

# Staff Report



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To	<b>Committee of the Whole</b>
Service Area	Corporate Services
Date	Wednesday, May 15, 2024
Subject	<b>2023 Long-term Financial Statement: Reserves and Debt</b>

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## Recommendation

1. That a Tree Compensation reserve fund (365) be opened to fund tree planting activities from fees collected under the Tree By-law (2010)-19058 or successor by-laws.
  2. That a Property Assessed Clean Energy Funding reserve fund (305) be established to record and track grant funding received from the Federation of Canadian Municipalities and the disbursement of funds.
  3. That the Property Assessed Clean Energy reserve fund (362) be renamed PACE Loan Loss Provision reserve fund and that the purpose and terms are updated as outlined in this report.
  4. That \$500 thousand be transferred from the Stormwater Contingency reserve (359) to the Stormwater Capital reserve fund (165) in 2024.
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## Executive Summary

### Purpose of Report

The purpose of this report is to update Council on the status of the City's reserves, reserve funds, and debt at the end of 2023. It also fulfills our reporting obligations under the *Development Charges Act, 1997*, as amended, and the *Planning Act*.

### Key Findings

- The [Long-term Financial Framework](#) (LTFF) uses three criteria to evaluate the City's financial health:
  - Flexibility – the ability to adapt to changing opportunities;
  - Sustainability – the ability to maintain services over an extended period of time; and
  - Vulnerability – the level of resiliency to mitigate unexpected negative factors.The levels and state of reserves, reserve funds, and debt directly contribute to the City's ability to achieve the three pillars of the LTFF. The overall increase in available balances contributes positively to all three measures.
- As a whole, the City's reserves and reserve funds increased by \$31.5 million (6.5 per cent) compared with the previous year to a year-end balance of \$519.2 million before accounting for commitments. Over half of the increase (\$17.1 million) is from interest earned on reserve funds. This indicates that the funds are being utilized at a rate similar to the contribution rate rather than

accumulating into larger balances. This also confirms the success of the work undertaken to address inflation and capacity constraints in 2022 and through the 2023 Budget Confirmation process. After accounting for 2023 and prior budget approvals that have not yet been spent (commitments), the total available balance at the end of 2023 was \$160.8 million, an increase of 35.3 per cent over the 2022 year-end 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, and one-time allocations from the annual surplus to bolster reserve and reserve fund balances.
- As a group, the year-end available balance in the tax supported corporate contingency reserves was 62 per cent of the target balance. Balances below target reduce the City's financial health. For example, the City's ability to quickly adapt to a changing environment to capitalize on opportunities and avoid threats, a key component of flexibility in the LTFF, is reduced. Flexibility to smooth budgeted increases over multiple years to avoid tax spikes is diminished. This highlights the need to replenish these reserves by transferring year-end surpluses until they reach 75 per cent of the target balance as directed by Council in the [2024-2027 Multi-Year Budget Companion Report – Council Budget Decisions](#).
- The tax supported strategic reserves have remained relatively in the same position with an available balance of \$1.9 million at the 2023 year-end compared with a balance of \$2.0 million at the 2022 year-end.
- The combined available balances in tax and non-tax supported corporate capital reserve funds increased by 39.9 per cent. This is due to a reduction in commitments from changes in project timing made through the [Capital Budget Prioritization in 2022 and the 2023 Budget confirmation](#) process. This funding capacity was allocated during the 2024 budget, enabling the City to phase-in the high cost of inflation experienced in 2022 and 2023 over the full multi-year budget period, overall helping affordability.
- Year-end debt outstanding totalled \$111.9 million after principal repayment of \$12.1 million in 2023. This outstanding principal is 25.2 per cent of the City's operating revenue and well within the 55 per cent that is the City's self-imposed limit. Debt servicing accounts for 3.4 per cent of own-source revenue and is well within the legislated annual repayment limit (25 per cent). The first measure will improve in 2024 because of principal repayments made throughout the year. It will also improve because the City is not planning to borrow money in 2024 due to elevated interest rates as outlined in the [Debt Strategy](#) prepared as part of the 2024-2027 Multi-Year Budget (MYB).
- A total of \$26.3 million in development charges (DCs) were collected in 2023 compared with \$20.9 million in 2022. DC exemptions and discounts, which must be funded from non-DC sources, totalled \$11.6 million (2022: \$6.9 million), of which \$3.1 million was for exemptions mandated through Bill 23. The exemptions and discounts were \$7.4 million (176 per cent) higher than budgeted. This budget shortfall created additional pressure on the Growth reserve fund (156) for tax-supported services and the Water (152), Wastewater (153), and Stormwater (165) capital reserve funds.

