

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Monday, May 2, 2022
Subject	2021 Long-term Financial Statement – Reserves and Debt

Recommendation

1. That Schedule A of the General Reserve and Reserve Fund Policy be amended to reflect the creation of a reserve fund, Development Charges – Public Works (329), subject to the terms and authority as identified in report 2022-161 2021 Long-term Financial Statement – Reserves and Debt.
 2. That Schedule A of the General Reserve and Reserve Fund Policy be amended to reflect the consolidation of Development Charges – Outdoor Recreation (320) into the Development Charge Indoor Recreation (319) and it be renamed the Development Charge – Parks and Recreation (319).
 3. That Schedule A of the General Reserve and Reserve Fund Policy be amended to reflect the creation of a Transportation Reserve Fund (164), subject to the terms and authority as identified in report 2022-161 2021 Long-term Financial Statement – Reserves and Debt.
 4. That Schedule A of the General Reserve and Reserve Fund Policy be amended to reflect the increased target balance for the Police Operating Contingency Reserve (115) and the Library Contingency Reserve (102) supporting enhanced risk mitigation ability in a multi-year budget environment.
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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 2021 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 regarding annual reporting of development charges (DCs) and parkland dedication charges (PDs).

Key Findings

- As a whole, the City's reserves and reserve funds increased by 20 per cent over the previous year with a year-end balance of \$460 million 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. It is also a reflection of the

staffing capacity challenges identified in executing the approved capital plan as approved capital project funding is held in these reserve funds.

- Reaching target levels for contingency reserves now 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 \$137 million after principal repayment of \$12.1 million and debenture issuance of \$49.1 million at historically low interest rates ([2021 Debenture Issue, 2021-102](#)).
- The updated 2019 Parkland Dedication By-law is resulting in increasing reserve funds with over \$5.7 million collected in 2021, an increase of \$3.5 million or 163 per cent over 2020.
- DC collections returned to pre-pandemic levels, with exemptions increasing 25 per cent, primarily due to accessory apartments.

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. The City continues to be in a well-managed position with respect to outstanding debt obligations, all ratios being met.

This report recommends the creation of new reserve funds and amendments to reserve funds as required through prior Council decision and by legislation. Further, at the request of Guelph Police Board (Attachment-5) as part of the 2022 Budget, an increase to the target balance of the Police Operating Contingency Reserve (115) from one to five per cent of operating costs is being recommended, as this supports better autonomy of risk management in a multi-year budget environment. Staff recommend to also apply this target adjustment to the Library Operating Contingency target to keep them consistent and aligned.

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](#).

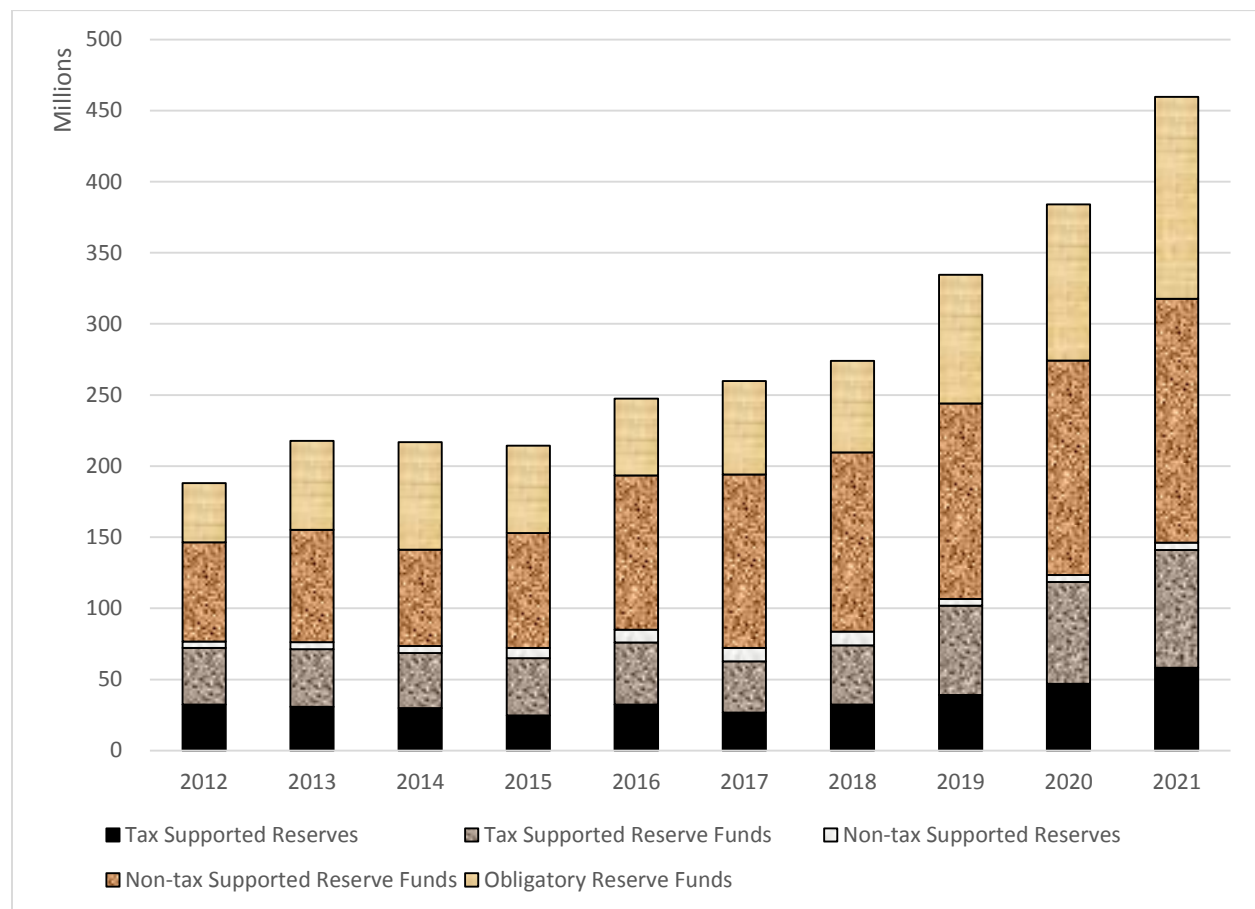
Notable reserve and reserve fund activity is described below under each category, except for detailed analysis for the Parkland Dedication reserve funds and DC reserve funds that require specific information to satisfy regulations in the Municipal Act.

