

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Monday, May 3, 2021
Subject	2020 Long-term Financial Statement – Reserves and Debt

Recommendation

1. That an obligatory reserve fund (344) be opened to manage Federal/Provincial grant funds received in 2021 from the Safe Restart Agreement Public Transit Funding Program as a requirement of the transfer payment agreement.
 2. That the Greenhouse Gas reserve (352) and the Ontario Municipal Commuter Cycling reserve fund (350) with nil balances be closed.
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Executive Summary

Purpose of Report

The purpose of this report is to update Council on the year-end position of all reserves and reserve funds as well as outstanding and forecasted debt. This report will also provide details on notable transactions that occurred throughout 2020 as well as historical and future outlooks. It will also serve to satisfy requirements of the Development Charges Act, 1997 (DCA) and the Planning Act in regard to annual reporting of development charges (DCs) and parkland dedication and provide an interim report, two years after enactment of the Parkland Dedication By-law (2019)-20366, as directed by Council on January 28, 2019.

Previously Council would receive individual reports on reserve and reserve fund activity, DCs, parkland dedication, and debt, however these items are all interconnected and presenting them together will provide Council with a holistic view of the City's long-term financial position.

Key Findings

- As a whole, the City's reserves and reserve funds increased by 16 per cent over the previous year with a year-end balance of \$383,963,635 before commitments.
- Reserve and reserve fund balances have been increasing since 2015 and this is primarily due to a focused strategy on increasing funding for Infrastructure Renewal both within the tax and non-tax areas.
- Reducing the use of contingency reserves for funding of planned expenditures at budget has allowed these reserves to reach their target levels.
- Reaching target levels for contingency reserves allows for greater flexibility in budgeting for the associated operating expenses, enabling reductions in annual budget requirements, thereby reducing the overall risk to the City.

- Year-end debt outstanding totaled \$101,480,582 after principal repayment of \$12,477,197.
- The City continues to be in a well-managed position with respect to outstanding debt obligations, all ratios being met and are currently trending positive.
- The planned future debt issuance will push the ratios closer to the limits established in the [Debt Management Policy](#), however, they are not expected to be exceeded over the next 25 years.

Financial Implications

There are no direct financial implications from this report. Continued strategic management of the City's reserves, reserve funds and debt portfolio will support the City's overall financial health, including a continued positive credit rating.

Report

Reserves and Reserve Funds

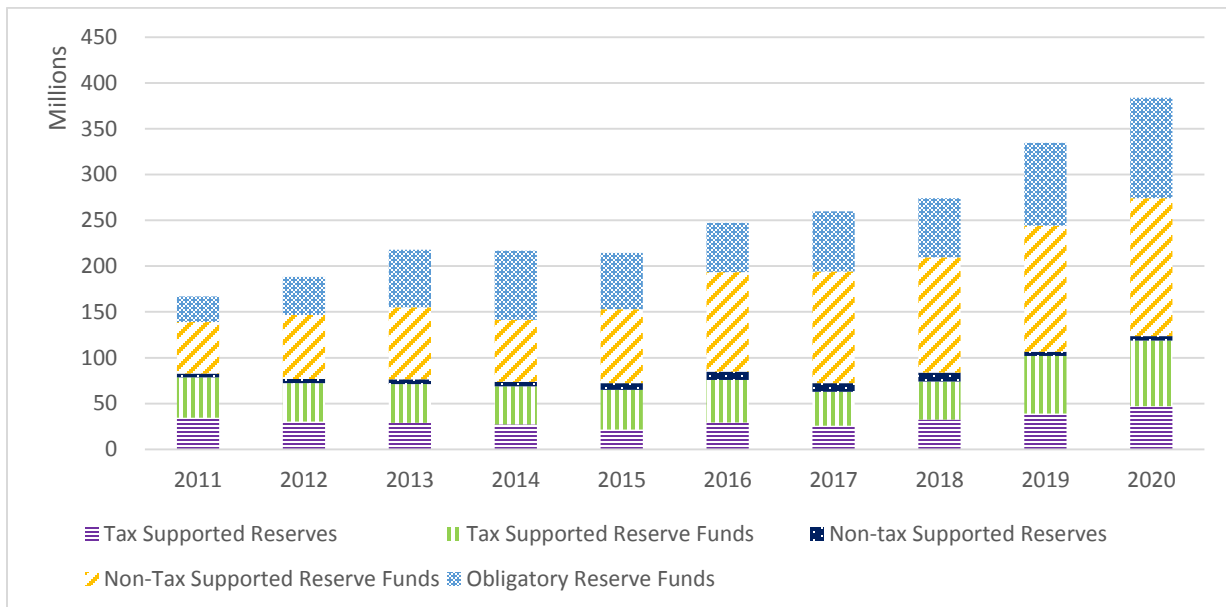
A schedule of reserve and reserve fund activity is provided in Attachment-1 Reserve and Reserve Fund Activity. Targets for specific reserves and reserve funds can be found in the City's [General Reserve and Reserve Fund Policy](#).

Notable reserve and reserve fund activity is described below under each category, with the exception of detailed analysis for the Parkland Dedication reserve funds and DCs reserve funds that require specific information to satisfy regulations in the Municipal Act.

Surplus allocations as recommended in the 2020 Year-end Operating Budget Monitoring and Surplus Allocation and Deficit Funding Report are accounted for in all figures below. Actual target percentages provided below are based on the uncommitted ending balance at the end of 2020.

