

**REPORT OF THE DIRECTOR OF FINANCE & TREASURER**

**DESCRIPTION**

Re. Reserves Report and Capital Forecast  
For the Consideration of Council

**OBJECTIVE**

To provide information pertaining to the state of the reserves and provide a capital forecast through 2027.

**RECOMMENDATION**

That the report of the Director of Finance/Treasurer re: Discretionary Reserves Report and Capital Forecast; be received

and that council approve transfer in the amount of \$1,500,000 from the working funds reserve to the Discretionary Reserves Fund; \$1,332,904 to the Building and Facilities Reserve and \$167,096 to the Community Hub Reserve

and that the Budget Committee consider the state of reserves when considering municipal contributions to the reserves in the 2023 operating budget

**BACKGROUND**

Providing an update from the report dated May 17, 2021, the purpose of this report is to summarize the various reserves held by the City, and analyze the current and forecasted state of the discretionary reserves. Included is the projected five-year capital forecast, and the relationship this forecast has with the current reserves.

## REASONS FOR RESERVES

### PREVENTION OF BORROWING

The cyclical nature in the collection of municipal taxes and the receipting of grants and other incomes creates an unsteady cash flow. Often, the City has secured provincial/federal grants, where the timelines to complete work can cause upfront expenditures (before the grant is received). If the City did not have reserves, it would be required to borrow, at a significant cost to cover expenditures.

### ABILITY TO RESPOND TO LONG TERM CAPITAL NEEDS

The presence of reserves allows the City to respond to capital requirements. An example of this is the road, water, and wastewater infrastructure improvements in the current and prior years. Within all City owned buildings, there is a need for ongoing capital repairs. The City's fleet relies on reserves to both maintain and replace major equipment. The existence of reserves allows for a steady tax levy.

### REDUCTION/ELIMINATION OF BANK CHARGES

The City reserves allow for a competitive tendering process and the ability to negotiate very reasonable terms with the bank. These terms provide a nominal interest rate and set service fees.

## TYPES OF RESERVES WORKING FUNDS, DISCRETIONARY, DIRECTED AND OBLIGATORY

### WORKING FUNDS

The Working Funds Reserve has no specific committed purpose and includes transfers from annual surplus accumulation. The Working Funds can cover various outstanding obligations, with council approval. Working funds ensure the City meets cash flow requirements and can provide contingencies for unpredictable revenue sources, emergencies such as natural disasters and covering expenditures before revenue or grant funding starts coming in. Amounts are set aside to maintain cash flow, and minimize the need for short-term borrowing.

### DISCRETIONARY RESERVES

Established by Council to earmark revenue for particular purposes under the authority of the Municipal Act for any future expenditure for which it may spend money. Council by bylaw may provide that discretionary reserves applied (spent/utilized) to a purpose other than the intention for which the fund was established. Earnings derived from the investment of a reserve fund shall form part of that reserve fund. Historically, departments have earmarked operational levied dollars for future spending. Discretionary reserves include Fleet, Information

Technology, Public Works, Library, Economic Development, Building & Facilities, Miners Memorial Care Fund, Protection to Persons & Property, Physician Recruitment, Mount Dufour Ski Hill, Management & Planning Studies, Wireless Towers, Community Services Capital, Community Improvement Plan, Land Sales / Purchases, Community Hub and Mississagi Park.

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#### DIRECTED RESERVES

Are committed reserves (for specific activities) or by council direction. Earnings derived from the investment of a reserve fund shall form part of that reserve fund. These include Elections, Sick Leave (eliminated in 2020), Landfill Site (closure and post-closure costs), Water and Wastewater Capital, Accessibility, Waterfront Development, Building Code, Arts & Culture (Civic Centre), Cemetery Capital Development.

