

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Tuesday, May 2, 2023
Subject	2022 Long-term Financial Statement: Reserves and Debt

Recommendation

That the 2022 Long-term Financial Statement: Reserves and Debt be received for information.

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 debt. It will also serve to satisfy the requirements of the Development Charges Act, 1997 (DCA) and the Planning Act regarding annual reporting of parkland dedication charges (PDs), community benefits charges (CBCs) and development charges (DCs).

Key Findings

- As a whole, the City's reserves and reserve funds increased by 6.1 per cent over the previous year with a year-end balance of \$487.7 million before commitments. The 2022 year-end uncommitted balance is \$118.8 million, an increase of 5.6 per cent over the 2021 balance.
- Reserve and reserve fund balances have been increasing since 2015 and this is primarily due to a focused strategy to increase funding for infrastructure renewal both within the tax and non-tax areas, and one-time allocations from the annual surplus to bolster reserve and reserve fund balances.
- As a group, the year-end uncommitted balances in the tax supported corporate contingency reserves were at 72 per cent of the target balance.
- The tax supported strategic reserves balance improved to a positive uncommitted balance of \$2.0 million at the 2022 year-end compared with a negative balance of \$4.0 million at the 2021 year-end. The largest driver of this improvement was a reduction in the negative balance in the Industrial Land Reserve (332) which improved by \$6.2 million (before commitments) during 2022 due primarily to proceeds from land sales in the Hanlon Creek Business Park.
- The uncommitted balances in tax and non-tax supported corporate capital reserve funds decreased by a combined 32.6 per cent due to increased capital expenditures resulting from the capital program resourcing strategy and inflation.

- Year-end debt outstanding totaled \$123.9 million after principal repayment of \$14.0 million.
- DC collections totaling \$20.9 million remained relatively stable compared with 2021 (\$21.3 million) but exemptions increased to \$6.9 million (2021: \$4.1 million), an increase of 68 per cent year over year.

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.

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, with all ratios being met.

Report

Reserves and Reserve Funds

A schedule of reserve and reserve fund activity in 2022 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](#).

Reserve and reserve fund highlights are described below under each category, except for detailed analysis for the PD, CBC, and DC reserve funds that require specific information to satisfy regulations in the Municipal Act.

Surplus allocations as recommended in the 2022 Year-end Operating Budget Monitoring and Surplus Allocation Report 2023-157 are accounted for in all figures below. Attachment-1 2022 Reserve and Reserve Fund Activity presents the opening balance as of January 1, 2022, for each reserve grouping, transactions through the year, and the ending balance as of December 31, 2022. The year-end commitments column presents the impact of previous Council budget decisions that represent draws on these reserve balances but have not yet been executed. The uncommitted balance represents the funds available after 2022 and prior budget commitments have been factored in.

