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2021 Reserve and Reserve Funds Budget Staff Report to Council

Report Number: 2021-45

Department(s): Financial Services

Author(s): Anita Gibson, Sr. Financial Analyst, Financial Services

Meeting Date: June 14, 2021

Recommendations

1. That the report entitled 2021 Reserves and Reserve Funds Budget dated June 14, 2020 be received; and,
2. That 2021 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 2021 budgeted revenues for reserves and reserve funds including obligatory reserve funds are \$35.4 million. They include \$17.7 million in transfers from the operating budget, \$5.2 million from the gas tax grant, and \$11.7 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 \$120.6 million at the beginning of 2021 and are budgeted to have a balance of \$113.1 million at the end of 2020, a decrease of \$7.5 million.

Purpose

The purpose of this report is to seek Council approval of the 2021 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 2021 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

The details of the 2021 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 2021	Revenues	Expenses	Ending Balance 2021	Change over 2020
General Capital	5,410,362	271,143	457,200	5,224,305	(186,057)
Loan to Capital	(10,427,618)	466,594	9,178,903	(19,139,927)	(8,712,309)
Designated Capital	13,941,801	1,115,920	1,086,076	13,971,645	29,844
Growth Funds	3,890,516	992,326	435,000	4,447,842	557,326
Asset Replacement Funds	31,720,559	14,201,363	12,905,543	33,016,379	1,295,820
TOTAL	44,535,620	17,047,346	24,062,722	37,520,244	(7,015,376)

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. Total reserves and reserve funds for capital purposes is budgeted to decrease by \$7.0 million.

Loan to capital, internal loans from the reserve fund to fund capital projects, is budgeted to increase by \$8.7 million mainly for the water meter replacement project.

Revenues in the Growth Funds include budgeted operating transfers and Recommending-A-Strategy (RAS) surcharges¹ of \$360,000, and a projection of \$146,000 in voluntary trail contributions.

The budgeted balance of the Asset Replacement Funds is projected to increase by \$1.3 million during 2021. This is mainly due to annual contributions from operating fund exceeding the budgeted financing from the Asset Replacement Funds.

2. Reserves and reserve funds for operating purposes

These reserves were set up for rate stabilization and operational contingencies. The total 2021 ending balance of these reserves and reserve funds is 18.0% of 2021 budgeted taxation revenue. The target level is 5-10%.

Category	Beginning Balance 2021	Revenues	Expenses	Ending Balance 2021	Change over 2020
Operational Contingencies	4,141,171	623,500	295,000	4,469,671	328,500
Cyclical Expenses	614,643	95,826	-	710,469	95,826
Discretionary Operating	4,415,771	548,172	98,872	4,865,071	449,300
Operational Carry-overs	1,974,660	-	144,520	1,830,140	(144,520)
TOTAL	11,146,245	1,267,498	538,392	11,875,351	729,106

3. Obligatory reserves and reserve funds

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

¹ 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.

funds and their accounting treatment has been confirmed with our auditors. The budgeted ending balance will decrease \$1.1 million.

Category	Beginning Balance 2021	Revenues	Expenses	Ending Balance 2021	Change over 2020
Cash-in-Lieu Contributions for Parkland	5,190,172	964,324	250,000	5,904,496	714,324
Development Charges	33,002,670	9,689,288	12,673,725	30,018,233	(2,984,437)
Gas Tax Grant	8,020,945	5,266,804	2,500,000	10,787,749	2,766,804
Building Permit Fees	2,714,575	13,037	1,148,854	1,578,758	(1,135,817)
Engineering Administration	143,517	471,231	944,572	(329,824)	(473,341)
TOTAL	49,071,879	16,404,684	17,517,151	47,959,412	(1,112,467)

Revenue estimates for Development Charges are from the 2019 Development Charge Background Study and Cash-in-Lieu Contributions for Parkland are extrapolated from the trends of the preceding six years.

Gas tax revenue includes a one-time doubling of gas tax pending the approval of Bill C-25. The top-up payment allocated to Newmarket is \$2.6 million.

4. Other reserves and reserve funds

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

Category	Beginning Balance 2021	Revenues	Expenses	Ending Balance 2021	Change over 2020
Development Related Revenues	4,038,152	214,105	340,747	3,911,510	(126,642)
Restricted Operating	11,788,631	426,819	355,000	11,860,450	71,818
TOTAL	15,826,783	640,924	695,747	15,771,960	(54,824)

Development related revenues includes reserves for tree planting, perpetual maintenance, planning applications subdivision and finance administration fees.

Restricted operating reserves are set aside for very specific purposes for example CYFS, Library, Long-term disability, water & sewer rate stabilization reserves make up this category. Most of them are at a healthy level: the long-term disability reserve fund is 99% of our accrued obligation. Water, sewer, and stormwater rate stabilization has a combined balance of \$5.2 million.

Conclusion

The majority of the Reserves and Reserve Funds budget has already been established through the previous adoption of the 2021 Operating and Capital Budgets. Projected revenues for reserves and reserve funds excluding transfers are based upon the development charge background study and proceeding year trends.

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 3rd priority of multi-year budgeting.

Consultation

The 2021 Reserves and Reserve Funds Budget has been created from the 2021 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

2021 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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