



TOWN OF  
**HALTON HILLS**  
*Working Together Working for You!*

## REPORT

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**TO:** Mayor Bonnette and Members of Council

**FROM:** Jinsun Kim, Manager of Financial Planning & Budgets

**DATE:** June 18, 2021

**REPORT NO.:** CORPSERV-2021-0019

**SUBJECT:** Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at December 31, 2020

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### RECOMMENDATION:

THAT Report No. CORPSERV-2021-0019 dated June 18, 2021, regarding Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at December 31, 2020 be received for information.

### KEY POINTS:

The following are key points for consideration with respect to this report:

- This report is to inform Council of the status of the reserves, reserve funds, deferred revenue and trust funds held by the Town of Halton Hills as at December 31, 2020.
- The Town's reserves and reserve funds balances at December 31, 2020 are higher than the assumptions outlined in the 2019 LRFP for the same time period due to transfers made from year-end surpluses, monetization of the Hydro promissory note and lower than anticipated DC interfund loan borrowing from Town's reserves.
- Overall, the estimated Town's financial sustainability indicator of 58.2% places the Town well within the low risk category of the provincial standard, which requires a ratio above 20%.

## **BACKGROUND AND DISCUSSION:**

The Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds report outlines the status of the various funds held by the Town of Halton Hills as at December 31, 2020.

The attached schedules A to D report a summary of the reserves, discretionary reserve funds, obligatory reserve funds and trust funds held by the Town. The opening balances as at January 1, 2020, the activity from January to December 2020, un-booked commitments against the funds, and any inter-fund borrowing are reported for each separate fund.

Schedule A represents a summary of the detailed Schedules B to D. Schedule B lists the Town's reserves and discretionary reserve funds, Schedule C lists the obligatory reserve funds, and Schedule D lists the trust funds that the Town administers.

### Reserves, Reserve Funds, and Trusts

The opening balance column reflects the balance of the reserves, discretionary reserve funds, obligatory reserve funds and trusts that were reported in the 2019 published financial statements. It does not include any unrecorded amounts or inter-fund loans.

The activity from January to December 2020 includes the interest that has been earned on the reserves, reserve funds, and trust funds during the period and movements in and out of the funds. Report CORPSERV-2020-0021 includes recommendations regarding the distribution of the estimated year-end operating budget surplus, and is reported as an un-booked addition in Schedules A and B. Once Council approval is obtained for the surplus distribution, the reserve balances at December 31, 2020 will be adjusted to reflect the final distribution to reserves.

In accordance with Council approval of report CORPSERV-2018-0045, the Treasurer can authorize the reallocation of funds between reserves to meet the needs identified in the Long Range Financial Plan (LRFP) and the Town's capital program. The capital program to facilitate Council's strategic objectives (including climate change action implementation & adaptation strategy, affordable housing initiatives, cultural heritage master plan) has been expanding in recent years. In order to sustain the Strategic Planning reserve that supports the program, \$600,000 will be reallocated to this reserve from the Capital Replacement Reserve.

The Town's reserves and discretionary reserve funds balances at December 31, 2020 are higher than the 2019 LRFP assumptions for that same time period. These higher balances are due primarily to the year-end transfer of operating budget surpluses; the annualized monetization of the Hydro promissory note that commenced in 2020; and the lower level of DC interfund borrowing as the Town moves to align the timing of growth-related capital programs with the pace of growth.

## Development Charges and Inter-fund Borrowing

The governing legislation that permits a municipality to borrow for capital projects is the Municipal Act. Specific restrictions with respect to inter-fund borrowing for growth-related capital projects, is set out in section 36 of the Development Charges Act (DCA), 1997. Section 36 states that a municipality may borrow money from a reserve fund.

Inter-fund borrowing is required when the Town needs to pay for growth-related capital works in the short-term. Borrowing from a reserve or reserve fund may occur only when an analysis of the reserve has determined that excess funds are available and that the use of these funds will not adversely affect the intended purpose of the reserve. Repayment, including interest, relies on cash inflows from future DCs, which are dependent upon the realization of projected growth.

The intent of using DC funds to pay for growth-related projects is to ensure that the burden is on the developer and not the taxpayer. In 2019, the province introduced changes to the *Development Charges Act* and parkland dedication under the *Planning Act* (PA) along with the Community Benefits Charge (CBC) authority by Bill 108 (the More Homes, More Choice Act). All final legislative requirements to amend the DCA and the PA came into effect in September, 2020. The Town is currently undertaking the DC study and the CBC strategy to update the DC by-law and to implement the CBC by-law. The results of these studies, including inter-fund borrowing and repayment, will be incorporated into the LRFP and reported to Council.

