



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

**Date of Meeting:** May 28, 2024  
**Report Number:** SRCFS.24.021

**Department:** Corporate and Financial Services  
**Division:** Financial Services

**Subject:** **2023 Reserve and Reserve Fund Status (SRCFS.24.021)**

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### **Purpose:**

To provide an update on the status of the City's Reserves and Reserve Funds as of December 31, 2023.

### **Recommendations:**

- a) That Council receive SRCFS.24.021 for information purposes;
- b) That for administration purposes, the following reserve re-alignments be approved:
  - i) The Inspection Reserve be amalgamated with the Engineering Review Fees Reserve;
  - ii) The Roads and Bridge Investment Fund be merged with the Infrastructure Repair and Replacement Reserve; and
  - iii) The respective by-laws be repealed, and their corresponding accounts be closed.

### **Contact Person:**

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

Lisa Chen, Manager Fiscal Planning and Strategy, Ext. 6311

### **Report Approval:**

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

**Approved by:** Darlene Joslin, 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.

## Page 2

### Background:

Reserves and Reserve Funds are established by City By-laws or through Provincial legislation to provide funding flexibility, mitigate risk, manage 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.

In accordance with the City's financial control by-law and as a component of long-term financial planning, it is imperative to regularly review the financial status of reserves and reserve funds 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.

Upon capital budget approval, Council also commits the reserve and reserve fund allocation. The project is funded as capital acquisitions or expenditures are incurred. Unspent but approved funding is deducted from the actual reserve fund as earmarked funds to ensure the available balance is not overcommitted. For purposes of this report, staff present the earmarked balances.

### 2023 Year End Balances and Significant Changes since 2022

As of December 31, 2023, the City has 86 Reserves and Reserve Funds with a consolidated 2023 year-end balance of \$453.14 million. Compared to the prior year’s balance there is a \$7.71 million (1.73%) increase, in the aggregate balance of the reserves and reserve funds.

Reserves and Reserve Funds (in \$ millions)	Year End 2022	Year End 2023	Change
<b>Reserves</b>	<b>49.55</b>	<b>62.03</b>	<b>12.48</b>
<b>Reserve Funds</b>	<b>396.24</b>	<b>391.12</b>	<b>(5.13)</b>
Obligatory	168.30	172.68	4.37
Discretionary	227.94	218.44	(9.50)
<b>Total</b>	<b>\$445.79</b>	<b>\$453.14</b>	<b>\$7.71</b>

Appendix “A” provides definitions for each of the City’s Reserve and Reserve Fund. Appendix “B” provides the 2022 and 2023 year-end balances and the change in balance from 2022 to 2023.

## Page 3

### A. 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 (\$6.4 million budget in 2023).

Reserves, broken down by the categories below, represent 14% of the total reserves and reserve funds and have increased by \$12.48 million from 2022 (\$49.55 million) to 2023 (\$62.03 million).

Obligatory Reserve Funds (in \$ millions)	Year End 2022	Year End 2023	\$ Change in Balance
Stabilization	21.17	29.29	8.11
Developer Funded	26.10	29.17	3.07
Other	2.27	3.57	1.3
<b>Total</b>	<b>\$49.55</b>	<b>\$62.03</b>	<b>\$12.48</b>

#### 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 2023 balance of \$29.29 million (2023) includes the surplus transfer recommendation of \$4.70 million from the operating fund to the Tax Rate Stabilization Reserve and the transfer of \$0.08 million from the water fund to the Water Sewage Rate (Water Rate Stabilization) Reserve.

#### 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. The \$3.07 million balance increase from \$26.10 million (2022) to \$29.17 million (2023) 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, 2023, balance was approximately \$3.57 million.

## Page 4

### B. 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 and can be further broken down into **Obligatory Reserve Funds** and **Discretionary Reserve Funds**.

#### 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 2023, Obligatory Reserve Funds had an earmarked balance of \$172.68 million (38% of total reserves and reserve funds) and are grouped into four main categories:

Obligatory Reserve Funds (in \$ millions)	Year End 2022	Year End 2023	\$ Change in Balance
<b>Development Charges</b>	98.21	106.66	8.45
<b>Lot Levies and Cash-in-lieu of Parkland</b>	53.95	50.11	(3.84)
<b>Canada Community Building Fund</b>	10.62	11.61	0.99
<b>Other</b>	5.52	4.30	(1.22)
<b>Total</b>	<b>\$168.30</b>	<b>\$172.68</b>	<b>\$4.37</b>

#### 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.

The combined earmarked balance of these Reserve Funds is \$106.66 million as of December 31, 2023.