## Strategic Plan Alignment

The Strategic Plan identifies implementing the LTFF as a key requirement to maintain the City's financial health. The LTFF is a collection of fiscal policies, including the [General Reserve and Reserve Fund Policy](#) and [Debt Management Policy](#), which guide the development of long-term financial plans. It uses three criteria to evaluate the City's financial health: flexibility, sustainability, and vulnerability. Managing the City's reserves, reserve funds, and debt effectively helps meet the criteria of the LTFF. Reporting on the activity and status of the City's reserves, reserve funds, and debt informs Council on the City's progress toward meeting its strategic plan objective.

## Future Guelph Theme

Foundations

## Future Guelph Objectives

Foundations: Maintain the City's healthy financial position

## Financial Implications

This report does not affect the City's finances directly. However, continued strategic management of reserves, reserve funds, and the debt portfolio supports the City's overall financial health, including maintaining a favorable credit rating.

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## Report

### Reserve and Reserve Funds

The City has almost 80 reserve and reserve funds. These are used for planned capital expenses, strategic objectives, unexpected or extraordinary costs, and to reduce tax levy fluctuations. The [General Reserve and Reserve Fund Policy](#) governs the use of reserves and reserve funds at the City. It guides how the money is used, funding sources, and sets out target balances for each reserve and reserve fund. The policy groups reserves and reserves funds into the following categories:

- Tax-supported reserves and reserve funds
  - Contingency reserves
  - Program-specific reserves
  - Strategic reserves
  - Program-specific reserve funds
  - Capital reserve funds
- Non-tax supported reserves and reserve funds
  - Contingency reserves
  - Capital reserve funds
- Obligatory reserve funds
  - Obligatory corporate reserve funds
  - DC reserve funds

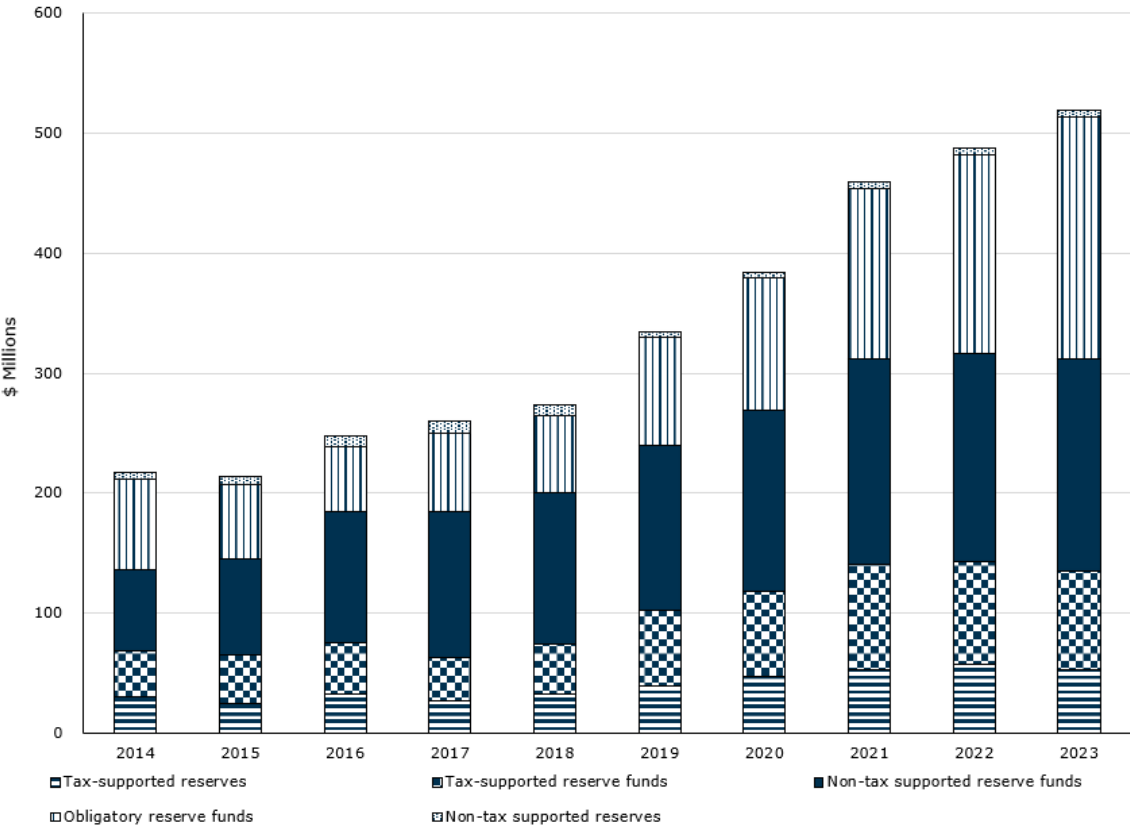
A summary of all the reserve and reserve fund activity in 2023 is provided in Attachment-1 Reserve and Reserve Fund Activity. A discussion on each category is provided below. Detailed information is provided for DCs, parkland dedication (PD), and community benefit charges (CBCs) to meet the requirements of the *Development Charges Act, 1997*, as amended (DCA) and the *Planning Act*.

