



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

| | |
|---------------------------|---|
| TO: | Chair and Members Audit, Finance and Administration Committee |
| COMMITTEE DATE: | July 11, 2018 |
| SUBJECT/REPORT NO: | Reserve Policies Update (FCS18065) (City Wide) |
| WARD(S) AFFECTED: | City Wide |
| PREPARED BY: | Marcel Cerminara (905) 546-2424 Ext. 4371 |
| SUBMITTED BY: | Brian McMullen Director, Financial Planning Administration and Policy Corporate Services Department |
| SIGNATURE: | |

RECOMMENDATIONS

- (a) That the Reserve Policy for the Property Purchases Reserve (100035), attached as Appendix "A" to Report FCS18065, be approved;
- (b) That the Reserve Policy for the City Enrichment Fund Reserve (112230), attached as Appendix "B" to Report FCS18065, be approved;
- (c) That the Reserve Policy for the Waterpark Reserve (112224), attached as Appendix "C" to Report FCS18065, be approved;
- (d) That the Reserve Policy for the Cemetery Niche Reserve (104105), attached as Appendix "D" to Report FCS18065, be approved;
- (e) That the Reserve Policy for the General Park, Marina and Waterfront Reserve (112201), attached as Appendix "E" to Report FCS18065, be approved;
- (f) That the Reserve Policy for the Leash Free Park Reserve (112202), attached as Appendix "F" to Report FCS18065, be approved;
- (g) That the Reserve Policy for the 47 Guise Street Reserve (112209), attached as Appendix "G" to Report FCS18065, be approved.

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EXECUTIVE SUMMARY

Reserves play an integral role in the City's finances and provide a strong indicator of the City's overall financial health. One of the key attributes of financial sustainability is appropriate reserve fund levels. Adequate reserve balances provide financial flexibility, mitigate risk, weather uncertainty and ensure the ongoing financial stability of the corporation. Reserves are also leveraged to sustain City infrastructure, support programs and form an important part of the City's financial strategies including obtaining favourable Credit Ratings.

The balance in City's Reserves and Obligatory Reserve Funds at December 31, 2017 (unaudited) of \$994.4M represents a significant asset.

Council has approved a number of reserve policies over the past 18 years. However, Report AUD17011, Reserve Performance Audit, identified only seven Reserve policies drafted from January 2014 to May 2017. In response, management reaffirmed their commitment to draft at minimum three reserve policies annually. This initiative was first implemented as part of Report FCS14028 which spoke to staff reviewing each year a specific number of individual reserves with subsequent reports to Council recommending the approval of relevant policies.

To date, in 2018, Finance staff, in co-operation with relevant department areas, has had two reserve policies approved by Council. Those reserve policies are the Building Permit Reserve Policy and the Hamilton Farmers Market Reserve Policy. If Council approves the attached seven reserve policies there will have been nine reserve policies drafted and approved in 2018.

Report FCS18065 includes reserve policies for the following reserves:

| | |
|--------|---|
| 100035 | Property Purchases Reserve |
| 112230 | City Enrichment Fund Reserve |
| 112224 | Waterpark Reserve |
| 104105 | Cemetery Niche Reserve |
| 112201 | General Park, Marina and Waterfront Reserve |
| 112202 | Leash Free Park Reserve |
| 112209 | 47 Guise Street Reserve |

If the above reserve policies are approved, the City will have 22 active reserve policies including 20 reserve specific policies and two general reserve policies. A listing of Reserve Policies can be found on Page 225 of Appendix "A" - Reserve Detail Report to FCS18064, 2017 Reserve Report.

Alternatives for Consideration – Not Applicable

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FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: These policies set out sources and uses of funds related to each specific reserve which should be adhered to. A reserve target balance is also set, where applicable. Staff must make a concerted effort to maintain target balances.

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

To ensure that the City's reserves remain in a healthy position, staff committed, through Report FCS14028, to initiate an annual review process to develop formal reserve policies that define appropriate levels and uses of reserves.

Through Report AUD17011, staff reaffirmed their commitment to reviewing and drafting policies for at minimum three reserves annually.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Reserve policies contained in Report FCS18065 adhere to Municipal Act section 417.

RELEVANT CONSULTATION

Public Works Department
Planning and Economic Development Department
City Manager's Office

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

Property Purchases Reserve - 100035

The purpose of the Property Purchases Reserve, which was established in 1961 is to fund the acquisition of properties for civic purposes and to offset expenditures (i.e. surveying, appraisal reports, maintenance, etc.) associated with the sale and purchase of properties. Figure 1 provides a summary of reserve activity in 2016 and 2017 as well as a three year forecast.

