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2024 Reserves and Reserve Funds Budget Staff Report to Council

Report Number: 2024-51

Department(s): Financial Services

Author(s): Mike Mayes, Finance Consultant

Meeting Date: September 9, 2024

Recommendations

1. That the report entitled 2024 Reserves and Reserve Funds Budget dated September 9, 2024, be received; and,
2. That 2024 Reserves and Reserve Funds Budget as set out in the attachment be approved; and,
3. That the housekeeping changes outlined in this report be adopted; and,
4. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

The 2024 Reserves and Reserve Funds Budget is a consolidation of the transfers approved in the 2024 Operating and Capital Budgets and estimated revenues.

At the beginning of 2024, Reserves and Reserve Funds had a combined balance of \$185.2 million and are budgeted to end the year with a balance of \$163.0 million, a decrease of \$22.2 million. The 2024 budgeted revenues for reserves and reserve funds are \$47.3 million - including \$31.6 million from the operating budget (\$2.2 million from 2023 year-end transfers), \$7.3 million in contributions from developers (93% development charges), \$5.5 million in interest, and \$2.9 million from grants.

In addition, recommendations made from the Reserves and Reserve Funds Review have been incorporated.

Purpose

The purpose of this report is to seek Council approval of the 2024 Reserves and Reserve Funds Budget and the proposed housekeeping changes.

Background

Reserve

- An allocation of surplus for a defined purpose.
- Funded from budget variances.
- Does not have a separate asset – therefore no interest revenue.
- Primary use is rate stabilization.
- Authority tends to be delegated to the Treasurer.
- Examples: Rate Stabilization (Tax, Water, etc.), Winter Maintenance, Legal

Reserve Funds (Discretionary)

- An allocation of surplus for a defined purpose.
- Funded by the budget.
- Has a separate asset – cash, investments, or loans - and earns dedicated interest.
- Primary use is long-term, e.g. capital.
- Authority is from Council.
- Examples: Asset Replacement Funds.

Obligatory Reserve Funds

- Accounted for as deferred revenue.
- Funded by external sources e.g. developers, grants.
- Has a separate asset – cash, investments, or loans - and earns dedicated interest.
- Primary use is for development.
- Restricted by provincial regulations.
- Examples: Development Charges, Engineering, Building Permits.

Recent History

The majority of the Reserves and Reserve Funds budget has already been established through the previous adoption of the 2024 Operating and Capital Budgets on December 11, 2023. The projected revenues, i.e. interest earned, contributions from developers, items paid directly to the reserve and reserve funds, etc., are based upon a blend of historical trends and future projections.

The Reserves and Reserve Funds Review was presented to the Committee of the Whole on October 2, 2023 (Asset Management Reserves) and February 12, 2024 (Stabilization and Growth & Enhancement Reserves).

The recommendations from the Review that could impact the 2024 Reserves and Reserve Fund Budget are:

1. Housekeeping
 - a. Grouping of Reserves and Reserve Funds by purpose.
 - b. Consolidation, renaming, and reclassifying as required.
 - c. Re-balance funds and contributions.
2. Setting meaningful, dynamic key performance Indicators (KPI).
3. Align asset management reserve funds with Asset Management Plans.
4. Create reserve funds for Council priorities.

Discussion

At the beginning of 2024, Reserves and Reserve Funds had a combined balance of \$185.2 million and are budgeted to end the year with a balance of \$163.0 million, a decrease of \$22.2 million. The 2024 budgeted revenues for reserves and reserve funds are \$47.3 million - including \$31.6 million from the operating budget (\$2.2 million from 2023 year-end transfers), \$7.3 million in contributions from developers (93% development charges), \$5.5 million in interest, and \$2.9 million from grants.

Category	Beginning Balance 2024	Revenues	Expenses	Housekeeping Transfers	Ending Balance 2024	Change over 2023
Reserve Funds	\$ 94,680,542	\$ 34,774,284	\$ 24,402,191	\$ 4,381,481	\$ 100,671,154	\$ 5,990,612
Reserves	\$ 34,790,169	\$ 938,480	\$ 4,119,574	(\$ 4,381,481)	\$35,990,556	\$ 1,200,387
Obligatory Reserve Funds	\$ 55,768,994	\$ 11,589,950	\$ 41,015,759	\$0	\$ 26,343,185	(\$ 29,425,809)
TOTAL	\$185,239,705	\$47,302,714	\$69,537,524	\$0	\$163,004,895	(\$22,234,810)

Reserves and reserve funds will provide \$64.7 million for the 2024 capital program, of which \$31.5 million will be from development charges. This accounts for the significant decrease projected for the Obligatory Reserve Funds balance.

The details of the 2024 reserves and reserve funds budget are attached. They are also summarized below according to the new groupings. Where applicable, housekeeping changes are indicated.

Asset Management Reserves and Reserve Funds

Characteristics:

- Savings accounts to ensure that there are funds available for renewals, replacements, and rehabilitation when needed.
- Primary funding is from budgeted contributions.
- Projected funding is compared to anticipated mid-term (10-year) and long-term (50-year) requirements.
- Budget driver is a combination of one-time increases and ongoing increases.

