



SUBJECT: Reserve and reserve fund review

TO: Corporate Services, Strategy, Risk & Accountability Cttee.

FROM: Finance Department

Report Number: F-28-20

Wards Affected: all

File Numbers: 450-01

Date to Committee: June 11, 2020

Date to Council: June 22, 2020

Recommendation:

Receive and file finance department report F-28-20, reserve and reserve fund review; and
Repeal by-laws 092-1991, 072-1992, 061-1993, 089-1995, 26-1998, 062-1999, 061-2002, 062-2002, 26-3-2007, 45-2008 and 077-2013, as described in F-28-20; and
Authorize the Chief Financial Officer to transfer fund balances as outlined in F-28-20; and
Approve the establishment of new and or renamed reserve funds as outlined in F-28-20 with associated by-laws to be brought forward to Council for approval.

PURPOSE:

Vision to Focus Alignment:

- Deliver customer centric services with a focus on efficiency and technology transformation

Executive Summary:

The purpose of this report is to provide an overview of the city's current portfolio of reserve and reserve funds. The reserve and reserve funds have been reviewed to ensure that they are required as per the designated use, that the purpose in which the reserves were set up are still applicable today, and when possible to consolidate or diversify to meet the current needs of the organization. The report will address by

reserve fund category any recommended changes proposed and the reason behind those changes.

Background and Discussion:

Reserves and reserve funds are key elements of the City's financial plan that assist with long-term financial stability. They represent funding set aside for a specific purpose, whether it be through legislated requirements or direction from Council. Maintaining sufficient reserves and reserve funds are critical to financial planning and management. The primary purposes for maintaining reserves and reserve funds are;

- To provide stabilization in the face of variable and uncontrollable factors and to ensure adequate and sustainable cash flows to the organization;
- To provide financing for one-time or short-term requirements without permanently impacting the tax rates and other fees;
- Provide a source of internal financing;
- To make provisions for replacement of capital assets to sustain infrastructure;
- To provide flexibility to manage debt levels and protect the city's financial position; and
- To provide for future liabilities incurred in the current year but paid for in the future.

Reserves are generally used in conjunction with the operating budget, as an appropriation of net revenue, after provision for all known expenditures. They do not earn interest as they are typically contributed to and used in the short term.

Reserve Funds are segregated and restricted to meet a specific purpose. Reserve funds earn interest that increases the overall balance of the reserve fund. There are two types of reserve funds obligatory reserve funds and discretionary reserve funds.

- *Obligatory Reserve Funds*; created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality. (e.g. Development charges)
- *Discretionary Reserve Funds*: created by the city to earmark revenues to finance a future expenditure.

Finance reports quarterly on the balance of the City's reserves and reserve funds. The March 31, 2020 reserve and reserve fund balances are included in Appendix A for reference and are categorized as follows;

- Development Related Reserve Funds
- Vehicle and Equipment Reserve Funds
- Transit Related Reserve Funds
- Other Capital Reserve Funds
- Stabilization Reserve Funds
- Corporate Reserve Funds
- Corporate Reserves
- Program Specific Reserve Funds
- Program Specific Reserves
- Local Board Reserve Funds

A review of the City's reserves and reserve funds was completed by the above noted categories and recommended changes and reasons for the change by category are as follows.

Development Related Reserve Funds

Development related reserve funds are used to account for the proceeds from development charges levied against new developments. They are used to fund growth related capital projects.

On June 6, 2019 the More Homes, More Choice Act, 2019 received Royal Assent. Schedule 12 of the Act, once proclaimed, establishes a new authority under the Planning Act for municipalities to charge for community benefits with respect to land to be developed and redeveloped. Once schedule 12, to the More Homes, More Choice Act is proclaimed the existing s. 37 of the Planning Act will be repealed and the new section 37 (Community Benefits Charges) will be in force. As such the city will no longer be permitted to increase height and density provisions of development in return for the provisions of facilities, services, or other amenities that benefit the surrounding community. Furthermore, if a municipality chooses to implement a community benefits charge by-law it can no longer apply the basic parkland dedication provisions of the Planning Act. These noted changes to the Planning Act may have implications for the city's existing Park Dedication reserve fund, and Public Benefits reserve fund. At the time of writing this report Bill 108 regulations regarding the use of the existing reserve funds and how the balances may be used going forward have not yet been defined. Once the Community Benefits Charge authority is in effect, staff will report back as required on the future of these reserve funds and if any additional changes are required.

