



CORPORATE SERVICES *Staff Report*

REPORT NO: COR 2023-05

TO: Ad Hoc Budget Advisory Committee

SUBMITTED BY: Patrick Kelly, CPA, CMA, Director of Corporate Services / Treasurer

PREPARED BY: Ashton Romany, CPA, Manger of Finance / Deputy Treasurer

REVIEWED BY: Sharon Chambers, CAO

DATE: January 30, 2023

SUBJECT: Reserves and Reserve Funds (un-audited) For the year ended December 31, 2022

RECOMMENDATION:

THAT Report COR 2023-05, prepared by the Manager of Finance / Deputy Treasurer, regarding Reserves and Reserve Funds, for the year ended December 31, 2022, be received for information purposes.

SUMMARY:

This report outlines the Township's Reserves and Reserve Fund activity for the 2022 fiscal year.

BACKGROUND:

Attached is the un-audited Reserves and Reserve Funds Statement for the year ended December 31, 2022. This statement summarizes all Reserves and Reserve Funds activities within the year.

REPORT:

Infrastructure Levy Transfers

The 2022 operating budget included a dedicated infrastructure levy of \$520,760. As noted within Report COR 2023-02, support from the Working Funds Reserve will be necessary to ensure the full transfer of the dedicated infrastructure levy into the reserve funds. Transfers to these reserve funds assists with future infrastructure requirements under the Township's Asset Management Program and 10-Year Capital Forecast.

Development Charges Reserve Funds

As referenced in report COR 2023-05, the Township issued debt in the fall of 2022. Of the debt issued, \$6.4M was dedicated towards projects funded from development charges. This debt was issued to support cash flow constraints within the development charges reserve fund. From an accounting perspective, the affected active capital projects were originally funded from the development charges reserve fund prior to receipt of the debt.

In order to properly represent the debt, affected capital projects had their DC funding returned and debt assigned accordingly. Both report COR 2023-03 and COR 2023-05 outline where debentures have been utilized. As such, in the "Additional Year-End Transfer" column on the attached statement includes the \$6.35M transfer to represent this municipal accounting requirement.

With the overall net-impact of operating and capital, year-end DCs now currently have an accumulated deficit of \$381,139 with an annual debt obligation which is referenced in report COR 2023-05. It is important to note that although the reserve appears to be in a modest deficit, the outstanding debt is not incorporated within this balance. Staff have noted this inconsistency in financial reporting to peers within the Ministry of Finance, as part of feedback on Bill 23.

The existing deficit within the DC Reserve Funds is largely the result of significant growth-related capital projects, such as the Wilmot Employment Lands, Infrastructure Master Plans and Morningside Truck Sanitary Sewer, whereby upfront costs are incurred for critical servicing infrastructure (Roads, Water, Sanitary and Storm), with development charges collections occurring at permit issuance for future construction.

Based on Cashflow Forecasting and Modelling within the 2021 Development Charges Background Study Update, from Watson & Associates, the Township is expected to collect \$52.5M in DC's over the ten (10) year horizon. This estimate is based upon current growth projections and modelling under the Official Plan and other contributing studies. The most recent iteration of the 10-Year Capital Forecast, which included updated cost estimates and project timing, is anticipating \$48.1M in DC Allocations to growth related capital projects over the same time frame. Factoring in an opening deficit of \$3.7M, the Township will be in a net positive position at the end of the ten-year planning horizon; however, a significant amount of DC funded

debt will be required to ensure growth related capital financing is in-place from a cash-flow perspective over the same time period.

All of this will be subject to the outcomes of Bill 23 and future regulations. Staff continue to monitor the implementation of Bill 23, and will keep Council aware of any impacts on long-term growth related capital financing.

As referenced in previous reports, staff are undertaking a debt management and reserve fund strategy with 2Mi Consultants. This strategy is critical to ensuring adequate funds are available to advance a number of forthcoming capital projects and future strategic priorities.

Street Lighting Infrastructure Reserve Funds

With the retrofit of street lighting to LED in 2018, annual savings in hydro consumption were utilized to finance the project. It was anticipated that the payback would take five (5) years. Fiscal 2022 represents the final payment to this fund with a projected transfer of \$42,492.

