

## Staff Report 2022-0086

---

Meeting Date: May 17, 2022

Subject: 2021 Reserves and Reserve Fund Balances

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 2022-0086.

### REPORT HIGHLIGHTS

- The Town of Caledon reserves and reserve funds total \$158.6 million at the end of 2021 and are allocated between three types as follows:
  - Reserves = \$16.4 million
  - Discretionary Reserve Funds = \$31.4 million
  - Obligatory Reserve Funds = \$110.8 million
- Overall balances increased \$10.1 million from 2020, inclusive of interest earned of \$0.3 million. The reserve balances and 2021 year end surplus management place the Town in a strong financial position for 2022. The increases / (decreases) were primarily due to the following changes in reserves:

|  |                 |
|--|-----------------|
| ○ Tax Funded Operating Contingency Reserve                               | \$0.3 million   |
| ○ Land Sale Reserve  | (\$2.5 million) |
| ○ Development Approvals Stabilization Reserve                            | (\$2.0 million) |
| ○ Engineering Stabilization Reserve                                      | \$3.8 million   |
| ○ Development Charges  | \$4.6 million   |
| ○ Capital Asset Replacement Reserve                                      | \$1.8 million   |
| ○ Winter Maintenance   | \$0.4 million   |
| ○ Group Benefit Stabilization  | \$0.6 million   |
| ○ Payment in Lieu of Parkland Reserve                                    | \$0.7 million   |
| ○ Tax Funded Capital Contingency Reserve                                 | (\$2.7) million |
| ○ Equipment  | \$0.3 million   |
| ○ Canada Community-Building Fund<br>(Previously Federal Gas Tax Reserve) | \$3.3 million   |
| ○ Provincial Gas Tax Reserve   | \$0.4 million   |
| ○ Building Permit Stabilization Reserve                                  | \$0.7 million   |
- This report recommends some minor changes to the following reserves to clarify the sources of funding and rules of use:
  - The Ice Resurfacer Reserve funding source is clarified to be 3% of arena ice rental revenue.
  - The Federal Gas Tax Reserve is renamed to the Canada Community-Building Fund.
  - It is recommended that the Treasurer is authorized to issue payments from Development Charge reserves for the utilization of Development Charge credits in specific circumstances.

## **DISCUSSION**

In November 2020, the Town's Consolidated Town Reserve By-law and Reserve Policy were approved by Council. It was recommended that the policy be formally reviewed every year with a report to Council which will include the following:

1. Adequacy of the targeted levels of reserves
2. Defined uses of reserves and reserve funds
3. Elimination of specific reserves and/or reserve funds
4. Addition of specific reserves and/or reserve funds
5. Category of reserves and reserve funds

This Staff report recommends some technical adjustments to assist with the administration of the Town's reserve by-law. This report also provides information on the Town's 2021 reserve and reserve fund balances and is an annual recurring report. In June 2022 a report will be provided to Council with any recommendations regarding the adequacy of targeted levels of reserves.

### **Proposed Changes to the Town's Consolidated Reserve By-law**

The scope of the reserves and reserve funds are detailed in Schedule C in the Proposed amendment to the Consolidated Reserve Funds By-law and include the recommended changes outlined below.

Following annual review by Town Staff and the Treasurer, the proposed changes detailed below to reserves are recommended to clarify the sources of funding and rules of use.

The Ice Resurfacer Reserve funding source is clarified to be 3% of arena ice rental revenue. Previously it wasn't clear in the by-law the revenue source was arena ice rental revenue.

The Federal Gas Tax Reserve is renamed to the Canada Community-Building Fund in accordance with the changes made by the Federal government.

The Development Charges Reserve includes Development Charge (DC) Credits that are to be provided to developers. It is recommended that the Treasurer be authorized to issue payments from these reserves for the utilization of credits if Development Charges were received from the applicable developer to the Town in advance of the DC claims being submitted and approved by the Town as per the applicable Development Charge Credit agreement. This will assist Staff in effectively administering the Town's Mayfield West II Financial Agreement and any similar agreements.

### **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 2021 year-end balance of all the Town of Caledon Reserves is \$16.4 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 2021 year-end balance of the Town of Caledon Discretionary Reserve Funds is \$31.4 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 2021 year-end balance of the Town of Caledon Obligatory Reserves Funds is \$110.8 million (See Schedule A for details).

## **FINANCIAL IMPLICATIONS**

The Reserve and Reserve Fund balances shown on Schedule A are December 31, 2021 balances and are included in the 2021 Audited Financial Statements that will be presented to Council in June 2022. Year-end balances exclude funds committed through the 2022 budget of \$55,027,028. For comparison purposes, reserve balances from 2015 to 2020 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, 2021. The commitments include funds committed through the 2022 budget of \$55,027,028 since they were approved in December 2021.

The Development Charges Reserves balances shown with an uncommitted balance of a deficit of (\$7,913,244) do not include revenue collected to March 31<sup>st</sup>, 2022 of \$10,163,377 which will bring the reserves into a positive position, and do not include Development Charge revenue that will be collected to the end of 2022.

## **COUNCIL WORK PLAN**

### **Good Governance**

- 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, 2021  
Schedule B: Reserve and Reserve Fund Continuity Schedule  
Schedule C: Proposed Consolidated Reserve Funds By-law Amendment