Overall reserve and reserve fund balances have been increasing since 2015, as shown in Figure 1, and this is primarily due to a focused strategy on increasing funding for Infrastructure Renewal both within the tax and non-tax areas. Reducing the use of contingency reserves for funding of planned expenditures at budget has allowed these reserves to reach their target levels, thereby reducing the overall risk to the City.

Figure 1 2011 to 2020 Reserve and Reserve Fund Balances



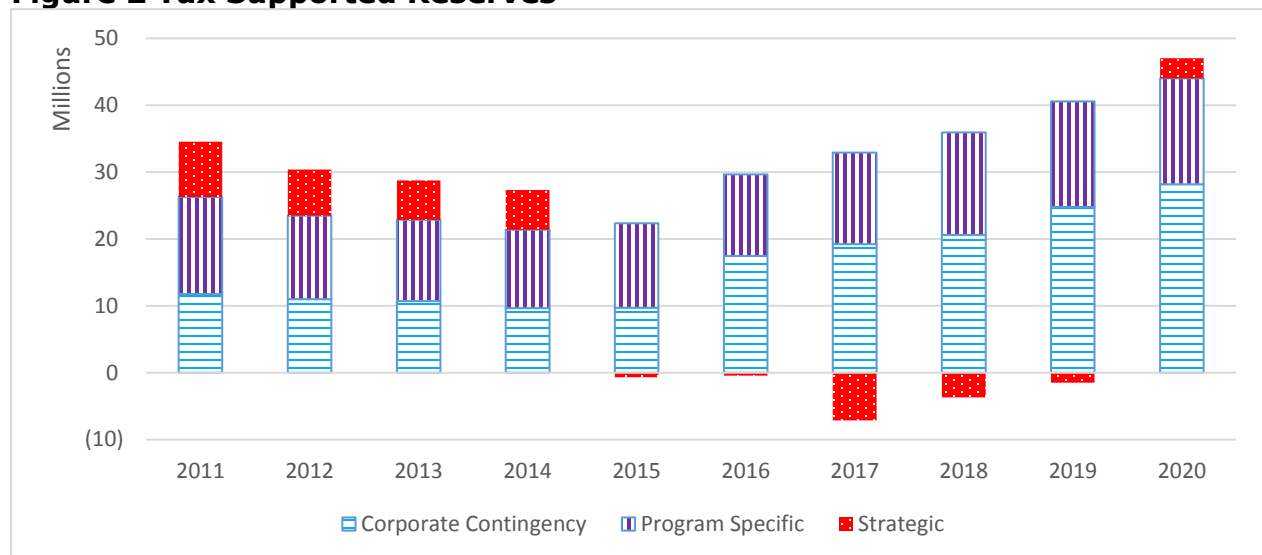
Tax Supported Reserves and Reserve Funds

The City's tax supported reserve and reserve funds have increased 16 per cent over 2019, this is primarily due to lower capital spending due to COVID-19 and a balance of Safe Restart funds (\$4,842,087) in the City's Tax Operating Contingency Reserve (180). Capital spending is expected to return to normal trends as the pandemic ends and the balance of Safe Restart funds will be used to mitigate any 2021 and future impacts from COVID-19.

Tax Supported Reserves

The tax supported reserves have been improving over the past six years, Figure 2, primarily due to a focus on ensuring appropriate balances in contingency reserves.

Figure 2 Tax Supported Reserves



Corporate Contingency Reserves

These reserves are required to provide the City with liquidity and to offset one-time, extraordinary and unforeseen expenditures so that the impact to the tax rate is minimized. This group is at 100 per cent of targeted levels at year-end. This is excluding the remaining funds from the Safe Restart Grant (\$4,842,087), which are dedicated to mitigating COVID-19 related costs and deficits. The following items were funded from the Corporate Contingency Reserves:

- \$302,400 to support Welcoming Streets, addiction court support and support recovery room initiatives (2020 budget).
- \$117,436 to offset the costs of the Council Compensation Review (2020 budget).
- \$100,000 transferred to the Elliott for one-time capital needs (2020 budget).
- \$1,000,000 was transferred to the Affordable Housing Reserve to support Council approve requests for funding (in-year Council approval).

Program Specific Reserves

The City maintains liability specific compensation reserves (Accumulated Sick Leave (Fire 100, Police 101), WSIB (330) and Paramedic Retirement (338)) to fund the cost of certain employee benefits that are incurred today, but payable in the future. These liabilities are generated through legislation and terms of collective agreements.

This group of reserves is currently at 97 per cent of target, however, the continuing pressures from increasing benefit costs and changing legislation may change this status in future years. Continued diligence in monitoring and proactively funding these known obligations is critical to long term sustainability.

Strategic Reserves

The City's Strategic Reserves support investment in affordable housing, redevelopment and the Hanlon Creek Business Park (HCBP). The level of funding in each is related to the underlying strategies being supported. The negative balance in this group is related to the HCBP, however, as land sales continue, it is

forecasted that the balance will be returned to a positive status within three to five years.

The Affordable Housing Reserve increased significantly in 2020 due to the Council approval of \$1,000,000 transferred to support a number community projects currently in development.

