collected from Section 37 of the Planning Act and to be used to fund the growth-related, capital costs of any potential service. The Section 37 reserve fund balance has increased by \$1.7 million in 2021, from an opening balance of \$(0.8) million to a closing balance of \$0.9 million.

Other Obligatory Reserve Funds	Year End 2020	Year End 2021	\$ Change in Balance
Building Permit Stabilization	3,179,040	4,370,225	1,191,185
Section 37 Community Benefits	(759,700)	953,981	1,713,681
<b>Total</b>	<b>\$2,419,340</b>	<b>\$5,324,206</b>	<b>\$2,904,866</b>

### 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 December 31, 2021 balance of \$227.1 million is grouped into the following categories: Tax Supported Repair and Replacement Reserve Funds: \$70.2 million, Rate Supported Repair and Replacement Reserve Funds: \$63.1 million, Hydro Reserve Funds: \$65.0 million and Other Discretionary Reserve Funds \$28.8 million.

#### Tax Supported Repair and Replacement Reserve Funds

The six different Reserve Funds in the tax supported repair and replacement category were established to provide for rehabilitation of the City's existing infrastructure to maintain assets in state of good repair and safe operating condition. At the end of 2021 a combined earmarked balance of \$70.2 million as depicted in the following table.

Tax Supported Repair and Replacement Reserve Funds	Year End 2020	Year End 2021	\$ Change in Balance
Infrastructure Repair and Replacement/ Cash to Capital	32,044,645	39,039,963	6,995,318
Transportation Network Repair and Replacement*	9,264,580	15,119,067	5,854,486
Capital Asset Continuity*	10,870,373	10,709,728	(160,645)
225 E.B.C Repair and Replacement	1,931,362	2,364,357	432,995
Road Repair	1,409,373	1,654,638	245,266
Arena Repair and Replacement	1,285,551	1,327,074	41,523
<b>Total</b>	<b>\$56,805,885</b>	<b>\$70,214,827</b>	<b>\$13,408,942</b>

\*Hydro Reserves of Repair and Replacement type

As with other major municipalities in Ontario, the City is facing aging infrastructure and continues to add new assets every year. In 2016, Council approved a 1% contribution levy from 2016 to 2025 as a capital asset sustainability fee to address the tremendous pressures on the Tax Supported Repair and Replacement Reserve Funds.



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The \$13.4 million increase in 2021 is mainly attributable to returning \$5.8 million to the Transportation Network R&R Reserve Fund as the City was able to leverage the Canada Community Building Fund for the LED Replacement project (included in the 2021 Capital Project Status), along with timing difference between fees transferred in and capital spend, funds returned from capital projects closed, as well as proceeds from disposals of assets.

### Rate Supported Repair and Replacement Reserve Funds

The various Rate Supported Reserve Funds in the repair and replacement category are grouped by fund and as seen in the table below have a combined December 31, 2021 balance of \$63.1 million.

The 2021 balance of the Rate Supported Repair and Replacement Reserve Funds illustrated in the table below:

<b>Rate Supported Repair and Replacement Reserve Funds</b>	<b>Year End 2020</b>	<b>Year End 2021</b>	<b>\$ Change in Balance</b>
<b>Water and Wastewater Fund</b>	50,248,967	55,342,377	5,093,409
<b>Water Quality Protection (Stormwater)</b>	4,916,644	7,761,036	2,844,392
<b>Total</b>	<b>\$55,165,611</b>	<b>\$63,103,413</b>	<b>\$7,937,802</b>

As at December 31, 2021 the combined balance for the Water and Wastewater Fund comprised of Watermain, Sanitary Sewer, and Watermeter reserve funds was \$55.3 million.

The Water Quality Protection Reserve Fund provides for the periodic rehabilitation of environmental, storm water management systems and has a balance of \$7.8 million as at December 31, 2021.

The \$7.9 million increase in balance for Rate Supported Repair and Replacement Reserve Funds is mainly attributable to the 2021 surplus allocation of \$1.7 million to the Water Quality Protection Reserve Fund, returns from capital projects close and the timing difference between the funds transferred in and the capital project spend.

### Hydro Reserve Funds

In 2003, Council created six new Reserve Funds with the proceeds from the sale of the former Richmond Hill Hydro. Two of the hydro reserve funds (Capital Asset Continuity Reserve Fund and Transportation Network R&R Reserve Fund) related to repair and replacements are grouped in the Tax Supported and the Water Quality Protection Reserve Fund in the Rate Supported Repair and Replacement reserve fund. The combined December 31, 2021 balance for the other hydro reserve funds totaled \$65.0 million.