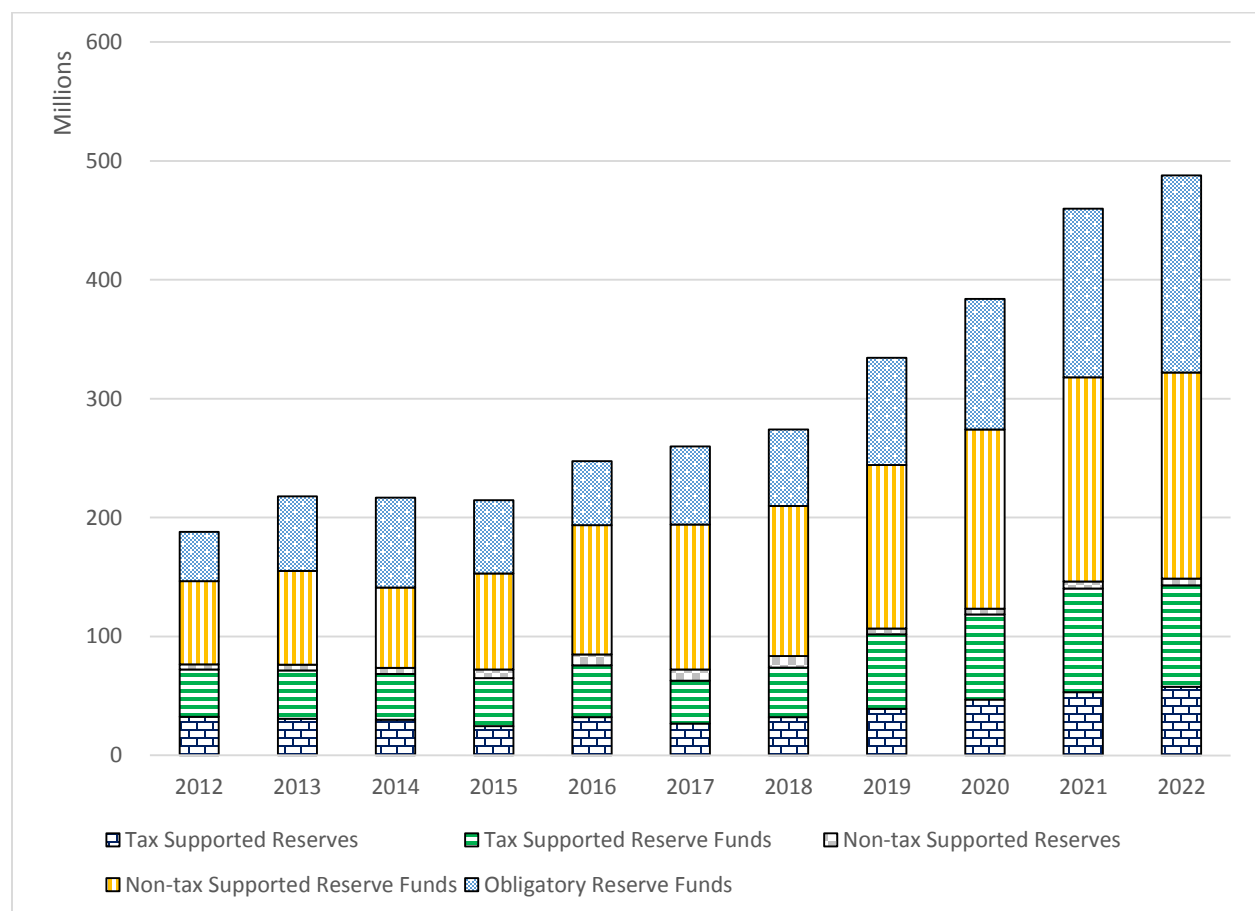
Overall, reserve and reserve fund balances have been increasing since 2015, as shown in Figure 1, and this is primarily due to a focused strategy to increase funding for infrastructure renewal both within the tax and non-tax areas, and one-time allocations from the annual surplus to bolster reserve and reserve fund balances. While these one-time allocations do not represent a sustainable source of funding for the underlying strategies the reserves and reserve funds are intended to support, they have helped to offset the impact of reductions to budgeted annual capital transfers, strengthen the balance in the growth capital reserve fund to support the expanded exemptions under Bill 23, and boost contingency reserves that were drawn down as part of the 2023 budget confirmation.

The negative balance after commitments in the DC reserve funds decreased by \$32.7 million compared with 2021, ending the year with a negative balance after

commitments of \$37.8 million (2021 – a negative balance of \$70.5 million). The outstanding balance of DC funded debentures as of December 31, 2022, was \$73.1 million, leaving a net positive balance of \$35.3 million overall in the DC reserve funds at the end of the year.

Conversely, the uncommitted balances in both tax supported and non-tax supported capital reserve funds decreased in 2022 by a combined \$31.4 million, ending the year with a combined \$64.9 million uncommitted balance (2021 - \$96.3 million), with the bulk of this in the non-tax supported capital reserve funds (\$54.8 million). The uncommitted balance in tax supported strategic reserves increased by \$6.0 million, largely due to the negative balance in the Industrial Land Reserve (332) decreasing by \$6.2 million primarily due to sale proceeds from the Hanlon Creek Business Park. The tax supported strategic reserves ended the year with a combined uncommitted balance of \$2.0 million (2021 – a negative uncommitted balance of \$4.0 million).