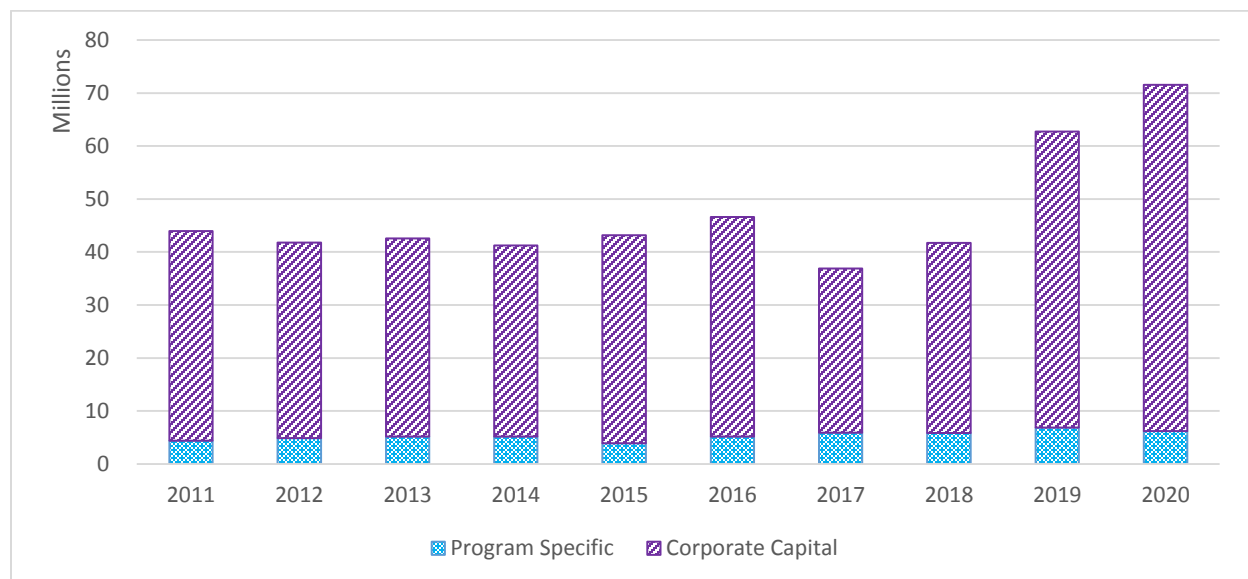
The balance in the Redevelopment Incentive reserve (122) has increased over a four-year period as funds accumulate in order to pay out commitments related to the Tax Increment Based Grant programs within the City's Community Improvement Plans. These funds are fully committed over 10 years.

Based on the approved policy of directing any Carbon Credit revenue to the 100RE Reserve Fund, the Greenhouse Gas Reserve (352) is no longer required and can be closed out.

Tax supported Reserve Funds

Overall reserve fund balances (Figure 3) have increased due to the focus on the Infrastructure Renewal Strategy, as well as the one-time dividend from Guelph Municipal Holdings Inc. received in 2019. The balance has outstanding capital project commitments of \$45 million against it, which reflects a lower level of capital spending in 2020 due to COVID-19.

Figure 3 Tax Supported Reserve Funds



Program Specific Reserve Funds

This group of reserve funds are related to specific services and/or sources of funding, such as Police Capital and Sleeman Naming Rights. The current requirement is that they remain positive in order to fund approved expenditures.

The balance of funding received through the Ontario Municipal Commuter Cycling program has been spent and the associated reserve fund (350) can now be closed.

Corporate Capital Reserve Funds

Corporate Capital Reserve Funds include reserve funds for Infrastructure Renewal, Contaminated Sites, Growth, City Building, Efficiency, Innovation and Opportunity Fund and 100 Renewable Energy. Collectively these reserve funds have increased

by 11 per cent beyond 2019's ending balance, primarily due to lower than usual capital activity due to COVID-19.

- Collectively these reserve funds are at 35 per cent of their target, excluding 100 RE.
- The City Building Reserve Fund is currently overcommitted by \$777,373. This will be addressed through the development of a strategy for funding long-term investment in this area. Staff are recommending a transfer into this reserve fund from the 2020 year-end position to reduce future tax increases.

In addition to a targeted reserve fund balance, these funds also have annual contribution targets, which support the long-term sustainability of the strategies they are used to fund. Currently both the Growth and Contaminated Sites strategies are being funded at 100 per cent of target. The Infrastructure Renewal strategy is being funded at 59 per cent, with continuation of the 10-year strategy expected to bring this to 90 per cent by 2027. The City Building funding is at 41 per cent of target, and there is currently no long-term strategy in place to bring this to 100 per cent. The 100 RE strategy is currently being developed to establish both targets for sustainable funding and a recommendation on how to achieve it over time.

Non-tax Supported Reserves and Reserve Funds

The City's non-tax supported reserves and reserve funds have increased 9 per cent over 2019, this is primarily due to a continued focus on long-term sustainable infrastructure renewal funding and lower capital spending due to COVID-19. Capital spending is expected to return to normal trends as the pandemic ends.