Surplus allocations as recommended in the 2023 Year-end Operating Budget Monitoring and Surplus Allocation Report 2024-215 are accounted for in the figures below.

Overall, reserve and reserve fund balances have been increasing since 2015, as shown in Figure 1. 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.

The year-end reserve and reserve fund balances, before commitments, increased by \$31.5 million from the previous year. This is primarily due to increases in the Obligatory reserve fund balances. Notably, the tax-supported contingency reserve balances decreased by \$1.7 million, after surplus allocation, compared with the previous year. These changes are discussed in later sections of the report.

**Figure 1 - Reserve and reserve fund balances (before commitments) from 2014 to 2023**



To get a more accurate understanding of the reserve positions, it is important to consider the impact of Council budget approvals for which funds have not yet been spent. These funding commitments reduce the year-end balances and provide an accurate representation of the true funding capacity in the reserves and reserve funds.

Attachment-1 Reserve and Reserve Fund Activity for 2023 presents the opening balance as of January 1, 2023, for each reserve grouping, transactions, including those to fund capital expenditures, through the year, and the ending balance on December 31, 2023. Additional information regarding capital expenditures in 2023 is provided in the 2023 Year-end Capital Budget Monitoring Report 2024-216. The year-end commitments column presents the impact of previous Council budget decisions that represent draws on these reserve balances that have not yet been executed. The available balance, also referred to as uncommitted balance, represents the funds available after 2023 and prior budget commitments have been factored in.

Table 1 presents the available balances for 2023 as well as the total commitments; 2022 amounts are included in the table for comparison. At a high level, the available balance at the end of 2023 increased by \$42.0 million from 2022. This is due to increases in tax-supported program-specific reserves and reserve funds, non-tax supported capital, obligatory, and DC reserve funds as well as the reduction in the commitments against the reserves and reserve funds. The reduction in commitments resulted from the capital prioritization work which was undertaken in 2022 to reset the 2022 and 2023 capital budgets to accommodate inflation and capacity constraints.

**Table 1 - Reserve and reserve fund balances (\$ millions)**

<b>Description</b>	<b>2023</b>	<b>2022</b>	<b>Increase/ decrease</b>
Balance before commitments	519.2	487.7	31.5
Commitments	358.4	368.9	(10.3)
Available balance	160.8	118.8	42.0

### **Tax-Supported Reserve and Reserve Funds**

As shown in Attachment-1 Reserve and Reserve Fund Activity for 2023, the year-end balance before commitments for tax-supported reserves and reserve funds totals \$134.9 million. After commitments, the balance is \$51.4 million as shown below in Table 2. This balance is \$10.2 million lower than the available balance at the end of 2022. The reduction was primarily driven by the decrease in the Corporate Capital reserve funds discussed in later sections of the report.

**Table 2 - Tax-supported reserves and reserve funds available balances (\$ millions)**

<b>Description</b>	<b>2023</b>	<b>2022</b>	<b>Increase/ decrease</b>
Corporate contingency reserves	24.5	25.4	(0.9)
Program-specific reserves	17.8	16.9	1.0
Strategic reserves	1.9	2.0	(0.1)
Program-specific reserve funds	11.4	7.2	4.2
Corporate capital reserve funds	(4.1)	10.7	(14.3)
Total	51.5	61.6	(10.1)

## **Corporate Contingency Reserves**

Corporate contingency reserves provide the City with liquidity and the ability to offset one-time, extraordinary and/or unforeseen expenditures to reduce the tax impact. As a group, the year-end available balances in the corporate contingency reserves were at 62 per cent of the target balance compared with 72 per cent in 2022. The approved target is eight to ten per cent of own-source revenues. Since the City's own-source revenues were higher for 2023 than 2022, and the available balance decreased, the balance relative to target deteriorated.

The corporate contingency reserves category includes the Social Housing Reserve (208). The use of this reserve 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. Changes to its grouping and target balance will be included in the update of the General Reserve and Reserve Fund Policy which will be presented for Council's consideration in the fall of this year.

It is noteworthy that the available balance in the Tax Rate Operating Contingency reserve (180) is only \$9.7 million or 47 per cent of the target balance. This reserve was utilized by staff through recommendations to smooth impacts over multiple years, and by Council during the MYB process and in some cases mid-year to fund one-time expenses to help affordability. Examples of expenses funded from this reserve include:

- \$750 thousand transfer to Guelph General Hospital for the City's contribution towards the hospital expansion project.
- \$863 thousand to the Elliott Community for the 29 long-term care bed expansion project.
- \$516 thousand to fund increased operating and maintenance costs from extending the lifecycle replacement timelines for fleet.
- \$500 thousand to offset some of the costs resulting from Bill 23.

