

Memorandum

Date: June 6, 2023

To: Members of Council

From: Sherly Mathews, Senior Financial Analyst, Finance

Subject: 2022 Reserves and Reserve Fund Balances

The Town holds several reserves that have been established by Council to help pay for future costs. These are designated for specific purposes and play a number of key roles to support the Town's long term financial planning. These roles include:

- Maintaining Assets – Keeping the Town's assets in a state of good repair
- Emergency Funds – Prepare for emergencies and unexpected expenses to minimize property tax rate fluctuations
- Future investments – Setting aside funds to pay for future improvements or growth-related infrastructure

Some reserves are must-haves or obligatory under legislation. These include Development Charge Reserves and the Canada Community-Building Fund. These reserves are for revenues that must be segregated from general municipal revenues and used for certain purposes. They are governed by specific Town by-laws and provincial legislation. For example, funds in the Fire and Emergency Services Development Charge (DC) Reserve are to support growth-related projects identified in the Town's DC background study. Other reserves have been created by Council and are discretionary reserves. These include the Town's Tax Funded Capital Contingency Reserve and the Town's Tax Funded Operating Contingency Reserve. These reserves are set up to provide support and flexibility for the organization to meet needs or emergencies that arise throughout the fiscal year. The majority of the reserves held by the Town are obligatory reserves and must be used for the purposes designated for each.

Reserve and reserve fund balances can be increased through the following options:

- Contributions from the operating fund that are approved by Council through the annual budget process
- Year-end operating surplus allocations as recommended by the Treasurer and approved by Council
- Returning surplus funds from capital projects or other operating budgets (e.g., surplus of building division operations to the Building Permit Stabilization Reserve)
- Donations, bequests, surcharges, fees, or proceeds from the sale of Town assets
- Interest income earned on reserve fund balances

Council is responsible for the approval of the establishment of new reserves and reserve funds and approves all funding from reserves.

2022 Reserves

The Town of Caledon reserves and reserve funds total \$151.6 million at the end of 2022 and are allocated between three types as follows:

- Reserves = \$17.1 million
- Discretionary Reserve Funds = \$25.5 million
- Obligatory Reserve Funds = \$109.0 million

Overall balances decreased \$7.0 million from 2021, inclusive of interest earned of \$0.17 million. The increases / (decreases) were primarily due to the following changes in reserves:

○ Tax Funded Operating Contingency Reserve	(\$0.8 million)
○ Land Sale Reserve	\$0.8 million
○ Development Approvals Stabilization Reserve	(\$1.2 million)
○ Election Reserve	(\$0.3 million)
○ Development Charges	(\$5.6 million)
○ Capital Asset Replacement Reserve	(\$5.2 million)
○ Winter Maintenance	\$0.2 million
○ Group Benefit Stabilization	\$0.2 million
○ Payment in Lieu of Parkland Reserve	\$2.5 million
○ Tax Funded Capital Contingency Reserve	\$0.6 million
○ Equipment	\$0.5 million
○ Canada Community-Building Fund (Previously Federal Gas Tax Reserve)	\$0.4 million
○ Provincial Gas Tax Reserve	\$0.4 million
○ Building Permit Stabilization Reserve	\$0.5 million

Following 2022 year end, the 2023 budget was approved and funds from these reserves were utilized. In addition, other commitments have been created through Council resolution subsequent to year end. Schedule B provides updated Reserve account balances as of May 1st, 2023, for Council's reference. Emergency and in-year, unbudgeted needs continue to put pressure on the Tax Funded Operating Contingency and Tax Funded Capital Contingency Reserves which are now both below their targeted levels. These reserves are primarily funded through the year end surplus management as part of the year-end operating variance report. Continued budget pressures along with emergency purchases will continue to put pressure on these reserves in the coming years. Staff will review our current reserve policies and target thresholds as part of the 2024 budget process to ensure the continued financial stability of the Town's long-term finances.

Schedule A presents the Town's reserves broken down into three categories: Reserves, Discretionary Reserves and Obligatory Reserve Funds.

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. This group of reserves includes both the Tax Funded Operating and Capital Contingency Reserves, the Corporate Energy Reserve, and the Land Sale Reserve.

The 2022 year-end balance of all the Town of Caledon Reserves is \$17.1 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. This group of reserve funds include the winter maintenance reserve, the Engineering Stabilization Reserve, the Development Approvals (Planning) Reserve and the cash in Lieu of Parking Reserve.

The 2022 year-end balance of the Town of Caledon Discretionary Reserve Funds is \$25.5 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. This group of reserves includes the Building Permit Stabilizations Reserve, the Provincial Gas Tax reserve, the Payment in Lieu of Parkland Reserve and the Development Charge Reserves. Funds in this category cannot be spent on any purpose that isn't specified in the legislation that created obligation to hold these funds in reserve.

The 2022 year-end balance of the Town of Caledon Obligatory Reserves Funds is \$109.0 million (See Schedule A for details).

FINANCIAL IMPLICATIONS

The Reserve and Reserve Fund balances shown on Schedule A are December 31, 2022, balances and are included in the 2022 Audited Financial Statements that will be presented to Council in June 2023. For comparison purposes, reserve balances from 2015 to 2022 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, 2022. The commitments include funds committed through the 2023 budget of \$28,626,718 which were approved February 28, 2023.

The Development Charges Reserves balances shown do not include Development Charge revenue that will be collected to the end of 2023.

ATTACHMENTS

Schedule A: Reserve and Reserve Fund Balances as of December 31st, 2022

Schedule B: Reserve and Reserve Fund Continuity Schedule