Figure 1 2012 to 2022 Reserve and Reserve Fund Balances (before commitments)



Tax Supported Reserves and Reserve Funds

The City's uncommitted balance in the tax supported reserve and reserve funds decreased by 13.7 per cent overall compared with the uncommitted balances as of December 31, 2021. Decreases in the uncommitted balances in tax supported corporate capital reserves (\$16.5 million) and corporate contingency reserves (\$2.8

million) were offset by increases in the program specific (\$756 thousand) and strategic (\$6.0 million) reserves.

Corporate contingency 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. As a group, the year-end uncommitted balances in the corporate contingency reserves were at 72 per cent of the target balance. Included in the corporate contingency reserves category is the Social Housing Reserve (208). The grouping and target balance associated with this reserve is under review as it has evolved to be a multi-purpose reserve which acts as both a contingency reserve and a capital reserve for the City's share of the social services capital program.

Program specific reserves are maintained to fund specific costs or liabilities, including those associated with retirement and sick leave benefits for first responders, and Workplace Safety and Insurance Board (WSIB). The balances in this sub-group of program specific reserves were at 91 per cent of the target balance at the 2022 year-end.

Strategic reserves support investment in affordable housing (119), incentivize redevelopment through Community Improvement Plans (122 and 194), support tourism focused initiatives through the Municipal Accommodation Tax (184), and support industrial land development (332). The target level of funding in each is related to the underlying strategies being supported. The most significant change in this grouping is the balance in the Industrial Land Reserve (332) from sale proceeds primarily from the Hanlon Creek Business Park. The Industrial Land Reserve opened 2022 with a negative uncommitted balance of \$8.0 million and ended the year with a negative uncommitted balance of \$1.8 million. The Municipal Accommodation Tax Reserve (184) was added in 2022 and ended the year with a balance of \$97 thousand (no commitments).

Program specific reserve funds are related to specific services and/or sources of funding, for example, Police Capital (158) and Sleeman Naming Rights (162). This group of reserve funds increased by \$2.8 million in the uncommitted balance year over year. The current requirement is that this group of reserve funds remain positive to fund approved expenditures and this target was met as of December 31, 2022, with the exception of the Sleeman Naming Rights Reserve Fund (162) which had an ending negative balance of \$46 thousand as of December 31, 2022 (no commitments). The Transportation Reserve Fund (164) was added to this group in 2022 ending the year with a balance of \$268 thousand (no commitments).

Corporate tax-supported capital reserve funds support the City's five funding strategies, and the target balances in these reserves are linked to their underlying purpose as outlined in the strategy documents. The financial strategy documents can be found on the [budget website](#). Collectively the uncommitted balance in the corporate capital reserve funds have decreased by 61.9 per cent year over year (\$16.5 million). There are three main factors that influenced this decrease in uncommitted balances: (i) higher capital spending as the capital program resourcing strategy implemented in 2021 began to increase the capacity to execute the capital program; (ii) high inflation throughout 2022 which drove projects costs up; and (iii) the capital budget prioritization undertaken for 2022 and 2023 which shifted the focus from city building and growth projects to infrastructure renewal projects which are largely funded through the tax and rate supported capital reserve funds. The City Building Reserve Fund (159) is currently overcommitted by

\$14.1 million (2021 - \$4.0 million). This is being addressed through the [strategy](#) for funding long-term investment in this area. The 2022 and 2023 budgets included increased annual contributions with the intention of returning this reserve fund to a sustainable balance over the next ten years if followed to completion. This plan will be updated through the 2024-2027 multi-year budget. 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 and further information will be provided through the 2024-2027 multi-year budget.

Non-tax Supported Reserves and Reserve Funds

The City's non-tax supported reserves and reserve funds have decreased by 20.7 per cent compared with 2021 year-end uncommitted balances.

Non-tax supported program specific reserves are contingency reserves maintained 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 except Parking (106) which is at 91 per cent of the target balance, and Wastewater (182) which is at 77 per cent of the target balance. The targets for these contingency reserves are 10 per cent of gross operating expenditure budget. The sufficiency of the Wastewater Contingency Reserve (182) in comparison with budget will be revisited as part of the 2024-2027 multi-year budget and adjusted accordingly. In 2022, the Parking Contingency Reserve (106) was drawn down by just under \$800 thousand to eliminate the operating deficit for this service (in addition to just under \$500 thousand in funds from the Safe Restart grant which were applied). As a group, the non-tax supported program specific reserves decreased by 11.9 per cent after commitments in comparison with the combined 2021 year-end balance.

