

Staff Report



To	City Council
Service Area	Corporate Services
Date	Monday, May 25, 2020
Subject	2019 Reserve and Reserve Fund Statement

Recommendation

1. That \$1,667,285 be transferred from the Water Operating Contingency Reserve (181) to the Water Capital Reserve Fund (152).
 2. That \$2,813,839 be transferred from the Wastewater Operating Contingency Reserve (182) to the Wastewater Capital Reserve Fund (153).
 3. That the target for the Workplace Safety Insurance Board Reserve (330) be changed from 50 per cent of the estimate liability to 25 per cent.
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Executive Summary

Purpose of Report

The purpose of this report is to provide an annual statement of the closing balances and activity of the City's collective reserves and reserve funds for 2019. It also evaluates the condition of the accounts against the approved targets identified in the City's General Reserve and Reserve Fund Policy as well as seeks approval to add new accounts or consolidate accounts where appropriate.

Key Findings

The City has 67 reserves and reserve funds that collectively have a closing balance of \$340.3 million (inclusive of the year-end surplus) and a balance of \$183 million after outstanding budget commitments as at December 31, 2019 (see Attachment-1 2019 Reserve and Reserve Fund Activity for complete details). This is a \$55.2 million or 43% increase over the 2018 year-end reserve and reserve fund balance. Significant drivers of this increase are as follows:

- One-time additional Federal Gas Tax transfer of \$7.8 million
- Guelph Municipal Holdings Inc. (GMHI) special dividend of \$13.5 million
- Higher than prior year Development Charge collections of \$12.0 million
- One-time principal pre-payment from Wellington-Dufferin-Guelph Public Health (WDGPH) towards debt outstanding related to the new health unit facilities.
- Continued focus on long-term capital funding strategies through the operating budget

Progress was made on closing the annual infrastructure deficit in 2019, and increase in budgeted operating transfers to capital reserve funds as shown by funding as a per cent of target reaching 65% versus 59% in 2018.

The total City operating surplus (tax and non-tax) of \$9.5 million has been included as recommended in report 2020-41 2019 Year-end Operating Variance Report and Surplus Allocation.

Financial Implications

The reserves and reserve funds after commitments represent the amount of funding available for contingency and capital planning. They are used to determine debt capacity limits and influence the City's credit rating score on an annual basis. The closing balance of the collective reserves and reserve funds before commitments is what is reported on the City's annual audited financial statements and is used to allocate the investment income earned during the year.

Report

Reserves and reserve funds are established by Council to provide financial flexibility, stability and provide a buffer against unexpected shifts in revenue or expenditures. Reserves are established for a pre-determined use and are applied at the discretion of Council for that purpose while reserve funds are restricted by statute or by Council and must be segregated from general revenue. Reserve funds are interest-bearing while reserves are not.

The following provides an update on key reserves and reserve funds that experienced noteworthy activity or have critical balances.

Tax Supported Reserves and Reserve Funds

Overall, the tax supported contingency reserves have increased \$3,300,476 after surplus allocation and are sitting at 84 per cent of the policy target.

Corporate Contingency Reserves

Notable reserve activity is as follows:

Tax Rate Operating Contingency Reserve: this reserve is 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. Of the tax funded operating surplus \$3,696,763 is being recommended to be added to this reserve, bringing it to 71 per cent funded. The following items were funded from the Tax Operating Contingency Reserve:

- \$255,000 contribution to the Soccer Dome to fund capital expenditures (2019 in-year approval)
- \$125,650 transfer to Paramedics to offset cost of new hires (2019 budget)
- \$275,715 transfer to Transit to offset cost of Route 5 expansion and route review (2019 budget)
- \$158,000 funding for the Rotary Trail improvements (2018 surplus)
- \$302,400 to offset costs related to the Mayor's task force (2018 surplus)
- \$16,288 to fund Project Manager for Renewable Energy (2019 in-year approval)
- \$11,067 for approved work by Economic Development in evaluating the Guelph Innovation District lands (2018 in-year approval)

Environment and Utility Contingency: this reserve is used to mitigate external impacts to the City from fluctuations in utility and commodity rates and higher than expected winter storm events. The portion of the tax funded operating surplus

related to these expenses, \$650,000, is recommended to be transferred to this reserve bringing it to 85 per cent funded.

Program Specific Reserves

Notable reserve activity is as follows:

Program Specific Compensation Reserves (100, 101, 330 and 338): The City maintains reserves 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. The balances in the sick and paramedic retirement reserves are at or above the targets identified in the General Reserve and Reserve Fund Policy. After a review of the Workplace Safety Insurance Board (WSIB) liability by the Executive Team this year, it was recommended that the target balance for the WSIB Reserve be changed from 50 per cent to 25 per cent. This is based on the fact that the estimated liability will not be due in any single year, but will be paid over a period of time, allowing for changes in budget requirements to be implemented as actual experience changes. With this change the current balance represents 131 per cent of target, however this will reduce over the next few years as a new actuarial estimate is recorded in the City's financial statements incrementally.

