



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
*Financial Planning, Administration and Policy Division*

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	August 16, 2017
<b>SUBJECT/REPORT NO:</b>	2016 Reserve Report (FCS17070) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Marcel Cerminara (905) 546-2424 Ext. 4371
<b>SUBMITTED BY:</b>	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That the 2016 Reserve Report and the 2016 Reserves Detail Report, with 2015 Comparative figures and 2017 Projections, attached as Appendix "A" to Report FCS17070, be approved;
- (b) That the reserves listed in Appendix "B" to Report FCS17070 be closed and the outstanding balances be transferred as outlined in Appendix "B" to Report FCS17070;
- (c) That the reserves listed in Appendix "C" to Report FCS17070 be renamed and their purposes updated as outlined in Appendix "C" to Report FCS17070.

**EXECUTIVE SUMMARY**

The purpose of this Report is to present Council with a summary of the City's 2016 Reserves' Status and the 2016 Reserves' Detail with 2015 Comparative figures and 2017 Projections and, if applicable, recommend updated and / or consolidated policies through Council Report recommendations governing the use and limits of these reserves. The 2017 forecast is based on budgeted transfers to reserves, estimated contributions to reserves (including Development Charges and Gas Tax) budgeted transfers from reserves, expected capital infrastructure requirements and anticipated investment activities.

Appendix “A” to Report FCS17070 illustrates, on a per reserve basis, the overall reserve position for 2015 and 2016 and the reserve projection for 2017.

The City’s reserve position continues to ensure that the City remains in a strong net creditor financial position as demonstrated by the City’s “AA+” (stable) Credit Rating which provides the financial flexibility to address capital infrastructure needs and limit the impact of unexpected events.

Table 1 summarizes the overall reserve position as of December 31, 2015, as of December 31, 2016 and projected balances as of December 31, 2017.

Reserves, Obligatory Reserves and the Hamilton Future Fund (HFF) Reserves at December 31, 2016, totalled \$903.5 M, a \$21.2 M or 2.3% decrease over the 2015 balance of \$924.7 M. The overall reserve balance for 2017 is forecasted to decrease by \$99.3 M or 11.0% from \$903.5 M in 2016 to \$804.2 M in 2017.

The following highlights some of the transactions which are expected to contribute to the forecasted \$93.3 M decrease in 2017:

- \$70.6 M from reserves for capital requirements from DC Reserves
- \$36.6 M from reserves for capital requirements from Federal Gas Tax
- \$26.4 M from reserves for bus purchases
- \$20.6 M from reserves for liability resulting from over dedication of parkland
- \$15.0 M from reserves for Wastewater Treatment Plant upgrades
- \$11.0 M from reserves for Transit operating
- \$9.6 M from reserves for Public Works vehicle purchases
- \$7.0 M from reserves for capital requirements from Unallocated Capital Levy
- \$5.3 M from reserve for Canadian Infrastructure Renewal Grant Program

**TABLE 1**

<b><u>Overall Reserve Position</u></b>	<b><u>Balance Dec. 31, 2015</u></b>	<b><u>Balance Dec. 31, 2016</u></b>	<b><u>Projected Balance Dec. 31, 2017</u></b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Tax Supported Reserves	423,170,229	405,704,062	359,818,596
Rate Supported Reserves	237,615,260	241,494,037	227,167,413
Obligatory Reserves	<u>226,210,428</u>	<u>213,218,142</u>	<u>172,856,861</u>
Sub-total before HFF	<b>886,995,917</b>	<b>860,416,241</b>	<b>759,842,870</b>
Reserve Funds – Future Fund	<u>37,710,677</u>	<u>43,097,382</u>	<u>44,349,519</u>
Total Reserves	<b>924,706,594</b>	<b>903,495,623</b>	<b>804,192,389</b>

*Note: The balances reported in Table 1 may differ and may be presented in a different format in the City of Hamilton's annual financial statements*

***Alternatives for Consideration – Not Applicable***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

**Financial: N/A**

**Staffing: N/A**

**Legal: N/A**

**HISTORICAL BACKGROUND**

**Importance of Reserves**

Prudent fiscal management of reserves is imperative. Reserves provide flexibility against uncertainties which inevitably arise in today's changing municipal environment. Over the years, the use of Hamilton's reserves has met several financial objectives. They have been used to moderate tax and rate increases, to fund or expand Hamilton's capital program and to reduce long-term debt. The appropriate use of reserves will reduce financial risks to taxpayers and ratepayers in the future. Further, maintaining reserves at adequate levels will provide the City of Hamilton with financial flexibility while forming a cornerstone of its financial integrity.