The \$8.45 million balance increase is mainly attributable to a reduction of growth projects earmarked and an increase in developer charges collected.

Development Charges Reserve Funds (in \$ millions)	Year End 2022	Year End 2023	\$ Change in Balance
<b>City Wide Development Charges (Combined)</b>	79.70	88.11	8.41
<b>Area Specific (combined)</b>	18.51	18.55	0.04
<b>Total</b>	<b>\$98.21</b>	<b>\$106.66</b>	<b>\$8.45</b>

## **Page 5**

Since 2019, the Province has introduced a number of changes to the Development Charges Act commencing with Bill 108 to the most recent Bill 185, which result in significant financial impact to the City's funding of growth-related infrastructure.

The impact of legislative changes in 2023 is approximately \$1.24 million, largely driven by exemptions of development charges to 69 Additional Residential Units, and the effect of the frozen development charges rates to 7 residential developments.

Staff will continue to monitor these legislative changes and provide Council with an update on the financial impact to the City as appropriate.

### 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, 2023, of \$50.11 million.

In 2023, the Cash-in lieu of Parkland Reserve Fund saw an overall decrease of \$3.84 million in the ending balance, primarily as a result of funds transferred to the Capital Program exceeding the collections.

### 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, 2023, was \$11.61 million. Funds are earmarked for the eligible capital projects in the 2024 Capital Budget Request.

### Other Obligatory Reserve Funds

The other Obligatory Reserve Funds totaled \$4.30 million as at December 31, 2023, and comprised of three reserve funds: Building Rate Stabilization Reserve Fund, Section 37 Community Benefits Reserve Fund and Community Benefits Charge Reserve Fund.

### **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, 2023, balance of \$218.44 million represents 48% of total reserves and reserve funds and is grouped into the following categories:

## Page 6

<b>Discretionary Reserve Funds</b> (in \$ millions)	<b>Year End</b> <b>2022</b>	<b>Year End</b> <b>2023</b>	<b>\$ Change in</b> <b>Balance</b>
<b>Tax Supported Repair and Replacement</b>	72.53	66.97	(5.56)
<b>Rate Supported Repair and Replacement</b>	60.98	56.16	(4.82)
<b>Hydro</b>	63.95	63.87	(0.08)
<b>Other</b>	30.48	31.44	0.96
<b>Total</b>	<b>\$227.94</b>	<b>\$218.44</b>	<b>(\$9.50)</b>

### Tax Supported Repair and Replacement Reserve Funds

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.

These reserve funds are primarily used for rehabilitation of the City’s existing infrastructure to maintain assets in state of good repair, to fund infrastructure renewal projects and various strategic priorities. It is also used to fund the city’s share of growth projects for any benefit to existing development. The 1% annual contribution levy was put in place in 2016 and was increased to 1.5% in 2024. At the end of 2023 a combined earmarked balance of \$66.97 million as depicted in the table above.

The \$5.56 decline in balance is attributable mainly to the increase of earmarking of state of good repair capital projects.

### 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, 2023, balance of \$56.16 million.

<b>Rate Supported Repair and Replacement Reserve Funds</b> (in \$ millions)	<b>Year End</b> <b>2022</b>	<b>Year End</b> <b>2023</b>	<b>\$ Change in Balance</b>
<b>Water and Wastewater Fund</b>	53.37	53.69	0.32
<b>Water Quality Protection (Stormwater)</b>	7.62	2.47	(5.15)
<b>Total</b>	<b>\$60.98</b>	<b>\$56.16</b>	<b>(\$4.82)</b>

As at December 31, 2023, the combined balance for the Water and Wastewater Fund comprised of Watermain, Sanitary Sewer, and Watermeter reserve funds was \$53.69 million.

The Water Quality Protection Reserve Fund provides for the periodic rehabilitation of environmental, storm water management systems and has a balance of \$2.47 million as at December 31, 2023.

## Page 7

The decrease in funds transferred in coupled with the increase of \$3.5 million earmarked for the stormwater capital projects contributed to the decline in balance from 2022 to 2023.

Staff will bring forward in June 2023 the results of the Stormwater Rate Study and recommendations on the fee and transfers to achieve sustainability.

### 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, 2023, balance for the other hydro reserve funds totaled \$63.87 million.

