

To: Corporate and Finance Services Committee

From: Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department

Report Number: CF-24-17

Date of Report: February 28, 2024

Date of Meeting: March 4, 2024

Subject: Reserves and Reserve Funds Funding

Ward: All Wards

File: 03-05

1.0 Purpose

The City's reserve and reserve funds are regularly monitored to identify funding requirements, capacity to meet operating requirements and deliver capital projects. Contributions to the City's reserves are determined as part of the annual budgeting process.

A review of the reserves has been completed in connection to the preparation of the year-end financial statements and there are a number of operating reserves that are overfunded and a number of capital reserves that are underfunded when considering forecasted future capital needs.

The purpose of this report is to inform Council of the findings of the review and make recommendations on appropriate reserve transfers and the allocation of the year end surplus.

2.0 Recommendation

That the Corporate and Finance Services Committee recommend to City Council:

1. That, pursuant to Report CF-24-17, dated February 28, 2024, concerning reserves and reserve funds funding, a transfer of surplus funds from the Tax Appeal Reserve in the amount of \$4,000,000 be transferred to the following reserves:
 - a. Parks and Recreation Infrastructure Reserve \$1,000,000
 - b. Energy Management Fund \$500,000
 - c. Conditions Audit (CARS) Reserve \$1,000,000

- d. Information Technology (IT) Reserve \$500,000
 - e. Tribute Communities Centre (TCC) Reserve \$1,000,000; and,
2. That the 2023 Operating Surplus in the amount of approximately \$4.5 million be utilized:
- a) to repay interfund note (IFN) #70, City of Oshawa By-law 12-2023, in the amount of \$1,666,000; and,
 - b) to repay interfund note #71, City of Oshawa By-law 11-2023, in the amount of \$800,000; and,
 - c) to provide additional funding to the Growth Related Non-DC Reserve in the amount of approximately \$2.0M; and,
3. That unclaimed Site Alteration securities and applicable interest in the amount of \$371,700 be transferred to the Civic Property Development Reserve.

3.0 Executive Summary

In accordance with legislation and as a matter of financial best practice, the City of Oshawa holds a number of reserves and reserve funds. Reserves are a critical component of a municipality's long term financial strategy and are integral to fiscal sustainability.

It is best practice to maintain reserve funds at appropriate levels. There are a number of challenges faced by the City's reserves, including but not limited to, the impacts of climate change, inflation, competing financial pressures, and legislative changes. The single most significant pressure on the City's reserves is the level of funding available for the future rehabilitation and replacement of major infrastructure.

Detailed analysis, through this reserve and reserve fund review, supports the transfer of funds from certain trust funds and operating reserves and to provide additional funding to certain capital reserves. This will help reposition the City to build a foundation to address the annual infrastructure funding gap.

A number of the City's reserves are outlined in this report and there are several recommendations regarding funding transfers and the allocation of the year-end 2023 surplus.

4.0 Input From Other Sources

Legal Services

Engineering Services

5.0 Analysis

5.1 Background

Reserves are an integral component of the City's financial operations and forms one of the five pillars in the Financial Strategy.

Reserves provide flexibility, minimize the City's vulnerability and ultimately help contribute to sustainability. Reserves are established to:

- Buffer a municipality from major swings in the tax levy requirement when a significant funding need arises;
- Provide financing for one-time or short term requirements without permanently impacting tax rates;
- Provide for replacement or construction of new major assets such as roads, buildings, parks and vehicles; and,
- Provide flexibility to manage debt levels.

Ensuring the City has adequately funded reserves is critical to preserving long term financial sustainability.

The City has both discretionary and non-discretionary reserves. Discretionary reserves are established by Council for specific projects or initiatives and may be repurposed by Council.

Detailed analysis, through this reserve and reserve fund review, supports the transfer of funds from certain operating reserves and trust accounts to provide additional funding to certain capital reserves. This will help the City continue to build a foundation to address the annual infrastructure funding gap.

5.2 2023 Year End Operating Budget Surplus

At the conclusion of the fiscal year, any overall operating budget surplus is transferred to the Tax Rate Stabilization Reserve, as a matter of practice. The Tax Rate Stabilization Reserve currently has an uncommitted balance of \$8.1 million. The 2023 operating budget surplus is estimated at approximately \$4.5 million. It is recommended that the surplus be used to repay two interfund notes totaling \$2,466,000 approved in the 2023 budget with the balance of the 2023 surplus transferred to the Growth Related Non-DC Reserve.