## Capital Markets and Credit Rating

Responsible fiscal management translates into an ability to borrow in financial markets at attractive interest rates. Credit rating agencies consider reserve policies along with other financial policies including short-term financial planning and long-term financial planning (i.e. operating and capital budgets) when determining the credit rating of a local government.

On June 16, 2017, S&P Global Ratings (previously known as Standard and Poor's Rating Services) upgraded the City of Hamilton's credit rating to AA+ (with stable outlook) from AA (with positive outlook) for long-term issuer credit and senior unsecured debt. The improvement in rating is due to the City's exceptional liquidity, very strong economy and very predictable and well-balanced local and regional government framework. In Standard and Poor's report, they viewed Hamilton's strong financial management as a positive impact on our credit rating.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

The 2016 Reserve Report (Report FCS17070) is prepared in accordance with City of Hamilton Policy No. ADM-01 Reserve Policy – Administration of Financial Reserves and Reserve Funds.

## **RELEVANT CONSULTATION**

Staff from all City Departments, including staff from the Hamilton Police Service and Hamilton Public Library have reviewed and provided information for the preparation of the 2016 Reserve Report, the 2016 Reserves' Detail Report attached as Appendix "A" to Report FCS17070, as well as Reserves recommended for Closure and Reserves recommended for Renaming attached as Appendices "B" and "C", respectively to Report FCS17070.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION**

The following pages will provide some highlights of the 2016 actual activities, balances and transactions and 2017 forecasts for the Reserves, Obligatory Reserves and Reserve Funds – Hamilton Future Funds.

### 2016 Actual Activities

The overall reserve position decreased by \$21.2 M or 2.3% from \$924.7 M in 2015 to \$903.5 M in 2016. The decrease is a result of the 2016 funding from reserves (\$295.6 M) exceeding the 2016 contributions to reserves (\$274.4 M) by \$21.2 M.

Table 2 summarizes the 2016 reserve transactions by category.

**TABLE 2****Overall Reserve Position – 2016 Activity  
By Reserve Group (\$Millions)**

	<u>Tax Supported Reserves</u>	<u>Rate Supported Reserves</u>	<u>Obligatory Reserves</u>	<u>Future Fund Reserves</u>	<u>Total Reserves</u>
<b>Balance – January 1, 2016</b>	<b><u>\$423.1</u></b>	<b><u>\$237.6</u></b>	<b><u>\$226.2</u></b>	<b><u>\$37.7</u></b>	<b><u>\$924.7</u></b>
Add: Interest Earned	8.5	4.8	3.7	0.9	17.9
Collections / Recoveries	0.0	0.0	82.6	0.0	82.6
Provision for Asset Replacement and Capital Improvements	27.3	0.0	0.0	0.0	27.3
Gas Tax Revenues	6.2	0.0	42.3	0.0	48.5
Repayments of Internal Debt	6.9	0.5	0.9	7.9	16.2
Fees / Donations / Sales / Recoveries	18.8	22.0	1.1	0.0	41.9
W.I.P Savings	2.2	9.4	0.0	0.0	11.6
Special Levy-Ward Infrastructure Investment	13.4	0.0	0.0	0.0	13.4
Other Revenues	<u>8.8</u>	<u>0.6</u>	<u>0.0</u>	<u>0.0</u>	<u>9.4</u>
<b>Sub-Total</b>	<b><u>97.7</u></b>	<b><u>37.3</u></b>	<b><u>130.6</u></b>	<b><u>8.8</u></b>	<b><u>274.4</u></b>
Less: Capital Program Funding	(55.9)	(13.1)	(121.6)	(3.5)	(194.1)
Vehicle and Equipment Funding	(41.1)	0.0	0.0	0.0	(41.1)
To Operating Fund	(11.3)	0.0	(11.0)	0.0	(22.3)
Program Phase-ins / Pilot Programs / Grants / Reviews	(4.0)	(20.3)	0.0	0.0	(24.3)
Borrowings to be Repaid	<u>(2.8)</u>	<u>0.0</u>	<u>(11.0)</u>	<u>0.0</u>	<u>(13.8)</u>
<b>Sub-Total</b>	<b><u>(115.1)</u></b>	<b><u>(33.4)</u></b>	<b><u>(143.6)</u></b>	<b><u>(3.5)</u></b>	<b><u>(295.6)</u></b>
<b>Balance – December 31, 2016</b>	<b><u>\$405.7</u></b>	<b><u>\$241.5</u></b>	<b><u>\$213.2</u></b>	<b><u>\$43.0</u></b>	<b><u>\$903.5</u></b>

