



TOWN OF
HALTON HILLS
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REPORT

TO: Mayor Bonnette and Members of Council

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

DATE: August 15, 2022

REPORT NO.: CORPSERV-2022-0024

SUBJECT: Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at December 31, 2021

RECOMMENDATION:

THAT Report No. CORPSERV-2022-0024 dated August 15, 2021 regarding Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at December 31, 2021 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, 2021.
- The Town's reserves and reserve funds balances at December 31, 2021 are higher than the 2020 LRFP assumptions for that same time period due mainly to a delay in planned capital expenditures.
- Overall, the estimated Town's financial sustainability indicator of 81.9% places the Town well within a 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, 2021.

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, 2021, the activity from January to December 2021, 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 2020 published financial statements. It does not include any unrecorded amounts.

The activity from January to December 2021 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. The unbooked operating deficit for 2021 indicated in Schedules A and B is in accordance with report CORPSERV-2022-0021, which provides details on the distribution of the year-end operating deficit/surplus and will be updated accordingly in the appropriate 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 programs to facilitate Council's strategic objectives (including climate change action implementation & adaptation strategy, affordable housing initiatives, cultural heritage master plan) and to address IT capital needs have been expanding in recent years. In order to sustain the reserve balances that supports these programs, \$1,240,000 was reallocated to the Strategic Planning reserve and \$580,000 will be reallocated to the Technology Replacement reserve from the Capital Replacement Reserve.

The Town's reserves and discretionary reserve funds balances at December 31, 2021 are higher than the 2021 LRFP assumptions for that same time period. These higher balances are due primarily to a delay in planned expenditures.

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.

The construction of growth-related projects are paid for by DC funds to ensure that the burden is on the developer and not the taxpayer. However, inter-fund borrowing is required when the DC reserve funds are in a negative position and 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.

As of December 31, 2021, a total of \$24.5 million has been borrowed from the Town's reserves to interim finance growth-related capital projects, where development charges are insufficient to meet funding requirements. Of the \$24.5 million, \$21.6 million has been spent and the remaining \$2.9 million will be utilized when the approved expenditures actually occur in the future.

| DC Reserve Funds; December 31, 2021 | | Interfund Loan Before OC* | | Interfund Loan After OC* | |
|--|----------------------|--------------------------------------|-------------------|-------------------------------------|-------------------|
| | Borrowed From | | | | |
| Transportation Services | New Capital Rsv | \$ | 469,921 | \$ | 469,921 |
| Storm Water Mgt. Services | New Capital Rsv | | 590,257 | | 665,257 |
| Municipal Parking Services | New Capital Rsv | | 274,354 | | 274,354 |
| Fire Protection Services | New Capital Rsv | | 879,704 | | 879,704 |
| Fire Protection Services | Fire Services Rsv | | 421,776 | | 421,776 |
| Recreation & Parks Services | New Capital Rsv | | 17,249,249 | | 19,227,952 |
| Library Services | New Capital Rsv | | 1,119,562 | | 1,156,518 |
| Administration Services | New Capital Rsv | | 572,530 | | 1,385,200 |
| Total | | \$ | 21,577,354 | \$ | 24,480,683 |

*OC: Outstanding Capital Commitments

The \$24.5 million of interfund loan is higher than projected in the 2021 LRFP, due mainly to lower than anticipated DC revenue collections. 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 financial indicators compare the actual 2021 results to the measures projected in the 2021 LRFP. Overall, the estimated Town's financial sustainability indicator (i.e. total reserves, before interfund loans, as a % of municipal expenditures) of 81.9%, places the Town well within a 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 | | 2021 Actuals | | Sensitivity Target | Y-E Variance from LRFP | |
|---|-----------|-----------|--------------|--------------|--------------------|------------------------|--------|
| | 2019 | 2020 | As per LRFP | As at Dec 31 | | \$ | % |
| | | | | | | | |
| Total Reserves & Discretionary Reserves as a % of Municipal Expenses | 45.6% | 52.5% | 47.4% | 49.7% | 40% | n/a | 2.3% |
| Cash Reserves per Capita | \$ 585 | \$ 660 | \$ 662 | \$ 648 | \$ 559 | \$ (15) | -2.2% |
| Development Charge Collections (\$000's) | \$ 2,397 | \$ 3,653 | \$ 5,191 | \$ 3,792 | n/a | \$ (1,399) | -26.9% |
| Development Charge Cash Balance (\$000's) | \$ 14 | \$ 415 | \$ 885 | \$ 434 | n/a | \$ (451) | -51.0% |
| Interfund Loan (cumulative \$000's) | \$ 19,170 | \$ 21,726 | \$ 23,749 | \$ 24,481 | n/a | \$ 731 | 3.1% |
| Cash Reserves at Year-end (\$000's) | \$ 35,802 | \$ 40,389 | \$ 39,559 | \$ 40,784 | n/a | \$ 1,225 | 3.1% |
| Provincial Indicators | | | | | | | |
| Total Reserves & Discretionary Reserves* as a % of Municipal Expenses | 72.4% | 81.7% | 70.3% | 81.9% | 20% + | n/a | 11.6% |

These indicators will continue to be closely monitored throughout 2022 and reported to Council through the Reserve reporting process.

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 controlled management of operating expenditures. Staff will continue to closely monitor the status of anticipated developments and make adjustments to the LRFP as appropriate.

Reviewed and approved by,

Moya Jane Leighton, Director of Finance & Town Treasurer

Laura Lancaster, Commissioner of Corporate Services

Chris Mills, Chief Administrative Officer