



CITY OF HAMILTON
CORPORATE 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:	2017 Reserve Report (FCS18064) (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 2017 Reserve Report and the 2017 Reserves Detail Report, with 2016 Comparative figures and 2018-2020 Projections, attached as Appendix “A” to Report FCS18064, be approved;
- (b) That the reserves listed in Appendix “B” to Report FCS18064 be closed and the outstanding balances be transferred as outlined in Appendix “B” to Report FCS18064;
- (c) That the reserves listed in Appendix “C” to Report FCS18064 be renamed and their purposes updated as outlined in Appendix “C” to Report FCS18064.

EXECUTIVE SUMMARY

The purpose of this Report is to present Council with a summary of the City’s 2017 Reserves’ Status and the 2017 Reserves’ Detail with 2016 Comparative figures and 2018-2020 Projections and, if applicable, recommend updated and / or consolidated policies through Council report recommendations governing the use and limits of these reserves. The 2018-2020 forecast is based on budgeted transfers to and from the reserves, as well as, other known requirements, anticipated income and investment activities.

The 2017 Reserves Detail Report attached as Appendix “A” to Report FCS18064 is the first year that the report is being presented with multi-year forecasts. Historically only one year of forecasting was provided in the report. Moving to a multi-year, three-year forecast provides Council, staff and the public with a forward looking outlook to better link strategic plans with financial resources.

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 the capital infrastructure needs and limit the impact of unexpected events.

Table 1 summarizes the overall reserve positions as of December 31, 2016, as of December 31, 2017 and projected balances as of December 31, 2018, 2019, 2020.

Reserves, Obligatory Reserves and Reserve Funds-Future Fund at December 31, 2017, totalled \$994.4M, a \$90.9M or 10.1% increase over the 2016 balance of \$903.5M. A significant portion of this increase is as a result of the \$24.2M 2017 Corporate Tax Budget Surplus, as well as the \$18.1M 2017 Rate Budget Surplus. A further contributing factor to the increase in reserve balance is net Development Charge collections of \$66.8M in 2017.

The overall reserve balance for 2018 is forecasted to decrease by \$172.3M or 17.3% from \$994.4M in 2017 to \$822.1M in 2018. The following highlights some of the transactions which contribute to the forecasted \$172.3M decrease in 2018:

- \$73.6M from reserves for capital requirements from DC Reserves to fund growth
- \$58.8M from reserves for Wastewater Treatment Plant upgrades
- \$55.6M from reserves for capital requirements such as roads from Federal Gas Tax
- \$19.4M from reserves for priority road rehabilitation
- \$17.1M from reserves for DC Debt repayment
- \$11.7M from reserves for Public Transit improvements
- \$8.5M from reserves for Public Transit vehicle replacement
- \$6.9M from reserves for Public Works vehicle purchase
- \$4.6M from reserves for Fire vehicle purchase

TABLE 1

Overall Reserve Position	Balance	Balance	Forecast	Forecast	Forecast
	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020
	\$	\$	\$	\$	\$
Tax Supported Reserves	405,046,562	436,977,023	374,091,187	378,898,786	392,968,053
Rate Supported Reserves	241,494,037	260,982,698	199,003,833	142,472,904	92,229,287
Total Non Obligatory	646,540,600	697,959,721	573,095,020	521,371,690	485,197,340
Obligatory Reserves	213,162,115	252,126,422	201,363,561	170,101,325	180,044,079
Sub-total before Future Fund	859,702,715	950,086,143	774,458,581	691,473,015	665,241,419
Reserve Funds-Future Fund	43,079,382	44,322,301	47,657,998	53,044,865	58,034,707
Reserves Closed in Prior Year	713,525				
Total Reserves	903,495,622	994,408,444	822,116,579	744,517,880	723,276,126

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 November 17, 2017, S&P's Global Rating Services affirmed its AA+ credit rating for the City of Hamilton for long-term issuer credit and senior unsecured debt. The high rating is due to the City's exceptional liquidity, very strong economy and very predictable and well-balanced local and regional government framework. In S&P's report, they viewed Hamilton's strong financial management as a positive impact on the credit rating.

