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## **2020 Reserves and Reserve Funds Budget Staff Report to Council**

Report Number: 2020-54

Department(s): Financial Services

Author(s): Mike Mayes, Director of Financial Services/Treasurer

Meeting Date: July 20, 2020

### **Recommendations**

1. That the report entitled 2020 Reserves and Reserve Funds Budget dated July 20, 2020 be received; and,
2. That 2020 Reserves and Reserve Funds Budget as set out in the attachment be approved; and,
3. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

### **Executive Summary**

Following the final approvals of the Operating and Capital budgets for a year, there is a requirement for Council to approve the contributions to the Reserves and Reserve Funds.

The 2020 budgeted revenues for reserves and reserve funds including obligatory reserve funds are \$26.3 million. They include \$16.0 million in transfers from the operating budget, \$2.5 million from the gas tax grant, and \$7.1 million in contributions from developers, mainly from Development Charges.

Reserves and reserve funds, including obligatory reserve funds (for development charges and parkland contributions, gas tax grant, etc.) had a combined balance of \$95.6 million at the beginning of 2020 and are budgeted to have a balance of \$82.4 million at the end of 2020, a decrease of \$13.2 million.

## Purpose

The purpose of this report is to seek Council approval of the 2020 Reserves and Reserve Funds Budget.

## Background

The majority of the Reserves and Reserve Funds budget has already been established through the previous adoption of the 2020 Operating and Capital Budgets. The projected revenues, i.e. interest earned, contributions from developers, items paid directly to the reserve and reserve funds, etc., are based upon the trends of the last three years.

## Discussion

Reserves and reserve funds, including obligatory reserve funds (for development charges and parkland contributions, gas tax grant, etc.) had a combined balance of \$95.6 million at the beginning of 2020 and are budgeted to have a balance of \$82.4 million at the end of 2020, a decrease of \$13.2 million. The details of the 2020 reserves and reserve funds budget are attached. They are summarized below:

### 1. Reserves and reserve funds for capital purposes

These reserves and reserve funds were set up for the funding of future capital projects.

Category	Beginning Balance 2020	Revenues	Expenses	Ending Balance 2020	Change over 2019
General Capital	4,130,258	355,874	629,406	3,856,726	(273,532)
Loan to Capital	(10,388,307)	469,619	4,822,903	(14,741,591)	(4,353,284)
Designated Capital	13,542,428	1,247,995	1,531,926	13,258,497	(283,931)
Growth Funds	3,536,001	646,587	435,000	3,747,588	211,587
Asset Replacement Funds	22,319,524	12,984,166	11,560,089	23,743,601	1,424,077
<b>TOTAL</b>	<b>33,139,904</b>	<b>15,704,241</b>	<b>18,979,324</b>	<b>29,864,821</b>	<b>(3,275,083)</b>

Revenues in the General Capital and Designated Capital reserve funds are mainly transfers from the operating fund for things like capital financing, environmental land

purchases, the official plan and other items that may on occasion be included in the operating budget.

Revenues in the Growth Funds include a projection of \$325,000 in voluntary trail contributions and \$360,000 in Recommending–A-Strategy (RAS) surcharges<sup>1</sup>. A detailed list of all the reserves and reserve funds is attached to this report.

The budgeted balance of the Asset Replacement Funds is projected to increase by \$1.4 million during 2020. This is mainly due to annual contributions from operating fund exceeding the budgeted financing from the Asset Replacement Funds.

Loan to capital, internal loans from the reserve fund to fund capital projects, is budgeted to increase by \$4.3 million mainly for the water meter replacement project.

Total reserves and reserve funds for capital purposes is budgeted to decrease by \$3.3 million.

## 2. Reserves and reserve funds for operating purposes

These reserves were set up for rate stabilization and operational contingencies. The total 2020 ending balance of these reserves and reserve funds is 14.2% of 2020 budgeted taxation revenue. The target level is 5-10%.