Surplus allocations as recommended in the 2021 Year-end Operating Budget Monitoring and Surplus Allocation Report, 2022-155 are accounted for in all figures below. Actual target percentages provided below are based on the uncommitted ending balance at the end of 2021.

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 planned expenditures at budget has allowed these reserves to reach their target levels, thereby reducing the overall risk to the City. The increasing trend is further a reflection of the challenge in executing

the capital plan ([Capital Program Resourcing Strategy Report](#)) resulting in approved project funding being held in reserve funds until required.

Figure 1 2012 to 2021 Reserve and Reserve Fund Balances



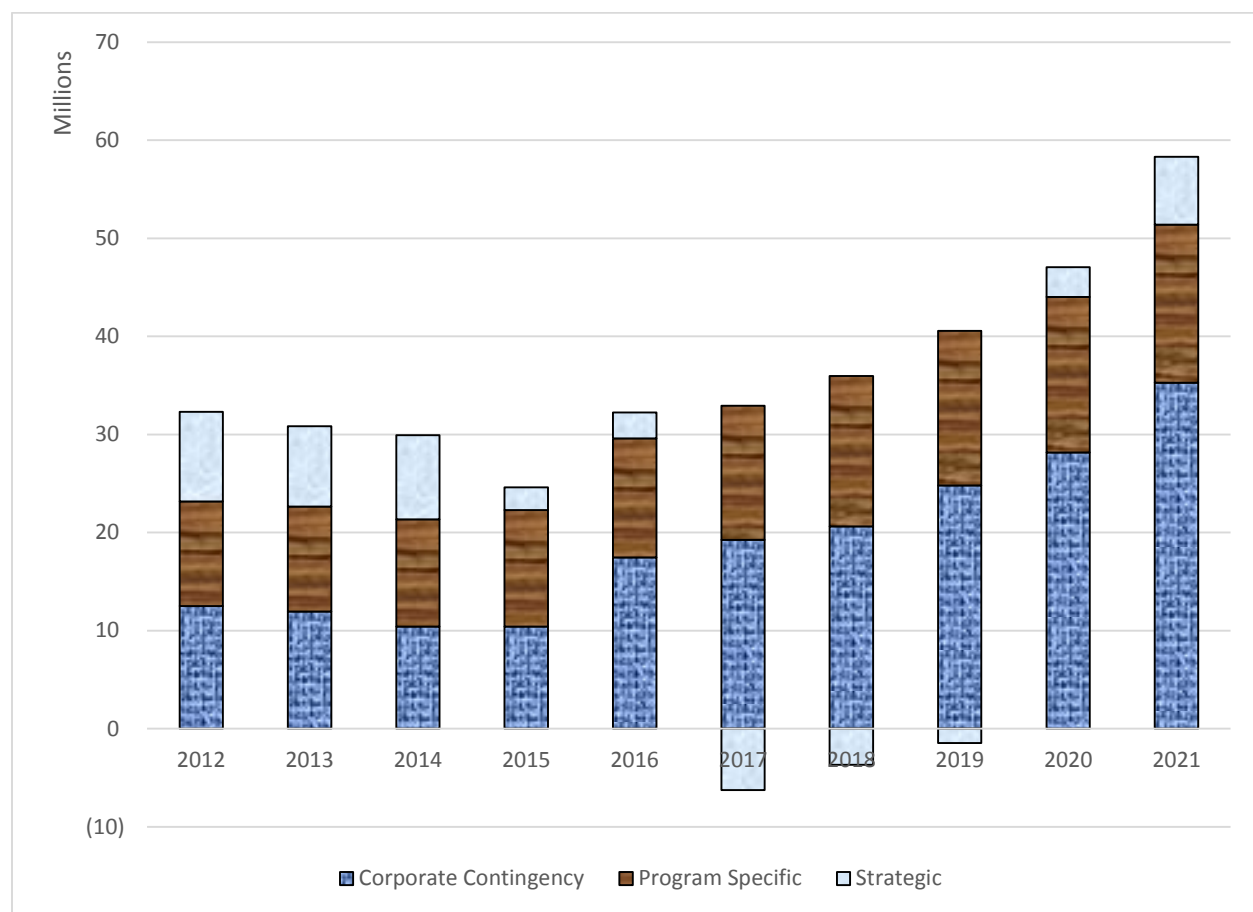
Tax Supported Reserves and Reserve Funds

The City's tax supported reserve and reserve funds have increased 18 per cent over 2020, this is primarily due to lower capital spending due to COVID-19 and staffing resource challenges, sale proceeds from Hanlon Creek Business Park (HCBP) land and operating budget surplus contributions to Corporate Contingency Reserves and Corporate Capital Reserve Funds.

