

Subject: 2022 Reserve and Reserve Fund Report

Recommendation:

BE IT RESOLVED THAT Council receive Report #2023-0124-Corporate Services 2022 Reserve and Reserve Fund Report, for information;

AND THAT Council direct the 2022 Annual Treasurer's Statement of Reserve Funds for Development Charges and 2022 Annual Treasurer's Parkland Dedication Reserve Fund Statement be made available to the public upon request.

Background:

This report provides information about reserve and reserve fund balances as at December 31, 2022, based on transfers to and from those reserves and reserve funds as approved by Council. Reserves and reserve funds are important long-term financial planning tools for municipalities and are used to set aside funds for future purposes. The guiding principles in the Town's Reserve and Reserve Fund Policy S400-08 ("the Policy") are adherence to statutory requirements, promotion of financial stability and flexibility, provision for major capital expenditures, and liquidity.

The Town has four general categories of reserves and reserve funds:

1. Obligatory reserve funds are created when a senior government statute or agreement requires that revenue received for special purposes be segregated from the general revenues of the municipality and must be segregated in liquid assets. (Note 4 to the financial statements)
2. Discretionary reserve funds are created by Council to set aside revenue for a future expenditure and must be segregated in liquid assets. (Note 8 to the financial statements)
3. Non-discretionary reserves are created by Council as an appropriation from net revenue and/or cost savings and are non-tax supported. Drawdowns from non-discretionary reserves must be for expenditures related to their revenue source. (Note 8 to the financial statements)

4. Discretionary reserves are created by Council as an appropriation from net revenue and/or cost savings and are tax supported. Transfers to and from these reserves can be approved for any purpose at the discretion of Council. (Note 8 to the financial statements)

2021 Reserve and Reserve Fund Year-end Balances

The Policy requires that the Treasurer prepare a Reserve and Reserve Fund Report annually, which shall include opening balance, additions, and reductions, and closing balance for the previous fiscal year, tying the report to the audited financial statements. The report shall include an analysis of the Town cash position in the audited financial statements in comparison to the total balance of Reserves and Reserve Funds, as well as discussion regarding the investment of Reserves and Reserve Funds during that fiscal year.

Parkland Dedication Reserve Fund Statement

Parkland Dedication is addressed under Section 42 of the *Planning Act*:

42(17) The treasurer of the municipality shall each year, on or before the date specified by the council, give the council a financial statement relating to the special account.

42(18) The statement shall include, for the preceding year,

- a. statements of the opening and closing balances of the special account and of the transactions relating to the account;
- b. statements identifying
 - (i) any land or machinery acquired during the year with funds from the special account,
 - (ii) any building erected, improved or repaired during the year with funds from the special account,
 - (iii) details of the amounts spent, and
 - (iv) for each asset mentioned in subclauses (i) and (ii), the manner in which any capital cost not funded from the special account was or will be funded; and
- c. any other information that is prescribed.

42(19) The treasurer shall give a copy of the statement to the Minister on request.

42(20) The council shall ensure that the statement is made available to the public.

The Treasurer's statement is included as Appendix A6 and A9 to this report.

Development Charge Reserve Fund Statement

In accordance with the *Development Charges Act, 1997* (DCA), and the Town's Development Charges By-law 4149(2019) amending By-law 4023(2018) the Treasurer is required to provide Council with an annual financial statement on Development Charges. Section 12 of O.Reg. 82/98 prescribes the information that must be included in the Treasurer's statement, as follows:

- opening balance;
- closing balance;
- description of each service and/or service category for which the reserve fund was established;
- transactions for the year (e.g. collections, draws);
- list of credits by service or service category (outstanding at beginning of the year, given in the year and outstanding at the end of the year by holder);
- amounts borrowed, purpose of the borrowing and interest accrued during previous year;
- amount and source of money used by the Town to repay municipal obligations to the fund;
- schedule identifying the value of credits recognized by the Town, the service to which it applies, and the source of funding used to finance the credit; and
- for each draw, the amount spent on the project from the D.C. reserve fund and the amount and source of any other monies spent on the project.

Appendix A10 is the Annual Treasurer's Statement of Reserve Funds for Development Charges, as of December 31, 2022.

