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2023 Reserve and Reserve Funds Budget Staff Report to Council

Report Number: 2023-43

Department(s): Financial Services

Author(s): Anita Gibson, Sr. Financial Analyst, Financial Services, Audrey Roberts-Mattar, Financial Analyst

Meeting Date: June 19, 2023

Recommendations

1. That the report entitled 2023 Reserves and Reserve Funds Budget dated June 19, 2023, be received; and,
2. That 2023 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 2023 Operating and Capital budgets, there is a requirement for Council to approve the contributions to the Reserves and Reserve Funds.

The 2023 budgeted revenues for reserves and reserve funds including obligatory reserve funds are \$36.4 million. They include \$19.2 million in transfers from the operating budget, \$2.8 million from the Building Canada Fund (previously known as the Federal Gas Tax grant), and \$11.8 million in contributions from developers, mainly from Development Charges.

Reserves and reserve funds, including obligatory reserve funds (for development charges, parkland contributions, and building Canada fund grant, etc.) had a combined balance of \$178.1 million at the beginning of 2023 and are budgeted to have a balance of \$148.6 million at the end of 2023, a decrease of \$29.4 million.

Purpose

The purpose of this report is to seek Council approval of the 2023 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 2023 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 2023 reserves and reserve funds budget are attached. They are also summarized below:

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 2023	Revenues	Expenses	Ending Balance 2023	Change over 2022
General Capital	6,683,926	1,026,698	3,706,000	4,004,624	(2,679,302)
Loan to Capital	(11,484,234)	1,503,897	7,159,000	(17,139,337)	(5,655,103)
Designated Capital	17,574,392	2,040,046	3,107,076	16,507,362	(1,067,030)
Growth Funds	4,567,388	442,946	635,000	4,375,334	(192,054)
Asset Replacement Funds	69,025,408	13,755,857	12,771,350	70,009,915	984,507
TOTAL	86,366,880	18,769,444	27,378,426	77,757,898	(8,608,982)

Revenues in the General Capital and Designated Capital reserve funds are mainly transfers from the operating fund for capital financing, environmental land purchases, the official plan and other items that may on occasion be included in the operating budget.

Loan to Capital, internal loans from the reserve fund to fund capital projects, are budgeted to decreased by \$5.7 million.

Revenues in the Growth Funds include budgeted operating transfers and Recommending–A-Strategy (RAS) surcharges¹ of \$180,000, and a projection of \$24,000 in voluntary trail contributions.

The budgeted balance of the Asset Replacement Funds is projected to increase by \$0.9 million in 2023.

Reserves and reserve funds for operating purposes

These reserves were set up for rate stabilization and operational contingencies. The total 2023 ending balance of these reserves and reserve funds is 23.7% of the 2023 budgeted taxation revenue. The target level is 5-10%.

Category	Beginning Balance 2023	Revenues	Expenses	Ending Balance 2023	Change over 2022
Operational Contingencies	6,600,822	41,500	243,000	6,399,322	(201,500)
Cyclical Expenses	800,193	98,117	-	898,310	98,117
Discretionary Operating	6,563,242	160,828	98,872	6,625,198	61,956
Operational Carry-overs	3,699,967	-	144,520	3,555,447	(144,520)
TOTAL	17,664,224	300,445	486,392	17,478,277	(185,947)

Obligatory reserves and reserve funds

These are legislated reserves and include Parkland from developers, Development Charges, Building Canada Fund 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. The budgeted ending balance will decrease by \$21.4 million.

Category	Beginning Balance 2023	Revenues	Expenses	Ending Balance 2023	Change over 2022
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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.

Parkland	6,794,435	1,324,331	250,000	7,868,766	1,074,331
Development Charges	33,666,071	10,191,904	30,557,799	13,300,176	(20,365,895)
Gas Tax Grant	11,717,535	2,974,544	3,944,000	10,748,079	(969,456)
Building Permit Fees	1,880,144	24,350	920,842	983,652	(896,492)
Engineering Administration	625,164	527,525	763,751	388,938	(236,226)
TOTAL	54,683,349	15,042,654	36,436,392	33,289,611	(21,393,738)

Parkland is extrapolated from the trends of the preceding six years.

Revenue estimates for Development Charges are from the 2019 and 2022 Development Charge Background Study. Development charge expenditures are mainly for capital program spending. The capital program includes Mulock Park, Municipal Infrastructure Projects, and the Trails & Multi-Use Path.

The Reserve Fund for Building Permit Fees is at 79% of total annual costs at year-end. This ratio is below the target range of 100% to 200%; Increase in fees of 2.5% was approved for Jan 1, 2023.

Other reserves and reserve funds

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

Category	Beginning Balance 2023	Revenues	Expenses	Ending Balance 2023	Change over 2022
Development Related Revenues	4,237,473	268,091	645,747	3,859,818	(377,656)
Restricted Operating	15,111,298	2,030,850	889,407	16,252,741	1,141,443
TOTAL	19,348,771	2,298,942	1,535,154	20,112,559	763,788

Development-related revenues include 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, and water & sewer rate stabilization reserves make up this category. The long-term disability reserve fund is 47% of our accrued obligation. Water, Sewer, and Stormwater rate stabilization have a combined balance of \$8.5 million.

Conclusion

The majority of the Reserves and Reserve Funds budget has already been established through the previous adoption of the 2023 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 2023 Reserves and Reserve Funds Budget has been created from the 2023 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.

The investment income budget remains unchanged however the actuals are subject to market performance.

Attachments

2023 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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