**Reserve Closing**

As part of the annual Reserve Report process and consistent with recommendation 4 of Appendix “A” to AUD17011 Performance Audit, reserves are reviewed for potential closure. There are several reasons that reserves are recommended for closure and they are as follows:

- Reserves which are set-up with limited funds, to be used for a specific purpose, are recommended for closure once the funds are depleted.
- The original purpose of the reserve is no longer valid, thus the reserve is recommended for closure and the remaining funds are reallocated to other uses.
- Council recommends that the remaining funds in a specific reserve be reallocated for uses in other areas.
- Low activity, low balance reserves are consolidated within larger reserves to increase effectiveness and efficiency of reserve and administrative activity.

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Appendix “B” to Report FCS17070 lists the reserves recommended for closure and the reason for closure.

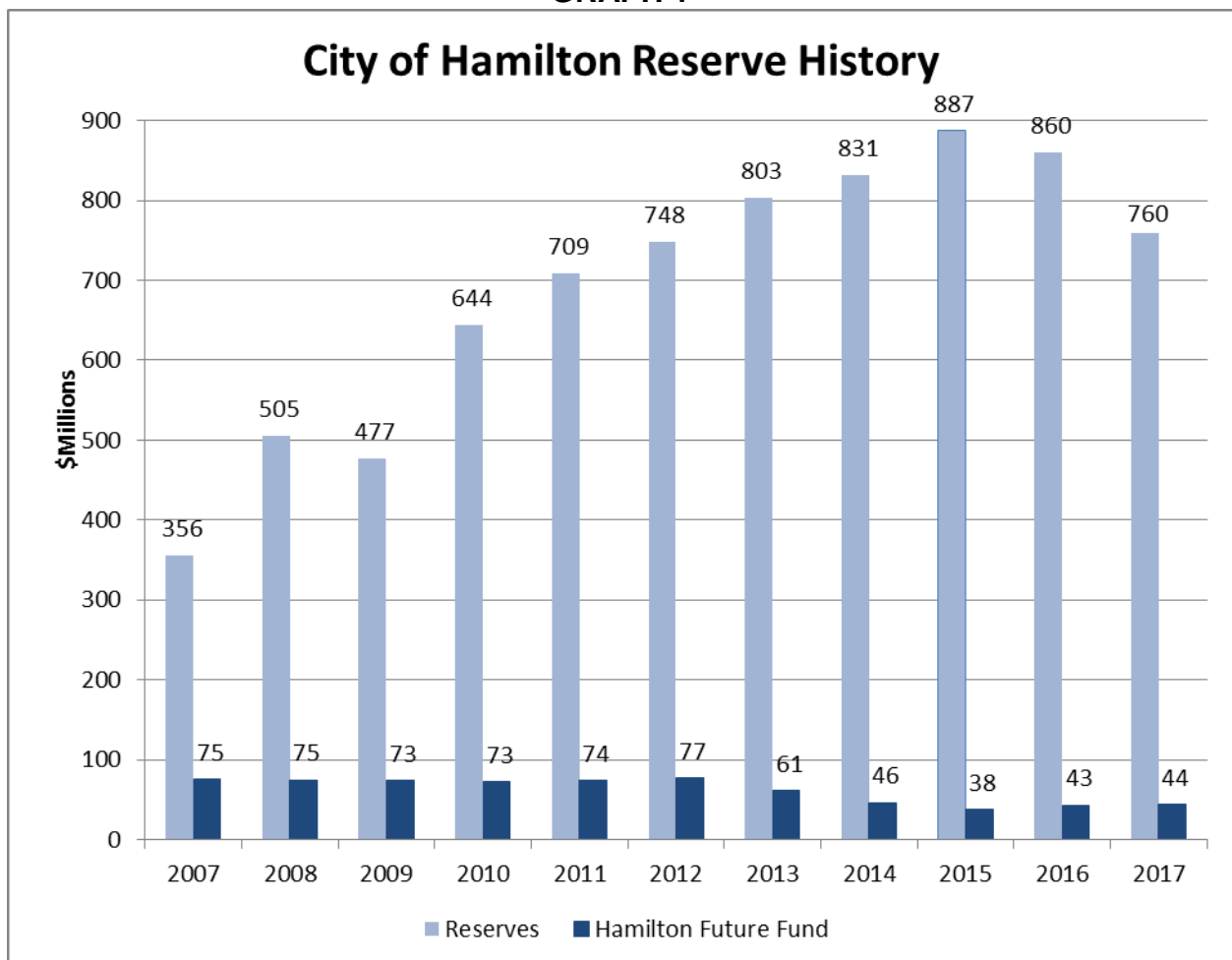
### Reserve Renaming

As part of the annual Reserve Report process and consistent with recommendation 12 of Appendix “A” to AUD17011 Performance Audit, reserves are reviewed and evaluated for appropriateness of desired corporate outcomes for reserve usage. Appendix “C” to Report FCS17070 recommends the renaming and in some instances, re-purposing of existing reserves to better reflect current usage needs.

### Ten Year History and 2016 Reserve Projection

The following Graph shows a 10-year reserve history and 2017 reserve projections for the City of Hamilton:

**GRAPH 1**



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Over the last 10 years, the reserve balances have increased from \$356 M in 2007 to \$860 M in 2016 (for tax supported, rate supported and obligatory reserves), while the balance in the HFF reserve has decreased from \$75 M in 2007 to \$43 M in 2016.

The increase is primarily the result of new reserves being added over the last 10 years from contributions from external or internal sources. Reserve balances are forecasted to decrease in the coming years, especially the Rate reserves which are being used to fund a substantial portion of the Woodward Wastewater Treatment Plant upgrade as well as the Biosolids Project. The following provides examples of new reserves funded either from external or internal sources.