As part of Development Charges legislation, the city sets aside funding towards the non-statutory development charge exemptions through the capital budget process. As

part of that condition it is recommended to create the Development Charges Exemption Reserve Fund to provide the necessary funding to support these exemptions.

Recommendation: Create a new Development Charges Exemption Reserve Fund.

Vehicle and Equipment Reserve Funds

Vehicle and equipment reserve funds (VDRFs) are used exclusively for funding the replacement of vehicles and equipment that are currently owned and maintained by the City. Currently the City maintains three (3) separate VDRFs for;

- Fire
- Roads, Parks & Forestry
- Tyandaga

To ensure that Transit fleet is renewed in a timely manner as per the city's asset management plan, a separate VDRF should be established to ensure sustainability of the fleet and maximize lifecycle requirements.

Recommendation: Establish a Transit vehicle and equipment reserve fund with initial funding from the closure of the Transit related reserve funds as noted below, in the amount of \$212,708.

Furthermore, the city's Roads, Parks and Forestry VDRF will be renamed to Corporate Fleet VDRF to more accurately reflect the assets supported under this reserve fund.

Transit Related Reserve Funds

Transit related reserve funds are used to specifically fund capital expenditures for Transit. Included in this grouping are the Provincial and Federal Gas Tax reserve funds that are legislated to be used specifically for Transit related expenditures.

Several reserve funds within this grouping are outdated and no longer required. The balances have diminished, and they do not receive any designated revenue, as such they are recommended for closure, with the combined balance of \$212,708, to be allocated to the newly created Transit VDRF as recommended above.

Recommendation: Repeal by-laws 072-1992, 061-2002 and 062-2002, close the following reserve funds and transfer remaining balance to the new Transit Vehicle and Equipment Reserve Fund;

- Transit Inter-Regional Capital Projects Reserve Fund
- Transit Capital Reserve Fund
- Transit Shelters Reserve Fund

Other Capital Reserve Funds

Capital reserve funds are used extensively by the City in financing the capital program and for maintenance and replacement of existing infrastructure.

Following review, the Municipal Road and Bridge Infrastructure Investment Reserve Fund (MRBII) is recommended for closure. The MRBII reserve fund was established in 2008 as a requirement to receive provincial funding for municipal road and bridge capital investment needs. This funding has been fully spent and the reserve fund currently has a nil balance with no future provincial funding expected.

Recommendation: Repeal by-law 45-2008 and close the Municipal Road and Bridge Infrastructure Investment Reserve Fund.

Stabilization Reserve Funds

Stabilization reserve funds are used to offset extraordinary and unforeseen expenditure requirements, one-time expenditures, cyclical expenses, revenue shortfalls and they help to minimize fluctuations in the tax levy.

Recommendation: At this time, no changes are recommended to the reserve funds within this category.

Corporate Reserve Funds and Corporate Reserves

Corporate reserves and reserve funds provide for various contingent and potential future liabilities. They also help to provide for various corporate expenditures to help deliver stability to the operating budget. After review of the funds within this category, findings were as follows:

Election Expense Reserve

The Election Expense is a reserve used to provide funding to support the cost of holding municipal elections. To better control, segregate and restrict use of these funds a change to a reserve fund is recommended.

Early Retirement Reserve

The Early Retirement reserve is outdated and no longer used. It was previously replaced by the Benefits Reserve Fund, and as such should be closed.