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 of reserves is at 100 per cent of targeted levels at year-end. The following items were funded from the Corporate Contingency Reserves:

- \$322,200 to support Welcoming Streets, addiction court support and support recovery room initiatives (2021 budget).
- \$115,000 to offset the costs of the Council Compensation Review (2020 budget).
- \$465,300 transferred to the Elliott for one-time capital needs (2021 budget).
- \$700,000 for grants to support Tourism recovery post-COVID-19 (2021 budget and in-year budget approval).
- \$113,050 for Volunteer Police Checks (2021 budget).
- \$566,342 for Community Investment grants (2021 budget).

During the 2022 Budget, the City received a request from the Guelph Police Service to increase the contingency reserve target to five per cent from one per cent. This request is included in Attachment-5 to the report. Staff are supportive of this request as it supports enhanced risk management ability by the local board in a multi-year budget environment. Staff recommend this be applied consistently to the Library Operating Contingency Reserve as well.

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 93 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. The City will be undergoing an update to the WSIB actuarial valuation in 2022, which may also impact the funded status of this reserve group.

Strategic Reserves

The City's Strategic Reserves support investment in affordable housing, incentivizing redevelopment and the HCBP development. The level of funding in each is related to the underlying strategies being supported. Land sales of \$5.1 million, an 84 per cent increase over 2020, were deposited to the Industrial Land Reserve (332) in 2021. The reserve continues to be in a negative balance, however, as land sales continue, it is forecasted that the balance will be returned to a positive status within the next two years.

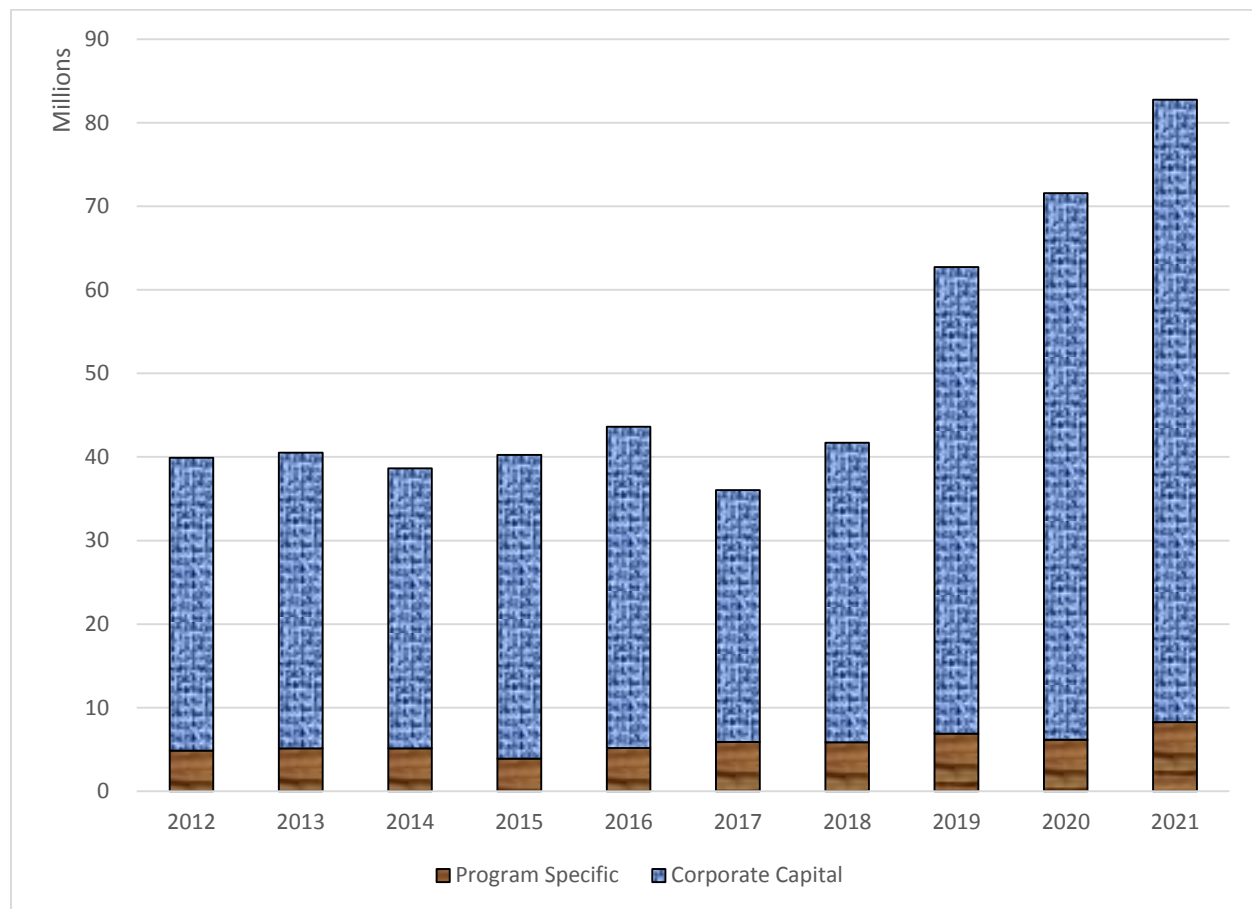
The Affordable Housing Reserve (119) is currently 77 per cent committed, leaving a balance of \$481,696 to support the developing partnership with the County of Wellington. The 2022 allocation of funds to affordable housing development in the City is expected to be before Council in May 2022.

The balance in the Redevelopment Incentive Reserve (122) has increased over a five-year period as funds accumulate 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.

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 2021 operating surplus allocation recommended in order to assist in managing the impacts of inflation being experienced. The balance has outstanding capital project commitments of \$57 million against it, which reflects a lower level of capital spending in 2020 and 2021 due to COVID-19 and the staffing resource challenges. These unallocated funds are managed over a ten-year horizon and applied to planned projects that are expected in 2024 through 2030.