**External Sources:**

- Provincial Contribution for Wastewater Improvement (Wastewater Improvement Subsidy Reserve)
- Provincial Gas Tax Agreement (Transit Gas Tax Reserve)
- Capital Gains on Investments (Investment Stabilization Reserve)
- Federal Gas Tax Funding Agreement (Federal Gas Tax Reserve)
- Provincial North Glanbrook Industrial Park Contribution (Red Hill Business Park Reserve)
- Library Donations (Library Donations Reserve)

**Internal Sources:**

- Strategic Capital Project Reserve
- Parkland Acquisition Reserve
- Area Rating Special Infrastructure Levy (Wards 1 to 8 Capital Reinvestment Reserves)
- Economic Development Investment Fund
- Energy Conservation Initiatives Reserve
- Waterpark Operations Reserve

**Sustainability of Reserves**

The 2016 Reserves' Detail Report, attached as Appendix "A" to Report FCS17070 indicates whether the reserves are sustainable. The criteria used to determine sustainability is as follows:

- If the annual contributions are sufficient to off-set future requirements;
- If there are committed contributions to the reserve; and
- If there is a financial plan in place to ensure target levels are met and maintained.

Table 3 shows the reserves which are deemed non-sustainable as of June 2017.

**TABLE 3**  
**Non-Sustainable Reserves**

<b><u>Number</u></b>	<b><u>Name</u></b>	<b><u>Dec. 31, 2016 Balance (\$000's)</u></b>	<b><u>Recommended Balance (\$000's)</u></b>
110046	Tax Stabilization Reserve	16,646	32,300
110044	OW Stabilization Reserve	1,310	TBD
100036	Auchmar Estates – Repairs	0.9	TBD
999998	Developer Recoveries	(0.2)	TBD
112205	Winter Control	3,160	6,300
108050	Parkland Acquisition Reserve	9,184	TBD
108020	Unallocated Capital Reserve	25,006	24,000

#### Reserve Policies

Staff will continue to review the City's individual reserves over the next several years in order to develop formal policies for individual reserves that define the appropriate level of the individual reserve's target levels, review the reserve's purposes and review how resources will be allocated for the reserve's replenishment. Each year, staff will review a specific number of individual reserves and report to Council recommending the approval of the policies. Emphasis will be placed on acceptable reserve uses which move away from very specific purpose low value reserves as outlined in recommendation 7 of Appendix "A" to AUD17011 Performance Audit.

