



## REPORT

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

**FROM:** Kathryn Brott, Senior Financial Analyst – Cash Planning

**DATE:** June 12, 2023

**REPORT NO.:** CS-2023-011

**SUBJECT:** Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at December 31, 2022

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### RECOMMENDATION:

THAT Report No. CS-2023-011 dated June 12, 2023, regarding Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at December 31, 2022 be received for information.

### KEY POINTS:

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

- This report informs 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, 2022
- The Town's reserves and reserve funds balances at December 31, 2022 are lower than the 2022 LRFPA assumptions for that same time period due mainly to inflationary pressures on capital programs and increased legal costs.
- Overall, the Town's financial sustainability indicator of 68.3% places the Town 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, 2022.

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 and include the opening balances as at January 1, 2022, activity from January to December 2022, un-booked commitments, and any internal borrowing.

Schedule A is 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 2021 published financial statements. It does not include any unrecorded amounts.

The activity from January to December 2022 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 Town's un-booked 2022 operating deficit is identified in both Schedules A and B and is consistent with the recommendations in report CORPSERV-2023-023, Distribution and Funding, 2022 Final Operating Budget Position.

In accordance with Council approval of report CORPSERV-2018-0045, the Treasurer can reallocate funds between reserves to meet the needs identified in the Long Range Financial Plan (LRFP) and the Town's capital program. In 2022, \$890,000 has been reallocated to the Strategic Planning reserve and \$540,000 has been reallocated to the Technology Replacement reserve from the Capital Replacement Reserve.

The Town's reserves and discretionary reserve funds balances at December 31, 2022 are lower than the projections contained within the 2022 LRFP due primarily to inflationary pressures on capital programs and increased legal costs.

### 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, internal 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, 2022, a total of \$28.6 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 total \$28.6 million borrowed, \$23.5 million has been used to interim finance expenditures that have already occurred and the remaining \$5.1 million is required to interim finance known outstanding commitments that haven’t yet taken place.

<b>DC Reserve Funds; December 31, 2022</b>	<b>Borrowed From</b>	<b>Interfund Loan Before OC*</b>	<b>Interfund Loan After OC*</b>
Transportation Services	New Capital Rsv	\$ 416,377	\$ 1,723,837
Storm Water Mgt. Services	New Capital Rsv	\$ 583,710	\$ 661,341
Municipal Parking Services	New Capital Rsv	\$ 0	\$ 0
Fire Protection Services	New Capital Rsv	\$ 924,741	\$ 924,741
Fire Protection Services	Fire Services Rsv	\$ 312,847	\$ 312,847
Recreation & Parks Services	New Capital Rsv	\$ 19,424,016	\$ 22,221,286
Library Services	New Capital Rsv	\$ 1,431,801	\$ 1,434,271
Administration Services	New Capital Rsv	\$ 427,549	\$ 1,342,805
Transit Services	New Capital Rsv	\$ 6,223	\$ 10,197
<b>Total</b>		<b>\$ 23,527,265</b>	<b>\$ 28,631,326</b>

\*OC: Outstanding Capital Commitments

The \$28.6 million of internal borrowing is higher than the amount projected in the 2022 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 2022 results to the measures projected in the 2022 LRFP. Overall, the estimated Town’s financial sustainability indicator (i.e.: total reserves, before interfund loans, as a % of municipal expenditures) of 68.3%, 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 lower than projected in the LRFP, due mainly to increased legal costs in 2022 which far exceed budgeted levels and inflationary pressures on capital programs.

Internal Indicators	Actual		2022 Actuals		Sensitivity Target	Y-E Variance from LRFP	
	2020	2021	As per LRFP	As at Dec 31		\$	%
Total Reserves & Discretionary Reserves as a % of Municipal Expenses	52.5%	49.7%	41.2%	36.3%	40%	n/a	-4.9%
Cash Reserves per Capita	\$ 660	\$ 648	\$ 560	\$ 533	\$ 559	\$ (27)	-4.8%
Development Charge Collections (\$000's)	\$ 3,653	\$ 3,792	\$ 5,382	\$ 2,642	n/a	\$ (2,740)	-50.9%
Development Charge Cash Balance (\$000's)	\$ 415	\$ 434	\$ 33	\$ 0	n/a	\$ (33)	-100.0%
Interfund Loan (cumulative \$000's)	\$ 21,726	\$ 24,481	\$ 26,489	\$ 28,631	n/a	\$ 2,143	8.1%
Cash Reserves at Year-end (\$000's)	\$ 40,389	\$ 40,784	\$ 35,834	\$ 33,571	n/a	\$ (2,263)	-6.3%
<b>Provincial Indicators</b>							
Total Reserves & Discretionary Reserves* as a % of Municipal Expenses	81.7%	81.9%	71.6%	68.3%	20% +	n/a	-3.3%

These indicators will continue to be closely monitored throughout 2023 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.

Reviewed and approved by,

Joseph Vandermeer, Deputy Treasurer & Senior Manager of Accounting and Taxation

Moya Jane Leighton, Director of Finance & Town Treasurer and Acting Commissioner of Corporate Services

Chris Mills, Chief Administrative Officer