Monitoring of Reserve Program

A formal Performance Audit Report (2017-01) was conducted on the reserve program in early 2017 resulting in thirteen recommendations through Report AUD17-011. Staff has made a conscious effort to act on those thirteen recommendations, some of which are addressed in this Report and Report FCS18065 Reserve Policies Update.

Staff continues to work toward reviewing and creating policies for all reserves, including developing target balances for key reserves. Staff continues to rationalize existing reserves, looking for opportunities to consolidate or close reserves which lack a defined corporate purpose. The goal of the reduction in total reserves is to increase effectiveness and efficiency of reserve and administration activity.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The 2017 Reserve Report (Report FCS18064) 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 2017 Reserve Report, the 2017 Reserves Detail Report, attached as Appendix "A" to Report FCS18064, as well as Reserves recommended for Closure and Reserves recommended for Renaming attached as Appendices "B" and "C" respectively to Report FCS18064.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

2017 Actual Activities

The overall reserve position increased by \$90.9M or 10.1% from \$903.5M in 2016 to \$994.4M in 2017. The increase is a result of the 2017 transfer to reserve (\$311.4M) exceeding the funding from reserve (\$220.5M) by \$90.9M. Table 2 summarizes the 2017 reserve transactions by category.

TABLE 2

OVERALL RESERVE POSITION - 2017 ACTIVITY BY RESERVE GROUP (\$Millions)					
	Tax Supported Reserves	Rate Supported Reserves	Obligatory Reserves	Future Fund Reserves	Total Reserves
Balance - January 1, 2017	\$405.7	\$241.5	\$213.2	\$43.1	\$903.5
Add: Interest Earned	10.0	5.4	4.7	1.1	21.2
Collections\Recoveries	8.4	0.1	87.3	0.0	95.8
Provision for Asset Replacement & Capital Improvements	28.0	0.0	0.0	0.0	28.0
Gas Tax Revenues	0.0	0.0	43.2	0.0	43.2
Repayments of Internal Debt	6.2	0.5	1.0	8.0	15.7
Program Surpluses	41.4	37.0	1.5	0.0	79.9
Fees\Donations\Sales	3.8	0.0	0.0	0.0	3.8
W.I.P. Savings	5.3	0.0	0.7	0.0	6.0
Special Levy-Ward Infrastructure Investment	13.4	0.0	0.0	0.0	13.4
Other Revenues	4.4	0.0	0.0	0.0	4.4
Sub-Total	120.9	43.0	138.4	9.1	311.4
Less: Capital Program Funding	(45.1)	(23.5)	(79.0)	(7.9)	(155.5)
Vehicle & Equipment Funding	(21.3)	0.0	0.0	0.0	(21.3)
To Operating Fund	(12.7)	0.0	(10.9)	0.0	(23.6)
Program Phase-ins\Pilot Programs\Grants\Reviews	(2.4)	0.0	0.0	0.0	(2.4)
Borrowings to be repaid	(1.6)	0.0	(9.5)	0.0	(11.1)
Other Expenditures	(6.5)	0.0	(0.1)	0.0	(6.6)
Sub-Total	(89.6)	(23.5)	(99.5)	(7.9)	(220.5)
Balance - December 31, 2017	\$437.0	\$261.0	\$252.1	\$44.3	\$994.4

Reserve Closings

As part of the annual Reserve Report process and consistent with recommendation 4 of Appendix “A” to Report 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.

At the time Report AUD17011 was submitted to Council in the spring of 2017, the City had 158 active reserves. Eleven reserves were closed in 2017 through Report FCS17070, with three new Library reserves opened. Report FCS18064 recommends closing a further seven reserves while two additional reserves are forecasted to be opened in 2018. Staff forecasts 145 active reserves at year end 2018 versus 158 active Reserves at the time Report AUD17011 was submitted to Council. Staff will continue to monitor the number of reserves looking to close or consolidate, where possible. The goal of the reduction in total reserves is to increase effectiveness and efficiency of reserve and administration activity.

Appendix “B” to Report FCS18064 lists the reserves recommended for closure and the reason for closure.