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<b>Hydro Reserve Funds</b>	<b>Year End 2020</b>	<b>Year End 2021</b>	<b>\$ Change in Balance</b>
<b>Community Enhancement and Economic Vitality</b>	54,042,744	53,628,174	(414,570)
<b>Strategic Rapid Transit</b>	8,744,831	7,687,354	(1,057,477)
<b>Ecological Legacy</b>	3,547,725	3,710,896	163,171
<b>Total</b>	<b>\$66,335,300</b>	<b>\$65,026,424</b>	<b>(\$1,308,876)</b>

**Community Enhancement and Economic Vitality Reserve Fund**

Established with a \$40 million balance, this reserve fund mainly funds projects that will enhance the quality of life and enrich the economic vitality of the community. It has been earmarked to fund the phase in of the snow windrow removal and public works enhancement program as well as the five-year phase in (commencing in 2023) of the costs related to hiring 16 new firefighters as recommended in the Fire Services Master Plan and approved as part of 2022 Operating Budget. The December 31, 2021 balance is \$53.6 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 has \$1.2 million earmarked for the Richmond Hill Centre Subway project and is a potential funding source for the City's portion of grade separation related to All Day GO Service. The City has received written confirmation from Metrolinx that any staff or consulting costs directly attributable to the Yonge North Subway Extension project will be fully reimbursed. This commitment is in recognition of the critical role the City must play in advancing this project.

The December 31, 2021 balance is \$7.7 million.

**Ecological Legacy Reserve Fund**

This Reserve Fund was initially established with a \$6 million balance to be used for community-based projects for 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 of \$3 million at the time for future ecological initiatives and that only the interest earned be available for disbursements.

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### Other Discretionary Reserve Funds

The other Discretionary Reserve Funds totaled \$28.8 million as at December 31, 2021, as indicated below.

Other Discretionary Reserve Funds	Year End 2020	Year End 2021	\$ Change in Balance
Property Divestiture and Acquisition	10,921,052	13,606,528	2,685,476
Worker's Compensation - WSIB	6,018,727	5,469,865	(548,862)
Yonge St. E and W Boundary	4,119,200	3,564,404	(554,796)
Insurance	2,226,532	2,390,560	164,028
Non-Growth Development	206,598	1,678,824	1,472,226
Rouge and Don River Watershed	809,065	828,887	19,822
Theatre Repair and Replacement	659,762	688,593	28,831
Payment in Lieu for Parking	465,025	476,418	11,393
Public Art Reserve Fund	59,635	61,096	1,461
Village of Richmond Hill BIA	54,552	56,570	2,018
Elvis Stojko Bursary	4,385	4,492	107
New Civic Building	3,702	3,793	91
Mayor's Endowment Art	1,528	1,541	13
Road and Bridge Investment Fund	723	723	-
Performances for Int.'l Events	581	595	14
Sick Leave	120,540	-	(120,540)
<b>Total</b>	<b>\$25,671,607</b>	<b>\$28,832,890</b>	<b>\$3,161,283</b>

The \$3.2 million balance increase is mainly attributed to the sale of land (\$2.6 million) transferred to the Property Divestiture and Acquisition Reserve Fund and the release of earmarking of capital projects closed (\$1.4 million from Civic Precinct) returned to the Non-Growth Development Reserve Fund.

The Sick Leave reserve was established in 1991 (By-law 298-91) to fund the payouts of the firefighters accumulated sick leave benefits at the time of retirement or leave. The reserve fund balance declined to zero in 2021 due to an increase in payouts over the past several years, lack of contributions to the reserve fund and reduced interest earned on the declining balance. The City will need to consider a longer term funding strategy as part of the 2023 operating budget process.

### **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 interest allocation, other than being at the discretion of the Treasurer.

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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.

### **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.

### **Climate Change Considerations:**

Climate change considerations are not applicable to this staff report.

### **Conclusion:**

Reserves and Reserve Funds management along capital management and revenue enhancement continues to be an important component of the financial sustainability and play a vital role in City's finances.

One of the key attributes of financial sustainability is appropriate levels of Reserves and Reserve Funds. Once Asset Management Plan and Financial Sustainability Strategy are fully developed, a goal is to establish a Reserve and Reserve Fund Policy that will include funding envelopes and reserves and reserve funds targets.

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.22.015 - 2021 Reserve and Reserve Funds Status.docx
Attachments:	- SRCFS.22.015 - Appendix A - Reserve and Reserve Fund Definitions.docx
Final Approval Date:	Jun 16, 2022

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

**Gigi Li - Jun 15, 2022 - 4:10 PM**

**Sherry Adams - Jun 15, 2022 - 4:29 PM**

**Darlene Joslin - Jun 16, 2022 - 7:47 AM**