To rebuild the contingency reserves, staff will continue to recommend the transfer of any year-end surpluses to the Tax Rate Operating Contingency reserve (180) as a priority. Through the 2024 budget, staff have cautioned the further depletion of the contingency reserves as the balance as a group is below target.

## **Program-Specific Reserves**

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. The 2023 year-end available balance for this group of reserves was \$17.8 million, which is \$970 thousand higher than the balance at the end of 2022. The balances in this sub-group of program specific reserves were 2 per cent over the target balance at the 2023 year-end.

## **Strategic Reserves**

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 strategic property development (332). The target level of funding in each is related to the underlying strategies being supported. The 2023 year-end available

balance for this group of reserves was \$1.9 million, which is \$100 thousand lower than the balance at the end of 2022.

### **Program-Specific Reserve Funds**

Program-specific reserve funds are related to specific services and/or sources of funding, for example, Police Capital (158) and Sleeman Naming Rights (162).

The City collects fees for applications and cash-in-lieu of trees and fines under the Tree By-law (2010)-19058. To increase transparency regarding the total amounts collected and use of the funds, a new program-specific discretionary reserve fund is proposed with following terms and authority:

Reserve fund name: Tree Compensation reserve fund (365)

Purpose: To accumulate funds collected under the Tree By-law (2010)-19058 or successor by-laws and finance tree planting activities in the City.

Target balance: No established maximum limit. Reserve fund balance must be positive.

Source of funds: Fees collected under the City's Tree By-law (2010)-19058.

Use of funds: To fund tree planting costs.

Authority/timing: Council approved through the budget or in-year Council report.

At the end of 2023, the City had \$1.2 million in tree compensation revenue that is proposed to be transferred into this new reserve fund.

The available balance for program-specific reserve funds, including the proposed Tree Compensation reserve fund (365) is \$11.4 million, an increase of \$4.2 million from 2022. 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, 2023, except for the Sleeman Naming Rights reserve fund (162) which had an ending negative balance of \$27 thousand as of December 31, 2023 (no commitments). Although the balance is negative, this was an improvement from 2022 where the negative balance was \$46 thousand.

### **Corporate Tax-Supported Capital Reserve Funds**

Corporate tax-supported capital reserve funds support the City's five [Long-term Financial Strategies](#). The target balances in these reserve funds are linked to their approved purpose as outlined in the strategy documents.

Collectively, these reserve funds are overcommitted and in a deficit position at the end of 2023. The available balance in the corporate capital reserve funds decreased by \$14.3 million from the previous year. There are three main factors that influenced this decrease in available balances:

- i. higher funding for DC exemptions as 2023 was the first full year since Bill 23 came into force. This has resulted in a negative available balance for the Growth reserve fund (156) which funds DC exemptions for tax-supported services;
- ii. increased commitments relative to 2022; and
- iii. \$16.5 million is for projects that were approved for debt financing in previous budgets but the debt has not yet been issued due to high interest rates. The City expects to borrow these monies starting in 2025, as outlined in the [Debt Strategy](#) and the funds will be returned to the available balance.

The Service Enhancement reserve fund (159), formerly City Building, is currently overcommitted by \$14.7 million (2021 - \$14.1 million). \$14.2 million of the deficit balance is for projects approved for debt financing but the debt has yet to be issued. The [Service Enhancement Strategy](#) developed through the 2024-2027 MYB increased annual contributions to return this reserve fund to a sustainable position at the end of 2025. An updated strategy that meets the [Mayoral Budget Direction](#) will be developed to address the deficit in the Service Enhancement reserve fund (159) through the 2025 Budget Confirmation process.

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. The target balances were approved before the City adopted multi-year budgeting. With the adoption of multi-year budgeting at the City, the reserve fund balance and contribution targets are under review and will be presented to Council later this year.

### **Non-tax Supported Reserve and Reserve Funds**

As shown in Attachment-1 Reserve and Reserve Fund Activity, the year-end balance before commitments for non-tax supported reserves and reserve funds totals \$183.1 million. After commitments, the available balance is \$100.7 million, \$40.7 million higher than the 2022 available balance as shown below in Table 3. The categories are discussed in detail in the sections below.

**Table 3 - Non-tax supported reserves and reserve funds (available balances (\$ millions))**

<b>Description</b>	<b>2023</b>	<b>2022</b>	<b>Increase/ decrease</b>
Contingency reserves	5.8	5.2	0.5
Capital reserve funds	95.0	54.8	40.2
Total	100.7	60.0	40.7

### **Non-tax supported contingency reserves**

Non-tax supported contingency reserves are maintained to meet emergency and unplanned funding needs in the operations of the non-tax funded services as well as to avoid large fluctuations in user rates. The services in this group are water, wastewater, stormwater, courts, and parking.