The primary source of funding for the Tax Rate Stabilization Reserve is year-end surpluses.

5.3 Tax Appeal Reserve

This reserve fund was established to respond to major property tax appeals. The reserve is funded primarily through contributions in the annual operating budget.

Over the last few years, a number of major property tax appeals were settled including a substantial settlement with General Motors. After accounting for these settlements and looking at the 9 year forecast for this reserve, there are surplus funds in the Tax Appeal Reserve that could be better utilized in other reserves. Reserves such as the Parks and Recreation Infrastructure Reserve, the IT Reserve, the CARS reserve, the Energy Management Fund and the TCC reserve require additional funding.

The annual allocation to this reserve has been reduced to zero since the 2022 operating budget with the funds being contributed to other reserves.

It is recommended that a transfer of surplus funding from this reserve in the amount of \$4.0 million be transferred to the following reserves: \$1,000,000 to the Parks and Recreation Infrastructure Reserve, \$500,000 to the Energy Management Fund, \$1,000,000 to the Conditions Audit Reserve (CARS) Reserve, \$500,000 to the Information Technology (IT) Reserve, and \$1,000,000 to the Tribute Communities Centre (TCC) Reserve.

5.4 Parks and Recreation Infrastructure Reserve

This discretionary reserve is used for upgrading, repair and replacement of playgrounds and other recreation infrastructure such as soccer fields, ball diamonds, trails and facility amenities. Annual contributions to this reserve are included in the operating budget.

This reserve has funded several park redevelopment projects, splash pad repairs/upgrades and replacement of playgrounds in the previous few years. The level of expenditures has exceeded the level of contributions to the reserve. The reserve is nearly depleted following the allocations made to parks and recreation infrastructure projects in the 2024 capital budget.

A transfer from the Tax Appeal Reserve will assist in enabling the City to deliver parks projects in the next couple of years.

This report recommends the transfer of \$1,000,000 from the Tax Appeal Reserve to the Parks and Recreation Infrastructure Reserve.

5.5 Energy Management Fund

The purpose of this reserve is to provide funding to support initiatives such as:

- renewable / distributed energy generation and alternative energy sources i.e. solar and waste to energy solutions, district heating, cooling or geothermal projects;
- facility assessments, technical studies and preliminary system designs to support low-carbon / net-zero carbon buildings;

- specification, procurement, and implementation of measurement and verification equipment for purposes of data collection and energy monitoring.

The cap for utilizing this reserve is 25% of the uncommitted reserve balance to a maximum of \$500,000. These parameters enable the City to fund energy management related capital projects through the budget process and provides a mechanism to maintain adequate funding for future needs. Additional sources of funding will be considered as part of the update to the Financial Strategy.

This report recommends the transfer of \$500,000 from the Tax Appeal Reserve to the Energy Management Fund.

5.6 Conditions Audit Reserve

This discretionary reserve was established in 1997 to provide funding for Conditions Audit and Renewal projects. The uncommitted balance at the end of 2023 was approximately \$116,000 with annual contributions of \$1.5 million. This reserve is fully committed for 2024 and a significant number of projects need to be funded in the next 10 years.

This report recommends the transfer of \$1,000,000 from the Tax Appeal Reserve to the Conditions Audit Reserve.

5.7 Information Technology Reserve

This discretionary reserve is used to fund information technology projects. Funding for the reserve comes from annual operating budget contributions.

The reserve shows an uncommitted balance of approximately \$800,000 at the end of 2024 with a growing list of projects that will require funding over the next 10 years resulting in a projected deficit of \$13.6 million.

This report is recommending the transfer of \$500,000 from the Tax Appeal Reserve to the IT Reserve.

5.8 Tribute Communities Centre Reserve

This reserve was established in 2015 to fund the renewal of the Tribute Communities Centre facility and related capital asset needs.

Over the capital forecast period of 2025-2033, the TCC will require approximately \$9.562 million for capital infrastructure needs. The projects are predominantly for HVAC units, elevators, fire alarm system, arena and food & beverage equipment replacements and contributions to the fleet reserve for the future replacement of the ice resurfaces.