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#### OBLIGATORY RESERVES

Obligatory reserves are those that are required by legislation. Examples are revenues received under provisions of the Development Charges Act, Planning Act, or Municipal Act, and include Federal Gas Tax and Provincial Dedicated Gas Tax. The Provincial Gas Tax reserve accounts for gas tax transfers, the City is obligated to use these funds for the expansion of public transportation infrastructure and levels of service in the City. The City receives Federal Gas Tax under an agreement signed with the Government of Ontario and the Association of Municipalities of Ontario (AMO). This funding the City is obligated to use these funds on capital projects for public transit, water, wastewater, and solid waste or community energy systems.

#### HISTORICAL MUNICIPAL CONTRIBUTIONS

Reserve contributions come from the Operational Budget and the User Pay Budget. From the operational budget, the average annual contribution is (\$1,833,556)<sup>1</sup>, or 15%.

| Year  | Municipal Contribution | Tax Levied Per Audited Financial Stmt<br><i>*budget</i> | Reserve Contribution as a % of levies |
|-------|------------------------|---------------------------------------------------------|---------------------------------------|
| 2017  | (2,052,238)            | 11,601,348                                              | 18%                                   |
| 2018  | (2,103,617)            | 11,541,159                                              | 18%                                   |
| 2019  | (1,890,299)            | 12,054,294                                              | 16%                                   |
| 2020  | (1,694,518)            | 12,569,334                                              | 13%                                   |
| 2021  | (1,634,628)            | 12,676,764                                              | 13%                                   |
| 2022* | (1,626,038)            | 13,171,307                                              | 12%                                   |

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<sup>1</sup> All contributions to reserve are presented as negative values, a negative balance is good, where the reserve remains healthy, and a positive value shows that a reserve is overspent.

The User Pay – Water and Waste Water budget has an average annual contribution is \$1,467,850 or 33%; as recommended in the Water Wastewater Study (2015) an additional 7% annual contribution to reserves has been adopted by Council.

| Year | Municipal Contribution | User Pay Budget | Reserve Contribution as a % of levies |
|------|------------------------|-----------------|---------------------------------------|
| 2017 | (894,760)              | 3,858,699       | 23%                                   |
| 2018 | (1,473,746)            | 4,128,810       | 36%                                   |
| 2019 | (1,543,207)            | 4,398,828       | 35%                                   |
| 2020 | (1,655,814)            | 4,706,760       | 35%                                   |
| 2021 | (1,771,721)            | 5,049,002       | 35%                                   |
| 2022 | (1,895,741)            | 5,404,539       | 35%                                   |

#### INTEREST CONTRIBUTIONS

The City earns interest on investments held at Edward Jones, Northern Credit Union, One Investment, and RBC. Interest revenue is reconciled at year-end and distributed amongst the reserves based on the average balance held throughout the year. The exception to the above rule is the Community Hub (Recreation) and Waterfront Development (Elliot Lake Residential Development Corp. ELRDC) which earn interest separately on the balances held.

| Year | Opening Balance | Interest  | % Interest |
|------|-----------------|-----------|------------|
| 2017 | (14,797,576)    | (306,399) | -2.07%     |
| 2018 | (16,867,172)    | (306,566) | -1.82%     |
| 2019 | (19,860,648)    | (436,920) | -2.20%     |
| 2020 | (22,510,177)    | (353,561) | -1.57%     |
| 2021 | (24,958,053)    | (294,670) | -1.18%     |

Maintenance of current investments are per the Investment Policy. The pandemic has negatively affected investment revenue. At the time of report writing we are forecasting, that this theme will change in 2022.

#### FUTURE EXPENDITURES AND CONTRIBUTIONS

Based on content provided in the 2022 Budget considerations a five-year analysis of anticipated future expenses is detailed in Appendix One. Not all reserves are noted to have future expenses; those reserves are not forgotten, they may be used on a responsive basis to address emergency needs, have planned purchases far off in the future (i.e. a ladder truck for Fire in 2040), or are specific purpose reserves (i.e. cemetery capital). Future expenditures are based on

the current conditions of buildings, equipment, fleet and infrastructure. Not taken into consideration are activities that are emergent, as these cannot be forecast.