A newly set up Property Purchases and Sales Project ID used for real estate transactions will be cleared annually to the Property Purchases Reserve. If annual sale revenue is greater than annual purchase costs, there will be a net contribution to the reserve. If acquisition costs outweigh sale revenue, there will be a net draw on the reserve.

A minimum target balance of 100% of annual Real Estate recovery (\$1M for 2018) plus \$2M is recommended. This minimum target amount, which totals \$3M, gives the City financial flexibility to pursue property acquisition for civic purposes should an opportunity arise. The Property Purchases Reserve Policy is attached as Appendix “A” to Report FCS18065.

Figure 1

| | <u>2016</u> | <u>2017</u> | <u>Projected</u> <u>2018</u> | <u>Projected</u> <u>2019</u> | <u>Projected</u> <u>2020</u> |
|---|------------------|------------------|---------------------------------|---------------------------------|---------------------------------|
| Beginning Balance | 2,657,352 | 3,002,922 | 1,666,376 | 1,731,215 | 1,101,633 |
| Add | | | | | |
| Interest Earned | 56,897 | 51,271 | 38,628 | 32,207 | 32,102 |
| Repay Purchase - 205 Berko Avenue, 1139 Greenhill Avenue | 237,345 | 237,345 | 237,345 | 237,345 | 237,345 |
| Project Closing Variance | 51,328 | 39,199 | 0 | 0 | 0 |
| Repay Purchase 605 Hwy. 8 | 0 | 247,353 | 247,353 | 247,353 | 247,353 |
| Repay Purchase Ancaster Memorial School | 0 | 0 | 103,513 | 103,513 | 103,513 |
| | <u>345,570</u> | <u>575,168</u> | <u>626,839</u> | <u>620,418</u> | <u>620,313</u> |
| Less | | | | | |
| Adaptive Community Re-use 125 Barton W. GIC 17-015 | 0 | 300,000 | 0 | 0 | 0 |
| Property Purchases-PW06108 PW06108 | 0 | 94,128 | 0 | 0 | 0 |
| Purchase Ancaster Memorial School FCS16071(B) | 0 | 605,924 | 0 | 0 | 0 |
| Consultant Expense | 0 | 180,275 | 0 | 0 | 0 |
| PTIF WIP Savings Identified as part of 2017 Capital GIC16-031 | 0 | 39,000 | 0 | 0 | 0 |
| Purchase 605 Hwy. 8 FCS16071(B) | 0 | 692,387 | 0 | 0 | 0 |
| Acquisition of 18 Sinclair Avenue PW17006 | 0 | 0 | 562,000 | 0 | 0 |
| Future Commitments | 0 | 0 | 0 | 1,250,000 | 0 |
| | <u>0</u> | <u>1,911,714</u> | <u>562,000</u> | <u>1,250,000</u> | <u>0</u> |
| Ending Balance | <u>3,002,922</u> | <u>1,666,376</u> | <u>1,731,215</u> | <u>1,101,633</u> | <u>1,721,945</u> |

City Enrichment Fund Reserve - 112230

The purpose of the City Enrichment Fund Reserve, which was established in 1989 is to fund extraordinary and unforeseen expenditures, providing one-time funding to grant recipients. It is to provide a source of funds to support community programs and initiatives in excess of the budgeted program envelope. The City Enrichment Fund Reserve is not intended to be a long-term funding source for community programs and grant recipients. Figure 2 provides a summary of reserve activity in 2016 and 2017 as well as a three year forecast.

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A target balance of 5% of the annual program budget (\$301K for 2018) is recommended to meet unexpected one-time requests to the City Enrichment Fund including marque events within the City, anniversary milestones and emergency funding for applicants within the program. The City Enrichment Fund Reserve Policy is attached as Appendix “B” to Report FCS18065.

Figure 2

| | | <u>2016</u> | <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> |
|--|----------------|-------------|-------------|--------------------------|--------------------------|--------------------------|
| Beginning Balance | | 533,599 | 490,050 | 334,337 | 165,983 | 169,801 |
| Add | | | | | | |
| Interest Earned | | 9,791 | 9,827 | 5,688 | 3,818 | 3,905 |
| Grants' Surplus | AFA 17-002 | 47,810 | 0 | 0 | 0 | 0 |
| Grants' Surplus | GRA 18002 | 0 | 63,766 | 0 | 0 | 0 |
| | | 57,601 | 73,593 | 5,688 | 3,818 | 3,905 |
| Less | | | | | | |
| Saltfleet Go Ahead/Binbrook Baseball Grant | Grants 16-003 | 9,456 | 0 | 0 | 0 | 0 |
| CANUSA Games Grant | Council 16-004 | 2,245 | 0 | 0 | 0 | 0 |
| One Time Grant Payment | | 89,449 | 147,306 | 174,042 | 0 | 0 |
| YWCA Transitional Living | AF&A 17-011 | 0 | 60,000 | 0 | 0 | 0 |
| Historic Waterdown Arts and Events | AF&A 17-008 | 0 | 22,000 | 0 | 0 | 0 |
| | | 101,150 | 229,306 | 174,042 | 0 | 0 |
| Ending Balance | | 490,050 | 334,337 | 165,983 | 169,801 | 173,706 |

