

## **Subject:** 2023 Reserve and Reserve Fund Report

### **Recommendation:**

**BE IT RESOLVED THAT Council receive Report #2024-0107 2023 Reserve and Reserve Fund Report, for information;**

**AND THAT Council direct the 2023 Annual Treasurer's Statement of Reserve Funds for Development Charges and 2023 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, 2023, 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 which 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 maintaining 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, 2023.

### **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. The total balance of all Town controlled reserves and reserve funds on December 31, 2023 was \$15,802,088. The table below provides a breakdown of this figure.

<b>Town's Obligatory &amp; Discretionary Reserve &amp; Reserve Funds Summary December 31, 2023</b>		
Obligatory Reserve Funds (Financial Statements Note 4)	\$ 6,119,335	A
Less: Transfer to Cemetery Care & Maintenance Fund	\$ 27,185	B
<b>Town's Obligatory Reserve Funds - (A - B)</b>	<b>\$ 6,092,150</b>	<b>C</b>
Discretionary Reserves & Reserve Funds (Financial Statements Note 8)	\$ 9,989,329	D
Less: Consolidated Reserves & Reserve Funds		
Lincoln Pelham Public Library Reserve	\$ 251,034	E
Niagara Central Airport Commission (NCAC) Reserve	\$ 28,357	F
<b>Town's Discretionary Reserves &amp; Reserve Funds - (D - E - F)</b>	<b>\$ 9,709,938</b>	<b>G</b>
<b>Town's Total Reserves &amp; Reserve Fund - (C + G)</b>	<b>\$ 15,802,088</b>	

The balance above includes two reserves that were in a deficit balance. The land acquisition reserve and the water reserve have negative balances, which means that transfers from the reserves have exceeded the transfers to the reserve. The table above highlights that the Lincoln Pelham Library reserve and the Niagara Central Airport Commission (NCAC) reserve balances are not reported a part of Pelham's unconsolidated reserve balances. Lastly, the table also shows that from the total Obligatory Reserve Funds balance, a total of \$27,185 is to be transferred to the Cemetery Care and Maintenance Trust.

During 2023, the Town established two new discretionary reserves:

1. Invasive Species Management Reserve Fund:

- A discretionary reserve fund set up to support the Public Works Invasive Species Management Policy which identifies how invasive species are treated by the Town of Pelham as part of an overall Invasive Species Strategy.
- Annual allocation of \$50,000 from operating budget.
- 2023 Invasive Species Management Reserve Fund balance is \$120,000.

2. Debt Repayment Reserve

- A discretionary reserve set up to help offset cost of future debt payments for capital expenditures in the 10-year capital plan.
- Allocation to reserve to be funded from maturing debt payments that are already part of the operating budget.
- 2023 Debt Repayment Reserve fund balance is \$0.

Total discretionary reserves and reserve funds at December 31, 2023 were \$9,709,938 as shown in Appendix A1. The overall reduction in reserve balances compared to the prior year is primarily due to the completion of capital projects during the year. As capital projects are completed, the funds are transferred from the reserves to each individual project. Other reductions to reserves included transfers to the Building department and the Water department. Both transfers were in accordance with the reserve policy to offset any shortfall in these rate-supported budgets. The reductions to the reserves were offset by transfers to the reserve from the operating budget during the year. These transfers included the 2023 approved budget transfers, as well as excess revenues and savings transferred to the reserves as identified by the Treasurer in accordance with the Delegation of Authority By-law.

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 much lower than the 2023 year-end balance. Of the total reserves and reserve funds, approximately \$7.5 million is committed to previously approved projects. 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.

Reserve fund policy S400-08 outlines various targets for both obligatory and discretionary reserves and reserve funds. The overall combined target is approximately \$16.1 million (excluding water and wastewater). The target excluding obligatory reserve funds is approximately \$12.6 million. It is important to note that even though the financial statement balance for Town's discretionary reserves and reserve funds is \$9.7 million, the actual available balance is much lower since \$7.5 million is already committed to previously approved projects and \$2.0 million is Building reserve which is rate-supported. Although the Town's reserve and reserve fund balances have been improving from prior years, they are still well below the targets as set out in Reserve Policy S400-08.

The Town is finalizing its Capital Asset Management Plan which will include all core and non-core assets such as facilities. This plan will provide more guidance in planning and forecasting 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 2023 Annual Treasurer's Statement of Reserve Funds for Development Charges. The Town completed a DC background study in 2023 and it is currently being finalized before it is presented to Council for approval.

The Water DC reserve fund is in a deficit (negative) position, which means that it is borrowing from other service areas until it is 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. 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 2023, \$2,882,653 of development charges were collected. The expenditures in 2023 including debt and capital outlays were \$3,284,683. The collections in 2023 were lower than anticipated due to overall slowdown in building activity because of increased interest rates and decreased home construction. The timing of development charges expenditures and collections can be somewhat unpredictable since they are tied to the timing of development. DC collections are expected to increase when the DC background study update of 2023 is complete.

### **Cash Position**

As of December 31, 2023, the Town's cash and cash equivalents totaled \$18,721,011. The Town paid off its short-term demand loan and as a result, the bank indebtedness is \$0. The Town has a sufficient cash balance to ensure all reserves and reserve funds are represented by cash assets at year-end 2023. The cash balance has increased from the prior year; 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. The table below shows the breakdown of cash items as of December 31, 2023.

<b>Town of Pelham Cash Position</b>	
	<b>2023</b>
Cash	18,721,011
Bank Indebtedness	-
<b>Operating Cash</b>	<b>18,721,011</b>
<b>Cash Items</b>	
Deposits	2,262,762
Deferred Revenue	307,707
Obligatory Reserves	6,119,335
Discretionary Reserves & Reserve Funds (Financial Statements Note 9)	9,989,329
<b>Total Cash Items</b>	<b>18,679,133</b>
<b>Operating Cash</b>	<b>41,878</b>

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.

There are certain reserve and reserve funds that require the physical segregation of money or liquid assets. These are summarized in the table below:

<b>Reserve Type</b>	<b>Reference</b>	<b>2023 Balance</b>
Discretionary Reserve Funds	Appendix A1 subcategory	4,830,552
Obligatory Reserve Funds	Financial Statements Note 4	6,119,335
<b>Total Reserve &amp; Reserve Funds requiring physical segregation of money or liquid assets</b>		<b>10,949,887</b>

The total of these reserve funds, being \$10,949,887 must be kept separately within the Town's bank accounts and adjusted by June 30, 2024, 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 2023, reserves and reserve funds were invested at an average rate of 4.8% vs 1.8% in 2022. Total interest earned by reserves and

reserve funds was \$613,836 (\$249,042 in 2022). 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 reserve or reserve fund's opening 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 two Trust Funds for Cemetery Care and Maintenance and the Bradshaw Estate Trust. The total fund balance for these trusts at December 31, 2023, was \$1,054,574. The Library Trust was included as part of the Town's Trust financial statements in 2022. Effective January 1, 2023, the new Lincoln Pelham Public Library controls the library trust and therefore, the library trust opening balance of \$168,475 was transferred to Lincoln Pelham Public Library Board. 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 35-36. 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

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