

Staff Report 2021-0152

Meeting Date: May 18, 2021

Subject: Audited Reserves and Reserve Fund Balances for 2020

Submitted By: September Muller, Senior Financial Analyst, Finance

RECOMMENDATION

That a by-law be enacted to amend Consolidated Reserve Funds By-law 2020-104, a by-law for the establishment and maintenance of reserve funds, to reflect changes as set out in Schedule C of Staff Report 2021-0152; and

That \$3,174,764.55 be transferred from the Development Approvals Stabilization Reserve to the Development Engineering Stabilization Reserve.

REPORT HIGHLIGHTS

- The Town of Caledon reserves and reserve funds total \$148.3 million at the end of 2020 and are allocated between three types as follows:
 - Reserves = \$20.8 million
 - Discretionary Reserve Funds = \$26.5 million
 - Obligatory Reserve Funds = \$101.0 million

- Overall balances increased \$8.3 million from 2019, inclusive of interest earned of \$0.8 million. The increases / (decreases) were primarily due to the following changes in reserves:

○ Tax Funded Operating Contingency Reserve	\$5.2 million
○ Development Approvals Stabilization Reserve	\$3.1 million
○ Development Charges	\$2.6 million
○ Payment in Lieu of Parkland Reserve	\$2.5 million
○ Tax Funded Capital Contingency Reserve	\$0.7 million
○ Group Benefit Stabilization	\$0.6 million
○ Working Funds	(\$1.3 million)
○ Federal Gas Tax Reserve	(\$5.2 million)

- Following review by staff and the Treasurer, this report recommends changes to the following reserves:
 - The minimum balance of \$100,000 in the Corporate Energy Reserve be removed to allow for additional building retrofits to take place, to support the Town in meeting the aggressive energy and greenhouse gas emissions reduction targets as outlined in the Council approved Corporate Greenhouse Gas Reduction Framework.
 - A new Development Engineering Stabilization Reserve is recommended to be created and contributed through surplus from the Development Engineering and Inspection process to improve tracking of related revenue and expenditures. Development Engineering Stabilization Reserve's opening balance will be funded through a transfer of \$3,174,764.55 from Development Approval Stabilization to represent Engineering's historical contributions.

DISCUSSION

The scope of the reserves and reserve funds are detailed in Schedule C. The reserves and reserve funds were created, throughout the years based on requirements at the time and will be reviewed annually to determine whether updates to the definitions, uses, and thresholds are required.

Reserve Updates

Following annual review by Town Staff and the Treasurer, the proposed changes detailed below to the Corporate Energy Reserve and the Development Approvals Stabilization Reserve are recommended.

The Corporate Energy Reserve was created with a minimum required balance of \$100,000 in order to take advantage of grant opportunities. Staff recommend that the minimum required balance be changed to \$50,000 for the potential replacement of power invertors and for the cost to decommission the solar panels when the program ends in 2032. The updated minimum balance will allow for additional building retrofits to take place, to support the Town in meeting the aggressive energy and greenhouse gas emissions reduction targets as outlined in the Council approved Corporate Greenhouse Gas Reduction Framework.

The Development Approvals Stabilization Reserve was established in 2011 for the purpose of providing funds for the processing of residential and non-residential subdivisions and condominiums by the municipal development staff. Staff recommend that this reserve be broken out into two components; Development Engineering and Planning to enable improved tracking and reflect the Development Approvals process. Staff recommend that a new reserve, Development Engineering Stabilization Reserve be created and that \$3,174,764.55 (the historical contributions from the Engineering and Planning Engineering departments relating to Engineering fees) be transferred from the current Development Approvals Stabilization reserve to the Development Engineering Stabilization Reserve as outlined below:

<u>Development Approvals Stabilization Reserve</u>	<u>transfer to/(from) Reserve</u>
Beginning Reserve balance	\$6,510,317.63
Transfer to Development Engineering Stabilization Reserve	(\$3,174,764.55)
Ending Reserve balance	\$3,335,553.08

Reserves

Reserves are an allocation from net revenue at the discretion of council, after the provision for all known expenditures, as part of an overall strategy for funding programs and projects that are set out in the annual budgets or budget forecasts, and is authorized under the provisions set out in the Municipal Act. It has no reference to any specific assets and does not require the physical segregation of money or assets.

The 2020 year-end balance of all the Town of Caledon Reserves is \$20.8 million. (See Schedule A for details).

Discretionary Reserve Funds

Discretionary reserve funds are created under Section 417 of the *Municipal Act, 2001 (S.O. 2001, c.25)*. Discretionary reserve funds are established whenever a municipal Council wishes to earmark revenues to finance a future expenditure for which it has the authority to spend money, and set aside a certain portion of the year's revenues so that the funds are available as required. In accordance with Section 417 of the *Municipal Act, 2001 (S.O. 2001, c.25)*, it is suggested that municipalities create new reserve funds or additional allocations to a reserve fund through the budget process, defining the purpose for which the reserve fund is being created.

The 2020 year-end balance of the Town of Caledon Discretionary Reserve Funds is \$26.5 million. (See Schedule A for details).

Obligatory Reserve Funds

These funds must be created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality.

The 2020 year-end balance of the Town of Caledon Obligatory Reserves Funds is \$101.0 million (See Schedule A for details).

FINANCIAL IMPLICATIONS

The Reserve and Reserve Fund balances shown on Schedule A are audited December 31, 2020 balances. Year-end balances exclude funds committed through the 2021 budget of \$35,656,354. For comparison purposes, reserve balances from 2014 to 2019 are listed on Schedule A.

The Reserve and Reserve Fund continuity schedule shown on Schedule B includes commitments/contributions against the reserves/reserve funds as of December 31, 2020. The commitments exclude funds committed through the 2021 budget of \$35,656,354 since they were approved in February 2021.

COUNCIL WORK PLAN

Good Governance

- Push for policies that better cover the true cost of growth
- Maintain an excellent financial position through healthy reserves and the ability to meet current liabilities with current assets

ATTACHMENTS

Schedule A: Reserve and Reserve Fund Balances as of December 31st, 2020

Schedule B: Reserve and Reserve Fund Continuity Schedule

Schedule C: Proposed Consolidated Reserve Funds By-law Amendment