

# INFORMATION REPORT

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE						
COMMITTEE DATE: February 28, 2013							
SUBJECT/REPORT NO: Reserve Funding and Contributions By Category (FCS13026) (City Wide)							
SUBMITTED BY: Mike Zegarac Acting General Manager Finance & Corporate Services SIGNATURE:	PREPARED BY: John DiBattista (905) 546-2424, ext 4371						

#### **Council Direction:**

General Issues Committee at its Corporate Budget Overview Meeting of January 28<sup>th</sup>, 2013, directed staff to provide the Committee with information regarding the use of specific reserves by category types.

The reserves included in this report FCS13026 are as follows:

- 1. Tax Stabilization Reserve
- Unallocated Capital Levy Reserve
- 3. Ontario Works Stabilization Reserve
- 4. Social Services Initiative Fund

#### Information:

The Government Finance Officers Association (GFOA) recommends, at a minimum, that governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenues or expenditures, as a basis of comparison, may be dictated by what is more predictable in a government's particular circumstances.

### SUBJECT: Reserve Funding and Contributions By Category (FCS13026) (City Wide) Page 2 of 6

In establishing a policy governing the level of unrestricted fund balance, in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
- Its' perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, Provincial budget cuts);
- Liquidity (i.e., a disparity between when financial resources actually become available
  to make payments and the average maturity of related liabilities may require that a
  higher level of resources be maintained); and
- Commitments and assignments (i.e., governments may wish to maintain higher levels
  of unrestricted fund balance to compensate for any portion of unrestricted fund balance
  already committed or assigned by the government for a specific purpose).

Source: GFOA BEST PRACTICE - Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (BUDGET and CAAFR)

It should be noted that unrestricted funds includes committed fund balance, assigned fund balance, and unassigned fund balance, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself, is termed unrestricted fund balance.

From the City of Hamilton's perspective, all reserves excluding Obligatory Reserves (Development Charge Reserves, Gas Tax Reserves etc.) and the Future Fund are considered unrestricted funds because Council approved the specific use of these reserves and thus can change how the reserves are used.

A review of the Reserve Policies is planned for 2013/2014 which will focus on several aspects including target balances.

The following summarizes the reserves by revenues and expenditures by category:

The reserves included in report FCS13026 are as follows:

- 1. Tax Stabilization Reserve
- Unallocated Capital Levy Reserve
- 3. Ontario Works Stabilization Reserve
- 4. Social Services Initiative Fund

The forecast assumes that all commitments against reserves will occur as approved by Council. If there are departmental or corporate surpluses, the commitments, as predicted will be adjusted accordingly.

# SUBJECT: Reserve Funding and Contributions By Category (FCS13026) (City Wide) Page 3 of 6

#### 1. Tax Stabilization Reserve

#### Source of Funding:

Operating Budget Surpluses

#### Purpose of Fund:

To Offset service cost increases due to fluctuations in the economy and to fund Operating Budget Deficits.

	2009 <u>Actual</u>	2010 <u>Actual</u>	2011 <u>Actual</u>	2012 <u>Forecast</u>	2013 <u>Forecast</u>	2014 <u>Forecast</u>
Opening Balance	9,398,118	10,974,026	15,251,578	17,974,444	5,411,055	(91,081)
Add:						
Investment Income Operating Budget Surplus Debt Repayment	344,937 2,994,693 254,744	285,091 5,721,071	377,790 4,117,955	288,710	65,679	(17,456)
From Reserve Approved for Closure			206,884	4.000		
Capital Projects - Closings  Sub-Total	3,594,374	6,006,161	4,702,629	4,023 <b>292,733</b>	65,679	(17,456)
Less: Spent/Committed						
Projects Exceeding \$1 Million Provision for 2012 Waste Contract Increase Phase-Out Impact of Provincial Grant Reduction				1,700,000 2,000,000		
Insurance Cost Increase-Phase-in Paid On-Street Parking Deficit Fund of \$1.1 million to offset the phase-in of the annual	1,479,090	411,527 250,000	900,000 250,000	600,000 500,000	600,000 500,000	300,000 500,000
grant increase to Art Gallery Forestry Building Renovations To Unallocated Capital Levy Reserve-Debt Savings	191,382	174,970	142,137	116,400 2,100,000	89,893	62,590
from 2011 Surplus				3,237,989	0.054.000	
Community Homelessness Prevention Initiative	1,670,472	836,497	1,292,137	10,254,389	3,351,080 <b>4,540,973</b>	862,590
Program Phase-ins\Pilot Programs\One-Time Grants	307,149	603,148	390,518	1,539,228	944,342	351,700
Operational Reviews\Reorganizations  Lastly From Tax Stabilization	40,844 0	115,352 0	39,648 15,000	310,000 731,809	50,000 32,500	0 0
OMB Appeals	0	173,613	242,460	20,695	0	0
··· —	2,018,466	1,728,610	1,979,763	12,856,121	5,567,815	1,214,290
Projected Dec 31 Balance	10,974,026	15,251,578	17,974,444	5,411,055	(91,081)	(1,322,827)

The 2012 forecast includes \$4.4 million in commitments that are conditional on the outcome of the 2012 Corporate Surplus. These are as follows:

•	Provision for 2012 Waste Contract increase	\$1.7 million
•	Phase-out impact of Provincial Grant Reductions	\$2.0 Million
•	Several commitments funded lastly from the	
	Tax stabilization reserve	\$0.7 Million

If the year end surplus is sufficient, then these commitments may not be needed and the forecasted balance will rise accordingly.