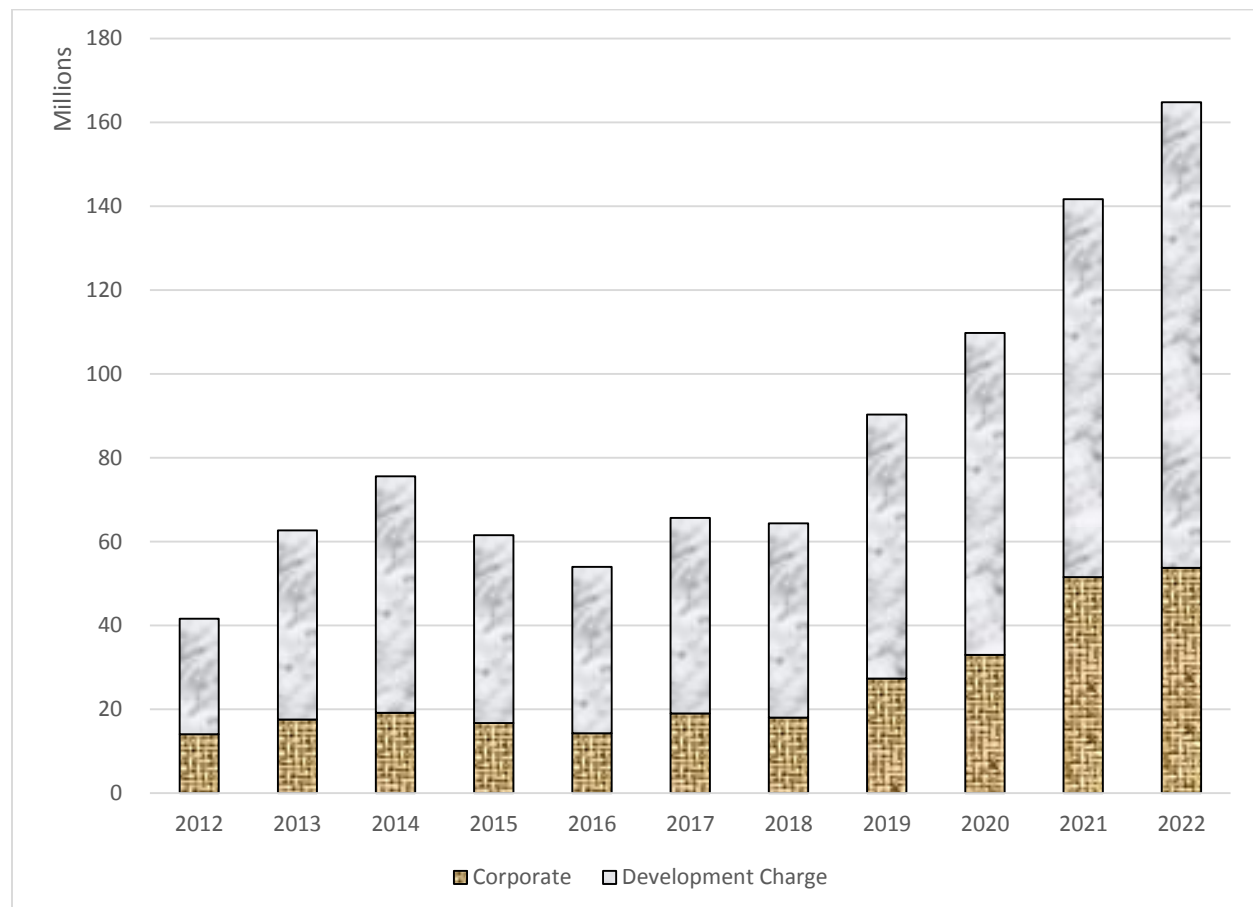
Non-tax supported program specific reserve funds consist of financing for capital works for water (152), wastewater (153), stormwater (165), parking (151), and courts (120). Capital works include infrastructure renewal, city building initiatives, and offsetting DC exemptions for growth-related assets. Like the tax supported corporate capital reserve funds, these reserve funds have both target balances and target annual transfers. The target balances for these reserve funds are under review as they are currently linked to asset management requirements only, but these reserve funds support all rate funded components of the capital program for each of the non-tax supported services (infrastructure renewal, growth, and city-building). Target annual transfers to these reserve funds are also 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 inflationary environment and the need to factor in growth and city building requirements for annual transfers, target transfers are being reviewed and will be reported back to Council through the 2024-2027 multi-year budget.