Analysis:

Reserves and Reserve Funds

The reserve balances as presented in appendices A1 to A10 are separated by category as reported for financial statement purposes. Total reserves and reserve funds at the end of 2022 were \$19,608,240 (see Note 4 and Note 8 to the financial statements). This balance includes the land acquisition reserve which is in a deficit position (negative balance), meaning that transfers from the reserve have exceeded transfers to the reserve and the positive balance will need to be restored. The airport reserve of \$28,357 is not reported as part of Pelham's unconsolidated reserve balances, and obligatory deferred revenue in the financial statements includes \$33,037 to be transferred to the Cemetery Care and Maintenance Trust.

Total reserves and reserve funds at December 31, 2022 were \$13,149,330. The decrease in reserve balances compared to the prior year are a result of capital projects being completed and a reduction in the elections reserve due to the 2022

election, this was offset by the in-year operating transfers of specific excess revenues and savings identified by the Treasurer in accordance with the Delegation of Authority By-law, and the Building Department rate-supported surplus, which was transferred to reserve in accordance with the Policy.

It is important to note that the vast majority of the Town's reserve and reserve fund balances have been committed to fund capital projects approved by Council, and therefore the reserve balances which are available to be spent are lower than the 2022 year-end balance. Of the total reserves and reserve funds, approximately \$10 million represents projects previously approved compared to \$4.0 million in 2021. The Building Department Reserve Fund of \$2 million is rate-supported and can only be used for related expenditures. Many other reserves and reserve funds, including the CIP, Elections, Library, Meridian Community Centre, and Volunteer Firefighter Life Insurance have been set aside for purposes which are not capital in nature, but are earmarked and committed for future expenditures. The remaining reserves and reserve funds are needed for planned future capital expenditures, as outlined in the forecast in the Capital Budget.

Reserves and reserve funds, excluding obligatory reserve funds, as found in appendix A1 have a total year-end balance of \$13,120,973 (excluding commitments for projects previously approved by Council but not completed). The target balance for the reserves and reserve funds as presented to the Audit Committee along with the Policy was \$16,147,400 based on preliminary estimates using historical amortization and capital forecasts (this includes both discretionary and obligatory reserves but excludes water and wastewater reserves). Capital projects already approved and carrying forward which will be funded from these reserves and reserve funds total approximately \$8.1 million compared to \$4.8 million in 2021, an increase of \$3.3 million because of capital projects delayed primarily due to COVID-19 supply chain issues with the fleet and some construction projects being deferred to 2024. Even though the reserves and reserve funds balance have been improving from prior years, the Town is still \$8.0 million short of the target balance as stated in the Policy, after taking into account the approved committed capital projects.

The Town has completed the Capital Asset Management Plan for the core assets, and it is in the process of completing the facilities assets, which will give a more thorough and fulsome forecast and inform the reserve and reserve fund targets moving forward. The 2023 budget included an increase in tax-levy supported transfers to reserves of approximately \$421,300, the Building Department transfer to reserve was budgeted to increase by \$55,000 and water and wastewater rate-supported transfers to reserves were budgeted to decrease by \$128,987. The long-term financial plan will involve continued investment in reserves to allow for greater

financial flexibility and sustainability.

The development charge (DC) obligatory reserve fund in appendix A10 shows the total balance of funds held as found in Note 4 to the financial statements, as well as the detailed breakdown of each service area.

The 2021 Development Charge Update Study, passed with By-law 4431-2022, involved some changes in order to comply with legislation, including combining indoor and outdoor recreation to form Parks and Recreation Services, and having a Growth Studies service area rather than Administration. As the by-law was passed in 2022, these changes are reflected on the 2022 Annual Treasurer's Statement of Reserve Funds for Development Charges.

The Indoor Recreation, and Water DC reserve funds are in a deficit (negative) position, which means that they are borrowing from other service areas until they are replenished. Intra-fund lending within the DC obligatory reserve fund is permissible in accordance with the Policy 4.2 e) i), and interest is being paid from the deficit DC obligatory reserve funds to the other DC obligatory reserve funds. The interest paid appears as a negative number and interest received appears as a positive number on the "Accrued Interest" line. DC collections for indoor recreation are expected to have increased when the DC background study and indoor recreation service standard ceiling was updated in 2022. A DC background study update was completed in 2021 and approved in 2022, and regular updates will be required in the future. A new DC Background Study will be completed in 2023. Deficits in one service area can also occur when capital projects are completed early within the 10-20-year horizon of the DC study and will be expected to be recovered in future years.

