



## REPORT

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

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

**DATE:** July 8, 2024

**REPORT NO.:** CS-2024-020

**SUBJECT:** Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at December 31, 2023

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### RECOMMENDATION:

THAT Report No. CS-2024-020 dated July 8, 2024, regarding Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at December 31, 2023 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, 2023
- The Town's reserves and reserve funds balances at December 31, 2023 are lower than the 2023 LRFPA assumptions for the same time period due mainly to inflationary pressures on capital programs, and delays in the planned collections of Development Charges.
- The Town's financial sustainability indicator for total reserves as a percentage of expenditures is 40.3% and remains within the low-risk category of the Provincial standard, which requires a ratio above 20%. However, it is important to note that the need for additional internal borrowing has further eroded this measure since 2022.

### 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, 2023.

The attached schedules A to D summarize the reserves, discretionary reserve funds, obligatory reserve funds and trust funds held by the Town and include the opening balances as of January 1, 2023, activity from January to December 2023, 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 2022 published financial statements. It does not include any unrecorded amounts.

The activity from January to December 2023 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 2023 operating deficit is identified in both Schedules A and B and is consistent with the recommendations in report CS-2024-018, Distribution and Funding - 2023 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 2023, \$565,958 has been reallocated to the Strategic Planning reserve and \$390,717 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, 2023 are lower than the projections contained within the 2023 version of the LRFP due primarily to inflationary pressures on capital programs and delays in the planned collection of Development Charges.

### 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 internal 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 is intended to be 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 advance of growth. 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, 2023, a total of \$34.3 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 \$34.3 million borrowed, \$26.5 million has been used to interim finance expenditures that have already occurred and the remaining \$7.8 million is required to interim finance known outstanding commitments (OC) that haven’t yet taken place. Table 1 below shows the breakdown (both before and after outstanding commitments) of the internal loans by DC and provides details of the reserve that the funds were borrowed from.

**Table 1 – 2023 Breakdown of Internal Loans by Development Charge Fund**

<b>DC Reserve Funds;</b>			<b>Interfund Loan</b>	<b>Interfund Loan</b>
<b>December 31, 2023</b>	<b>Borrowed From</b>		<b>Before OC*</b>	<b>After OC*</b>
Transportation Services	New Capital Rsv	\$	245,752	\$ 4,773,777
Storm Water Mgt. Services	New Capital Rsv	\$	593,913	\$ 671,544
Fire Protection Services	New Capital Rsv	\$	986,557	\$ 986,557
Fire Protection Services	Fire Services Rsv	\$	200,976	\$ 200,976
Recreation & Parks Services	New Capital Rsv	\$	21,975,185	\$ 24,454,866
Library Services	New Capital Rsv	\$	1,797,509	\$ 1,797,509
Administration Services	New Capital Rsv	\$	712,356	\$ 1,442,297
Transit Services	New Capital Rsv	\$	5,321	\$ 12,448
<b>Total</b>		<b>\$</b>	<b>26,517,570</b>	<b>\$ 34,339,974</b>

\*OC: Outstanding Capital Commitments

The \$34.3 million of internal borrowing is higher than the amount projected in the 2023 version of the LRFP, due mainly to lower than anticipated DC revenue collections. Staff will continue to closely monitor the status of anticipated developments and adjust the LRFP projections accordingly.

### Financial Indicators

The Town monitors various financial indicators, both internal and external, to evaluate its financial health and inform budget decisions and long-term planning strategies.

Table 2 below provides a breakdown of various indicators related to reserve planning, both internal and external, that the Town monitors through its long-range financial planning process to manage financial sustainability and risk.

**Table 2 – 2023 Internal and External Reserve related Financial Indicators**

Reserve Indicators and Activity						
Indicators & Activity	2023				2022 Actuals	2021 Actuals
	Actuals	Projected LRFP	Variance			
			(\$)	(%)		
<b>Internal Indicators &amp; Activity</b>						
Cash Reserves Balance	\$ 29,177	\$ 30,953	\$ (1,776)	-5.7%	\$ 33,571	\$ 40,784
Population (Stats Can)	62,951	64,967	-	-	62,951	62,951
Cash Reserves per Capita	\$ 463	\$ 476	\$ (13)	-2.7%	\$ 533	\$ 648
Development Charge Collections	\$ 1,077	\$ 5,011	\$ (3,934)	-78.5%	\$ 2,642	\$ 3,792
Development Charge Cash Balances	\$ -	\$ 15	\$ (15)	-100.0%	\$ -	\$ 434
Internal Borrowing	\$ 34,340	\$ 28,029	\$ (6,311)	-22.5%	\$ 28,631	\$ 24,481
<b>Provincial Indicator</b>						
Total Reserves & Discretionary Reserves as a % of Municipal Expenses	40.3%	43.6%	-	-3.3%	43.2%	55.0%

*\*Balances are as of December 31st and shown in millions*

Internal Indicators were established during the development of the long-range financial planning tool and reflect various risk-based targets. Financial planning involves the analysis of these targets in relation to understanding current fiscal challenges, assumption of risk and the level of certainty of projected future cash flows.

A cash reserves per capita measure of \$559 is used within the LRFP as a target of financial sustainability. As the Town moves towards this goal in a future year, the LRFP assumed that a target of \$476 per capita for 2023 would be acceptable from a risk analysis perspective. The actual results for this measure were slightly lower than planned for 2023 at \$463 per capita, a 2.7% variance. Cash reserves were also lower than planned within the LRFP by \$1.8M for 2023, and the measure for population remains at the 2021 level as growth will not be formally updated again until after the next census.

The next two indicators track the collection of Development Charges and the balance of Development Charges remaining at year-end in the reserve fund. Collections for 2023 were much lower than planned in the LRFP, resulting in a shortfall of \$3.9M. This in turn affects the cash balances in the DC reserve funds at the end of the year. These funds are not permitted to be in a negative balance and internal loans are being used to avoid the shortfall, resulting in a net \$0 balance at the end of December 2023. The shortfall is a direct result of the delayed receipt of development charges in 2023, a trend that has continued over the past few years and is reliant on future growth for improvement.

The measure for internal loans was estimated to be \$28M in the LRFP for the end of 2023, however, due to the delayed DC collections, and the need to draw DC funds to fund annual repayments of DC related external debt it was necessary to add additional internal loans to ensure the DC balances were not in a negative position.

The Provincially measured external sustainability indicator, defined as total reserves (after internal loans) as a percentage of municipal expenditures is estimated to be 40.3% for 2023. This continues to keep the Town within the low-risk category according to the Provincial standard that requires a ratio above 20%.

Over the past five years, the Town has experienced a significant decline in this financial indicator, decreasing from 72.4% in 2019 to the estimated 40.3% in 2023. This downward trend is significantly below the average of our municipal comparators, which was reported as 71% in the 2022 Provincially published financial indicators. The primary factor contributing to the year-over-year decreases is the delayed receipt of development charges. As noted above, this delay has resulted in increased reliance on Town reserves to interim finance capital projects, placing additional financial pressure on these reserves.

The Province typically publishes the Financial Indicators once per year following the submission of the annual Financial Information Return by each municipality. The Town anticipates the 2023 indicators will be available early in 2025. These indicators along with the Town's internal measures will continue to be closely monitored and reported to Council.

#### **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

Laura Lancaster, Commissioner of Corporate Services

Chris Mills, Chief Administrative Officer