

### REPORT OF THE DIRECTOR OF FINANCE & TREASURER

#### DESCRIPTION

Re. 2023-2024 Updated 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 2028.

#### RECOMMENDATION

That the May 3, 2024 revised 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 Public Works Reserve and \$38.40 from the Community Hub Reserve to the Public Works Reserve

and that Council approve the transfer in the amount of \$345,110 from the working funds reserve to the Water Waste Water Reserve

and that the Budget Committee consider the state of reserves when considering municipal contributions to the reserves in the 2024 operating budget

and that the necessary bylaw be placed on an upcoming Council agenda for consideration

## BACKGROUND

Providing an update from the report dated March 5, 2024, the purpose of this report is to provide Council with the balance of reserves held by the City, and analyze the future state of reserves, based on known and anticipated projects.

Since the last publication of this report, new information has become available and is reflected in the balances. Interest revenue is finalized for 2023, and presented as unaudited actuals.

From the March 5, 2024 review of the previous reserves report, all transfers to reserve per the recommendation are included in the analysis.

At the March 26, 2024 adhoc budget committee meeting, a review of the 2024 operating budget, the committee committed an additional \$250,000 to the working funds reserve; this has been included in the analysis.

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### APPENDIX ONE: FIVE-YEAR CAPITAL FORECAST

The five-year capital forecast contained in Appendix One includes the 2024 Capital Budget, and a revision based on information received at the time of report writing. The purpose of Appendix One is to provide Council with an understanding of the potential financial shortfalls if forecasted projects are funded using existing reserves.

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### APPENDIX TWO: FIVE-YEAR CAPITAL FORECAST

Appendix Two offers a historical and forecasted overview of the reserves from 2017-2022 as balanced to financial statements. Forecasts are provided for 2023-2028, based on known and future anticipated contributions and expenditures per Appendix One.

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### APPENDIX THREE: RESERVE PURPOSES AND FUNDING SOURCES

This appendix provides further detail on each reserve, including the purpose of the reserve, pertinent legislation, and the sources of funding that support each reserve. Budgeted contributions are noted where reserves are supported by annual levied (taxation) or user-pay (water wastewater) funds.

## REASONS FOR RESERVES

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### 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 for the City. 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.

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#### 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 previous 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.

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#### 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

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##### 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 the receipt of revenue or grant funding. Amounts are set aside to maintain cash flow, and minimize the need for short-term borrowing.

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##### 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 be 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

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.

#### 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). 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 (\$1,830,329)<sup>1</sup>, or 15%.

Year	Municipal Contribution	Tax Levied*	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	(1,693,491)	13,453,389	13%
2023*	(1,743,515)	13,931,968	13%

\* Per Audited Financial Statement for years 2017-2022 & based on the 2023 budget

The User Pay – Water and Waste Water budget has an average annual contribution is \$1,635,258 or 34%; per the Water Wastewater Study an additional 7% annual contribution is included.

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	(1,984,327)	5,404,539	37%
2023*	(2,123,230)	5,770,597	37%

\* Per Audited Financial Statement for years 2017-2022 & based on the 2023 budget

<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.

## 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%
2022	(26,451,221)	(622,711)	2.35%
2023*	(31,940,576)	(1,261,372)	3.95%

Maintenance of current investments are per the Investment Policy. The pandemic negatively affected investment revenue, with a major recovery as noted in the estimated 2023 interest revenue. The interest revenue\* is presented for 2023 as an unaudited actual.

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## FUTURE EXPENDITURES AND CONTRIBUTIONS

At the time of this report writing, best estimates are reflective of known circumstances. Council will note that many projects have been removed from the five-year analysis. The estimates are provided in the five-year analysis for future expenses as 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 increase in contribution to reserves (funded by the levy) in the operational budget. However, 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 2025-2028; with an exception for 2024, based on the draft 2024 User Pay – Water Waste Water Budget.

Excluded in future projections is the contribution from interest revenue as this form of revenue is volatile and unpredictable.

## ANALYSIS

### FUTURE POSITIVE BALANCES - DEFICITS

Appendix One provides details regarding the planned future expenditures. These expenditures yield positive balances for numerous reserves. Logically, we need to contribute at least what we are spending, or consider using debt to take on projects.

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

### REDUCTION OF CAPITAL PROJECTS

Appendix One, provides the draft 2024 capital budget and a forecast for anticipated future projects.

Delaying Fleet Management replacement is not advisable as, this will have a direct effect 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. Building condition assessments are ongoing as a part of our continuing asset management planning process. The identified projects are a subset of work that will likely be required in the near to medium term.