The uncommitted ending balance in the non-tax supported capital reserve funds decreased by 21.4 per cent year over year, largely due to higher capital spending as the capital program resourcing strategy increased the ability to execute the capital program and higher capital costs due to inflation.

Obligatory Reserve Funds

This grouping includes two sub-categories: (i) Obligatory Corporate Reserve Funds which include the Ontario Building Code Stabilization (188), PD (300 and 301), CBC (302), Provincial Dedicated Gas Tax (342), and Federal Gas Tax (343); and (ii) DC Reserve Funds. These reserve funds are mandated under various pieces of legislation to be held separate from the balance of City funds and are treated as deferred revenue until the funds are used.

Figure 2 Obligatory Reserve Funds (year-end balance before commitments)



The year-end balance in the Obligatory Corporate Reserve after commitments decreased by 2.7 per cent compared with the 2021 uncommitted balance. This was largely driven by the usage of \$12.1 million in Canada Community Building Fund and Dedicated Gas Tax Revenues during the year and a further \$18.4 million in commitments against the \$32.3 million that was available at the beginning of the year due to the doubling of federal funds received in 2019 and 2021. Collections of \$454 thousand in CBCs were also received in the first three months of this new charge being in place (began September 18, 2022).

Parkland Dedication – Payment in Lieu

PD is applicable to subdivision applications pursuant to section 51.1, consent for severance applications pursuant to section 53, and development and redevelopment pursuant to section 42 of the Planning Act. The City's PD By-law requires the conveyance of land for park or other public recreational purposes as a

condition of the development or redevelopment of land, or the payment of money in lieu of conveyance. Payment in Lieu (PIL) is identified as an acceptable form of PD where the proposed application meets the Official Plan or by-law criteria, but suitable land is not available for conveyance. Applicants are obligated to pay PIL prior to the issuance of a building permit or as a condition of approval of a consent or subdivision application.

The City maintains two separate reserve funds for PD PIL, one for the Downtown (301) area in accordance with the Downtown Secondary Plan and one for the remainder of the City (300).

Section 7 of Ontario Regulation 509/20: Community Benefits Charges and Parkland, sets out the annual reporting requirements for PILs:

- a. A statement of the opening and closing balances of PIL Reserve Funds and any transactions relating to the funds (found in Table 1).
- b. A statement identifying land and machinery acquired, and buildings erected, improved or repaired during the year with the funds, details of the amounts spent, and the manner in which any capital cost not funded from the PIL reserve funds was or will be funded.
- c. Any amount of money borrowed from the PIL reserve funds, the purpose for which it was borrowed, and the amount of interest accrued on any money borrowed.

Table 1: 2022 PD Reserve Fund Activity

	PD Reserve Fund (300)	Downtown PD Reserve Fund (301)
Opening balance	\$13,071,697	\$346,409
PIL collected	\$2,006,704	\$0
Capital expenditures	\$0	\$0
Interest earned	\$329,523	\$8,110
Closing balance	\$15,407,924	\$354,519
Year-end commitments	(\$7,962)	\$0
Uncommitted balance	\$15,399,962	\$354,519

There were no expenditures from the PD reserve funds (300 and 301) in 2022, nor any amounts borrowed from the fund.

There were no land conveyances in 2022.

Community Benefits Charges

Under section 37 of the Planning Act, any municipality in Ontario can create and collect a CBC from new buildings or structures that are a minimum of five stories high and have 10 or more residential units. The City's CBC By-law came into effect on September 18, 2022. Section 7 of Ontario Regulation 509/20: Community

Benefits Charges and Parkland, sets out the annual reporting requirements for CBCs:

- a. A statement of the opening and closing balances of the CBC Reserve Fund and any transactions relating to the fund (found in Table 2).
- b. A statement identifying facilities, services and matters acquired during the year with the funds, details of the amounts spent, and for each facility, service or matter acquired, the manner in which any capital cost not funded from the CBC was or will be funded.
- c. Any amount of money borrowed from the CBC Reserve Fund, the purpose for which it was borrowed, and the amount of interest accrued on any money borrowed.

