



REPORT

REPORT TO: Mayor Bonnette and Members of Council

REPORT FROM: Dana Stanescu, Accounting Supervisor
Jinsun Kim, Financial Consultant

DATE: July 6, 2020

REPORT NO.: CORPSERV-2020-0023

RE: Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at December 31, 2019

RECOMMENDATION:

THAT Report No. CORPSERV-2020-0023 dated July 6, 2020 regarding Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at December 31, 2019 be received for information;

AND FURTHER THAT funds previously recorded as Trust Funds be reclassified as Obligatory Reserve Funds for the amount of \$3,341,265.

BACKGROUND:

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, 2019.

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, 2019, the activity from January to December 2019, un-booked commitments against the funds, reallocation of reserve balances between reserves, 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 2018 published financial statements. This amount includes the final distribution of the 2018 operating surplus of \$1,538,052; it does not include any unrecorded amounts or inter-fund loans.

The activity from January to December 2019 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 operating surplus distribution for 2019 indicated in Schedule B is in accordance with report CORPSERV-2020-0021, which provides recommendations on the distribution of the 2019 operating surplus. Once Council approval is obtained for the surplus distribution, the reserve balances at December 31, 2019 will be adjusted to reflect the final distribution to 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 and the Town's capital program. There has been no reallocation of funds between reserves in 2019.

The Treasurer has reviewed the estimated December 31, 2019 Reserve and Reserve Fund balances and determined that they are consistent with the Long Range Financial Plan assumptions for that same time period.

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.

Inter-fund borrowing is required when 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.

The intent of using DC funds to pay for growth-related projects is to ensure the burden is on the developer not the taxpayer. The province has amended the DCA through Schedule 3 of Bill 108, More Homes More Choice Act and this was proclaimed on January 1, 2020. Staff will continue to review the resulting financial impacts, including those related to inter-fund borrowing and the repayment of DCs, and will report back to Council.

The Town has currently borrowed \$19,169,607 from reserves and operating funds 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>
Transportation Services	New Capital Rsv	573,991
Storm Water Management	New Capital Rsv	795,183
Municipal Parking Services	New Capital Rsv	285,300
Fire Protection Services	New Capital Rsv	506,350
Fire Protection Services	Fire Services Rsv	969,159
Recreation & Parks	New Capital Rsv	14,378,815
Library Services	New Capital Rsv	893,636
Administration Services	New Capital Rsv	767,172
		<u>19,169,607</u>

With respect to DC recoveries, the Town recognized a total of \$2.9 million of additional funds in the DC reserve funds, which consists of \$1.0 million DC collected during the year, \$1.4 million of developers contributions related to the Southwest Georgetown Integrated Planning Project (as identified in report CORPSERV-2020-0026), and \$0.5 million of DC funds redeployed from the capital project closures. DC collections of \$1.0 million represent 27% of the total \$3.7 million projected for the year based on LRFP. Actual DC collections in 2019 were lower than the anticipated levels, which is primarily due to slower uptake of development in south Georgetown and Georgetown infill areas.

The LRFP estimated that the inter-fund loan would grow by a net of \$3.6 million to a total of \$17.8 million in 2019. However, due to lower than anticipated DC collections and the implementation needs of the approved capital programs, the inter-fund loan amount totaled \$19.1 million at December 31, 2019. Staff will work with the Development Review division to monitor the status of anticipated developments, and make adjustments to the LRFP accordingly.

Development Charges – Revenue Recognition

Historically, the Town has recognized funding from development charges to approved capital projects in advance of collections from developers to fund growth, which resulted in a negative position for these funds. In 2019, the Town received correspondence from the Ministry of Municipal Affairs and Housing (the Ministry) requesting that this be adjusted to report only funds collected to date, not funds that remain “uncollected” as had been done in the previous financial statements and in the reporting to the Ministry. In effect, the Town has been funding the cost of growth from other reserves, while budgeting revenue from development contributions in advance of collections to finance the cost of growth. In order to rectify the balance of development charges reported for December 31, 2018, an adjustment was done in the 2019 consolidated financial

statements to correct the over recognition of development charge revenue from prior years.