. In the analysis to follow, there is no forecasted increase in contribution to reserves in the operational budget. Per the Water and Waste Water Rate Study, council has adopted a 7% increase for contribution to reserves, this increase is included year over year for from 2022-2027.

Excluded in future projections is the contribution from interest revenue. Interest revenue is volatile and unpredictable. According to the City's auditor, the threshold for materiality is \$500,000. Revenue from interest is not considered until the average is \$500,000 annually.

## ANALYSIS

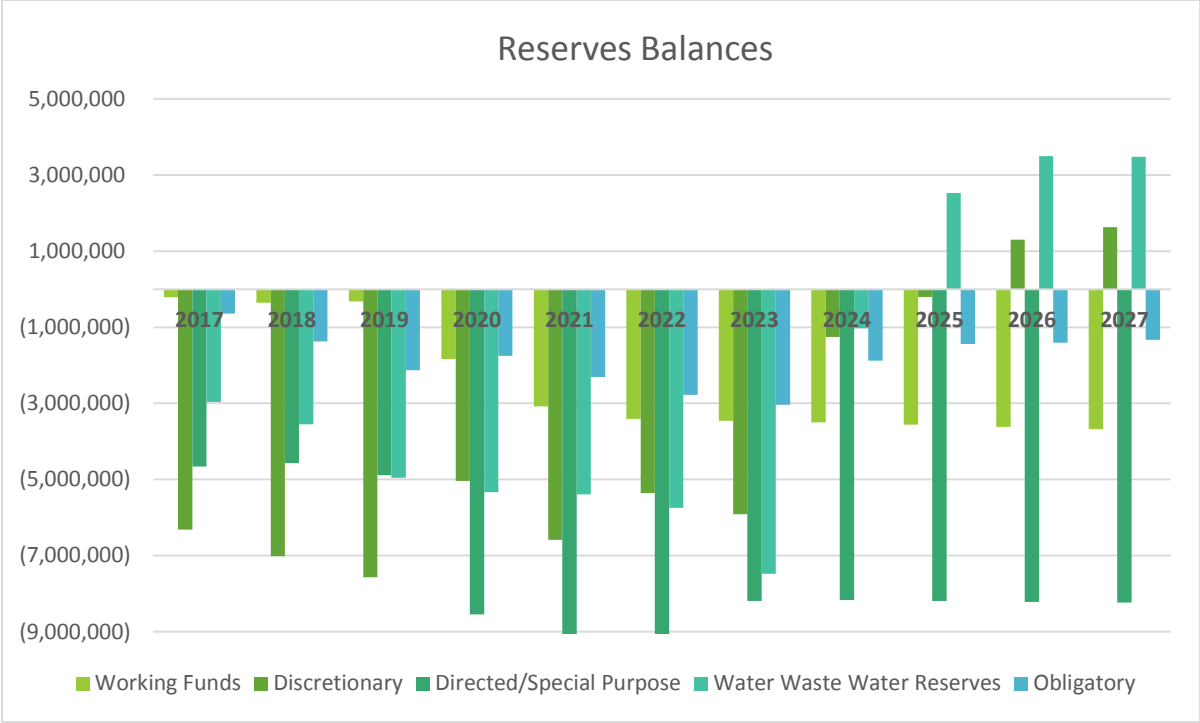
### THE GLOBAL RESERVE

Appendix Two offers a historical and forecasted overview of the reserves. A review of current year expenditures, the forecast to year-end is considered. In 2022, some previously approved capital projects are delayed to future years due to the availability of contracted services, and acquisition of goods and services. The priority of projects is coordinated with budget deliberations; there is the likelihood that priorities may shift. All approved future grants are taken into consideration.