Table 2: 2022 CBC Reserve Fund Activity

	CBC Reserve Fund (302)
Opening balance	\$0
CBC collected	\$453,800
Capital expenditures	\$0
Interest earned	\$0
Closing balance	\$453,800
Year-end commitments	\$0
Uncommitted balance	\$453,800

There were no expenditures from the CBC Reserve Fund (302) in 2022, nor any amounts borrowed from the fund. An allocation of interest to the balance in this reserve fund was missed as part of the 2022 closing procedures but would have been approximately \$5 thousand. This amount will be applied to the reserve fund in 2023 in addition to the 2023 interest earned.

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 Development Charges Reserve Fund Statement).
- 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 Development Charges Project Finance Statement); 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 DC reserve funds is negative \$37.8 million after all unspent commitments have been applied. The outstanding balance of DC funded debentures as of December 31, 2022, was \$73.1 million, leaving a net positive balance of \$35.3 million overall in the DC reserve funds at the end of the year. This is higher than the 2021 net balance after debt due to lower capital growth spending from the DC reserve funds (\$8.8 million in 2022 versus \$13.6 million in 2021), higher contributions (total of \$27.8 million in combined collections from developers and exemption contributions in 2022 compared with \$25.4 million in 2021), and interest earnings of \$4.1 million in 2022 (\$2.8 million in 2021). The most significant difference is a reduction in commitments outstanding at year-end from \$160.7 million at the end of 2021 to \$149.7 million at the end of 2022. This reduction is largely related to the capital prioritization work that was undertaken in 2022 to reset the 2022 and 2023 capital budgets to accommodate inflation and capacity constraints. Through the prioritization, the 2022 and 2023 capital budgets were reduced overall, and growth-related capital spending as a proportion of overall capital budget decreased as outlined in 2023-154 - 2022 Year-end Capital Budget Monitoring Report.

DC Revenue

In 2022, the City saw DC collections of \$20.9 million (2021 - \$21.3 million) and exemption contributions from tax and rate reserve funds totaled \$6.9 million (2021 - \$4.1 million). The combined collections and exemption contributions represent 70 per cent of the 2018 DC Background Study forecasted collections, which is an indicator of the need to adjust the capital plan to accommodate that growth development is not occurring at the same rate as planned. This adjustment was undertaken for 2022 and 2023 as part of the capital budget prioritization process and will be undertaken for 2024 - 2033 as part of the 2024-2027 multi-year budget; however, there are additional factors to be considered as part of this forecast update including upward pressure on the rate of development from the [Housing Pledge](#) and downward pressure from increasing interest rates.

DC Exemptions

The DCA permits several exemptions where DCs shall not be imposed for certain types of development. This list of exemptions under the DCA expanded at the end of 2022 with the passage of Bill 23. There are additional exemptions beyond those required under the DCA laid out in the City's DC By-law (2019)-20372. In 2013, Council passed By-law (2013)-19537 to enact a [DC Exemption Policy](#) whereby any amount of exemption given must be recovered from the City's tax supported growth reserve fund and non-tax supported capital reserve funds. The uncommitted balance in the Growth Capital Reserve Fund (156) at the end of 2022 was \$3.2 million. The annual transfer to this reserve fund was increased by \$1.0 million to \$3.6 million in total for 2023. The sufficiency of this annual transfer along with the annual transfers to the rate supported capital reserve funds will be evaluated within the context of additional lost DC revenue estimates from Bill 23 as part of the 2024-2027 multi-year budget and a strategy will be proposed to address any shortfall identified.

DC exemptions in 2022 totaled \$6.9 million (2021: \$4.1 million) or 68 per cent more than the prior year. This is the result of a higher activity of accessory apartments as well as indexing of 11.6 per cent in 2022. Additionally, two new

exemptions required under Bill 23 resulted in \$588 thousand in lost revenue. Exemption contributions from tax and rate reserve funds totaled 25 per cent of total DC collections and exemption contributions for 2022 (2021 – 16 per cent). The breakdown of the type of exemption can be found in Table 3 DC Exemptions.