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 (157) and Sleeman Naming Rights (162). The current requirement is that they remain positive to fund approved expenditures.

As a result of the new traffic safety initiatives (red light cameras and automated speed enforcement), a reserve fund to capture the net revenues earned from these programs is required. Council passed the following motion as part of the Transportation Master Plan (TMP) report in January 2022:

That as staff develop a Transportation Reserve Fund that directs any net revenues earned from transportation safety initiatives (e.g. red light cameras and automated speed enforcement), they consider including the opportunity to fund multi-modal Transportation Master Plan initiatives including separated cycling infrastructure and road safety improvements and that the Reserve Fund terms and authority be brought back to Council for approval.

As such the following terms and authority are proposed:

Reserve Name: Transportation Reserve Fund (164)

Purpose: To support the implementation of the TMP initiatives in support of Vision Zero.

Target Balance: No established maximum, reserve fund balance must be positive.

Source of Funds: Net revenues collected from fines levied via red light cameras and automated traffic enforcement programs.

Use of Funds: Budget approved expenditures that support the achievement of the Vision Zero initiatives of the TMP, including both capital and operating investments with measurable impacts in reducing collision severity.

Corporate Capital Reserve Funds

Corporate Capital Reserve Funds include reserve funds for Infrastructure Renewal (150), Contaminated Sites (155), Growth (156), City Building (159), Efficiency, Innovation and Opportunity Fund (351) and 100 Renewable Energy (100RE) (355). Collectively these reserve funds have increased by 14 per cent beyond 2020's ending balance, primarily due to lower than usual capital activity due to COVID-19 and staffing resource challenges.

- Collectively these reserve funds are at 50 per cent of their target, excluding 100RE (355).
- The City Building Reserve Fund (159) is currently overcommitted by \$3,970,215. This is being addressed through the strategy for funding long-term investment in this area. The 2022 budget included increased annual contributions which will see this reserve fund return to a sustainable balance over the next ten years if followed to completion.

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. Given current inflationary pressures on capital construction costs, the level of sustainable funding is under review. Further information will be provided through the 2024 Multi-Year Budget.

Non-tax Supported Reserves and Reserve Funds

The City's non-tax supported reserves and reserve funds have increased 14 per cent over 2020, this is primarily due to a continued focus on long-term sustainable infrastructure renewal funding and lower capital spending due to COVID-19 and challenges with staffing resources. Work is underway to align the capital budget to procurement phases and staffing capacity to deliver. This will result in a reduction of these reserve balances likely starting in 2024.

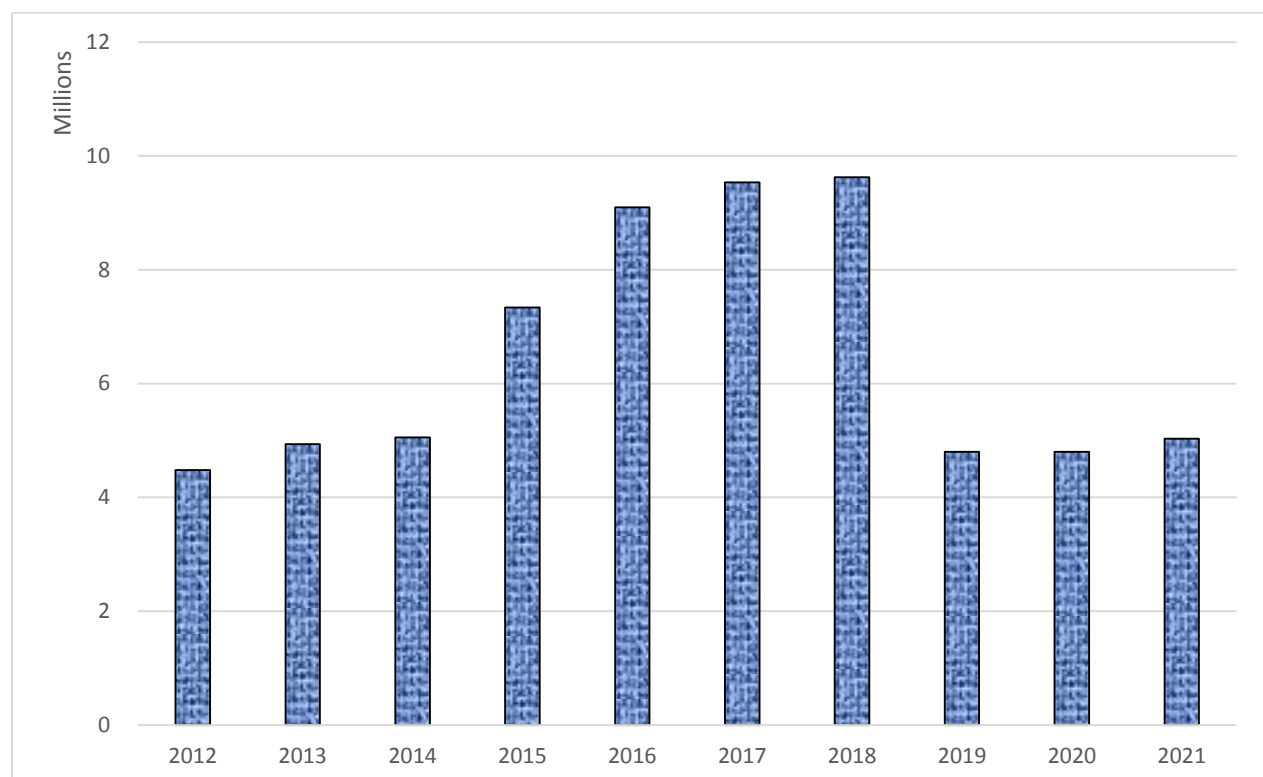
Non-tax supported Reserves

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 meet or exceed the established reserve targets, 10 per cent of gross operating expenditures for Water, Wastewater, Courts and Stormwater and 50 per cent for Parking.