<b>Hydro Reserve Funds</b> (in \$ millions)	<b>Year End</b> <b>2022</b>	<b>Year End</b> <b>2023</b>	<b>\$ Change in Balance</b>
<b>Community Enhancement and Economic Vitality</b>	52.29	52.22	(0.07)
<b>Strategic Rapid Transit</b>	7.79	7.65	(0.14)
<b>Ecological Legacy</b>	3.86	4.00	0.14
<b>Total</b>	<b>\$63.95</b>	<b>\$63.87</b>	<b>(\$0.08)</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, 2023, balance is \$52.22 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 fund has \$1.2 million earmarked for the Richmond Hill Yonge North Subway Extension 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, 2023, balance is \$7.65 million.

## Page 8

### 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 \$3.0 million at the time for future ecological initiatives and that only the interest earned be available for disbursements. The December 31, 2023, balance is \$4.0 million.

### Other Discretionary Reserve Funds

The other Discretionary Reserve Funds totaled \$31.44 million as at December 31, 2023.

The \$0.96 million balance increase is mainly attributed to the sale of land (\$0.28 million) transferred to the Property Divestiture and Acquisition Reserve Fund and the increase in Sick Leave Reserve Fund (\$0.52 million).

## C. Interest Allocation

The investment income realized on the City’s investment portfolio each year is allocated between the operating budget and reserve funds. Given a much higher interest rate environment, both the operating budget and reserve funds will be able to benefit from a higher income rate of return generated from the investment portfolio.

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.

All reserve funds are assigned the portfolio income rate of return. The resulting interest amount is then simply a product of the return rate and the reserve fund’s average balance for the year.

## D. Realignment of Reserve and Reserve Funds

Staff reviewed the list of existing reserves and reserve funds and recommend that for better use of resources and administration purposes, the amalgamation of the following reserves:

TO		FROM	
Reserve Fund Name	Amount	Reserve Fund Name	Amount
Inspection Reserve	\$9,736,716	Engineering Review Fee	\$9,736,716
Roads and Bridge Investments Reserve Fund	\$751.76	Infrastructure Repair and Replacements	\$751.76

As outlined in the Development Application Fee Review Final Report prepared by Watson & Associates Economists Ltd presented on February 01, 2024, to Council and included in SRPBS.24.002, the separate engineering review and inspection fees that are imposed for draft



## **Page 9**

Plan of Subdivision and Site Plan applications have been combined into one fee for ease of administration.

Currently, inspection fees and engineering review fees collected are deposited into two distinct reserves: Inspection Reserve and Development Engineering Fees Reserve. Since the fees are now combined, staff recommend the amalgamation of the two reserves by transferring the remaining balance of the Inspection Reserve to the Engineering Review Fees Reserve and closing the Inspection Reserve.

The Roads and Bridge Investments Reserve Fund was created in 2008 to hold the grant funding received from the Provincial Government for investments in municipal infrastructure. After all projects earmarked the reserve fund has a balance of \$751.76 as of December 31, 2023, and staff recommend that for administration purposes the remaining balance be transferred to the Infrastructure Repair and Replacement Reserve Fund and close this reserve fund.

### **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 2024-2027 Strategic Plan:**

Presentation of the status of the City's Reserve and Reserve Funds reflects wise management of resources, and it touches on the Strengthening our Foundations Pillar and supports making decisions that are evidence based and data driven to enable the City's long term financial sustainability, as well as social, environmental and economic sustainability.

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 review 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 with capital management and revenue enhancement, continue to be important components of financial sustainability and play a vital role in City's finances. Staff will continue to inform Council regularly on the adequacy of the reserves and reserve funds.

Once the Asset Management Plan and Financial Sustainability Strategy are fully developed, a goal is to establish a Reserve and Reserve Fund Policy to provide guidelines to ensure the prudent allocation and management of financial resources for long-term stability and resilience. Reserves and reserve funds provide buffers for unexpected events, future obligations, and

## **Page 10**

capital expenditures. Establishing guidelines helps manage financial risks, maintain fiscal sustainability, and support the ongoing delivery of essential services to the community.

### **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

Appendix B: 2022 and 2023 Reserve and Reserve Funds Balances Comparison

# Page 11

## Report Approval Details

Document Title:	SRCFS.24.021 - 2023 Reserve and Reserve Funds Status.docx
Attachments:	- SRCFS.24.021 Appendix A - Definitions of Reserves and Reserve Fund.docx - SRCFS.24.021 Appendix B - 2022 and 2023 Reserve and Reserve Funds Balances Comparison.pdf
Final Approval Date:	May 14, 2024

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

**Gigi Li - May 14, 2024 - 12:36 PM**

**Sherry Adams - May 14, 2024 - 2:04 PM**

**Darlene Joslin - May 14, 2024 - 2:19 PM**