Emergency Plan Reserve

The Emergency Plan reserve is used to support large scale emergency planning and to support the City in the event of a large-scale emergency. To properly allocate use of these funds a change to a reserve fund is recommended.

Tree Planting Campaign Reserve

The Tree Planting Campaign reserve was established to hold funds from Burlington Hydro's 'Plant A Tree' campaign. To support the ongoing conservation of Burlington's tree canopy and to allocate use of these funds a reserve fund is recommended. A new Tree Planting Initiatives reserve fund is recommended, and the source of revenue shall be made from donations, tree replacement compensation and cash in-lieu payments.

Future Expenses Reserve

The Future Expenses reserve was established to hold funds received from various corporate sources for future expenditures most of which related to Fire Department related activities. To properly track and allocate these funds it is recommended that the balances be separated out and allocated to proper reserves and reserve funds, as per the recommendation below. Any funds remaining will be allocated to the tax rate stabilization reserve fund.

Recommendations: The following reserves are recommended to be closed and be replaced as a reserve fund. This will result in the new reserve funds now earning interest.

- Elections Reserve Fund
- Emergency Plan Reserve Fund
- Tree Planting Initiatives Reserve Fund

The following reserves are recommended for closure, with balances allocated to existing reserve funds as highlighted above;

- Early Retirement Reserve
- Future Expenses Reserve

The following reserve funds will be created as a result of the changes highlighted above with related balances coming from the closure of the Future Expenses Reserve;

- Fire Dispatch Reserve Fund
- Fire Suppression Reserve Fund
- Fire Extrication Reserve

Program Specific Reserves and Program Specific Reserve Funds

Program specific reserves and reserve funds are established in response to specific programs or special funding that has been received.

Economic Development Reserve Fund

The Economic Development reserve fund was established prior to the Burlington Economic Development Corporation (BEDC) taking over the management of business development opportunities in the city. It was set up to fund economic development initiatives designed to capitalize on significant business recruitment opportunities. As this function has been allocated to the BEDC this reserve fund is no longer required.

Recommendation: Repeal by-law 26-1998 and close the Economic Development Reserve Fund. Transfer the current balance to the Tax Rate Stabilization Reserve Fund.

Parking District Reserve Fund

The Parking District reserve fund was set up for funding capital improvements to parking facilities within the City, renewal of existing parking facilities as well as funding in year operating shortfalls. The current by-law does not sufficiently differentiate the use of funds. The existing reserve fund currently has a balance of \$9,566,345 and will be allocated amongst the three reserve funds based on a financial model that reflects the city's parking asset inventory required need, the requirement to keep the stabilization reserve fund at 10-15% of operating revenues (3 year rolling average) and the anticipated growth in parking demand. Staff will evaluate the model and adjust based on parking revenue surplus/deficit in 2020. This ensures the most efficient use of the balance by clearly distinguishing funds for stabilization of operations, lifecycle costing for all parking assets and future growth in parking supply.

Recommendation: Repeal by-law 3-2007 and close the existing Parking District Reserve Fund and in its place set up the following three reserve funds:

- Parking Growth Reserve Fund
- Parking Renewal Reserve Fund
- Parking Stabilization Reserve fund

Youth Reserve Fund

The Youth reserve fund was established to fund capital furnishing and renewal of existing facilities within the City to support recreational programs and services for youth. To allow for a wider allocation of funding to youth programming a new reserve fund is recommended.

Recommendation: Repeal by-law 077-2013 and approve the creation of the Youth Initiatives Reserve Fund.

Mundialization Committee Reserve Fund

The Mundialization Committee reserve fund was established and utilized to address specific twinning activities with Itabashi, Japan. To allow for the general use of the reserve fund for twinning activities a new by law is recommended.

Recommendation: Repeal by-laws 062-1999, 089-1995, 061-1993 and 092-1991 and approve the revised Mundialization Committee Reserve Fund by-law.

Crime Prevention Reserve

The Crime Prevention reserve was established for the Crime Prevention Committee which helped support local neighborhood watch programs. As this committee is no longer active this reserve is not required.