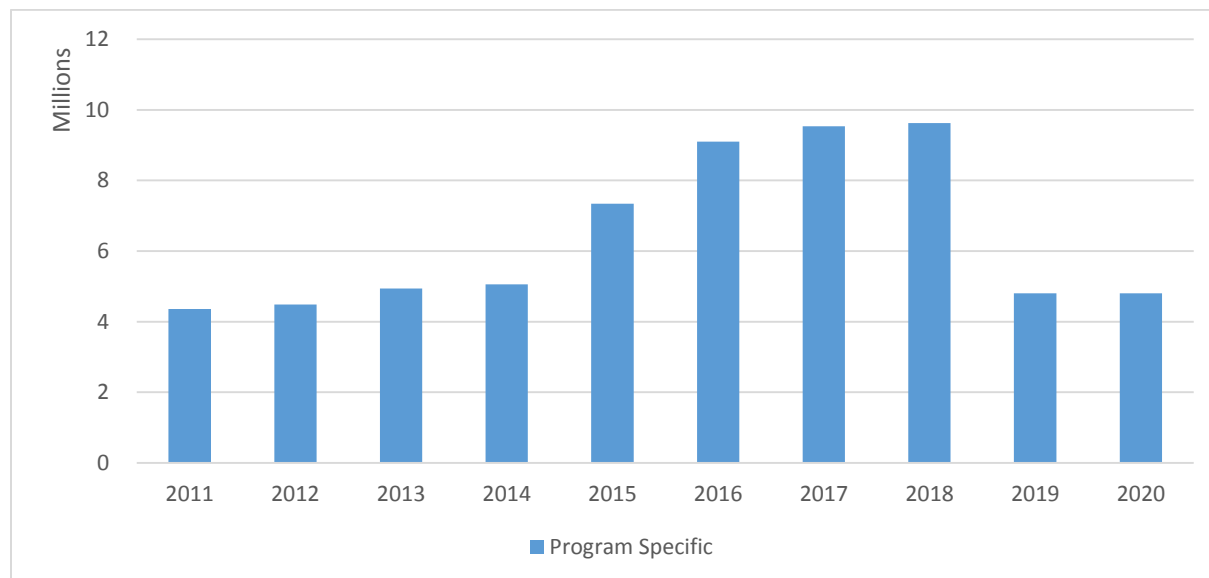
Non-tax supported Reserves

Program Specific Reserves

Non-tax contingency reserves are to meet the emergency and unplanned funding needs in the operations of the non-tax services, as well as to avoid large fluctuations in user rates. All services with the exception of Parking meet or exceed the established reserve target of 10 per cent of gross operating expenditures. The Parking reserve established in 2019 has yet to have a contribution made to it as the focus has been on reducing the tax contribution to Parking to transition the service to a fully user rate system. The target for Parking is approximately \$170,000.

The reduction in balances in these reserves (Figure 4) in 2019 reflects an adjustment to bring them in line with the targets above. As part of the 2020 budget, surplus funds were transferred to the respective capital reserve funds.

Figure 4 Non-tax Supported Reserves



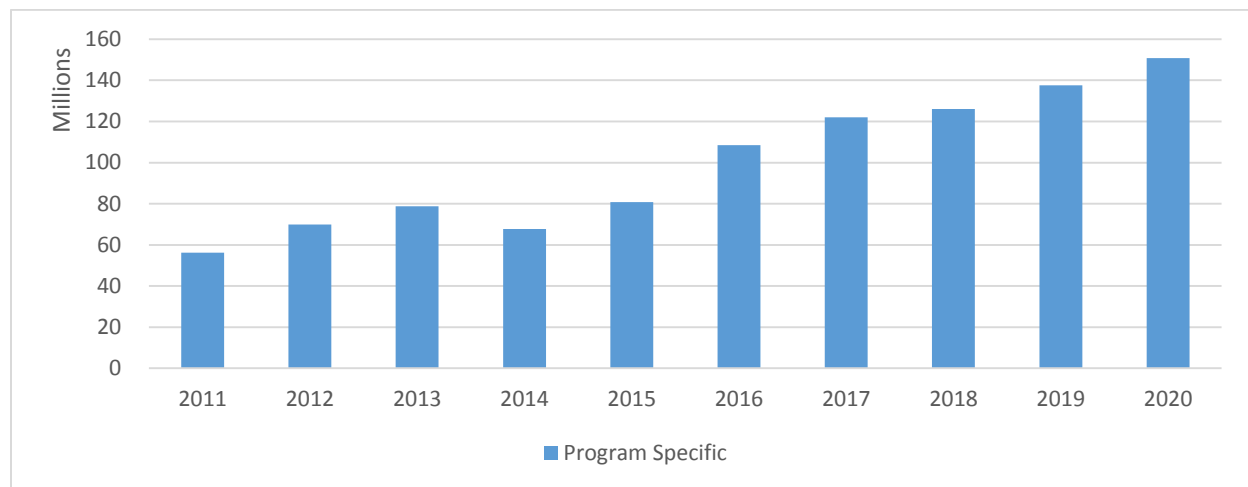
Program Specific Reserve Funds

These reserve funds consist of financing for capital works for Water, Wastewater, Stormwater, Parking and Courts. Capital works include infrastructure renewal, city building initiatives, and offsetting DC exemptions for growth-related assets. The current balances are at 84 per cent of target as a group, mainly due to a significant balance in Wastewater Capital (153).

Target transfers to these reserve funds are based on the work of the Corporate Asset Management Plan. As part of the 2020 Corporate Asset Management Plan update, the sustainable funding level for water and wastewater were reduced and stormwater was increased. Overall, the Infrastructure Renewal Strategy for these services is 63 per cent funded, however, there is a large variation by service from Stormwater at 28 per cent to Wastewater at 85 per cent. Development of a renewed long-term funding strategy for these services is planned to be presented to Council in 2022 and it will take into consideration the updated data from the Core Asset Management Plans currently being completed.