The reduction in balances in these reserves (Figure 4) in 2019 reflects an adjustment to bring them in line with the targets above and these have then been maintained since that time as expected.

Figure 4 Non-tax Supported Program Specific Reserves



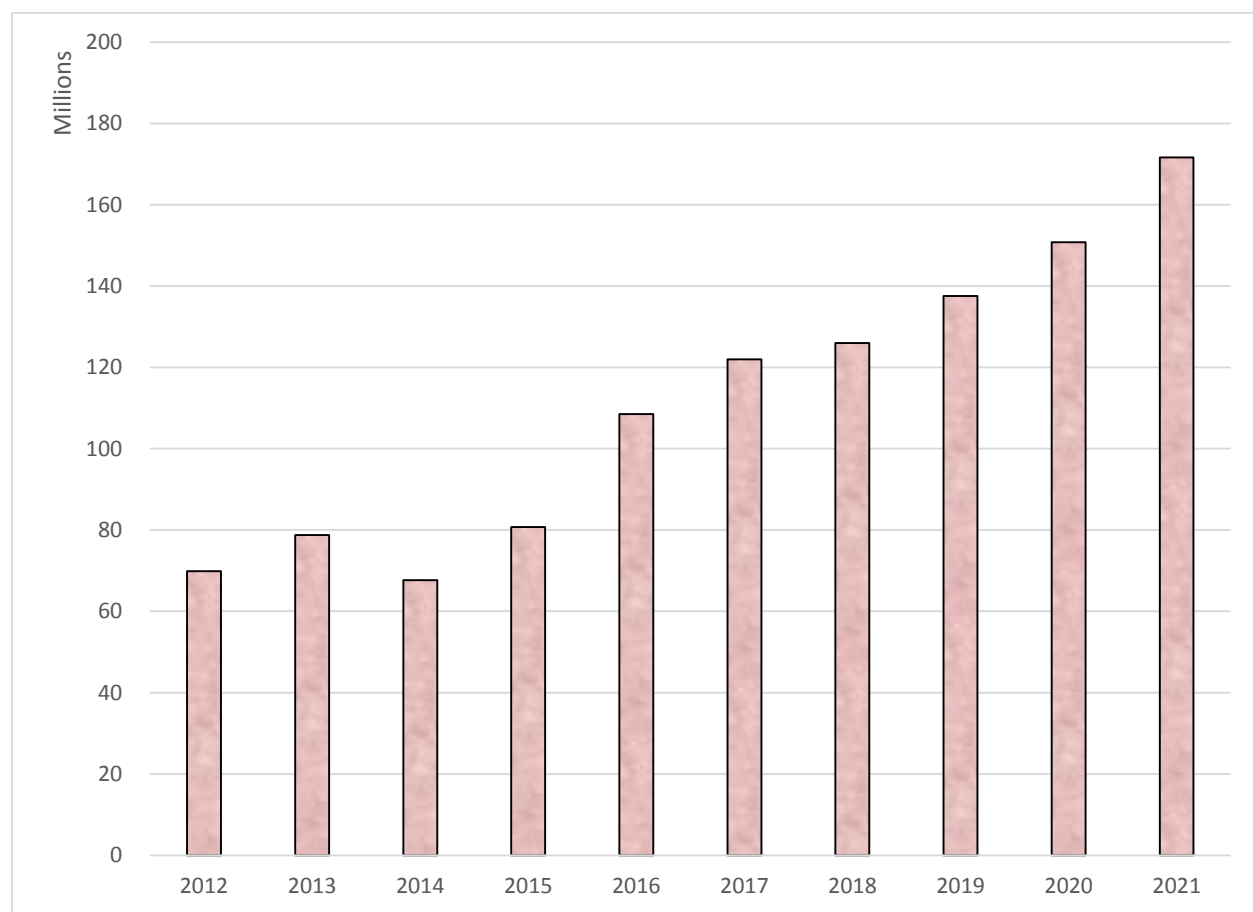
Program Specific Reserve Funds

These reserve funds consist of financing for capital works for Water (152), Wastewater (153), Stormwater (165), Parking (151) and Courts (120). Capital works include infrastructure renewal, city building initiatives, and offsetting DC exemptions for growth-related assets. The current balances are at 96 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 levels were updated, however, due to the current inflation environment these targets are being reviewed and will be reported back to Council through the 2024 Multi-Year Budget.

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 \$104 million against it, which reflects a lower level of capital spending in 2020 and 2021 due to COVID-19 and staffing resource challenges.