Category	Beginning Balance 2020	Revenues	Expenses	Ending Balance 2020	Change over 2019
Operational Contingencies	2,827,138	350,000	95,000	3,082,138	255,000
Cyclical Expenses	514,605	95,441	-	610,046	95,441
Discretionary Operating	3,727,817	544,686	98,872	4,173,631	445,814
Operational Carry-overs	1,571,081	-	67,000	1,504,081	(67,000)
<b>TOTAL</b>	<b>8,640,641</b>	<b>990,127</b>	<b>260,872</b>	<b>9,369,896</b>	<b>729,255</b>

## 3. Obligatory reserves and reserve funds

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<sup>1</sup> Some recreational programs and activities have a capital surcharge referred to as Recommending a Strategy or RAS for short. This was created as part of a Recreation master plan to obtain additional funding for facilities required to meet the demands of a growing community.

These are legislated reserves and include Cash-in-Lieu Contributions for Parkland from developers, Development Charges, Gas Tax Grant, Building Permit Fees and Engineering Administration fees for development. There are statutory restrictions on these reserve funds and their accounting treatment has been confirmed with our auditors.

<b>Category</b>	<b>Beginning Balance 2020</b>	<b>Revenues</b>	<b>Expenses</b>	<b>Ending Balance 2020</b>	<b>Change over 2019</b>
Cash-in-Lieu Contributions for Parkland	1,834,160	591,429	250,000	2,175,589	341,429
Development Charges	28,094,696	5,036,238	11,050,077	22,080,857	(6,013,839)
Gas Tax Grant	6,608,854	2,573,198	6,458,000	2,724,052	(3,884,802)
Building Permit Fees	4,158,885	17,213	1,163,671	3,012,427	(1,146,458)
Engineering Administration	505,399	687,720	944,572	248,547	(256,852)
<b>TOTAL</b>	<b>41,201,994</b>	<b>8,905,798</b>	<b>19,866,320</b>	<b>30,241,472</b>	<b>(10,960,522)</b>

Revenue estimates for Development Charges and Cash-in-Lieu Contributions for Parkland are extrapolated from the trends of the preceding three years.

The budgeted ending balance will decrease \$10.9 million.

#### **4. Other reserves and reserve funds**

These are reserves and reserve funds not included in the above groups.

<b>Category</b>	<b>Beginning Balance 2020</b>	<b>Revenues</b>	<b>Expenses</b>	<b>Ending Balance 2020</b>	<b>Change over 2019</b>
Development Related Revenues	3,334,743	143,489	365,747	3,112,485	(222,259)
Restricted Operating	9,267,129	612,686	91,335	9,788,480	521,351
<b>TOTAL</b>	<b>12,601,872</b>	<b>756,175</b>	<b>457,082</b>	<b>12,900,965</b>	<b>299,092</b>

Restricted operating reserves are set aside for very specific purposes. Most of them are at a healthy level: the long-term disability reserve fund is 120% of our accrued obligation, water & waste rate stabilization reserve combined reserve is \$1.4 million.

## **Conclusion**

The majority of the Reserves and Reserve Funds budget has already been established through the previous adoption of the 2020 Operating and Capital Budgets. Projected revenues for reserves and reserve funds excluding transfers are based upon the trends of the last three years.

## **Business Plan and Strategic Plan Linkages**

By ensuring that Asset Replacement Funds are appropriately allocated, this report links to Newmarket's key strategic directions of Long-term Financial Sustainability and its 3<sup>rd</sup> priority of multi-year budgeting.

## **Consultation**

The 2020 Reserves and Reserve Funds Budget has been created from the 2020 Capital and Operating Budgets which were developed by staff and have undergone extensive review by the public and Council.

## **Human Resource Considerations**

Not applicable to this report.

## **Budget Impact**

This report has no direct impact on the Operating Budget. All transfers to or from the Operating Budget were previously approved by Council.

There is no direct impact on the Capital Budget. All transfers to the Capital Budget were previously approved by Council.

## **Attachments**

2020 Reserves and Reserve Funds Budget

## **Approval**

Mike Mayes, CPA, CGA, DPA

Director, Financial Services/Treasurer

Esther Armchuk, LL.B  
Commissioner, Corporate Services

## **Contact**

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