The increase in the balances in these reserve funds, (Figure 5) is due to a continued focus on attaining sustainable infrastructure funding for the respective services. The balance has outstanding capital project commitments of \$90 million against it, which reflects a lower level of capital spending in 2020 due to COVID-19.

Figure 5 Non-tax Supported Reserve Funds

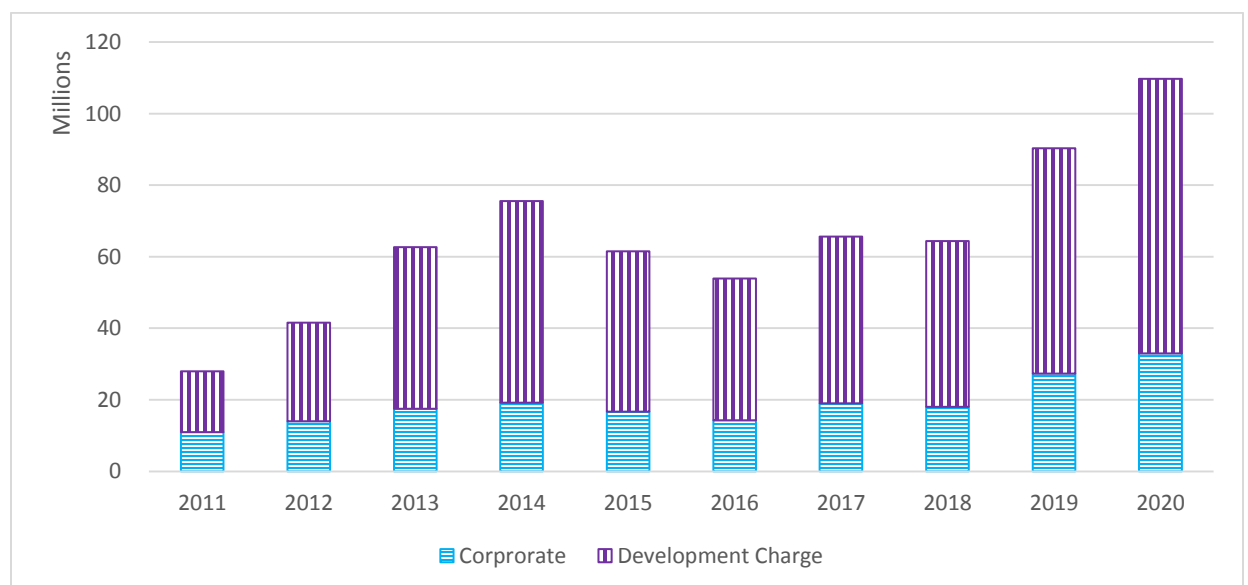


Obligatory Reserve Funds

These reserve funds are mandated under various legislation to be held separate from the balance of City funds and are treated as deferred revenue. They include the Ontario Building Code Stabilization (188), Parkland Dedication (300 and 301), Provincial Dedicated Gas Tax (342), and Federal Gas Tax (343). A new obligatory reserve fund for the Safe Restart Transit funding received in 2021 is required based upon the transfer payment agreement and therefore has been included for Council approval.

The increasing balance in these reserve funds (Figure 6) is a reflection of higher than usual DC collections in 2019 and a one-time doubling of Federal Gas Tax funds received in 2019. The balance has outstanding capital project commitments of \$68 million against it, which reflects a lower level of capital spending in 2020 due to COVID-19.

Figure 6 Obligatory Reserve Funds



Parkland Dedication By-law Update

The City's current Parkland Dedication By-law (2019)-20366, prepared under the authority of section 42 of the Planning Act, came into effect on January 31, 2019 and has been amended by By-law (2019)-20380, By-law (2020)-20531 and By-law (2021)-20573.

The by-law is applicable to development and redevelopment pursuant to section 42 of the Planning Act and builders are obligated to pay Payment In Lieu (PIL) prior to issuing building permits where the proposed development and redevelopment meets the by-law criteria.

The City has collected \$2.16 million in 2020 (2019: \$1.1 million) in PIL under the new by-law (Table 1 below).

In addition, the City has collected approximately \$250,800 in PIL funds for building permits issued for development of 22 single-detached houses using land valuation included in Schedule A of the by-law. This is an increase of approximately 750 per cent over the unit rates established in the old by-law.

Downtown residential development, high density residential development and alternative rate cap

As part of the by-law, a 'cap' was established that limits the amount of parkland dedication at an alternative rate of 1 hectare per 500 dwelling units applied to residential lands located inside and outside of downtown. The cap for high density residential development outside of downtown is set at a maximum rate of 30 per cent of the appraised land value.

The cap for high-density residential development outside of downtown has not been used in the first two years of the new by-law. PIL was collected for the development of two high-density residential apartments and was calculated at a lower alternative rate than the cap of 30 per cent.

For lands located downtown, the cap for residential development is set at a maximum rate of 20 per cent of the appraised land value.

The alternative rate cap for high-density residential development was applied only in one instance, the development of a downtown 14-storey residential apartment building with 139 residential units where PIL at an alternative rate of 1 hectare per 500 dwelling units was calculated at 73 per cent of the lot area.

The alternative rate cap, definitions, exemptions and other components will be examined for efficiency and effectiveness improvements throughout 2021 and 2022 as part of the legislated requirement to update the parkland dedication bylaw.