Water/Sanitary Infrastructure Reserve Funds

From an operating perspective, the 2022 user-pay budget included a combined transfer of \$1.1M to the three (3) Utility Infrastructure Reserve Funds. These transfers were higher than the anticipated budgeted transfer (\$1.20M) as noted in the 2022 Operating Summary report. Current and future transfers to reserve funds will assist with future water/sanitary capital expenditures, outlined in the Township Asset Management Plan.

Cemetery Infrastructure Reserve Funds

The 2022 operating budget at Riverside Cemetery projected a \$2,930 transfer to reserves. As noted within the 2022 Operating Summary Report, Cemetery User Fees, Investment Income and reduced operating expenses, resulted in an anticipated transfer of \$22,482. Cemetery operations are a user-pay service, surplus transfers assist in moving towards reducing the overall deficit within the cemetery reserve fund.

Building Reserve Fund (Bill 124)

As per Bill 124 legislation, the building division must be self-sustainable through the development industry. The 2022 Operating Budget included a budgeted transfer of \$72,225. Required transfers from the dedicated reserve fund to balance 2022 operations were higher than anticipated at \$346,056 due to lower than projected building activity levels. With building permit These net operating results have further increased the deficit within the dedicated Building Services Reserve Fund.

The building industry is cyclical in nature, and future growth projections including industrial and residential subdivisions, and annual fee updates will help to eliminate the existing deficit and bring this reserve fund back into a positive status over the next several years.

Reserves and Reserve funds are currently under review with the debt management and reserve fund strategy project with 2Mi Consultants. Works on the reserve fund component include streamlining reserves and defining their parameters to align with the Township's Asset Management Program, 10-Year Capital, and Operating Budget Process. This project is anticipated to be completed, with presentation to Council in Q2 2023.

The included attachment includes several columns of information. For your reference when reviewing the statement, the following describe each purpose:

- Budget Allocations (to)/from Operating Fund – these are predetermined budgeted transfers that have occurred in part of formulating the operating budget
- Contributions Received – these are contributions received from external funding sources. As an example, DC funds collected during the building permit process.
- Interest Allocation – general bank interest that is received during the fiscal period. Where these numbers are negative, they represent internal “financing charges” paid to other reserve funds which offset the reserves deficit state.
- Budget Allocations (to)/from Capital Fund – These are predetermined budgeted transfers that were determined during the capital budget process. Negative numbers represent figures that are being withdrawn from the reserve to fund the applicable capital initiatives.
- Additional Year-End Transfers (to)/from Capital / Operating Fund – these figures represent net impacts required beyond what was budgeted from their original funding source. As an example, additional funds required to fund the close of a capital initiative originally funded from Infrastructure Reserve Funds – Transportation.

ALIGNMENT WITH THE TOWNSHIP OF WILMOT STRATEGIC PLAN:

This report is aligned with the Strategic Plan goal of Responsible Governance, through the strategies of fiscal responsibility and infrastructure investments.

ACTIONS TOWARDS UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS:

This report is aligned with several of the UN Sustainable Development Goals:

- Goal 3 – Good Health and Well-Being
- Goal 6 – Clean Water and Sanitation
- Goal 8 – Decent Work and Economic Growth
- Goal 9 – Industry, Innovation and Infrastructure
- Goal 11 – Sustainable Cities and Communities

FINANCIAL CONSIDERATIONS:

The results contained within this report are preliminary and may vary with year-end adjustments. When results are finalized, the 2022 year-end transfers to/from reserve funds will occur and audited financial statements will be compiled.

The combined reserve and reserve fund balance of \$5.0M is one component of the Townships overall cash position. The cash position of the municipality is a combination of reserve funds, reserves and capital funds held to service existing approved capital needs. The existing funds in place for the capital program (including debt issued in 2022) total approximately \$14.4M, as reported in COR 2023-03. This brings the overall cash position of the municipality at year end to approximately \$19.4M.

Recent publications, including the BMA Study, present comparative analysis across the municipal sector which show Wilmot to be among the lowest in terms of tax-funded reserve funds. The lack of reserve funds make it difficult to adapt to increased capital costs or near-term unbudgeted opportunities without issuing debt. The Debt Management and Reserve Fund Strategy project intends to bring forth a pathway to improve the status of municipal reserve funds in Wilmot over the long-term.

Each reserve and reserve funds has a specific purpose as outlined within the existing Reserve Fund By-Law, while the capital funding has already been committed to specific, Council approved projects yet to be completed.

ATTACHMENTS:

APPENDIX A – 2022 Reserves and Reserve Fund Report (un-audited)