### THE GLOBAL RESERVE

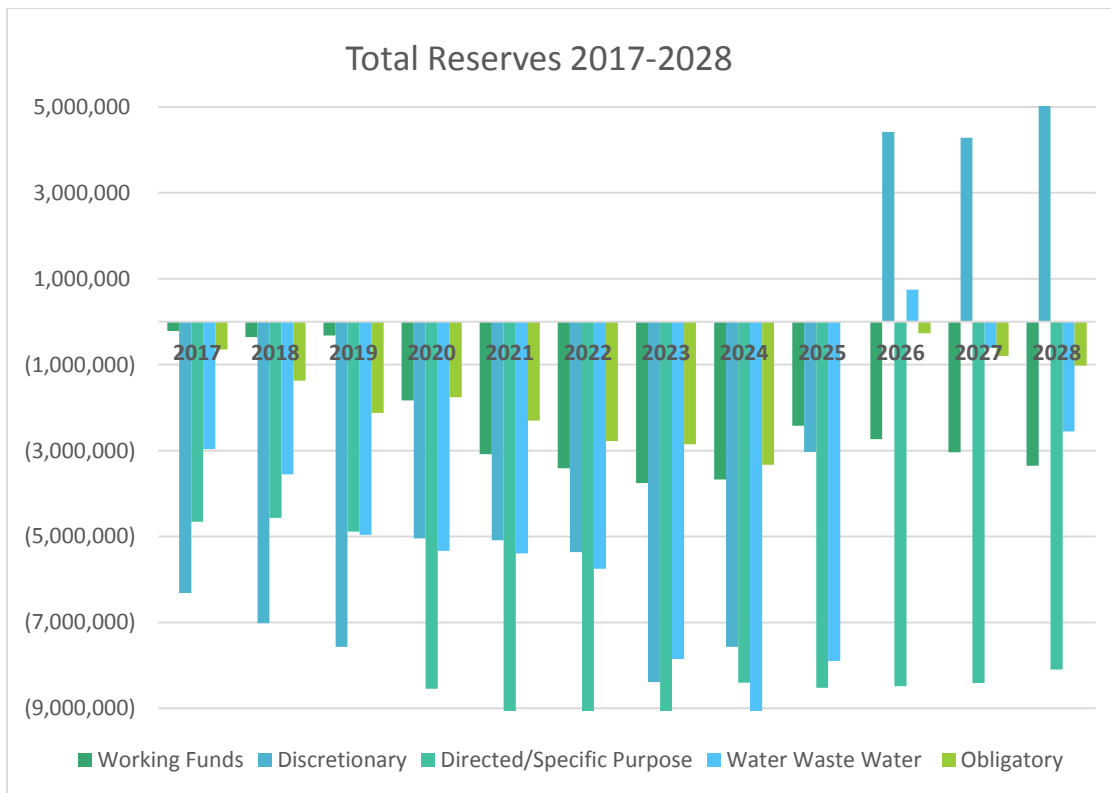
Appendix Two offers a historical and forecasted overview of the reserves. In 2023, some previously approved capital projects were delayed to future years due to the availability of contracted services, and acquisition of goods and services. The priority of projects are coordinated with budget deliberations; 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 2017-2022 as balanced to financial statements. For 2023-2028, the chart provides forecasts for known and anticipated contributions and expenses as identified in Appendix One.

Total Reserves 2017-2028						
Opening Balances	Working Funds	Discretionary	Directed / Specific Purpose	Water 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)

Total Reserves 2017-2028						
Opening Balances	Working Funds	Discretionary	Directed / Specific Purpose	Water Waste Water	Obligatory	Total
2020	(1,833,654)	(5,041,135)	(8,544,577)	(5,334,874)	(1,755,938)	(22,510,177)
2021	(3,081,152)	(5,087,140)	(9,088,576)	(5,396,541)	(2,304,644)	(24,958,053)
2022	(3,408,920)	(5,362,010)	(9,153,025)	(5,748,871)	(2,778,395)	(26,451,221)
2023	(3,757,248)	(8,390,052)	(9,084,973)	(7,852,621)	(2,855,683)	(31,940,576)
2024	(3,675,061)	(7,569,586)	(8,404,974)	(10,060,041)	(3,329,142)	(33,038,805)
2025	(2,422,794)	(3,034,989)	(8,518,042)	(7,896,866)	0	(21,872,691)
2026	(2,732,794)	4,414,862	(8,481,284)	742,291	(267,022)	(6,323,947)
2027	(3,042,794)	4,286,171	(8,410,588)	(611,668)	(797,081)	(8,575,961)
2028	(3,352,794)	5,421,603	(8,097,280)	(2,554,963)	(1,019,110)	(9,602,544)

Overspent reserves are highlighted with positive values.