Category	Beginning Balance 2024	Revenues	Expenses	Ending Balance 2024	Change over 2023
Core assets, tax-supported	\$ 2,229,596	\$ 1,186,410	\$ 5,515,876	(\$ 2,099,870)	(\$ 4,329,466)
Core assets, rate-supported	\$ 71,526,368	\$ 20,076,078	\$ 350,000	\$ 91,252,446	\$ 19,726,078
Non-core assets	\$ 3,161,412	\$ 6,536,632	\$ 7,319,000	\$ 2,379,044	(\$ 782,368)
TOTAL	\$ 76,917,376	\$ 27,799,120	\$ 13,184,876	\$ 91,531,620	\$ 14,614,244

A 6-step proposal to address the funding challenges was presented at the workshop on October 2, 2023.

Stabilization Reserves and Reserve Funds

Characteristics:

- Offset annual fluctuations in expenses and/or revenues.
- Primary funding is from budgetary surplus, which can be applied to any future budgetary deficit.
- Relative to fluctuations of actual expenses from the budget, based upon historic trends.
- Main budget driver is one-timers.
- Example reserves:
 - General, rate stabilization – tax, water, wastewater, stormwater
 - Specific stabilization - maintenance, winter control, legal
 - Cyclical – planning studies, election

Category	Beginning Balance 2024	Revenues	Expenses	Ending Balance 2024	Change over 2023
General	\$ 18,173,162	\$ 86,980	\$ 93,182	\$ 18,166,960	(\$ 6,202)
Specific	\$ 18,064,035	\$ 496,910	\$ 664,520	\$ 17,896,425	(\$ 167,610)
Cyclical	\$ 2,111,493	\$ 177,575	\$ 50,000	\$ 2,239,068	\$ 127,575
TOTAL	\$ 38,348,690	\$ 761,465	\$ 807,702	\$ 38,302,453	(\$ 46,237)

The Reserves and Reserve Funds Review estimated that there may potentially be approximately \$11 million available for redeployment. Further analysis is required to confirm this.

Growth and Development Reserves and Reserve Funds

Characteristics:

- Savings to support the needs for growth and provide for enhancements (e.g. Mulock Park Reserve).
- Most funding is from external sources, such as developers.
- Compare to projected funding requirements
 - Some reserves are for unspecified future opportunities (e.g. Land Purchase) and do not yet have a Council-approved target.
 - Some have external restrictions (e.g. Development Charge, Parkland Contributions).

Category	Beginning Balance 2024	Revenues	Expenses	Ending Balance 2024	Change over 2023
Regulated	\$ 42,585,888	\$ 8,214,795	\$ 33,217,035	\$ 17,583,648	(\$ 25,002,240)
Capital	\$ 35,176,128	\$ 6,713,099	\$ 15,136,076	\$ 26,753,151	(\$ 8,422,977)
DAAP	\$ 3,114,928	\$ 1,104,169	\$ 1,484,963	\$ 2,734,134	(\$ 380,794)
Other	\$ 2,368,517	\$ 1,196,085	\$ 206,872	\$ 3,357,729	\$ 989,213
TOTAL	\$ 83,245,460	\$ 17,228,148	\$ 50,044,946	\$ 50,428,662	(\$ 32,816,798)

- Regulated includes Development Charges, and Parkland Contributions
- Capital is for general and specific (e.g. Mulock Park, land, etc.) purposes.
- DAAP (Development Applications Approval Process) includes building permits, planning fees, etc.

Consolidated Summary:

Category	Beginning Balance 2024	Revenues	Expenses	Ending Balance 2024	Change over 2023
Asset Management	\$ 76,917,376	\$ 27,799,120	\$ 13,184,876	\$ 91,531,620	\$ 14,614,244
Stabilization	\$ 38,348,690	\$ 761,465	\$ 807,702	\$ 38,302,453	(\$ 46,237)
Growth & Development	\$ 83,245,460	\$ 17,228,148	\$ 50,044,946	\$ 50,428,662	(\$ 32,816,798)
TOTAL	\$ 198,511,526	\$ 45,788,733	\$ 64,037,524	\$ 180,262,735	(\$ 18,248,791)
Cash and investments	\$185,239,705	\$ 47,302,714	\$ 69,537,524	\$ 163,004,895	(\$22,234,810)
Internal Loans	\$ 13,271,821	(\$ 1,513,981)	(\$ 5,500,000)	\$ 17,257,840	\$ 3,986,019
TOTAL	\$ 198,511,526	\$ 42,788,733	\$ 64,037,524	\$ 180,262,735	(\$ 18,248,791)

Conclusion

The majority of the Reserves and Reserve Funds budget has already been established through the previous adoption of the 2024 Operating and Capital Budgets. Projected revenues for reserves and reserve funds excluding transfers are based upon the asset management plans, recreation 10-year plan and preceding year trends.

Business Plan and Strategic Plan Linkages

Healthy Reserves and Reserve Funds are key components of the Town’s Fiscal Strategy.

The 2024 budget takes into consideration recommendations from the Fiscal Strategy:

- continue to increase contributions to reserves to build them to more sustainable and appropriate levels;
- invest in infrastructure;
- integrate asset management plans with the budget process; and
- water, wastewater, and stormwater operating budgets are based on the updated ten-year financial plans.

Consultation

The 2024 Reserves and Reserve Funds Budget has been created from the 2024 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

Appendix A – Detailed 2024 Reserves and Reserve Funds Budget

Appendix B – Proposed Housekeeping for Reserves and Reserve Funds

Approval

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Contact

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