Recommendation: Close the Crime Prevention Reserve and transfer the balance to the new Green Initiatives Reserve Fund (see below).

Burlington International Games Reserve (B.I.G.)

The B.I.G. reserve was established to support the international youth sporting event up until 2008. Upon conclusion of the event the reserve was kept active to support future international youth sporting events. To utilize the funding, it is recommended to allocate it in a manner consistent to its original intention.

Recommendation: Close the Burlington International Games reserve and transfer the balance to the new Youth Initiatives Reserve Fund.

Green Initiatives Reserve Fund

Moving forward, the city will need to consider how to balance the increasing financial demands to be more environmentally conscious and be on the forefront of climate change. There are many foundational initiatives in the city's Vision To Focus (V2F) plan such as creating the Climate Adaptation Plan, Corporate Energy Plan, Green Fleet strategy, Urban Forestry Management Plan and enhanced Transit that will require significant capital and operating costs to work towards and achieve the city's aspirational climate goals. It will become increasingly necessary to have funding available for the substantial costs related to environmental initiatives. As such the creation of a new reserve fund will be of benefit to allocate funding for future needs.

Recommendation: Create a Green Initiatives Reserve Fund to be funded through a dedicated green/climate levy. The timing of the levy and the amount will be discussed as part of the budget process.

Itabashi Garden Reserve Fund

The new Itabashi Gardens at Tansley Woods require specialized care and maintenance to be properly maintained. A reserve fund will allow for donations to be appropriately segregated to address the care and maintenance required.

Recommendation: Create the Itabashi Garden Reserve Fund.

Local Board Reserve Funds

Museum Reserve Funds

There are currently four (4) separate reserve funds established for the Joseph Brant and Ireland House Museums. The naming conventions for the reserve funds are not consistent with the other local boards.

Recommendation: Rename the Museum's Reserve funds as listed to have consistent naming conventions and clarity across all local boards;

- Joseph Brant Museum General Reserve Fund to be changed to Joseph Brant Operating Reserve Fund.
- Joseph Brant Museum Project Reserve Fund to be change to Joseph Brant Capital Reserve Fund.
- Ireland House Museum General Reserve Fund to be changed to Ireland House Operating Reserve Fund.
- Ireland House Museum Project Reserve Fund to be change to Ireland House Capital Reserve Fund.

Library Capital Reserve Fund

The Library Capital reserve fund currently holds the surplus disposition from the Library's annual operating budget. The reserve fund is used to support the Library's capital program. Unlike other local boards this reserve fund does not provide the Library the ability to use the reserve fund to offset unexpected operating cost.

Recommendation: Create the Library Operating Reserve. Creation of this reserve fund has been approved by the Library's Board of Directors along with the approval to allocate the Library's 2019 operating surplus to this new reserve fund.

Summary of Recommendations

The following summarizes the changes as discussed in the report:

New Reserves and Reserve Funds created;

- Transit Vehicle and Equipment Reserve Fund
- Fire Dispatch Reserve Fund
- Fire Suppression Reserve Fund
- Fire Extrication Reserve
- Parking Growth Reserve Fund
- Parking Renewal Reserve Fund

- Parking Stabilization Reserve fund
- Youth Initiatives Reserve Fund
- Green Initiatives Reserve Fund
- Itabashi Garden Reserve Fund
- Library Operating Reserve Fund
- Development Charges Exemption Reserve Fund

Renamed Reserve Funds;

- Roads, Parks and Forestry VDRF (*renamed to Corporate Fleet VDRF*)
- Joseph Brant Museum General Reserve Fund (*renamed to Joseph Brant Operating Reserve Fund*)
- Joseph Brant Museum Project Reserve Fund (*renamed to Joseph Brant Capital Reserve Fund*)
- Ireland House Museum General Reserve Fund (*renamed to Ireland House Operating Reserve Fund*)
- Ireland House Museum Project Reserve Fund (*renamed to Ireland House Capital Reserve Fund*)