In 2022, \$3,522,259 of development charges were collected. This was significantly higher than total DC expenditures, including debt and capital expenditures, of \$1,858,959. This is partly a result of timing of development which can be somewhat unpredictable. In addition, DC collections are expected to increase when the DC background study is updated as discussed above.

Cash Position

As of December 31, 2022, the Town's cash and cash equivalents totaled \$18,163,039 and bank indebtedness related to operations was \$900,000, for a net operating cash position of \$17,263,039. This means that technically there is not sufficient cash so that reserves are represented by cash assets, and this is primarily due to grant receivables of \$3.0 million. The funds were spent on the capital project in 2022 and the Town is expecting to collect the receivable in 2023, resulting in a timing difference. In the prior year, reserves were represented by

cash assets at year-end. However, it must be noted that there are other items which have contributed to the increased cash balance, including increased deposits held in trust due to development, and therefore even once the receivables are collected, a portion of the increased operating cash is not related to reserves and reserve funds. There are other changes to non-cash assets and liabilities which have contributed to increased cash as well as well, as outlined in the Town's Consolidated Statement of Cash Flows in the financial statements.

Appendix A1 summarizes the subcategories of reserves and discretionary reserve funds. Discretionary reserve funds of \$5,868,973 found on appendix A1 as well as obligatory reserve funds of \$6,520,304 found in Note 4 to the financial statements require the physical segregation of money or liquid assets. The total of these reserve funds, being \$12,389,277, must be kept separately within the Town's bank accounts and adjusted by June 30, 2023, in accordance with the Policy 4.2 c) iv).

Investment of Reserves and Reserve Funds

In prior years, some of the reserves and reserve funds were represented by non-cash assets. As the cash is being replenished, funds are being invested in short-term investments and savings accounts to allow for flexibility in meeting capital requirements as well as debenture payments funded by the Development Charge Reserve Fund. During 2022, reserves and reserve funds were invested at an average rate of 4.5% vs 0.8% in 2021. Total interest earned by reserves and reserve funds was \$249,042 (\$95,886 in 2021). This interest is significantly higher than the prior year due to an increase in interest rates. Interest is generally allocated to reserves and reserve funds annually at year-end based on the average rate of interest as determined by the Treasurer multiplied by the previous year-end balance. Interest earned on obligatory deferred revenue related to development charges is allocated in accordance with the by-law and for obligatory deferred revenue related to grants in accordance with the agreement.

Trust Funds

The Town has three Trust Funds for Cemetery Care and Maintenance, Bradshaw Estate, and the Library Trust. The total fund balance for those trusts at December 31, 2022, was \$1,188,195. The statement of financial position and the statements of revenue and expenses and changes in fund balances are found in the Town's financial statements, pages 32-34. These balances are separate from the reserves and reserve funds discussed above and have not been included in this report.

Financial Considerations:

While there are no specific financial decisions related to this report, it provides Council with financial information regarding reserve and reserve fund balances and the cash position of the Town to assist Council in financial decision-making.

Alternatives Reviewed:

No alternatives are being presented, as this report is for information only.

Strategic Plan Relationship: Financial Sustainability

Maintaining a healthy balance in the Town's reserves will ensure that the Town can meet its capital financial plans and have the flexibility to respond to unplanned financial events.

Consultation:

Not applicable.

Other Pertinent Reports/Attachments:

Appendix A1 – Reserve (Deficit) Summary

Appendix A2 – Reserve (Deficit) Schedule – General Government

Appendix A3 – Reserve (Deficit) Schedule – Protection Services

Appendix A4 – Reserve (Deficit) Schedule – Transportation Services

Appendix A5 – Reserve (Deficit) Schedule – Health Services

Appendix A6 – Reserve (Deficit) Schedule – Recreation and Culture Services

Appendix A7 – Reserve (Deficit) Schedule – Planning and Development

Appendix A8 – Reserve (Deficit) Schedule – Environmental Services

Appendix A9 – Parkland Dedication Capital Fund Transfers

Appendix A10 – Annual Treasurer's Statement of Reserve Funds for Development Charges

Prepared by:

Usama Seraj, CPA, CMA
Manager Financial Services/Deputy Treasurer

Teresa Quinlin-Murphy, FCPA, FCA, MBA
Director of Corporate Services/Treasurer

Prepared and Submitted by:

David Cribbs, BA, MA, JD, MPA
Chief Administrative Officer