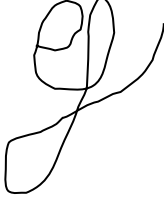




Hamilton

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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	September 10, 2018
SUBJECT/REPORT NO:	Energy, Fleet and Facilities Reserves Policy Update (FCS18080) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Marcel Cerminara (905) 546-2424 Ext. 4371
SUBMITTED BY:	Cindy Mercanti Director, Customer Service and POA Acting Director, Financial Planning and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATIONS

- (a) That the Ivor Wynne Community Fund Reserve (112223) be renamed to the Tim Hortons Field Capital Reserve;
- (b) That the 50 Main Street East Facility Capital Reserve (108039) be renamed to the General Facility Capital Reserve;
- (c) That the Reserve Policy for the Vehicle Replacement - Central Garage Reserve (110025), attached as Appendix "A" to Report FCS18080, be approved;
- (d) That the Reserve Policy for the Tim Hortons Field Capital Reserve (112223), attached as Appendix "B" to Report FCS18080, be approved;
- (e) That the Reserve Policy for the General Facility Capital Reserve (108039), attached as Appendix "C" to Report FCS18080, be approved.

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.

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 several 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 a minimum of 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 nine reserve policies approved by Council. If Council approves the attached three reserve policies there will have been twelve reserve policies drafted and approved in 2018.

Report FCS18080 includes reserve policies for the following reserves:

110025	Vehicle Replacement - Central Garage Reserve
112223	Tim Hortons Field Capital Reserve
108039	General Facility Capital Reserve

If the above reserve policies are approved, the City will have 25 active reserve policies including 23 reserve specific policies and two general reserve policies. A listing of reserve policies can be found on Page 225 of Appendix "A" to Report FCS18064 – 2017 Reserve Report, Reserve Detail Report as well as the City's "eNet" under "Policies and Procedures."

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The reserve policies in Report FCS18080 set out sources and uses of funds related to each special 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 through financial decisions made during the budget process and in years outside of the budget process.

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 a minimum of three reserves annually. Staff also agreed to rationalize use of reserves in an attempt to decrease the amount of active reserves. The City, relative to other Canadian municipalities, had a significantly high number of reserves. As such, staff have recommended the repurposing of two low activity reserves rather than creating two additional reserves.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Reserve policies contained in Report FCS18080 adhere to the *Municipal Act*, Section 417.

RELEVANT CONSULTATION

Energy, Fleet and Facilities Division, Public Works Department

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

Vehicle Replacement - Central Garage Reserve - 110025

The purpose of the Vehicle Replacement – Central Garage Reserve, which was established in 2001, is to ensure the long-term viability of the City's central fleet assets. Central Fleet assets consist of 911 vehicles with a replacement cost of \$77,860,559 and 468 pieces of equipment with a replacement costs of \$24,155,900. Central fleet vehicles are comprised of packers for waste management, plows and sanders for road operations, aerial for forestry operations, pickup trucks, assorted cars, trucks and special utility vehicles. Vehicles and equipment for transit, police, fire and paramedics are not centrally maintained. These assets are maintained by other departments with their own capital financing processes.

Each vehicle and piece of equipment can have a different useful life depending on their design, their usage (wear and tear) and maintenance. Central fleet staff work with the operating department users to maintain these assets and plan for their eventual replacement from this reserve to ensure effective delivery of City services.

Figure 1 provides a summary of reserve activity in 2016 and 2017 as well as a three-year forecast. The proposed reserve policy includes the addition of fuel site restoration and upgrades as an approved use of funds. This will mitigate the impact on the capital levy when fuel sites are in need of repair.

A target contribution to the reserve of 100% of the City’s annual expected central garage vehicle fleet replacement value is recommended. This annual average target amount of \$11M has been steadily increasing as staff have made an effort to budget for 100% of the annual expected vehicle replacement cost. The Vehicle Replacement – Central Garage Reserve Policy is attached as Appendix “A” to Report FCS18080.

Figure 1 outlines the historical and forecasted performance of the reserve.

**Figure 1
Vehicle Replacement – Central Garage Reserve (110025)
As of December 31, 2017**

	2016	2017	Projected 2018	Projected 2019	Projected 2020
Beginning Balance	\$13,620,262	\$10,165,986	\$8,839,989	\$9,324,626	\$11,880,986
Add					
Interest Earned	281,247	246,736	206,519	241,092	279,015
Provision for Future Replacement from the Operating Budget	6,213,119	7,298,916	7,959,098	8,197,871	8,443,807
Sale of Vehicles (8% of purchases)	721,854	677,222	717,150	619,120	465,826
	\$7,216,220	\$8,222,874	\$8,882,767	\$9,058,083	\$9,188,648
Less					
Vehicle and Equipment Purchases	\$9,625,646	\$8,964,376	\$6,857,000	\$5,657,823	\$7,542,150
Street Sweeper Rebuild Program	650,000	0	720,000	0	0
Shop Equipment Replacement	159,000	0	162,000	165,000	168,000
Fund Fleet Acquisition Team	235,850	584,495	659,130	678,900	699,270
	\$10,670,496	\$9,548,871	\$8,398,130	\$6,501,723	\$8,409,420
Ending Balance	\$10,165,986	\$8,839,989	\$9,324,626	\$11,880,986	\$12,660,214

Tim Hortons Field Capital Reserve (Formerly Ivor Wynne Community Fund) – 112223

The original purpose of the Ivor Wynne Community Fund, which was established in 2011, was to develop community projects within the stadium neighbourhood. This purpose was contingent on a dedicated funding source which relied on net proceeds from Hamilton Tiger Cats parking lot revenues as referenced in the Memorandum of Understanding with the Football Club. As the agreement was finalized and operations began, it became evident that the parking program would not be profitable. As a result, and as shown in Figure 2, the Ivor Wynne Community Fund was not able to establish a dedicated funding source to sustain its intended purpose. The reserve has seen no activity except for interest income earned in the previous five years.