New Library Trust Reserves

Three new Library reserves were created in 2017 as a result of an external auditor’s recommendation. The new reserves are as follows:

- 106110 – Special Gift Fund
- 106130 – K McLaren Memorial Fund
- 106152 – Waterdown Library Fund

These three reserves were previously classified as trusts. However, upon further review, did not meet the definition of a trust under Public Sector Accounting Board (PSAB) standards. The funds in these trusts were deemed a donation to the Library to be used for specific Library services. As such, the trusts were reclassified as reserves.

Red Light Camera Reserve

The Red Light Camera Reserve was established to operate and maintain current and future Red Light Camera sites. Surpluses above the \$100,000 minimum target balance were to be allocated to road safety initiatives. Initial analysis of the multi-year forecast shows that the Reserve is trending towards Council’s minimum approved balance of \$100,000 which could limit the potential of ongoing and future safety programs.

Additional information with regard to the Red Light Camera Program and Red Light Camera Reserve will be provided in a future report.

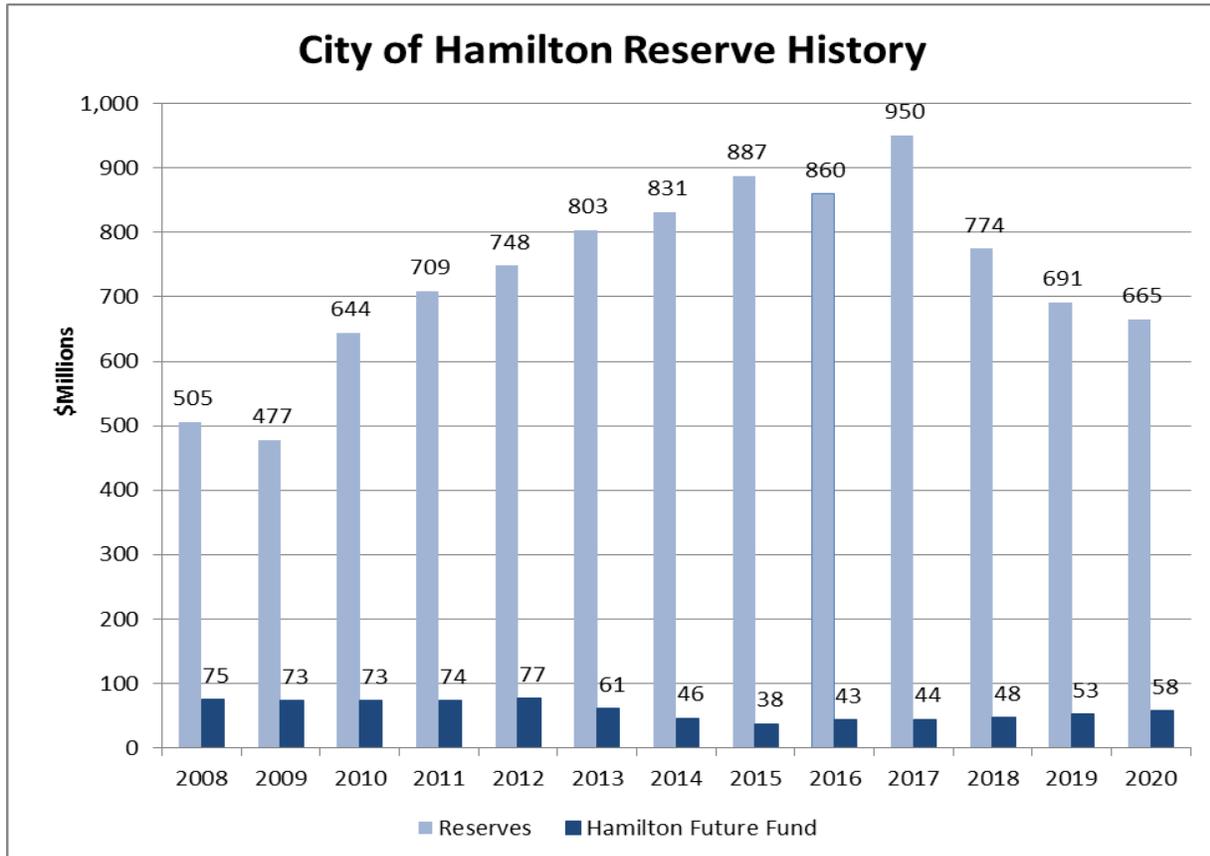
Reserve Renaming

As part of the annual Reserve Report process and consistent with recommendation 12 of Appendix “A” to Report AUD17011 Performance Audit, reserves are reviewed and evaluated for appropriateness of desired corporate outcomes for reserve usage. Appendix “C” to Report FCS18064 recommends the renaming and in some instances, repurposing of existing reserves to better reflect current usage needs.