In previous years, the Planning Act permitted parkland to be conveyed under Section 37 to increase height and/or density of existing buildings. This was repealed in 2020 as it is now eligible under a Community Benefits Charge (CBC) by-law, should the municipality pass one. Under Section 37 subsection 51, if the municipality does not pass a CBC by-law by the September 2022, any funds collected and held in the parkland dedication reserve funds with respect to the repealed Section 37 must be transferred to a general capital reserve.

The Planning Act also sets out the requirement for reporting, including a financial statement and both public and provincial submission.

The City maintains two separate reserve funds for parkland dedication, one for the Downtown area in accordance with the Downtown Secondary Plan and one for the remainder of the City.

In addition to total PIL collection of \$2.16 million, 0.61 hectares of land were conveyed to the City for a neighbourhood park in Harts Lane subdivision. The breakdown of the PIL collected are detailed in Table 1 followed by the 2020 reserve fund activity statement in Table 2.

Table 1: 2020 Parkland Dedication Revenue

Approval Type	Planning Act Section	Number of Approvals	Amount of payment in lieu
Consent for severance	53	-	-
Residential building permit	42	16	\$151,299
Multi-unit residential building permit	42	3	\$590,427
Subdivision registration	51.1	-	-
Industrial/commercial building permit	42	8	\$1,417,741

Table 2: 2020 Parkland Dedication Reserve Fund Activity

	Parkland Dedication Reserve Fund (300)	Downtown Parkland Dedication Reserve Fund (301)
Opening balance	\$6,599,856	\$(702,340)
PIL collected	\$1,319,467	\$840,000
Interest earned (paid)	\$159,711	\$(6,211)
Closing balance	\$8,079,034	\$131,449
Year-end commitments	\$474,454	\$0
Uncommitted balance	\$7,604,580	\$131,449

There was no spending of reserve funds in 2020 however in August of 2020 Council did direct staff to proceed with the purchase of 104 Oliver Street using parkland dedication funds for development into a parkette.

Development Charges

The DCA requires under Section 43 that the Treasurer of the municipality must provide to Council an annual financial statement relating to DC by-law and any

reserve funds established under the DCA. The statement for the preceding year must include the following statements:

- a) a statement of the opening and closing balances of the reserve funds and any transactions relating to the funds; (found in Attachment-2)
- b) a statement identifying all asset whose capital costs were funded under the DC by-law during the year and the source of the capital cost not funded under the DC by-law; (found in Attachment-3) and
- c) statement as to compliance with subsection 59.1 (1); that no other charge has been imposed related to a development or a requirement to construct a service related to development, except as permitted by the Act or another Act.

The statement must be made available to the public and given to the Minister of Municipal Affairs and Housing.

Year-end Balance

The accumulated closing balance of all 16 reserve funds is \$25.5 million after all prior year unspent commitments have been applied. The balance is \$2.2 million more than the year-end balance at the end of 2019. The increase is attributed to collections being slightly more than approved budget in 2020. The overall balances are in a healthy position as the current balance exceeds the average annual expenditure over the past five years.

Development Charges Revenue

In 2020, the City saw decreased collections in both residential and non-residential development. This decrease was expected due to COVID-19, future level of development is uncertain at this time as the impacts of COVID-19 continue.

The City collected DCs for 550 new residential dwellings as well as granted 216 exemptions for accessory apartments. Overall, 14 per cent were low density (single detached and semi-detached), 24 per cent medium density (multiples except apartments) and 63 per cent high density (bachelor, 1-bedroom and 2-bedroom apartments). A comparison to the 2018 DC Background Study and 2019 actuals can be found in Table 3 - Residential Density Mix.

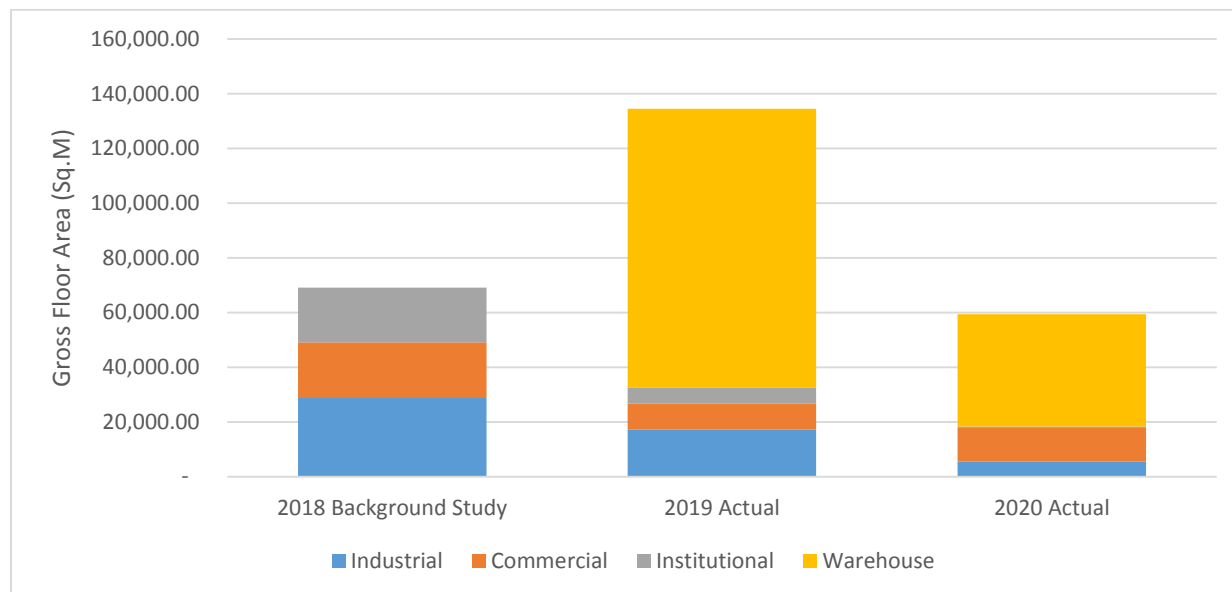
Table 3 - Residential Density Mix

Residential Density	Background Study Mix	2019 Mix (including accessory apartments)	2020 Mix (including accessory apartments)
Low	18%	13%	14%
Medium	41%	3%	24%
High	41%	84%	62%