As a group, the non-tax supported contingency reserves increased by \$527 thousand (after commitments) in comparison with the combined 2022 year-end balance. All services generally meet or exceed the established reserve targets except Parking (106), which is at 51 per cent of the target balance, and Wastewater (182) which is at 74 per cent of the target balance. The targets for these contingency reserves are 10 per cent of gross operating expenditure budget. The balance in the Stormwater Contingency reserve (359) is \$1.0 million compared to a target of \$215 thousand. Reserve forecasts prepared through the 2024-2027 MYB show that the balance in the Stormwater Contingency reserve (359) would still exceed the target even after considering the planned expenditures from 2024 to 2027. The forecasts also show deficit balances in the Stormwater Capital reserve fund (153) starting in 2028. Based on these forecasts, staff recommend transferring \$500 thousand from the Stormwater Contingency reserve (359) to the Stormwater Capital reserve fund (165) in 2024.



## **Non-tax supported program specific reserve funds**

These reserve funds provide financing for capital works for water (152), wastewater (153), stormwater (165), parking (151), and courts (120). Capital works include infrastructure renewal, service enhancement initiatives, and funding DC revenue loss 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 service enhancement). Target annual transfers to these reserve funds are also based on the [Corporate Asset Management Plan](#). An updated Asset Management Plan will be presented to Council in the summer of 2024 and incorporated into the reserve policy update as appropriate.

The available ending balance in the non-tax supported capital reserve funds increased by \$40.2 million, largely due to a reduction in commitments and changes in project timing through the capital prioritization process undertaken in 2022. Some capital projects that were initially deferred have been re-budgeted in the 2024-2027 MYB and forecast. [Reserve fund forecasts](#) developed during the 2024-2027 MYB process show that this group of reserves would be in a negative position starting in 2028.

## **Obligatory Reserve Funds**

This grouping includes two sub-categories:

- i. Obligatory Corporate Reserve Funds which include the Ontario Building Code Stabilization (188), Parkland Dedication Payment-in-Lieu (300 and 301), Community Benefits Charges (302), Provincial Dedicated Gas Tax (342), Canada Community-Building Fund (343), and Property Assessed Clean Energy/Guelph Greener Homes program related (305 and 362); and
- ii. DC Reserve Funds.

These reserve funds are mandated under agreements and 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.

## **Obligatory Corporate Reserve Funds**

The year-end balance in the Obligatory Corporate Reserve Funds after commitments increased by \$4.9 million compared with the 2022 available balance. This increase is due, in part, to the balances in the reserve funds associated with the [Guelph Greener Homes program](#) – Property Assessed Clean Energy (PACE) Loan Loss Provision (362) and PACE Funding (305).

Council approved the creation of a PACE reserve fund (362) through the [Staff Report 2022-27 - Property Assessed Clean Energy Update](#). Following the launch of the [Guelph Greener Homes program](#), staff recommend two separate reserve funds for this program. One reserve fund will be used to set aside a provision for bad loans and another to record and track grant funding received from Federation of Canadian Municipalities (FCM) and the disbursement of funds to residents. To achieve this the following terms are proposed to repurpose the approved PACE reserve fund (362) and create a new reserve fund.

The following revised terms and authority are proposed:

Reserve fund name: PACE Loan Loss Provision reserve fund (362).

Purpose: To set aside funds from FCM grant to cover any future potential losses arising from loans made to participating property owners through the Guelph Greener Homes Program.

Target balance: Five per cent of the total dollar amount of outstanding principal of loan issued by the City (Guelph Greener Homes Program).

Source of funds: FCM and City portion as outlined in [Report 2022-27](#).

Use of funds: To recover losses incurred at any time during the repayment term of the loan issued to property owners.

Authority/timing: City Treasurer – From September 2023 until the date all loans issued under the program are fully paid.

The following terms and authority are proposed for the creation of a new reserve fund:

Reserve fund name: PACE Funding reserve fund (305).

Purpose: To record and track grant funding received from FCM and the disbursement of funds.

Target balance: No established maximum limit. Reserve fund balance must be positive.

Source of funds: FCM as outlined in [Report 2022-27](#).

Use of funds: To extend energy efficiency retrofit grants under the Guelph Greener Homes program and to cover the expenses of implementing and operating the program.

Authority/timing: City Treasurer - approval of funding received, loans issued, and operating cost incurred.

Additional discussions relating to parkland dedication and community benefits charge reserve funds are provided in separate sections to meet the specific requirements of the *Planning Act*.