The chart below depicts the global total held in reserves from 2017-2027 (per audited financial statements), and forecasted balances based on future expenses (Appendix One). We note that in 2025 water wastewater reserves and in 2026 discretionary reserves are overspent.

| Opening Balances | Working Funds | Discretionary | Directed/<br>Special Purpose | Water /<br>Waste Water | Obligatory  | Total        |
|------------------|---------------|---------------|------------------------------|------------------------|-------------|--------------|
| 2017             | (215,278)     | (6,314,427)   | (4,658,180)                  | (2,964,350)            | (645,342)   | (14,797,576) |
| 2018             | (359,896)     | (7,015,482)   | (4,567,573)                  | (3,554,064)            | (1,370,157) | (16,867,172) |
| 2019             | (318,627)     | (7,569,912)   | (4,888,111)                  | (4,957,831)            | (2,126,167) | (19,860,648) |
| 2020             | (1,833,654)   | (5,041,135)   | (8,544,577)                  | (5,334,874)            | (1,755,938) | (22,510,177) |
| 2021             | (3,081,152)   | (6,587,140)   | (9,088,576)                  | (5,396,541)            | (2,304,644) | (26,458,053) |
| 2022             | (3,408,920)   | (5,362,010)   | (9,153,022)                  | (5,748,871)            | (2,778,395) | (26,451,218) |
| 2023             | (3,458,630)   | (5,914,082)   | (8,193,601)                  | (7,480,435)            | (3,036,009) | (28,082,757) |
| 2024             | (3,501,130)   | (1,252,948)   | (8,171,101)                  | (1,027,395)            | (1,876,237) | (15,828,811) |
| 2025             | (3,561,130)   | (206,958)     | (8,193,601)                  | 2,527,997              | (1,443,727) | (10,877,419) |
| 2026             | (3,621,130)   | 1,300,148     | (8,216,101)                  | 3,496,092              | (1,402,995) | (8,443,985)  |
| 2027             | (3,681,130)   | 1,628,268     | (8,238,601)                  | 3,481,363              | (1,331,513) | (8,141,613)  |

The image below provides the outlook of Consideration of planned expenditures per Appendix One



Although, we maintain available balance in the global reserves, discretionary reserves and the water waste water reserves are fully depleted by 2025.

## DISCRETIONARY RESERVE

Based on projected needs (Appendix One), analysis of the discretionary reserve funds proves that if we continue with no increase in contribution the city cannot continue with the planned expenditures, and will deplete the total discretionary reserves by 2026.

The following chart below explains details the opening balances of the discretionary reserves.