Significantly lower collections were seen in the non-residential category with 2020 collections down by almost 56 per cent compared to 2019. However, 2020 collections were more in line with the 2018 DC Background Study's forecast. The

2018 DC Background Study anticipated 69 thousand square meters of industrial, commercial and institutional space would be added each year and result in 1,047 new jobs per year, over the next 10 years in order to meet the provincially mandated growth targets. In 2020, 59 thousand square meters of non-residential space was added. A comparison between the 2018 DC Background Study, 2019 and 2020 can be found in Figure 7 – Non-Residential DC Collections.

Figure 7 – Non-Residential DC Collections



Development Charges Expenditures

In 2020, the City invested \$18.8 million in growth-related infrastructure, this includes \$9.3 million drawn from DC reserve funds. Projects with significant DC funding in 2020 can be found in Table 4 - 2020 DC Spending Highlights. The complete breakdown by project and service can be found in Attachment-3.

Table 4 - 2020 DC Spending Highlights

Project	Total spending 2020	Funding from DC 2020
Transit Buses (TM0006)	\$2,813,874	\$1,761,279
South End Community Centre (RP0290)	\$1,347,695	\$1,347,695
Water New Supply (WT0002)	\$1,167,956	\$1,167,956
Guelph Police Services Headquarter Renovations (PS0033)	\$1,577,509	\$649,350
Paisley Feedermain Construction – Phase 3 (PN0268)	\$466,496	\$419,877

Development Charges Exemptions

The DCA permits for several exemptions where DCs shall not be imposed for certain types of development. This list is expanded further by exemptions laid out in the City's DC By-law (2019)-20372. In 2013, Council passed By-law (2013)-19537 to enact a Development Charge Exemption Policy whereby any amount of exemption given must be recovered from the City's tax and non-tax supported capital reserve funds. DC exemptions in 2020 totaled \$4,009,840, the breakdown of the type of exemption can be found in Table 5 Exemptions. These exemptions were recovered from the following capital reserve funds: Growth (156), Water (152), Wastewater (153), Stormwater (165), Parking (151), Courts (120) and Paramedics (360).

Table 5 Exemptions

Type of Exemption	Quantity	Exemption Value
Residential Accessory Apartments	216	\$3,572,702
Industrial Additions	5	\$409,889
University of Guelph	2	\$27,249
Total Exemptions	223	\$4,009,840

In September 2020, the DCA was officially amended by Bill 108 and Bill 138 and now permits exemptions of up to two accessory units per residential unit.

Development Charges Debt

DCs are calculated based on the DC Study which covers both a 10 and 25-year capital planning horizon. In some cases, growth-related projects are completed prior to having fully collected the necessary DCs to fund the project. In these situations, external debt is permitted under the DCA to cash flow the capital costs of the project and is repaid by the future DC collections. Total debt interest paid in 2020 from DCs was \$758,981.

Table 6 DC Debt Outstanding

Project	December 31, 2020 Outstanding Balance	Debt Maturity
Hanlon Expressway Interchange	\$13,966,217	2029
Wilson Street Parkade	\$4,319,000	2039
Police Headquarters	\$13,551,265	2029 and 2039
Public Health Facilities	\$1,969,570	2026
Total	\$33,806,052	

Debt

The appropriate use and management of debt is critical to the City achieving long-term strategies, including sustainable funding and infrastructure investment. Through the updated Debt Management Policy, limitations were established for ensuring adherence to the City’s overall Long-term Financial Framework.

After principal payments of \$12,477,197 and interest of \$3,213,245 in 2020, the total debt outstanding at the end of 2020 was \$101,480,582. No new debt was added during the year.

