



REPORT

TO: Mayor Lawlor and Members of Council

FROM: Kathryn Brott, Senior Financial Analyst – Cash Planning

DATE: December 9, 2024

REPORT NO.: CS-2024-038

SUBJECT: Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at September 30, 2024

RECOMMENDATION:

THAT Report No. CS-2024-038 dated December 9, 2024, regarding Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at September 30, 2024 be received for information.

KEY POINTS:

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

- This report provides Council with an update on the status of the Town of Halton Hills reserves, reserve funds, deferred revenues, and trust funds as of September 30, 2024.
- The projected balances of the Town's reserves and reserve funds as of December 31, 2024, are anticipated to be lower than the assumptions outlined in the 2024 Long-Range Financial Plan (LRFP). This variance is primarily due to inflationary impacts on capital programs and delays in the collection of Development Charges.

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 September 30, 2024.

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, 2024, activity from January to September 2024, 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 2023 published financial statements. It does not include any unrecorded amounts.

The activity from January to September 2024 reflects the interest earned on reserves, reserve funds, and trust funds during this period, as well as the associated inflows and outflows. The year-end projections for 2024 do not currently include any projected 2024 operating surplus or deficit. Once finalized, any surplus or deficit will be allocated in accordance with the recommendations outlined in the 2024 Final Operating Position Report to Council.

As authorized by Council through report CORPSERV-2018-0045, the Treasurer may reallocate funds between reserves to address the priorities identified in the LRFP and the Town's capital program. As of September 30, 2024, it is projected that transfers of \$784,000 to the Strategic Planning Reserve and \$412,616 to the Technology Replacement Reserve will be required to support the proposed 2025 capital budget. These funds will be reallocated from the Capital Replacement Reserve. Staff will provide an update on any additional transfers needed as part of the year-end reserve reporting to Council.

The Town's reserves and discretionary reserve funds balances at December 31, 2024 are lower than the projections contained within the 2024 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 had been borrowed from the Town’s reserves to interim finance growth-related capital projects, where development charges are insufficient to meet funding requirements. This loan amount is projected to increase to \$34.8 million by the end of 2024. As part of the year-end reserve reporting, staff will provide a breakdown of the borrowed amount used to interim finance expenditures that have already occurred, and the amount required to interim finance known outstanding commitments (OC) that have not yet taken place.

Table 1 below provides a breakdown of the projected internal loans by Development Charges (DC), accounting for outstanding commitments. It also specifies the reserves from which the funds were borrowed.

Table 1 – Outstanding Internal Loans by Development Charge Fund

Est. DC Reserve Funds;			Projected
	Borrowed From	Interfund Loan (Dec. 31, 2023)	Interfund Loan (Dec 31, 2024)
Transportation Services	New Capital Rsv	\$ 4,773,777	\$ 4,888,373
Storm Water Management Servi	New Capital Rsv	\$ 671,544	\$ 667,024
Fire Protection Services	New Capital Rsv	\$ 986,557	\$ 891,643
Fire Protection Services	Fire Services Rsv	\$ 200,976	\$ 108,726
Recreation and Parks Services	New Capital Rsv	\$ 24,454,866	\$ 24,649,898
Library Services	New Capital Rsv	\$ 1,797,509	\$ 1,953,759
Administration Services	New Capital Rsv	\$ 1,442,297	\$ 1,633,425
Transit Services	New Capital Rsv	\$ 12,448	\$ 11,243
Total		\$ 34,339,974	\$ 34,804,091

* Loan amounts after outstanding capital commitments

The internal borrowing of \$34.8 million exceeds the amount projected in the 2024 LRFP primarily due to lower-than-expected Development Charges (DC) collections. Staff will continue to closely monitor the progress of anticipated developments and update the LRFP projections as needed.

Financial Indicators

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

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

Table 2 – 2024 Internal Reserve related Financial Indicators

Reserve Indicators and Activity						
Indicators & Activity	2024				2023 Actuals	2022 Actuals
	Projected Actuals for Dec 31	LRFP	Variance			
			(\$)	(%)		
Internal Indicators & Activity						
Cash Reserves Balance	\$ 27,636	\$ 30,417	\$ (2,781)	-9.1%	\$ 29,177	\$ 33,571
Population (Stats Can)	62,951	66,464	-	-	62,951	62,951
Cash Reserves per Capita	\$ 439	\$ 458	\$ (19)	-4.1%	\$ 463	\$ 533
Development Charge Collections	\$ 5,030	\$ 7,268	\$ (2,238)	-30.8%	\$ 1,077	\$ 2,642
Development Charge Cash Balances	\$ -	\$ 2,282	\$ (2,282)	-100.0%	\$ -	\$ -
Internal Borrowing	\$ 34,804	\$ 29,674	\$ (5,130)	-17.3%	\$ 34,340	\$ 28,631

**Projections are based on data available as of September 30 and are presented 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.

The LRFP establishes a cash reserves per capita target of \$559 to support long-term financial sustainability. For 2024, the LRFP assumed a reduced target of \$458 per capita, deemed acceptable based on a risk analysis. As of September 30, 2024, this measure is projected to be \$439 per capita, representing a 4.1% variance. Cash reserves are anticipated to be \$2.8 million lower than planned in the LRFP for 2024. In addition, the population measure remains based on 2021 data, as growth figures will not be updated until the next census.

The following two indicators monitor the collection of Development Charges (DCs) and the balance of DCs remaining in the reserve fund as of the end of the third quarter. Collections for 2024 are projected to be lower than anticipated in the LRFP, resulting in a \$2.2 million shortfall. This shortfall will affect the year-end cash balances in the DC reserve funds.

To avoid a negative balance, internal loans are being utilized, resulting in a projected net zero balance at the end of December 2024. The shortfall is due to the delayed receipt of development charges in 2024, a trend that has persisted over the past few years and is dependent on future growth for improvement.

The LRFP projected internal loans to be \$29.6 million by the end of 2024. However, delayed Development Charge collections and the need to allocate DC funds toward annual repayments of DC-related external debt may require additional internal borrowing to avoid a negative balance. As a result, internal loans are now projected to total \$34.8 million by year-end 2024.

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, Treasurer

Laura Lancaster, Commissioner of Corporate Services

Chris Mills, Chief Administrative Officer