| THE CORPORATION OF THE<br>CITY OF ELLIOT LAKE<br>2017 ~2027 RESERVE FUNDS | 2022<br>Opening<br>Balance | 2023<br>Opening<br>Balance | 2024<br>Opening<br>Balance | 2025<br>Opening<br>Balance | 2026<br>Opening<br>Balance |
|---------------------------------------------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <b>DISCRETIONARY RESERVE FUNDS</b>                                        |                            |                            |                            |                            |                            |
| <b>Fleet</b>                                                              | (774,842)                  | (548,745)                  | (248,400)                  | (539,875)                  | (445,637)                  |
| <b>Information Technology</b>                                             | (369,385)                  | (53,103)                   | 104,487                    | 54,487                     | 4,487                      |
| <b>Public Works</b>                                                       | (1,030,567)                | (1,695,694)                | 638,315                    | 1,733,573                  | 2,191,231                  |
| <b>Library</b>                                                            | (257,809)                  | (197,670)                  | (138,948)                  | (67,433)                   | (8,135)                    |
| <b>Economic Development</b>                                               | (354,848)                  | (131,048)                  | (106,048)                  | (131,048)                  | (156,048)                  |
| <b>Building &amp; Facilities</b>                                          | (601,949)                  | (512,629)                  | 830,940                    | 1,365,169                  | 2,557,019                  |
| <b>Miners Memorial Care Fund</b>                                          | (66,584)                   | (32,468)                   | (33,968)                   | (35,468)                   | (36,968)                   |
| <b>Protection to Persons &amp; Property</b>                               | (908,885)                  | (1,061,035)                | (1,213,185)                | (1,365,335)                | (1,449,885)                |
| <b>Physician Recruitment</b>                                              | (115,045)                  | (65,045)                   | (115,045)                  | (165,045)                  | (215,045)                  |
| <b>Mount Dufour Ski Hill</b>                                              | (147,507)                  | (202,507)                  | (257,507)                  | (312,507)                  | (367,507)                  |
| <b>Legislative Requirements</b>                                           | (127,510)                  | (127,510)                  | (127,510)                  | (127,510)                  | (127,510)                  |
| <b>Wireless Towers</b>                                                    | (227,583)                  | (257,471)                  | (287,359)                  | (317,247)                  | (347,135)                  |
| <b>Community Services Capital</b>                                         | (69,965)                   | (69,965)                   | (52,355)                   | (52,355)                   | (52,355)                   |
| <b>Community Improvement Plan</b>                                         | (133,673)                  | (133,673)                  | (133,673)                  | (133,673)                  | (133,673)                  |
| <b>Land Sales / Purchases</b>                                             | (315,347)                  | (992,615)                  | (279,787)                  | (279,787)                  | (279,787)                  |
| <b>Community Hub (OWN INTEREST)</b>                                       | 139,489                    | 167,096                    | 167,096                    | 167,096                    | 167,096                    |
| <b>TOTAL DISCRETIONARY RESERVE FUNDS</b>                                  | <b>(5,362,010)</b>         | <b>(5,914,082)</b>         | <b>(1,252,948)</b>         | <b>(206,958)</b>           | <b>1,300,148</b>           |

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## COMMUNITY HUB

Since 2018 staff has actively sought grants for the construction of the Community Hub; all attempts have been unsuccessful. However, planning has been ongoing. Since 2020, the opening balance of the Community Hub (Recreational Multi-Complex) has had a positive balance; it was anticipated that successful grants would correct this overage. The Community Hub is overspent by \$167,096.

| DETAIL                                 | TOTAL                |
|----------------------------------------|----------------------|
| <b>Balance at December 31, 2016</b>    | <b>-417,025.49</b>   |
| Interest distribution                  | -9,445.19            |
| <b>Balance at December 31, 2017</b>    | <b>-426,470.68</b>   |
| NWMO Transfer                          | -600,000.00          |
| Interest distribution                  | -18,069.59           |
| <b>Balance at December 31, 2018</b>    | <b>-1,044,540.27</b> |
| HUB planning fees                      | 67,024.80            |
| 151 Ontario Ave Land Purchase          | 983,281.04           |
| Interest distribution                  | -17,005.25           |
| <b>Balance at December 31, 2019</b>    | <b>-11,239.68</b>    |
| HUB planning fees                      | 65,082.49            |
| Deposit - outstanding credit from NWMO | -7,547.29            |
| Interest distribution                  | -225.62              |
| <b>Balance at December 31, 2020</b>    | <b>46,069.90</b>     |
| HUB planning fees                      | 93,419.41            |
| Interest distribution                  |                      |
| <b>Balance at December 31, 2021</b>    | <b>139,489.31</b>    |
| HUB planning fees                      | 27,606.87            |
| Interest distribution                  |                      |
| <b>Balance at December 31, 2022</b>    | <b>167,096.18</b>    |

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## FUTURE POSITIVE BALANCES - DEFICITS

Appendix One provides details regarding the planned future expenditures. These expenditures yield positive balances in 2024 in the reserves for, Information Technology, Public Works, Building, and Facilities.