This report is recommending \$1,000,000 be transferred to the TCC Reserve from the Tax Appeal Reserve.

5.9 2023 Interfund Notes

During the 2023 Budget deliberations, Council approved multiple projects funded by two (2) Interfund Notes (IFN). The approved projects are:

Project Description	IFN Amount
<p>City of Oshawa By-law 12-2023 Capital additions required from new staffing requests approved:</p> <ul style="list-style-type: none"> • Side Loader Garbage Packer – Class 19 \$400,000 • 2 Garbage Packers – Class 19 \$800,000 • Van – Class 07 \$62,400 • Fire Training vehicle with retro fitting \$68,600 • 2 Zero Turn Mowers – Class 85 \$30,000 • 2 Electric Vehicles \$65,000 • ¾ Ton Pickup – Class 05 \$65,000 • 25 Radar Boards \$100,000 <p>Total <u>\$75,000</u> \$1,666,000</p>	
<p>City of Oshawa By-law 11-2023 Approval of additional 2023 capital work</p> <ul style="list-style-type: none"> • Northern Roads Program \$400,000 • Taylorwood Rd (Overlay) \$100,000 • Reconstruction of Roselawn Avenue, Bickle Drive and Winifred Avenue \$300,000 <p>Total <u>\$300,000</u> \$800,000</p>	

The term of the IFN is 10 years with an interest rate of 5.95%. The IFN's are to be funded by way of annual tax levy contributions with annual payments of \$334,257 beginning in 2025.

This report is recommending that a portion of the 2023 operating budget surplus be used to pay both IFNs, totalling \$2,466,000.

5.10 Growth Related Non-Development Charge Reserve

This reserve is intended to fund the portion of growth related capital projects that are not eligible for funding from the development charge reserves. Annual contributions to this reserve are included in the operating budget.

Development Charges assist the City to recover the increase in the need for services arising from growth. The recoveries only apply to the capital costs associated with growth. In the calculation of development charges there are certain exclusions that reduces the amount that the City can recover such as the benefit to existing development. These exclusions require funding from the City in order to fully fund various growth related capital projects.

There are a number of significant capital projects in the Development Charge Background Study including but not limited to a Fire Station #7, Northern Depot, a New Recreation Centre, and various parks and road construction projects.

The Growth Related Non-Development Charge Reserve has substantial demands to respond to capital needs in the forecast period. The reserve is nearly depleted following the allocations made to various infrastructure projects in the 2024 capital budget.

This report is recommending the balance of the 2023 surplus, approximately \$2.0 million be transferred to the Growth Related Non-Development Charge Reserve.

5.11 Site Alteration Permits

Site Alteration Permits are required when a property owner is proposing to significantly alter the grading of their land. The site alteration permit process requires applicants to provide a security deposit (typically in the \$500-\$1,000 range) to ensure that the proposed work is completed in compliance with the Site Alteration By-Law 85-2006. Once the site alteration work has been completed, applicants are required to contact Engineering Services for a final inspection/request for a return of the security deposit. Since 2007, many security deposits have been left unclaimed. City of Oshawa Site Alteration By-Law 85-2006 is currently under review to clarify the refund process going forward.

This report is recommending that Site Alteration permits received prior to 2019, plus the interest earned, in the amount of approximately \$372K, be transferred to the Civic Property Development Reserve.

5.12 Civic Property Development Reserve

This discretionary reserve fund was established by Council to provide for the City's property development needs. It has been used for a variety of projects ranging from downtown development to Conditions Audit and Renewal Study projects. Land sales are the primary source of revenue for this reserve but are unpredictable as to timing and value.

This report recommends the unclaimed Site Alteration Permit securities received prior to 2019 be transferred to the Civic Property Development Reserve.

6.0 Financial Implications

Maintaining adequately funded reserves is a financial best practice and it is appropriate to transfer funding between discretionary reserve funds to meet the requirements and objectives of the City.

The next update to the City's Financial Strategy will contemplate additional funding strategies related to reserves.

7.0 Relationship to the Oshawa Strategic Plan

This report supports the Oshawa Strategic Plan goal of Economic Prosperity and Financial Stewardship by supporting economic diversification, responsible taxation and safe & reliable infrastructure.

A handwritten signature in black ink, appearing to read 'S. Sinnott', written in a cursive style.

Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department