### **Parkland Dedication**

Parkland Dedication (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 (PIL). 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 42 (17) of the *Planning Act* and section 7 (1) of Ontario Regulation (O. Reg.) 509/20: Community Benefits Charges and Parkland, set 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 (presented in Table 4).
- 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.

In addition, section 42 (16.1) of the *Planning Act* requires a municipality to spend or allocate 60 per cent of the monies in the reserve fund at the beginning of each year. The section below addresses these reporting obligations.

**Table 4 - 2023 PD reserve fund activity**

Description	PD reserve fund (300)	Downtown PD reserve fund (301)
Opening balance	\$15,407,924	\$354,519
PIL collected	\$1,828,291	\$0
Capital expenditures	\$0	\$0
Interest earned	\$558,785	\$12,137
Closing balance	\$17,795,000	\$366,656
Year-end commitments	\$1,507,962	\$0
Available balance	\$16,287,038	\$366,656

There were no expenditures funded or amounts borrowed from the PD reserve funds in 2023.

Through the [2024-2027 MYB](#), the City allocated \$27.1 million to capital project PK0180 Parkland Acquisition in 2025 and 2027. This amount exceeds the 60 per cent allocation threshold in section 42 (16.1) of the *Planning Act*.

### Community Benefits Charges

Under section 37 of the *Planning Act*, a municipality can impose a community benefits charge (CBC) on 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 5).
- 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.

In addition, section 37 (47) of the *Planning Act* requires a municipality to spend or allocate 60 per cent of the monies in the reserve fund at the beginning of each year. The section below addresses these reporting obligations.

**Table 5 - 2023 CBC reserve fund activity**

Description	CBC reserve fund (302)
Opening balance	\$453,800
CBCs collected	\$474,400
Capital expenditures	\$0
Interest earned	\$23,656
Closing balance	\$951,856
Year-end commitments	\$0
Available balance	\$951,856

There were no expenditures or amounts borrowed from the CBC reserve fund in 2023.

Through the [2024-2027 MYB](#), the City allocated \$2.2 million to the following capital projects between 2024 and 2027:

- Parkland Acquisition (PK0180) – \$1.9 million
- Public Art (CT0004) – \$80 thousand
- Community Benefits Charge By-law Update (GG0282) – \$125 thousand
- Zoning By-Law Review (PL0075) – \$81 thousand
- Heritage Initiatives (PL0076) – \$16 thousand

This total funding allocated exceeds the 60 per cent allocation threshold in section 42 (16.1) of the *Planning Act*.

### **Development Charges**

Section 43 of the DCA requires the Treasurer of the municipality to provide to Council an annual financial statement relating to DC By-law and any reserve funds established under the DCA. Section 43 (2) of the DCA and O. Reg. 82/98 prescribe the information that must be provided in the statement. Specifically, the statement for the must provide the following:

1. 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);
2. 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);
3. A description of each service and/or service category for which the reserve fund was established. If the fund was established for a service category, the services in the category;
4. The amount borrowed from the fund by the municipality and the purpose for which it was borrowed, and interest accrued during the previous year;
5. The amount and source of money used by the municipality to repay municipal obligations to the DC reserve funds;
6. A schedule that identifies credits recognized under section 17 and, for each credit recognized, sets out the value of the credit, the service against which the credit is applied, and the source of funds used to finance the credit;
7. For each service for which a DC is collected during the year,

- i. whether, as of the end of the year, the municipality expects to incur the amount of capital costs that were estimated, in the relevant DC background study, to be incurred during the term of the applicable DC by-law.
  - ii. If the answer to subparagraph (i) is no, the amount the municipality now expects to incur and a statement as to why this amount is expected;
8. For any service for which a DC was collected during the year but in respect of which no money from a reserve fund was spent during the year, a statement as to why there was no spending during the year. O. Reg. 82/98, s. 12 (3); O. Reg. 438/22, s. 1;
9. A 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.

Furthermore, subsection 35 (2) of the DCA requires a municipality to spend or allocate at least 60 per cent of the monies in the reserve funds for water, wastewater, and roads at the beginning of each year.

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

### **DC Reserve Fund Activity**

The City maintains 16 DC reserve funds for each of the services under DC By-law (2019)-20372 as amended by By-law (2021)-20643. Opening and closing balances as well the total project costs funded from these reserve funds are provided in Attachment-2 Development Charges Reserve Fund Statement. The list of specific projects and debt interest is provided in Attachment-3 Development Charges Project Financing Statement.

The City has not imposed, directly or indirectly, a charge related to a development or a requirement to construct a service related to development except as permitted by the DCA or another act. The City has not borrowed money from DC reserve funds or issued credits to developers.

No money was spent from the Fire (315), Courts (326), and Public Works (329) DC reserve funds in 2023. There are commitments against the Public Works reserve fund totalling \$512 thousand; these capital projects already have budget approval and are expected to proceed in the near term. With respect to the Fire and Courts DC reserve funds, there are planned capital works which were included in the new DC background study and 2024-2027 MYB.