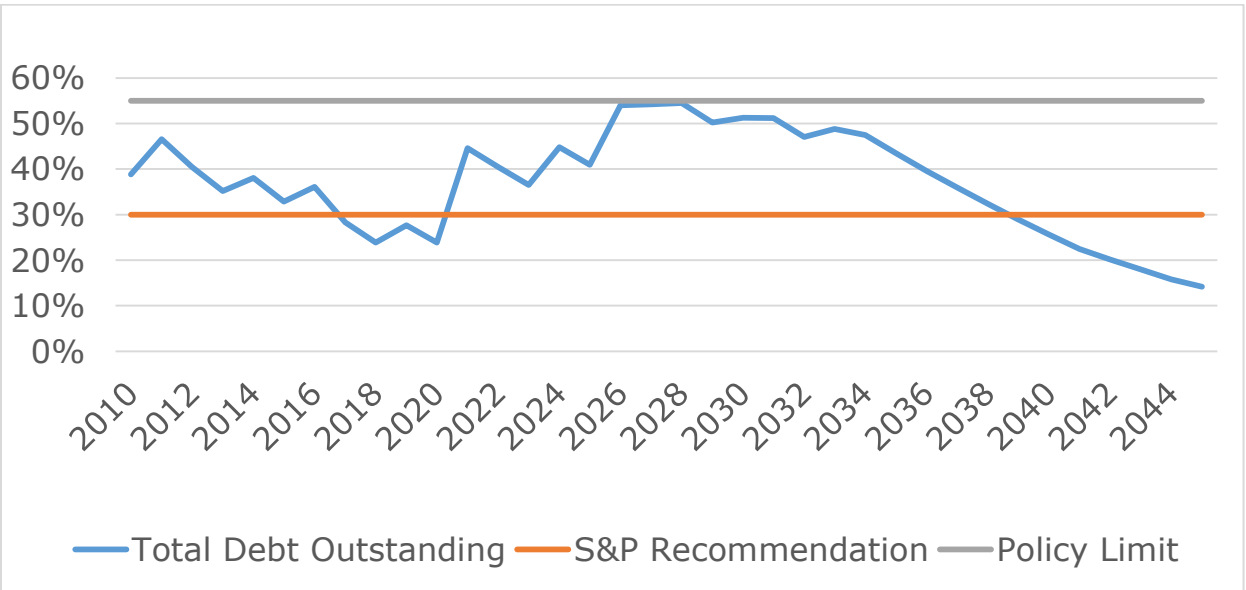
Table 7 City Imposed Debt Limitations

Limitation	Target	Current	Trend
Direct Debt to Operating Revenue	<55 %	19 %	Improving
Debt Service Cost to net Revenue	<10 %	2.9 %	Improving
Debt Servicing to Discretionary Reserve Ratio	>1:14	1:17	Improving

Based on planned debt funding requirements, the above ratios will reverse their current trend in the short term, however, it is expected that all limitations will be met over the next 25 years. For 2020 debt activity see Attachment 4.

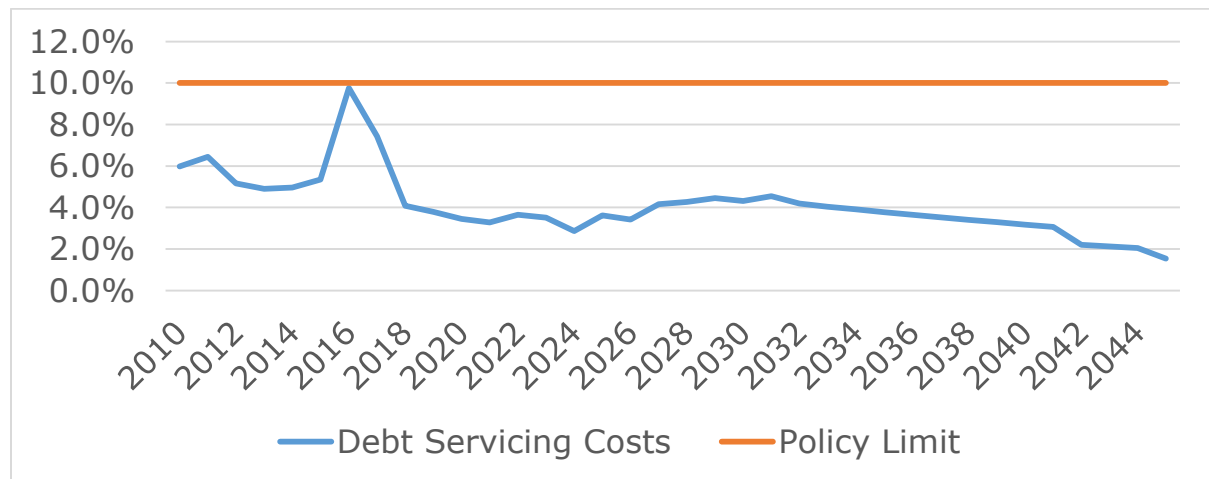
Total debt to operating revenue (Figure 8) is forecasted to peak in 2028 and then decrease steadily after that point. This aligns with the need for significant investment in critical asset renewal of facilities as well as the construction of the South End Community Centre in order to meet growth demands.

Figure 6 Total Debt to Operating Revenue



Due to historical low interest rates and previously issued debentures reaching maturity, the cost of servicing debt (Figure 9) is expected to stay stable over the short-term, and then trending lower in the longer term.

Figure 7 Debt Servicing to Operating Revenue



Financial Implications

There are no direct financial implications from this report. Continued strategic management of the City’s reserves, reserve funds and debt portfolio will support the City’s overall financial health, including a continued positive credit rating.

Consultations

The Parks planning and the Building department were consulted to provide input related to Parkland and Development Charge obligatory reserve funds respectively. The City’s overall approach to managing reserves and reserve funds is to review them corporately to ensure long-term sustainability, while integrating specific service requirements to ensure flexibility in managing operating and capital budgets.

Strategic Plan Alignment

Reporting annually on the status and activity of the City’s reserves, reserve funds and debt supports the Strategic Plan’s Working Together for our Future pillar through maintaining a fiscally responsible local government.

Attachments

Attachment-1 Reserve and Reserve Fund Activity

Attachment-2 Development Charge Reserve Fund Statement

Attachment-3 Development Charge Project Financing Statement

Attachment-4 Debt Activity

Departmental Approval

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