Figure 5 Non-tax Supported Program Specific Reserve Funds

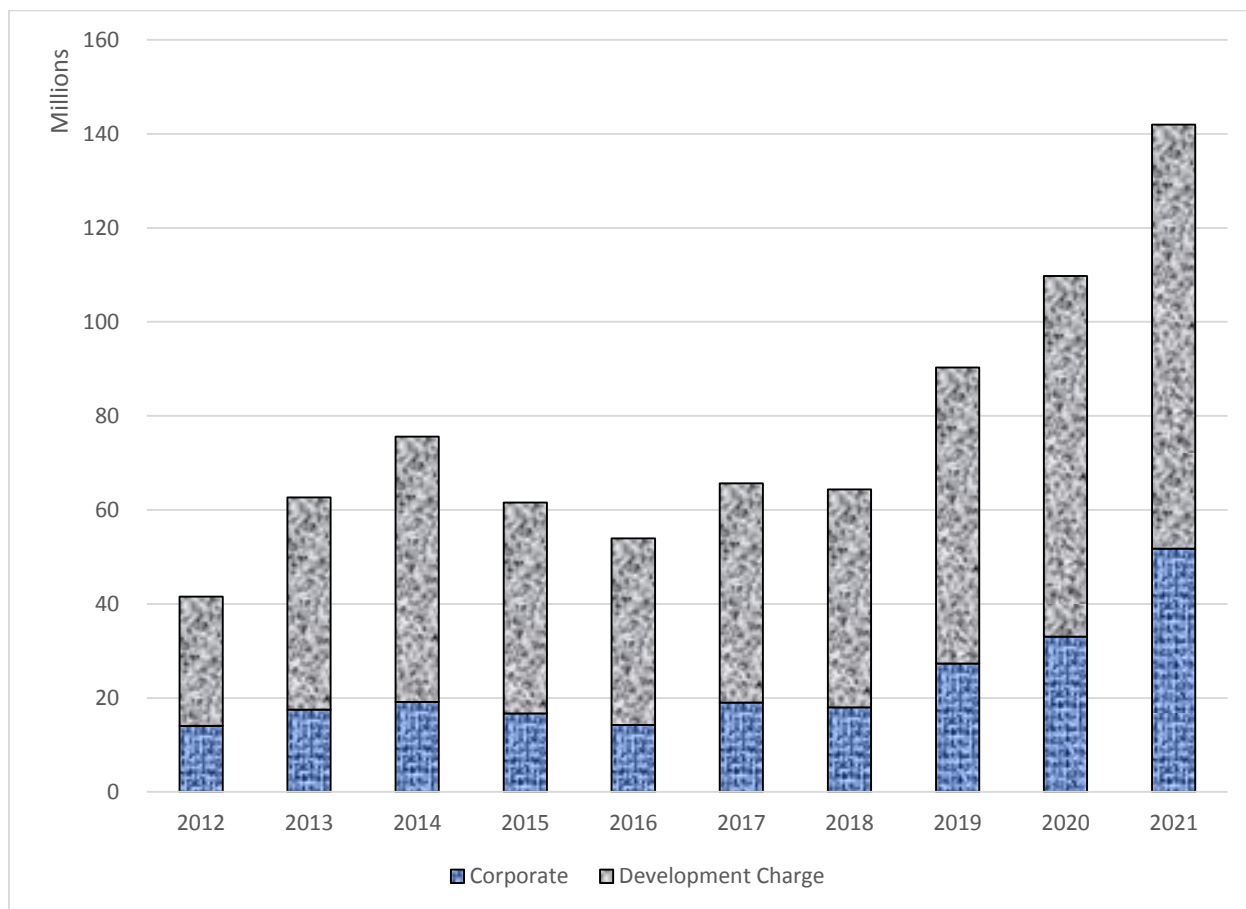


Obligatory Reserve Funds

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).

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 both 2019 and 2021. The balance has outstanding capital project commitments of \$177 million against it, which reflects a lower level of capital spending in 2020 and 2021 due to COVID-19 and staffing capacity challenges. A significant portion of this commitment is the South End Community Centre and Baker Street Redevelopment.

Figure 6 Obligatory Reserve Funds



Parkland Dedication – Payment In Lieu

Parkland Dedication is applicable to subdivision applications pursuant to section 51.1, consent for severance applications pursuant to section 53 and development and redevelopment pursuant to sections 42 of the Planning Act. Applicants and builders are obligated to pay Payment In Lieu (PIL) prior to the issuance of a building permit or as a condition of approval of a consent or subdivision application. PIL is identified as an acceptable form of parkland dedication where the proposed application meets Official Plan or by-law criteria, but suitable land is not available for conveyance.

The City collected \$5.7 million in 2021 (2020: \$2.2 million) in PIL (Table 1). The City maintains two separate reserve funds for parkland dedication PIL, 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 \$5.7 million, 0.61 hectares of land were conveyed to the City for a neighbourhood park in Harts Lane subdivision.

Table 1: 2021 Parkland Dedication Reserve Fund Activity

	Parkland Dedication Reserve Fund (300)	Downtown Parkland Dedication Reserve Fund (301)
Opening balance	\$8,079,034	\$131,448

	Parkland Dedication Reserve Fund (300)	Downtown Parkland Dedication Reserve Fund (301)
PIL collected	\$5,464,981	\$210,329
Capital Expenditures	\$677,338	\$0
Interest earned (paid)	\$205,020	\$4,632
Closing balance	\$13,071,697	\$346,409
Year-end commitments	\$7,966	\$0
Uncommitted balance	\$13,063,731	\$346,409

Spending in 2021 was for the purchase of 104 Oliver Street for \$472,114 for the development into San Giorgio Morgetto Park. The balance of funds expended was due to a historical adjustment to the 2019 Parkland Dedication Bylaw update, which is not eligible for DCs, and is instead funded through this reserve fund.

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 assets 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.

As a result of the DC by-law update approved on December 13, 2021, changes to the DC Reserve Funds are required. Creation of a new shared service reserve fund, Development Charges – Public Works (#329) is needed, and the proposed following terms and authority be amended within Schedule A of the General Reserve and Reserve Fund Policy:

Reserve Name: Development Charges – Public Works (329).

Purpose: To fund capital expenditures for Public Works, which support multiple City services as outlined in the DC Background Study.

Target Balance: No established maximum, reserve fund balance must be positive.

Source of Funds: Collection of DCs as per the City's DC by-law, including funding of exemptions as granted.