On January 16, 2024, Council approved the [2023 DC Background Study, as amended](#) (2023 DCBS) and adopted new DC by-laws that went into effect on March 2, 2024. Based on the 2023 DCBS, the City plans to spend approximately \$1.8 billion on capital projects (a mix of growth, infrastructure renewal, and service enhancement), of which the growth-related portion is 44 per cent (\$779.6 million) over the 10-year term of the DC by-laws. As this is the most current information available, the City does anticipate incurring the capital costs estimated in the 2023 DCBS. The City however reviews the timing of capital expenditures through the budget process. This is done to ensure that the timing of projects and growth, which pays DCs, is better aligned to mitigate cash-flow impacts. It is also done to ensure that funding, including non-DC funding, is available for the planned capital works. Staff will be monitoring the difference in planned expenditures (per the 2023

DCBS) and the budget and will report annually on any changes through this report as required under the DCA.

### **Year-end Balance**

The total closing balance of all 16 DC reserve funds is negative \$31.4 million after all unspent commitments have been applied. The outstanding balance of DC funded debentures as of December 31, 2022, was \$65.8 million, leaving a net positive balance of \$34.4 million overall in the DC reserve funds at the end of the year. DC funding for capital expenditures in 2023 totalled \$18.5 million compared with \$8.8 million in 2022. Commitments not yet spent were also higher at the end of 2023 (\$169.5 million) compared to the previous year (\$149.7 million). Despite higher expenditures and commitments, the net closing balance after debt is essentially the same as it was at the end of 2022. This is due to higher collections and exemptions funding, interest on late payments, and accrued interest.

Administration/growth-related studies and parking are no longer DC-eligible services. The balances discussed above include a deficit balance in the Administration/Growth Studies DC reserve fund (318) of \$3.4 million. Non-DC funding will be required to offset this deficit and will need to be planned for as part of the 2025 Budget Confirmation process. The balance in the Parking DC reserve fund (323) is \$1.2 million and will be transferred to the Parking Capital reserve fund (151) as part of the 2024 year-end process. Administrative recommendations related to this will be part 2024 year-end report. The Provincial government recently introduced Bill 185, the *Cutting Red Tape to Build More Homes Act, 2023*. If passed, this would change the DCA to allow the costs of studies to be recovered from DCs, reversing a change made through Bill 23. The discussion above reflects the legislation in force at the time of writing this report. Any changes resulting from Bill 185 will be included in the report issued through the 2024 year-end process.

As previously noted, the DCA requires municipalities to allocate or spend at least 60 per cent of the monies in the Water, Wastewater, and Roads DC reserve funds. The 2024-2027 MYB includes \$71.8 million in DC-funded costs for Water, \$114.5 million in DC-funded costs for Wastewater, and \$48.8 million in DC-funded Road costs. These amounts exceed the 60 per cent minimum allocation required under the act.

### **DC Collections and Exemptions**

DC reserve funds are funded from DC collections, exemptions funding or allocations, interest on late payments, and accrued interest. DC reserve funds received a total of \$46.0 million in 2023 as shown in Attachment-2 Development Charges Reserve Fund Statement. The City collected \$26.3 million in DCs, an increase of \$5.4 million from 2022. Collections accounted for 57 per cent of the funding transferred to the DC reserve funds. Contributions from tax and rate supported reserve funds to fund exemptions and discounts as required under the DCA totalled \$11.6 million reflecting a 68 per cent increase from 2022. Exemptions provided 25 per cent of the total funding that went into the DC reserve funds.

Statutory exemptions and discounts, including those imposed through Bill 23, accounted for \$9.7 million (84 per cent) of total exemptions. Costs for Bill 23 related exemptions and discounts were \$3.1 million for non-profit housing exemption and the rental housing discounts. A portion of the costs to fund exemptions for additional residential dwelling units (ARDUs) is related to Bill 23 however the data were not tracked separately. The remaining \$1.8 million relates

to discretionary exemptions included in the City’s DC By-law (2019)-20372, as amended. This level of exemption is over budget by \$7.4 million or 176 per cent in 2023. Increased funding for DC exemptions has created pressure for the Growth reserve fund as mentioned in the section on Corporate Tax-supported Reserve Funds. Similar pressures are being placed on the non-tax supported capital reserve funds, which fund DC exemptions in addition to other capital needs. This challenge was highlighted during the 2024 budget, with increasing tax and rate transfers building over four years to address this cost, and negative impacts on reserve funds forecast out to 2035. The breakdown of the type of exemption can be found in Table 6.