From Appendix Two the average actual (from 2017-2021) capital expenditures from discretionary reserves is \$2,621,190. Logically, we need to contribute at least what we are spending. Currently, contribution to the discretionary reserves from the operating budget is \$1,543,538 annually. Adjusted at year-end for revenue (or deficits) for specific reserves i.e. Wireless Towers, Library and the Miner's Monument.

There are two options to ensure that we have an available balance in the reserves, increase contribution, or reduce expenditures.



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## REDUCTION OF CAPITAL PROJECTS

Appendix One, a details anticipated future projects.

Delaying Fleet Management replacement needs is not advisable, this will have a direct affect on increased expenses within the operational budget (causing increased maintenance expenses). Annual plans for Linear, Traffic Operations & Roadside Management, and major infrastructure projects are completed during each budget cycle. To improve the reserves outlook we could reduce the number of projects projected year to year. Within Buildings and Facilities, projected maintenance activities are detailed; however, emergent needs are not included.

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## THE WORKING FUNDS RESERVE

The balance of the working funds reserve has increased over the years; caused by the 2019 balancing of the financial statements for historical surpluses, and the addition of operational surpluses in 2020 and 2021.

Target levels<sup>2</sup> for working funds are:

- 5% of annual operating expenditures or 1-3 months operating expenditures (8.3% - 25%)
- Should cover operating cash flow to remove the need for short-term debt
- May be reduced if the municipality has numerous reserves/reserve funds, or increased if there are limited other funds set aside

Based on a review of the annual operating expenditures<sup>3</sup> the working funds for the city are currently overfunded, based on the target level above of 5% of annual operating expenditures.

| Year | Opening Balance | Annual Operating Expenditures | % of Annual Operating Expenditures |
|------|-----------------|-------------------------------|------------------------------------|
| 2017 | (215,278)       | 25,743,189                    | 0.84%                              |
| 2018 | (359,896)       | 25,743,189                    | 1.40%                              |
| 2019 | (318,627)       | 27,471,716                    | 1.16%                              |
| 2020 | (1,833,654)     | 26,372,923                    | 6.95%                              |
| 2021 | (3,081,152)     | 27,754,430                    | 11.10%                             |

A shuffle of working funds would positively affect the state of the struggling discretionary funds. A transfer of \$1,500,000 would leave the working funds reserve with a balance of \$1,581,152, representative of 5.70% of annual operating expenditures in 2021.

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<sup>2</sup> Source: Municipal Finance Officers Association (MFOA)

<sup>3</sup> Source: 2017, 2018, 2019, 2020, 2021 Audited Financial Statements – Statement of Operations, Total Expenses

| Year | Opening Balance | Annual Operating Expenditures | % of Annual Operating Expenditures |
|------|-----------------|-------------------------------|------------------------------------|
| 2017 | (215,278)       | 25,743,189                    | 0.84%                              |
| 2018 | (359,896)       | 25,743,189                    | 1.40%                              |
| 2019 | (318,627)       | 27,471,716                    | 1.16%                              |
| 2020 | (1,833,654)     | 26,372,923                    | 6.95%                              |
| 2021 | (1,581,152)     | 27,754,430                    | 5.70%                              |

In the chart below, we see the affect of redirecting \$1,500,000, to the Discretionary Reserves Fund. \$1,332,904 in Working Funds to the Building and Facilities Reserve and \$167,096 to the Community Hub Reserve will reduce strain, delaying the deficit in this reserve to 2026.