Use of Funds: Capital investment identified in the DC Background Study and approved as part of the City's capital budget which support the services of the Public Works department as it relates to eligible DC services.

Additionally, the consolidation of the following reserve funds, Development Charges – Outdoor Recreation (#320) into the Development Charges – Outdoor Recreation (#319) to create a single reserve fund Development Charges – Parks and Recreation (#319). The purpose, target balance, source and use of funds will also be consolidated into this single reserve fund.

Year-end Balance

The accumulated closing balance of all 16 reserve funds is in a negative \$71.5 million position after all prior year unspent commitments have been applied. This balance is then adjusted up for the outstanding DC funded debentures of \$80,378,490, leaving a net positive balance of \$9,919,221. This is lower than previous years, due to the scale of projects such as South End Community Centre (\$79.5 million) and new Central Library (\$19.4 million).

Development Charges Revenue

In 2021, the City saw collections return to pre-pandemic levels of \$21.2 million. With the inclusion of exemption contributions, (see below), this represents 68 per cent of the 2018 DC Background Study forecasted collections, which means the capital plan may need to adjust to accommodate that growth development isn't occurring at same rate as planned.

Development Charges Expenditures

In 2021, the City invested \$15.5 million in growth-related infrastructure, this includes \$13.6 million drawn from DC reserve funds. Projects with significant DC funding in 2021 can be found in Table 1 - 2021 DC Spending Highlights. The complete breakdown by project and service can be found in Attachment-3.

Due to changes in the DC legislation that were implemented in December 2021 through by-law 2021-20643, a large number of projects were refunded based on the following:

- Removal of the 10 per cent mandatory reduction for soft services
- Movement of all growth studies from individual services to the consolidated growth services development charge
- Consolidation of Outdoor Recreation and Indoor Recreation into a single service category, Parks and Recreation
- Introduction of the new shared service category of Public Works

These refunding activities resulted in net additional DCs being used to fund project expenses from previous years of approximately \$5.6 million.

Table 1 - 2021 DC Spending Highlights

Project	Total spending 2021	Funding from DC 2021
South End Community Centre (RP0290)	\$1,369,479	\$1,369,479

Project	Total spending 2021	Funding from DC 2021
Water New Supply (WT0002)	\$1,248,715	\$1,248,715
Speedvale Water and Wastewater Phase 1 (PN0097)	\$4,514,177	\$3,347,933
Wastewater Plant Generators (ST0001)	\$874,616	\$768,966
Stormwater Master Plan (PN0871)	\$705,553	\$705,553

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 2021 totaled \$4,116,139 (2020: \$3,289,202) or 25 per cent more than the prior year, the breakdown of the type of exemption can be found in Table 2 Development Charges Exemptions. These exemptions were recovered from the following capital reserve funds: Growth (156), Water (152), Wastewater (153), Stormwater (165), Parking (151) and Courts (120).

Table 2 Development Charges Exemptions

Type of Exemption	Quantity	Exemption Value
Residential Accessory Apartments	226	\$3,864,379
Industrial Additions	5	\$83,292
Institutional	2	\$168,468
Total Exemptions	223	\$4,116,139

Development Charges Debt

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. In 2021 \$49.1 million of DC funded debt was issued to support the construction of the new Baker District Central Library (\$11.6 million) and the South End Community Centre (\$37.5 million). This debt was issued in advance of construction due to historically low interest rates and allowed the City to

lock in a borrowing cost of 1.917 per cent over a ten-year period. Total debt interest paid from DCs was \$1.1 million in 2021.

Table 3 DC Debt Outstanding

Project	December 31, 2021 Outstanding Balance	Debt Maturity
Public Health Facilities	\$1,322,822	2026
Hanlon Expressway Interchange	\$12,781,235	2029
Police Headquarters	\$13,014,432	2029 and 2039
Baker District Central Library	\$11,575,000	2031
South End Community Centre	\$37,550,000	2031
Wilson Street Parkade	\$4,135,000	2039
Total	\$80,378,489	

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 \$12,646,960, interest of \$3,221,029 and debt issuance of \$49,125,000 in 2021, the total debt outstanding at the end of 2021 was \$135,851,173.