Table 3: DC Exemptions

Type of Exemption	Quantity	Exemption Value
Residential Accessory Apartments	305	\$5,910,104
Industrial Additions	5	\$393,405
Bill 23 Requirements	2	\$588,104
Total Exemptions	312	\$6,891,613

DC Expenditures

In 2022, the City invested \$26.8 million in growth-related infrastructure, including \$8.8 million drawn from DC reserve funds. Projects with significant DC funding in 2021 can be found in Table 4 - 2022 DC Spending Highlights. The complete breakdown by project and service can be found in Attachment-3 Development Charges Project Financing Statement.

Table 1: 2022 DC Spending Highlights

Project	Total spending 2022	Funding from DC 2022
Guelph Police Services Headquarters Renovations (PS0033)	\$2,201,741	\$955,299
Public Drop Off Scales and Software Upgrade (WP0006)	\$3,643,660	\$1,428,934
Water New Supply (WT0002)	\$1,135,180	\$1,135,180
Paisley Feedermain Construction – Phase 3 – Silver (PN0268)	\$729,950	\$656,953
Baker District Redevelopment - Library (LB0028)	\$1,991,376	\$639,769
Plant Energy Efficiency Management (ST0009)	\$4,018,372	\$587,088

Project	Total spending 2022	Funding from DC 2022
Transit Operations Facility (TC0059)	\$772,152	\$526,083

DC 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 future DC collections. The total debt interest paid from DCs was \$1.4 million in 2022.

Table 5: DC Debt Outstanding

Project	December 31, 2022 Outstanding Balance	Debt Maturity
Public Health Facilities	\$666,663	2023
Hanlon Expressway Interchange	\$10,469,926	2026
Police Headquarters	\$3,947,000	2026 and 2039
Baker District Central Library	\$12,468,964	2031
South End Community Centre	\$33,965,074	2031
Wilson Street Parkade	\$11,579,011	2039
Total	\$73,096,638	

Debt

The appropriate use and management of debt is critical to the City achieving long-term strategies, including sustainable funding and infrastructure investment. Limitations were established through the [Debt Management Policy](#) to ensure adherence to the City's overall Long-term Financial Framework.

After principal payments of \$14.0 million and interest of \$3.2 million the total debt outstanding at the end of 2022 was \$123.9 million. The City also has a loan receivable of \$13.5 million from The Elliott Community under a long-term financing agreement. The underlying debenture associated with this receivable was paid off in 2021.

Table 6: City Imposed Debt Limitations

Limitation	Target	Current	Trend
Direct Debt to Operating Revenue	<55%	29.8%	Improving

Limitation	Target	Current	Trend
Debt Servicing to own source revenue	<10%	4.1%	Deteriorating

In 2021 a portion of the debt required for the South End Community Centre and Baker District projects was issued early to take advantage of historically low interest rates. While this will have a positive impact on the overall cost of these projects it has contributed to the deteriorating trend status of the debt servicing cost metric above. The 2022 year was the first full year of additional payments to service the debt issued in 2021. An additional lump sum loan repayment to extinguish the CIBC Sleeman Centre loan was also made and increased the debt servicing to own source revenue ratio temporarily as this metric includes both principal and interest payments. The additional lump sum loan repayment and the loan principal payments made throughout the year, coupled with the fact that no new debt was issued in 2022 contributed to the improving trend for the direct debt to operating revenue metric. The debt forecast will be updated based on the updated 2024-2033 capital plan and will be presented to Council as part of the 2024-2027 multi-year budget. For 2022 debt activity see Attachment-4 2022 Debt Activity.

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.

Consultations

The Parks Planning and Building departments were consulted to provide input related to PD 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.

Attachments

Attachment-1 2022 Reserve and Reserve Fund Activity

Attachment-2 Development Charges Reserve Fund Statement

Attachment-3 Development Charges Project Financing Statement

Attachment-4 2022 Debt Activity

Departmental Approval

None.

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