| THE CORPORATION OF THE<br>CITY OF ELLIOT LAKE<br>2017 ~2027 RESERVE FUNDS | 2021<br>Opening<br>Balance | 2022<br>Opening<br>Balance | 2023<br>Opening<br>Balance | 2024<br>Opening<br>Balance | 2025<br>Opening<br>Balance | 2026<br>Opening<br>Balance |
|---------------------------------------------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <b>DISCRETIONARY RESERVE FUNDS</b>                                        |                            |                            |                            |                            |                            |                            |
| Fleet                                                                     | (634,172)                  | (774,842)                  | (548,745)                  | (248,400)                  | (539,875)                  | (445,637)                  |
| Information Technology                                                    | (318,455)                  | (369,385)                  | (53,103)                   | 104,487                    | 54,487                     | 4,487                      |
| Public Works                                                              | (895,215)                  | (1,030,567)                | (1,695,694)                | 638,315                    | 1,733,573                  | 2,191,231                  |
| Library                                                                   | (276,983)                  | (257,809)                  | (197,670)                  | (138,948)                  | (67,433)                   | (8,135)                    |
| Economic Development                                                      | (245,042)                  | (354,848)                  | (131,048)                  | (106,048)                  | (131,048)                  | (156,048)                  |
| Building & Facilities                                                     | (814,926)                  | (601,949)                  | (1,845,533)                | (501,964)                  | 32,265                     | 1,224,115                  |
| Miners Memorial Care Fund                                                 | (64,054)                   | (66,584)                   | (32,468)                   | (33,968)                   | (35,468)                   | (36,968)                   |
| Protection to Persons & Property                                          | (746,083)                  | (908,885)                  | (1,061,035)                | (1,213,185)                | (1,365,335)                | (1,449,885)                |
| Physician Recruitment                                                     | (113,574)                  | (115,045)                  | (65,045)                   | (115,045)                  | (165,045)                  | (215,045)                  |
| Mount Dufour Ski Hill                                                     | (90,972)                   | (147,507)                  | (202,507)                  | (257,507)                  | (312,507)                  | (367,507)                  |
| Legislative Requirements                                                  | (125,879)                  | (127,510)                  | (127,510)                  | (127,510)                  | (127,510)                  | (127,510)                  |
| Wireless Towers                                                           | (161,294)                  | (227,583)                  | (257,471)                  | (287,359)                  | (317,247)                  | (347,135)                  |
| Community Services Capital                                                | (69,070)                   | (69,965)                   | (69,965)                   | (52,355)                   | (52,355)                   | (52,355)                   |
| Community Improvement Plan                                                | (131,963)                  | (133,673)                  | (133,673)                  | (133,673)                  | (133,673)                  | (133,673)                  |
| Land Sales / Purchases                                                    | (445,528)                  | (315,347)                  | (992,615)                  | (279,787)                  | (279,787)                  | (279,787)                  |
| Community Hub (OWN INTEREST)                                              | 46,070                     | 139,489                    | 0                          | 0                          | 0                          | 0                          |
| <b>TOTAL DISCRETIONARY RESERVE FUNDS</b>                                  | <b>(5,087,140)</b>         | <b>(5,362,010)</b>         | <b>(7,414,082)</b>         | <b>(2,752,948)</b>         | <b>(1,706,958)</b>         | <b>(199,852)</b>           |

#### DIRECTED – SPECIFIC PURPOSE RESERVES & OBLIGATORY RESERVES

At this time, the Directed - Specific Purpose and Obligatory Reserves have an available balance through 2027. The overall trend is a steady reserve balance within these two categories.

### FINANCIAL IMPACT

Any increase to the operating budget in any given year has a direct impact on the levy. If we do not consider increasing the contributions to the Discretionary Reserves, projects and planned expenditures will not be possible without taking on financed debt.

Shuffling the working funds has no financial impact. It will however greatly limit the City's responsiveness to emergent needs that would require use of working funds.

### LINKS TO STRATEGIC PLAN

Develops a strong municipal corporate administration and governance.

### SUMMARY

It is recommended that Council consider the state of reserves when considering municipal contributions to the reserves in the 2022 operating budget and that council approve transfer in the amount of \$1,500,000 from the working funds reserve to the Discretionary Reserves Fund; specifically \$1,332,904 to the Building and Facilities Reserve and \$167,096 to the Community Hub Reserve.