All available development charges collections have been utilized at December 31, 2019, bringing the balance in the funds to \$0. Funding of approved capital projects from development charges reserves is currently done from inter-fund loans from other Town reserves to continue to support growth. At December 31, 2019, the total inter-fund loans of \$19.1 million represent capital project expenses for 2019 at \$15.8 million and for prior periods at \$3.3 million.

Trust Funds reclassified as Obligatory Reserve Funds

During the 2018 year-end audit, it was recommended that the Town review the categorization of certain funds held in trust. Legal opinion was obtained in 2019 and in consultation with the Town's auditors it was determined that these funds should be re-classed and reported as obligatory reserve funds going forward. These funds were collected from developers for the purposes of maintaining certain public infrastructure required for the purposes of various developments, as follows:

1. Transportation Maintenance Fund: provides funds for stormwater management facilities
2. Gateway Feature Fund: provides funds for subdivision gateway maintenance
3. Private Traffic Signal Maintenance Fund: provides funds for traffic signal maintenance

Staff requires the re-class of a total of \$3,341,265, which represents the January 1, 2019 balance of Trust Funds to Obligatory Reserve Funds as outlined in the table below:

	Previous	New	Balance
<u>Reserve Fund</u>	Trust Fund #	Reserve Fund #	Reclassified January 1, 2019
Transportation Maintenance	95	26	\$2,927,866
Gateway Feature	96	27	169,947
Private Traffic Signal Maintenance Fund	97	28	243,452
			<u>\$3,341,265</u>

Financial Indicators

Based on the above, the following are the financial indicators related to 2019 in comparison to the measures projected in the LRFP. Overall, the Town's financial sustainability indicator (i.e. total reserves as a % of municipal expenditures) of 72.4% 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 operating surplus transferred to the Tax Rate Stabilization reserve.

	Actual		2019 Actual		Sensitivity	Estimated Y-E Variance fr LRFP	
Internal Indicators	2017	2018	As per LRFP	As at Dec. 31	Target	\$	%
Total Reserves & Discretionary Reserves as a % of Municipal Expenses	48.3%	47.1%	40%	45.6%	40%	n/a	5.7%
Cash Reserves per Capita	\$ 582	\$ 580	\$ 522	\$ 585	\$ 559	\$ 64	12.2%
Development Charge Collections (\$000's)	\$ 5,105	\$ 2,185	\$ 3,719	\$ 2,397	n/a	\$ (1,322)	-35.5%
Development Charge Cash Balance (\$000's)	\$ 3,609	\$ 84	\$ 293	\$ 14	n/a	\$ (279)	-95.2%
Interfund Loan (cumulative \$000's)	\$ 10,160	\$ 14,274	\$ 17,846	\$ 19,170	n/a	\$ 1,323	7.4%
Cash Reserves at Year-end (\$000's)	\$ 34,132	\$ 35,472	\$ 32,784	\$ 35,802	n/a	\$ 3,018	9.2%
Provincial Indicators							
Total Reserves & Discretionary Reserves as a % of Municipal Expenses	65.5%	67.7%	62.2%	72.4%	20% +	n/a	10.3%

These indicators will continue to be closely monitored as the 2021 budget is implemented and reported to Council through the quarterly Reserve report.

RELATIONSHIP TO STRATEGIC PLAN:

This report supports the Strategic Plan priority with regard to the 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.

Overall, the Town's financial sustainability as represented by total reserves as a percentage of expenditures is considered healthy and a low risk as per provincial standards. With respect to the internal indicators, the measures are higher than projected due to higher level of operating surplus distributed to reserves in 2019. Staff will continue to closely monitor the status of anticipated development and make adjustments to the LRFP as appropriate.

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 December 31, 2019.

Reviewed and Approved by,

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

Moya Jane Leighton, Town Treasurer and Director of Accounting

A handwritten signature in black ink, appearing to read "C. Mills".

Chris Mills, Commissioner of Corporate Services

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

Brent Marshall, Chief Administrative Officer