Strategic Reserves

Notable reserve activity is as follows:

Affordable Housing: this reserve provides incentives to developers who encourage the creation of affordable housing rental units. In 2019, \$1.29 million was awarded to two development projects; Rockwater on Janefield Inc. and St. Joseph's Housing Corporation that reduced the balance in the reserve to \$7,696 at the end of 2019.

Downtown Improvements Reserve: this reserve supports initiatives intended to spur investment in the downtown. The City received one-time funding in 2018 from Ontario's Main Street Revitalization Initiative to support and benefit rejuvenation, redevelopment, renovations and enhancements that revitalize main streets. The City used these funds in 2019 to provide four murals on Wilson Street. Strategic Initiatives: this reserve provides the funding for the development and execution of corporate initiatives. In 2019, funds were transferred out for the community plan, the temporary position relating to Corporate Communications and Customer Service and the implementation of speed radar. The minor negative balance will be addressed in 2020 through evaluation of balance of planned work, and determining where reductions in budget might be able to be made.

Industrial Land Reserve Fund: In 2019, the City realized \$1.84 million in land sale revenues from the Hanlon Creek Business Park (HCBP), which after related expenditures, improved the position of the reserve fund from \$(14.8) million to \$(13.7) million. Based on current land evaluation and forecasted future costs, once all land has been sold this negative balance will be covered and a small surplus will be left.

Program Specific Reserve Funds

Program specific reserve funds are used to allocate funding for specific Council-approved purposes. Not all program specific reserves and reserve funds have an established balance target, but the balances are managed to ensure sufficient funding for the program they support.

Notable reserve fund activity include:

Community Investment: this reserve is intended to support community programs and initiatives as defined in the Community Investment Strategy (CIS). Council approved ten per cent of the one-time GMHI dividend (\$1.3 million) in 2019 to be allocated to this reserve and be used to fund the new programs within the CIS. This funding would allow for significant one-time support to the community (over a three year period), which will complement the City's Wellbeing Grants and Community Benefit Agreement programs.

Library, Police and Paramedic Capital: these reserves show a negative uncommitted balance due to the fact that during budget they are netted in with the Infrastructure Renewal Reserve Fund to determine overall level of funding available. As part of the 2020 budget these discrepancies have been adjusted and will not appear in future years.

Corporate Capital Reserve Funds

The 2019 balance in the tax supported corporate capital reserve funds has increased year-over-year by \$15.1 million. This is due in part from the \$11.5 million contribution from the GMHI dividend to the Infrastructure Renewal Reserve Fund and the City Building Reserve Fund, an increase to the budgeted contribution from operating and an overall reduction in spending and debt servicing costs of \$6 million.

Notable reserve fund activity is as follows:

Infrastructure Renewal: this is used to fund the replacement and rehabilitation of the City's tax supported infrastructure, including related debt servicing. The target balance in this reserve fund is \$29 million, based on the current ten-year capital forecast average annual capital requirement. After prior year commitments have been applied, the balance in the reserve fund is \$14.8 million, representing a \$14.2 million shortfall from the target. The City allocated \$5.5 million of the GMHI special dividend and \$600 thousand of the corporate operating surplus to the reserve fund to help improve the balance. Wellington Dufferin Guelph Public Health distributed their balance of funds on hand as a pre-payment of the debt outstanding to the City, these funds were deposited to this reserve fund to cover future debt payments the City must make on its external debt related to the new health unit facilities.

City-owned Contaminated Sites: this corporate capital reserve fund is used to manage liabilities associated with City-owned environmentally contaminated sites. The target balance for this reserve fund is 10 per cent of the total liability reported on the financial statements that is based on the estimated cost of remediation. As of December 31, 2019, the City-owned Contaminated Sites reserve fund is \$1.5 million underfunded. This shortfall is a risk as the City may be compelled to remediate land by other levels of government or local property owners that are impacted by the sites.

Growth Capital: this reserve fund covers the shortfall in growth-related capital funding relating to exemptions, reductions and limitations mandated by the Development Charges Act, 1997 as amended and discretionary exemptions approved by Council through the City's Development Charges (DC) By-law.

City Building: this reserve fund is used to fund enhancements to City assets that are not growth-related and not asset renewal, including those related to

accessibility. One-time funding was received from the GMHI special dividend in the amount of \$6 million.

100RE: this reserve fund provides funding for capital and operating projects that will enable the City to accomplish its stated goal of reaching 100 % renewable energy usage by 2050. \$700 thousand of the GMHI dividend was transferred to the reserve fund in 2019 as well as \$592,243 from the sale of carbon credits.