#### Outstanding Liabilities

The City provides certain employee benefits that require funding in future years, which are currently estimated at \$356.7 M as of December 31, 2016. The City has established reserves to provide for some of these liabilities while other amounts, such as accrued vacation have been recorded as liabilities. The amounts in the reserves to provide for the liabilities total \$66.1 M thus leaving net employee-related liabilities to be recovered in the future from either reserves or the operating fund at \$290.6 M.

These liabilities are only 18.5% funded and currently there is no Public Sector Accounting Board (PSAB) requirement to provide funding for the net unfunded liability portion of these employee benefits of \$290.6 M either from reserves or taxation. These unfunded liabilities can be funded as they occur in future years, either from the operating budget or from dedicated reserves after consultation with Council either through a report or through the budget process. Consistent with recommendation 2 of Appendix "A" to AUD17011 Performance Audit, Corporate Services will continue to monitor these liabilities to ensure a funding source is available as they come due.



The City owns and operates one open landfill and maintains 12 closed landfills. The open site is estimated to reach capacity and close in 2043. The estimated liability for future costs associated with the operational site and post-closure care of the closed sites is \$24.4 M and \$23.4 M net of provisions in the reserves.

Including the landfill site, total liabilities to be recovered in the future, are estimated at \$314.0 M as at December 31, 2016.

Table 4 summarizes the estimated future liabilities by category.

**TABLE 4**  
**Estimate of Outstanding Liabilities (\$000's)**

	<b>2016 (\$)</b>	<b>2015 (\$)</b>
<b>Employee Benefits and Future Obligations:</b>		
Sick Leave Benefit Plan	55,108	55,029
Long Term Disability Plan	23,819	22,729
Worker's Safety and Insurance Board Liabilities (WSIB)	78,297	75,572
Vacation Benefits	26,291	26,077
Retirement Benefits	142,509	138,789
Pension Benefit Plans	32,634	26,268
Pension Valuation Allowance	0	0
Net Unamortized Actuarial Gain (Loss)	<u>(1,896)</u>	<u>4,543</u>
	<b>356,762</b>	<b>349,007</b>
Less:		
Provisions in Reserves and Balance Sheet	<u>(66,142)</u>	<u>(69,093)</u>
<b>Employee Related Liabilities To be Recovered in the Future</b>	<b>290,620</b>	<b>279,914</b>
<b>Waste Management Facilities Liabilities:</b>		
Open and Closed Landfill Sites	24,466	25,769
Less:		
Provisions in Reserves	<u>(1,041)</u>	<u>(1,006)</u>
<b>Waste Management Liabilities To be Recovered in the Future</b>	<b>23,425</b>	<b>24,763</b>
<b>Total Liabilities to be Recovered in the Future</b>	<b>314,045</b>	<b>304,677</b>

Outstanding Internal Loans from Reserves

Consistent with recommendation 10 of Appendix "A" to AUD17011 Performance Audit, Corporate Services will begin reporting, in detail, the outstanding internal loan balances from reserves as well as annual internal repayments to ensure transparency in the reporting process. As at December 31, 2016 the total principal outstanding was \$17.8 M with annual repayment forecasted to be \$3.8 M. Nineteen internal loans are outstanding with maturities ranging from 2017 to 2027. Appendix "D" to Report FCS17070 provides a detailed summary of all outstanding internal loans from reserves.

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Reserve Reporting Format

Consistent with recommendation 9 of Appendix “A” to AUD17011 Performance Audit, Financial Planning, Administration and Policy has begun to explore options for alternative reserve reporting formats. Alternative formats would focus on improving reporting value to external users as well as ease of preparation ensuring timely information.

**ALTERNATIVES FOR CONSIDERATION**

Not applicable.

**ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

**Economic Prosperity and Growth**

*Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.*

**Built Environment and Infrastructure**

*Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.*

**Our People and Performance**

*Hamiltonians have a high level of trust and confidence in their City government.*

**APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” – 2016 Reserves Detail Report, with 2015 Comparative figures and 2017 Projections

Appendix “B” – Reserves Recommended for Closure

Appendix “C” – Reserves Recommended for Renaming

Appendix “D” – Internal Loans from Reserves Summary

MC/dt