As of December 31, 2020, a total of \$21.7 million has been borrowed from the Town's reserves to interim finance growth-related capital projects, where development charges are deficient to meet their funding requirements. Of the \$21.7 million, \$19.6 million has been spent and the remaining \$2.2 million will be utilized when actual expenditures occur in the future.

<b>DC Reserve Funds; December, 31, 2020</b>		<b>Borrowed From</b>	<b>Interfund Loan Before OC*</b>	<b>Interfund Loan After OC*</b>
Transportation Services	New Capital Rsv	\$	522,057	\$ 522,057
Storm Water Mgt. Services	New Capital Rsv		687,416	695,828
Municipal Parking Services	New Capital Rsv		279,898	279,898
Fire Protection Services	New Capital Rsv		813,937	813,937
Fire Protection Services	Fire Services Rsv		575,110	575,110
Recreation & Parks Services	New Capital Rsv		14,932,929	16,444,964
Library Services	New Capital Rsv		1,048,790	1,048,790
Administration Services	New Capital Rsv		699,321	1,345,032
Total			<u>\$ 19,559,459</u>	<u>\$ 21,725,616</u>

\*OC: Outstanding Capital Commitments

As noted above, the \$21.7 million of interfund is lower than projected in the 2019 LRFP, as the Town continues to adjust the timing of growth-related capital programs in keeping

with the pace of growth to minimize borrowing requirements. Staff will continue to closely monitor the status of anticipated developments and make adjustments to the LRFP accordingly.

### Financial Indicators

Based on the above, the following are the financial indicators related to 2020 in comparison to the measures projected in the 2019 LRFP. Overall, the estimated Town's financial sustainability indicator (i.e. total reserves, before interfund loan, as a % of municipal expenditures) of 58.2% places the Town well within the low risk category of the provincial standard, which calls for a ratio above 20%. With respect to the internal indicators, the measures are higher than projected in the LRFP, due mainly to the higher reserve balances and lower expenditure levels.

Internal Indicators	Actual		2020 Actuals		Sensitivity Target	Y-E Variance from LRFP	
	2018	2019	As per LRFP	As at Dec. 31		\$	%
Total Reserves & Discretionary Reserves as a % of Municipal Expenses	47.1%	45.6%	28.6%	52.5%	40%	n/a	23.9%
Cash Reserves per Capita	\$ 580	\$ 585	\$ 411	\$ 660	\$ 559	\$ 250	60.8%
Development Charge Collections (\$000's)	\$ 2,185	\$ 2,397	\$ 3,828	\$ 3,653	n/a	\$ (175)	-4.6%
Development Charge Cash Balance (\$000's)	\$ 84	\$ 14	\$ 326	\$ 415	n/a	\$ 89	27.2%
Interfund Loan (cumulative \$000's)	\$ 14,274	\$ 19,170	\$ 25,919	\$ 21,726	n/a	\$ (4,193)	-16.2%
Cash Reserves at Year-end (\$000's)	\$ 35,472	\$ 35,802	\$ 25,910	\$ 40,389	n/a	\$ 14,479	55.9%
Provincial Indicators							
Total Reserves & Discretionary Reserves as a % of Municipal Expenses	67.7%	72.4%	57.8%	58.2%	20% +	n/a	0.3%

These indicators will continue to be closely monitored throughout 2021 and reported to Council through the quarterly Reserve report.

### **STRATEGIC PLAN ALIGNMENT:**

This report is administrative in nature and does not have an impact on the Town's Strategic Plan.

### **RELATIONSHIP TO CLIMATE CHANGE:**

This report is administrative in nature and does not directly impact or address climate change and the Town's Net Zero target.

### **PUBLIC ENGAGEMENT:**

Public Engagement was not needed as this report is administrative in nature.

**INTERNAL CONSULTATION:**

The report was compiled based on data held within the financial accounting system.

**FINANCIAL IMPLICATIONS:**

This report is administrative in nature and does not have any financial implications.

Section 36 of the Development Charges Act, 1997 allows a municipality to borrow money from reserve funds to temporarily cover any gaps resulting from delays in the timing of receipt of development charge revenue.

Overall, the Town's financial sustainability, as represented by total reserves as a percentage of expenditures, is considered healthy based on both provincial standards and the Town's internal thresholds due to the higher level of reserve balances and well managed operating expenditures. Staff will continue to closely monitor the status of anticipated development and make adjustments to the LRFP as appropriate.

Reviewed and approved by,



Moya Jane Leighton, Director of Finance & Town Treasurer



Laura Lancaster, Acting Commissioner of Corporate Services



Chris Mills, Acting Chief Administrative Officer