Non-tax Supported Reserves and Reserve Funds

Program Specific Reserves

The non-tax supported program specific operating reserves in most cases are funded in excess of the target identified in the General Reserve and Reserve Fund Policy. Staff are recommending \$1,667,285 of funds from the Water Operating Contingency Reserve be transferred to the Water Capital Reserve Fund and that \$2,813,839 of funds from the Wastewater Operating Contingency Reserve be transferred to the Wastewater Capital Reserve Fund. These funds represent excess funds in the operating contingency reserves, and can better be utilized to address the infrastructure backlog in the respective services.

Program Specific Reserve Funds

The non-tax program specific capital reserve funds increased \$14.6 million in 2019 to a total of \$85.6 million after all prior year capital commitments. In addition to funding capital projects of \$33 million in 2019, \$2.6 million was transferred to the Water (311), Wastewater (312), Stormwater (313), Parking (323) and Courts (326) DC reserve funds to offset the lost revenue incurred by legislated and discretionary DC exemptions.

The non-tax supported program specific capital reserve funds collectively exceed the policy target. While these funds are not formally committed through the 2020 capital budget, they are fully committed through the long-term capital plan and are required to address significant infrastructure replacement projects that will be coming on-line in the next five years.

Obligatory Reserve Funds

Obligatory reserve funds are established when a provincial statute requires that revenue received for specific purposes is to be segregated from the general revenues of the municipality. Obligatory reserve funds are to be used solely for the purpose prescribed for them by statute. The City has obligatory reserve funds for DCs, parkland dedication, Ontario Building Code (OBC) revenues generated by Building Services and Federal and Provincial Gas Tax.

Corporate Reserve Funds

Notable reserve fund activity includes:

Building Services OBC: this reserve fund is regulated by O.Reg. 305/03 of the Building Code, and provides for stabilization for the building services department. The reserve fund increased almost \$2 million in 2019 due to the timing of building and development activity.

Provincial Dedicated Gas Tax: this reserve fund is the balance of funds received through the annual program to support Transit services. Due to a change in timing of payment from the province from late fall to early spring, the reserve fund is

currently over committed. As part of the 2020 capital budget, project timing was adjusted to reflect this new cash flow and will correct this situation.

Federal Gas Tax: in 2019, the federal government provided a one-time additional funding amount of \$7,751,758 to be used as per the existing agreement. Projects to use this funding were approved as part of the 2020 capital budget.

Development Charge Reserve Funds

Notable reserve fund activity includes:

Development Charge Reserve Funds: these reserve funds are used to facilitate the collection of development charges from growth within the city and the funding of the infrastructure needed to accommodate that growth. The collective balance in the DC reserve funds increased \$21.6 million in 2019 due to extraordinarily high growth activity in both residential and non-residential development. The 2019 Development Charge Statement, 2020-40 is a legislated requirement that will be provided to Council May 15, 2020 and will include a detailed report of all DC activity.

Budgeted transfers to Reserve Funds from Operating Budget

In addition to target balances in the reserves and reserve funds, there is a need to evaluate the level of annual transfers to the capital reserve funds. As addressed during the capital and operating budget presentations, the City is not at a sustainable level of annual capital funding. This shortage of funding is what limits the ability to both increase reserve balances and expand the capital budget to directly impact the outstanding infrastructure renewal needs across the City as well as achieve the community’s long-term growth and city building vision.

Table 1: Capital Transfers from Tax and Non-tax Operating Budgets

Reserve Fund #	Reserve Fund Name	Transfer In from Operating	Net to Reserve Fund	Transfer as a % of Target
150	Infrastructure Renewal	\$25,914,787	\$14,096,192	47%
155	Contaminated Sites	\$3,500,000	\$175,000	100%
156	Growth	\$4,599,682	\$2,444,232	90%
159	City Building	\$3,437,947	\$2,060,492	53%
151	Parking	\$992,700	\$892,700	44%
152	Water	\$13,787,405	\$(3,335,052)	109%
153	Wastewater	\$14,180,000	\$5,608,566	82%
165	Stormwater	\$4,930,273	\$46,273	69%
	City Total	\$71,342,794	\$21,988,403	65%

As part of the overall Corporate Asset Management Plan and long-term capital plan, the City is working to address these funding transfer shortfalls via the annual operating budgets. Increased capital transfers over a ten-year period will address the tax funded deficit and the non-tax business's long-range strategies to eliminate capital funding deficits. Progress was made on closing the annual infrastructure deficit in 2019, and increase in budgeted operating transfers to capital reserve funds as shown by funding as a per cent of target reaching 65% versus 59% in 2018. The net to reserve fund reflects the current year budgeted capital projects, leaving the amount that will increase/(decrease) the reserve fund balance.

Financial Implications

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

Consultations

None noted.

Strategic Plan Alignment

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

Attachments

Attachment-1 2019 Reserve and Reserve Fund Activity

Departmental Approval

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