Staff recommends repurposing this reserve as the Tim Hortons Field Capital Reserve. In doing so, the City will use this reserve as part of its strategic asset management plan to ensure the long-term viability of Tim Hortons Field. The primary source of funds expected to be transferred to the reserve are contributions from net concession revenues subject to the approval of the Director, Energy, Fleet and Facilities Management.

Repurposing an existing reserve, rather than opening a new reserve satisfies audit recommendations in Report AUD17011. Furthermore, establishing a dedicated reserve fund for the capital asset will mitigate future pressures on the City’s capital levy in the Operating Budget.

A target balance of 2% of the capital replacement cost of Tim Hortons Field is recommended (\$3M 2018). The Tim Hortons Field Capital Reserve Policy is attached as Appendix “B” to Report FCS18080.

Figure 2 outlines the historical and forecasted performance of the reserve. Forecasts will be updated annually to fund capital expenditures required at Tim Hortons Field as per the new Reserve Policy.

**Figure 2
Ivor Wynne Community Fund Reserve (112223)
As of December 31, 2017**

	2016	2017	Projected 2018	Projected 2019	Projected 2020
Beginning Balance	\$27,932	\$28,493	\$29,137	\$29,808	\$30,493
Add					
Interest Earned	561	644	671	685	701
Ending Balance	\$28,493	\$29,137	\$29,808	\$30,493	\$31,194

General Facility Capital Reserve (Formerly 50 Main St. E. Facility Capital Reserve) – 108039

The original purpose of the 50 Main St. E. Facility Capital Reserve was to provide leasehold improvements to 50 Main Street East as part of the lease agreement with McMaster University. In 2015, McMaster vacated the property in preparation for the City taking over the building to house its POA operations as well as other divisions. A summary of historical and forecasted future transactions to the 50 Main St. E. Facility Capital Reserve can be found in Figure 3.

The Facilities Section of the Public Works Department, in conjunction with Finance staff in the Corporate Services Department, recommend that this reserve currently dedicated to the capital upkeep of 50 Main Street East be repurposed to ensure the long-term viability of all City assets under the Facilities portfolio. With the McMaster University lease agreement no longer in effect, the City is not required to provide a dedicated reserve for 50 Main Street East. This proposed new General Facility Capital Reserve would form a piece of the City's strategic asset management plan and has the potential to mitigate reliance on the City's capital levy in the Operating Budget for the Facilities portfolio.

In Report PW18065 to the Public Works Committee on July 12, 2018, staff identified that there is a significant capital funding gap in facilities across all portfolios: Recreation Facilities, Corporate Facilities and Entertainment Facilities required to sustain existing facilities at the "B-" level of 2017 / 2018. There is a total deferred capital backlog in Facilities of approximately \$216M project costs, in addition to the capital funding gap for accessibility requirements and lifecycle renewal anticipated over the next 10 years. This funding gap in lifecycle renewal does not align with recommendations by the Canadian Infrastructure Report Card (CIRC), which recommends an infrastructure renewal rate between 1.7% and 2.5% of the replacement value of buildings. The CIRC is supported by four organizations as follows: Canadian Construction Association, Canadian Public Works Association, Canadian Society for Civil Engineering, Federation of Canadian Municipalities. Additionally, Bill 6, "The Infrastructure for Jobs and Prosperity Act" and Regulation 588/17 requires municipalities to develop asset management plans that consider the costs of the full lifecycle of the assets and the risks of maintaining current lifecycle activities and levels of service.

Establishing capital reserves for facilities was a strategy identified within the report in order to assist in managing the City's funding gap for facilities.

A target balance of \$30M is recommended. This amount is equal to 2% of the City's facilities asset replacement value less the \$10M facilities annual capital block allocation in the City's Capital Budget Plan. Staff recognizes that this target balance will not be achievable in the short term, but it demonstrates the significant amount of capital investment required to maintain the City's facilities in a state of good repair. The General Facility Capital Reserve Policy is attached as Appendix "C" to Report FCS18080.

Figure 3 outlines the historical and forecasted performance of the reserve. Forecasts will be updated annually to fund capital expenditures required for City Facilities as per the new Reserve Policy.

**Figure 3
50 Main St. E. Facility Capital Reserve (108039)
As of December 31, 2017**

	2016	2017	Projected 2018	Projected 2019	Projected 2020
Beginning Balance	\$999,118	\$1,019,194	\$38,470	\$39,355	\$40,260
Add	20,076	19,276	885	905	926
Interest Earned	\$1,019,194	\$1,038,470	\$39,355	\$40,240	\$41,186
Less					
POA Accommodation Report (PW17044)	0	1,000,000	0	0	0
Ending Balance	\$1,019,194	\$38,470	\$39,355	\$40,260	\$41,186

NOTE: The historical provision for capital replacement of \$96,290 has been removed from the above forecast as the revenue source was contingent on the lease agreement with the former tenant McMaster University.

ALTERNATIVES FOR CONSIDERATION

N/A

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” – Vehicle Replacement – Central Garage Reserve Policy

Appendix “B” – Tim Hortons Field Capital Reserve Policy

Appendix “C” – General Facility Capital Reserve Policy

MC/dt