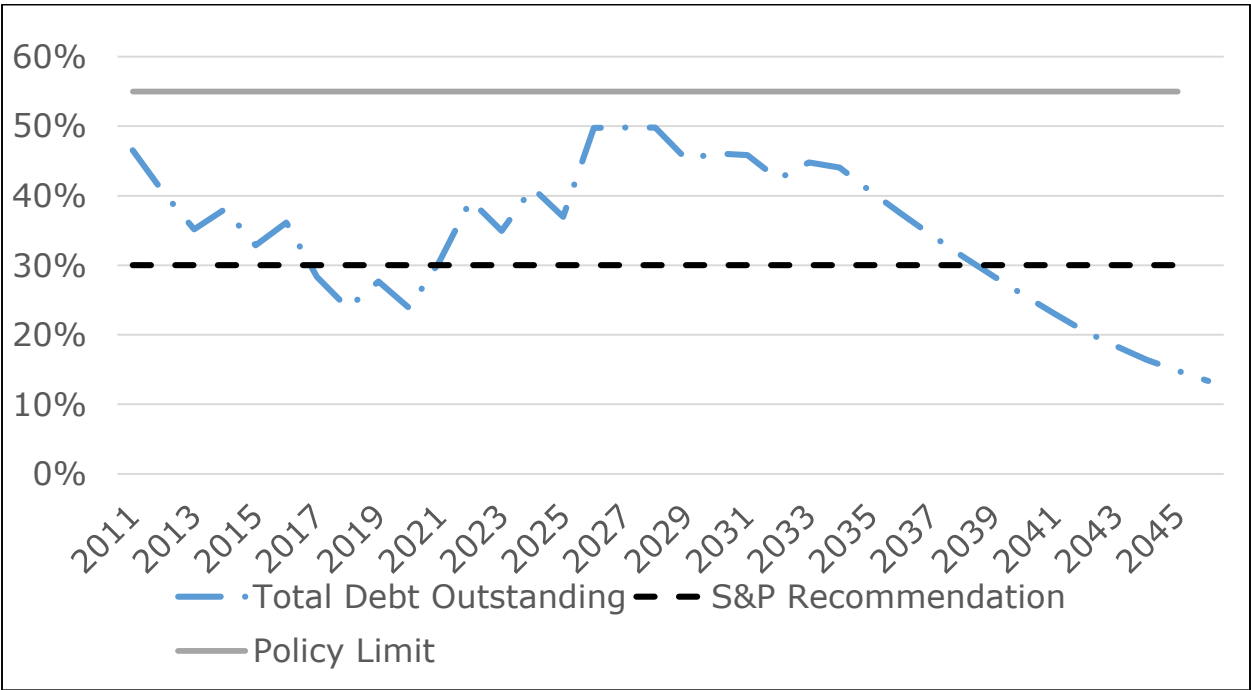
Table 4 City Imposed Debt Limitations

Limitation	Target	Current	Trend
Direct Debt to Operating Revenue	<55%	24%	Deteriorating
Debt Servicing to own source revenue	<10%	2.8%	Stable

Based on recently issued and planned debt funding requirements, the above ratios are expected to deteriorate in the short term, however, it is expected that all limitations will be met over the next 25 years. For 2021 debt activity see Attachment-4.

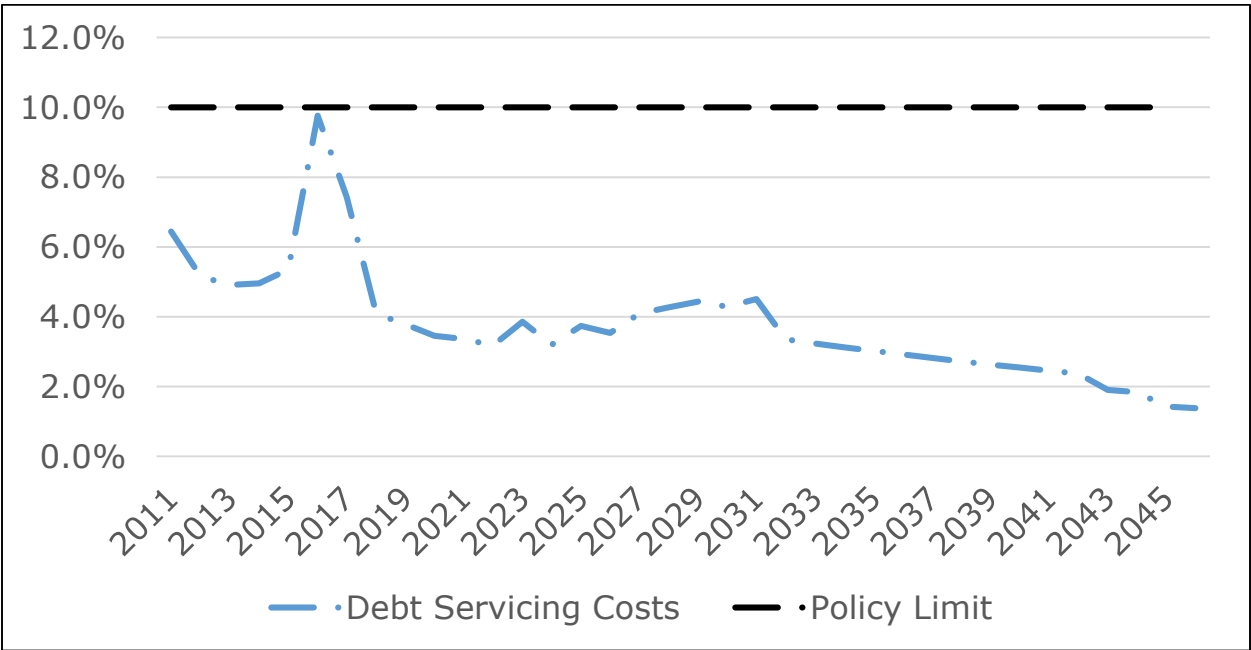
Total debt to operating revenue (Figure 8) is forecasted to peak in 2028 and then decrease steadily after that point. This aligns with the need for significant investment in critical asset renewal of facilities as well as the construction new facilities to meet growth demands.

Figure 8 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 9 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. 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.

This report recommends the creation of new reserve funds and amendments to reserve funds as required through prior Council decision and by legislation

Consultations

The Parks Planning and the Building department were consulted to provide input related to Parkland and DCs 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 2021 Reserve and Reserve Fund Activity

Attachment-2 Development Charges Reserve Fund Statement

Attachment-3 Development Charges Project Financing Statement

Attachment-4 2021 Debt Activity

Attachment-5 Guelph Police Service Board Reserve Request Letter

Departmental Approval

None.

Report Author

Greg Clark, CPA, CMA Manager, Financial Strategy and Long-Term Planning

This report was approved by:

Tara Baker, CPA, CA

General Manager Finance/City Treasurer

Corporate Services

519-822-1260 extension 2084

tara.baker@guelph.ca

This report was recommended by:

Trevor Lee
Deputy Chief Administration Officer
Corporate Services
519-822-1260 extension 2281
trevor.lee@guelph.ca