Reserves changed to Reserve Funds;

- Elections Reserve
- Emergency Plan Reserve
- Tree Planting Initiatives Reserve

Closure of Reserves and Reserve Funds;

- Transit Inter-Regional Capital Projects Reserve Fund
 - Transit Capital Reserve Fund
 - Transit Shelters Reserve Fund
 - Municipal Road and Bridge Infrastructure Investment Reserve Fund
 - Early Retirement Reserve
 - Future Expenses Reserve
 - Economic Development Reserve Fund
 - Parking District Reserve Fund
 - Youth Reserve Fund
 - Crime Prevention Reserve
 - Burlington International Games Reserve
-

Financial Matters:

Monitoring reserve and reserve fund balances in respect to recommended targets is crucial to ensure they are being properly maintained. As referenced in the charts below the current balances of the reserve funds are not yet in line with their recommended targets. Further complicating the City's ability to reach these targets is the unknown financial impact of the COVID-19 pandemic. It is expected that a draw on multiple reserve funds will be needed at year end to address financial shortfalls from the City's emergency declaration.

Stabilization Reserves and Reserve Funds

Stabilization Reserves/Reserve Funds	Recommended Balance		March 31 Uncommitted Balance
Contingency	The target balance for the consolidated stabilization reserves/reserve funds is 10%-15% of the City's own source revenues.	Based on the City's 2018 own source revenues of \$237 million the recommended balance is \$23.7 - \$35.6 million.	\$21.0 million
Severe Weather			
Tax Rate Stabilization			
Planning Fee Stabilization			
Engineering Fee Stabilization			
Commodity Stabilization			

Building Permit Stabilization Reserve Fund

Corporate Reserve Funds	Recommended Balance		March 31 Uncommitted Balance
Building Permit Stabilization	The reserve fund is capped at 163% of direct costs.	Total direct costs for 2019 were approximately \$3.3 million. Based on this the upset balance for the reserve fund is \$5.4 million.	\$3.3 million

Capital Reserve Funds

Capital Reserve Funds	Recommended Balance		March 31 Uncommitted Balance
Vehicle and Equipment Reserve Funds	The target balance for the consolidated capital reserve fund balance is a minimum of 2% of the asset replacement value.	The City's 2016 Asset Management Plan has total asset replacement value at approximately \$3 billion. Based on this amount the recommended balance is \$60 million .	\$21.6 million
Parks & Recreation Infrastructure Reserve Funds			
Transit Related Reserve Funds			
Other Capital Reserve Funds			

Corporate Reserve Funds

Corporate Reserve Funds	2020 Actuarial Valuation Liability	March 31 Uncommitted Balance
Employee Accident	\$8.5 million	\$4.5 million
Benefits	\$14.9 million	\$2.8 million

Appendix A provides the balances of the City's reserves and reserve funds as of March 31, 2020. Upon approval of this report, staff will arrange to transfer the balances from the various accounts to the new reserves and reserve funds.

Climate Implications

The city needs to consider how to balance the increasing financial demands to be more environmentally conscious and be on the forefront of climate change. There are many foundational initiatives in the city's V2F plan such as creating the Climate Adaptation Plan, Corporate Energy Plan, Green Fleet strategy, Urban Forestry Management Plan and enhanced Transit that will require significant capital and operating costs to work towards and achieve the city's aspirational climate goals. As such, this report recommends the establishment of a Green Initiatives Reserve Fund to assist with funding for future needs.

Conclusion:

A review of existing reserve and reserve funds was undertaken to ensure that they are required as per the designated use, that the purpose in which the funds were established remain applicable, and when possible to consolidate or diversify to meet the current needs of the organization.

Respectfully submitted,

Michelle Moore

Coordinator of Financial Reporting

(905) 335-7600 ext. 7535

Appendices:

A. Reserve & Reserve Fund Balances as at March 31, 2020

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Council. Final approval is by the City Manager.