



REPORT

REPORT TO: The Chair and Members of the Community and Corporate Affairs Committee

REPORT FROM: Amy Prueter, Senior Financial Analyst

DATE: October 26, 2018

REPORT NO.: CORPSERV-2018-0045

RE: Halton Hills Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at September 30, 2018

RECOMMENDATION:

THAT Report No. CORPSERV-2018-0045 dated October 26, 2018 regarding Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at September 30, 2018 be received;

AND FURTHER THAT Council authorize the Treasurer to amalgamate funds between Reserves to meet the objectives of the new reserve structure;

AND FURTHER THAT Council authorize the Treasurer to reallocate funds between Reserves as required to meet the needs identified in the Long Range Financial Plan.

BACKGROUND:

The Halton Hills Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at September 30, 2018 report is presented to inform Council of the status of the various funds held by the Town of Halton Hills.

On July 17, 2018 Council approved changes to the General Reserve and Reserve Fund Policy, POLICY-2018-0004 through Report no. CORPSERV-2018-0030. Changes included the consolidation of various existing reserves, the addition of new reserves, and clarification around the intent and usage of reserves. Staff has presented the balances of reserves, reserve funds and trust funds for the third quarter under this new reserve structure.

COMMENTS:

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, 2018, the activity from January to September 2018, un-booked

commitments against the funds, and any inter-fund borrowing are reported for each separate fund. Additionally, the balances related to the reserves that were identified in the Reserve Policy requiring amalgamation due to the new reserve structure are recorded under the reserve amalgamation column.

The opening balance column reflects the balance of the reserves, discretionary reserve funds, obligatory reserve funds and trust funds that were reported in the published financial statements. This amount includes the final distribution of the 2017 operating surplus of \$1,486,670 and it does not include any unrecorded amounts or inter-fund loans.

The activity from January to September 2018 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.

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.

Reallocation of Funds between Reserves (General Reserve and Reserve Fund Policy PLCY-2018-0004)

Following a staff review of the 2018 Long Range Financial Plan (LRFP) as prepared by Watson & Associates and presented to Council on July 17, 2018. It has become clear that the balances in the separate reserves are not aligned well with the requirements of those reserves. Therefore, staff is recommending that the Treasurer realign the funds. Once the realignment has been done, the Treasurer will disclose the amounts in the next scheduled report on reserves, reserve funds and trust funds.

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, 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. Repayment relies on cash inflows from future development charges (DC), which are dependent upon the realization of projected population increases and the timing of other capital requirements. The intent of using DC funds to pay for growth-related projects is to ensure the burden is on the developer not the taxpayer.

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.

The Town has currently borrowed \$12,885,008 from reserves to interim finance growth-related capital projects where cash inflow has not yet been received into the development charge funds as follows:

<u>DC</u>	<u>Borrowed From</u>	<u>\$</u>
Recreation & Parks	SILR	10,351,383
Storm Water Management	SILR	947,725
Library Services	SILR	154,335
Fire Protection	Fire Services	1,088,976
Parking	Capital Replacement Reserve	342,589
		<u>12,885,008</u>

It is anticipated a further inter-fund loan will be required from reserves at December 31, 2018 to maintain a positive balance in the DC reserve funds and to comply with legislation. The amount required will be reported to Council once the 2018 actual reserve and reserve fund balances are determined. Actual DC funds collected and DC funding of capital expenses will impact the year end reserve balances. The Library DC reserve fund will require an inter-fund loan to maintain a positive balance in 2018 due to the separate reporting requirements of the library.

The Development Charges Act also permits borrowing between development charge funds, and the Town currently has one such loan in the amount of \$96,207 as follows:

<u>DC</u>	<u>Borrowed From</u>	<u>\$</u>
Library Services DC	Roads & Related DC	96,207
		<u>96,207</u>

Interest on Inter-fund Borrowing

If a municipality borrows money from a reserve fund, the amount must be repaid plus interest at a rate not less than the prescribed minimum interest rate (the Bank of Canada rate on the day the by-law came into force or, if specified in the by-law, the first business day of each quarter).

In compliance with this legislation, staff applies interest to inter-fund loans each month based on the monthly blended interest rates of the Town's total investments. This percentage is reported annually to Council in the Investment and Cash Management Report.

Repayment of Inter-fund Loans

The repayment of inter-fund loans should not exceed the life of the asset to which the borrowing relates. A 10-year term is used for inter-fund loans at the Town.

RELATIONSHIP TO STRATEGIC PLAN:

This report is related to the 2014-2018 Strategic Action Plan priority 1 Municipal Service Delivery: Effective, efficient and economical delivery of the Town's existing services.

FINANCIAL IMPACT:

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.

CONSULTATION:

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

PUBLIC ENGAGEMENT:

There is no public engagement impact for this report.

SUSTAINABILITY IMPLICATIONS:

The Town is committed to implementing our Community Sustainability Strategy, Imagine Halton Hills. Doing so will lead to a higher quality of life.

The recommendation outlined in this report is not applicable to the Strategy's implementation.

COMMUNICATIONS:

There is no communications impact for this report.

CONCLUSION:

The information provided in 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 September 30, 2018.

Reviewed and Approved by,

A handwritten signature in black ink, appearing to read "M. J. Leighton".

Moya Jane Leighton, Manager of Accounting and Town Treasurer

A handwritten signature in black ink, appearing to read "Jane Diamanti".

Jane Diamanti, Commissioner of Corporate Services

A handwritten signature in black ink, appearing to read "Brent Marshall".

Brent Marshall, CAO