



# INFORMATION REPORT

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

## 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
2. 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.

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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
2. 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.



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**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

	<u>2009</u> <u>Actual</u>	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Forecast</u>	<u>2013</u> <u>Forecast</u>	<u>2014</u> <u>Forecast</u>
<b>Opening Balance</b>	<b>24,076,095</b>	<b>17,310,209</b>	<b>32,201,828</b>	<b>32,609,237</b>	<b>18,683,121</b>	<b>10,316,871</b>
<b>Add:</b>						
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
<b>Sub-Total</b>	<b>7,379,977</b>	<b>20,772,457</b>	<b>14,635,553</b>	<b>14,796,166</b>	<b>4,980,750</b>	<b>3,826,660</b>
<b>Less: Spent</b>						
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
<b>Sub-Total</b>	<b>14,145,864</b>	<b>5,880,837</b>	<b>14,228,144</b>	<b>28,722,282</b>	<b>13,347,000</b>	<b>10,100,000</b>
<b>Projected Dec 31 Balance</b>	<b>17,310,209</b>	<b>32,201,828</b>	<b>32,609,237</b>	<b>18,683,121</b>	<b>10,316,871</b>	<b>4,043,532</b>

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.

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**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.

	<b><u>2009</u></b> <b><u>Actual</u></b>	<b><u>2010</u></b> <b><u>Actual</u></b>	<b><u>2011</u></b> <b><u>Actual</u></b>	<b><u>2012</u></b> <b><u>Forecast</u></b>	<b><u>2013</u></b> <b><u>Forecast</u></b>	<b><u>2014</u></b> <b><u>Forecast</u></b>
<b>Opening Balance</b>	<b>3,856,125</b>	<b>3,997,934</b>	<b>4,030,012</b>	<b>3,970,884</b>	<b>3,300,800</b>	<b>2,016,896</b>
<b>Add:</b>						
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
<b>Sub-Total - To Reserves</b>	<b>208,337</b>	<b>94,329</b>	<b>154,110</b>	<b>89,774</b>	<b>65,651</b>	<b>33,546</b>
<b>Less:</b>						
OW Caseload Contingency Plan		30,659		613,958	1,229,100	1,253,442
Affordable Transit Pass		16,202	87,192			
Additions Services Initiative			126,046	145,900	120,454	96,702
Other Adjustments\Payments	66,528	15,391	0	0	0	0
<b>Sub-Total - From Reserves</b>	<b>66,528</b>	<b>62,252</b>	<b>213,237</b>	<b>759,858</b>	<b>1,349,554</b>	<b>1,350,144</b>
<b>Projected Dec 31 Balance</b>	<b>3,997,934</b>	<b>4,030,012</b>	<b>3,970,884</b>	<b>3,300,800</b>	<b>2,016,896</b>	<b>700,298</b>

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**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.

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

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