**Table 6 - Breakdown of DC exemptions funded in 2023**

Exemption	Statutory or discretionary	Amount
Industrial expansions	Statutory	\$461,088
Category of owner	Discretionary	\$1,832,642
Non-profit housing corporation	Statutory	\$2,675,905
Rental housing discounts	Statutory	\$382,259
ARDUs	Statutory	\$6,229,135
Total	n/a	\$11,581,029

The combined collections and exemption contributions represent approximately 70 per cent of the 2018 DC Background Study forecasted collections. This indicates the need to adjust the capital plan to account for growth occurring at a different pace from what was planned. Timing of growth-related expenditures will continue to be adjusted to reflect the pace of growth and the City’s commitment to prioritize housing enabling investments in order to achieve its [Housing Pledge](#).

**DC Expenditures**

In 2023, DC funded infrastructure investment totalled \$18.5 million drawn from DC reserve funds. Projects with significant DC funding in 2023 can be found in Table 7. The complete breakdown by project and service can be found in Attachment-3 Development Charges Project Financing Statement.



**Table 7 - 2023 DC Spending Highlights**

Project	2023 Total spending	2023 DC funding
Speedvale Road Reconstruction - Woolwich to Metcalfe (PN0097)	\$5,199,180	\$1,962,622
Eastview Community Park (PK0127)	\$1,009,956	\$1,009,956
Whitelaw Road Reconstruction - Shoemaker to Paisley (PN0784)	\$2,287,333	\$2,287,333
South End Community Centre Construction (RF0093)	\$4,423,729	\$4,145,920
New Intersection/Pedestrian Signals (TF0028)	\$732,900	\$659,869
Water New Supply (WT0002)	\$863,751	\$863,751
Solid Waste Collection Trucks New (WC0016)	\$1,078,782	\$728,178
Total	\$13,308,298	\$9,370,296

**DC Debt**

In some cases, growth-related projects are completed prior to having fully collected the 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 \$1.3 million in 2023. Table 8 presents the outstanding principal and maturity dates for DC debt.

**Table 8 - DC Outstanding Debt**

Project	December 31, 2023 Outstanding Balance	Debt Maturity
Hanlon Expressway Interchange	\$10,357,514	2026
Police Headquarters	\$11,913,433	2026 and 2039
Baker District Central Library	\$9,361,082	2031
South End Community Centre	\$30,367,918	2031
Wilson Street Parkade	\$3,755,000	2039
Total	\$65,754,932	n/a

**Debt**

Using and managing debt appropriately is critical to the City achieving long-term strategies, including sustainable funding and infrastructure investment. The City follows the [Debt Management Policy](#), to use debt to help achieve strategic objectives while keeping within legislative limits. The City also imposes its own policy limits for using debt in addition to the legislative requirements through the [Debt Management Policy](#).

After principal payments of \$12.1 million and interest of \$2.8 million the total debt outstanding at the end of 2023 was \$111.9 million. The City also has loans receivable totalling \$12.4 million under long-term financing agreements. Of this, \$383 thousand of that is from Wellington-Dufferin-Guelph Public Health and will be paid off in 2024. The underlying City debenture was paid off in 2023. Funds received in 2024 will be transferred to the Infrastructure Renewal reserve fund (150). The remaining \$11.9 million is a loan receivable from The Elliott Community.



The underlying debenture associated with this receivable was paid off in 2021 from the Infrastructure Renewal reserve fund (150). Proceeds from this receivable are transferred back to this reserve fund accordingly.

Debt activity through 2023 is presented in Attachment-4 2022 Debt Activity. Table 9 presents the City imposed debt limits.

**Table 9 - City Imposed Debt Limits**

Limitation	Target	Current	Trend
Direct debt to operating revenue	Less than 55 per cent	25.2 per cent	Improving
Debt servicing to own-source revenue	Less than 10 per cent	3.4 per cent	Improving

The City continues to be in a well-managed position with respect to outstanding debt obligations, all ratios being met. [Detailed forecasts](#) prepared as part of the 2024-2027 MYB process also show that, while significant debt issuances are planned annually beginning in 2025 to support the capital budget and forecast, the City would stay within its legislated and self-imposed limits.

**Financial Implications**

This report does not affect the City’s finances directly. However, continued strategic management of reserves, reserve funds and debt portfolio supports the City’s overall financial health, including maintaining a favorable credit rating. The City continues to manage its debt obligations well and stay within the Council-approved debt ratios.

**Consultations and Engagement**

None.

**Attachments**

- Attachment-1 2023 Reserve and Reserve Fund Activity
- Attachment-2 Development Charges Reserve Fund Statement
- Attachment-3 Development Charges Project Financing Statement
- Attachment-4 2023 Debt Activity

Accessible formats are available upon request by contacting the Manager of Financial Strategy and Reporting at 519-822-1260 extension 2300. TTY 519-826-9771

**Departmental Approval**

None.

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