#### DISCRETIONARY RESERVE

Based on projected needs from Appendix One, analysis of the discretionary reserve funds shows that if we continue with no increase in contribution or other capitalization the City cannot continue with the planned expenditures, and will deplete the total discretionary reserves by 2026.

#### COMMUNITY HUB

<b>DISCRETIONARY RESERVE FUNDS</b>	<b>2023 Opening Balance</b>	<b>2024 Opening Balance</b>	<b>2025 Opening Balance</b>	<b>2026 Opening Balance</b>	<b>2027 Opening Balance</b>	<b>2028 Opening Balance</b>
Fleet	(1,217,251)	(1,023,704)	(857,594)	56,774	1,175,587	1,814,229
Information Technology	(397,760)	(465,833)	(263,897)	(313,897)	(363,897)	(249,046)
Public Works	(1,070,048)	(1,051,287)	(662,208)	(1,072,230)	(2,047,125)	(1,449,836)
Library	(265,856)	(280,076)	(271,463)	(264,950)	(232,755)	(235,559)
Economic Development	(217,506)	(252,339)	(262,075)	(287,075)	(312,075)	(337,075)
Building & Facilities	(2,186,890)	(1,146,344)	2,644,257	9,894,463	9,931,869	10,073,135
Miners Memorial Care Fund	(60,067)	(31,747)	(33,247)	(34,747)	(36,247)	(37,747)
Protection to Persons & Property	(1,085,013)	(1,286,801)	(1,439,127)	(1,523,853)	(1,614,579)	(1,766,905)
Physician Recruitment	(67,237)	(90,539)	(165,539)	(240,539)	(340,539)	(440,539)
Mount Dufour Ski Hill	(206,768)	(271,783)	(185,015)	(240,015)	(295,015)	(350,015)
Legislative Requirements	(130,614)	(136,198)	(136,198)	(136,198)	(136,198)	(136,198)
Wireless Towers	(255,898)	(291,703)	(161,689)	(181,675)	(201,661)	(221,647)
Community Services Capital	(71,668)	(59,214)	(59,214)	(59,214)	(59,214)	(59,214)
Community Improvement Plan	(136,927)	(142,781)	(142,781)	(142,781)	(142,781)	(142,781)
Land Sales / Purchases	(1,020,509)	(1,039,198)	(1,039,198)	(1,039,198)	(1,039,198)	(1,039,198)
Community Hub	(38)	(38)	0	0	0	0
<b>TOTAL DISCRETIONARY FUNDS</b>	<b>(8,390,052)</b>	<b>(7,569,586)</b>	<b>(3,034,989)</b>	<b>4,414,862</b>	<b>4,286,171</b>	<b>5,421,603</b>

In 2022 Council resolved to clear the Community Hub reserve with a transfer from Working Funds to the Community Hub reserve in the amount of \$167,096. During the audit process, this value was found to be overstated by \$38. The recommendation of this reports is required to facilitate the clean up of this reserve.

#### WATER WASTE WATER RESERVES

The water and wastewater reserve is separate from all other reserves as the funds are sourced from user fees and not property tax. The Water and Waste Water Rate Study, encourages a minimum 7% year over year increase to reserves, this increase is included year over year for from 2022-2028. Based on the draft 2024 User Pay Budget for Water Waste Water, staff have proposed a 21% increase to contribution to the reserves.

The following chart has been prepared on the assumption that the 2024 contribution is per the draft budget, a 21% increase, \$2,569,109; and future increases are maintained at 7%. Using projected needs (Appendix One), and the Water Waste Water Reserve funds proves that if we continue with the static 7% increase the department cannot continue with the planned expenditures, and will deplete the reserves by 2026.