Waterpark Reserve - 112224

The purpose of the Waterpark Reserve which was established in 2015 is to fund capital improvements as well as operating budget deficits at Confederation Park, as approved by the City in consultation with the Waterpark operators. This Reserve is a component of a comprehensive 10-year capital plan as outlined in Report PW11005(c) / FCS15090, approved by Council on December 10, 2015. The Waterpark Reserve is funded through commercial operations operating budget surplus at Confederation Park and unexpected revenue sources. Figure 3 provides a summary of reserve activity in 2016 and 2017 as well as a three year forecast.

A minimum target balance of \$300K is recommended in the event the reserve is needed to be drawn on for unforeseen operating expenditures. Amounts above the target level may be used for capital improvements at the Waterpark, as approved by the City in consultation with the Waterpark operators. The Waterpark Reserve Policy is attached as Appendix “C” to Report FCS18065.

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Figure 3

| | <u>2016</u> | <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> |
|-----------------------------------|-------------|-------------|--------------------------|--------------------------|--------------------------|
| Beginning Balance | 0 | 0 | 1,179,151 | 1,408,571 | 1,011,081 |
| Add | | | | | |
| Interest Earned | 0 | 16,770 | 29,420 | 27,510 | 20,380 |
| 2015 Operating Surplus | 0 | 381,615 | 0 | 0 | 0 |
| 2016 Operating Surplus | 0 | 780,766 | 0 | 0 | 0 |
| 2017 Operating Surplus Forecast | 0 | 0 | 200,000 | 0 | 0 |
| | 0 | 1,179,151 | 229,420 | 27,510 | 20,380 |
| Less | | | | | |
| 2018 Operating Deficit (Forecast) | 0 | 0 | 0 | 200,000 | 0 |
| Minor Capital Rehab/Maintenance | 0 | 0 | 0 | 225,000 | 250,000 |
| | 0 | 0 | 0 | 425,000 | 250,000 |
| Ending Balance | 0 | 1,179,151 | 1,408,571 | 1,011,081 | 781,461 |

Cemetery Niche Reserve (formerly Cemetery Building Reserve - Niches) - 104105

The Purpose of the Cemetery Niche Reserve which was established in 1992 is to fund the development of columbarium units in various municipal cemeteries throughout the City of Hamilton. The reserve provides a source of funds to promote cemetery growth that is funded through revenue generation and not the City's Capital Budget block allocation. Figure 4 provides a summary of reserve activity in 2016 and 2017 as well as a three year forecast.

The target balance in the Cemetery Niche Reserve is \$100K. The target balance in reserve 104105 equates to approximately one to two years' worth of capital expenditures for the development of the City's cemeteries. The Cemetery Niche Reserve Policy is attached as Appendix "D" to Report FCS18065.

Figure 4

| | <u>2016</u> | <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> |
|-------------------------------|-------------|-------------|--------------------------|--------------------------|--------------------------|
| Beginning Balance | 75,301 | 105,283 | 123,311 | 122,477 | 113,496 |
| Add | | | | | |
| Interest Earned | 1,799 | 2,514 | 2,794 | 2,683 | 2,498 |
| Sale of Niches | 42,118 | 65,514 | 41,372 | 43,336 | 45,241 |
| Project Closings | 36,065 | 0 | 0 | 0 | 0 |
| Sale of Cemetery Items | 0 | 0 | 5,000 | 5,000 | 5,000 |
| | 79,982 | 68,027 | 49,166 | 51,019 | 52,740 |
| Less | | | | | |
| Construction of Columbarium's | 50,000 | 50,000 | 50,000 | 60,000 | 60,000 |
| | 50,000 | 50,000 | 50,000 | 60,000 | 60,000 |
| Ending Balance | 105,283 | 123,311 | 122,477 | 113,496 | 106,236 |

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General Park, Marina and Waterfront Reserve (formerly Park Marina Reserve) - 112201

The purpose of the General Park, Marina and Waterfront Reserve which was established in 2003 is to fund capital improvements at the Hamilton Waterfront, managed by the Environmental Services Division. The reserve provides staff the opportunity to replace additional assets where the City's budget funding is insufficient. Figure 5 provides a summary of reserve activity in 2016 and 2017 as well as a three year forecast.

The General Park, Marina and Waterfront Reserve has a target balance of \$200K. The target balance in Reserve 112201 equates to approximately two years' worth of capital expenditures for the improvement of the City's General Park, Marina and Waterfront. The General Park, Marina and Waterfront Reserve Policy is attached as Appendix "E" to Report FCS18065.