Ten Year History and 2018-2020 Forecast

The following Graph 1 shows a 10-year reserve history and 2018-2020 reserve projections for the City of Hamilton:

Graph 1



Over the last 10 years, the reserve balances have increased from \$505M in 2007 to \$950M in 2017 (for tax supported, rate supported and obligatory reserves), while balances in the Future Fund have decreased from \$75M to \$44M. The increase is primarily the result of the addition of the Dedicated Wastewater Treatment Reserve of \$100M, as well as the treatment of DC Reserves increasing DC balances by over \$100M.

Reserve balances are forecasted to decrease in the coming years, especially the Rate and Obligatory (including Development Charge (DC)) Reserves as shown in Graph 2. The Rate reserves are being used to fund a substantial portion of the Woodward Wastewater Treatment Plant upgrade as well as the Biosolids Project. Both projects combined will be drawing over \$150M from Rate Reserves within the next three years.

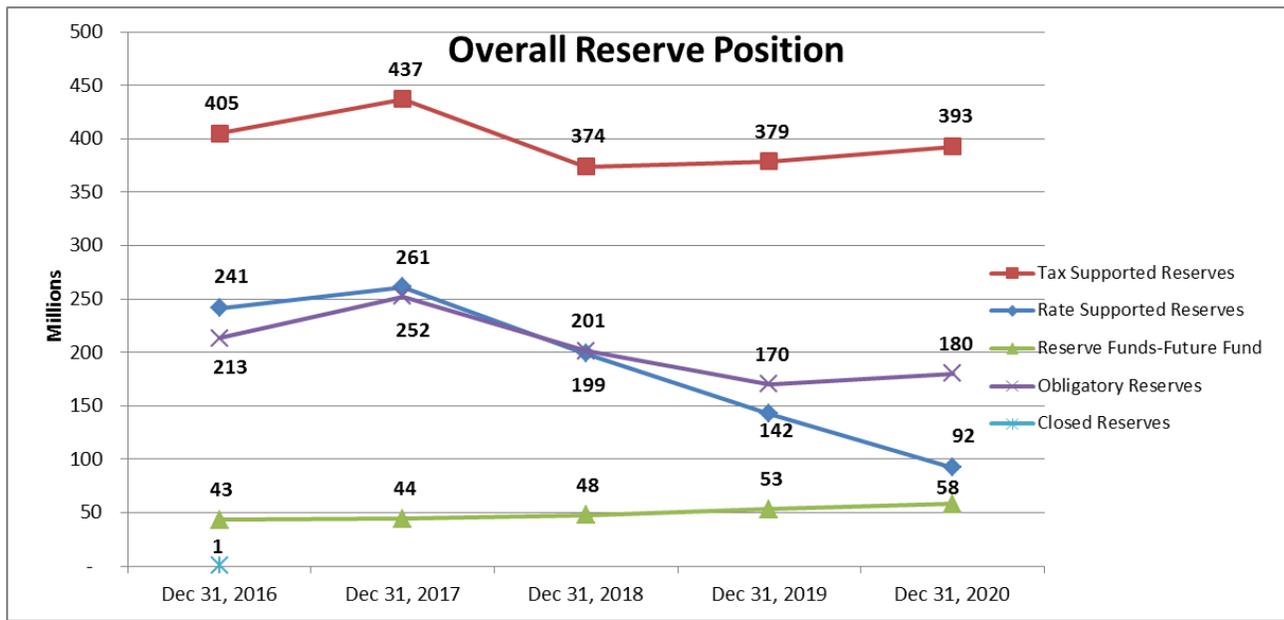
OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

Obligatory Reserve balances will decrease by over \$50M over the next three years as a result of over \$300M being spent on capital infrastructure construction and debt repayment related to growth. The DC reserves of the Obligatory Reserves are a function of development activity and capital infrastructure construction. Where capital infrastructure is required in advance of the development, debt issuances will be required since the collections occur after the infrastructure is in place. Soft services have more flexibility and can often come online after a significant amount of the development and related collections have been completed. Therefore, soft services typically require fewer debt issuances.