Water Waste Water Reserves							
Year	Opening Balance	Municipal Contribution	Contribution Grants/ Surplus	Interest	Expenditure	User Pay Budget	Contribution as a % of levies
2017	(2,964,350)	(894,760)		(72,496)	377,541	3,858,699	23%
2018	(3,554,064)	(1,473,746)		(80,634)	150,613	4,128,810	36%
2019	(4,957,831)	(1,543,207)	(298,115)	(120,636)	1,584,914	4,398,828	35%
2020	(5,334,874)	(1,655,814)		(92,429)	1,686,576	4,706,760	35%
2021	(5,396,541)	(1,771,721)		(71,735)	1,491,125	5,049,002	35%
2022	(5,748,871)	(1,984,327)		(163,567)	44,145	5,404,539	37%
2023	(7,852,621)	(2,123,230)		(367,000)	280,802	5,770,597	37%
2024	(10,060,041)	(2,569,109)	(1,659,110)		6,391,395	6,164,027*	42%
2025	(7,896,866)	(2,748,946)			11,388,103		
2026	742,291	(2,941,373)			1,587,413		
2027	(611,668)	(3,147,269)			1,203,974		
2028	(2,554,963)	(3,367,578)			753,193		

\* Approved 2024 User Pay Budget for Water Waste Water

Consideration should be given in future budgets to increase contributions to the Water Waste Water Reserve beyond the recommended 7%.

#### THE WORKING FUNDS RESERVE

The balance of the working funds reserve has increased over the years. This was caused by the 2019 balancing of the financial statements for historical surpluses; and the addition of operational surpluses in 2020 and 2021. In 2022, Council resolved to move \$1,500,000 from the Working Fund Reserve to the Building and Facilities Reserve (\$1,332,904) and the Community Hub Reserve (\$167,096).

The transfer of the funds in 2022 were based on 2021 balances Following the preparation of audited financial statements an additional \$1,786,976 was contributed to working funds based on the 2022 surplus; \$1,376,299 from Operations (Levy) and \$354,110 from Water Waste Water (User Pay).

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

- 5% of annual operating expenditures or 1-3 months operating expenditures
- Are meant to 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

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

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.

A shuffle of working funds would positively affect the state of the struggling Discretionary Reserves and the Water Waste Water Reserve. A transfer of \$1,845,110 would leave the working funds reserve with a balance of \$1,563,810, representative of 5.22% of annual operating expenditures in 2022. Where \$1,500,000 would be transferred to Discretionary Reserves – Public Works and \$345,110 would be transferred to Water Waste Water.

Working Funds			
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%
2022	<b>(1,563,810)</b>	29,931,200	5.22%

Per Appendix Two, 2024 Reserves Report and Forecast, we see the affect of redirecting \$1,500,000, to the Discretionary Reserves Fund. The line specific reserve that is in the worst position is the Building and Facilities. However, \$1.5M is not sufficient to affect balance of the Building and Facilities Reserve in an significant way. For that reason, staff recommends that \$1.5M be moved to the Public Works reserve where opening balances in 2025 through 2028 remain intact.

Staff would like to note that, per Appendix One projects previously considered in the 2022 Reserves Report have been delayed beyond 2028.

- Infrastructure Renewal - Roman / Willoughby (previously considered for 2025)
- Infrastructure Renewal - Lakeview Drive (previously considered for 2027)
- Infrastructure Renewal - Spruce / Maple / Oak (previously considered for 2028)

These projects remain on future plans and Staff is investigating ways to perform targeted renewals on a smaller scale.

The balance of the Water Waste Water Reserve improves with the addition of the 2022 surplus of \$345,110. This transfer is insufficient to move the opening balances of the reserve to a sustainable level.

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

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

At this time, the Directed - Specific Purpose and Obligatory Reserves have an available balance through 2028. The overall trend is a steady reserve balance within these two categories.

This is namely due to the fact that there are very few (if any) anticipated expenses from these reserves.

### **FINANCIAL IMPACT**

Any increase to the contribution to the reserves in any year has a direct impact on the levy/user fees.

Increasing the contributions to City Reserves and the Water Waste Water Reserve ensures that projects and planned expenditures may be possible with a reduced reliance on financed debt.

Increasing the contributions to City Reserves also builds capacity if the City requires debt financing to realize upcoming projects. It would be possible for the City to redirect a portion of the annual reserve contributions to service debt payments, thereby reducing the impact to future levy/user fees.

Shuffling the working funds has no impact on the City's capacity to take on capital projects. However, it does 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 staff's recommendation that Council consider the state of reserves when considering municipal contributions to the reserves in the future Operating and User Pay Budgets.

It is further recommended that Council approve a transfer in the amount of \$1,500,000 from the working funds reserve to the to the Discretionary Reserves Fund; specifically \$1,500,000 to the Public Works Reserve and \$38.40 from the Community Hub Reserve, to the Public Works Reserve. Furthermore, that Council approve the transfer in the amount of \$345,110 from the working funds reserve to the Water Waste Water Reserve.