Figure 5

| | <u>2016</u> | <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> |
|-----------------------|----------------|----------------|--------------------------|--------------------------|--------------------------|
| Beginning Balance | 171,429 | 174,873 | 548,255 | 732,820 | 825,538 |
| Add | | | | | |
| Interest Earned | 3,444 | 3,954 | 14,565 | 17,717 | 20,137 |
| Marina Rental Revenue | 0 | 369,428 | 110,000 | 110,000 | 110,000 |
| Donations | 0 | 0 | 30,000 | 60,000 | 60,000 |
| Other Revenues | 0 | 0 | 30,000 | 30,000 | 30,000 |
| | <u>3,444</u> | <u>373,382</u> | <u>184,565</u> | <u>217,717</u> | <u>220,137</u> |
| Less | | | | | |
| Park Improvements | 0 | 0 | 0 | 125,000 | 100,000 |
| | <u>0</u> | <u>0</u> | <u>0</u> | <u>125,000</u> | <u>100,000</u> |
| Ending Balance | <u>174,873</u> | <u>548,255</u> | <u>732,820</u> | <u>825,538</u> | <u>945,675</u> |

Leash Free Park Reserve - 112202

The purpose of the Leash Free Park Reserve which was established in 2014 is to fund capital improvements in existing leash free areas and fund the development of new leash free areas. The reserve provides staff the opportunity to replace additional assets where the City's Capital Budget funding is insufficient. Figure 6 provides a summary of reserve activity in 2016 and 2017 as well as a three year forecast.

The target balance in the Leash Free Park Reserve is \$100K. The target balance in Reserve 112202 equates to approximately two years' worth of capital expenditures for the improvement and / or development of the City's dog parks. The Leash Free Park Reserve Policy is attached as Appendix "F" to Report FCS18065.

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Figure 6

| | <u>2016</u> | <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> |
|----------------------------|----------------|----------------|--------------------------|--------------------------|--------------------------|
| Beginning Balance | 227,219 | 241,721 | 205,736 | 169,026 | 131,471 |
| Add | | | | | |
| Interest Earned | 4,642 | 4,986 | 4,261 | 3,416 | 2,553 |
| License Fees and Donations | 39,860 | 39,029 | 39,029 | 39,029 | 39,029 |
| | <u>44,502</u> | <u>44,015</u> | <u>43,290</u> | <u>42,445</u> | <u>41,582</u> |
| Less | | | | | |
| Leashfree Park Program | 30,000 | 80,000 | 80,000 | 80,000 | 80,000 |
| | <u>30,000</u> | <u>80,000</u> | <u>80,000</u> | <u>80,000</u> | <u>80,000</u> |
| Ending Balance | <u>241,721</u> | <u>205,736</u> | <u>169,026</u> | <u>131,471</u> | <u>93,053</u> |

47 Guise Street Reserve - 112209

The purpose of the 47 Guise Street Reserve established in 2014, is to fund capital systems replacement and operating contingency expenditures at this property. Figure 7 provides a summary of reserve activity in 2016 and 2017 as well as a three year forecast.

The target balance for Reserve 112209 is set at \$250K which roughly equals two years' worth of capital and operating expenditures. The 47 Guise Street Reserve Policy is attached as Appendix "G" to Report FCS18065.

Figure 7

| | <u>2016</u> | <u>2017</u> | Projected <u>2018</u> | Projected <u>2019</u> | Projected <u>2020</u> |
|-----------------------------------|----------------|----------------|--------------------------|--------------------------|--------------------------|
| Beginning Balance | 131,330 | 133,968 | 156,248 | 169,451 | 182,958 |
| Add | | | | | |
| Interest Earned | 2,639 | 3,280 | 3,703 | 4,007 | 4,317 |
| Provision for Capital Replacement | 0 | 19,000 | 9,500 | 9,500 | 9,500 |
| | <u>2,639</u> | <u>22,280</u> | <u>13,203</u> | <u>13,507</u> | <u>13,817</u> |
| Ending Balance | <u>133,968</u> | <u>156,248</u> | <u>169,451</u> | <u>182,958</u> | <u>196,775</u> |

ALTERNATIVES FOR CONSIDERATION

N/A

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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” – Property Purchases Reserve Policy

Appendix “B” – City Enrichment Fund Reserve Policy

Appendix “C” – Waterpark Reserve Policy

Appendix “D” – Cemetery Niche Reserve Policy

Appendix “E” – General Park, Marina and Waterfront Reserve Policy

Appendix “F” – Leash Free Park Reserve Policy

Appendix “G” – 47 Guise Street Reserve Policy

MC/dt