# SUBJECT: Reserve Funding and Contributions By Category (FCS13026) (City Wide) Page 4 of 6

### 2. Unallocated Capital Levy

Source of Funding:

Deferred Capital Financing Repayment of Capital Advances

#### Purpose of Fund:

To fund capital programs supported by the General Levy Tax

	2009 <u>Actual</u>	2010 <u>Actual</u>	2011 <u>Actual</u>	2012 <u>Forecast</u>	2013 <u>Forecast</u>	2014 <u>Forecast</u>
Opening Balance	24,076,095	17,310,209	32,201,828	32,609,237	18,683,121	10,316,871
Add:						
Interest Earned	747,943	489,582	810,223	633,239	358,025	177,289
Deferred Capital Financing	2,000,000	7,753,395	4,806,892	8,237,989	2,000,000	2,000,000
OMPF Reconciliation			4,075,800			
W.I.P. Reviews	0	7,523,468	1,070,548	0	0	0
Project Closing-Unused Financing	231,598	674,397	449,233	1,419,823		
Debt Repayments	4,400,435	3,763,143	2,973,730	2,505,115	2,622,725	1,649,371
For Future Parkland Purchases				2,000,000		
Other Revenues	0	568,472	449,126	0	0	0
Sub-Total	7,379,977	20,772,457	14,635,553	14,796,166	4,980,750	3,826,660
Less: Spent						
Capital Budget Funding	10,826,320	5,032,000	8,189,257	17,739,600	11,347,000	10,100,000
Projects Approved Post Capital Budget Process	312,844	848,837	4,145,587	9,524,452	2,000,000	0
Borrowings - To Be Repaid	3,006,700	0	1,893,300	1,458,230	0	0
Sub-Total	14,145,864	5,880,837	14,228,144	28,722,282	13,347,000	10,100,000
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Projected Dec 31 Balance	17,310,209	32,201,828	32,609,237	18,683,121	10,316,871	4,043,532

The 2012 forecast assumes \$5.0 million in deferred capital financing revenue which is dependant on the 2012 Corporate Surplus. If the surplus does not occur, then the revenue funds will not be transferred to the reserve and the forecast will be adjusted downwards accordingly.

### 3. OW Stabilization Reserve

#### Source of Funding:

Provincial Grant Payments - Variances

#### Purpose of Fund:

To fund case load fluctuations and related additional administrative costs and any subsidy adjustments for prior periods not covered in the annual approved budgets.

	2009 <u>Actual</u>	2010 <u>Actual</u>	2011 <u>Actual</u>	2012 <u>Forecast</u>	2013 <u>Forecast</u>	2014 <u>Forecast</u>
Opening Balance	3,856,125	3,997,934	4,030,012	3,970,884	3,300,800	2,016,896
Add:						
Interest Earned	141,739	94,329	95,366	89,774	65,651	33,546
Provincial Grant Payments Variances	66,598	0	58,744	0	0	0
Sub-Total - To Reserves	208,337	94,329	154,110	89,774	65,651	33,546
Less:						
OW Caseload Contingency Plan		30,659		613.958	1,229,100	1,253,442
Affordable Transit Pass		16,202	87,192	<b>,</b>	, -,	,,
Addictions Services Initiative		,	126,046	145,900	120,454	96,702
Other Adjustments\Payments	66,528	15,391	0	0	0	0
Sub-Total - From Reserves	66,528	62,252	213,237	759,858	1,349,554	1,350,144
Projected Dec 31 Balance	3,997,934	4,030,012	3,970,884	3,300,800	2,016,896	700,298

### SUBJECT: Reserve Funding and Contributions By Category (FCS13026) (City Wide) Page 6 of 6

#### 4. Social Services Initiative Fund

#### Source of Funding:

Seed funding from Provincial One-time Grant (\$2M in 2006) and OMPF Reconciliation

#### Purpose of Fund:

To fund urgent temporary/finite program requirements (e.g.. Emergency Shelter; Homemakers/Nurses) and recommendations from Poverty Roundtable.

	2009 <u>Actual</u>	2010 <u>Actual</u>	2011 <u>Actual</u>	2012 <u>Forecast</u>	2013 <u>Forecast</u>	2014 Forecast
Opening Balance	945,492	386,662	254,637	3,532,015	(14,749)	(1,027,669)
Add: Interest Earned OMPF 2009 Reconciliation – 50%	27,582	5,149	72,018 4,075,800	43,423	(12,869)	(25,692)
Sub-Total - To Reserves	27,582	5,149	4,147,818	43,423	(12,869)	(25,692)
Less:						
Domiciliary Hostel Program Emergency Shelter & Intensive Case Management Affordable Transit Pass Program Grow Program-Youth Agency	202,792 151,298	43,332 93,842	350,000 170,440	750,000 350,000 268,460	350,000 300,050	
Food Related Assistance Discretionary Benefits Changes	186,430	0	350,000	405,000 1,816,727	350,000	0
Other Assistance	45,893	0	0	0	0	0
Sub-Total - From Reserves	586,412	137,174	870,440	3,590,187	1,000,050	0
Projected Dec 31 Balance	386,662	254,637	3,532,015	(14,749)	(1,027,669)	(1,053,360)

In conclusion, staff in 2013 and 2014 will be reviewing specific reserves in order to develop a formal reserve policy that defines the appropriate level of the reserves' target levels, review the reserves' purposes and review how resources will be allocated for the reserves replenishment.

The following Reserves will be reviewed in 2013 and 2014:

#### Year 2013:

- 110046 Tax Stabilization Reserves
- 108020 Unallocated Capital Levy Reserve
- 112300 Investment Stabilization Reserve
- 112270 Waste Recycling Reserve

#### Year 2014:

- 110025 Fleet Vehicle Replacement Reserve
- 104050 Building Permit Fees Stabilization Reserve
- 100033 EMS Equipment Replacement Reserve
- 112243 Enterprise Fund Reserve