Graph 2



Sustainability of Reserves

The 2017 Reserves' Detail Report, attached as Appendix "A" to Report FCS18064, 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.

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The below list shows the reserves which are determined to be non-sustainable as of June 2018.

110046	Tax Stabilization Reserve
110044	Ontario Works Stabilization Reserve
100036	Auchmar Estates – Repairs Reserve
110041	Social Housing Stabilization Reserve
112205	Winter Control Reserve
104060	Golf Course Improvement Reserve
112203	Red Light Camera Reserve
999998	Developer Recoveries
112035	Sick Leave Liability- General
108060	Hamilton Technology Centre Capital Repairs

Outstanding Liabilities

The City provides certain employee benefits that require funding in future years which are currently estimated at \$367.6M as of December 31, 2017. 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 \$66.0M thus leaving net employee-related liabilities to be recovered in the future from either reserves or the operating fund at \$301.6M.

These liabilities are only 18.0% 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 \$301.6M 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 Report 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 estimated at \$23.1M net of provisions in the reserves.

Including the landfill site, total liabilities to be recovered in the future, are estimated at \$324.7M. Table 3 summarizes the estimated future liabilities by category.

TABLE 3

Estimate of Outstanding Liabilities (\$ 000's)		
	2017	2016
Employee Benefits and Future Obligations:	\$	\$
Sick Leave Benefit Plan	55,982	55,108
Long Term Disability Plan	26,687	23,819
Worker's Safety & Insurance Board Liabilities (WSIB)	88,537	78,297
Vacation Benefits	27,478	26,291
Retirement Benefits	146,547	142,509
Pension Benefit Plans	9,132	32,634
Pension Valuation Allowance	0	0
Net unamortized actuarial gain (Loss)	13,224	(1,896)
	367,587	356,762
Less:		
Provisions in Reserves and Balance Sheet	(66,022)	(66,142)
	(66,022)	(66,142)
Employee Related Liabilities to be recovered in the future	301,565	290,620
Waste Management Facilities liabilities:		
Open and Closed landfill sites	24,174	24,466
Less:		
Provisions in Reserves	(1,080)	(1,041)
Waste Management liabilities to be recovered in the future	23,094	23,425
Total Liabilities to be recovered in the future	324,659	314,045

Outstanding Internal Loans

Consistent with recommendation 10 of Appendix "A" to Report AUD17011 Performance Audit, Corporate Services began reporting in 2017 the outstanding internal loan balances from reserves, as well as annual internal repayments to ensure transparency in the reporting process. As at December 31, 2017 total principal outstanding was \$36.2M with annual repayments of \$5.0M. Twenty internal loans are currently outstanding with maturities ranging from 2018 to 2032.

During 2017, four internal loans completed their full payback. The outstanding principal on internal loans from reserves was significantly increased by \$21.4M through the 2018 budget process. The \$21.4M was loaned out of Investment Stabilization Reserve-112300 for Emergency Roads Rehabilitation and the Ancaster Arts Centre. Appendix "D" to Report FCS18064 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 Report AUD17011 Performance Audit, Financial Planning, Administration and Policy staff has implemented a new reserve reporting format. This new format has streamlined the tabulation of the Reserve Book, as well as extending the forecast period by an additional two years. The new format and reporting platform opens up the possibility of future enhancements to further streamline and integrate the reserve balances with financial reporting systems.

Staff will look to continuously improve reserve reporting in an effort to provide effective, transparent and time relevant information to allow for prudent use of financial assets.

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.

Healthy and Safe Communities

Hamilton is a safe and supportive city where people are active, healthy, and have a high quality of life.

Clean and Green

Hamilton is environmentally sustainable with a healthy balance of natural and urban spaces.

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” – 2017 Reserves Detail Report, with 2016 Comparative figures and 2018-2020 Projections

Appendix “B” – Reserves Recommended for Closure

Appendix “C” – Reserve Recommended for Renaming

Appendix “D” – Outstanding Internal Loans from Reserves Summary

MC/dt